

## HS5.201 Growth and Development

### Class Notes: Lecture 6

#### **A Short History of the Evolution of Development Thought**

##### **DEVELOPMENT - A PRE-HISTORY**

- The state of the backward regions in the world in the early 20th century
- The Legacy of Colonialism
- The League of Nations in the post-WWI period and the mandate over newly available territories
- Dual objectives of "moral and material development" of the natives and the Development of natural resources for the world's benefit.

##### **After the WWII**

- The devastation of Europe and the emergence of the UA and the USSR as the two superpowers
- Beginning of reconstruction with the US-financed Marshall Plan
- Colonialism was losing its steam
- Most of the third world had developed vibrant pro-independence movements.

##### **President Truman's Point Four and Development:**

- Inaugural address by President Truman, where he said:  
"Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas."
- Although this point was a last-minute addition of the speechwriter, it brought about the first formal recognition of the agenda of 'development'.
- Fourth, we must embark on a bold new program to make the benefits of our scientific advances and industrial progress available to improve and grow underdeveloped areas.
- More than half the world's people are living in conditions approaching misery. Their food is inadequate. They are victims of the disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat to them and more prosperous areas.
- For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people.
- The United States is pre-eminent among nations in developing industrial and scientific techniques. The material resources we can afford to use for the assistance of other people are limited. But our imponderable resources in technical knowledge are constantly growing and are inexhaustible.
- Let us make available to peace-loving people the benefits of our store of technical knowledge to help them realize their aspirations for a better life. And, in cooperation with other nations, we should foster capital investment in areas needing Development.
- Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, clothing, housing materials, and mechanical power to lighten their burdens.
- We invite other countries to pool their technological resources in this undertaking. Their contributions will be warmly welcomed. This should be a cooperative enterprise where all nations work together through the United Nations and its specialized agencies wherever practicable. It must be a worldwide effort to achieve peace, plenty, and freedom.

- This program can significantly increase industrial activity in other nations with the cooperation of business, private capital, agriculture, and labour in this country. It can raise substantially their standards of living.
- Such new economic developments must be devised and controlled to benefit the people of the areas in which they are established. Guarantees to the investor must be balanced by guarantees in the interest of the people whose resources and labour go into these developments.
- The old imperialism--exploitation for foreign profit--has no place in our plans. We envisage a program of Development based on the concepts of democratic fair dealing.
- All countries, including ours, will significantly benefit from a constructive program to better use the world's human and natural resources. Experience shows that our commerce with other countries expands as they progress industrially and economically.
- More excellent production is the key to prosperity and peace. And the key to more outstanding production is a broader and vigorous application of modern scientific and technical knowledge.
- Only by helping the least fortunate of its members to help themselves can the human family achieve the decent, satisfying life that is the right of all people.
- Democracy alone can supply the vitalizing force to stir the world's peoples into triumphant action against their human oppressors but also against their ancient enemies-- hunger, misery, and despair.
- Based on these four significant courses of action, we hope to help create the conditions that will eventually lead to personal freedom and happiness for all mankind.
- If we are to carry out these policies successfully, it is clear that we must have continued prosperity in this country and keep ourselves strong.

#### **Development and Underdevelopment:**

- The advent of 'underdevelopment' as a concept to replace 'backwardness.'
- 'Underdevelopment' implied more of incomplete or unfinished Development rather than the absence of it
- Development, therefore, emerged as a transitive verb that implied some active intervention
- On the other hand, underdevelopment was more of a natural state to start with; it was not possible 'to underdevelop.'

#### **The transition from colonialism:**

- The difference between the coloniser/colonised dichotomy and the developed/underdeveloped one
- The question of sovereignty
- The involvement of external forces was possible but not necessary
- The issue of the well-being of the population was much more central (albeit in an average sense)
- The exploitation of local resources for global well-being was no longer an explicit agenda
- The new role of the USA in the political economy of Development: the idea of Neo-colonialism

#### **The Metric of Development:**

- The move from the rhetoric of 'advanced' or 'civilised' nations to developed ones
- Social, cultural or political parameters were replaced by more 'objective' measures of economic progress-GNP or per capita income
- The earlier hierarchy was almost perfectly mapped into a new one that categorised countries based on their precise level of economic Development

### **The Apparatus of International Development:**

- Demands from the third world countries: Asian-African conference in Bandung, Indonesia(1955)
- Emphasis on cooperation as well as the need for external assistance
- Recommendation of setting up UN Development Fund, IFC
- Setting up notable UN organisations (e.g. Expanded Programme of Technical Assistance, which later became the UNDP)
- Reorienting existing organisations towards Development ( ILO, World Bank)
- Development cooperation departments of the first world countries (USAID, DFID etc.)

### **Development Economics: Birth of a new field**

- Traced back to several writings in the 1940s and 1950s
- Rosenstein -Rodan(1943), Lewis(1954), Nurkse(1951) and Hirschman(1957)
- The key objective was to increase per capita income through rapid capital accumulation via industrialisation.
- The analytical unit was the macroeconomy and the sectors within (i.e. agriculture, industry etc.)
- The role of state intervention was critical to remove the bottlenecks in the way of industrialisation.
- Another salient feature of early Development was the role of physical and intellectual aid flowing from the first world to the third world.

### **Development Economics: How is it different?**

- Is development economics simply an economics principle applied to poorer countries?
- The pioneers of early development economics would disagree.
- The reality of underdeveloped societies regarding their structure and socio-economic processes needed a different theoretical framework.
- For example, markets for various commodities did not exist or were not functional as per the norms of standard economic theory.
- Scarcity of physical and human capital and surplus of labour defined underdeveloped societies.
- Very importantly, there was a clear mandate for development economics to help countries' develop'. So, the policy dimension was intrinsic to this field, unlike traditional economics.

### **Development and Economic Growth**

- The Relation between Growth and Development
- Growth as Development vs Growth as Means of Development
- Development was conceived as something more than growth, but growth was central to attaining Development
- Other aspects of well-being (besides income) were important so long as they furthered the growth objective (e.g. human capital theory)

### **Looking beyond Growth**

- The idea of social Development: focussing on social indicators as against economic ones
- Work of Hans Singer and other UN organisations in the 50s and 60s
- Statistical documentation of social indicators on health, education, nutrition etc
- However, the purpose was to check if these indicators kept up with the movement in income and not to focus policy on them

### **First Words of Dissent**

- Dudley Seers in 1969: Outright rejection of the growth objective
- Advocated direct emphasis on poverty, inequality and employment
- Mahbub-ul Haq in 1970: High growth does not guarantee poverty reduction
- The admission that the growth goal was wrong
- Goals must be redefined to include different social indicators
- Instead of growth being the means to end poverty, poverty reduction should be targeted to bring about growth.

### **What should replace growth as the significant development objective?**

#### **Alternative 1: Employment**

- In the early 1970s, the ILO focused on employment by 'dethroning' GNP.
- Coming out of ILO, the concern was natural.
- Statistical evidence was compiled, and employment missions were led to help governments design employment strategies.
- Missions to Kenya, Colombia and Sri Lanka
- Significant findings include the concentration of open unemployment in urban areas and an increasing number of working poor in rural areas.
- The exclusive focus on reducing unemployment was thus missing the target
- The main issue was to increase productivity, to make employment remunerative enough
- This makes the argument circular, as the primary determinant of income is productivity

#### **Alternative 2: Inequality and Poverty**

- Direct emphasis on quality of life for the poor in developing countries and the connection of poverty to distribution (McNamara, 1972)
- Growth of income among the poorest section of the population
- Redistribution with growth (World Bank, 1974)
- Redistribution in the static context was infeasible
- Issues around absolute and relative poverty
- The emergence of the poverty line in the discourse to identify the poor and direct attention towards them

### **Alternative 3: Basic Needs**

- Provide the minimum basket of food and other basic requirements to people experiencing poverty (ILO, 1975)
- "It is no longer acceptable in human terms or responsible in political terms to wait for several generations for the benefits of development to trickle down until they finally reach the poorest groups" (ILO, 1975)
- The debate around the possible trade-off between pursuing the 'basic needs approach and growth

### **Alternative 4: Human Development**

- Based on the capabilities approach of Sen
- It has put the spotlight on vital 'functionings' of life, like being healthy and educated and having freedom of expression and association
- The most popular use of the approach is in terms of the Human Development Indicators (HDI) developed by UNDP starting in 1990.
- It is one of the prime factors behind the renewed emphasis on the social sector in government policymaking.

### **Whither Economic Growth? The Reaction of the Developing Countries:**

- The problem with the employment-led approach: the focus on labour-intensive production and the possibility of sacrificing productivity
- The problem with the poverty/inequality approach: political status quo in the way of redistribution
- The problem with basic needs: it was thought to be detrimental to setting up the productive base of the economy and, therefore, to self-reliance
- Any problem that you can identify regarding the capabilities approach?