Economics, Institutions, and Development: A Global Perspective

While humanity shares one planet, it is a planet on which there are two worlds, the world of the rich and the world of the poor.

Raanan Weitz, 1986

23 percent of the world's people . . . earn 85 percent of the world's income. . . . In 1990 the richest 20 percent of the world's population were getting 60 times more income than the poorest 20 percent. United Nations Development Program,

Human Development Report, 1992

Development is the most important challenge facing the human race. World Bank, World Development

Report, 1991

How the Other Three-Quarters 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 more than three-fourths of the earth's 5.5 billion people, are much less fortunate. They may have little or no shelter and an inadequate food supply. Their health is poor, they cannot read or write, they are unemployed, and their prospects for a better life are bleak or uncertain at best. 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 approxi-

mately $30,000 to $40,000. They would live in a reasonably comfortable city apartment or a suburban house with a small garden. 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 Taiwan. There would always be three meals a day, and many of the food products would be imported from overseas: coffee from Brazil, Kenya, or Colombia; canned fish and fruit from Peru, Japan, 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 72 to 76 years.

On the surface, 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. But 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 rapidly disappearing with the onslaught of economic progress and environmental decay. But on the whole, theirs is an economic status and life-style toward which many millions of other less fortunate people throughout the world seem to be aspiring.

Now let us examine a typical "extended" family in rural Asia. The Asian household is likely to comprise 10 or more people, including parents, five to seven children, two grandparents, and some aunts and uncles. They have a combined annual income, in money and in "kind" (i.e., they consume a share of the food they grow), of $250 to $300. Together they live in a poorly constructed one-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 the older children must work all day on the land. None of the adults can read or write; of the five school-age children, only one attends school regularly, and he cannot expect to proceed beyond three or four years of primary education. There is only one meal a day; it rarely changes, and it is rarely sufficient to alleviate the children's constant 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 that we were now to visit a large and beautiful city situated along the coast of South America. We would

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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 *favela,* or 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 business people. 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 seven illiterate children spend their time out on the streets begging for money, shining shoes, or occasionally even trying to steal purses from unsuspecting people who stroll along the boulevard. The father migrated to the city from the rural hinterland 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 $200 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 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

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families, all participating in and sharing the work. There is no money income here because all food, clothing, shelter, and worldly goods are made and consumed by the people themselves—theirs is a **subsistence economy.** There are no roads, schools, hospitals, electric wires, or water supplies, and life here seems to be much as it must have been thousands of years ago. 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 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 tropical 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 will become a prized possession in this African village. Throughout the world, remote subsistence villages such as this one are gradually but inexorably being linked up with modern civilization. The process is now well under way and will become even more intensified in the coming years.

This first fleeting glimpse at life in different parts of our planet is sufficient to raise various questions. Why does such obvious affluence coexist with such dire poverty not only across different continents but also within the same country or even the same city? How 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.[i]

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 three-quarters of the world's population for whom poverty and low levels of living are a fact of life. However, as we shall soon discover, the development process in Third World nations cannot be analyzed realistically without also considering the role of economically developed nations in directly or indirectly promoting or retarding that development. Perhaps even more important to students in the developed nations is a fact that we noted in the

introduction, namely, 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 hows and whys of this growing 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 1990s 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 four 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 is, 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. 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 analytic and methodological identity. Development economics is not the same as the economics of advanced capitalist nations (modem "neoclassical" economics). Nor is it similar to the economics of centralized socialist societies ("Marxist" or "command" economics). It is nothing more or less-than the economics of contemporary poor, underdeveloped. Third World nations with varying ideological

Economics and Development Studies orientations, diverse cultural back- grounds, and very complex yet similar economic problems that usually demand new ideas and novel approaches. The awarding of the 1979 Nobel Prize in economics to two eminent development economists, W. Arthur Lewis of Princeton University and Professor 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. 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 will look at the diverse structure and common characteristics 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 re- sources over time so as to produce an ever-expanding range of goods and services. By traditional economics we simply mean the classical and neoclassical economics taught in mostly American and British 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 exclusively for their own benefit 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 masses of poverty-stricken, malnourished, and illiterate peoples of Africa, Asia, and Latin America. 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, 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 building a new nation in Africa, 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. As such, 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.

We who study or practice development economics must therefore be sensitive

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to the uniqueness and diversity of Third World societies. We must also recognize that there are few, if any, truly universal principles or "laws" of economics governing economic relationships that are immutable at all times and in all places. There are at best only tendencies. For example, increased consumer demand *tends to* elicit a greater quantity supplied. But as we shall discover later, conditions exist in many developing countries under which this positive supply response may not operate.

Because of the heterogeneity of the Third World, there can also be no single development economics, no universal Third World economics applicable to any or all LDCs. Rather, 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. Today development economics is a field on the crest of a breaking wave, with new theories and new data continuously emerging. These theories and statistics sometimes confirm and sometimes challenge traditional ways of viewing the world. The ultimate purpose of development economics, however, remains constant: to help us better understand Third World economies in order to help improve the material lives of three-quarters 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 Third World nations. The following is a sample list of 20 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 I and 3)

2. What are the sources of national and international economic growth? Who benefits from such growth and why? Why do a few poor countries make rapid progress toward development while the majority remain abjectly poor? (Chapters 2, 4, and 5)

3. Which are the most influential theories of development and are they compatible? Is underdevelopment an internally (domestically) or externally (internationally) induced phenomenon? (Chapter 3)

4. 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 4)

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5. How can improvement in the role and status of women have an especially beneficial impact on development prospects? (Chapters 5, 6, 8, 9, and II)

6. 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)

7. Why is there so much unemployment in the Third 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? (Chapters 7 and 8)

8. As 70% to 80% 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)

9. 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? (Chapters 10 and 18)

10. Do Third World educational systems 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 II)

11. 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)

12. How did Third World 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 13)

13. Should exports of primary products such as agricultural commodities be promoted, or should all LDCs attempt to industrialize by developing their own heavy manufacturing industries as rapidly as possible? (Chapter 14)

14. When and under what conditions should Third World 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)

15. 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? (Chapters 15 and 18)

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16. 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)

17. Are free markets and economic privatization the answer to development problems, or do Third World governments still have major roles to play in their economies? (Chapters 16 and 18) 18. What is the role of financial and fiscal policy in promoting development? Do large military expenditures stimulate or retard economic growth? (Chapter 17)

18. How will the economic transition from communism to capitalism in the former Soviet Union and Eastern Europe affect international private investment and foreign aid to the Third World? (Chapter 18)

19. What are the most significant issues facing the developing world in the 1990s? Will greater global interdependence between First and Third World nations help or hinder development prospects? (Chapter 18)

These and many similar questions are analyzed and explored in the following chapters. 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 analytic principles and reliable statistical information. Because the problems of Third World 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). Because they are social scientists, economists face the somewhat unusual situation in which the objects of their studies—human beings in the ordinary business of life—and their own activities are rooted in the same social context. Unlike the physical sciences, the social science of economics can claim neither scientific laws nor universal truths. As mentioned earlier, in economics there can only be tendencies, and even these are subject to great variations in different countries and cultures and at different times. Many so-called general economic models are in fact based on a set of implicit

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assumptions about human behavior and economic relationships that may have little or no connection with the realities of developing economies. To this extent, their generality and objectivity may be more assumed than real. 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, therefore, 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, grass-roots 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 opposite 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 Parts II and III 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 there- fore 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 integral component both of 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 that one's value premises, especially in the field of development economics, always be made clear.[ii]

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

Economics and economic systems, especially in the Third 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 so-called economic and non- economic factors. The latter include attitudes toward life, work, and authority; public and private bureaucratic 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.

Throughout this book we shall discover that resolving development 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 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, has 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.[iii]

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

As we shall see in Parts H, III, and IV, many of the failures of development policies in Third World nations have occurred precisely because these noneconomic variables (e.g., the role of traditional property rights in allocating re- sources and distributing income or the influence of religion on attitudes toward modernization and family planning) were intentionally or unintentionally 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 at the outset that we have some working definition or core perspective on its meaning. Without such a perspective and some agreed-on 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.

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 product (GNP) at rates of perhaps 5% to 7% or more. (A measure similar to GNP, known as the *gross domestic product*, or GDP, is also used. The difference between GNP and GDP will be explained in Chapter 2.) A common alternative economic index of development has been the use of rates of growth of income per capita or per capita GNP 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 GNP (monetary growth of GNP 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. Finally, these principal economic measures of development have often been supplemented by casual reference to noneconomic **social indicators:** gains in literacy, schooling, health conditions and services, and provision of housing, for instance. A description of various attempts to generate these social indicators of development to supplement per capita GNP—in particular, the United Nations' new Human Development Index—is presented in Appendix 2.1 at the end of Chapter 2.

On the whole, therefore, prior to the 1970s, development was nearly always seen as an economic phenomenon in which rapid gains in overall and per capita GNP 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, unemployment, and income distribution were of secondary importance to "get- ting the growth job done."

The New Economic View of Development

The experience of the 1950s and 1960s, when many Third World nations did realize 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 now clamored for the "dethronement of GNP" and the elevation of 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. Professor 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.[iv]

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 worsened further as GNP growth rates turned negative for many LDCs and governments, faced with mounting foreign-debt problems, were forced to cut back on their already limited social and economic programs.

But the phenomenon of development or the existence of a chronic state of underdevelopment is not merely a question of economics or even one of quantitative measurement of incomes, employment, and inequality. 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 so 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 hous-

> ing, 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."*[v]

In a 1987 book, Edgar Owens advanced a similar argument: Development has been treated by economists as if it were nothing more than an exercise in applied economics, unrelated to political ideas, forms of government, and the role of people in society. It is high time we combine political and economic theory to consider not just ways in which societies can become more productive but the quality of the societies which are supposed to become more productive—the development of people rather than the development of things.[vi]

Even 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.[vii]

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."

Three Core Values of Development

Is it possible 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 and humankind, one that must be periodically reevaluated and answered afresh in the changing environment of world society. The appropriate answer for Third World nations in the last decade of the twentieth century is not necessarily the same as it would have been in previous decades. But we agree with Professor Goulet and others that at least three basic components or core values should 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.[viii] 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.[ix] 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."" 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.[x]

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 Third World 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." Again, we quote Professor Goulet:

> The relevant point is that underdevelopment is the lot of the majority of the world's population. As long as esteem or respect was dispensed on grounds other than material achievement, it was possible to resign

> oneself to poverty without feeling disdained. Conversely, once the prevailing image of the better life includes material welfare as one of its essential ingredients it becomes difficult for the materially "underdeveloped" to feel respected or esteemed. . . . Nowadays the Third World seeks development in order to gain the esteem which is denied to societies living in a state of disgraceful "underdevelopment." . . Development is legitimized as a goal because it is an important, perhaps even an indispensable, way of gaining esteem. [xi]

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 under- stood 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. 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 concluded that "the advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice."[xii] 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 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.[xiii] Some of the most notable economic success stories of the 1970s and 1980s (Saudi Arabia, Chile, South Korea, Singapore, Malaysia, Thailand, Indonesia, Turkey, and China, among others) did not score highly on the 1991 Human Freedom Index compiled by the United Nations Development Program (UNDP)." [xiv]

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 humanistic 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

Summary and 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 levels of living for the masses of poor people in Third World 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 the shortest possible 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 use and deployment of scarce global food and natural resource supplies. 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 administration; 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.

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 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, and the environmental concerns of the 1990s have underlined the increasing dependence of rich nations on poor ones and thus the growing interdependence of all nations and peoples within 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 Moscow. It was once said that "when the United States sneezes, the world catches pneumonia." A more fitting expression for the 1990s would perhaps be "The world is like the human body: If one part aches, the rest will feel it; if many parts hurt, the whole will suffer."

Third World nations constitute these "many parts" of the global organism. The nature and character of their future development, therefore, should be a major concern of *all* nations irrespective of political, ideological, or economic orientation. In the last decade of the twentieth century and into the twenty-first, 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."

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Case Study: The Economy of Brazil

Geographic, Social, and Economic Indicators

Capital	Brasilia
Area	8,511,965 km^2
Population	150.8 million (1992)
GNP per capita	U.S. $2,680 (1990)
Population (average annual growth rate)	2.2% (1980-1990)
GNP per capita (average annual growthrate)	0.6% (1980-1990)
Agriculture as share of GDP	9% (1990)
Infant mortality rate (per 1,000 live births)	69 (1992)
Daily calorie supply per capita	2,709 (1988)
Primary school enrollment rate	95% (1989)
Illiteracy rate	(age 15+) 19% (1990)
Human Development Index	0.74 (medium)+ (1990)

Brazil occupies nearly half the total area of South America. To the north, west, And south it borders every South American country except Chile and Ecuador. To the east it has 13,490 kilometers of South Atlantic coastline. With an area of 8.5 million square kilometers, it is the largest country in Latin America and the fifth largest in the world.

About one half of Brazil is covered by forests. This includes the largest rain forest in the world. Brazil's terrain includes these dense forests, semiarid scrubland, rugged hills and mountains, plains, and a large coastal strip. Its climate is basically tropical or semitropical. Unfortunately, its soil has little agricultural value (only 17% of the land is arable), and the soil is often exhausted after only a few years of farming Its grasslands are also not very fertile and are better suited to pasture than cultivation.

Brazil is the most populated country in Latin America, with more than 150 million people in 1992. It has a growth rate of 2.2%, which means that the annual population increase is 3.1 million. It ranks as the sixth most populated country in the world. More than 65% of the population lives in urban areas where growth has been very rapid. Undoubtedly, this urbanization has aided the country's economic development, but along with it has come the growth of huge slums and shantytowns. The *favelas* of Rio de Janeiro are a good example of such communities. Most of these communities lack sewage systems, electricity, and clean water. These settlements often account for more than 60% of the total urban population. In addition, as in most other developing countries, the cities in Brazil are unable to create enough jobs to absorb such a large population. Thus there is high unemployment, and many people resort to activities such as street vending, drug peddling, and prostitution. If we take the city of Sao Paulo as an example, we find that 43% of its urban labor force is

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in this "informal" sector of the economy (see Chapter 8). Informal-sector activities include such self-employed jobs as hawking and junk collecting, as well as jobs as mechanics, barbers, and personal servants. Incomes are much lower in this sector, and there is no job or old-age security. Most people try to obtain just enough income for daily survival. There is a high degree of income inequality in Brazil. At times Brazil has had a booming economy. Yet during these years of prosperity, most Brazilians have benefited very little. Some people make huge profits thanks to the low industrial wages, while urban workers are left on the margin of poverty. This inequality is evident from data on income distribution. For example, the poorest 20% of the Brazilian population receives only 2% of the nation's income, while the highest 10% receive 50.6% of the income and the top 20% account for fully 66.6%.

Brazil is one of the **newly industrializing countries** (NICs). Its industrial development has been largely located in the southeastern states of Rio de Janeiro, Sao Paulo, Parana, and Rio Grande do Sul, but it is now expanding to the northeast and the far west. Industry has been the greatest contributor to Brazil's economic growth for at least a decade; today it accounts for nearly 35% of GNP and 60% of exports. Transportation, power, and communications systems such as television and radio have greatly improved within the past few years. The country has a large and increasingly sophisticated industrial base, ranging from basic industries such as steel, chemicals, and petrochemicals to finished consumer goods and extensive military hardware. It is also one of the world's largest producers of hydroelectric power and has begun working with nuclear reactors.

The agricultural sector incorporates 26% of Brazil's population, accounting for 9% of its GDP and almost 40% of its exports. In 1953 coffee made up 80% of total exports; 20 years later it accounted for only 20% with other products such as cocoa, soy, iron ore, and various industrialized goods becoming dominant. Today Brazil remains the world's largest exporter of coffee and the second largest exporter of cocoa and soybeans. It exports sugar, meat, and cotton and is also the largest exporter of orange juice concentrate. Brazil has tried to widen its agricultural exports and has expanded the cultivation of sugarcane, which is the raw material used in making the ethyl alcohol fuel that now powers more than half of the country's automobiles. This new focus on alcohol fuel was a result of Brazil's effort to reduce its dependence on imported oil. As a result, Brazil's oil imports have fallen by 50%.

Brazil is also fortunate to be well endowed with mineral resources such as iron ore, manganese, nickel, tin, chromite, bauxite, beryllium, copper, lead, tungsten, zinc, and gold. These resources serve as raw materials for local industries as well as export earnings. But even though Brazil is endowed with such abundant natural resources, a huge territory, and a sophisticated industrial sector, it is perhaps best known today for the challenges it faces.

Brazil faces major economic problems in the 1990s. The following are just a few of the issues it must contend with: *Inflation*. Inflation was 2,968% in 1990 and has continued unabated. The basic causes have been large public deficits at the federal and state levels and deficits incurred by state-owned companies.

Foreign debt As a result of foreign borrowing, including borrowing from private commercial banks and the World Bank, the country's foreign debt in 1992 stood at $123 billion, the highest in the Third World.

Declining real incomes Real incomes have been declining among Brazil's middle and lower classes. Fully 65% of Brazilians earn a minimum salary of less than $40 per month. During the 1980s, the economy stagnated,

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with no real growth, while real wages fell by 30%.

Declining foreign investment Foreign investment has declined from an average of $2 billion in the 1970s to $500 million per year in 1988. In fact, in the late 1980s and early 1990s, Brazilians were sending more money abroad as interest payments on foreign debt and in capital flight than they were receiving as foreign investment and foreign aid.

Increasing capital flight It has been estimated that between $6 and $10 billion is fleeing Brazil each year. At least $30 billion is believed to be held outside the country.

Declining exports In 1984, Brazil had a record trade surplus of $13 billion, which was down to $11 billion in 1990.

A dominant state-owned sector The state continues to play a dominant role in the economy. State-owned companies account for 45% of Brazil's GNP. The state also runs private business with extensive regulations such as price controls and wage policies.

Stringent import barriers Until recently, no product could be imported if it was also produced domestically, 'even if the domestic price was higher. A stubborn refusal to recognize patents has discouraged foreign investors.

Environmental damage Brazil's pursuit of rapid growth at any cost has inflicted severe environmental damage on the economy, especially in the Amazon basin, the world's largest remaining tropical rain forest and a critical preserve of global biological diversity. Yet Brazil served as the host country to the United Nations Conference on Environment and Development (UNCED), also known as the Earth Summit, in June 1992 (see Chapter 18).

Some analysts argue that Brazil's enormous resources will help it rectify some of its most pressing problems, such as its huge foreign debt. It has mineral reserves, a large labor force, and a solid industrial base. It therefore has the potential to be one of the world's largest markets. But without the proper economic polices, there will be little improvement. In 1991 a new government instituted numerous policy changes, including administrative and financial reforms, designed to allow the economy to resume steady growth. The severe crisis in the public sector led officials to sell off a number of state companies to private investors. To attract foreign investment, Brazil lowered tariffs on imports so that the number of imports that were banned on the basis that similar items were produced locally was cut from 4,000 to 600. Finally, the government instituted a severe austerity program, which was designed to attack the basic cause of inflation, the large budget deficit, by increasing tax revenues and cutting back on government spending. Although the early results of this program caused the economy to weaken considerably and widespread corruption led to the resignation of the president in 1993, the new government of Brazil was confident that in the long run, economic growth would once again accelerate.

* *The single-country case studies in this book are based on a number of sources, principally U.S. Department of State, Bureau of Public Affairs, Background Notes (Washington, D.C.), various years. Data are from World Bank, Trends in Developing Countries. 1991 (Washington, D.C.: World Bank, 1991); World Bank, World Development Report, 1992: Development and the Environment (New York: Oxford University Press, 1992); World Bank, The World Bank Atlas.1991 (Washington, D.C.: World Bank, 1991); United Nations Development Program, Human Development Report, 1992 (New York: Oxford University Press, 1992); and Population Reference Bureau, 1992 World Population Data Sheet (Washington, D.C.: Population Reference Bureau, 1992).*

\+ *The Human Development Index (HDI) is a composite indicator of socioeconomic development giving a relative ranking of all LDCs on a scale of 0.0 (lowest) to 1.0 (highest) based on a methodology calculated by the United Nations Development Program (UNDP); see Appendix 2.1 at the end of Chapter 2 for a discussion of the index. In each case study, we give the country's HDI rating and its relative rank (high, medium, or low) on the HDI scale.*

Concepts for Review

See the Glossary as well as the chapter text for most concept definitions.

Development

Development economics

Freedom

Gross national product (GNP)

Income per capita

Institutions

Less developed countries (LDCs)

Political economy

Self-esteem

Social indicators

Social system

Subsistence economy

Sustenance

Third World

More developed countries (MDCs)

Newly industrializing countries (NICs)

Noneconomic variables

Per capita GNP

Traditional economics

Value premises

Values

Questions for Discussion

1. Why is economics central to an understanding of the problems of Third World development?

2. Is the concept of the Third World a useful one? Why or why not?

3. What do you hope to gain from this course on development economics (besides a passing grade)?

4. Briefly describe the various definitions of the meaning of *development* encountered in the text. What are the strengths and weaknesses of each approach? Do you think that there are other dimensions of development not mentioned in the text? If so, describe them. If not, explain why you believe that the textual description of the meaning of development is adequate.

5. Why is a strictly economic definition of development inadequate? What do you understand *economic development* to mean? Can you give hypothetical or real examples of situations in which a country may be developing economically but still be underdeveloped?

6. Why is an understanding of the meaning of development crucial to policy formulation in Third World nations? Do you think it is possible for a nation to agree on a rough definition of development and orient its strategies-for achieving these objectives accordingly? What might be some of the roadblocks or constraints—both economic and noneconomic—to realizing these development objectives?

7. Do you think that the wide diversity of living conditions revealed in our brief trip around the world at the start of this chapter can also be found within most Third World countries? What do we mean by the notion of different "levels of living"?

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Further Reading

On the complex question of the meaning of development and underdevelopment, see Dudley Seers, "The meaning of development," in Nancy Bastor (ed.). *Measuring Development: The Role and Adequacy of Development Indicators* (London: Frank Cass, 1972); Gunnar Myrdal, *The Challenge of World Poverty* (New York: Pantheon, 1970), chap. 1-4; Celso Furtado, *Development and Underdevelopment* (Berkeley: University of California Press, 1964), especially chap. 4; Denis Goulet, *The Cruel Choice: A New Concept in the Theory of Development* (New York: Atheneum, 1971), chap. 2; lrma Adelman, "Development economics: A reassessment of goals," *American Economic Review* 65 (June 1975); Norman L. Hicks and Paul P. Streeten, "Indicators of development: The search for a basic needs yardstick," *World Development 7* (June 1979); Howard J. Wiarda, 'Towards a nonethnocentric theory of development: Alternative conceptions from the Third World," *Journal of Developing Areas* 17 (July 1983); and United Nations Development Program, *Human Development Report, 1992* (New York: Oxford University Press, 1992), chaps. I and 2. Two very useful introductions to the economies and societies of the Third World can be found in Paul Harrison, *Inside the Third World* (New York: Penguin, 1982), and John P. Cole, *Development and Underdevelopment: A Profile of the Third World* (London: Routledge, 1987).

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[i] An informative book on life in Third World nations is Paul Harrison, *Inside the Third World* (New York: Penguin, 1982).

[ii] For a provocative dissection of the role of values in development economics, see Gunnar Myrdal, *The Challenge of World Poverty* (New York: Pantheon, 1970), chap. 1. A more general critique of the idea that economics can be "value-free" is to be found in Robert Heilbroner's "Economics as a 'value-free' science," *Social Research 40* (Spring 1973): 129-143, and his *Behind the Veil of Economics* (New York: Norton, 1988). See also Dwight Perkins, "Economic development: The role of values," in Robert}. Myers (ed.). *International Ethics in the Nuclear Age* (Baton Rouge, La.: Louisiana State University Press, 1987), chap. 8.

[iii] Soedjatmoko, *The Primacy of Freedom in Development* (Lanham, Md.: University Press of America, 1985), p. II.

[iv] Dudley Seers, "The meaning of development," presented at the Eleventh World Conference of the Society for International Development, New Delhi (1969), p. 3.

[v] Denis Goulet, *The Cruel Choice: A New Concept in the Theory of Development* (New York: Atheneum, 1971), p. 23.

[vi] Edgar Owens, The Future of Freedom in the Developing World: Economic Development as Political Reform (New York: Pergamon Press, 1987), p. xv.

[vii] World Bank, *World Development Report, 1991* (New York: Oxford University Press, 1991), p. 4.

[viii] Goulet, *Cruel Choice,* pp. 87-94.

[ix] For a description of the "basic needs" approach, see Pradip K. Ghosh (ed.). *Third World Development: A Basic Needs Approach* (Westport, Conn.: Greenwood Press, 1984).

[x] Goulet, *Cruel Choice,* p. 124.

[xi] For an attempt to specify and quantify the concept of basic needs, see International Labor Organization, *Employment, Growth, and Basic Needs* (Geneva: ILO, 1976). A similar view with a focus on the notion of entitlements can be found in Amartya Sen, "Development: Which way now?" *Economic Journal* 93 (December 1983): 754-757.

[xii] Goulet, *Cruel Choice,* pp. 89, 90. For an even more provocative discussion of the meaning of individual self-esteem and respect in the context of Latin American development, see Paulo Freire, *Pedagogy of the Oppressed* (Harmondsworth, England: Penguin, 1972).

[xiii] W. Arthur Lewis, "Is economic growth desirable?" in The Theory of Economic *Growth* (London: Alien & Unwin, 1963), p. 420. For an outstanding and thoughtful analysis of the importance of freedom in development by a leading Third World intellectual, see Soedjatmoko, *Primacy of freedom in Development.* See also Owens, *future of freedom.*

[xiv] For an interesting attempt to measure political freedom quantitatively and to rank groups of nations according to a "political freedom index," see United Nations Development Program, *Human Development Report, 1992* (New York: Oxford University Press, 1992), pp. 26-33. 15. Ibid., p. 20.