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Development and
Underdevelopment:
The Political Economy
of Global Inequality

FIFTH EDITION

edited by
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1

The Dual Gaps: An Overview of Theory and Research

Mitchell A. Seligson

THE TWENTY-FIRST CENTURY HAS BROUGHT WITH IT A RISING CONCERN over rapidly increasing income and wealth inequality worldwide. In the United States, income inequality has risen so steeply and so rapidly that political debates often reference the so-called one-percenters—the top 1 percent of the income distribution. In Europe, protest marches frequently turn violent as the unemployed and those who have suffered from widespread austerity programs demand that the rich pay more in taxes to help alleviate the burdens faced by the rest. From a global perspective, as this book shows in considerable detail, there are wide gaps between rich nations and poor nations, and between rich people and poor people within many nations. But why should we care? If we read works in classical economic theory, we will find assertions that in the end, we will all be rich. According to W. W. Rostow's thesis, for example, in his widely read book *The Stages of Economic Growth*,¹ economic underdevelopment is only a stage that nations pass through on their way to becoming rich. 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 and shows few signs of shrinking. 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, average per capita income in the poor countries had risen to only \$245, whereas that in the industrialized countries had soared to \$9,648, yielding an absolute gap in 1980 of \$9,403. 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 this 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, the average income increased by an average of only \$2.70 a year, less than what a US resident might have spent 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 [GNP]) of the low-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 (GNI, the revised term for gross national product) in current dollars, whereas the high-income countries averaged \$26,710, yielding an astounding gap of \$26,280. The relative gap grew even wider by 2011 compared to 1980, with the GNI of the low-income countries equal to only 1.4 percent of the GNI of the industrialized countries, meaning that, since 1950, the relative gap between rich and poor countries widened by 60 percent.² In the appendix to this book, we provide the 2011 GNI per capita data showing that the trend continues. The average income of the low-income countries was \$571 per capita in 2011, compared to an average of \$41,274 for the high-income advanced industrial countries.

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 817 million people living in thirty-six nations.³ Moreover, it is incorrect to speculate that the world’s poor countries are all in Africa; a number are in Asia and one (Haiti) is in the Americas. One notch up from the poorest countries are what the World Bank classifies as “lower middle income” countries, where GNI per capita is only \$1,772. In those countries reside 2.5 billion people out of the world’s 7 billion. The poor and lower-middle-income countries together total 3.3 billion of the world’s population. It is also incorrect to speculate that, because the growth rates of some poor and lower-middle-income 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 sixty-four 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 chapters in Part 3 of this volume demonstrate. Many poor people who live in poor countries, therefore, are falling farther behind not only the world’s rich, but also the more affluent citizens in their own countries. 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 at the United Nations and in other international forums. The poor countries are demanding better treatment from the rich nations of the world. The industrialized countries have responded with foreign aid programs that, because of limited funds, have not reversed the trends in growing worldwide inequality. Within many developing countries, domestic stability is frequently tenuous at best, as victims of the domestic gap between rich and poor (along with their sympathizers) seek redress through violent means. Political violence, civil wars, and other insurgencies have many causes, but, as shown by Edward Muller and Mitchell Seligson in Chapter 13 of this volume, one root cause can be traced to domestic inequality. In the final analysis, this may lie at the root of the rise of global terrorism in the twenty-first century.

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, which sought to rebuild 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 the 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. We have seen an important reversal of this worldwide trend, however, in Asia, where poor nations have grown rapidly while income inequality has not worsened and in some cases has 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.”⁴

As a result of these experiences, 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 volume. The authors collected 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, as presented in the chapters here, reflects a variety of fields, including anthropology, economics, political science, psychology, and sociology.

The volume is organized to first present the reader with a broad picture that defines the international and domestic gaps between the rich and the poor. This picture is contained in Part 1 of the volume. 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 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 natural resources and climate change.

Part 1, "Is There a Gap Between Rich and Poor Countries?" presents a broad overview of the facts of the international gap. The chapters here 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), weighting the data by the population sizes of countries, finds that the gap is neither growing nor shrinking but is in fact remaining quite stable. These findings are robust, as Passé-Smith shows in Chapter 5, even when the newer way of calculating per capita incomes, called purchasing power parity, is used. Part 1 concludes with Abhijit Banerjee and Esther Duflo (Chapter 6) asking the important question: How does one live on less than a dollar a day?

Part 2, "Historical Origins of the Gap," takes the long-term view. Angus Maddison (Chapter 7) has collected the longest time-series of world wealth of any scholar. He shows that the gap is anything but a recent phenomenon, having widened significantly since the 1800s. Jared Diamond (Chapter 8) takes an even longer-range view, looking back at the impact of geography on the emergence of civilization and economic development. Diamond's emphasis on geography, climate, and other natural conditions is disputed by two teams of scholars (Chapters 9 and 10). The emphasis in this work is that it is institutions rather than geography that matter. The age of imperialism established different kinds of institutions in the colonized parts of the world, some focused on extraction of resources while others were focused on building a state in which property rights and rule of law were firmly established. According to the argument, 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, ending with some nations being very rich and others very poor. Peter Blair Henry and Conrad Miller (Chapter 11) argue that Jamaica and Barbados, while having similar historical experiences and institutions, have experienced very different growth trajectories. They assert that the distinguishing factor is policy, not geography or institutions, that determines variation in rates of economic growth.

Part 3, “The Other Gap: Domestic Income Inequality,” examines domestic inequality. Nobel Prize winner Simon Kuznets (Chapter 12) sees widening domestic income inequality as an almost inevitable by-product of development. Kuznets 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. Inequality has consequences. Edward Muller and Mitchell Seligson (Chapter 13) show that domestic income inequality is linked to violence in the form of insurgency and thus that there are real societal costs to pay beyond any ethical ones. Isabel Ortiz and Matthew Cummins (Chapter 14) show how difficult it will be for the gap to be closed for the poorest countries—that is, the “bottom billion.” According to their calculations, it will take 800 years, at the current rate of growth, for those countries to catch up. Andrew Berg and Jonathan Ostry (Chapter 15) warn that inequality may cause a short-term growth spurt, but in the long run high levels of inequality bring unrest and, potentially, political instability. Contrary to many previous studies, their analysis suggests that equality does not slow growth. The authors paraphrase and invert the famous remark of President John Kennedy, “a rising tide lifts all boats,” concluding that “helping raise the smallest boats may help keep the tide rising for all craft, big and small.” Part 3 ends with the work of Martin Ravallion (Chapter 16), which heaps more pessimism onto the equation. He finds that while middle-income countries have the capacity to tax their way to greater equality in the distribution of wealth, the poorest countries do not.

A more optimistic perspective is demonstrated in Part 4, “The Classical Thesis: Convergence or Divergence?” According to this thesis, even though Kuznets may have been right regarding the long run, both rich and poor countries will follow the same stages of growth. W. W. Rostow’s classic work on the stages of economic growth (Chapter 17) leads to the conclusion that all countries will eventually converge. William Baumol (Chapter 18) provides evidence of this convergence when he reports on a study of countries over a 110-year period. However, he notes that there is a “convergence club,” and that not all countries are “members.” For those excluded countries, convergence between rich and poor becomes an ever-receding dream. This part of the book concludes by returning to the pessimism of the prior sections. J. Bradford DeLong (Chapter 19) shows that convergence theory is illusory, as convergence occurs only when the sample of countries selected includes those that have already converged. When this “selection bias” is dropped, and a broader sample of countries is included, the widening gap is again the norm.

Explanations for the great gaps have often focused on variation in national culture. We have all heard the expressions, “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 Underdevelopment,” presents evidence for and against 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 (Chapter 20), who writes about the importance of high “N-achievement” for growth. Lawrence Harrison has written extensively on this thesis, and here (Chapter 21) he makes a broad case that values matter most in development. Others argue that values will emerge naturally as the result of a worldwide process of diffusion of those values that are 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. Jim Granato, Ronald Inglehart, and David Leblang (Chapter 22) present strong quantitative evidence for the importance of culture, showing that McClelland was right about the achievement motive driving development.

In marked contrast to the convergence theory and the cultural perspectives on the gap, which suggest that the phenomena of rich and poor disparity can be transitory, a third school of thought comes to rather different conclusions, as explored in Part 6, “Dependency and World Systems Theory: Still Relevant?” The scholars who support 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-systems perspectives are presented by the major writers in the field, and refuted by others based on careful studies of large datasets. The classic article in the field, by Andre Gunder Frank (Chapter 23), begins this section. Next, Heather-Jo Hammer and John Gartrell (Chapter 24), in a case study of Canada, suggest that dependency is a problem not only for the developing world but also for some parts of the industrialized world. The section concludes with a paper by Fernando Henrique Cardoso (Chapter 25), the founder of dependency thinking and former president of Brazil, who offers a broad picture on the evolution of dependency thinking in the context of the globalizing world.

Part 7, “The Role of Institutions,” presents what has become the dominant paradigm for economists in explaining 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 the entry of China into the world economy as a major player, has reinforced this tendency. According to the perspective that focuses on institutions, failures of state policy to provide property rights and the rule of law are largely responsible for the gaps. This is the thesis argued by Mancur Olson Jr. (Chapter 26), whose paper “Big Bills on the Sidewalk” has become a classic in the field. One way policies become distorted is as a result of “urban bias,” as explored by Michael Lipton (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 connection between democracy on the one hand and growth and inequality on the other has become a major topic for research. 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. Adam Przeworski and Fernando Limongi (Chapter 28) present the evidence in this debate. On the other hand, Nancy Birdsall and Richard Sabot (Chapter 29) focus less on institutions and more on human capital, specifically education, as the key to growth. An even broader perspective is taken by world-famous geographer Jared Diamond (Chapter 30), who argues that while institutions no doubt matter, it is geography that matters more. Diamond’s chapter also relates directly to the studies on natural resources, to which we next turn.

Part 8, “Natural Resources, Climate Change, and the Gap,” is an entirely new section of this book. Here we look at various physical factors that might influence the emergence and persistence of the gap between rich and poor. One of the most important areas of research has been on the so-called resource curse—that is, the growth problem faced by countries that are well endowed with highly valuable commodities such as petroleum, gold, or diamonds. Paul Collier and Benedikt Goderis (Chapter 30) explain why resource-rich countries tend to grow very slowly. As a result of variation in climates worldwide, some countries suffer from high disease levels. Christopher Eppig, Corey Fincher, and Randy Thornhill (Chapter 32) show that those countries that suffer from high levels of parasites also suffer from a lower level of average cognitive

ability in their populations, which presumably inhibits economic growth. Finally, Melissa Dell, Benjamin Jones, and Benjamin Olken (Chapter 33) look at the ill effects of climate change on economic growth. In Part 9, to conclude the book, Mitchell Seligson (Chapter 34) looks to the future and explores areas for further research.

It is hoped that 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 hoped that some of these readers might someday help in implementing the “cure.”

Notes

1. W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge, UK: Cambridge University Press, 1960).
2. Data from World Bank, *World Development Report 2003* (New York: Oxford University Press, 2003), pp. 234–235; and www.data.worldbank.org.
3. Data taken from www.data.worldbank.org.
4. Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Falling Behind and What Can Be Done About It?* (Oxford: Oxford University Press, 2007).