

1

Developing countries and the concept of development

This introductory chapter focuses on the concept of development. The low standard of living of the mass of the population in developing countries is singled out as the key issue in development. The development of per capita income over time and the factors that influence economic development or stagnation are important topics in this book. However, the interplay between economic and non-economic factors is of great importance for our understanding of the dynamics of socio-economic development. Economic development cannot be explained by economic factors only, and the concept of development includes more than mere changes in economic indicators.

After a discussion of problems of involvement and detachment in the study of development issues in sections 1.1 and 1.2, we examine the concept of development in sections 1.3 to 1.5. Indicators of growth and development are presented in section 1.6. Section 1.7 highlights the differences between developing countries and the variety of development experiences. Section 1.8 examines global income inequality and poverty and highlights the increasing inequality in the international economic order. Section 1.9 addresses the question what developing countries have in common in spite of all their differences. The final section 1.10 provides a first introduction to the framework of proximate and ultimate causality which will be further developed in subsequent chapters.

1.1

Approaches to development

In discussions of development issues, two general approaches can be distinguished (see Myint, 1980):

1. *The fight against poverty:* This approach focuses on the problems of widespread poverty, hunger and misery in developing countries and on the question of what can be done in order to realise improvements of the situation in the *short term*.
2. *The analysis of long-term economic and social development:* This approach concentrates on comparing developments in different countries, regions and historical periods in order to gain a better understanding of the factors that have *long-term* effects on the dynamics of socio-economic development.

A characteristic of the first approach is a strong involvement with the problems of developing countries and their inhabitants. In 2010, more than 1.2 billion individuals were struggling to survive on less than 1.25 dollar a day (Bluhm *et al.*, 2014, see also Table 1.4, p. 30). Most people who study development issues do so because they feel that present levels of poverty, misery and injustice are simply unacceptable. Their aim is to arrive at concrete recommendations for action. This approach is closely linked with development policies and strategies at international, national, regional or local levels. Some people choose a

Socio-Economic Development

technocratic approach, focusing on policies, instruments or projects, others choose a more radical–political approach. The latter believe that political mobilisation and political action are needed to achieve rapid changes in the existing order.

A potential drawback of strong involvement is a certain trendiness in thinking about development. One can point to the endless succession of ideas and slogans that have played a role in post-war discussions of development: the idea that large-scale injections of capital are the key to development ('Big Push'); the 'small is beautiful' movement; human capital as the missing link in development; the green revolution as a technological fix for agricultural development; community development; appropriate technologies; basic needs; integrated rural development; self-reliance; the New International Economic Order (NIEO); the Washington consensus; promotion of the informal sector; structural adjustment policies (SAPs); sustainable development, micro-finance or the present focus on the Millennium Development Goals (MDGs).

A common characteristic of these recipes for development is their short-term perspective. Time and again, proposals have been put forward in order to achieve certain goals, preferably within a decade or two (see, for example, Brandt *et al.*, 1980, 1983; Brundtland *et al.*, 1987; Sachs, 2005; the Millennium Declaration of 2000; UNDP, 2003). These fashions often evoke a brief surge of enthusiasm in the world of politics, policy and the development sciences. But when the immediate results are slow in materialising, disenchantment sets in again. The issue disappears from the public eye, and new and more appealing solutions and catch phrases emerge. The greater the involvement, the harder it is to distinguish between desirability and reality, and the greater the disappointment that follows when the real world proved less manageable than one had hoped (see Elias, 1970). Some of the major mistakes in development policies are a direct consequence of erroneous advice from development advisors and experts. An example is the neglect of the agricultural sector in the drive for industrialisation at all cost in the 1950s.

The long-term approach to development is more detached. One tries to comprehend why, in the long term, such great differences in development have occurred in the different parts of the world (Szirmai *et al.*, 1993; Szirmai, 2013). One tries to identify the factors that may help to explain different patterns of development, such as the accumulation of production factors, the efficiency with which these factors of production are being used, technological changes, external political and economic influences, historical factors, institutions and cultural differences. Economic and social policies figure among these factors, but considering policy as only one of many relevant factors may help to deflate the immoderate pretensions and hopes of policy makers, politicians and scientific advisors.

The long-term approach emphasises that economic growth in its modern form is intimately associated with the economic development of the Western countries since the mid eighteenth century (Landes, 1998; Maddison, 2001). Therefore, the history of the economic development of prosperous European and North American countries will often serve as a point of reference in our comparative discussions of the experiences of developing countries. This is not simply to advocate the copying of Western solutions by developing countries. Rather we hope to gain an insight into the similarities and differences in development processes.

Developing countries and development

The history of modern economic growth is also associated with industrialisation and a process that Higgins and Higgins (1979: 3) have ironically described as ‘getting rid of farmers’. Again, this historical relationship between industrialisation and economic growth cannot be applied indiscriminately to developing countries. It does, however, serve as another point of reference. Furthermore, comparisons of the historical development of economically advanced countries and developing countries may teach us a lot about the role of institutions in advancing or impeding economic development (North, 1990, North *et al.*, 2009). In this context one can think of land tenure institutions, property rights, patent institutions and intellectual property rights (IPRs), processes of state formation, the quality of governance or the emergence of financial institutions.

Finally, the historical study of processes of economic growth reveals the importance of processes of saving and investment in the accumulation of factors of production. Such a study leaves us under no illusion with regard to the human costs of economic growth. In the past, economic growth has always been coupled with an enormous increase in the capital–labour ratio. In order to invest in capital goods a considerable portion of the national income has to be saved. In poor countries, saving means that people living at subsistence levels have to postpone present consumption for the sake of investment in future production. This is not easy. In Western countries such savings have been realised through the ruthless workings of the market mechanism of nineteenth-century capitalism, which kept wages low. In the centrally planned economies of the twentieth century exploitation of people by people through the market was replaced by direct coercion by the state. Both mechanisms have resulted in the transfer of income from consumers to social groups (capitalists, entrepreneurs, government officials) that were both able and willing to save and invest. It is unlikely that such tough choices can be avoided in the future.

An objection to the long-term approach is that it seldom offers neat solutions to the kind of practical problems and choices that policy makers, politicians, entrepreneurs or aid workers are inevitably faced with on a day-to-day basis. On the other hand, it is exactly this kind of distance to policy that enables one to analyse problems and developments in a more independent and critical manner. The emphasis on long-term trends can help make us more immune to the fashions and fads of the day and may dramatically alter our perceptions of development.

The choice between the two approaches is not a matter of all or nothing. Both are important. It is perfectly legitimate for politicians, policy makers, engineers, entrepreneurs or aid workers to ask for support and advice from scientific researchers and development experts. Also, passionate involvement in the plight of people in poor developing countries does not preclude independent judgement or critical analysis. On the other hand, a long-term approach offers a starting point for a realistic assessment of the effects of national and international development strategies and policies. It provides us with greater insight into the significance and scope of socio-economic policies amid the many factors that impinge on processes of development.

Central questions that will be tackled in each chapter are: How do the factors discussed influence the growth of productive capacity, the development of per capita income, the standard of living and the conditions of life in poor countries? Which are the factors that contribute to socio-economic development? Which are the factors that hamper development? What are the explanations for the observed developments and trends?

How can the differences between regions and between historical periods be interpreted and explained?

1.2

The development debate

There are no final answers to the questions mentioned at the end of the previous section. There is no such thing as scientific certainty, especially not in a field as controversial as that of economic and social development. Although the author’s views will undoubtedly leave their imprint on this book, it is primarily intended as an introduction to the *debates on issues of development*. These debates are characterised by numerous clashing perspectives and theories and deep differences of opinion. The results of empirical studies are often contradictory or ambiguous. At times it even seems that empirical research leads to more rather than less uncertainty. This book tries to represent different views and perspectives of development in a balanced fashion, providing the reader with suggestions for further reading. Further, the book provides an overview of trends in thinking about development issues since the end of the Second World War.

This approach should definitely not result in a non-committal enumeration of points of view, perspectives and approaches, between which no choices need to be made. Though differences of opinion may exist, this does not mean that ‘everything goes’. It is of great importance for students of development to learn to evaluate statements on development critically and to ascertain to what extent they are consistent with or are contradicted by the best empirical evidence available to us at present. Therefore, the exposition is illustrated as much as possible with statistics on development in several countries and regions. The purpose of this material is to introduce readers to international statistics and to stimulate them to distinguish between sense and nonsense in development studies and to find their own way in empirically grounded discussions of the issues of development. Background material to these statistics is presented in a separate website accompanying this book: <http://www.dynamicsofdevelopment.com>.

1.3

Growth and development

In the preceding sections, the term ‘development’ has figured prominently. In common parlance the term is used both frequently and rather casually: development studies, problems of development, developing countries, less developed countries, development cooperation, underdevelopment, development aid, development strategies, development policy and so forth. So what do we mean by ‘development’?

Rich countries and poor countries: development as economic growth

Implicit in almost every use of the term ‘development’ is the notion that some countries and regions of the world are extremely poor, whereas other countries, representing a relatively small fraction of world population, are very prosperous. The discussion of development is always tied up with basic questions like: Why are poor countries poor and rich countries rich? Why do poor countries lag behind rich countries in the development of their standards of living? How can poor countries become more prosperous? How can poor

Developing countries and development

countries catch-up with rich countries? In this sense an important dimension of the concept of ‘development’ refers to economic growth – or, more precisely, growth of national income per capita.

Development as structural change

Development conceived of as economic growth is a quantitative concept and basically means ‘more of the same’. Yet, even if we limit ourselves to the economic sphere, it is clear that economic development is more than economic growth alone. Economic development refers to growth accompanied by qualitative changes in the structure of production and employment, generally referred to as *structural change* (Kuznets, 1966). Of particular importance for developing economies are increases in the share of the dynamic sectors such as manufacturing and decreases of the share of agriculture in national output and employment. More recently dynamic sectors include ICT production or software services. This implies that economic growth could take place without any economic development. An example is provided by those oil-exporting countries which experienced sharp increases in national income but saw hardly any changes in their economic structure. Another important qualitative change is *technological change*: the ongoing process of change in process and product technologies, resulting in radically new modes of production and new product ranges (Abramovitz, 1989b).

Development as poverty reduction

In the 1960s the identification of development with economic growth came under increasing criticism. Authors such as Dudley Seers, Gunnar Myrdal, Paul Streeten, Hollis Chenery, Mahbub ul Haq and institutions like the International Labour Organization (ILO) pointed out that developing countries did not experience much change in the living conditions of the masses of the poor in spite of the impressive growth figures in the post-Second World War period (Chenery *et al.*, 1974; ILO, 1976; Myrdal, 1971; Seers, 1979; Streeten, 1972; Ul Haq, 1976). They came to the conclusion that development involves more than economic growth and changes in economic structures. Seers formulated three additional requirements for the use of the term ‘development’, namely that there should be a decrease in poverty and malnutrition, that income inequality should decline, and that the employment situation should improve (Seers, 1979). In modern development thinking, poverty reduction has become a key aspect of the development concept. In order to contribute to development, growth should be ‘pro-poor’ (see Kakwani, Khandker and Son, 2004).

The position taken in this book is that without rapid and sustained growth large-scale poverty reduction is not possible. If such growth is not achieved, there will be no major reduction in the poverty. But there is considerable scope for economic and social policies which allow the poor to participate more in the benefits of growth.

Development as social welfare

Other critics went even further and challenged the too narrow focus on the economic dimensions of development alone. A country can grow rapidly, but can still do badly in terms of literacy, health, life expectancy and nutrition (Sen, 1999). Economic growth does not necessarily make people more happy or satisfied (Easterlin, 1972). Criticism of growth

Socio-Economic Development

fetishism led to the emergence of so-called ‘social indicators’: life expectancy, literacy, levels of education, infant mortality, availability of telephones, computer connections, hospital beds, licensed doctors, availability of calories and so forth. Some authors even went so far as to posit an opposition between growth and development. Cuba, Sri Lanka or the Indian state of Kerala, where growth was not very rapid but where welfare facilities and the level of education were improving, were compared with countries like Brazil, where extremely rapid growth had hardly affected poverty levels. Still, most authors reached the conclusion that, especially in the poorest countries, growth of productive capacity is a prerequisite for development, while development involves more than just growth.

Development as modernisation

Social scientists have stated that development should not be viewed in terms of economics only. One should also pay attention to changes in family structures, attitudes and mentalities, cultural changes, demographic developments, political changes and nation building, the transformation of rural societies and processes of urbanisation.

The Swedish Nobel Prize winner Gunnar Myrdal has argued that discussions of development have implicitly been based on a series of modernisation ideals or values. The concept of development is inevitably value laden. Opinions may differ on the way in which these ideals should be pursued. Nevertheless, according to Myrdal, there was a widespread consensus on the ultimate objectives of development among the members of political elites in developing countries involved in developmental policy (Myrdal, 1968, pp. 57–69). The broad concept of development therefore involves a change of the entire society in the direction of the modernisation ideals. The modernisation ideals are reproduced in Box 1.1.

Development as freedom

Compared to the 1960s, the climate of opinion has changed. Some political leaders in developing countries would now hesitate to use the term ‘modernisation’. But the list of modernisation ideals compiled by Myrdal still seems highly relevant. Amartya Sen (1999) has argued for an even broader concept of development focusing on the concept of freedom. He sees development as an integrated process of expansion of substantive freedoms. Economic growth, technological advance and political change are all to be judged in the light of their contributions to the expansion of human freedoms. Among the most important of these freedoms are freedom from famine and malnutrition, freedom from poverty, access to healthcare and freedom from premature mortality. In a telling empirical example, Sen shows that urban African Americans have lower life expectancies than the average Chinese person or inhabitants of the Indian state of Kerala, in spite of much higher average per capita incomes in the USA.

According to Sen, freedoms are both ends and means. Thus, markets can be an engine for economic growth (means), but – what is sometimes forgotten – they constitute important freedoms in themselves, namely freedoms to exchange or transact. One important area where freedoms have frequently been restricted is the labour market, where slavery, serfdom or other institutional arrangements can restrict the free movement of labour. Political freedoms can contribute to economic dynamism, but are also goals in themselves. Sen argues somewhat optimistically that all freedoms are strongly interconnected and reinforce each other. He also tends to underemphasise clashes between

BOX 1.1 Modernisation ideals

- **Rationality:** in policy, in the application of technological knowledge, in structuring social relations, in thinking about objectives and means.
- **Planning for development:** searching for a coherent system of policy measures in order to change situations that are considered undesirable.
- **Increases in production per capita and production per worker:** primarily through industrialisation and increased capital intensity of production.
- **Improvements in the standard of living.**
- **Declines in social and economic inequality:** development ought to be for the benefit of the people, the masses.
- **More efficient institutions and attitudes:** those conducive to an increase in productivity and to development in general (for example, institutions that allow for mobility, initiative, entrepreneurship, effective competition and equal opportunities; attitudes like efficiency, diligence, orderliness, punctuality, economy, honesty, rationality, openness to change, solidarity and future-orientedness).
- **Consolidation of the national state and national integration.**
- **National independence.**
- **Political democratisation:** the concept of democratisation can be interpreted in various ways, of which parliamentary democracy is but one. Democratisation always implies some notion of involving the masses of the population in political decision making.
- **Increased social discipline:** developmental goals cannot be attained if governments cannot impose obligations on their citizens.

Source: Myrdal (1968).

freedoms of different groups of people and the value choices that still need to be made. There is no objective definition of development and there may be basic differences of opinion about the goals of development, even including that of the very goal of freedom, which may not be the ultimate goal from a variety of religious perspectives. Nevertheless, Sen's use of the concept of freedom as a normative yardstick for development is insightful. In his perspective economic growth remains important, but not as goal in itself. It is important in its potential contribution to a wide range of freedoms. It is not enough in itself. Sometimes changes in other spheres, such as education and health, can be at least as important in the expansion of freedoms.

Development as sustainability

Since the mid 1980s, disturbing reports of global warming, man-made climate change, the disappearance of rain forests, declining biodiversity and pollution of air and water have revived the discussion concerning the 'environmental constraints to growth'. Critics of economic growth have argued that the environmental costs of growth and development

Socio-Economic Development

are insufficiently recognised (Mishan, 1967). In 1987, the influential Brundtland Report written for the United Nations introduced the notion of ‘sustainable development’. Sustainable development is development that does not diminish the life chances of future generations (Brundtland *et al.*, 1987). If economic advance in the present generation comes at the expense of the life chances of future generations, this should not be seen as development. Sustainable development requires more attention to issues such as CO₂ emissions, environmental pollution, use of renewable energy sources and global warming (see Bunyard, 1985; Ettinger *et al.*, 1989; IPCC, 2001, 2007b; Stern, 2007; World Bank, 1992; World Bank-WDR, 2010). ‘Sustainable development’ is a rather fuzzy concept which is sometimes broadened to include a variety of desirable goals such as equitable development, social inclusion or poverty reduction. This makes the concept unmanageable. We prefer to use the term ‘sustainability’ to refer exclusively to the ever-more important environmental aspects of development.

The Millennium Development Goals

In September 2000, the United Nations General Assembly adopted the United Nations Millennium Declaration, which formulated eight developmental goals, or MDGs. The MDGs can be seen as a further elaboration of the social indicators approach and the broad concepts of development discussed above. They have since been incorporated into development and aid policies in most countries (see Sachs, 2005). The MDGs have quantified targets which were to be achieved by 2015 (see Box 1.2).

BOX 1.2 Millennium Development Goals

1. Eradicate extreme poverty and hunger:
 - a. Halve the proportion of the world’s people living on less than a dollar a day between 1990 and 2015
 - b. Achieve full and productive employment for all
 - c. Halve the proportion of people who suffer from hunger between 1990 and 2015.
2. Achieve universal primary education by 2015, with equal access for boys and girls.
3. Promote gender equality and empower women.
4. Reduce under-five mortality rate by two-thirds between 1990 and 2015.
5. Reduce current rates of maternal mortality by three-quarters between 1990 and 2015.
6. Halt and reverse the spread of HIV/AIDS, malaria and other major diseases by 2015.
7. Ensure environmental sustainability:
 - a. Integrate principles of sustainable development into country policies and reverse the loss of environmental resources
 - b. Reduce biodiversity loss, achieving significant reduction of rate of loss by 2010
 - c. Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.
 - d. By 2020 achieve a significant improvement in the lives of at least 100 million slum dwellers.

Source: www.mdgmonitor.org.

Developing countries and development

What is new and valuable in the MDGs is the systematic formulation of quantified policy targets and the monitoring of progress towards achieving them. The weakness of the MDGs is that they are just another list of desirables with no systematic discussion of how to allocate resources to achieve the goals (Ramani, 2009) and no analysis of the economic and other mechanisms which contribute to their realisation. Increases in productive capacity are notably missing from the list of MDGs.

At this stage, four remarks can be made. First, as Myrdal, Seers and many other authors have noted, development is unavoidably a normative concept involving very basic choices and values. Our normative assumptions should therefore be made explicit.¹

Second, though the formulations vary greatly in practice most writers on development come up with a set of similar developmental goals including reduction of poverty, increased economic welfare, improved health and education, better governance, more participation of the population in political decision making and increased political and social freedom and environmental sustainability. 'Development' can then be defined as a movement in the direction of these goals.

Third, an increase both in productivity per worker and production per capita of population in poor countries is an essential element of almost all definitions of 'development'; this is even the case in interpretations of the concept that are critical of a narrow economic approach. Increases in productive capacity always remain among the necessary conditions for 'long-term development'. They play a central role in this book. 'Development' is a broad concept. It is not limited to the economic sphere. But without increases in productive capacity, countries will never be able to finance the investments in health, education, reproductive health infrastructure and social protection which are necessary for improvements in human welfare. If productive capacity stagnates, a developing country remains eternally dependent on external aid. This important insight is too often forgotten in development discourse.

Finally, the fact that there are modernisation ideals or development goals does not mean that all societies ought to develop in the same manner or that they ought to converge to some common standard. There is no end point in development. There are no 'developed' societies. Societies will never stop developing.

1.4

Are growth and development desirable?

The desirability of economic growth and socio-economic development is not undisputed. Critics have pointed out the drawbacks of growth, development and modernisation. They have pointed to the irreversible disruption of traditional societies and life styles and the spread of a uniform materialistic mass culture, which may lead to cultural shallowness, loss of meaning and spirituality and to the increasing exploitation of people as a result of the spread of capitalist market relations. Sometimes it is suggested that people are happier in traditional societies than in modern societies. They would be more in tune with their natural environment, and their needs and wishes would balance their potentialities. There is a strong Malthusian movement which maintains that continued economic growth will disturb the balance of nature, and will eventually lead to ecological catastrophes (Brundtland *et al.*, 1987; Ehrlich, 1968; Meadows *et al.*, 1972). The present debates on environmental

¹ For instance, most definitions of development include some notion of gender equality. But in many religiously inspired worldviews gender equality is notably absent.

pollution, global warming and climate change are good examples of this way of thinking (Lindahl-Kiessling and Landberg, 1994; IPCC, 2001; World Bank-WDR, 2003; World Bank-WDR, 2010).

Other authors see ‘development’ as a euphemism for Western penetration and domination of the world, involving great misery and exploitation both in past and present (Frank, 1969). An eloquent example of this viewpoint is Stanley Diamond’s frontal attack (Diamond, 1974) on a concept associated with development and progress, namely ‘civilisation’. Diamond argues that processes of civilisation have always involved conquest, violence, coercion and oppression with respect to so-called less civilised peoples. For instance, the Indians have been victims of Western penetration into North America, the African slaves have been victims of Western penetration into Africa, and the Eskimos have been victims of the spread of Western culture to Alaska. Yet, Diamond does not restrict himself to the results of Western expansion in the world. Wherever people try to spread their civilisation the fire and the sword are always involved, whether it concerns the expansion of the Greek, the Roman, the Egyptian, the Chinese or the Islamic civilisations.

Such criticism is valuable though at times one-sided. First, it creates an awareness of the costs involved in development. Secondly – and perhaps most important – it brings to our attention the relation between the ‘concept of development’ and international power relationships. What one understands under ‘development’ in a particular historical period is strongly influenced by dominant cultures and powers of that period.

On the other hand, it is no coincidence that fiercest criticisms of growth and development are often formulated by members of the elites in the richest countries in the world. When members of traditional tribal societies come in contact with modern consumer goods, their needs turn out to be far from limited. The possession of new goods will be sought for eagerly and widely. If one were to ask poor peasants or residents of urban slums in Africa or Asia whether they would prefer improvement in their productivity and standards of living, an overwhelming majority would respond positively. Only people who have been raised in very affluent societies can afford to have their doubts about the merits of economic growth and material progress.

Criticism of economic growth and development is sometimes inspired by a romantic idealisation of a harmonious and balanced society that may never have existed. And even if isolated and socially and ecologically balanced societies did exist in days gone by, they no longer exist today. The problems developing countries are facing today have much to do with the fact that these countries have already been ‘opened up’ to trade, investment, colonial domination and partial penetration by the money economy many years ago (Myint, 1980). If there ever was a choice in whether or not to strive for development, this ‘choice’ has already been made. Traditional self-sufficient societies have been disrupted. Modern technologies have contributed to a rapid growth of population, the needs of which cannot be met by traditional technologies and methods of production. Contact with the outside world has led to the emergence of modern preferences and needs. Present-day societies have no choice but to strive for socio-economic development. Given the rapid rates of population growth the alternative would be to sink ever deeper into a situation of poverty, misery and starvation. Although not all developmental ideals are supported by all inhabitants of developing countries, almost everybody longs for the socio-economic side of development (see Lewis, 1950, Appendix 1; North and Thomas, 1973: 1–2; Jones, 1988). In turn, socio-economic development is impossible without extensive social modernisation and institutional changes.