

CHAPTER ONE

Economics, Institutions, and Development: A Global Perspective

We have a collective responsibility to uphold the principles of human dignity, equality and equity at the global level. As leaders we have a duty therefore to all the world's people, especially the most vulnerable and, in particular, the children of the world, to whom the future belongs.

—UNITED NATIONS, *Millennium Declaration*, September 8, 2000,
signed by the 189 UN member countries

What is the meaning of growth if it is not translated into the lives of people?

—UNITED NATIONS Development Program, *Human Development Report*, 1995

Our primary goal in development must be to reduce the disparities across and within countries.... The key development challenge of our time is the challenge of inclusion.

—JAMES D. WOLFENSOHN, President, World Bank

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 6.4 billion people, are much less fortunate. They may have little or no shelter and an inadequate food supply, especially if they are among the poorest third. Their health is 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. Nearly half the world's population lives on less than \$2 per day. An examination of these global differences in living standards is revealing.

If, for example, we looked first at an average family in North America, we would probably find a "nuclear" family of four with an annual income of approximately \$50,000. They would live in a comfortable suburban house with a small 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 and electrical appliances, many of which were manufactured outside North America in countries as far away as South Korea, Argentina, and China. Examples might include computer hard disks made in Malaysia, DVD players manufactured in Thailand, garments assembled in Guatemala, 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 are 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 secure 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 Asia. The household is likely to comprise eight or more people, including parents, several children, two grandparents, and some aunts and uncles. They have a combined per capita annual income, in money and in "kind" (meaning that they consume a share of the food they grow), of \$250 to \$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. None of the adults can 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. There is often only one meal a day; it rarely changes, and it is rarely sufficient to alleviate the children's persistent hunger pains. The house has no electricity, sanitation, or fresh water supply. There is much sickness, 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. In this part of the world, 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 is 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 are pressed together in precarious balance.

If we were to examine two representative families—one a wealthy family from the local ruling class and the other of peasant background—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 shack in a shantytown, or *favela* (a 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'oeuvres, 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 no dinner—only a few scraps of stale bread. 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. Violence from drug gang warfare is a constant threat. The father migrated to the city from the rural hinterland a few years ago, and the rest of the family recently followed. He has had part-time jobs over the years, but nothing permanent. The family income is less than \$800 per year. The children have been in and out of school many times, as they have to help out financially in any way they can. Occasionally the eldest teenage daughter, who lives with friends across town, seems to have some extra money—but no one ever asks where it comes from or how it is obtained.

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).

As a final aspect of this brief view of living conditions around the world, 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 and no schools, hospitals, electric wires, or water supplies; life here seems to be much as it has been for thousands of years. 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. Life here seems to be eternal and unchanging—but not for much longer.

One hundred kilometers away, 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 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. In short, the **development** process will have been set in motion.

Before long, exportable fruits and vegetables will probably be grown in this now sparsely settled region. They may even end up on the dinner table of the rich South American family in the seaside penthouse. Meanwhile, transistor radios made in Southeast Asia and playing music recorded in northern Europe have become prized possessions in this African village. Throughout the world, remote subsistence villages such as this one are inexorably being linked up with modern civilization in an increasing number of ways. The process is now well under way and will become even more intensified in the coming years.

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 poor about the experience of poverty in Box 1.1.¹

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 across 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? These and many other questions concerning international and national differences in standards of living, in areas including health and nutrition, education, employment, 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 economic development by focusing specifically on 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

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 cripples; 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

that development.² 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 the poor rural family and many others in Southeast 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; economic interdependence steadily grows. The hows and whys of this global economic interdependence will unfold in the remaining chapters. But 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.

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. Yet there are some people who would still claim that development economics is not really a distinct branch of economics in the same sense as, say, macroeconomics, labor economics, public finance, or monetary economics. Rather, they would assert, it is simply an amalgamation and basically an unaltered application of all these traditional fields, but with a specific focus on the individual economies of Africa, Asia, and Latin America.³

We disagree with this viewpoint. 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. Development economics is not the same as the economics of advanced capitalist nations (modern “neoclassical” economics). Nor is it similar to the economics of the formerly centralized socialist societies. It is nothing more or less than the economics of contemporary poor, underdeveloped nations with varying ideological orientations, diverse cultural backgrounds, and very complex yet similar economic problems that usually demand new ideas and novel approaches. Recent developments in theories of poverty traps and the role of institutions confirm this. The awarding of the 1979 Nobel Prize in economics to two eminent development economists, W. Arthur Lewis of Princeton University and Theodore Schultz of the University of Chicago, for their pioneering studies of the development process, provided dramatic confirmation of the status of economic development as a separate field within the economics discipline. Other Nobel laureates have also made major contributions to development economics, notably Amartya Sen, who won the prize in 1998, and Joseph Stiglitz, who won it in 2001. We begin, therefore, by contrasting modern development economics with “traditional” neoclassical economics. We then devote the bulk of this initial chapter to an analysis of the meaning of development. In Chapter 2 we look at the diverse structure and common characteristics in the historic growth and contemporary development of developing countries.

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. By traditional economics we simply mean the neoclassical economics taught in introductory textbooks. 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 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 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. Unlike the **more developed countries (MDCs)**, in the **less developed countries (LDCs)**, most commodity and resource markets are 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 are common, and disequilibrium situations often prevail (prices do not equate supply and demand). In many cases, economic calculations are dominated 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 entire nations in poverty traps 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. In recent years, activities of nongovernmental organizations, both national and international, have grown rapidly and are receiving increasing attention (see Chapter 11).

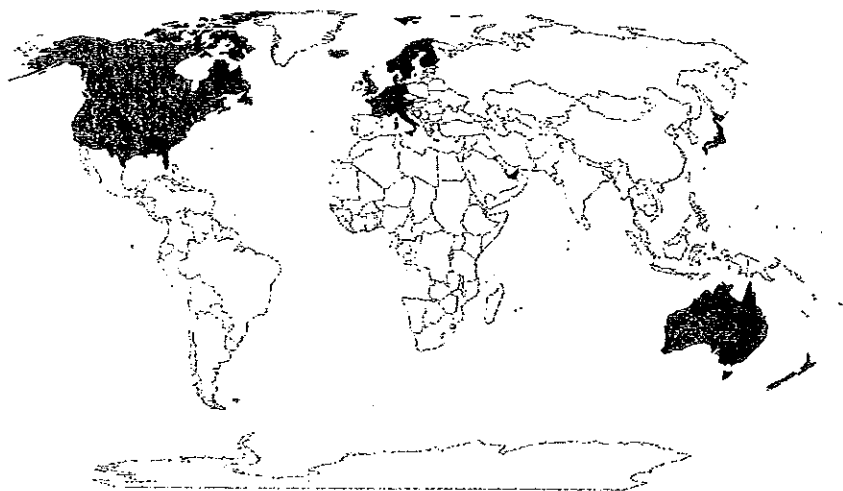
Because of the heterogeneity of the developing world and the complexity of the development process, development economics must be eclectic, attempting to combine relevant concepts and theories from traditional economic analysis along with new models and broader multidisciplinary approaches derived from 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 better 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 24 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*, and how can different economic concepts and theories contribute to a better understanding of the development process? (Chapters 1, 3, and 4)
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 LDCs from what the developed countries faced on the eve of their industrialization? (Chapter 2)
3. How can the extremes between rich and poor countries be so very great? Figure 1.1 illustrates this disparity. (Chapters 2, 3, 4, and 6)
4. What are the sources of national and international economic growth? Who benefits from such growth and why? Why do some countries make rapid progress toward development while many others remain poor? (Chapters 2, 3, and 4)
5. Which are the most influential theories of development, and are they compatible? Is underdevelopment an internally (domestically) or externally (internationally) induced phenomenon? (Chapters 3 and 4)
6. How can improvement in the role and status of women have an especially beneficial impact on development prospects? (Chapters 5, 6, 7, 8, 9, and 10)

FIGURE 15.1 The World's Wealthy and Poor



The countries in black contain 15% of the world population but produce 50% of world gross domestic product (GDP). The countries in dark gray contain 50% of the world population but produce less than 15% of world GDP.

Source: William Easterly and Ross Levine, "It's not factor accumulation: Stylized facts and growth models," *World Bank Economic Review* 15 (2001): 177-219, page 199. Reprinted with permission.

7. 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)
8. Is rapid population growth threatening the economic progress of developing nations? Do large families make economic sense in an environment of widespread poverty and financial insecurity? (Chapter 6)
9. Why is there so much unemployment in the developing world, especially in the cities, and why do people continue to migrate to the cities from rural areas even though their chances of finding a job are very slim? (Chapter 7)
10. 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)
11. What is the impact of poor public health on the prospects for development, and what is needed to address these problems? (Chapter 8)
12. Do educational systems in LDCs 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)

13. As 60% to 70% of many LDC populations 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 (land redistribution, roads, transport, education, credit, etc.) also needed? (Chapter 9)
14. What do we mean by "environmentally sustainable development"? Are there serious economic costs of pursuing sustainable development as opposed to simple output growth, and who bears the major responsibility for global environmental damage—the rich North or the poor South? (Chapter 10)
15. Are free markets and economic privatization the answer to development problems, or do developing governments still have major roles to play in their economies? (Chapter 11)
16. Why do so many developing countries select such poor development policies, and what can be done to improve these choices? (Chapter 11)
17. Is expanded international trade desirable from the point of view of the development of poor nations? Who really gains from trade, and how are the advantages distributed among nations? (Chapter 12)
18. What is meant by **globalization**, and how is it affecting the developing countries? (Chapters 12 and 13)
19. Should exports of primary products such as agricultural commodities be promoted, or should all LDCs attempt to industrialize by developing their own manufacturing industries as rapidly as possible? (Chapter 13)
20. When and under what conditions should LDC governments 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? 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 LDCs? (Chapters 13 and 14)
21. How did developing nations get into such serious foreign-debt problems, and what are the implications of this debt for the economies of both less developed and more developed nations? (Chapter 14)
22. 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 15)
23. Should large and powerful multinational corporations be encouraged to invest in the economies of poor nations, and if so, under what conditions? How have the emergence of the "global factory" and the globalization of trade and finance influenced international economic relations? (Chapter 15)

24. What is the role of financial and fiscal policy in promoting development? Do large military expenditures stimulate or retard economic growth? (Chapter 16)

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 can 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). Many economic models are based on a set of implicit assumptions about human behavior and economic relationships that may have little connection to the realities of developing economies. Economic investigations and analyses cannot simply be lifted out of their institutional, social, and political context, especially when one must deal with the human dilemmas of hunger, poverty, and ill health that plague so much of the world's population.

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, 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, inegalitarian class structures; 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, unemployment, 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, technology, intellectual property, and labor migration.

Resolving problems to achieve development is a much more complicated task than some economists would lead us to believe. 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 structure of both the domestic and the global society as they are the direct outcomes of the manipulation of strategic economic variables such as savings, investment, product and factor prices, and

foreign-exchange rates. As 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 we shall 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 book 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.

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 the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its **gross national income (GNI)** at rates of 5% to 7% or more. A common alternative economic index of development has been the use of rates of growth of **income per capita** to take into account the ability of 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 GNI (monetary growth of GNI per capita minus the rate of inflation) are normally 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."

The New Economic View of Development

The experience of the 1950s and 1960s, 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 LDCs, and governments, facing mounting foreign-debt problems, were forced to cut back on their already limited social and economic programs. Nor can we count on high rates of growth in the developed world to trickle down to the poor in developing countries. In the 1990s, while the United States, the United Kingdom, and other high-income countries enjoyed a strong economic boom, average incomes declined in sub-Saharan Africa, and the number of people in the region living in extreme poverty (on less than \$1 per day) rose by some 50 million.

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. Underdevelopment is a real fact of life for more than 3 billion people in the world—a state of mind as much as a state of national poverty. As Denis Goulet has forcefully portrayed it:

Underdevelopment is shocking: the squalor, disease, unnecessary deaths, and hopelessness of it all! No man understands if underdevelopment remains for him a mere statistic reflecting low income, poor housing, premature mortality or underemployment. The most empathetic observer can speak objectively about underdevelopment only after undergoing, personally or vicariously, the “shock of 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

The World Bank, which during the 1980s championed economic growth as the goal of development, joined the chorus of observers taking a broader perspective when, in its 1991 *World Development Report*, it asserted:

The challenge of development . . . is to improve the quality of life. Especially in the world's poor countries, a better quality of life generally calls for higher incomes—but it involves much more. It encompasses as ends in themselves better education, higher standards of health and nutrition, less poverty, a cleaner environment, more equality of opportunity, greater individual freedom, and a richer cultural life.⁸

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 desires 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.

Sen's “Capabilities” 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.⁹ As Sen put it, “Economic growth cannot be sensibly treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy.”¹⁰

In effect, Sen argues that poverty cannot be properly measured by income or even by utility as conventionally understood; what matters 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 parasitic diseases will be less able to extract nourishment from a given quantity of food than someone without parasites. Sen's approach is valid for more developed countries as well. For example, most of the things one could do with the personal computer one buys are never understood or even known, let alone ever used, by anyone other than specialists. Of course, sometimes people want more "features" just in case they might want to use them. But if we exclude items of this kind, a computer with unused characteristics is no better than one without these characteristics.

The point is that 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. As Sen explains,

The concept of "functionings" . . . reflects the various things a person may value doing or being. The valued functionings may vary from elementary ones, such as being adequately nourished and being free from avoidable disease, to very complex activities or personal states, such as being able to take part in the life of the community and having self-respect.¹¹

Sen identifies five sources of disparity between (measured) real incomes and actual advantages:¹² *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, 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*, differences in relational perspectives, meaning that

the commodity requirements of established patterns of behavior may vary between communities, depending on conventions and customs. For example, being relatively poor in a rich community can prevent a person from achieving some elementary "functionings" (such as taking part in the life of the community) even though her income, in absolute terms, may be much higher than the level of income at which members of poorer communities can function with great ease and success. For example, to be able to "appear in public without shame" may require higher standards of clothing and other visible consumption in a richer society than in a poorer one

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 increasingly difficult to function socially in Singapore or South Korea without an e-mail address. *Fifth*, 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, for example, when girls get less medical attention or education than boys do.

Thus, looking at even 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 subvarieties 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:

Consider a commodity such as bread. It has many characteristics, of which yielding nutrition is one. This can—often with advantage—be split into different *types* of nutrition, related to calories, protein, etc. In addition to nutrition-giving characteristics, bread possesses other characteristics as well, e.g., helping get-togethers over food and drinks, meeting the demands of social conventions or festivities. For a given person at a particular point in time, having more bread increases, up to a point, the person's ability to function in these ways. . . . But in comparing the functionings of two different persons, we do not get enough information by looking merely at the amounts of bread (and similar goods) enjoyed by the two persons respectively. The conversion of commodity-characteristics into personal achievements of functionings depends on a variety of factors—personal and social. In the case of nutritional achievements it depends on such factors as (1) metabolic rates, (2) body size, (3) age, (4) sex (and, if a woman, whether pregnant or lactating), (5) activity levels, (6) medical conditions (including the absence or presence of parasites), (7) access to medical services and the ability to use them, (8) nutritional knowledge and education, and (9) climactic conditions.¹³

In part because such factors, even on so basic a matter as nutrition, can vary so widely across individuals, measuring individual well-being across people 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. 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.¹⁴

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, then very poor people can have very high utility. Sometimes even malnourished people either have a disposition that keeps them feeling very happy and satisfied or have learned to appreciate greatly any small comforts they can find in life, such as a single 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 happy but homeless poor person from greatly valuing an opportunity to become freed of parasites or provided with basic shelter. Rather than a *feeling*, as Sen defines it, the functioning of a person is an *achievement*; it is

what the person succeeds in doing with the commodities and characteristics at his or her command. . . . For example, bicycling 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.¹⁵

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.” Just as in basic microeconomics, where income matters to the extent that it affects utility, utility is important here to the extent that it exhibits a person’s capabilities. And clearly, capabilities are determined in part by income. Even so, many important problems of developing countries, such as social deprivation of girls (see Chapter 8), simply cannot be adequately addressed by a focus on income. Sen’s perspective helps explain why development economists have placed so much emphasis on health and education and have referred to countries with high levels of income but poor health and education standards as cases of “growth without development.”¹⁶ 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 certain parasites to the expanded ability to appreciate the richness of human life that comes with a broad and deep education.

Over the past two decades, Sen’s view has become extremely popular among development economists and social science methodologists. Sometimes students seem less impressed, arguing that fulfillment is more about the quality of social relationships or following religious values than about capabilities. But however the matter is framed, it is clear that income or consumption, or purely subjective pleasure or desire fulfillment, cannot define *well-being* in any adequate sense. Sen’s analysis is part of what has given the United Nations’ *Human Development Index*, which accounts for health and education as well as income, its wide respect and following (see Chapter 2).

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.¹⁷ 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.¹⁸ 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.”¹⁹ 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.²⁰

✓ **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.”²¹

✓ **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, ignorance, other people, misery, 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. W. Arthur Lewis stressed the relationship between economic growth and freedom from servitude when he con-

cluded that "the advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice."²² 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 should also encompass various components of political freedom including, but not limited to, personal security, the rule of law, freedom of expression, political participation, and equality of opportunity.²³ Some of the most notable economic success stories of the 1970s and 1980s (Saudi Arabia, Singapore, Malaysia, Thailand, Indonesia, Turkey, and China, among others) did not score high on the 1991 Human Freedom Index compiled by the United Nations Development Program (UNDP).²⁴

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

The Millennium Development Goals

In September 2000, the 189 member countries of the United Nations adopted eight Millennium Development Goals (MDGs), committing themselves to making substantial progress toward the eradication of poverty and achieving other human development goals by the year 2015. The MDGs are the strongest statement yet of the international commitment to ending global poverty. They acknowledge the multi-dimensional nature of development and poverty alleviation; an end to poverty requires more than just increasing incomes of the poor. Although some observers still suspect that the MDGs will amount to no more than just another UN proclamation of worthy goals, by the first five-year review in 2005, these goals had become central to the way governments, international development agencies, and nongovernmen-

tal organizations carry out their development efforts. Although if current trends continue, few of the goals will be achieved by 2015, the MDGs have provided a unified focus in the development community unlike anything that preceded them.²⁵

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.

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 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.

Unfortunately, according to the UNDP's 2003 *Human Development Report*, in the 1990s, income poverty increased in 37 countries, and hunger increased in 21 countries. Sub-Saharan Africa is not only off track, but income poverty is actually *increasing* in this the poorest region of the world. And while South Asia is on track to halve income poverty, current trends indicate that hunger will not be halved in that part of the world until at least a century from now. Very little progress is being made in Latin America. In contrast, East Asia has already nearly met these two targets, although some observers fear that the region remains vulnerable to a potential economic crisis in China.

Other targets include reducing by two-thirds the mortality rate among children under 5, reducing by three-quarters the incidence of women dying in childbirth, and eliminating gender disparities in school enrollment. The goal of ensuring environmental sustainability is also 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 to 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. The goals and targets are found in Box 1.2.

BOX 2 Millennium Development Goals: Themes and Targets

- 1. Eradicate extreme poverty and hunger**
Target for 2015: Halve the proportion of people living on less than \$1 a day and those who suffer from hunger.
- 2. Achieve universal primary education**
Target for 2015: Ensure that all boys and girls complete primary school.
- 3. Promote gender equality and empower women**
Targets for 2005: Eliminate gender disparities in primary and secondary education (preferred).
Targets for 2015: Eliminate gender disparities at all levels.
- 4. Reduce child mortality**
Target for 2015: Reduce by two-thirds the mortality rate among children under 5.
- 5. Improve maternal health**
Target for 2015: Reduce by three-quarters the ratio of women dying in childbirth.
- 6. Combat HIV/AIDS, malaria, and other diseases**
Target for 2015: Halt and begin to reverse the spread of HIV/AIDS and the incidence of malaria and other major diseases.
- 7. Ensure environmental sustainability**
General target: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.
Target for 2015: Reduce by half the proportion of people without access to safe drinking water.
Target for 2020: Achieve significant improvement in the lives of at least 100 million slum dwellers.
- 8. Develop a global partnership for development**
Targets:
 - Develop further an open trading and financial system that includes a commitment to good governance, development, and poverty reduction, nationally and internationally.
 - Address the least developed countries' special needs and the special needs of landlocked and small-island developing states.
 - Deal comprehensively with developing countries' debt problems.
 - Develop 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 technologies.

Source: United Nations Development Program (UNDP), <http://www.undp.org/mdg>.

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. As such, 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. Otherwise, the gap between aspiration and reality will continue to widen with each passing year. It is for this reason that the public sector has assumed a much broader and more determining role in development economics than it has in traditional neoclassical economic analysis.

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 at the end of the chapter and will continue to explore these definitions throughout the book.

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 we 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.

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 largely run by the government—most share common problems that define their underdevelopment. We will discuss these diverse structures and common characteristics of LDCs in Chapter 2.

The oil price shocks of the 1970s, the foreign-debt crisis of the 1980s, the economic globalization and environmental concerns of the 1990s, and the tragedy and aftermath of September 11, 2001, have underlined the growing interdependence of all nations and peoples in the international social system. What happens to life in Caracas, Cairo, and Calcutta 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.”