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**The Rich (and Poor) Keep Getting Richer**

*Earnings have risen for the poorest and wealthiest countries, while earnings of the world's middle class countries have stagnated. Design a Heckscher-Ohlin Model that Can Explain These Facts.*

Let's assume there are four goods produced, say, chemicals, machinery, textiles, apparel. The labor intensity grows from the first to the last. Assume the technologies are Leontiev type, represented in the picture with middle-width solid lines. High income countries, such as Japan and US have a relatively abundant endowment of capital. Poor countries, such as India and China, are relatively abundantly endowed with labor force. The middle-income countries, of which many are from Latin America, are in the middle. As represented in the graph, the rich will specialize in chemicals and machinery, the poor will produce textiles and apparel, while middle income countries will specialize in textiles and machinery. Of course, in reality production is not that polarized, but that's just a stylized model.

Now, imagine, there are improvements in technology in machinery and apparel. So that a dollar worth unit of machinery requires less capital, and a dollar worth unit of apparel requires less labor. Then the relative prices in all the three countries will change. It follows from the picture, that there will be an increase in wages in rich countries, a huge increase in wages in poor countries, but a minor decline in wages in middle-income countries. So, because of major technological improvements, the poor and the rich got richer, but middle income countries didn't, or even got poorer.

