The Gap Between RICH and POOR

Contending Perspectives on the Political Economy of Development

edited by
Mitchell A. Seligson

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For Amber Lara Seligson,
who, far more than most North American children,
has had the opportunity to observe at first hand
the gap between the rich and poor

Preface

Few residents of industrialized nations are not forcibly struck by the vast gap in wealth separating them from those who reside in the poor countries of the world. Whether they travel to those countries or visit them vicariously through television and film, the gap is probably the single most vivid impression that remains in their minds. There is a second gap, one that exists within the poor countries themselves, between the tiny affluent minority and the vast majority of the poor. This dichotomy can be observed in urban areas as well as in rural villages.

For the social scientist who has observed these gaps, two questions immediately arise. First, what causes the gaps? Second, are the gaps narrowing or widening? These two questions have concerned me since my earliest visits to Latin America, where I experienced these two gaps firsthand. This book is an attempt to provide the clearest answers that social science has been able to offer to date.

The book grew out of a graduate seminar I taught at the University of Arizona on the political economy of development. In preparing for the seminar while on sabbatical at the University of Essex in England, it became clear to me that there was a great deal of research addressing the two questions posed above, and I attempted to organize that material for my students. Although there were a number of collections that treated questions of political and economic development, none directly addressed the questions I sought to answer. In addition, the most recent theoretical and empirical research on dependency and world systems was generally absent from these volumes.

In the seminar, my students challenged me to refine my own thinking on the two questions and to probe more deeply the strengths and weaknesses of the existing research. They stimulated me to prepare this volume, which I hope will be of use in undergraduate and graduate courses alike in the fields of economics, political science, sociology, and history. I owe a deep debt of gratitude to those students: James Hansen, James Hawkins, Brian McConnell, Patricia Manning, Sylvia Adriana Pinal C., Francis W. Pumphrey, Marcy I. Rosin, Raúl P. Saba, A. Houman Sadri, Mohammed Sahrifi, and John T. Smith. I also wish to acknowledge

the contribution that my colleague Edward N. Muller has made to my thinking on this subject. We have spent many hours discussing the questions addressed in this book. Finally, I would like to thank the many authors and publishers who so kindly granted permission for their works to appear here.

Mitchell A. Seligson
Tegucigalpa, Honduras

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PART 1
DEFINING THE GAP BETWEEN RICH AND POOR

1. The Dual Gaps: An Overview of Theory and Research

Mitchell A. Seligson

The income gap between rich and poor countries has grown dramatically over the past 30 years. In 1950, the average per capita income (in 1980 U.S. dollars) of low-income countries was $164, while 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, while those in the industrialized countries soared to $9,648; the absolute gap in 1980 stood at $9,403. For this period, then, there is clear evidence to support the old adage that "the rich get richer." It is not true that the poor get poorer, 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 the poor countries increased their incomes by an average of only $2.70 a year, less than what an American might spend for lunch at a neighborhood fast-food stand. And in terms of relative wealth, the poor countries certainly did get poorer; the total income (gross national product or 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.[1]

One might suspect that these data do not reflect the general pattern of growth found throughout the world, but are influenced by the disappointing performance of a few "basket case" nations. That suspicion is unfounded. The low-income countries comprise nearly half the world's population; more than two billion people live in countries with incomes of less than $400 a year. It is also incorrect to speculate that because some poor countries have recently outperformed the growth rates of the industrialized countries that the gap will soon be narrowed. In Chapter 2, David Morawetz tells us that it could take China, which alone contains some one billion people, 2,900 years to close the gap. Even in the cases of the "miracle countries," like South Korea and

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This is an original contribution to this volume.

Taiwan, where growth rates have been twice as high as in the industrialized countries, the gap has doubled.

There is another gap separating rich from poor: within many developing nations there is a growing internal gap between their own rich and poor citizens. Poor people who live in poor countries, therefore, are not only falling further behind the world's rich, but are also falling further behind their relatively more affluent countrymen. Moreover, precisely the opposite phenomenon seems to be taking place within the richer countries, where the gap between rich and poor has been narrowing. The world's poor, therefore, find themselves in a position of double jeopardy.

The consequences of these widening gaps can be witnessed every day. In the international arena tensions between the "haves" and "have-nots" dominate debate in United Nations and other international forums. 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. The industrialized countries, in turn, have responded with foreign aid programs that, by all accounts, can only hope to make a small dent in the problem. Indeed, some argue that foreign aid actually exacerbates the gap (see Chapter 17). Within the developing countries, domestic stability is frequently tenuous at best as victims of the yawning gap between rich and poor (along with their sympathizers) seek redress through violent means. The guerrilla wars that spot the globe may be directed by those with linkages to international movements, but their root causes invariably can be traced to inequality and deprivation, whether relative or absolute.

Thinking and research on the international and domestic gaps between rich and poor has 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 United States found itself confronted with a Western Europe in ruins. The motivations behind the Marshall Plan for rebuilding Europe are debated to this day, but one thing remains evident and that is that unprecedented amounts of aid were given and the expected results were rapidly forthcoming. War-torn industries were rebuilt, new ones were begun, and economic growth resumed.

The success of rebuilding Europe 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 successful and nations seemed well on the way toward rapid growth, they nonetheless continued to fall further and further behind the already wealthy countries. Moreover, growth seemed to be accompanied by a widening income gap within the developing countries.

The authors of this collection present a comprehensive 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 disciplines, including economics, political science, sociology, history, psychology, and geography, to mention the principal ones, and they have examined the problems from the viewpoint of a single country or region as well as with a macroanalytic approach. This diversity produced three major perspectives on the gap.

In the first, the widening gap between rich and poor nations is viewed as being principally a cultural problem. Specifically, the cultural values associated with industrialization are seen as foreign to many developing nations, which are deeply attached to more traditional cultural values. Yet the values of punctuality, hard work, achievement, and other "industrial" values are keys to unlocking the economic potential of poor countries, according to these scholars. Most adherents of this perspective believe that such values can be inculcated in a population through deliberate effort. 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 are present.

A number of economists, most notably Simon Kuznets, have been associated with the second school of thought, which sees domestic income inequality occurring 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 these nations enjoying 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.

In marked contrast to these two perspectives, which suggest that the phenomena of rich and poor disparity are transitory, there is a third, more recent school of thought that comes to rather different conclusions. 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, as a result, their development has been both delayed and dependent. The dependentistas conclude that the failure of poor countries to catch up with the rich ones and the widening internal income gap are both products of the distorted development brought on by dependency relations. A further elaboration on this thinking has emerged in recent years in the form of the "world-system" perspective developed by Immanuel Wallerstein and his followers. According to this group, since the sixteenth century a world capitalist economy has existed, divided geographically (rather than occupationally, as in the earlier system of empires) into three primary zones: core, semiperiphery, and periphery. The core dominates the system and drains the semiperiphery and periphery of their economic surplus. Both of these perspectives contend that the gaps will be perpetuated by the nature of the international system and cannot be narrowed unless a major restructuring of that system is undertaken.

In the remaining chapters of the first part of this book, the principal evidence of the existence of both international and internal gaps is presented. Part Two offers various explanations for both gaps, leading off with Kuznets's discussion of the widening internal gaps. It then surveys some of the best-known cultural explanations and follows with a critique of that perspective. A brief look is taken at an explanation emphasizing domestic determinants of inequality as argued by Michael Lipton in his "urban bias" thesis. Then the dependency perspective is introduced by Theotonio Dos Santos. His discussion is followed by a comparison of modernization and dependency theory. Lastly, world-systems theory and its relationship to the gap between rich and poor is argued by Immanuel Wallerstein and refuted by Tony Smith.

The theories argued in Part Two are confronted by empirical evidence of their validity in Part Three. The authors attempt to find an explanation for the gaps that is actually supported by the data. Adherents to the view that development produces inequality have their say first. Their arguments are followed by a rigorous critique and presentation of counter-evidence. Then a series of authors challenge the entire basis of the argument by showing that the data itself is misleading and that the indicators used are the wrong ones.

The concluding section of the volume, Part Four, offers three case studies. The first of these, by John A. Booth, argues that income inequality is clearly traceable to domestic public policies. In the next chapter, John T. Smith compares capitalist dependency with socialist dependency. The last case study, by Shirley W. Y. Kuo, Gustav Ranis, and John C. H. Fei, examines Taiwan and its success at achieving growth with increased equality. A long-term look into the future is presented by Herman Kahn, who argues that the existence of the gap between rich and poor nations will serve as a catalyst for development that will eventually reduce that gap. The final chapter represents my own effort to synthesize the conflicting perspectives and to help point the way toward research that might ultimately resolve the debate.

In an effort to guide the reader in making the connection between each contribution and the overall theme of the volume, I have prefaced each selection with a short introduction. A special effort has been made to employ the terminology of the respective authors in these introductions, and as a result the particular terms used to describe the poor countries (e.g., developing countries, the Third World, underdeveloped nations, etc.) vary from chapter to chapter. No deeper meaning should be given to the choice of one term over the other or to the lack of consistency throughout the volume in their use. Similarly, in an effort to remain as faithful as possible to the original intent of each author, the footnoting style found in the original piece has been retained.

Notes

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

2. The Gap Between Rich and Poor Countries

David Morawetz

The enormity and persistence of the per capita income gap between rich and poor countries is the subject of this selection by David Morawetz. He shows, using data gathered by the World Bank, that there are two gaps, the relative and the absolute. Although some areas of the world (China, East Asia and the Middle East) have narrowed the relative gap in the 1950–75 period, others have seen it widen. For the developing countries as a whole, per capita income was only 7.6 percent of the per capita income of the industrialized nations. Even more distressing is the finding that only one country, Libya, was able to narrow the absolute gap during the twenty-five years of post–World War II development covered in this study, and that it will take anywhere from several hundred to over three thousand years for developing countries to close the gap at present growth rates. Morawetz concludes by arguing that closing the relative and absolute gaps may be a goal that is neither attainable nor desirable.

Although during 1950–75 the per capita incomes (as conventionally measured) of the developing countries were growing faster than ever before, so too were those of the developed countries. As a result, the gap between the rich and the poor nations, which had been increasing for 100 to 150 years [Kuznets 1965], continued to widen.

The Relative Gap

Since the developing and developed countries grew in per capita income at almost identical rates during 1950–75 (Table 2.1), the per capita income of the developing countries as a proportion of that of the developed countries stayed fairly constant, at around 7 to 8 percent. In China, East Asia, and particularly in the Middle East, the relative gap narrowed somewhat, whereas in South Asia, Africa, and Latin America it widened.

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