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Development and Underdevelopment: The Political Economy of Global Inequality

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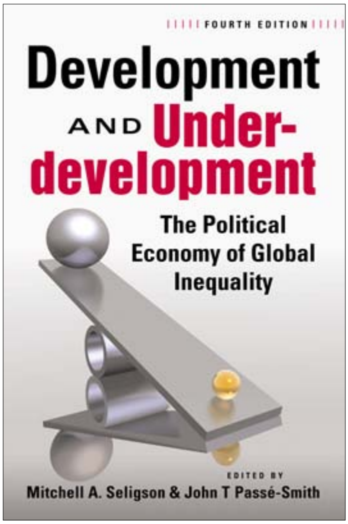

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The Dual Gaps: An Overview of Theory and Research

MITCHELL A. SELIGSON

THERE IS THE OLD STORY ABOUT ECONOMISTS: PUT TWO OF THEM IN A ROOM AND ask for a prediction, and you will get three answers. So, too, it seems in the field of economic growth, and the problem is not just limited to economists, since political scientists, sociologists, anthropologists, geographers, and other social scientists have all expressed strikingly different explanations for the great gap between rich and poor, the subject of this volume. Fortunately, in this field at least, all is not chaos; there has been a growing consensus over the years about the nature of the gap, its causes, and consequences. In this volume, the reader will be able to detect this movement toward consensus, even though key issues remain unresolved.

One thing that has become very clear is that classical economic theory was wrong about the gap between rich nations and poor. As John Passé-Smith puts it so nicely, that theory suggested that "we will all be rich." This volume contains a great deal of evidence that contradicts that theory. According to W. W. Rostow's thesis (see Chapter 14 of this volume), underdevelopment is only a stage that nations pass through on their way to becoming developed. But the data we have at hand tell a different story. The income gap between rich and poor countries has grown dramatically since World War II. In 1950 the average per capita income (in 1980 US dollars) of low-income countries was $164, whereas the per capita income of the industrialized countries averaged $3,841, yielding an absolute income gap of $3,677. Thirty years later, in 1980, incomes in the poor countries had risen to an average of only $245, whereas those in the industrialized countries had soared to $9,648; the absolute gap in 1980 stood at $9,403.[1] For this period, then, there is clear evidence to support the old adage that "the rich get richer." It is not true, however, that the poor get poorer, not literally anyway, but that would be a perverse way of looking at these data. A more realistic view of the increases in "wealth" in the poor countries would show that in this thirty-year period their citizens increased their incomes by an average of only $2.70 a year, less than what a North American might spend for lunch at a neighborhood fast-food restaurant. And in terms of relative wealth, the poor countries certainly did get poorer; the total income (gross national product, or GNP) of the high-income countries declined from 4.3 percent of the income earned by the industrialized countries in 1950 to a mere 2.5 percent by 1980.

The growth in the gap has continued on into the new century. By 2001 the gap was wider than ever, according to the World Bank. In that year the low-income countries averaged only $430 in gross national income in current dollars (GNI, the revised term for gross national product) while the high-income countries averaged $26,710, or a gap of $26,280! The relative gap had become even greater by 2001 than it was in 1980, with the income of the low-income countries equal to only 1.8 percent of that of the industrialized countries. In other words, since 1950 the relative gap between rich and poor countries had widened by 60 percent.[2] In the appendix of this book we provide the 2005 GNI per capita data, showing how the trend continues. The low-income countries have incomes that average $580 compared to the high-income country average of $35,131; by 2005, the poor were earning only 1.7 percent of the incomes of the rich.

One might suspect that these data do not reflect the general pattern of growth found throughout the world but may be excessively influenced by the disappointing performance of a few "basket case" nations. That suspicion is unfounded. The low-income countries comprise two-fifths of the world's population; 2.2 billion out of the world's 6.4 billion people live in countries with per capita incomes that average less than $600 a year.[3] It is also incorrect to speculate that because the growth rates of some poor countries have recently outperformed those of the industrialized countries, the gap will soon be narrowed. In Chapter 2, John Passé-Smith tells us that it could take Pakistan's 152 million people 1,152 years to close the gap. Even in the "miracle countries" such as China, where growth rates have been far higher than in the industrialized countries, the gap will take 64 years to close on the unrealistic assumption that China could maintain its present level of growth for many decades to come.

There is another gap separating rich from poor: many developing nations have long experienced a growing gap between their own rich and poor citizens, as the articles in Part 3 of this volume demonstrate. Many poor people who live in poor countries, therefore, are falling further behind not only the world's rich but also their more affluent countrymen. Moreover, precisely the opposite phenomenon has taken place within many (but not all) of the richer countries, where the gap between rich and poor is far narrower today than it was a century ago.[4] The world's poor, therefore, find themselves in double jeopardy.

The consequences of these yawning gaps can be witnessed every day. In the international arena, tensions between the "haves" and "have nots" dominate debate in the United Nations and other international fora. The poor countries demand a "New International Economic Order" (NIEO), which they hope will result in the transfer of wealth away from the rich countries, or at least stem the hemorrhage of the loss of their own wealth. The industrialized countries have responded with foreign aid programs that, by all accounts, have at best only made a small dent in the problem. Within the developing countries, domestic stability is frequently tenuous at best, as victims of the gap between rich and poor (along with their sympathizers) seek redress through violent means. The guerrilla fighting that spotted the globe during the Cold War may have been fueled by international conflict, but, as shown by Edward N. Muller and Mitchell A. Seligson in Chapter 13 of this volume, its root cause invariably can be traced to domestic inequality and deprivation, whether relative or absolute. This remains true in the post–Cold War era, and may well be, in the final analysis, the key cause of the rise of global terrorism.

Thinking and research on the international and domestic gaps between rich and poor have been going through a protracted period of debate that can be traced back to the end of World War II. The war elevated the United States to the position of world leader, and in that position the nation found itself confronted with a Western Europe in ruins. The motivations behind the Marshall Plan for rebuilding Europe are debated to this day, but two things remain evident: unprecedented amounts of aid were given, and the expected results were rapidly achieved. War-torn industries were rebuilt, new ones were begun, and economic growth quickly resumed. Similarly, Japan, devastated by conventional and nuclear attack, was able to rebuild its economy and become a world leader in high-technology industrial production.

The successful rebuilding of Europe and Japan encouraged many to believe that similar success would meet efforts to stimulate growth in the developing world. More often than not, however, such efforts have failed or fallen far below expectations. Even when programs have been effective and nations have seemed well on their way toward rapid growth, many of them nonetheless continued to fall farther and farther behind the wealthy countries. Moreover, growth almost inevitably seemed to be accompanied by a widening income gap within the developing countries. Only in Asia have we seen some reversal of this worldwide trend, where poor nations have grown rapidly while income inequality has not worsened and in some cases even improved. The lessons of Asia, therefore, are important ones. Thus, even well into the new century, the world is still confronted by what Paul Collier refers to as "The Bottom Billion."[5]

Over the years an impressive volume of research on explaining the "gap" question has been generated, and we have attempted to include some of the very best of it in this collection. The authors represented here present a wide-ranging treatment of the thinking that is evolving on the subject of the international and domestic gaps between rich and poor. Their studies are not confined to a single academic discipline or geographic area. Rather, their work reflects a variety of fields, including anthropology, economics, political science, psychology, and sociology, and they have examined the problems from the viewpoint of a single country or region as well as with a microanalytic approach.

The volume is organized to first present to the reader a broad picture defining the international and domestic gaps between the rich and the poor. This picture is contained in Part 1. Part 2 takes the long-term view, going back in some cases thousands of years to attempt to locate the point in time when the gap between rich and poor began. Part 3 looks at the domestic income inequality gap. Part 4 explores the classic explanation for closing the gap and the convergence/divergence thesis. The remaining parts of the volume, Parts 5 through 8, attempt to explain the existence of the gaps, with Part 5 looking at culture, Part 6 looking at dependency and world systems, Part 7 focusing on institutions, and Part 8 exploring the impact of globalization on the gap.

In Part 1, "Is There a Gap Between Rich and Poor Countries?" we present a broad overview of the facts of the international gap. The chapters in that section show that the gap between rich and poor countries is wide and growing. John Passé-Smith (Chapter 2) and Robert Hunter Wade (Chapter 3) show that even though some countries manage to narrow the gap, most do not. Glenn Firebaugh (Chapter 4) finds that in recent years the gap has neither grown nor shrunk but is remaining stable. These findings are robust even when the newer way of calculating per capita incomes, called purchasing power parity, is used as Passé-Smith shows in Chapter 5.

Part 2, "The Historical Origins of the Gap," takes the long-term view. Angus Maddison has collected the longest time series of world wealth of any scholar. He shows that the gap is anything but a recent phenomenon, but that it has widened a great deal since the 1800s. Jared Diamond (Chapter 7) takes even a longer-range view, looking back to the first *Homo sapiens.* Diamond's emphasis on geography, climate, and other natural conditions is disputed by two teams of scholars, whose studies are found in Chapters 8 and 9. The emphasis in this work is that institutions are what matter. The age of imperialism established different kinds of institutions among the colonized parts of the world; some focused on extraction of resources and others on building a more equitable community. According to the institutions arguments, conditions confronted by colonial settlers strongly determined the kinds of institutions that were put in place, and those institutions determined, over the centuries, the rate of economic growth.

Part 3, "The Other Gap: Domestic Income Inequality," examines domestic inequality. Simon Kuznets (Chapter 11) sees widening domestic income inequality as an almost inevitable by-product of development. He traces a path that seems to have been followed quite closely by nations that have become industrialized. The process begins with relative domestic equality in the distribution of income. The onset of industrialization produces a significant shift in the direction of inequality and creates a widening gap. Once the industrialization process matures, however, the gap is again reduced. This view was certainly held by those who still regard the Marshall Plan as the model for the resolution of world poverty. In Chapter 12 the policy implications of attempting to alter the "natural" distribution of income are discussed. In Chapter 13, Edward N. Muller and Mitchell A. Seligson show that domestic income inequality is linked to violence in the form of insurgency and therefore that there are real societal costs to pay beyond any ethical ones.

Whereas Parts 1, 2, and 3 of the book presents the basic argument on the extent and duration of the international and domestic gap, Part 4 examines the evidence for the so-called convergence thesis. This thesis argues that even though Kuznets may have been right, in the long run, rich and poor countries all will follow the same stages of growth. W. W. Rostow's classic work on the stages of economic growth (Chapter 14) leads to the conclusion that all countries will eventually converge. William Baumol reports on a study of countries over a 110-year period and finds that economies do converge. However, he notes that there is a "convergence club" and not all countries are "members." For those countries, convergence between rich and poor becomes an ever-receding dream. In the following chapter, J. Bradford De Long, however, criticizes the piece by Baumol, arguing that it is flawed by sample selection bias. When De Long corrects for the sample selection bias, convergence disappears.

Explanations for the gaps have often focused on different aspects of national culture. We have all heard the expression "Germans are so industrious, that is why they are rich," or "the Japanese work so hard, it is no wonder that they are so wealthy." Part 5 of this volume, "Culture and Development," presents evidence pro and con on the role of culture. Specifically, the cultural values associated with industrialization are seen as foreign to many developing nations, which apparently are deeply attached to more traditional cultural values. According to the cultural thesis, punctuality, hard work, achievement, and other "industrial" values are the keys to unlocking the economic potential of poor countries. Most adherents of this perspective believe that such values can be inculcated through deliberate effort. For example, this is the thesis of David McClelland in Chapter 17, who writes about the importance of high "N-Achievement" for growth. Lawrence E. Harrison has written extensively on this thesis, and in Chapter 18 he makes a broad case that values matter most in development. Others argue that the values will emerge naturally as the result of a worldwide process of diffusion of values functional for development. This perspective has been incorporated into a more general school of thought focusing on the process called "modernization." Development occurs and the international gap is narrowed when a broad set of modern values *and* institutions is present. The success of the Asian economies in recent years has led some to speculate that there are cultural values found there that foster growth. This view, a variant on Max Weber's classic notion of the value of the Protestant ethic, is termed the "Confucian ethic," as is shown in Herman Kahn's study (Chapter 19). Quantitative evidence for the importance of culture is presented in Chapter 20.

In marked contrast to the convergence theory and the cultural perspectives on the gap, which suggest that the phenomenon of rich and poor disparity can be transitory, a third school of thought comes to rather different conclusions. Part 6, “Dependency and World Systems Theory: Still Relevant?” looks at these two very important schools of thought. The scholars supporting this approach—known as *dependentistas*—observe that the economies of the developing nations have been shaped in response to forces and conditions established by the industrialized nations and that their development has been both delayed and dependent as a result. The *dependentistas* conclude that the failure of poor countries is a product of the distorted development brought on by dependency relations. In Part 6 the dependency and world-system perspectives are presented by the major writers in the field and refuted by others based on careful studies of large data sets. The classic article in the field by Andre Gunder Frank begins this section (Chapter 21). The case studies of Canada (Chapter 22) and Ireland (Chapter 23) suggest that dependency is a problem not only for the developing world but for some parts of the industrialized world as well. The section concludes with a look at transnational corporations and the claim that they slow the growth of developing countries (Chapter 24).

Part 7, “The Role of Institutions,” presents the final and most recent explanation of the gaps, focusing attention on the role of states within the Third World. As socialist economies throughout the world proved incapable of keeping up with the capitalist industrialized countries, international development agencies focused their attention on the need for institutional and policy reforms within the Third World. This attention brought with it a host of neoliberal policy prescriptions, including privatization, trade liberalization, and the ending of import substitution industrialization (ISI) policies. The collapse of the Soviet Union and the socialist states of Eastern Europe, along with increasing capitalist economics in China, has reinforced this tendency. According to the perspective that focuses on institutions, errors of state policy are largely responsible for the gaps. This is the thesis argued by Mancur Olson Jr., whose “Big Bills Left on the Sidewalk (Chapter 25) has become a classic in the field. The role of good institutions and policies is nicely illustrated for the case of Mauritius by Arvind Subramanian in Chapter 26. One way these policies get distorted is as a result of “urban bias” (Chapter 27). From this perspective, there are numerous policies in the Third World that favor the cities over the countryside, with the result that growth is slowed and the gap between rich and poor nations widens.

Because of the dramatic increase in the number of democratic governments in recent years, the focus on states has raised concerns over the connection between democracy on the one hand and growth and inequality on the other. Some have argued that democratic political systems are less capable than their authoritarian counterparts of setting a clear economic agenda, whereas others have argued that democracies not only are good for growth but also are inherently egalitarian in nature and hence help reduce the domestic gap between rich and poor. The chapter by Adam Przeworski and Fernando Limongi (Chapter 28) presents the evidence in this debate. In contrast, Nancy Birdsall and Richard Sabot (Chapter 29) focus less on institutions and more on human capital, specifically education, as the key to growth.

Part 8, "The Impact of Globalization," is a new section of the book that presents three chapters on the impact of globalization on the two gaps. Anthony Giddens (Chapter 30) offers a definition of globalization and concludes that on balance, globalization reduces inequality. He asserts that while some members of the developing world have been left behind, others have participated in "reverse colonization" of the wealthier countries. Branko Milanovic (Chapter 31), in comparison, finds growing inequality but questions whether we should be concerned with levels of inequality or levels of actual poverty and consumption. He argues that globalization means that more people have access to cheap forms of communication and transportation and this could mean that poor people in poor countries are less satisfied with what they have because they are able to see what wealthier people possess. Finally, the World Bank's assessment of globalization (Chapter 32) is that the developing countries that have joined in globalization have experienced rapid economic growth with no systematic change in domestic inequality, resulting in a reduction in absolute poverty in these countries. Although the World Bank reports an overall decline in inequality, it notes that where divergence appears to be occurring, it is not the fault of globalization but the nonglobalizing developing countries that are experiencing the divergence.

The readers of this volume will come away from it with a clear sense of the causes of the gaps between the rich and poor. It is to be hoped that some of those readers might someday help in implementing the "cure."

Notes

1. These figures are based on the World Bank's *World Development Report 1980* (New York: Oxford University Press, 1980), 34.

2. Data from World Bank, *World Development Report 2003* (New York: Oxford University Press, 2003), 234–235.

3. Data taken from the World Bank, "2006 World Development Indicators," online at http://www.devdata.worldbank.org.

4. Although in some industrial countries, such as the United States, income inequality seems to have been increasing in recent decades.

5. Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Falling Behind and What Can Be Done About It?* (Oxford: Oxford University Press, 2007).