THE INTERNATIONAL POVERTY TRAP

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Summary

Why do certain countries have all kinds of difficulties getting out of poverty? Many theorists have tried to explain the poverty trap that poor countries have fallen into.

This article summarizes to some extent the predominating Marxist and structuralist schools explanations of the international poverty trap. It also looks at more recent theoretical contributions to this topic, for instance lack of knowledge in underdeveloped countries. For several decades, rich countries tried to give some public assistance to poorer ones, to give them an initial momentum for their economic take-off, but few of these developing countries have succeeded. Although experience has shown that external aid is crucial, for different reasons most developing countries have failed to utilize efficiently foreign public assistance. Instead, some have fallen into another poverty trap—foreign debt.

1. Introduction

The global problem of poverty causes many people all over the world both concern and indignation. In the developing countries as in the industrialized countries, the problem of poverty is beginning to draw widespread public attention (it should be noted that in some specialist contexts the developing countries are referred to as "the south" in contrast to the developed or industrialized countries, which are referred to as "the north"). On one hand, the problem of poverty disturbs the government of poor countries because poverty provokes unhealthy behavior and violence, leading to social unrest and riots; and on the other hand it embarrasses wealthy countries because poverty encourages people to emigrate to richer countries, aggravating the problem of immigration in developed countries.

What is poverty? To cite the World Bank's definition, poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school, not knowing how to read, not being able to speak properly. Poverty is not having a job, fear for the future, and living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom. Since the end of World War II, more progress has been made to reduce poverty than in any comparable period in human history, but poverty still remains a dire global problem. More than a billion people live in extreme poverty—on less than US$1 a day. They lack the basic services that people in developed countries take for granted: clean water, sanitation, electricity, schooling, etc.
Poverty is bothering every country, richer ones as much as poorer ones. But poverty is a more acute problem in poor countries, because poor countries may easily fall in several poverty traps and have much difficulty escaping the vicious circle. So let us analyze these mechanisms of international poverty traps and see why some countries are so poor and their economies so slow to take off.

2. Structuralist and Neo-Marxist Explanations of Poverty

In 1953, Ragnar Nurkse analyzed the poverty trap as a vicious circle. For him, poverty leads to economic stagnation, to underdevelopment, and poor countries find it very hard to escape this self-fulfilling vicious circle.

- Firstly, poverty means low incomes. When people have so little income, they cannot have savings. No savings, no investment, because there is no capital. No investment, no improvement in productivity, and so no increase in income.
- Secondly, when people have low incomes, they are often not well nourished. Lack of energy leads to a low productivity rate, and thus to low incomes.
- Thirdly, low incomes mean low demand, and a restricted market. When there are only very limited outlets for manufactured products, companies are not motivated to invest. No investment, no improvement of productivity, etc.

Nurkse considered the lack of capital to be the origin of poverty, but other economists say that he has simply underlined underdeveloped countries' difficulties in taking off economically, and has not explained why underdeveloped countries have fallen into the poverty trap. The French economist Jacques Brasseul believes that even in the poorest countries there is misuse of savings, since the population continues to increase and governments don't hesitate to use public money to buy weapons or to build palaces and stadiums. Furthermore, in spite of this vicious circle logic, the first industrialized countries developed their economies with little initial capital and without external assistance.

Traditionally, both structuralists and Marxists have sought to explain the underdevelopment phenomenon. Structuralists emphasize the international trading system while neo-Marxists are more radical; they suggest that, to survive, imperialism will inevitably expand towards non-capitalist countries. In opposition to classical economic theories that praise international trade as an instrument that benefits every participant, structuralists such as Myrdal, Prebisch, and Singer consider that international trade could have some retrogressive effect, reinforcing underdeveloped countries' stagnation and backwardness. Free trade always benefits the strongest competitor (i.e. developed countries) and endangers the traditional activities of poor countries, making the latter specialize in the disadvantageous primary sector.

In the 1950s, Singer and Prebisch published articles that paved the way for structuralist analyses of free trade. Their argument reads as follows:

(a) Developing countries realize productivity gains. But as they mostly specialize in the primary sector, their productivity gains lead to a reduction in the price of raw materials, which profits developed countries. In developing countries, labor is so abundant and underemployment so prevalent that real salaries are easily maintained at a very low level. In developed countries, on the contrary, because labor is scarce and well-organized labor unions exert pressure on enterprises productivity gains eventually lead to wage increases.

(b) Developing countries are producers of raw materials; they are in competition to sell more in order to gain more revenues. Their competition contributes to a fall in raw material prices, whereas in rich countries the oligopoly of finished products pushes prices to rise. So the deterioration in international trading conditions can to some extent be explained by market structure.

(c) Demand for manufactured products increases more quickly than for primary products in the long run, and wages in industrialized countries are therefore more elastic. Developed countries are consumers of raw materials, they can reduce their demand for raw materials by using more sophisticated technologies or more synthetic materials, thus making raw material prices fall. Developed countries monopolize technical innovation and research, thus taking full advantage of their technical rent.

(d) Raw material prices continue to fall, because of competition between developing countries; the developed countries demand for raw materials diminishes because of technical evolution. Developing countries are therefore condemned to a poverty trap. The disparity between rich countries and poor countries tends to be enlarged within the present international trading system.

(e) Developing countries try to imitate the developed countries' consumption model, thus reducing their savings, strengthening their economic dualism, favoring a small economic sector, which is raw materials export. Myrdal contends that for most developing countries international trade in fact results in a cultural impoverishment, so that many handicraft skills are being destroyed by competition with multinational companies. For example, he says that a famous city like Baghdad whose name evokes so many past glories no longer retains its old arts.

Structuralists preach protectionism for developing countries, saying they should no longer rely on the outside world to develop their economies, but have to engage in internal reform to alleviate inequalities, increase the population's consumption, and raise their productivity. However, structuralists are supporters of the market economy.

Prebisch thinks that economic liberalism is necessary, and the market should decide individual choices of production and consumption.

Recent decades seem to disprove the structuralist thesis. Developing countries have achieved more significant economic growth, while countries more open to the outside world have realized better economic and social performance.

Neo-Marxists try to explain the underdevelopment phenomenon by imperialist spoliation. For them, in a capitalist world there is no possibility of development for non-industrialized countries, and international trade is characterized by unequal exchanges that serve only to reinforce disparity between countries.

Hilferding, Luxemburg, Boukharine, and Lenin have each in turn analyzed the evolution of capitalist and imperialist mechanisms. Rosa Luxemburg produced a general model of the effects of capitalist expansionism on the less developed countries. She assumes, with Marx, that capitalism is competitive, but she adds two new assumptions: ongoing capital-intensive technological change and constant real wages. The model points to increasing deficits in the production of capital goods and surpluses in consumer goods relative to effective demand, and therefore to crises of "under-consumption" in the advanced capitalist countries. To palliate these crises, Luxemburg argues, capitalism seeks new markets in the pre-capitalist regions of the world.

Whereas Luxemburg assumes competitive capitalism and focuses on the implications for pre-capitalist societies, Lenin's study of imperialism emphasizes the export of industrial and financial capital by the advanced countries under monopoly capitalism. The necessity for exporting capital, Lenin argues, arises from the fact that in a few countries capitalism has become "over-ripe," to the extent that they can no longer generate new investment opportunities as quickly as they generate new capital. Then surplus capital seeks investment opportunities in young areas where profits are usually high, because capital is scarce, the price of land is relatively low, wages are low, and raw materials are cheap.

After World War II, a branch of intellectuals derived from the Comintern (Communist International) tried to reverse the classic Marxist-Leninist view of the progressive role of capitalist expansionism, and focused on the role of surplus extraction. They are called the underdevelopment school, Baran and Sweezy being their most prominent representatives. Baran believes that the potential economic surplus in all countries is large, so that there is no natural or technical obstacle to self-reliant development but that a country's actual growth depends on the size and utilization of its actual surplus. In underdeveloped countries, much of the actual surplus is transferred in the form of profit repatriation by foreign investors, service payments on foreign debt, and capital flight by the local elite. Baran sees European colonialism modifying the pre-capitalist colonies' future development by breaking up their self-sufficient agricultural communities and forcing shifts to production for the export sector.

Orthodox Marxists such as Dobb, Laclau, and Brenner criticize the underdevelopment school thesis, suggesting that by focusing on surplus extraction as the prime cause of modern underdevelopment, the underdevelopment school has over-emphasized the external causes of underdevelopment. For them, internal class structures that retard or block development of the forces of production are the main causes of modern underdevelopment. In many developing countries, they argue, development is based on an internal class structure that tends to dissociate growth from improved living standards for large segments of the population, thereby perpetuating underdevelopment for extensive periods of time.

According to the Marxist analysis of imperialism, underdeveloped countries cannot escape from imperialist spoliation except by revolution, breaking the link with the capitalist world, and constructing socialism. Nevertheless, great powers, whether socialist or not, tend to expand towards other regions, such as the former Soviet Union. This is the reason Mao Zedong, China's former communist leader, called the USSR social-imperialist.

Marxists emphasize the causes of underdevelopment, and attribute underdevelopment to excessive monopolistic concentration of capital. For non-Marxists, the more important task is to analyze the consequences of underdevelopment and find a way for underdeveloped countries to overcome poverty. For this purpose, non-Marxists suggest that developing countries reduce or eliminate state monopolies, deregulate industries, remove protectionist barriers to stimulate competition, reduce or eliminate restrictions on foreign direct investment and technology imports to strengthen competition from and among foreign investors and technology suppliers, encourage local firms to undertake export-oriented activities and participate in world market competition, etc.

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Biographical Sketch

Yifan Ding, deputy director of the Institute of World Development, Development Research Center of the State Council, People's Republic of China, graduated from Beijing Foreign Language Institute (now Beijing University for Foreign Studies). He was awarded a Ph.D. in political science from Bordeaux University in France before returning to teach at Beijing University for Foreign Studies as assistant and associate professor. He later moved into journalism, becoming editor of Xinhua News Agency, and was sent by *Guangming Daily* to Paris as bureau chief for more than five years. Returning once again to China, he was appointed to his present position.

Dr. Ding has published many articles in various magazines and newspapers, translated several books from English and French into Chinese, and written three books about globalization and the challenges facing China, the European single currency, and the knowledge-based economy.