“Converging to Convergence”

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Michael Kremer opened the discussion by addressing some of the points raised by the discussants. First, he conceded that within-country inequality is very important and that there has been a large reduction in world poverty, as argued by Rohini Pande. He added that within-country inequality is easier to address through policy than cross-country inequality. For example, China and India have implemented policies to reduce inequality that have been very effective, he argued. Second, he agreed with the discussants that democracy is an important factor and thus erosion of democracy must not be overlooked. Third, he responded to the question of the future of convergence. While after centuries of divergence we now see unconditional convergence, it is too early to tell if this is a fundamental change in history, he argued. He acknowledged that it is a plausible story that this change in trend was brought about by the end of colonialism and the rise of democracy.

Erik Hurst followed up on the future of convergence and asked whether Daron Acemoglu would agree that there has been a change in convergence patterns. Acemoglu responded that the descriptive regressions reported by the authors are correct, but the distribution of the underlying country-level parameters has not changed.

The discussion then centered around methods of estimation. Christopher Sims posited that the estimated country fixed effects are a bad estimator of the true underlying fixed effects. He encouraged the authors to use a random effects model instead of a fixed effects model. Following up on this remark, Acemoglu argued that country fixed effects are not consistently estimated, while convergence coefficients are estimated consistently with the Hausman-Kuersteiner estimator, if the model is correctly specified. Andrew Levin seconded the point raised by Sims and he emphasized the challenges of estimation in panel models. He recognized that the paper studies an important topic and expressed hope for extensive future research. He highlighted that convergence is not a linear process and thus future research should address non-linear dynamics and non-stationarity.

The authors concluded by addressing some additional points raised during the discussion. First, Jack Willis offered a comment on welfare considerations. He acknowledged that welfare considerations should include within-country inequality and population-weighted regressions. He added that, when weighting regressions by country population, the authors obtain similar results. Second, he addressed comments on estimation and argued that the literature has not offered a definitive answer on the
correct regression specification. He recognized that trends are different when including country fixed effects or when using ten-year growth rates instead of one-year growth rates. Kremer further added that it is not even clear how to think about the question of convergence in a world with country fixed effects, which are part of the convergence puzzle themselves. In conclusion, Kremer emphasized that the scope of the paper is to offer a descriptive analysis and a set of facts that growth models need to match, leaving an interesting open agenda for future research.