SECOND EDITION

DEVELOPMENT and UNDER-DEVELOPMENT

The Political Economy of Global Inequality

edited by

Mitchell A. Seligson and John T Passé-Smith

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Mitchell A. Seligson
John T Passé-Smith

For
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and
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Preface

Few residents of industrialized nations are not forcibly struck by the vast gap in wealth separating them from those who reside in the world's poor countries. 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. A second gap, one that exists within the poor countries themselves, is found 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.

Two questions concern most social scientists who conduct research in the Third World, where they experience these gaps firsthand. First, what causes the gaps? Second, are the gaps narrowing or widening? This book attempts to provide the clearest answers that these same social scientists have been able to offer to date.

This book is a substantially revised version of its two predecessors, *The Gap Between Rich and Poor* (1984) and *Development and Underdevelopment: The Political Economy of Inequality* (1993). The original volume grew out of a seminar taught by Mitchell Seligson at the University of Arizona. In preparing for the seminar, he recognized that much research addressed the two questions posed here, and he attempted to organize that material for his students. Although a number of collections examined political and economic development, none directly addressed the questions he sought to answer. In addition, the then most recent theoretical and empirical research on dependency and world systems was generally absent from those volumes.

When the seminar was first taught, the students attending helped to refine the thinking that went into its preparation. One of those students, John Passé-Smith, was so stimulated by the subject matter that he wrote his doctoral dissertation on it. When Seligson was about to begin a sabbatical, Passé-Smith suggested that a new edition of the volume be produced, incorporating the latest scholarship on the dual gaps between rich and poor. Hence, this collaborative effort emerged, with Seligson and Passé-Smith serving as coeditors.

We have sought to retain the classics included in the first version, but much new material has emerged since the early 1980s when the original volume was prepared, and more has emerged since the 1993 edition was published. As a result, of the thirty-five selections in this volume, fifteen are new. We now have better, more extensive databases on which to judge the magnitude and direction of the gaps between rich and poor. Economic historians have pushed back in time the data on national wealth statistics, and new measures of the contemporary wealth of nations are available based on purchasing power rather than exchange rate comparisons. As a result, new literature is available on the prospects of "convergence" among the world economies, a theme we treat in Part 3 of this new edition.

There has been a recent and impressive revival of cultural explanations of development, some of which have been supported by large cross-national data sets. Part 4 contains some of the classic pieces, as well as more recent contributions to this approach. Dependency and world-system thinking have prospered less well, however, perhaps because of the fall of socialist systems throughout the world. Yet many of the concepts of those theories have been incorporated into our thinking, and therefore we have devoted Part 5 to what we consider the best material on the subject.

The newest and most dynamic area emerges in Part 6, in which the focus of the causes of the gap moves back from the international system and lands squarely at the door of national governments. Some research seems to show convincingly that it is misdirected state policies that slow growth and increase the gap between rich and poor people. This research has grown into a school of thought called *rent-seeking* and another known as *urban bias*. Some scholars have rejected this thesis, arguing instead that the great successes of the East Asian newly industrializing countries (NICs) are the result of historical factors that will not be repeated. Others have suggested that it is not government policies per se but the form of government that exacerbates the gaps. Thus, in Part 6 we examine the impact of democracy on growth and inequality. Part 6 also includes some of the most recent research on the importance of investment in human capital, as well as the negative impact of environmental degradation on economic growth.

We have organized the volume so it will be of maximum utility in the classroom. The seven parts of the book enable the instructor to assign any part as a self-contained unit. We find, however, that the order in which the seven parts are presented creates a logical path the student can easily follow. Parts 1 and 2 provide the basic "facts" of the gap: the size of the gaps between rich and poor countries and between rich and poor people. Part 3 deals with the dynamics question: Is the gap widening or narrowing? Part 4 presents cultural explanations for the gaps. Part 5 covers dependency and world-system theories, with much empirical evidence and case study data supporting both sides of the debate. Part 6 covers the role of the state in stimulating or inhibiting growth and inequality. Finally, we offer some conclusions and directions for future research in Part 7.

We are indebted to numerous people for helping us prepare the revised manuscript. In particular, we thank Mariana Collins for her help with many administrative chores. Also, Mary Sue Passé-Smith worked relentlessly and offered invaluable advice; the book would not have been completed without her help. At the University of Pittsburgh, Mitchell Seligson's graduate and undergraduate assistants, José René Argueta and Katherine Good, ably assisted in the process. Finally, we thank the many authors and publishers who so kindly granted permission for their works to appear here.

Mitchell A. Seligson
John T Passé-Smith

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PART 1

The Classic Thesis and the Contradictory Evidence: Will the Whole World Eventually Grow Rich?

1

The Dual Gaps: An Updated Overview of Theory and Research

MITCHELL A. SELIGSON

Classical economic theory tells us that in the end we will all be rich, but this volume contains a great deal of evidence that contradicts that theory. According to W. W. Rostow's thesis (see Chapter 2), underdevelopment is only a stage 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 U.S. 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 stood at $9,403.

For this period, then, clear evidence supports 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' incomes increased by an average of only $2.70 a year, about what a North American might spend for lunch at a fast-food stand. 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 that earned by the industrialized countries in 1950 to a mere 2.5 percent in 1980.[1]

The growth in that gap has continued into the 1990s. By 1995 the gap was wider than ever: the high-income countries had a per capita average of $24,930 versus $430 in the low-income countries, for an absolute gap of $24,500 (1995 U.S. dollars). The relative gap had become even greater, with the income of low-income countries equal to only 1.7 percent that of the industrialized countries. Hence, between 1950 and 1995, the relative gap between rich and poor countries widened by 60 percent.[2]

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 contain over half of the world's population; 3.2 billion of the world's 5.7 billion people live in countries with per capita incomes that average $430 a year. It is also incorrect to speculate that because the growth rates of some poor countries have recently outperformed those of industrialized countries, the gap will soon narrow. In Chapter 4, John Passé-Smith tells us that it could take Pakistan's 134 million people 495 years to close the gap. Even in the "miracle countries" such as South Korea and Taiwan, where growth rates have been twice as high as those in the industrialized countries, the gap has doubled.

Another gap separates rich from poor: Many developing nations have long experienced a growing gap between their own rich and poor citizens, as the chapters in Part 2 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 in the richer countries, where the gap between rich and poor is far narrower. The world's poor, therefore, find themselves in a situation of double jeopardy.

The consequences of these yawning gaps can be witnessed on many levels. In the international arena, tensions between the "haves" and the "have-nots" dominate debates 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 made only a small dent in the problem. Indeed, some argue that foreign aid exacerbates the gap.[3] 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 Edward N. Muller and Mitchell A. Seligson show in Chapter 8, its root cause can invariably be traced to domestic inequality and deprivation, whether relative or absolute. This remains true in the post–Cold War era.

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 the nation found itself confronted with a Western Europe in ruins. The motivations behind the Marshall Plan 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.

The successful rebuilding of Europe encouraged many to believe 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 to rapid growth, they nonetheless continued to fall further and further behind the wealthy countries. Moreover, growth seemed almost inevitably to be accompanied by a widening income gap within developing countries. Only in Asia have we seen some reversal of this worldwide trend; poor nations have grown rapidly, whereas income inequality has not worsened and in some cases has even improved. The lessons of Asia, therefore, are important ones.

By the mid-1990s, an impressive collection of research on the "gap" issue had been generated, and we have attempted to include some of the very best of it in this collection. The authors represented here present a comprehensive treatment of the thinking that is evolving on the international and domestic gaps between rich and poor. The studies are not confined to a single academic discipline or geographic area; rather, they reflect a variety of fields, including anthropology, economics, history, political science, psychology, and sociology. Further, the authors have examined the problem from the viewpoint of a single country or region, as well as with a microanalytic approach.

The volume is organized to first give the reader a broad picture that defines the international and domestic gaps between the rich and the poor; that picture is contained in Parts 1 and 2. Part 3 challenges the conventional wisdom on the existence of the international gap. The rest of the volume, Parts 4 through 6, attempts to explain the existence of the gaps.

In Part 1 we present what we call the *classic thesis,* which suggests that the gaps will disappear as development proceeds. A number of economists, most notably W. W. Rostow (Chapter 2), have made this case. But Angus Maddison (Chapter 3) and John T Passé-Smith (Chapter 4) show that the gaps are long lasting and have been growing worse since perhaps the sixteenth century. Part 2 examines domestic inequality. Simon Kuznets (Chapter 5) sees widening domestic income inequality as an almost inevitable by-product of development. Kuznets traces a path that seems to have been followed rather 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 is held by those who still regard the Marshall Plan as the model for the resolution of world poverty. The chapters by Montek Ahluwalia (Chapter 6) and Klaus

Deininger and Lyn Squire (Chapter 7) show that the cross-national data on income distribution support the Kuznets perspective.

Whereas Parts 1 and 2 present the basic argument on the extent and duration of the international and domestic gaps, Part 3 examines the evidence for the so-called convergence thesis. This thesis argues that even though Kuznets may have been right, in the long run the rich and the poor are converging (see Moses Abramovitz, Chapter 9). Several authors in Part 3 show, however, that such convergence is in fact an ever-receding dream.

Explanations for the gaps have often focused on different aspects of national culture. We have heard the expression "Germans are so industrious; that is why they are rich," or "the Japanese work so hard; it is no wonder they are so wealthy." Part 4 of this volume presents evidence pro and con on the role of culture in development. Specifically, the cultural values associated with industrialization are seen as foreign to many developing nations, which 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 such values can be inculcated through deliberate effort; others argue that they 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 recent success of the Asian economies has led some to speculate that cultural values are found there that foster growth. This view, a variant on Max Weber's old notion of the value of the Protestant ethic, is termed the *Confucian ethic*.

In marked contrast to these two perspectives, which suggest that the phenomena of the disparity are transitory, a third, more recent, school of thought comes to rather different conclusions (see Part 5). The scholars who support this approach—known as *dependentistas*—observe that the economies of 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 poor countries have failed because 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 surpluses. 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 Part 5, 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.

Part 6 presents the 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 policy reforms within the Third World. This attention brought a host of neoliberal policy prescriptions, including privatization, trade liberalization, and the termination of import substitution industrialization (ISI) policies. The collapse of the Soviet Union and the socialist states of Eastern Europe, along with increasingly capitalist economics in China, has reinforced this tendency.

According to the perspective that focuses on the state, errors of state policy are largely responsible for the gaps. The growth of parastatal marketing boards in Africa is shown by Robert Bates (Chapter 28) to be a significant factor in slowing growth in countries there. These boards distort the prices paid to producers, ostensibly to provide them with income stability. But the primary purpose is actually to curry support among urban dwellers by guaranteeing low consumer prices for agricultural goods. In fact, the prices paid are so low that producers have no incentive to continue to grow their crops, and production falls, thus impoverishing the nation. The Bates perspective is generalized by Erich Weede (Chapter 29) into what is called rent seeking, a situation in which government policy allows favored groups to charge prices above those that would have been set by the market. According to Weede, it is not dependency as imposed from abroad but domestic policies within the Third World that allow and in fact encourage rent-seeking behavior, which in turn explains the slow growth and inequality in those countries. Another related manifestation of rent-seeking distortions is that of urban bias, suggested by Michael Lipton (Chapter 30). From this perspective, numerous policies in the Third World favor 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 are not only good for growth but are also inherently egalitarian in nature and hence help to reduce the domestic gap between rich and poor. Adam Przeworski and Fernando Limongi (Chapter 31) present the evidence in this debate.

Finally, the dramatic successes in both growth and equality in the