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Introducing Economic Development: A Global Perspective

Development can be seen . . . as a process of expanding the real freedoms that people enjoy.

—Amartya Sen, *Nobel laureate in economics*

Our vision and our responsibility are to end extreme poverty in all its forms in the context of sustainable development and to have in place the building blocks of sustained prosperity for all.

—*Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, 2013*

Under necessities, therefore, I comprehend, not only those things which nature, but those things which the established rules of decency, have rendered necessary to the lowest rank of people.

—Adam Smith, *The Wealth of Nations*

We are at an auspicious moment in history when successes of past decades and an increasingly favorable economic outlook combine to give developing countries a chance—for the first time ever—to end extreme poverty within a generation...to create a world for our children which is defined not by stark inequities but by soaring opportunities. A sustainable world where all households have access to clean energy. A world where everyone has enough to eat. A world where no one dies from preventable diseases. A world free of poverty.

—Jim Yong Kim, *World Bank President, 2013*

Prologue: An Extraordinary Moment

Two pictures of the developing world compete in the media for the public's attention. The first is misery in places like rural Africa or unsanitary and overcrowded urban slums in South Asia. The second is extraordinary dynamism in places like coastal China. Both pictures convey important parts of the great development drama. Living conditions are improving significantly in most, though not all, parts of the globe—if sometimes slowly and unevenly. The cumulative effect is that economic development has been giving rise to unprecedented global transformations.

Consider the world of 1992, a time when the divide between the rich developed nations and the low-income developing nations was apparently widening. Rich countries were growing faster than poor countries; and the dominance of high-income industrialized nations in the global order was clear-cut. The United States had just won the Cold War, with the Soviet Union disintegrating in the last days of 1991. The end of the Cold War also saw the European Union in the ascendency, full of confidence with its high-profile Europe '92 Single Market project. The real estate and stock market bubble in Japan was just beginning to deflate, with almost no one predicting

the protracted stagnation that would follow Japan's long period of high economic growth.

Yet in 1992, many developing nations, including Brazil, Russia, India, China, and South Africa (now sometimes grouped by the media as the "BRICS"), found themselves in precarious conditions if not full-scale crisis. Brazil—like most of Latin America—was still struggling to emerge from the 1980s' debt crisis. Russia was descending into depression after the collapse of its Soviet economy. India was trying to rebound from its worst economic crisis since independence. China had launched its period of very rapid growth, but the 1989 massacre in Tiananmen Square was a fresh memory and future prospects for reform and growth in China were uncertain. Meanwhile, the end of apartheid was still being negotiated in South Africa, while the continent as a whole was entering its second consecutive lost decade of slow economic growth, and pessimism prevailed. Despite pressing development needs, there were widespread concerns that with the end of the Cold War, the rich world would lose interest in development assistance. And at the 1992 Earth Summit, while the world was taking its first tentative steps to acknowledge and try to restrain climate change due to global warming, almost no one imagined that 20 years later China and India would be among the top three greenhouse gas emitters.

But since 1992, we have moved from a sharp dualism between a rich Center and a backward Global South periphery to more dynamic and complex relationships. Asia has been growing at an average rate almost triple that of high-income Western countries, and growth has returned to Africa, heralding the promise of an era of global convergence.¹ The scale of transformation is immense.

Health has improved strongly, with dramatic declines in child mortality; and the goal of universal primary education is coming into sight. Poverty has fallen. While about two-fifths of the global population lived in extreme poverty in 1990, the fraction has fallen to about one-fifth today. The number of people living in extreme poverty in China (on less than \$1.25 per day) fell from about 743 million in 1992 to 157 million in 2009. India has seen substantial, if less dramatic, reductions in poverty; social programs in Brazil such as Bolsa Familia have helped substantially reduce the country's once intractable poverty problems. The enormous growth of innovations such as mobile phones and of availability of credit for small enterprises have led to benefits and fueled a new optimism.

At the same time, the future of economic development and poverty reduction is far from assured—many people who have come out of poverty remain vulnerable, the natural environment is deteriorating, and national economic growth remains uncertain. Economic development is a process, not of years, but of many decades. After the 2011 media celebration of the "BRICS" economic growth, there were reminders that the process remains uneven and uncertain. In Brazil economic growth fell from a spike of close to 7.5% in 2010 to under 1% in 2012. Growth in India, topping 10% for the first time in 2010, fell to barely a third that level in 2012. Growth in China fell from over 10% in 2010 to below 8% in 2012 with projections of a permanently slower pace of perhaps 7%. In 2012 growth in South Africa was little more than 3%. Growth per person was slower as populations continued to grow. When financial markets were

unsettled during the summer of 2013, many investors started withdrawing money from these and other developing countries.

Meanwhile, many in the development community were dismayed by a 2013 report showing the number of people living in poverty in Africa had yet to decline, and the average income of those remaining poor had still not risen above its long-term level of just 70 cents per day. And climate change talks, also launched in 1992, proceeded at a snail's pace, even as greenhouse gas emissions reached record levels and the impacts of climate change had become all too visible in low-income countries, threatening to reverse progress in South Asia as well as Africa.

But while optimism that other countries could soon match China's historically high growth rates dimmed, nonetheless the potential for dramatic catch-up remained as bright as ever. The media pessimism that prevailed in the summer of 2013 was no more warranted than the blind optimism of just two years earlier. Realism is needed—both about the daunting challenges and the exciting opportunities. Gains for the developing world in recent years have been genuine and substantial—in some cases transformative—with many developing countries steadily closing the gap with the developed world, particularly in health and education, and very often in income. Prospects remain strong in coming years, particularly for middle-income countries; yet the high volatility of growth is just one hint at the remaining broader development challenges, as we will examine throughout this text.

This book will explain what lies behind the headline numbers and the sweep of development patterns, presenting the necessary analytic tools and the most recent and reliable data—on challenges ranging from poverty to international finance. To begin, even today many of the world's poorest people have benefited little, if at all, from the new global prosperity.

1.1 How the Other Half Live

As people throughout the world awake each morning to face a new day, they do so under very different circumstances. Some live in comfortable homes with many rooms. They have more than enough to eat, are well clothed and healthy, and have a reasonable degree of financial security. Others—and these constitute a majority of the earth's more than 7 billion people—are much less fortunate. They may have inadequate food and shelter, especially if they are among the poorest third. Their health is often poor, they may not know how to read or write, they may be unemployed, and their prospects for a better life are uncertain at best. About two-fifths of the world's population lives on less than \$2 per day, part of a condition of **absolute poverty**. An examination of these global differences in living standards is revealing.

If, for example, we looked first at a family of four in North America, we would probably find an annual income of over \$50,000. They would live in a comfortable suburban house with a small yard or garden, and two cars. The dwelling would have many comfortable features, including a separate bedroom for each of the two children. It would be filled with numerous consumer goods, electronics, and electrical appliances, many of which were manufactured outside North America in countries as far away as South Korea and China. Examples might

Absolute poverty A situation of being unable to meet the minimum levels of income, food, clothing, health care, shelter, and other essentials.

include computer hard disks made in Malaysia, DVD players manufactured in Thailand, garments assembled in Bangladesh, and mountain bikes made in China. There would always be three meals a day and plenty of processed snack foods, and many of the food products would also be imported from overseas: coffee from Brazil, Kenya, or Colombia; canned fish and fruit from Peru and Australia; and bananas and other tropical fruits from Central America. Both children would be healthy and attending school. They could expect to complete their secondary education and probably go to a university, choose from a variety of careers to which they might be attracted, and live to an average age of 78 years.

This family, which is typical of families in many rich nations, appears to have a reasonably good life. The parents have the opportunity and the necessary education or training to find regular employment; to shelter, clothe, feed, and educate their children; and to save some money for later life. Against these “economic” benefits, there are always “noneconomic” costs. The competitive pressures to “succeed” financially are very strong, and during inflationary or recessionary times, the mental strain and physical pressure of trying to provide for a family at levels that the community regards as desirable can take its toll on the health of both parents. Their ability to relax, to enjoy the simple pleasures of a country stroll, to breathe clean air and drink pure water, and to see a crimson sunset is constantly at risk with the onslaught of economic progress and environmental decay. But on the whole, theirs is an economic status and lifestyle toward which many millions of less fortunate people throughout the world seem to be aspiring.

Now let us examine a typical “extended” family in a poor rural area of South Asia. The household is likely to consist of eight or more people, including parents, several children, two grandparents, and some aunts and uncles. They have a combined real per capita annual income, in money and in “kind” (meaning that they consume a share of the food they grow), of \$300. Together they live in a poorly constructed one- or two-room house as tenant farmers on a large agricultural estate owned by an absentee landlord who lives in the nearby city. The father, mother, uncle, and older children must work all day on the land. The adults cannot read or write; the younger children attend school irregularly and cannot expect to proceed beyond a basic primary education. All too often, when they do get to school, the teacher is absent. They often eat only two (and sometimes just one) meals per day; the food rarely changes, and the meals are rarely sufficient to alleviate the children’s persistent hunger pains. The house has no electricity, sanitation, or fresh water supply. Sickness occurs often, but qualified doctors and medical practitioners are far away in the cities, attending to the needs of wealthier families. The work is hard, the sun is hot, and aspirations for a better life are continually being snuffed out. For families such as theirs, the only relief from the daily struggle for physical survival lies in the spiritual traditions of the people.

Shifting to another part of the world, suppose we were to visit a large city situated along the coast of South America. We would immediately be struck by the sharp contrasts in living conditions from one section of this sprawling metropolis to another. There would be a modern stretch of tall buildings and wide, tree-lined boulevards along the edge of a gleaming white beach; just a few hundred meters back and up the side of a steep hill, squalid shanties would be pressed together in precarious balance.

If we were to examine two representative families—one a wealthy and well-connected family and the other of peasant background or born in the slums—we would no doubt also be struck by the wide disparities in their individual living conditions. The wealthy family lives in a multiroom complex on the top floor of a modern building overlooking the sea, while the peasant family is cramped tightly into a small makeshift dwelling in a shantytown, or *favela* (squatters' slum), on the hill behind that seafront building.

For illustrative purposes, let us assume that it is a typical Saturday evening at an hour when the families should be preparing for dinner. In the penthouse apartment of the wealthy family, a servant is setting the table with expensive imported china, high-quality silverware, and fine linen. Russian caviar, French hors d'œuvres, and Italian wine will constitute the first of several courses. The family's eldest son is home from his university in North America, and the other two children are on vacation from their boarding schools in France and Switzerland. The father is a prominent surgeon trained in the United States. His clientele consists of wealthy local and foreign dignitaries and businesspeople. In addition to his practice, he owns a considerable amount of land in the countryside. Annual vacations abroad, imported luxury automobiles, and the finest food and clothing are commonplace amenities for this fortunate family in the penthouse apartment.

And what about the poor family living in the dirt-floored shack on the side of the hill? They too can view the sea, but somehow it seems neither scenic nor relaxing. The stench of open sewers makes such enjoyment rather remote. There is no dinner table being set; in fact, there is usually too little to eat. Most of the four children spend their time out on the streets begging for money, shining shoes, or occasionally even trying to steal purses from unsuspecting people who stroll along the boulevard. The father migrated to the city from the rural hinterland, and the rest of the family recently followed. He has had part-time jobs over the years, but nothing permanent. Government assistance has recently helped this family keep the children in school longer. But lessons learned on the streets, where violent drug gangs hold sway, seem to be making a deeper impression.

One could easily be disturbed by the sharp contrast between these two ways of life. However, had we looked at almost any other major city in Latin America, Asia, and Africa, we would have seen much the same contrast (although the extent of inequality might have been less pronounced).

Now imagine that you are in a remote rural area in the eastern part of Africa, where many small clusters of tiny huts dot a dry and barren land. Each cluster contains a group of extended families, all participating in and sharing the work. There is little money income here because most food, clothing, shelter, and worldly goods are made and consumed by the people themselves—theirs is a **subsistence economy**. There are few passable roads, few schools, and no hospitals, electric wires, or water supplies. In many respects, it is as stark and difficult an existence as that of the people in that Latin American *favela* across the ocean. Yet perhaps it is not as psychologically troubling because there is no luxurious penthouse by the sea to emphasize the relative deprivation of the very poor. With the exception of population growth and problems of the increasingly fragile environment, life here seems to be almost eternal and unchanging—but not for much longer.

Subsistence economy An economy in which production is mainly for personal consumption and the standard of living yields little more than basic necessities of life—food, shelter, and clothing.

A new road is being built that will pass near this village. No doubt it will bring with it the means for prolonging life through improved medical care. But it will also bring more information about the world outside, along with the gadgets of modern civilization. The possibilities of a “better” life will be promoted, and the opportunities for such a life will become feasible. Aspirations will be raised, but so will frustrations as people understand the depth of some of their deprivations more clearly. In short, the **development** process has been set in motion.

Before long, exportable fruits and vegetables will probably be grown in this region. They may even end up on the dinner table of the rich South American family in the seaside penthouse. Meanwhile, radios made in Southeast Asia and playing music recorded in northern Europe have become prized possessions in this African village. In villages not far away, mobile phone use has been introduced and is growing rapidly. Throughout the world, remote subsistence villages such as this one are being linked up with modern civilization in an increasing number of ways. The process, well under way, will become even more intensified in the coming years.

Finally, imagine you are in booming East Asia; to illustrate, a couple born in obscure zhuangs (rural areas) in populous central Sichuan Province grew up in the 1960s, going to school for six years and becoming rice farmers like their parents. The rice grew well, but memories of famine were still sharp in their commune, where life was also hard during the Cultural Revolution. Their one daughter, let’s call her Xiaoling, went to school for ten years. Much of the rice they and their commune grew went to the state at a price that never seemed high enough. After 1980, farmers were given rights to keep and sell more of their rice. Seeing the opportunity, they grew enough to meet government quotas and sold more of it. Many also raised vegetables to sell in a booming city 100 kilometers up the river and other towns. Living standards improved, though then their incomes stagnated for many years. But they heard about peasants moving first to cities in the south and recently to closer cities—making more money becoming factory workers. When their daughter was 17, farmers from the village where the mother grew up were evicted from their land because it was close to lakes created by an immense dam project. Some were resettled, but others went to Shenzhen, Guangzhou, or Chongqing. Xiaoling talked with her family, saying she too wanted to move there for a while to earn more money. She found a city that had already grown to several million people, quickly finding a factory job. She lived in a dormitory, and conditions were often harsh, but she could send some money home and save toward a better life. She watched the city grow at double digits, becoming one of the developing world’s new megacities, adding territories and people to reach over 15 million people. After a few years, she opened a humble business, selling cosmetics and costume jewelry to the thousands of women from the countryside arriving every day. She had five proposals of marriage, with parents of single men near where she grew up offering gifts, even an enormous house. She knows many people still live in deep poverty and finds inequality in the city startling. For now she plans to stay, where she sees opportunities for her growing business and a life she never imagined having in her village.

Listening to the poor explain what poverty is like in their own words is more vivid than reading descriptions of it. Listen to some of the voices of the

Development The process of improving the quality of all human lives and capabilities by raising people’s levels of living, self-esteem, and freedom.



BOX 1.1 The Experience of Poverty: Voices of the Poor

When one is poor, she has no say in public, she feels inferior. She has no food, so there is famine in her house; no clothing, and no progress in her family.

—A poor woman from Uganda

For a poor person, everything is terrible—illness, humiliation, shame. We are crippled; we are afraid of everything; we depend on everyone. No one needs us. We are like garbage that everyone wants to get rid of.

—A blind woman from Tiraspol, Moldova

Life in the area is so precarious that the youth and every able person have to migrate to the towns or join the army at the war front in order to escape the hazards of hunger escalating over here.

—Participant in a discussion group in rural Ethiopia

When food was in abundance, relatives used to share it. These days of hunger, however, not even relatives would help you by giving you some food.

—Young man in Nichimishi, Zambia

We have to line up for hours before it is our turn to draw water.

—Participant in a discussion group from Mbwadzulu Village (Mangochi), Malawi

[Poverty is] . . . low salaries and lack of jobs. And it's also not having medicine, food, and clothes.

—Participant in a discussion group in Brazil

Don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at the utensils and the clothes I am wearing. Look at everything and write what you see. What you see is poverty.

—Poor man in Kenya

poor about the experience of poverty in Box 1.1.² From these, together with the voices of the poor recorded in Box 5.1 and Box 8.1, it is clear that what people living in poverty need and want extend beyond increased income to health, education, and—especially for women—empowerment. These correspond to enhanced capabilities and to the achievement of the Millennium Development Goals (and its emerging successor, the Sustainable Development Goals), introduced later in this chapter.

This first fleeting glimpse at life in different parts of our planet is sufficient to raise various questions. Why does affluence coexist with dire poverty, not only on different continents, but also within the same country or even the same city? Can traditional, low-productivity, subsistence societies be transformed into modern, high-productivity, high-income nations? To what extent are the development aspirations of poor nations helped or hindered by the economic activities of rich nations? By what process and under what conditions do rural subsistence farmers in the remote regions of Nigeria, Brazil, or the Philippines evolve into successful commercial farmers? What are the implications of the surprisingly long stagnation in rich countries following the financial crisis for further progress on development and poverty reduction? These and many other questions concerning international and national differences in standards of living, in areas including health and nutrition, education, employment, environmental sustainability, population growth, and life expectancies, might be posed on the basis of even this very superficial look at life around the world.

This book is designed to help students obtain a better understanding of the major problems and prospects for broad-based economic development, paying special attention to the plight of the half or more of the world's population for whom low levels of living are a fact of life. However, as we shall soon discover, the process in **developing countries** cannot be analyzed realistically without also considering the role of economically developed nations in directly or indirectly promoting or retarding that development. Perhaps even more important to students in the developed nations is that as our earth shrinks with the spread of modern transport and communications, the futures of *all* peoples on this small planet are becoming increasingly interdependent. What happens to the health and economic welfare of poor rural families and many others in the developing regions of Asia, Africa, the Middle East, or Latin America will in one way or another, directly or indirectly, affect the health and economic welfare of families in Europe and North America, and vice versa. The steady loss of tropical forests contributes to global warming; new diseases spread much more rapidly thanks to increased human mobility; economic interdependence steadily grows. It is within this context of a common future for all humankind in the rapidly shrinking world of the twenty-first century that we now commence our study of economic development.

Developing countries

Countries of Asia, Africa, the Middle East, Latin America, eastern Europe, and the former Soviet Union that are presently characterized by low levels of living and other development deficits. Used in the development literature as a synonym for *less developed countries*.

1.2 Economics and Development Studies

The study of economic development is one of the newest, most exciting, and most challenging branches of the broader disciplines of economics and political economy. Although one could claim that Adam Smith was the first “development economist” and that his *Wealth of Nations*, published in 1776, was the first treatise on economic development, the systematic study of the problems and processes of economic development in Africa, Asia, and Latin America has emerged only over the past five decades or so. Although development economics often draws on relevant principles and concepts from other branches of economics in either a standard or modified form, for the most part it is a field of study that is rapidly evolving its own distinctive analytical and methodological identity.³

The Nature of Development Economics

Traditional economics is concerned primarily with the efficient, least-cost allocation of scarce productive resources and with the optimal growth of these resources over time so as to produce an ever-expanding range of goods and services. Traditional neoclassical economics deals with an advanced capitalist world of perfect markets; consumer sovereignty; automatic price adjustments; decisions made on the basis of marginal, private-profit, and utility calculations; and equilibrium outcomes in all product and resource markets. It assumes economic “rationality” and a purely materialistic, individualistic, self-interested orientation toward economic decision making.

Political economy goes beyond traditional economics to study, among other things, the social and institutional processes through which certain groups of economic and political elites influence the allocation of scarce productive

Traditional economics An approach to economics that emphasizes utility, profit maximization, market efficiency, and determination of equilibrium.

Political economy The attempt to merge economic analysis with practical politics—to view economic activity in its political context.

resources now and in the future, either for their own benefit exclusively or for that of the larger population as well. Political economy is therefore concerned with the relationship between politics and economics, with a special emphasis on the role of power in economic decision making.

Development economics

The study of how economies are transformed from stagnation to growth and from low-income to high-income status, and overcome problems of absolute poverty.

More developed countries

(MDCs) The now economically advanced capitalist countries of western Europe, North America, Australia, New Zealand, and Japan.

Less developed countries

A synonym for *developing countries*.

Development economics has an even greater scope. In addition to being concerned with the efficient allocation of existing scarce (or idle) productive resources and with their sustained growth over time, it must also deal with the *economic, social, political, and institutional* mechanisms, both public and private, necessary to bring about *rapid* (at least by historical standards) and *large-scale improvements* in levels of living for the peoples of Africa, Asia, Latin America, and the formerly socialist transition economies. In comparison with the **more developed countries (MDCs)**, in most **less developed countries**, commodity and resource markets are typically highly imperfect, consumers and producers have limited information, major structural changes are taking place in both the society and the economy, the potential for multiple equilibria rather than a single equilibrium is more common, and disequilibrium situations often prevail (prices do not equate supply and demand). In many cases, economic calculations are heavily influenced by political and social priorities such as unifying the nation, replacing foreign advisers with local decision makers, resolving tribal or ethnic conflicts, or preserving religious and cultural traditions. At the individual level, family, clan, religious, or tribal considerations may take precedence over private, self-interested utility or profit-maximizing calculations.

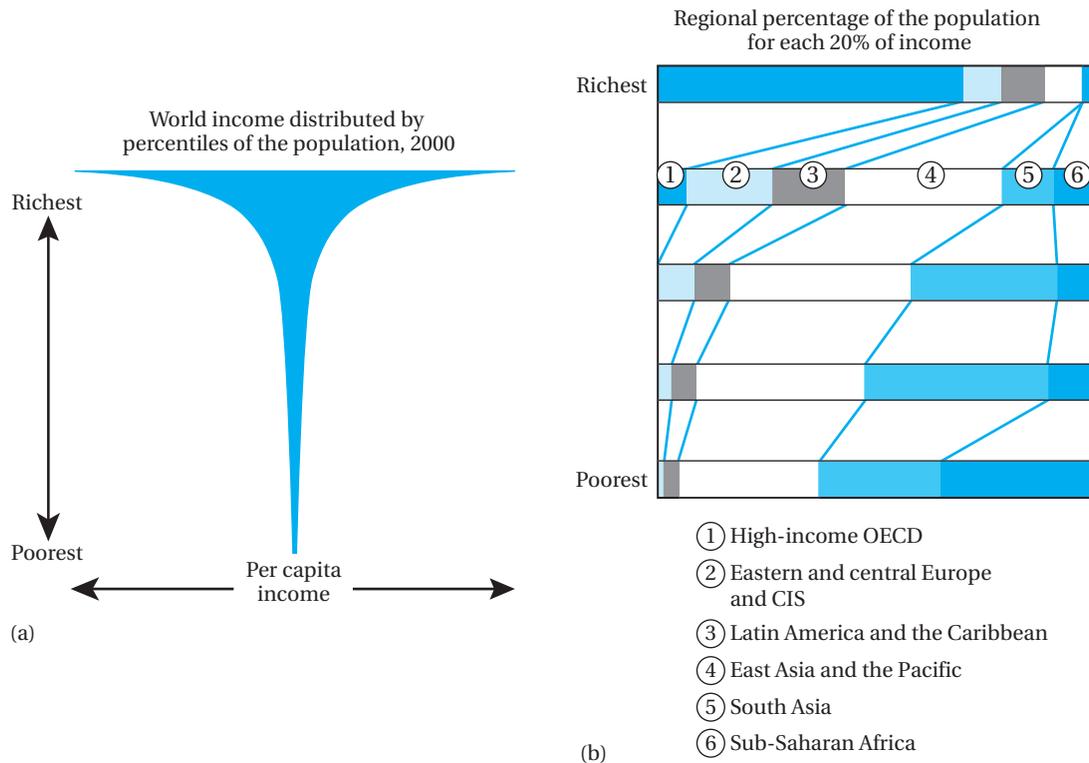
Thus, development economics, to a greater extent than traditional neoclassical economics or even political economy, must be concerned with the economic, cultural, and political requirements for effecting rapid structural and institutional transformations of entire societies in a manner that will most efficiently bring the fruits of economic progress to the broadest segments of their populations. It must focus on the mechanisms that keep families, regions, and even entire nations in poverty traps, in which past poverty causes future poverty, and on the most effective strategies for breaking out of these traps. Consequently, a larger government role and some degree of coordinated economic decision making directed toward transforming the economy are usually viewed as essential components of development economics. Yet this must somehow be achieved despite the fact that both governments and markets typically function less well in the developing world. In recent years, activities of nongovernmental organizations, both national and international, have grown rapidly and are also receiving increasing attention (see Chapter 11)

Because of the heterogeneity of the developing world and the complexity of the development process, development economics must be eclectic, attempting to combine relevant concepts and theories from traditional economic analysis with new models and broader multidisciplinary approaches derived from studying the historical and contemporary development experience of Africa, Asia, and Latin America. Development economics is a field on the crest of a breaking wave, with new theories and new data constantly emerging. These theories and statistics sometimes confirm and sometimes challenge traditional ways of viewing the world. The ultimate purpose of development economics, however, remains unchanged: to help us understand developing economies in order to help improve the material lives of the majority of the global population.

Why Study Development Economics? Some Critical Questions

An introductory course in development economics should help students gain a better understanding of a number of critical questions about the economies of developing nations. The following is a sample list of 30 such questions, followed by the chapters (in parentheses) in which they are discussed. They illustrate the kinds of issues faced by almost every developing nation and, indeed, every development economist.

1. What is the real meaning of *development*? Do the Millennium Development Goals fit with these meanings? (Chapter 1)
2. What can be learned from the historical record of economic progress in the now developed world? Are the initial conditions similar or different for contemporary developing countries from what the developed countries faced on the eve of their industrialization or in their earlier phases? (Chapter 2)
3. What are economic institutions, and how do they shape problems of underdevelopment and prospects for successful development? (Chapter 2)
4. How can the extremes between rich and poor be so very great? Figure 1.1 illustrates this disparity. (Chapters 2, 3, 4, and 5)
5. What are the sources of national and international economic growth? Who benefits from such growth and why? (Chapters 3 and 5)
6. Why do some countries make rapid progress toward development while many others remain poor? (Chapters 2, 3, and 4)
7. Which are the most influential theories of development, and are they compatible? Is underdevelopment an internally (domestically) or externally (internationally) induced phenomenon? (Chapters 2, 3, and 4)
8. What constraints most hold back accelerated growth, depending on local conditions? (Chapter 4)
9. How can improvements in the role and status of women have an especially beneficial impact on development prospects? (Chapters 5, 6, 7, 8, 9, and 10)
10. What are the causes of extreme poverty, and what policies have been most effective for improving the lives of the poorest of the poor? (Chapters 5, 6, 7, 8, 9, 10, and 11)
11. With world population superseding 7 billion people, on its way to a projected 9 billion before mid-century, is rapid population growth threatening the economic progress of developing nations? Does having large families make economic sense in an environment of widespread poverty and financial insecurity? (Chapter 6)
12. Why is there so much unemployment and underemployment in the developing world, especially in the cities, and why do people continue to migrate to the cities from rural areas even when their chances of finding a conventional job are slim? (Chapter 7)

FIGURE 1.1 World Income Distribution

Part (a) shows world income distribution by percentile. The huge share controlled by the top percentiles gives the graph its “champagne glass shape.” Part (b) shows the regional shares of global income. For example, a large majority of people in the top 20% of the global income distribution live in the rich countries. Most of those in the bottom 60% live in sub-Saharan Africa and Asia. OECD is the Organization for Economic Cooperation and Development. CIS is the Commonwealth of Independent States.

Source: From *Human Development Report, 2005*, p. 37. Reprinted with permission from the United Nations Development Programme.

13. Under what conditions can cities act as engines of economic transformation? (Chapter 7)
14. Wealthier societies are also healthier ones because they have more resources for improving nutrition and health care. But does better health also help spur successful development? (Chapter 8)
15. What is the impact of poor public health on the prospects for development, and what is needed to address these problems? (Chapter 8)
16. Do educational systems in developing countries really promote economic development, or are they simply a mechanism to enable certain select groups or classes of people to maintain positions of wealth, power, and influence? (Chapter 8)

17. As more than half the people in developing countries still reside in rural areas, how can agricultural and rural development best be promoted? Are higher agricultural prices sufficient to stimulate food production, or are rural institutional changes and infrastructure (land redistribution, local government reform, roads, transport, education, credit, etc.) also needed? (Chapter 9)
18. What do we mean by “environmentally sustainable development”? Are there serious economic costs for pursuing sustainable development as opposed to simple output growth, and who bears the major responsibility for global environmental damage—the developed North or the developing South? (Chapter 10)
19. Are free markets and economic privatization the answer to development problems, or do governments in developing countries still have major roles to play in their economies? (Chapter 11)
20. Why do so many developing countries select such poor development policies, and what can be done to improve these choices? (Chapter 11)
21. Is expanded international trade always desirable from the point of view of the development of poor nations? Who gains from trade, and how are the advantages distributed among nations? (Chapter 12)
22. When and under what conditions, if any, should governments in developing countries adopt a policy of foreign-exchange control, raise tariffs, or set quotas on the importation of certain “nonessential” goods in order to promote their own industrialization or to ameliorate chronic balance of payments problems? (Chapter 12)
23. What has been the impact of International Monetary Fund “stabilization programs” and World Bank “structural adjustment” lending on the balance of payments and growth prospects of heavily indebted less developed countries? (Chapters 12 and 13)
24. What is meant by **globalization**, and how is it affecting the developing countries? (Chapters 12, 13, and 14)
25. Should exports of primary products such as agricultural commodities and iron ore be promoted, or should all developing countries attempt to industrialize by developing their own manufacturing industries as rapidly as possible? (Chapter 13)
26. How did so many developing nations get into such serious foreign-debt problems, and what are the implications of debt problems for economic development? How do financial crises affect development? (Chapter 13)
27. What is the impact of foreign economic aid from rich countries? Should developing countries continue to seek such aid, and if so, under what conditions and for what purposes? Should developed countries continue to offer such aid, and if so, under what conditions and for what purposes? (Chapter 14)
28. Should multinational corporations be encouraged to invest in the economies of poor nations, and if so, under what conditions? How have the emergence

Globalization The increasing integration of national economies into expanding international markets.

of the “global factory” and the globalization of trade and finance influenced international economic relations? (Chapter 14)

29. What is the role of financial and fiscal policy in promoting development? (Chapter 15)
30. What is microfinance, and what are its potential and limitations for reducing poverty and spurring grassroots development? (Chapter 15)

The following chapters analyze and explore these and many related questions. The answers are often more complex than one might think. Remember that the ultimate purpose of any course in economics, including development economics, is to help students think *systematically* about economic problems and issues, and formulate judgments and conclusions on the basis of relevant analytical principles and reliable statistical information. Because the problems of development are in many cases unique in the modern world and not often easily understood through the use of traditional economic theories, we may often need unconventional approaches to what may appear to be conventional economic problems. Traditional economic principles play a useful role in enabling us to improve our understanding of development problems, but they should not blind us to the realities of local conditions in less developed countries.

The Important Role of Values in Development Economics

Economics is a social science. It is concerned with human beings and the social systems by which they organize their activities to satisfy basic material needs (e.g., food, shelter, clothing) and nonmaterial wants (e.g., education, knowledge, spiritual fulfillment). It is necessary to recognize from the outset that ethical or normative *value premises* about what is or is not desirable are central features of the economic discipline in general and of development economics in particular. The very concepts of economic development and modernization represent implicit as well as explicit value premises about desirable goals for achieving what Mahatma Gandhi once called the “realization of the human potential.” Concepts or goals such as economic and social equality, the elimination of poverty, universal education, rising levels of living, national independence, modernization of institutions, rule of law and due process, access to opportunity, political and economic participation, grassroots democracy, self-reliance, and personal fulfillment all derive from subjective value judgments about what is good and desirable and what is not. So too, for that matter, do other values—for example, the sanctity of private property, however acquired, and the right of individuals to accumulate unlimited personal wealth; the preservation of traditional hierarchical social institutions and rigid, inequalitarian class structures; the male head of household as the final authority; and the supposed “natural right” of some to lead while others follow.

When we deal in Part Two with such major issues of development as poverty, inequality, population growth, rural stagnation, and environmental decay, the mere identification of these topics as problems conveys the value

judgment that their improvement or elimination is desirable and therefore good. That there is widespread agreement among many different groups of people—politicians, academics, and ordinary citizens—that these are desirable goals does not alter the fact that they arise not only out of a reaction to an objective empirical or positive analysis of what is but also ultimately from a subjective or normative value judgment about what should be.

It follows that value premises, however carefully disguised, are an inherent component of both economic analysis and economic policy. Economics cannot be value-free in the same sense as, say, physics or chemistry. Thus, the validity of economic analysis and the correctness of economic prescriptions should always be evaluated in light of the underlying assumptions or value premises. Once these subjective values have been agreed on by a nation or, more specifically, by those who are responsible for national decision making, specific development goals (e.g., greater income equality) and corresponding public policies (e.g., taxing higher incomes at higher rates) based on “objective” theoretical and quantitative analyses can be pursued. However, where serious value conflicts and disagreements exist among decision makers, the possibility of a consensus about desirable goals or appropriate policies is considerably diminished. In either case, it is essential, especially in the field of development economics, that one’s value premises always be made clear.⁴

Economies as Social Systems: The Need to Go Beyond Simple Economics

Economics and economic systems, especially in the developing world, must be viewed in a broader perspective than that postulated by traditional economics. They must be analyzed within the context of the overall **social system** of a country and, indeed, within an international, global context as well. By “social system,” we mean the interdependent relationships between economic and noneconomic factors. The latter include attitudes toward life, work, and authority; public and private bureaucratic, legal, and administrative structures; patterns of kinship and religion; cultural traditions; systems of land tenure; the authority and integrity of government agencies; the degree of popular participation in development decisions and activities; and the flexibility or rigidity of economic and social classes. Clearly, these factors vary widely from one region of the world to another and from one culture and social setting to another. At the international level, we must also consider the organization and rules of conduct of the global economy—how they were formulated, who controls them, and who benefits most from them. This is especially true today with the spread of market economies and the rapid globalization of trade, finance, corporate boundaries, technology, intellectual property, and labor migration.

Resolving problems to achieve development is a complicated task. Increasing national production, raising levels of living, and promoting widespread employment opportunities are all as much a function of the local history, expectations, values, incentives, attitudes and beliefs, and institutional and power structures of both the domestic and the global society as they are the direct outcomes of the manipulation of strategic economic variables such as

Social system The organizational and institutional structure of a society, including its values, attitudes, power structure, and traditions.

savings, investment, product and factor prices, and foreign-exchange rates. As the Indonesian intellectual Soedjatmoko, former rector of the United Nations University in Tokyo, so aptly put it:

Looking back over these years, it is now clear that, in their preoccupation with growth and its stages and with the provision of capital and skills, development theorists have paid insufficient attention to institutional and structural problems and to the power of historical, cultural, and religious forces in the development process.⁵

Just as some social scientists occasionally make the mistake of confusing their theories with universal truths, they also sometimes mistakenly dismiss these noneconomic variables as “nonquantifiable” and therefore of dubious importance. Yet these variables often play a critical role in the success or failure of the development effort.

As you will see in Parts Two and Three, many of the failures of development policies have occurred precisely because these noneconomic variables (e.g., the role of traditional property rights in allocating resources and distributing income or the influence of religion on attitudes toward modernization and family planning) were excluded from the analysis. Although the main focus of this text is on development economics and its usefulness in understanding problems of economic and social progress in poor nations, we will try always to be mindful of the crucial roles that **values**, **attitudes**, and **institutions**, both domestic and international, play in the overall development process.

Values Principles, standards, or qualities that a society or groups within it considers worthwhile or desirable.

Attitudes The states of mind or feelings of an individual, group, or society regarding issues such as material gain, hard work, saving for the future, and sharing wealth.

Institutions Norms, rules of conduct, and generally accepted ways of doing things. Economic institutions are humanly devised constraints that shape human interactions, including both informal and formal “rules of the game” of economic life in the widely used framework of Douglass North.

Income per capita Total gross national income of a country divided by its total population.

Gross national income (GNI) The total domestic and foreign output claimed by residents of a country. It comprises gross domestic product (GDP) plus factor incomes accruing to residents from abroad, less the income earned in the domestic economy accruing to persons abroad.

1.3 What Do We Mean by Development?

Because the term *development* may mean different things to different people, it is important that we have some working definition or core perspective on its meaning. Without such a perspective and some agreed measurement criteria, we would be unable to determine which country was actually developing and which was not. This will be our task for the remainder of the chapter and for our first country case study, Brazil, at the end of the chapter.

Traditional Economic Measures

In strictly economic terms, *development* has traditionally meant achieving sustained rates of growth of **income per capita** to enable a nation to expand its output at a rate faster than the growth rate of its population. Levels and rates of growth of “real” per capita **gross national income (GNI)** (monetary growth of GNI per capita minus the rate of inflation) are then used to measure the overall economic well-being of a population—how much of real goods and services is available to the average citizen for consumption and investment.

Economic development in the past has also been typically seen in terms of the planned alteration of the structure of production and employment so that agriculture’s share of both declines and that of the manufacturing and service industries increases. Development strategies have therefore usually focused on rapid industrialization, often at the expense of agriculture and rural development.

With few exceptions, such as in development policy circles in the 1970s, development was until recently nearly always seen as an economic phenomenon in

which rapid gains in overall and per capita GNI growth would either “trickle down” to the masses in the form of jobs and other economic opportunities or create the necessary conditions for the wider distribution of the economic and social benefits of growth. Problems of poverty, discrimination, unemployment, and income distribution were of secondary importance to “getting the growth job done.” Indeed, the emphasis is often on increased output, measured by **gross domestic product (GDP)**.

The New Economic View of Development

The experience of the first decades of post–World War II and postcolonial development in the 1950s, 1960s, and early 1970s, when many developing nations did reach their economic growth targets but the levels of living of the masses of people remained for the most part unchanged, signaled that something was very wrong with this narrow definition of development. An increasing number of economists and policymakers clamored for more direct attacks on widespread absolute poverty, increasingly inequitable income distributions, and rising unemployment. In short, during the 1970s, economic development came to be redefined in terms of the reduction or elimination of poverty, inequality, and unemployment within the context of a growing economy. “Redistribution from growth” became a common slogan. Dudley Seers posed the basic question about the meaning of development succinctly when he asserted:

The questions to ask about a country’s development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result “development” even if per capita income doubled.⁶

This assertion was neither idle speculation nor the description of a hypothetical situation. A number of developing countries experienced relatively high rates of growth of per capita income during the 1960s and 1970s but showed little or no improvement or even an actual decline in employment, equality, and the real incomes of the bottom 40% of their populations. By the earlier growth definition, these countries were developing; by the newer poverty, equality, and employment criteria, they were not. The situation in the 1980s and 1990s worsened further as GNI growth rates turned negative for many developing countries, and governments, facing mounting foreign-debt problems, were forced to cut back on their already limited social and economic programs.

But the phenomenon of development or the existence of a chronic state of underdevelopment is not merely a question of economics or even one of quantitative measurement of incomes, employment, and inequality. As Denis Goulet forcefully portrayed it:

Underdevelopment is shocking: the squalor, disease, unnecessary deaths, and hopelessness of it all!...The most empathetic observer can speak objectively about underdevelopment only after undergoing, personally or vicariously, the “shock of

Gross domestic product

(GDP) The total final output of *goods* and *services* produced by the country’s economy, within the country’s territory, by residents and nonresidents, regardless of its allocation between domestic and foreign claims.

underdevelopment.” This unique culture shock comes to one as he is initiated to the emotions which prevail in the “culture of poverty.” The reverse shock is felt by those living in destitution when a new self-understanding reveals to them that their life is neither human nor inevitable....The prevalent emotion of underdevelopment is a sense of personal and societal impotence in the face of disease and death, of confusion and ignorance as one gropes to understand change, of servility toward men whose decisions govern the course of events, of hopelessness before hunger and natural catastrophe. Chronic poverty is a cruel kind of hell, and one cannot understand how cruel that hell is merely by gazing upon poverty as an object.⁷

Development must therefore be conceived of as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty. Development, in its essence, must represent the whole gamut of change by which an entire social system, tuned to the diverse basic needs and evolving aspirations of individuals and social groups within that system, moves away from a condition of life widely perceived as unsatisfactory toward a situation or condition of life regarded as materially and spiritually better. No one has identified the human goals of economic development as well as Amartya Sen, perhaps the leading thinker on the meaning of development.

Amartya Sen’s “Capability” Approach

The view that income and wealth are not ends in themselves but instruments for other purposes goes back at least as far as Aristotle. Amartya Sen, the 1998 Nobel laureate in economics, argues that the “capability to function” is what really matters for status as a poor or nonpoor person. As Sen puts it, “the expansion of commodity productions...are valued, ultimately, not for their own sake, but as means to human welfare and freedom.”⁸

In effect, Sen argues that poverty cannot be properly measured by income or even by utility as conventionally understood; what matters fundamentally is not the things a person has—or the feelings these provide—but what a person *is*, or can be, and does, or *can do*. What matters for well-being is not just the characteristics of commodities consumed, as in the utility approach, but what use the consumer can and does make of commodities. For example, a book is of little value to an illiterate person (except perhaps as cooking fuel or as a status symbol). Or as Sen noted, a person with a parasitic disease will be less able to extract nourishment from a given quantity of food than someone without parasites.

To make any sense of the concept of human well-being in general, and poverty in particular, we need to think beyond the availability of commodities and consider their use: to address what Sen calls **functionings**, that is, what a person does (or can do) with the commodities of given characteristics that they come to possess or control. Freedom of choice, or control of one’s own life, is itself a central aspect of most understandings of well-being. A functioning is a valued “being or doing,” and in Sen’s view, functionings that people have reason to value can range from being healthy, being well-nourished, and well-clothed, to being mobile, having self-esteem, and “taking part in the life of the community.”⁹

Functionings What people do or can do with the commodities of given characteristics that they come to possess or control.

Sen identifies five sources of disparity between (measured) real incomes and actual advantages.¹⁰ first, personal heterogeneities, such as those connected with disability, illness, age, or gender; second, environmental diversities, such as heating and clothing requirements in the cold or infectious diseases in the tropics, or the impact of pollution; third, variations in social climate, such as the prevalence of crime and violence, and “social capital”; fourth, distribution within the family—economic statistics measure incomes received in a family because it is the basic unit of shared consumption, but family resources may be distributed unevenly, as when girls get less medical attention or education than boys do; fifth, differences in relational perspectives, meaning that some goods are essential because of local customs and conventions. For example, necessities for being able, in Adam Smith’s phrase, “to appear in public without shame,” include higher quality clothing (such as leather shoes) in high-income countries than in low-income countries.

In a richer society, the ability to partake in community life would be extremely difficult without certain commodities, such as a telephone, a television, or an automobile; it is difficult to function socially in Singapore or South Korea without an e-mail address. And minimal housing standards to avoid social disgrace also rise strongly with the average wealth of the society.

Thus, looking at real income levels or even the levels of consumption of specific commodities cannot suffice as a measure of well-being. One may have a lot of commodities, but these are of little value if they are not what consumers desire (as in the former Soviet Union). One may have income, but certain commodities essential for well-being, such as nutritious foods, may be unavailable. Even when providing an equal number of calories, the available staple foods in one country (cassava, bread, rice, cornmeal, potatoes, etc.) will differ in nutritional content from staple foods in other countries. Moreover, even some sub-varieties of, for example, rice, are much more nutritious than others. Finally, even when comparing absolutely identical commodities, one has to frame their consumption in a personal and social context. Sen provides an excellent example of bread, the most basic of commodities. It has product “characteristics” such as taste and nutrition such as protein; and it helps to meet conventions of social exchange in the sense of breaking bread together. But many of these benefits depend on the person and her circumstances, such as her activity level, metabolism, weight, whether she is pregnant or lactating, nutrition knowledge, whether she is infected with parasites, and her access to medical services. Sen goes on to note that functioning depends also on (1) “social conventions in force in the society in which the person lives, (2) the position of the person in the family and in the society, (3) the presence or absence of festivities such as marriages, seasonal festivals and other occasions such as funerals, (4) the physical distance from the homes of friends and relatives...”¹¹

In part because such factors, even on so basic a matter as nutrition, can vary so widely among individuals, measuring individual well-being by levels of consumption of goods and services obtained confuses the role of commodities by regarding them as ends in themselves rather than as means to an end. In the case of nutrition, the end is health and what one can do with good health, as well as personal enjoyment and social functioning. Indeed, the capacity to maintain valued social relationships and to network leads to what James Foster and Christopher Handy have termed *external capabilities*,

which are “abilities to function that are conferred by direct connection or relationship with another person.” But measuring well-being using the concept of utility, in any of its standard definitions, does not offer enough of an improvement over measuring consumption to capture the meaning of development.¹²

As Sen stresses, a person’s own valuation of what kind of life would be worthwhile is not necessarily the same as what gives pleasure to that person. If we identify utility with happiness in a particular way, then very poor people can have very high utility. Sometimes even malnourished people either have a disposition that keeps them feeling rather blissful or have learned to appreciate greatly any small comforts they can find in life, such as a breeze on a very hot day, and to avoid disappointment by striving only for what seems attainable. (Indeed, it is only too human to tell yourself that you do not want the things you cannot have.) If there is really nothing to be done about a person’s deprivation, this attitude of subjective bliss would have undoubted advantages in a spiritual sense, but it does not change the objective reality of deprivation. In particular, such an attitude would not prevent the contented but homeless poor person from greatly valuing an opportunity to become freed of parasites or provided with basic shelter. The functioning of a person is an *achievement*. Sen provides the example of bicycling “[B]icycling has to be distinguished from possessing a bike. It has to be distinguished also from the happiness generated by [bicycling]... A functioning is thus different both from (1) having goods (and the corresponding characteristics), to which it is posterior, and (2) having utility (in the form of happiness resulting from that functioning), to which it is, in an important way, prior.”¹³

To clarify this point, in his acclaimed 2009 book, *The Idea of Justice*, Sen suggests that subjective well-being is a kind of psychological state of being—a functioning—that could be pursued alongside other functionings such as health and dignity. In the next section, we return to the meaning of happiness as a development outcome, in a sense that can be distinguished from conventional utility.

Capabilities The freedoms that people have, given their personal features and their command over commodities.

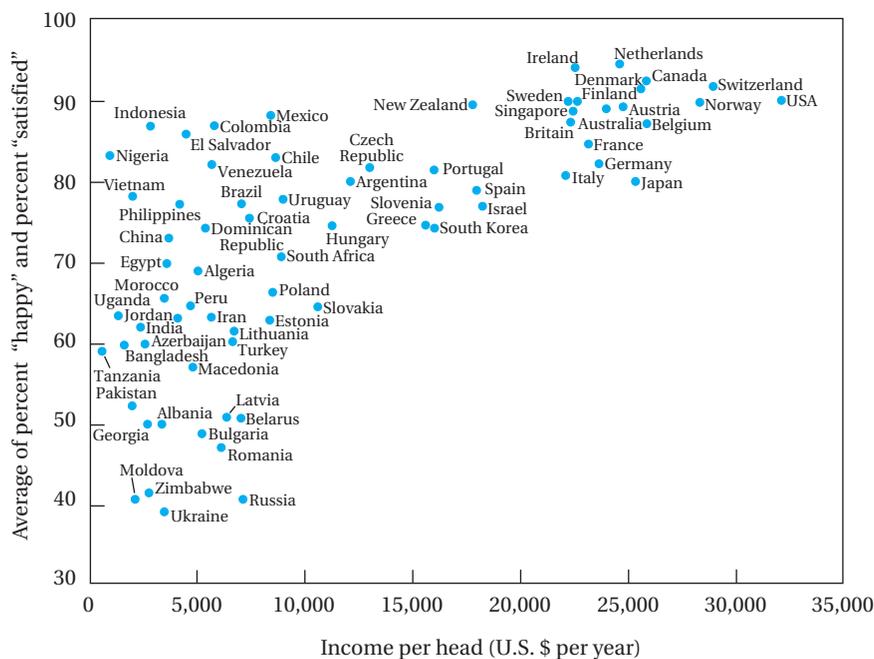
Sen then defines **capabilities** as “the freedom that a person has in terms of the choice of functionings, given his personal features (conversion of characteristics into functionings) and his command over commodities.”¹⁴ Sen’s perspective helps explain why development economists have placed so much emphasis on health and education, and more recently on social inclusion and empowerment, and have referred to countries with high levels of income but poor health and education standards as cases of “growth without development.”^{14a} Real income is essential, but to convert the characteristics of commodities into functionings, in most important cases, surely requires health and education as well as income. The role of health and education ranges from something so basic as the nutritional advantages and greater personal energy that are possible when one lives free of parasites to the expanded ability to appreciate the richness of human life that comes with a broad and deep education. People living in poverty are often deprived—at times deliberately—of capabilities to make substantive choices and to take valuable actions, and often the behavior of the poor can be understood in that light.

For Sen, human “well-being” means *being well*, in the basic sense of being healthy, well nourished, well clothed, literate, and long-lived, and more broadly, being able to take part in the life of the community, being mobile, and having freedom of choice in what one can become and can do.

Development and Happiness

Clearly, happiness is part of human well-being, and greater happiness may in itself expand an individual's capability to function. As Amartya Sen has argued, a person may well regard happiness as an important functioning for her well-being.¹⁵ In recent years, economists have explored the empirical relationship across countries and over time between subjectively reported satisfaction and happiness and factors such as income. One of the findings is that the average level of happiness or satisfaction increases with a country's average income. For example, roughly four times the percentage of people report that they are not happy or satisfied in Tanzania, Bangladesh, India, and Azerbaijan as in the United States and Sweden. But the relationship is seen only up to an average income of roughly \$10,000 to \$20,000 per capita, as shown in Figure 1.2.¹⁶ Once incomes grow to this point, most citizens have usually escaped extreme poverty. At these levels, despite substantial variations across countries, if inequality is not extreme, a majority of citizens are usually relatively well nourished, healthy, and educated. The "happiness science" findings call into question the centrality of economic growth as an objective for high-income countries. But they also reaffirm the importance of economic development in the developing world, whether the objective is solely happiness or, more inclusively and persuasively, expanded human capabilities.

FIGURE 1.2 Income and Happiness: Comparing Countries



Not surprisingly, studies show that financial security is only one factor affecting happiness. Richard Layard identifies seven factors that surveys show affect average national happiness: family relationships, financial situation, work, community and friends, health, personal freedom, and personal values. In particular, aside from not being poor, the evidence says people are happier when they are not unemployed, not divorced or separated, and have high trust of others in society, as well as enjoy high government quality with democratic freedoms and have religious faith. The importance of these factors may shed light on why the percentage of people reporting that they are not happy or satisfied varies so widely among developing countries with similar incomes. For example, the fraction of people who are *not* happy and satisfied on average is 4½ times as great in Zimbabwe as in Indonesia, despite somewhat higher incomes in Zimbabwe, and over 3 times as great in Turkey as in Colombia, despite somewhat higher incomes in Turkey at the time of the study. Many opinion leaders in developing nations hope that their societies can gain the benefits of development without losing traditional strengths such as moral values and trust in others—sometimes called *social capital*.

The government of Bhutan's attempt to make "gross national happiness" rather than gross national income its measure of development progress has attracted considerable attention.¹⁷ Informed by Sen's work, its indicators extend beyond traditional notions of happiness to include capabilities such as health, education, and freedom. Happiness is not the only dimension of subjective well-being of importance. As the 2010 Stiglitz-Sen-Fitoussi ("Sarkozy") Commission on the Measurement of Economic Performance and Social Progress put it:

Subjective well-being encompasses different aspects (cognitive evaluations of one's life, happiness, satisfaction, positive emotions such as joy and pride, and negative emotions such as pain and worry): each of them should be measured separately to derive a more comprehensive appreciation of people's lives.¹⁸

Although, following Sen, what people say makes them happy and satisfied as just one among valued functionings is at best only a rough guide to what people value in life, this work adds new perspectives to the multidimensional meaning of development.

Sustenance The basic goods and services, such as food, clothing, and shelter, that are necessary to sustain an average human being at the bare minimum level of living.

Self-esteem The feeling of worthiness that a society enjoys when its social, political, and economic systems and institutions promote human values such as respect, dignity, integrity, and self-determination.

Freedom A situation in which a society has at its disposal a variety of alternatives from which to satisfy its wants and individuals enjoy real choices according to their preferences.

Three Core Values of Development

Is it possible, then, to define or broadly conceptualize what we mean when we talk about development as the sustained elevation of an entire society and social system toward a "better" or "more humane" life? What constitutes the good life is a question as old as philosophy, one that must be periodically reevaluated and answered afresh in the changing environment of world society. The appropriate answer for developing nations today is not necessarily the same as it would have been in previous decades. But at least three basic components or core values serve as a conceptual basis and practical guideline for understanding the inner meaning of development. These core values—**sustenance**, **self-esteem**, and **freedom**—represent common goals sought by all individuals and societies.¹⁹ They relate to fundamental human needs that find their expression in almost all societies and cultures at all times. Let us therefore examine each in turn.

Sustenance: The Ability to Meet Basic Needs All people have certain basic needs without which life would be impossible. These life-sustaining basic

human needs include food, shelter, health, and protection.²⁰ When any of these is absent or in critically short supply, a condition of “absolute underdevelopment” exists. A basic function of all economic activity, therefore, is to provide as many people as possible with the means of overcoming the helplessness and misery arising from a lack of food, shelter, health, and protection. To this extent, we may claim that economic development is a necessary condition for the improvement in the quality of life that is development. Without sustained and continuous economic progress at the individual as well as the societal level, the realization of the human potential would not be possible. One clearly has to “have enough in order to be more.”²¹ Rising per capita incomes, the elimination of absolute poverty, greater employment opportunities, and lessening income inequalities therefore constitute the *necessary* but not the *sufficient* conditions for development.²²

Self-Esteem: To Be a Person A second universal component of the good life is self-esteem—a sense of worth and self-respect, of not being used as a tool by others for their own ends. All peoples and societies seek some basic form of self-esteem, although they may call it authenticity, identity, dignity, respect, honor, or recognition. The nature and form of this self-esteem may vary from society to society and from culture to culture. However, with the proliferation of the “modernizing values” of developed nations, many societies in developing countries that have had a profound sense of their own worth suffer from serious cultural confusion when they come in contact with economically and technologically advanced societies. This is because national prosperity has become an almost universal measure of worth. Due to the significance attached to material values in developed nations, worthiness and esteem are nowadays increasingly conferred only on countries that possess economic wealth and technological power—those that have “developed.”

As Denis Goulet put it, “Development is legitimized as a goal because it is an important, perhaps even an indispensable, way of gaining esteem.”²³

Freedom from Servitude: To Be Able to Choose A third and final universal value that we suggest should constitute the meaning of development is the concept of human freedom. Freedom here is to be understood in the sense of emancipation from alienating material conditions of life and from social servitude to nature, other people, misery, oppressive institutions, and dogmatic beliefs, especially that poverty is predestination. Freedom involves an expanded range of choices for societies and their members together with a minimization of external constraints in the pursuit of some social goal we call development. Amartya Sen writes of “development as freedom.” W. Arthur Lewis stressed the relationship between economic growth and freedom from servitude when he concluded that “the advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice.”²⁴ Wealth can enable people to gain greater control over nature and the physical environment (e.g., through the production of food, clothing, and shelter) than they would have if they remained poor. It also gives them the freedom to choose greater leisure, to have more goods and services, or to deny the importance of these material wants and choose to live a life of spiritual contemplation. The concept of human freedom also encompasses various components of political freedom, including personal security, the rule of law, freedom of expression, political participation, and equality of opportunity.²⁵

Although attempts to rank countries with freedom indexes have proved highly controversial,²⁶ studies do reveal that some countries that have achieved high economic growth rates or high incomes, such as China, Malaysia, Saudi Arabia, and Singapore, have not achieved as much on human freedom criteria.

The Central Role of Women

In light of the information presented so far, it should come as no surprise that development scholars generally view women as playing the central role in the development drama. Globally, women tend to be poorer than men. They are also more deprived in health and education and in freedoms in all its forms. Moreover, women have primary responsibility for child rearing, and the resources that they are able to bring to this task will determine whether the cycle of transmission of poverty from generation to generation will be broken. Children need better health and education, and studies from around the developing world confirm that mothers tend to spend a significantly higher fraction of income under their control for the benefit of their children than fathers do. Women also transmit values to the next generation. To make the biggest impact on development, then, a society must empower and invest in its women. We will return to this topic in more depth in Chapters 5 through 9 and 15.

The Three Objectives of Development

We may conclude that development is both a physical reality and a state of mind in which society has, through some combination of social, economic, and institutional processes, secured the means for obtaining a better life. Whatever the specific components of this better life, development in all societies must have at least the following three objectives:

1. *To increase the availability and widen the distribution of basic life-sustaining goods* such as food, shelter, health, and protection
2. *To raise levels of living*, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem
3. *To expand the range of economic and social choices* available to individuals and nations by freeing them from servitude and dependence, not only in relation to other people and nation-states, but also to the forces of ignorance and human misery

Millennium Development

Goals (MDGs) A set of eight goals adopted by the United Nations in 2000: to eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; and develop a global partnership for development. The goals are assigned specific targets to be achieved by 2015.

1.4 The Future of the Millennium Development Goals

In September 2000, the 189 member countries of the United Nations at that time adopted eight **Millennium Development Goals (MDGs)**, committing themselves to making substantial progress toward the eradication of poverty

and achieving other human development goals by 2015. The MDGs are the strongest statement yet of the international commitment to ending global poverty. They acknowledge the multidimensional nature of development and poverty alleviation; an end to poverty requires more than just increasing incomes of the poor. The MDGs have provided a unified focus in the development community unlike anything that preceded them.²⁷

The eight goals are ambitious: to eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; and develop a global partnership for development. The goals are then assigned specific targets deemed achievable by 2015 based on the pace of past international development achievements. The goals and targets are found in Table 1.1.

Appropriately, the first MDG addresses the problem of extreme poverty and hunger. The two targets for this goal are more modest: to reduce by half

TABLE 1.1 Millennium Development Goals and Targets for 2015

Goals	Targets
1. Eradicate extreme poverty and hunger	<ul style="list-style-type: none"> • Reduce by half the proportion of people living on less than \$1 a day • Reduce by half the proportion of people who suffer from hunger
2. Achieve universal primary education	<ul style="list-style-type: none"> • Ensure that all boys and girls complete a full course of primary schooling
3. Promote gender equality and empower women	<ul style="list-style-type: none"> • Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015
4. Reduce child mortality	<ul style="list-style-type: none"> • Reduce by two-thirds the mortality rate among children under 5
5. Improve maternal health	<ul style="list-style-type: none"> • Reduce by three-quarters the maternal mortality ratio
6. Combat HIV/AIDS, malaria, and other diseases	<ul style="list-style-type: none"> • Halt and begin to reverse the spread of HIV/AIDS • Halt and begin to reverse the incidence of malaria and other major diseases
7. Ensure environmental sustainability	<ul style="list-style-type: none"> • Integrate the principles of sustainable development into country policies and programs; reverse the loss of environmental resources • Reduce by half the proportion of people without sustainable access to safe drinking water • Achieve significant improvement in the lives of at least 100 million slum dwellers by 2020
8. Develop a global partnership for development	<ul style="list-style-type: none"> • Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system; includes a commitment to good governance, development, and poverty reduction—both nationally and internationally • Address the special needs of the least developed countries; includes tariff and quota free access for least developed countries' exports; enhanced program of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous official development assistance (ODA) for countries committed to poverty reduction • Address the special needs of landlocked countries and small-island developing states • Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term • In cooperation with developing countries, develop and implement strategies for decent and productive work for youth • In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries • In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

Source: From "Millennium Development Goals" (accessed via www.undp.org). Reprinted with permission from the United Nations Development Programme.

the proportion of people living on less than \$1 a day and to reduce by half the proportion of people who suffer from hunger. "Halving poverty" has come to serve as a touchstone for the MDGs as a whole. To achieve this target requires that progress be made on the other goals as well.

As reported by the United Nations Development Programme (UNDP), the halving of global poverty was achieved by 2012, but if current trends continue, not all of the other targets will be achieved; and great regional disparity is obscured when global averages are reported, as East Asia has done far better than sub-Saharan Africa.²⁸ Shockingly, in a world of plenty, the target of cutting the proportion of people who are chronically hungry in half by 2015 is very unlikely to be achieved. Some conditions even worsened after a food price spike in 2008 and thereafter as a result of the global economic crisis. And the UNDP highlights that if global trends continue through 2015, the reduction in under-5 mortality will reach roughly one-quarter, far below the target reduction of two-thirds. This means that the target will be missed by 4.4 million avoidable deaths in 2015. Universal primary enrollment will not be achieved unless faster progress can be made in sub-Saharan Africa. Projecting current trends, there will still be 47 million children out of school in 2015. And the UNDP reports that the gap between the current trends and the target of halving poverty represents an additional 380 million people still living on less than \$1 a day in 2015.

The goal of ensuring environmental sustainability is essential for securing an escape from poverty. This is immediately seen by looking at two of the targets: reduce by half the proportion of people without access to safe drinking water and achieve significant improvement in the lives of at least 100 million slum dwellers. But more generally, without protecting the environment of the poor, there is little chance that their escape from poverty can be permanent. Finally, the governments and citizens of the rich countries need to play their part in pursuit of the goal of "global partnership for development."

The MDGs were developed in consultation with the developing countries, to ensure that they addressed their most pressing problems. In addition, key international agencies, including the United Nations, the World Bank, the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), and the World Trade Organization (WTO), all helped develop the Millennium Declaration and so have a collective policy commitment to attacking poverty directly. The MDGs assign specific responsibilities to rich countries, including increased aid, removal of trade and investment barriers, and eliminating unsustainable debts of the poorest nations.²⁹

However, the MDGs have also come in for some criticism.³⁰ For example, some observers believe that the MDG targets were not ambitious enough, going little beyond projecting past rates of improvement 15 years into the future. Moreover, the goals were not prioritized; for example, reducing hunger may leverage the achievement of many of the other health and education targets. At the same time, although the interrelatedness of development objectives was implicit in the MDGs' formulation, goals are presented and treated in reports as stand-alone objectives; in reality, the goals are not substitutes for

each other but complements, such as the close relationship between health and education. Further, the setting of 2015 as an end date for the targets could discourage rather than encourage further development assistance if it were not met. Moreover, when the MDGs measure poverty as the fraction of the population below the \$1-a-day line, this is arbitrary and fails to account for the intensity of poverty—that a given amount of extra income to a family with a per capita income of, say, 70 cents a day makes a bigger impact on poverty than to a family earning 90 cents per day (see Chapter 5). Other critics have complained that \$1 a day is too low a poverty line and about the lack of goals on reducing rich-country agricultural subsidies, improving legal and human rights of the poor, slowing global warming (which is projected to harm Africa and South Asia the most), expanding gender equality, and leveraging the contribution of the private sector. While the reasonableness of some of these criticisms may be questioned, it should be acknowledged that the MDGs do have some inherent limitations.

With the imminent expiration of the MDGs, the UN coordinated global efforts to launch its successor, Sustainable Development Goals (SDGs), with the May 2013 agenda-setting report of the High-Level Panel of Eminent Persons on Development Agenda.³¹ This highly diverse panel of political leaders from every part of the world agreed upon a bold approach that is expected to substantially influence the eventual shape of the post-2015 agenda, the SDGs. The panel repeatedly stressed that it is “a universal agenda” for all countries, developed as well as developing and without exceptions, “to be driven by five big, transformative shifts.” These universal shifts are:

1. Leave no one behind—to move “from reducing to ending extreme poverty, in all its forms;” in particular, to “design goals that focus on reaching excluded groups.”
2. Put sustainable development at the core, “to integrate the social, economic, and environmental dimensions of sustainability.”
3. Transform economies for jobs and inclusive growth, while moving to sustainable patterns of work and life.
4. Build peace and effective, open, and accountable institutions for all, which “encourage the rule of law, property rights, freedom of speech and the media, open political choice, access to justice, and accountable government and public institutions.”
5. Forge a new global partnership so that each priority should involve governments and also others, including people living in poverty, civil society and indigenous and local communities, multilateral institutions, business, academia, and philanthropy.

The High-Level Panel also agreed on well-recognized and illustrative universal goals and national targets for the SDGs, including an outright end by 2030 of poverty, hunger, child marriage, and preventable under-5 deaths, and specific targets on stunting, social protection coverage, and maternal mortality. The debate will be lively throughout 2014 and 2015.

Sector A subset (part) of an economy, with four usages in economic development: technology (modern and traditional sectors); activity (industry or product sectors); trade (export sector); and sphere (private and public sectors)

1.5 Conclusions

Development economics is a distinct yet very important extension of both traditional economics and political economy. While necessarily also concerned with efficient resource allocation and the steady growth of aggregate output over time, development economics focuses primarily on the economic, social, and institutional mechanisms needed to bring about rapid and large-scale improvements in standards of living for the masses of poor people in developing nations. Consequently, development economics must be concerned with the formulation of appropriate public policies designed to effect major economic, institutional, and social transformations of entire societies in a very short time.

As a social science, economics is concerned with people and how best to provide them with the material means to help them realize their full human potential. But what constitutes the good life is a perennial question, and hence economics necessarily involves values and value judgments. Our very concern with promoting development represents an implicit value judgment about good (development) and evil (underdevelopment). But development may mean different things to different people. Therefore, the nature and character of development and the meaning we attach to it must be carefully spelled out. We did this in section 1.3 and will continue to explore these definitions throughout the text.

The central economic problems of all societies include traditional questions such as what, where, how, how much, and for whom goods and services should be produced. But they should also include the fundamental question at the national level about who actually makes or influences economic decisions and for whose principal benefit these decisions are made. Finally, at the international level, it is necessary to consider the question of which nations and which powerful groups within nations exert the most influence with regard to the control, transmission, and use of technology, information, and finance. Moreover, for whom do they exercise this power?

Any realistic analysis of development problems necessitates the supplementation of strictly economic variables such as incomes, prices, and savings rates with equally relevant noneconomic institutional factors, including the nature of land tenure arrangements; the influence of social and class stratifications; the structure of credit, education, and health systems; the organization and motivation of government bureaucracies; the machinery of public administrations; the nature of popular attitudes toward work, leisure, and self-improvement; and the values, roles, and attitudes of political and economic elites. Economic development strategies that seek to raise agricultural output, create employment, and eradicate poverty have often failed in the past because economists and other policy advisers neglected to view the economy as an interdependent social system in which economic and noneconomic forces are continually interacting in ways that are at times self-reinforcing and at other times contradictory. As you will discover, underdevelopment reflects many individual market failures, but these failures often add up to more than the sum of their parts, combining to keep a country in a poverty trap. Government can play a key role in moving the economy to a better equilibrium, and in many countries, notably in East Asia, government has done so; but all too often government itself is part and parcel of the bad equilibrium.

Achieving the Millennium Development Goals will be an important milestone on the long journey to sustainable and just development. Although progress has been substantial, many of the interim targets remain unachieved—nor do the MDGs include all of the critical objectives of development. The emerging Sustainable Development Goals, planned as the MDGs' successor after 2015, will be even more ambitious, including the full eradication of extreme poverty.

Despite the great diversity of developing nations—some large, others small; some resource-rich, others resource-barren; some subsistence economies, others modern manufactured-good exporters; some private-sector oriented, others to a large degree run by the government—most share common problems that define their underdevelopment. We will discuss these diverse structures and common characteristics of developing countries in Chapter 2.

The oil price shocks of the 1970s, the foreign-debt crisis of the 1980s, and the twenty-first-century concerns with economic globalization, economic imbalances and financial crises, global warming, and international terrorism have underlined the growing interdependence of all nations and peoples in the international social system. What happens to life in Caracas, Karachi, Cairo, and Kolkata will in one way or another have important implications for life in New York, London, and Tokyo. It was once said that “when the United States sneezes, the world catches pneumonia.” A more fitting expression for the twenty-first century would perhaps be that “the world is like the human body: If one part aches, the rest will feel it; if many parts hurt, the whole will suffer.”

Developing nations constitute these “many parts” of the global organism. The nature and character of their future development should therefore be a major concern of *all* nations irrespective of political, ideological, or economic orientation. There can no longer be two futures, one for the few rich and the other for the very many poor. In the words of a poet, “There will be only one future—or none at all.”