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THE LIBERALIZATION OF CAPITAL MOVEMENTS AND ECONOMIC INEQUALITIES – AN ATTEMPT TO DIAGNOSE THE PHENOMENON

Introduction

The world economy is becoming more internally open. This is clearly evidenced by steadily increasing flow volumes of production factors, goods and services which are recorded in the payment balances of countries belonging to the International Monetary Fund (IMF). This phenomenon is the result of a universal trend towards the liberalization of international trade, freedom in the implementation of production and distribution processes and technological changes which remove existing barriers to trade in goods, services and movements of capital.[1]

The most dynamically changing flows are those that involve the movement of long and short-term capital. More and more countries are introducing new legislation which favors: higher, or the total convertibility of national currencies, removal of barriers to financial flows within the country, as well as in international trade, encouraging foreign investors to invest in the domestic financial market. This is due to a number of potential benefits that may accrue from access to global financial markets. The liberalization of capital movements promotes more efficient allocation of capital in the world economy as a whole. It can be regarded as one of the globalization tools.

Globalization is a convolution of many processes, occurring at the same time.[2] This phenomenon is so complex and occur in so many spheres of human activity, that its exploration requires separation of the individual areas of its occurrence.

[1] M. Gruszczyński, *Kryzysy walutowe a liberalizacja obrotów kapitałowych*, PWN, Warszawa 2002, p. 7.

[2] See i.a. P. Dicken, *Global Shift. Industrial Change in a Turbulent World*, London 1988; H.P. Martin, H. Schumann, *Pułapka globalizacji. Atak na demokrację i dobrobyt*, Wyd. Dolnośląskie, Wrocław 1999; Z. Bauman, *Globalizacja*, PIW, Warszawa 2000; W. Szymański, *Globalizacja. Wyzwania i zagrożenia*, Difin, Warszawa 2001, and other.

Reduction in the field of exploration research, even to a single aspect of global processes, can not guarantee that the analysis of the globalization effects would be coherent, and conclusions reached unequivocal. This is what happens when assessing the impact of liberalization of capital movements on economic inequalities. This is due to several reasons:

1) economic inequalities may relate to different sizes, considered at different scales and time,
2) it may be presumed that the liberalization of capital movements in various forms can influence the increase/decrease of economic disparities, simultaneously at several levels of analysis (within the country, between rich and poor countries, within the international economic groupings that bring together countries with similar levels of development, etc.),
3) there may be different causes of the inequality; many of them are related to the freedom of capital movements,
4) different measures of inequality can also be used: the Gini coefficient, Theil indices, the Atkinson index, and other,
5) the data used in the analysis may eventually come from various sources.

Therefore, it is still an open question to what extent the flows of capital movement contribute to the growth or decline of wealth of the economy entities.

The aim of the paper is an attempt to answer the general question to what extent the liberalization of capital movement (mostly in the form of foreign direct investments) affects the growth or decline of economic inequalities in the countries of the Organization for Economic Cooperation and Development (OECD).

A hypothesis has been made that the freedom of movements in financial services and capital, supports the development of domestic markets, contributes to more efficient allocation of global savings, but may also simultaneously affect both the economic convergence and divergence of the OECD member countries.

1. The concept and measurement of economic inequalities

The issue of economic inequality, investigated in the framework of specific social groups (e.g. within the country), or analyzed in the international section, has been present in the economy since the days of T. Malthus and D. Ricardo.

In the second half of the twentieth century, along with the intensification of research on the determinants of economic growth, S. Kuznets wondered whether the inequalities resulting from income distribution, increase or decrease during the economic growth, and what factors determine the level and trend of income inequalities?[3] On the basis of empirical data, originating from developed countries (Britain, Germany, USA), he formulated the hypothesis of changes of economic inequalities

[3] S. Kuznets, *Economic Growth and Income Inequality*, "American Economic Review", vol. XLV, no. 1, March 1955, p. 1.

in response to economic growth. According to Kuznets, GDP growth in the initial stage leads to an increase and then to decrease of the income inequalities.

Statistical methods of measurement, that were used in the initial works, and description of the phenomenon, emerged in the early twentieth century, but the rapid growth of studies employing this measurement method occurred only in the last three decades of the last century. These works focus on finding the answer to the question of whether the countries with an average level of income have higher inequalities than those with lower and higher income levels? It was confirmed, basing on cross-sectional data, that such situation takes place.[4] Kuznets hypothesis thus remains in force.

The concept of economic inequalities can be understood as the differences between the various economic characteristics, related to the economic of the countries that affect the pace of economic growth and development of the welfare conditions of their inhabitants.[5] These characteristics can be divided into macro and microeconomic.

The basic macro-economic characteristics, allowing the comparison of the level of prosperity in the various sections, include:

1) the pace and the value of GDP,
2) GDP per capita, GDP per worker,
3) ownership,
4) households,
5) economic freedom,
6) economic stability (the unemployment rate, average annual price increase),
7) the degree of internationalization of particular countries;

on the other hand, the basic microeconomic characteristics include:

1) the disposable income of households,[6]
2) the share of household expenditure on medical care, education, recreation, etc.,
3) the annual working time,
4) the number of inhabitants per car, living space they occupy, (...).

Research on economic inequalities, carried out in the last half century, provide ambiguous and heterogeneous picture of inequalities, both within individual countries, as well as internationally. One should note, however, the increase of inequalities within individual countries in the last decades of the last century.[7] It is reflected mainly by the increasing disparities in the distribution of incomes.

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[4] See G.S. Fields, *Distribution and Development: A Summary of the Evidence for the Developing World*, Cornell University, September 1999, pp. 4–5.

[5] See K. Żukrowska, *Zróżnicowanie rozwojowe jako warunek pokonywania opóźnień rozwojowych* [in:] *Zróżnicowanie rozwoju jako impuls prowzrostowy w gospodarce światowej*, red. K. Żukrowska, SGH, Warszawa 2008, p. 17.

[6] Disposable income is the net income, diminished by the following expenditures: donations, monetary losses, deposits, etc. Inequality of income distribution are a reflection of economic inequalities.

[7] Z.J. Stańczyk, *Globalizacja, nierówności i wzrost gospodarczy* [in:] *Nierówności społeczne a wzrost gospodarczy: Kapitał ludzki i intelektualny*, vol. 1, red. M.G. Woźniak, Uniwersytet Rzeszowski, Rzeszów 2005, p. 395.

Inequalities of income distribution are a good reflection of economic inequalities. Hence, the diversification measures in income distributions are frequently used measures of inequalities in the economic aspect.

X. Sala-i-Martin[8] makes the systematization of economic inequalities measures; he distinguishes five main groups:

1) *ad hoc* measures (most of them are used: the Gini coefficient, variance of income, the variance of the logarithms of incomes),
2) measures of social well-being (Atkinson measure),
3) axiomatic measures (measures of entropy),
4) measures of inequalities between countries – income diversification measures (Gini coefficient, Atkinson's measure, entropy measures)
5) decomposed measures (generalized measure of entropy).

The following are the most commonly used when comparing economic inequality at the international level: the Gini coefficient and a generalized measure of entropy.[9]

The Gini coefficient is a measure of concentration (inequality) of the probability distribution. For structured individual data on income y_i, $i = 1, 2, ..., n$ value of the Gini index can be determined from the following formula:

$$G(y) = 1 - \frac{1}{n^2 \bar{y}} \left(\sum_{i=1}^{n} \left(2(n-i)+1\right) y_i \right),$$

where $\bar{y}$ is the average income in the community.

However, if the observations y_i are arranged in ascending order, then the Gini coefficient is expressed by the following formula:

$$G(y) = \frac{\sum_{i=1}^{n} (2i-n-1) y_i}{n^2 \bar{y}},$$

where y_i is the value of the i-th observation (e.g. income of the i-th household), and $\bar{y}$ is the average value of all the observations y_i (for example, the average income of households), namely:

$$\bar{y} = \frac{1}{n} \sum_{i=1}^{n} y_i .$$

[8] X. Sala-i-Martin, *The Disturbing „Rise" of Global Income Inequality*, Discussion Paper #:0102-44, Department of Economics Columbia University, New York, April 2002, pp. 20–28, http://www.columbia.edu/cu/economics/discpapr/DP0102-44.pdf.

[9] T. Kuszewski, *Nierówności ekonomiczne we współczesnym świecie. Pomiar i ocena zjawiska* [in:] *Wzrost gospodarczy a bezrobocie i nierówności w podziale dochodu*, red. W. Pacho, M. Garbicz, SGH, Warszawa 2008, p. 159.

The coefficient takes values from the interval [0, 1], also often expressed as a percentage. The zero value of the coefficient indicates the complete uniformity of the distribution. It demonstrates a total lack of concentration of value of feature (such as income, GDP per capita) among the units of the surveyed population. In other words, each unit (e.g. household) corresponds to a value of feature, equal to the arithmetic mean of the total value of feature in the population.

The increase in the value of the coefficient means an increase in inequality of distribution. Value 1 of the Gini coefficient means that a single unit has all the (combined) value of feature of the surveyed population (for example, only one household has the whole of the incomes of all surveyed households).

The literature offers many well-known terms of the Gini index. Only two examples were mentioned above. Using the Gini index, one can examine inequalities in income, depending on the source of such incomes, income inequalities between countries and within countries depending on how you understand the concept of inequality.[10]

Figure 1a shows the Gini coefficient for the selected OECD countries, while Figure 1b shows the trends in income distribution over the last two decades of the twentieth century for this group of countries.

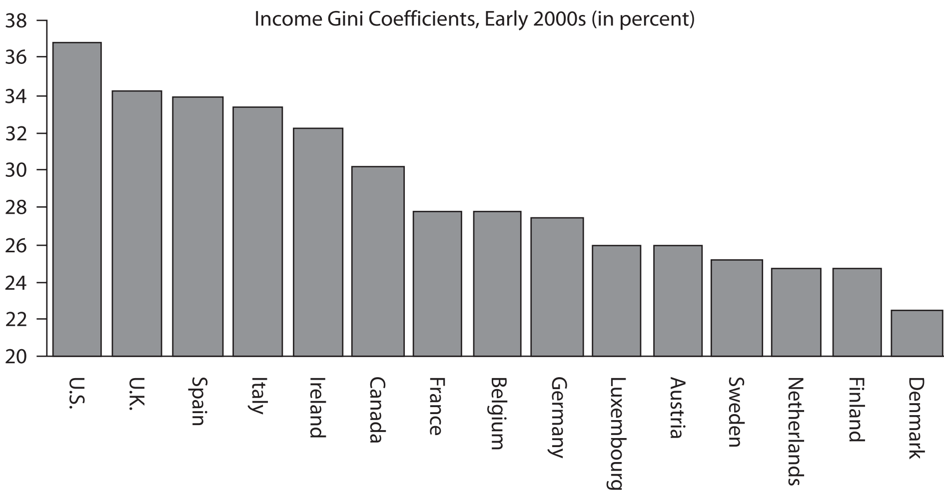

Fig. 1a. The Gini index for selected OECD countries in 2000 (in %)

Source: T. Harjes, *Globalization and Income Inequality: A European Perspective*, IMF Working Paper, July 2007, p. 3.

[10] A.F. Shorrocks, *Inequality Decomposition by Population Subgroups*, „Econometrica", 1984, no. 6, pp. 1369–1386; B. Capèau, A. Decoster, *The Rise or Fall of World Inequality. A Spurious Controversy?*, United Nations University. World Institute for Development Economics Research, Lueven 2004, Discussion Paper nr 2004/02, pp. 4–6, after T. Kuszewski, *op. cit.*, p. 160.

Fig. 1b. The Gini coefficient percentage change in selected OECD countries between 1970/1980 and 1990/2000

Source: T. Harjes, *Globalization and Income Inequality: A European Perspective*, IMF Working Paper, July 2007, p. 3.

The greatest disparity of income distribution can be seen in the United States, Britain, Spain, Italy and Ireland. Economic inequalities are the smallest in Denmark, Finland, Holland and Sweden.

The last twenty years of the twentieth century are the continuation of increase in inequalities, mainly in the United States and Great Britain. This process is quite fast also in Sweden, Belgium and Finland.

Figure 2 shows the distribution of income in the world and in selected countries. Although among the OECD countries the United States are characterized by the largest disproportion of distribution, comparing to India, China as well as the whole world, the distribution is relatively flat and ranks between 10,000 – 100,000 USD (per year).

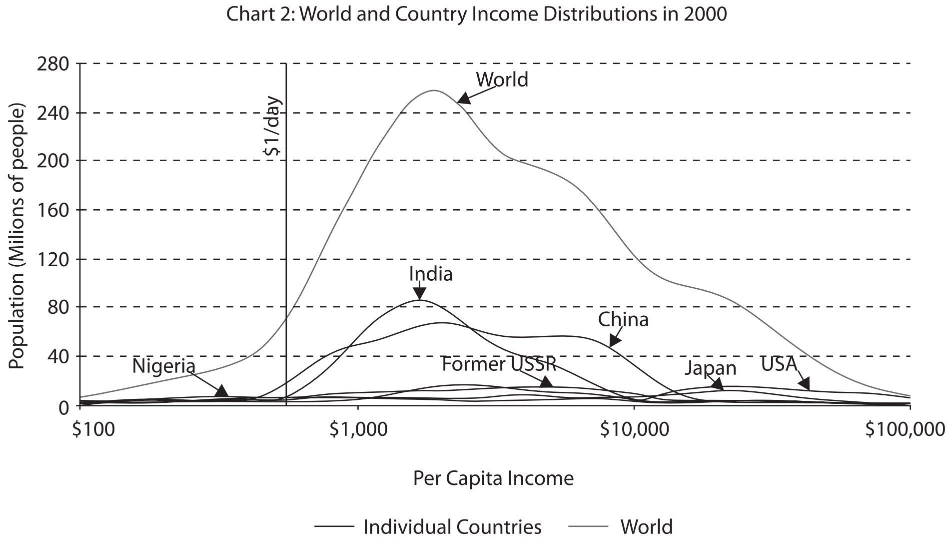

Fig. 2. The distribution of income – the world and selected countries in the world in 2000

Source: *Heratige Foundation 2007*, http://www.heritage.org/Index/
Xavier Sala-i-Martin, *The World Distribution of Income: Falling Poverty and Covergence*, „Quarterly Journal of Economics", vol. 121, no. 2 (May 2006), pp. 351–397).

2. The liberalization of capital movements[11]

The most distinctive feature of global processes is the free movement of capital. More and more countries are introducing new legislation which favors:

1) more, or total convertibility of national currencies,
2) removing obstacles to financial movements within the country, as well as in international trade,
3) encouraging foreign investors to invest in the domestic market.

This is due to a potential and actual benefits that may accrue from access to global financial markets. The liberalization of capital movements favors:

1) rapid transformation of savings into capital investment and more efficient allocation of capital,
2) diversification of sources of financing investment projects and reducing the cost of capital,
3) the diversification of investment portfolios and financial risks,
4) the development of the financial system – increasing its efficiency, innovation and competitiveness,

[11] The material used while developing this part of the charter is available [in:] R. Wisła, *Rynek finansowych instrumentów pochodnych w Polsce w latach 1991–2006*, Wydawnictwo Uniwersytetu Jagiellońskiego, Kraków 2008, pp. 21–26.

5) increased transparency of financial market participants,
6) The development of national and international economy.

In today's strong trend of integration and liberalization of capital flows, it seems to be a logical complement to the freedom of trade, current settlements arising from international transactions and the need to implement the creation of markets of increasing coverage. Despite many benefits, the free movement of capital results in certain risks which may multiply the socio-economic inequalities. These risks are:

1) increased problems of controlling the cash flow,
2) information asymmetries,
3) concentration of capital,
4) limiting the rights of minority shareholders.

Given the global economy as a whole, unfettered movement of capital across borders creates the possibilities for using it in the most efficient way. In the case of a single country, these benefits are mainly due to acquisition opportunities – mainly by the various entities conducting economic activity – funds in international financial markets on more favorable terms than in the domestic market. These benefits are also more favorable opportunities to invest funds abroad than at home.[12] The freedom to invest or lend capital abroad favors as B. Greenwald, J. Stiglitz and A. Weiss demonstrated in their work – depreciation of the amplitude of the business cycle, freeing businesses and households from having an excessive reduction in consumer and investment spending, in the case of recession, thereby reducing aggregate domestic demand and further expansion of economic depression.[13] Free capital movements may, therefore, not only create conditions for the diversification of investment portfolios or risk diversification, but also may contribute to more sustainable growth and economic development. Corporations, small and medium-sized businesses and households can use, apart from the access to foreign assets, the possibility of undertaking economic activity in other, more stable countries, as well as they may use many new instruments protecting them against the risks associated with the free transfer of capital.

The increase of investments in the country introducing liberalization is often the consequence of the freedom of capital turnover. The dynamics of the growth of investments of the direct and indirect nature (portfolio) is dependent, and at the same time, encourages the development of the financial system. Along with foreign investment in the domestic market, foreign financial institutions begin to appear with their own products, services and regulations in force in global markets. These institutions will eventually deal with the support of foreign investments and become competition for domestic financial institutions (e.g. banks). The development of the financial system may have a positive impact on economic growth by providing sales, evaluation, risk diversification, protection against risks, facilitating the allocation of

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[12] L. Oręziak, *Przyczyny kryzysu finansowego w Azji Południowo-wschodniej* [in:] *Współczesny kryzys finansowy w świecie a gospodarka Polski*, red. P. Bożyk, Zeszyty Naukowe WSHiP w Warszawie (series Ekonomia, no. 1), 1999, p. 42.

[13] B. Greenwald, J. Stiglitz, A. Weiss, *Information imperfections in the capital markets and macroeconomics fluctuations*, „American Economic Review" Papers and Proceedings, 1984, vol. 74, pp. 195–199.

the reserves, allowing investors to jointly monitor and control the board and managers, mobilizing savings and facilitating the exchange of goods and services.[14]

With the removal of restrictions in the international transfer of capital, arises the opportunity to accelerate the development of the domestic financial system. As a result of implementing new technological solutions, its effectiveness and competitiveness are improving. The range of financial instruments, enabling the use of investment strategies commonly used in mature markets, is becoming larger. Many countries, including OECD members, with limited resources and opportunities to raise capital, are particularly interested in using the capital available in the international financial market. Elimination, by these countries, of foreign exchange restrictions,[15] in respect of transactions covered by the balance of capital turnover, makes it possible to increase investment and as a consequence of economic growth and also improve the living standards of society.[16] Less developed, and suffering from a lack of capital economies countries are currently in a situation more difficult than the countries which for decades has shaped their economic systems. On the domestic financial market, financial institutions are forced to compete with experienced international institutions which possess a lot of capital.

The escalating process of liberalization of capital movements, creates strong pressure on the developing countries to quickly adapt to global standards of international financial system. These processes are undoubtedly conducive to the development of local markets, and encourage the development of the domestic financial market.[17] Existing and emerging financial institutions are equipped with the latest technology for exchanging information and, proven in other markets, customer service techniques. Teleinformatization favors intensifying the number of transactions, which results in a dynamic development of the interbank foreign exchange markets, cash and futures contracts. Rapidly developing financial markets, with increased liquidity, and new instruments, are becoming an important element of the economic system. They perform many important functions, essential for growth and economic development on a global scale, as well as of a single managing entities.

Countries, commonly known as the industrialized, formed their financial systems for decades, often altering and adjusting them to the changing conditions in the global economy. Currently, the countries commonly referred to as the developing, attempt to adapt their financial systems within a decade. The existing, strong competitive pressure from the foreign financial markets, which dynamizes the national development of the financial system and institutions creating it, carries many risks to national security of the economic system. The country, which liberates the capital turnover, becomes open to the impact of any shocks of external origin, often destabilizing the economy. It results from the fact that the international flows of

[14] R. Levine, *Financial development and economic growth: views and agenda*, „Journal of Economic Literature", 1997, 36, pp. 688–726; M. Gruszczyński, *op. cit.*, p. 21.

[15] These limitations were overriden in Poland on 1st October 2002, on the entry into force of the new Foreign Exchange Law („Journal of Law", 2002, no. 141, pos. 1178).

[16] L. Oręziak, *op. cit.*, p. 43.

[17] See M.J. Fry, *In Favour of Financial Liberalisation*, „The Economic Journal", May 1997, no. 442.

capital can react quickly and strongly on both the economic situation of the country, and the situation in its immediate and further vicinity. Crisis phenomena, occurring in this environment, can quickly move to the country causing disturbances in its economy as well. These negative consequences may arise primarily from the sudden, uncontrolled and mass outflow of capital.

The investors, in the first place, dispose the most liquid financial assets denominated in domestic currency. The resources derived from the sale are directed mostly abroad, after conversing them into another country's currency. The rapid outflow of the capital abroad causes strong depreciation of the national currency. In such cases, necessary may be a fast reaction of the central bank, adjusting the interest rates to the level attractive enough to effectively curb the outflow of foreign capital. This in turn, has an impact on the state's internal economic situation and the situation of individual operators.

The last two decades bring many spectacular examples of unsuccessful attempts to defend the national currency by the central bank. Most of them occurred in the so-called emerging countries. Due to the reforms carried out relatively quickly, these countries embarked on the path of dynamic growth. The effectiveness of the reforms attracted foreign capital. However, it turned out that these countries were not sufficiently prepared and properly framed institutionally, to fully exploit the inflowing capital. When the situation in the economy and balance of payments started to deteriorate, foreign capital (often speculative) started to outflow. The rapid outflow of foreign capital, causing a strong depreciation of the domestic currency, is often the beginning of a permanent loss of investor confidence in the particular economy and its currency. The wave of outflowing capital leaves behind not only weakened currency causing a currency crisis, but may become the beginning of a financial crisis. The rapid collapse of share and real estate prices on the stock market, a sudden increase in interest rates, entailing a growing phenomenon of insolvency of enterprises and their creditors – banks – are transformed into a banking crisis of terrible consequences. Usually, such crises effectively destabilize and reduce the level of overall activity of the real area of the economy (reduced production, increased unemployment, reduced investments), causing the phenomenon which is referred to as the economic crisis of a state.

Globalization in financial markets is reflected mainly by: integration of the national financial markets into a global market, international standardization of financial services and the gradual lowering of the cost of financial intermediation.[18] The direct cause of financial markets globalization is liberalization and deregulation of national financial markets. These processes are the natural tendencies of the development of national market economies. The liberalization of economic systems and the creation of transnational economic organizations, have created the basic conditions for international movement of goods and services, accompanied by an adequate flow of capital. The result of these processes are the significant changes in the structure of financial market. These phenomena refer to both the typical business transactions, and the flow of production factors associated with foreign investments. The effect of

[18] See M. Dąbrowski, *Czy należy się bać globalizacji rynków finansowych?*, CASE, Warszawa 1998.

the latter is the internationalization of enterprises, accompanied by the emergence of demand for new financial instruments that allow managing the scattered capital more effectively, subjected to the influence of the local monetary and fiscal policy.[19] Free capital movements, allow the global economy to increase the effectiveness through specialization in the "production" of financial services and also to use scale effects in this process. Competition in international markets may therefore contribute to increasing efficiency, innovation and lower margins. Lifting the restrictions can also contribute positively to the functioning of each operating segment of the local and global financial market.

3. Factors favoring globalization of financial markets

The acceleration of financial markets globalization, that can be observed in the recent years, has been caused by: technological revolution, economic integration, political transformation and modernization of many countries of the former socialist block.

The boundaries between different segments of financial markets are becoming more fluid, both for particular economic regions as well as for groups of financial products. It is spurred by many factors related to the technique of the operation of financial risk. We can include the following:[20]

1. **The rapid growth of technological progress in telecommunication and information technology makes a radical change in the technological infrastructure of financial institutions**. The rapid development of computer technology, information technology and telecommunications, allows making huge transactions across the globe within seconds. Due to this, the information about particular national and regional markets can be acquired, collected and processed more easily. This process favors the financial innovations, as well as brings closer the financial centers from different regions of the world. It stimulates the growth of global transfers, which are manifested by 24-hour trading.
2. **The presence of a strong tendency to protect open positions of credits, deposit, foreign exchange and other in the international financial markets**. The vast majority of financial products are more easily becoming transferable. This allows one to adapt flexibly to a rapidly changing market situation while the differences between the various segments of the financial market are becoming blurred.
3. **Banking operations are increasingly becoming a part of a larger financial services market**. The functions of bank institutions are taken over by other institutions engaged in financial intermediation: insurance companies, credit card organizations. Para-banking services also become part of the in-

[19] J. Zaręba, *Globalizacja rynków finansowych. Tendencje przekształceń systemu bankowego w Polsce*, „Zeszyty Finansowe", 1997, no. 3/97, Instytut Naukowo-Wydawniczy OLYMPUS, p. 5.

[20] *Ibidem*.

dustrial activity of holding companies and traders. At this point, arises the question the institutionalists ask themselves. The question about the future of the banking system in the entire financial system of a single country, a union of states, or on a global scale. J.K. Solarz states[21] that the disappearance or banking system's demise should not be discussed. Rather than that, one should discuss the transformations in the banking systems, which run in the direction of gradual relent of the banks dominance over the exchanges under the influence of expansion of interdependencies system. However, the changes of institutional nature are not the causative factor but the created financial innovation, mainly derived financial instruments. The emergence of innovative financial instruments and the development of information technology eliminates the monopoly of financial institutions in financial intermediation.

4. **There are major changes on the side of demand for capital**. The structure of investing is changing. The strategies and funding sources are also changing. The activity of international institutional investors is steadily increasing.

The market for financial services is subjected to continual liberalization. It reduces the scope of state regulations concerning capital movements. The sphere of regulation adapts to the changing market conditions. The liberalization of capital movements has become a determinant of globalization. Until the early seventies, the international movement of capital was strictly controlled. After the collapse of the Bretton Woods Agreement, the system of controlling the movement of capital in developed countries is gradually overridden. In the early nineties, the developing countries opened up on the free movement of capital.

4. Economic inequalities in OECD countries

Of the nearly 200 countries in the world, the most open to free movement of capital are the countries of the Organization for Economic Cooperation and Development (OECD; fr. Organisation de Coopération et de Développement Economiques, OCDE). Currently, this organization brings together thirty, most economically developed, democratic countries of the world.[22]

It is one of the international organizations, in addition to the World Trade Organization (WTO), International Monetary Fund (IMF) and the European Community (EC), which supports the liberalization of international capital flows. Established by the OECD, code of liberalization of capital movements is one of the most complete regulations and standards developed in this field.[23]

[21] See J.K. Solarz, *Rozwój systemów bankowych* [in:] *Zarządzanie i finanse*, red. J. Śnieciński, Warszawa 1996.

[22] The OECD consists of the following countries: Australia, Austria, Belgium, Czech Republic, Denmark, Finland, France, Greece, Hungary, Ireland, Iceland, Japan, Canada, South Korea, Luxembourg, Mexico, Netherlands, Norway, New Zealand, Poland, Portugal, Slovakia, United States, Switzerland, Sweden, Turkey, Hungary, Italy and the United Kingdom, (OECD Annual Report 2007).

[23] See E. Chrabonszczewska, *Międzynarodowe organizacje finansowe*, SGH, Warszawa 2005, p. 126.

Currently, in the first decade of the 21 century, almost all restrictions on capital movements were removed in the thirty OECD countries.

In addition to the clear benefits that entails free movement of capital, the dynamic growth of the number and value of transactions of capital in international financial markets, activates new potential threats to the stability of economic systems of many countries worldwide.

The global financial crisis, which escalated most at the turn of the third and fourth quarter of 2008, proved once again that problems in one area of the international financial system, cause serious repercussions in others.

In addition to this fundamental threat, arise others, related to the widening of the socio-economic inequalities and discrimination against certain groups of operators.[24]

While these threats are actually confirmed by the economic practice of the poor and developing (especially for a short period) countries, it's hard to put a clear argument in this regard for the OECD countries.

Based on the value of GDP per capita in OECD countries in the years 1996–2007 presented in Table 1, the following conclusions can be drawn:

1. Years 1996–2007 were for OECD member countries a period of substantial increase in both the GDP and GDP per capita.
2. The countries with the largest GDP per capita in 1996 were: Luxembourg, Norway, USA, Switzerland and the Netherlands.
3. The countries with the lowest GDP per capita in 1996 were: Czech Republic, Slovakia, Hungary, Poland and Turkey.
4. At the end of 2007, the countries with the highest value of GDP per capita were: Luxembourg, Norway, USA, Ireland and Switzerland.
5. At the same time, the countries with the lowest average wealth were: Portugal, Slovakia, Hungary, Poland and Turkey.

Table 2 presents the effect of economic convergence, that has been observed in OECD countries from 1996 to 2007. The limit of U.S. per capita GDP (the value 100 in Table) is considered as a reference point. Basing on the results, the following conclusions can be drawn:

1. Between 1996–2007, the vast majority of OECD member countries have improved their average wealth, in relation to the arbitrarily adopted reference point – the U.S. GDP per capita (in 1996 – 34,906 USD in 2007 – 43,120 USD).
2. The greatest progress can be observed for: Luxembourg (increase from 142% to 177% of the agreed reference point), Ireland (increase from 65% and 94%), Slovakia (increase from 32% and 44%), Finland (increase from 64% to 76% of), Greece (increase from 52% to 63%) and Hungary (increase from 32% to 41%).

[24] Research on the economic inequalities among the OECD countries have a long tradition; see: K. Malaga, *Konwergencja gospodarcza w krajach OECD w świetle zagregowanych modeli wzrostu*, Akademia Ekonomiczna, Poznań 2004; M. Förster, M. Pearson, *Income Distribution and Poverty in the OECD Area: Trends and Diving Forces*, „OECD Economic Studies”, 2002, no. 34; H. Oxley, J.M. Burniaux *et al.*, *Income Distribution and Poverty in 13 OECD Countries*, „OECD Economic Studies”, 1997, no. 29. In this chapter, the essential focus is on economic inequalities in the context of freedom of capital movements.

Table 1. The values of per capita GDP in OECD countries in the years 1996 –2007 (in U.S. dollars, at the prices and the PPP in 2005)

OECD Country	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Australia	–	–	–	–	–	–	–	–	–	–	–	–
Austria	28553	29127	30140	31088	32143	32186	32550	32673	33271	33986	34925	35849
Belgium	27050	27932	28337	29251	30275	30412	30724	30900	31682	32092	32834	33489
Denmark	28939	29735	30274	30944	31934	32045	32080	32120	32778	33481	34486	34906
Finland	22640	23949	25127	26044	27290	27945	28333	28770	29762	30502	31855	33157
France	25437	25916	26727	27472	28357	28679	28770	28883	29405	29785	30250	30723
Greece	18484	19035	19570	20150	20987	21802	22473	23650	24728	25348	26381	27338
Spain	21389	22158	23067	24037	25040	25662	25978	26342	26764	27281	27911	28413
Netherlands	29237	30330	31327	32575	33618	34007	33814	33769	34411	35027	36157	37326
Ireland	22816	25196	26952	29524	31835	33165	34695	35670	36722	38216	39409	40787
Iceland	26319	27408	28820	29675	30517	31267	30988	31622	33579	35719	36320	36867
Japan	–	–	–	–	–	–	–	–	–	–	–	–
Canada	28105	29025	29946	31316	32647	32904	33525	33805	34508	35152	36329	36544
Korea	–	–	–	–	–	–	–	–	–	–	–	–
Luxembourg	49845	52178	54913	58708	62650	63791	65814	65945	68041	70492	73765	76470
Mexico	–	–	–	–	–	–	–	–	–	–	–	–
Germany	27236	27674	28244	28792	29680	29992	29940	29862	30229	30476	31416	32230

Norway	39492	41395	42247	42813	43920	44576	44986	45183	46664	47620	48299	49336
New Zeland	–	–	–	–	–	–	–	–	–	–	–	–
Poland	9486	10157	10666	11152	11632	11773	11949	12423	13093	13573	14429	15394
Portugal	17021	17675	18463	19092	19736	20003	20009	19709	19892	19983	20190	20529
Republic Czech	16163	16062	15954	16187	16794	17289	17656	18291	19101	20254	21560	22730
Slovakia	11418	12053	12479	12507	12585	13064	13688	14336	15067	16038	17388	19179
Switzerland	32145	32725	33517	33823	34839	35045	34948	34602	35237	35871	36866	37839
Sweden	25400	26011	26987	28205	29399	29630	30246	30711	31850	32770	33918	34589
Turkey	8192	8659	8778	8347	8776	8156	8538	8868	9572	10242	10807	11144
USA	34906	36042	37112	38323	39289	39177	39410	40018	41095	41913	42671	43120
Hungary	11352	11915	12545	13126	13735	14201	14832	15503	16290	16970	17696	17912
Great Britain	25565	26342	27217	28062	29060	29661	30177	30906	31610	32055	32763	33646
Italy	25301	25761	26114	26492	27458	27940	27979	27757	27906	27853	28205	28434

Source: Database – United Nations Economic Commission for Europe.

Table 2. Economic convergence in selected OECD countries between 1996 and 2007

OECD Country	**GDP per capita (1996)**	**GDP per capita in relation to the U.S. (U.S. = 100)**		**OECD country**	**GDP per capita (2007)**	**GDP per capita in relation to the U.S. (U.S. = 100)**	**Increase (↑) / decrease (↓)**
Turkey	8192	23		Turkey	11144	25	↑
Poland	9486	27		Poland	15394	35	↑
Hungary	11352	32		Hungary	17912	41	↑
Slovakia	11418	32		Slovakia	19179	44	↑
Czech Republic	16163	46		Portugal	20529	47	↓
Portugal	17021	48		Czech Republic	22730	52	↑
Greece	18484	52		Greece	27338	63	↑
Spain	21389	61		Spain	28413	65	↑
Finland	22640	64		Italy	28434	66	↓
Ireland	22816	65		France	30723	71	↓
Italy	25301	72		Germany	32230	74	↓
Sweden	25400	72		Finland	33157	76	↑
France	25437	72		Belgium	33489	77	no change
Great Britain	25565	73		Great Britain	33646	78	↑
Iceland	26319	75		Sweden	34589	80	↑
Belgium	27050	77		Denmark	34906	80	↓
Germany	27236	78		Austria	35849	83	↑

Canada	28105	80		Canada	36544	84	↑
Austria	28553	81		Iceland	36867	85	↑
Denmark	28939	82		Netherlands	37326	86	↑
Netherlands	29237	83		Switzerland	37839	87	↓
Switzerland	32145	92		Ireland	40787	94	↑
USA	**34906**	**100**		**USA**	**43120**	**100**	
Norway	39492	113		Norway	49336	114	↑
Luxembourg	49845	142		Luxembourg	76470	177	↑

Source: Own calculations based on data from Table 1.

3. The lowest progress has been recorded among: Norway (increase from 113% to 114% of the agreed reference point), Austria (increase from 81% to 82%), Netherlands (increase from 83% to 86%).
4. The effect of divergence has occurred in: Portugal (decrease from 48% to 47% of the agreed reference point), France (decrease from 72% to 71%), Denmark (decrease from 82% to 80%), Germany (decrease from 78% to 74%), Switzerland (decrease from 92% to 87%) and Italy (decrease from 72% to 66%).

Table 3 shows the cumulative value of foreign direct investment (FDI) in OECD countries. Taking into account the data contained in Tables 3 and available reports for the last ten years (IMF – World Economic Outlook, the CIA – World Factbook and Heratige Foundation) the following conclusions can be drawn:

1. Deepening process of internationalization of enterprises is distinctive feature of the modern global economy. This process is characterized by the growth of importance and participation of businesses connections with the foreign companies, in the whole of their economic operations and transition from simple to more complex forms of these connections.
2. Export and import remain still the dominating form of foreign involvement. Foreign direct investments increasingly become more important. They constitute the most developed form of internationalization of enterprises.
3. Global processes contribute to the creation of a single global market. The economic expansion of transnational corporations on a large scale, was possible due to the extremely rapid development of communication and IT infrastructure and progressive liberalization of international trade. These corporations in the search of favorable deposits, new markets or cheaper production factors, make investments outside their own country.
4. FDI is a very attractive form of external finance, not only because they provide capital but also because they do not cause an increase in foreign debt. This type of financing involves the outflow of earned added value in the form of dividends, however, it happens only when the project is profitable.
5. The capital, through direct investments, can be considered a beneficial and secure form of foreign investment in a given country. It is characterized by a long temporal perspective, is relatively stable and sensitive to a small extent to short-term cyclical changes in international financial markets. In the case of turbulences in global stock markets, direct investments become more attractive, as one of the most stable forms of external financing of economic growth of a given country.
6. The largest recipients of FDI between 1997–2006 were the following countries: U.S., Belgium and Luxembourg, Great Britain, France and Germany.
7. The largest suppliers of FDI between 1997–2006 were the following countries: U.S., Belgium and Luxembourg, Great Britain, France, Netherlands and Germany.
8. Of the major suppliers and recipients of FDI, the largest negative net worth was recorded among: France, Great Britain, Switzerland, Netherlands and Spain.

9. Countries, which in the analyzed period adopted the lowest FDI value, were: Iceland, Greece, Slovakia, New Zealand (all below 20 billion USD).
10. Countries, which in the analyzed period have made the lowest direct investments abroad, were: New Zealand, Slovakia, Czech Republic, Turkey and Poland.

Table 3. The cumulative value of foreign direct investment in OECD countries 1997–2006 (billion USD)

Country	FDI influx	Country	FDI abroad	Country	Net value
USA	1 637,2	USA	1 580,4	France	–391,0
Belgium/ /Luxembourg	1 188,7	Belgium/ /Luxembourg	1 181,7	Japan	–277,5
Great Britain	797,2	Great Britain	1 045,3	Great Britain	–248,2
France	480,8	France	871,8	Switzerland	–215,0
Germany	473,2	Netherlands	513,1	Netherlands	–214,0
Netherlands	299,1	Germany	510,2	Spain	–181,0
Kanada	285,3	Spain	420,8	Italy	–69,4
Spain	239,8	Japan	330,9	Kanada	–37,9
Sweden	192,9	Kanada	323,1	Germany	–37,0
Mexico	178,4	Switzerland	318,5	Norway	–27,5
Italy	128,8	Sweden	210,4	Sweden	–17,5
Switzerland	103,4	Italy	198,2	Finland	–17,4
Australia	89,7	Ireland	90,1	Iceland	–7,4
Ireland	88,5	Denmark	81,3	Austria	–6,7
Denmark	86,7	Finland	71,5	Ireland	–1,6
Poland	78,6	Norway	67,0	Portugal	–1,6
Korea	55,5	Austria	52,3	Grece	3,1
Czech Republic	55,2	Australia	46,0	Denmark	5,4
Finland	54,0	Portugal	45,0	Belgium/ /Luxemburg	7,0
Japan	53,4	Korea	42,9	Korea	12,6
Austria	45,6	Mexico	23,2	Slovakia	16,7
Portugal	43,5	Iceland	15,5	New Zeland	19,9

Turkey	42,6	Greece	10,7	Hungary	30,5
Hungary	40,9	Hungary	10,4	Turkey	36,4
Norway	39,4	Poland	8,8	Australia	43,7
New Zeland	19,0	Turkey	6,2	Czech Republic	51,9
Slovakia	17,3	Czech Republic	3,2	USA	56,9
Greece	13,8	Slovakia	0,6	Poland	69,7
Iceland	8,1	New Zeland	–0,9	Mexico	97,4
Total OECD	**6 836,3**	**Total OECD**	**8 078,1**	**Total OECD**	**1 241,8**

Source: *Trends and Recent Developments in Foreign Direct Investment*, OECD 2007, p. 23.

Conclusions

The category of economic inequalities is often combined with the globalization process. However, it is difficult to find clear and the same, convincing proof that globalization leads to an increase or decrease in economic inequalities.

International comparisons among the OECD countries indicate the occurrence of the convergence effect in all of the countries of Central Europe which have undergone a process of transformation (Czech Republic, Poland, Slovakia, Hungary). In this case, the balance of inflows and outflows of FDI is positive.

Strong convergence effect can be observed in the case of Luxembourg, Ireland and Finland. The first country recorded a small positive net FDI, the other two – relatively small negative values.

Between 1997 and 2006, the effect of international divergence has been noted among the six OECD countries (Denmark, France, Germany, Portugal, Switzerland and Italy). In five cases (except Denmark), we observe a negative net worth of FDI.

Generally, in international comparisons in the group of industrialized countries, it is difficult to see disturbing trends. The problem arises in the case of comparisons made within the countries. The average stratification in OECD countries is 9:1. The following countries are characterized by the biggest disparities: Mexico (25:1), Turkey (17:1) and USA (16:1). Denmark, Sweden and the Czech Republic have the smallest indicators of social stratification (5:1).

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