

An abstract, colorful map of the African continent is positioned in the upper right corner of the cover. The map is rendered in a vibrant, painterly style with a mix of green, yellow, orange, red, pink, and blue hues, giving it a textured, artistic appearance. The rest of the background is a solid, bright yellow.

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ECONOMIC DEVELOPMENT

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1 Introducing Economic Development: A Global Perspective

Two pictures of the developing world compete in the media for the public's attention. The first is misery in places such as rural Africa or unsanitary and overcrowded urban slums in South Asia. The second is extraordinary dynamism in places such as coastal China. Both pictures convey important parts of the great development drama. Living conditions are improving significantly in most, though not all, parts of the globe—if sometimes all too slowly and unevenly. The cumulative effect is that economic development has been giving rise to unprecedented global transformations. In this book we gain perspective on how much is yet to be achieved, and will appreciate how we have already come so far in reducing human misery—indeed, that is where many lessons are to be found on how to continue the progress of recent decades.

1.1 Introduction to Some of the World's Biggest Questions

The study of economic development raises some of the world's biggest questions. Why do living conditions differ so drastically for people across different countries and regions, with some so poor and others so rich? Why are there such disparities not only in income and wealth, but also in health, nutrition, education, freedom of choice, women's autonomy, environmental quality, access to markets, security, and political voice? Why is output per worker many times higher in some countries than others? Why do workers in some countries have fairly secure, formal jobs with regular, predictable pay, while in other countries such jobs are extremely scarce and most work in informal settings with fluctuating and insecure earnings? Why are populations growing rapidly in some countries, while on the verge of shrinking in others? Why are public services so inefficient, insufficient, and corrupt in some countries and so effective in others? Why have some formerly poor countries made so much progress, and others so comparatively little? How have child illness and death rates fallen so much in the world, and what can be done in places where they remain far higher than average? How can we measure the impacts that government policies and nongovernmental organisation (NGO) programmes make in improving the well-being of the poor and vulnerable; and what lessons have we learned? And how did such great divergences across countries come about? How does history matter?

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

Living standards strata Stylized sets of material living conditions; the 4-strata schema was created by Hans Rosling

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

These are among the fundamental questions of development economics. As Nobel Laureate Robert Lucas said of questions about disparities in income growth, “once one starts to think about them, it is hard to think about anything else.”¹

This text examines what lies behind the headline numbers, to appreciate the historical sweep of **development** patterns, presenting the necessary analytic tools and the most recent and reliable data—on challenges ranging from extreme poverty to international finance. This text examines key challenges faced by the spectrum of developing economies, from the least-developed countries to upper-middle-income nations striving to reach fully developed status. But, to begin, while significant progress in public health has occurred in almost all countries, even today the living standards of hundreds of millions of the world's poorest people have benefited little, if at all, from the rising global prosperity.

1.2 How Living Levels Differ Around the World

Average living conditions differ drastically, depending largely on where a person was born. We examine the evidence in detail throughout this text. Often, countries as a whole are divided into four groups based on their average levels of income or other standards of well-being, introduced in the following section. But first, to get a sense of the scope and individual meaning of these differences, consider brief vignettes of four “stylised strata” of **living standards** around the world.²

At the “bottom,” more than one billion people live in extreme income poverty, or suffer acute multidimensional deprivations in areas such as nutrition, health, and primary education, or both. The World Bank estimated in 2017 that 768.5 million—nearly three-quarters-of-a-billion people—subsist below the extreme poverty income line of \$1.90 per day adjusted for purchasing power (so it is actually like living on this amount in the United States).³ A typical person living in such extreme income poverty subsists on about \$1.40 per day.⁴ Taking account of whether a family has multiple simultaneous deprivations in health, nutrition, basic education, type of cooking fuel, sanitation, drinking water, housing materials, and a few very basic goods, in 2018 the United Nations estimated in its ‘Multidimensional Poverty Index’ that nearly 1.3 billion people live with acute deprivations.

One of the poorest communities may live in a remote rural area in the eastern part of Africa, where many clusters of small houses contain groups of extended families. A majority of the food is grown by the people who consume it; and shelter and furnishings are often made by those who use it—theirs is nearly a **subsistence economy**. There are few passable roads, particularly in the rainy season. The younger children attend school irregularly and, all too often, when they do get to school, the teacher is absent from the classroom. Some children of primary-school age are still not even enrolled. Primary schools may be very difficult to access, and many children have never seen a high school, let alone thought of attending one. There are no hospitals, electric wires, or improved water supplies. Water is collected in reused commercial buckets from a source

such as a spring or stream that is often contaminated; their walk to it in battered flip-flop sandals (if not bare feet) can be a kilometre or more, and it may take additional time waiting your turn. The children may be malnourished, suffering from conditions including *kwashiorkor* (protein deficiency). Food is cooked over an open fire in each mud house, the smoke escaping from a hole in the roof, and likely causing breathing problems. The food tends to be the same every meal, often lacking in protein and other vital nutrients. The floor may be rough mats over mud, on which the family sleeps. Parasites may gain entry to the house through the floor. When it rains, the roof may leak. It is a stark and difficult existence. In western Africa the geography, culture, and languages are different, but many of the conditions of poverty are strikingly similar. Such dire poverty can also still be found in areas of South Asia and elsewhere. More than three quarters of the extreme poor live in rural areas.

A typical person in the second-lowest of the “strata” is not officially classified as extremely poor, though from the perspective of an average person in a rich country they would be viewed as very poor indeed. In fact, a typical family in this stratum may live on about twice that line, \$3.80 per day per person. Close to 3 billion people may be thought of as living in this stratum. They are almost as likely to live in an urban area (or nearby lower-income peri-urban area) as in a rural area.⁵ However, their employment is probably informal, in companies not registered and without worker protections, or in their own small family enterprises. They get around with well-used but functioning bicycles. A majority of them no longer cook over open fires, but may use kerosene or some other improved energy source at least much of the time. They get their water from a tap, though it is typically outdoors and may be a considerable walk from their house; and in many cases the water is still unsafe without boiling and adding chlorine. The family usually has an improved floor, and often improved walls and roof, but the house is still somewhat subject to the elements. Their sleep is disrupted by seemingly constant noise. People in this strata likely suffer from one or more components of multidimensional poverty, though for at least 80% of them the number of their deprivations are not enough for them to be officially classified by the UN as “multidimensionally poor” (Chapter 5). Some of the “voices of the poor” are reported in Box 1.1.

A typical family in the second-highest of the strata may live on about \$15 per person per day. (More than three-quarters of the world lives on less than \$15 a day; this family is considered solidly middle income by global standards.) More than two billion people may be thought of as living in this strata. Such families typically live in urban areas. But their jobs are usually not very stable and are often informal. They cook on manufactured burners using kerosene if not electricity. They have a television in their house. They get around with a motorbike. The children are likely to survive early childhood. They probably attend some post-primary school, though they are unlikely to complete it. Most adults and many teenagers have a mobile phone, though there may be no smartphones. Their water is typically delivered through a tap to their house, though a majority do not have what people in the rich strata would consider full indoor plumbing. Their city is likely to exhibit very high inequality, with sharp contrasts in living conditions from one section of this sprawling metropolis to another. In a Latin American city, there would be a modern stretch of tall buildings and wide,

BOX 1.1 Development Policy: The Experience of Poverty: Voices of the Poor

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

—A poor woman from Uganda

For a poor person, everything is terrible—illness, humiliation, shame. We are 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

tree-lined boulevards perhaps along the edge of a well-maintained beach; just a few hundred meters back and up the side of a steep hill, squalid slum dwellings are pressed together. There, a slum-dwelling family struggles to keep food on the table. Most employment opportunities are precarious. Government assistance has recently helped this family keep the children in school longer. But lessons learned on the streets, where violent drug gangs hold sway, seem to be making a deeper impression. In sharp contrast, a wealthy family lives in a multi-room complex in a modern building. Their children attend university, perhaps in North America, and they enjoy annual vacations abroad, luxury automobiles, and designer clothing, and may give little thought to the struggling, deprived family cramped tightly into a small self-built dwelling, perhaps living on a hill that they can see from their seafront building.

Finally, close to a billion people live on the highest stratum, which most other people in the world consider rich. Most are certainly not millionaires, let alone ultra-rich; but they live very comfortably. A family in this stratum living in North America, Western Europe, or Japan might live on an income of perhaps \$75 per person per day. They work in formal jobs, generally with at least some protections. They may have a comfortable suburban house that has a small yard with a garden, and two cars. The dwelling would have many comfortable features, including often a separate bedroom for each child. They enjoy central air conditioning and/or central heating, as prompted by the climate. Full indoor plumbing is taken for granted. The house would be filled with numerous consumer goods, including high-speed internet connections to go with their smartphones, laptops, and home entertainment centres, along with an array of appliances

including stoves, refrigerators, dishwashers, and microwaves. They have access to fresh food year round (though they may eat fast foods instead). Both children would probably be healthy—except for a growing incidence of obesity and the problems it brings—and generally get good medical care if they need it. They would be attending school, where most would expect to complete their secondary education and, more likely than not, gain at least some post-secondary education; choose from a variety of careers to which they might be attracted; and live to an average age of close to 80 years. Many may feel their status is precarious, and are aware of the gulf between their life and that of the very rich; but most still work in formal jobs, generally with some protections. Although their lives would have ups and downs, and living standards do not always rise across generations, they face very little danger of falling below their stratum.

Many times, people born on one of these strata spend their lives on it, albeit typically making some progress within that general level. People at the lowest or second-lowest strata probably have some awareness of what life is like on the higher strata, from TV at the village centre if not at home, and wistfully think of attaining it, but it is generally viewed as out of reach.

Sometimes, truly transformative progress is highly visible and takes form in the course of a single person's life. Many of the clearest examples of this are found in China. Imagine a couple born in an obscure *zhuang* (rural area) in populous central Sichuan Province. They grew up in the 1960s, going to school for six years and becoming rice farmers like their parents. The rice grew well, but memories of famine were still sharp in their commune, where life was also hard during the Cultural Revolution. Their one daughter, let's call her Xiaoling, went to school for ten years. Much of the rice they and their commune grew went to the state at a price that never seemed high enough. After reforms in 1980, farmers were given rights to keep and sell more of their rice. Seeing the opportunity, they grew enough to meet government quotas and sold more of it. Many neighbours also raised vegetables to sell in a booming city 100 kilometres up the river and other towns. Living standards improved, though then their incomes stagnated for some years. But they heard about peasants moving first to cities in the south and recently to closer cities—making more money by becoming factory workers. When their daughter was 17, farmers from the village where the mother grew up were evicted from their land because it was close to lakes created by an immense dam project. Some were resettled, but others went to Shenzhen, Guangzhou, or Chongqing. Xiaoling talked with her family, saying she too wanted to move there for a while to earn more money. She found a city that had already grown to several million people, quickly finding a factory job. She lived in a dormitory, and conditions were often harsh, but she could send some money home and save toward a better life. She watched the city grow at double digits, becoming one of the developing world's new megacities, adding territories and people to reach over 15 million people. After a few years, Xiaoling opened a humble business, selling cosmetics and costume jewellery to the thousands of women from the countryside arriving every day. She has had five proposals of marriage, with parents of single men near where she grew up offering gifts, even an enormous house. She knows that many people still live in deep poverty and finds inequality in the city startling. For now she plans to stay, where she sees opportunities for her growing business and a life she never imagined having in her village.⁶

Box 1.2 illustrates some typical differences across the four strata of living conditions.⁷

BOX 1.2 Development Policy: Comparing Living Conditions Commonly Found Across Four Strata

Lowest Stratum: Extreme Poverty

- *Cooking:* Open fire, smoke exits through hole in the roof
- *Food and nutrition:* Food insecure, majority of food grown by family; often malnourished and among the 800 million people classified as hungry
- *Clothing:* Used, worn, may be inadequate; flip-flops or in many cases still bare feet
- *Education:* Majority now able to attend primary school, but may not complete it
- *Housing:* Self-constructed, natural or found materials, often mud; thatch roof, dirt floors with mats
- *Furnishings:* Any pallet or bed, table, chair, or shelf is self-constructed; no electricity
- *Water:* hand-carried in buckets from public, often unsanitary sources
- *Sanitation:* Pit latrine or open defecation
- *Transportation:* On foot

Second-Lowest Stratum

- *Cooking:* Basic, but typically use kerosene or some other improved energy source
- *Food and nutrition:* May be food insecure or vulnerable to falling into food insecurity
- *Clothing:* Inexpensive, often used clothing, not well fitting, perhaps inadequate for the weather; worn shoes and rubber-soled shoes
- *Education:* Children finish primary school; on average attend a couple years longer
- *Housing:* Partly and perhaps fully self-constructed; improved floor, corrugated tin roof
- *Furnishings:* Basic tables and seating; fans if electricity; power connection may be illegal and improvised
- *Water:* From a tap, typically outdoors and perhaps a 50-metre-plus walk; needs self-treating with chlorine or boiling
- *Sanitation:* Latrine
- *Transportation:* Bicycle

Second-Highest Stratum

- *Cooking:* Manufactured burners with improved fuel if not electric plates
- *Food and nutrition:* Usually food secure; but many vulnerable to fall into food insecurity
- *Clothing:* Inexpensive, though new when purchased, and worn or less-expensive shoes and sneakers; expensive clothes as social expectations rise
- *Education:* Children finish primary school; some finish secondary school
- *Housing:* Modest but better constructed, if not comfortable
- *Furnishings:* Electricity, purchased tables, chairs, beds; fans or even a room AC, space heater, a television
- *Water:* Piped directly to house site; may need treating
- *Sanitation:* Toilets, but many lack what the top stratum considers full indoor plumbing
- *Transportation:* Motor bike

Highest ("Rich") Stratum

- *Cooking:* Modern appliances including modern range, microwave, dishwasher
- *Food and nutrition:* Rich and diverse diet, though obesity may bring other health risks
- *Clothing:* Well-fitting, perhaps designer clothing; multiple, relatively new, comfortable dress and sports shoes
- *Education:* Children complete high school; on average attend at least one year of post-secondary education
- *Housing:* Modern, manufactured, professionally constructed
- *Furnishings:* House filled with consumer goods and durables, wifi, home entertainment centres
- *Water:* Safe water at taps throughout the house
- *Sanitation:* Hygienic, modern bathroom plumbing
- *Transportation:* A car per each adult; or in high density each person is assured reliable transportation alternatives

1.3 How Countries Are Classified by Their Average Levels of Development: A First Look

Countries are often classified by levels of income and human development, as we examine in detail in the next chapter. They are also grouped by levels of poverty, quality of governance, and many other dimensions, as we will see later in the text. We introduce these comparisons with differences in countries' average incomes—the most common way to do so (though income is usually an inadequate measure of well-being).

The World Bank classifies countries according to four ranges of average national income: Low, Lower-Middle, Upper-Middle, and High. There has been strong income growth in average incomes in a majority of low- and middle-income countries over the last several decades, and many low-income countries have been reclassified as middle-income countries. But, once again, a typical country may have people living at very different income levels, or living standards strata.

Of the world population of about 7.7 billion people in 2018, about 16% live in high-income countries (HICs). These countries have **Gross national income (GNI)** per capita of at least \$12,056. This is less than would be thought of as “upper income” in many HICs such as Japan, the United Kingdom, and the United States, with average incomes several times this level. Some countries included on the World Bank HIC list had average income that was only barely enough to reach the HIC threshold, such as Chile, Equatorial Guinea, and Hungary. But the average person in an HIC lives very well by global standards.⁸

After unprecedented growth in China, India, and Indonesia—each formerly a **Low-Income Country (LIC)**—more than 60% of the world's people now live in “middle-income countries.” To be classified as **upper-middle income (UMCs)** in 2018, a country needed GNI per capita between \$3,896–\$12,055. **Lower-middle income countries (LMCs)** have annual per capita GNI between \$996–\$3,895.⁹

About three-quarters-of-a-billion people—roughly 10% of the world's population—live in LICs, with GNI per capita below \$1,026. A majority of these countries are located in sub-Saharan Africa, where population is growing fastest. Keep in mind that many people who live in a LIC are not poor; many who live in a LMC are poor; and some who live in a UIC have incomes more typical of those in UMCs.

The United Nation's designation of “least-developed countries” is similar to LICs; for inclusion, a country has to meet criteria of low education and health, and high economic vulnerability, as well as low income. Just over a billion people live in these 49 countries. Conditions in some of them, such as Afghanistan, Congo, Somalia, South Sudan, and Yemen, are bleak. But in most countries in this group, great progress has been made, as life expectancy, school enrolments, and average incomes have risen substantially.

At the opposite end are the highest-income developed countries that are members of the Organization for Economic Cooperation and Development (OECD), primarily in West Europe and North America, plus Australia, New Zealand, Japan, and South Korea.

Gross national income (GNI)

The total domestic and foreign output claimed by residents of a country, consisting of gross domestic product (GDP) plus factor incomes earned by foreign residents, minus income earned in the domestic economy by nonresidents.

Low-Income Country (LIC)

In the World Bank classification, countries with a GNI per capita of less than \$996 in 2018.

Upper-middle income countries (UMCs)

In the World Bank classification, countries with a GNI per capita between \$3,896 and \$12,055 in 2018.

Lower-middle income countries (LMCs)

In the World Bank classification, countries with a GNI per capita incomes between \$996 and \$3,895 in 2018.

As recently as 1990, over half of the global population lived in low-income countries. The biggest factor in this sharp improvement is rapid income growth in China, which became a LMC in 1999, and India, which did so in 2007. China passed the next threshold to join the UMC group in 2010. Several other countries have also joined the middle-income country groups since the 1990s.¹⁰

Averages tell only part of the story. For example, each country has significant income inequality, though some are far more starkly unequal than others. We cover income inequality in depth in Chapter 5.

Recognizing that well-being cannot be measured by income alone, the United Nations Development Programme (UNDP) classifies countries taking account of their health and education attainments in addition to income, in its Human Development Index (HDI). We review how the HDI is calculated in the next chapter. For now, we note that average levels of human development have also been rising strongly in recent years, though the UNDP's 2018 update found the average HDI in sub-Saharan Africa is low, in South Asia and Arab States Medium, and in Latin American and East Asia high, and the average OECD HDI level is rated very high. Access to health and education is also highly unequal in many countries, as we examine in Chapter 8.

A major theme of this text is understanding why incomes have grown so rapidly in some of the countries that, until only a few decades ago, were among the poorest in the world, including China. A closely related theme is why other countries have grown very slowly, and continue to have high rates of extreme poverty and deprivation. You will see there is great variation across even neighbouring countries. We explore strategies for how countries can do better—whether they are performing above or below the average.

The rankings of countries in these income and human development classifications differ, sometimes to a substantial degree, as we will see in the next chapter.

1.4 Economics and Development Studies

1.4.1 Wider Scope of Study

Development economics

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

The scope of **development economics** and the work that development economists do is much broader than the name might suggest. Theory plays an essential role, but development economics is largely an empirical research discipline. It also uses formal models of topics ranging from decision making within households to problems of economy-wide transformation; models provide insights into findings, clarifications of the logic of arguments about development processes and policies, and new hypotheses to be confronted with ever-growing available data, often collected by development economists.

Development economics incorporates research in political economy and institutional, behavioural and experimental economics; it overlaps and links with other subfields including labour, public, urban, agricultural, environmental, and international economics. And it draws extensively from other

social science disciplines including history, political science, psychology, and sociology.

In addition to traditional topics in economics such as the efficient allocation and growth of productive resources, development economics must also address 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. This can be particularly challenging in many low- and also middle-income countries, when commodity and resource markets are typically highly imperfect, consumers and producers have limited information, major structural changes are taking place in both the society and the economy, the potential for multiple equilibria rather than a single equilibrium is more common, and disequilibrium situations often prevail (prices do not equate to supply and demand). In many cases, economic calculations are influenced by political and social priorities, such as unifying the nation, replacing foreign advisers with local decision makers, resolving tribal or ethnic conflicts, or preserving religious and cultural traditions. At the individual level, family, clan, religious, or tribal considerations may matter at least as much as private, self-interested utility or profit-maximising calculations.

Thus, development economics, to a greater extent than traditional neoclassical economics or 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 brings the fruits of economic progress to all their populations. It includes research on mechanisms that can keep families, regions, and even entire nations in poverty traps, in which past poverty causes future poverty, and on the most effective strategies for breaking out of these traps. Consequently, a larger government role and some degree of coordinated economic decision making directed toward transforming the economy are usually viewed as essential components of development economics. Yet this must somehow be achieved despite the fact that both governments and markets typically function less well in low- and middle-income countries than in **high-income countries (HICs)**. In recent years, activities of NGOs, both national and international, have grown rapidly and are receiving increasing attention (see Chapter 11).

High-income countries

(HICs) In the World Bank classification, countries with a GNI per capita above \$12,055 in 2018.

Geographic scope The geographic scope of development studies is generally considered to be most of Asia; sub-Saharan Africa, the Middle East and North Africa; Latin America and the Caribbean; and often the formerly Communist transition economies of East and Southeast Europe. Many insights from development economics have been applied also to “lagging” areas of high-income countries, including indigenous peoples’ territories and other relatively deprived communities. Indeed, economic development is an ongoing, dynamic process.¹¹

A dynamic field Because of the many differences in the severity of problems facing countries, and the complexity of the development process, development economics must be eclectic, attempting to combine relevant concepts and theories from traditional economic analysis with new models and broader

multidisciplinary approaches, including studies of the historical and contemporary development experiences of countries throughout the world. Development economics is a field on the crest of a breaking wave, with new theories and new data constantly emerging. These theories and statistics sometimes confirm and sometimes challenge traditional ways of viewing the world. The ultimate purpose of development economics, however, remains unchanged: to help us understand how to improve the lives of the global population.

1.4.2 The Central Role of Women

Development scholars generally view women as playing a central role in the development drama, which must be the first thought rather than an “after-thought.” Globally, women tend to be poorer than men; they are also more deprived in health, education and in freedoms in all its forms. These facts alone lead to the special focus on women in development. Moreover, women in developing countries have primary responsibility for child rearing, and the resources that they are able to bring to this task will determine how readily the cycle of transmission of poverty from generation to generation can be broken. Children need better health and education, and studies from around the developing world confirm that mothers tend to spend a significantly higher fraction of income under their control for the benefit of their children than fathers do. Women also transmit values to the next generation. To make the biggest impact on development, then, a society must empower and invest in women. We return to this topic in more depth in Chapters 5 to 9, and 15.

Today, most development specialists conceive of development as a multidimensional process involving major changes in social structures, popular attitudes, and national **institutions**, as well as acceleration of economic growth, reduction of inequality, and poverty eradication. Development, in its essence, represents the whole gamut of change by which a **social system**, tuned to the diverse basic needs and evolving aspirations of individuals and social groups within that system, moves away from a condition of life widely perceived as unsatisfactory toward a situation or condition of life regarded as materially and spiritually better.

No one has identified the human goals of economic development as well as the Nobel Laureate Amartya Sen, perhaps the leading thinker on the meaning of development.

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

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

1.5 The Meaning of Development: Amartya Sen’s “Capability” Approach

The view that income and wealth are not ends in themselves but instruments for other purposes goes back at least as far as Aristotle. Amartya Sen, winner of the 1998 Nobel Prize in economics, argues that “capability to function” is what really matters for status as a poor or non-poor person. As Sen puts it, “the expansion of commodity productions...are valued, ultimately, not for their own sake, but as means to human welfare and freedom.”¹²

In effect, Sen argues that poverty cannot be properly measured by income or even by utility as conventionally understood; what matters fundamentally is not the things a person has—or the feelings these provide—but what a person is, or

can be, and does, or can do. What matters for well-being is not just the characteristics of commodities consumed, as in the utility approach, but what use the consumer can and does make of commodities. For example, a book is of little value to an illiterate person (except perhaps as cooking fuel or as a status symbol). Or, as Sen noted, a person with a parasitic disease will be less able to extract nourishment from a given quantity of food than someone without parasites.

To make sense of the concept of human well-being in general, and poverty in particular, we need to think beyond the availability of commodities and consider their use: to address what Sen calls **functionings**—that is, what a person does (or can do) with the commodities of given characteristics that they come to possess or control. Freedom of choice, or control of one's own life, is itself a central aspect of most understandings of well-being. A functioning is a valued "being or doing," and, in Sen's view, functionings that people have reason to value can range from being healthy, being well nourished, and well clothed, to being mobile, having self-esteem, and "taking part in the life of the community."¹³

Sen identifies five sources of disparity between (measured) real incomes and actual advantages:¹⁴ (1) personal heterogeneities, such as those connected with disability, illness, age, or gender; (2) environmental diversities, such as heating and clothing requirements in the cold or infectious diseases in the tropics, or the impact of pollution; (3) variations in social climate, such as the prevalence of crime and violence, and "social capital"; (4) distribution within the family—economic statistics measure incomes received in a family because it is the basic unit of shared consumption, but family resources may be distributed unevenly, as when girls get less medical attention or education than boys do; and (5) differences in relational perspectives, meaning that some goods are essential because of local customs and conventions. For example, necessities for being able, in Adam Smith's phrase, "to appear in public without shame," include higher-quality clothing (such as leather shoes) in high-income countries rather than in low-income countries.

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

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

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

to note that functioning depends also on: “(1) social conventions in force in the society in which the person lives, (2) the position of the person in the family and in the society, (3) the presence or absence of festivities such as marriages, seasonal festivals and other occasions such as funerals, (4) the physical distance from the homes of friends and relatives. . .”¹⁵

In part, because such factors, even on so basic a matter as nutrition, can vary so widely among individuals, measuring individual well-being by levels of consumption of goods and services obtained confuses the role of commodities by regarding them as ends in themselves rather than as means to an end. In the case of nutrition, the end is health and what one can do with good health, as well as personal enjoyment and social functioning. Indeed, the capacity to maintain valued social relationships and to network leads to what James Foster and Christopher Handy have termed external capabilities, which are “abilities to function that are conferred by direct connection or relationship with another person.” But measuring well-being using the concept of utility, in any of its standard definitions, does not offer enough of an improvement over measuring consumption to capture the meaning of development.¹⁶

As Sen stresses, a person’s own valuation of what kind of life would be worthwhile is not necessarily the same as what gives pleasure to that person. If we identify utility with happiness in a particular way, then very poor people can have very high utility. Sometimes even malnourished people either have a disposition that keeps them feeling rather blissful or have learned to appreciate greatly any small comforts they can find in life, such as a breeze on a very hot day, and to avoid disappointment by striving only for what seems attainable. (Indeed, it is only too human to tell yourself that you do not want the things you cannot have.) If there is really nothing to be done about a person’s deprivation, this attitude of subjective bliss would have undoubted advantages in a spiritual sense, but it does not change the objective reality of deprivation. In particular, such an attitude would not prevent the contented but homeless poor person from greatly valuing an opportunity to become freed of parasites or provided with basic shelter. In contrast, a person who is secure in their entitlement to full nourishment may decide to fast for non-material reasons: freely chosen fasting is fundamentally different from living with malnutrition or starvation.

Consider functionings as resulting from choices, given capabilities. The functioning of a person is an achievement. Sen provides the example of bicycling: “[B]icycling has to be distinguished from possessing a bike. It has to be distinguished also from the happiness generated by [bicycling]. . . A functioning is thus different both from (1) having goods (and the corresponding characteristics), to which it is posterior, and (2) having utility (in the form of happiness resulting from that functioning), to which it is, in an important way, prior.”¹⁷

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

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.”¹⁸ Sen’s perspective helps explain why development economists have placed so much emphasis on health and education, and more recently on social inclusion and empowerment,

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

and have referred to countries with high levels of income but poor health and education standards as cases of “growth without development.”¹⁹ Real income is essential, but to convert the characteristics of commodities into functionings, in most important cases, surely requires health and education as well as income. The role of health and education ranges from something so basic as the nutritional advantages and greater personal energy that are possible when one lives free of parasites to the expanded ability to appreciate the richness of human life that comes with a broad and deep education. People living in poverty are often deprived—at times deliberately—of capabilities to make substantive choices and to take valuable actions, and often the behaviour of the poor can be understood in that light.

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

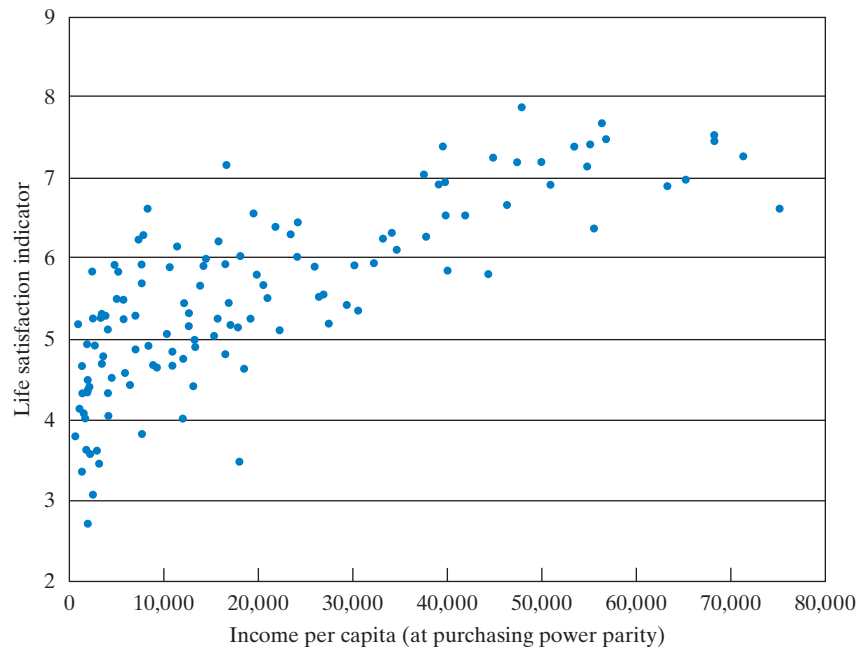
Sen’s framework is related to the idea that development is both a physical reality and a state of mind in which the means for obtaining a better life are secured, following at least three objectives: (1) increasing the availability and widening the distribution of life-sustaining goods such as food, shelter, health, and protection; (2) raising levels of living, including higher incomes, provision of jobs, better education, and greater attention to cultural and human values, to enhance material well-being and generate greater self-esteem; and (3) expanding the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence both to other people and nation states, and to ignorance and human misery.

Other perspectives Dudley Seers addressed the meaning of development succinctly in 1969, asking rhetorically, “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.”²⁰ In 1971, Denis Goulet asserted, “Development is legitimised as a goal because it is an important, perhaps even an indispensable, way of gaining esteem.”²¹

Sen’s invaluable framework is also more systematic and builds on contributions of development thinkers who went before him. Nobel Laureate in economics 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.”²² Lewis’s point is a caution against “fetishising” income growth or thinking of utility as depending only on income; of course this does not mean happiness is unimportant, or that people would refrain from making choices that improved their happiness. Happiness is a key concern for economic development.

1.6 Happiness and Development

Happiness is part of human well-being, and greater happiness may in itself expand an individual’s capability to function. As Amartya Sen has argued, a person may well regard happiness as an important functioning for her well-being.²³

FIGURE 1.1 Income and Happiness: Comparing Countries

Note: The data on the x-axis is drawn from the World Bank World Development Indicators. The y-axis uses the Cantril Self-Anchoring Striving Scale from the Gallup World Poll, asking respondents to imagine a ladder with steps from 0 (worst possible life for you) to 10 (best possible life for you) and answer. On which step of the ladder would you say you personally feel you stand at this time?

Economists have explored the empirical relationship across countries and over time between subjectively reported satisfaction and happiness and factors such as income. However, there is wide variation in the relationship between income and happiness, especially across developing countries. One of the findings is that the average level of happiness or satisfaction increases with a country's average income. Earlier research showed that roughly four times the percentage of people report that they are not happy or satisfied in Tanzania, Bangladesh, India, and Azerbaijan as in the United States and Sweden.²⁴

Figure 1.1 provides an illustration of this relationship, using 2018 data. The x-axis shows income per capita (adjusting for purchasing power parity, as described in Chapter 2). The y-axis shows an indicator for happiness, in this case responses to a Gallup World Poll life satisfaction "ladder" question. As typical for such data, average happiness is greater with higher average income, but the relationship is increasing at a decreasing rate; and after a high enough level of income is reached (about \$40,000 in these data), happiness is no higher on average with higher income. Once average national incomes grow to this point, most citizens have usually escaped extreme poverty. At these levels, despite substantial variations across countries, if inequality is not extreme then a majority of citizens are usually relatively well nourished, healthy, and educated.

The "happiness science" findings call into question the centrality of economic growth as an objective for high-income countries. But they also reaffirm

the importance of economic development in the developing world, whether the objective is solely happiness or, more inclusively and persuasively, expanded human capabilities.

Not surprisingly, studies show that financial security is only one factor affecting happiness. Happiness researcher Richard Layard identifies seven factors that surveys show affect average national happiness: family relationships, financial situation, work, community and friends, health, personal freedom, and personal values. In particular, aside from not being poor, the evidence says people are happier when they are not unemployed, not divorced or separated, and have high trust of others in society, as well as enjoy high government quality with democratic freedoms and have religious faith.²⁵ The importance of these factors may shed light on why the percentage of people reporting that they are not happy or satisfied varies so widely among developing countries with similar incomes. For example, Layard reports that the fraction of people who are not happy and satisfied on average is four times as great in Zimbabwe as in Indonesia, despite somewhat higher incomes in Zimbabwe, and over three times as great in Turkey as in Colombia, despite somewhat higher incomes in Turkey at the time of the study.

Many people, throughout the world, from low- to high-income countries, hope that their societies can gain the benefits of development without losing traditional strengths such as moral values and trust in others, sometimes called social capital.

The government of Bhutan's attempt to make "gross national happiness" rather than gross national income its measure of development progress has attracted considerable attention.²⁶ Informed by Sen's work, its indicators extend beyond traditional notions of happiness to include capabilities such as health, education, and freedom. Happiness is not the only dimension of subjective well-being of importance.

As the 2010 Stiglitz-Sen-Fitoussi Commission on the Measurement of Economic Performance and Social Progress put it: subjective well-being encompasses different aspects (cognitive evaluations of one's life, happiness, satisfaction, positive emotions such as joy and pride, and negative emotions such as pain and worry); each of them should be measured separately to derive a more comprehensive appreciation of people's lives.²⁷

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

1.7 The Sustainable Development Goals: A Shared Development Mission

1.7.1 Seventeen Goals

In September 2015, the member countries of the United Nations adopted 17 **Sustainable Development Goals (SDGs)**, to be achieved by 2030, thereby committing to substantial achievements in ending multidimensional poverty and improving the quality of life. The resolution affirmed: "We are determined to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment."²⁸ The process of developing and adopting the SDGs was complex and took a long time to finalise, incorporating ideas from stakeholders around the world.²⁹

Sustainable Development Goals (SDGs) Successor to the earlier Millennium Development Goals (MDGs), a set of 17 broad goals, among them to: end poverty and hunger; ensure healthy lives, quality education, gender equality, water and sanitation, and modern energy; promote inclusive growth, employment, resilient infrastructure, industrialisation, innovation, and improved cities; reduce inequality; combat climate change and environmental damage; and promote peace, justice, and global partnership.

The 17 goals span many, although not all, of the widely accepted goals of economic development. The 17 agreed goals are listed in Table 1.1.³⁰

Goals were assigned 169 targets to be achieved by 2030; some were much more specific than others. There were also 304 indices to be used to track progress, of which 232 were agreed upon by the end of 2018.³¹ Some selected prominent targets are spelled out in Table 1.2.

Along with the United Nations, the World Bank, the International Monetary Fund (IMF), OECD, and the World Trade Organization (WTO), NGOs from developing as well as developed countries had a voice in their formulation. The goals are officially used by most development agencies and many independent NGOs.³²

Compared with previous SDGs, their three underlying principles are new:

- The universality principle: The SDGs apply to every nation (with action encouraged from every **sector**).
- The integration principle: All the goals must be achieved; to do so it is necessary to account for their interrelationships.
- The transformation principle: It is not sufficient to take “piecemeal” steps.

The scope and expanded ambition of the SDGs would not have been possible without the **Millennium Development Goals (MDGs)** as a precedent. The MDGs were a milestone in thinking and policy about development, and were considered surprisingly successful, given other UN resolutions and programmes that were not. They managed to receive regular and sustained attention from their adoption in 2000 until their end date of 2015.

1.7.2 The Millennium Development Goals, 2000–2015

In 2000, the member countries of the United Nations adopted eight MDGs, committing themselves to making substantial progress toward the eradication of poverty and achieving other human development goals by 2015. Until the SDGs, the MDGs were the strongest statement of the international commitment to ending global poverty. They acknowledged the multidimensional nature of development and poverty alleviation; an end to poverty requires more than just increasing incomes of the poor. The MDGs provided a unified focus in the development community unlike anything that preceded them.

The MDGs were developed at the UN in consultation with the developing countries, to ensure that they addressed their most pressing problems. In addition, key international agencies, including the World Bank, IMF, and OECD, helped develop the Millennium Declaration and had a collective policy commitment to attacking poverty directly. The MDGs assigned responsibilities to rich countries, including increased aid, removal of trade and investment barriers, and eliminating unsustainable debts of low-income countries.

The eight MDG goals toward which progress was pledged were: 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 were then assigned specific targets deemed achievable by 2015, based in part on the pace of previous international development achievements.

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

Millennium Development Goals (MDGs) Precursor to the SDGs adopted by the United Nations in 2000 to: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat diseases; ensure environmental sustainability; and develop a global development partnership. Goals were assigned targets to be achieved by 2015.

TABLE 1.1 The 17 Sustainable Development Goals

 <p>1 NO POVERTY</p>	Goal 1. End poverty in all its forms everywhere	 <p>10 REDUCED INEQUALITIES</p>	Goal 10. Reduce inequality within and among countries
 <p>2 ZERO HUNGER</p>	Goal 2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture	 <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable
 <p>3 GOOD HEALTH AND WELL-BEING</p>	Goal 3. Ensure healthy lives and promote well-being for all at all ages	 <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	Goal 12. Ensure sustainable consumption and production patterns
 <p>4 QUALITY EDUCATION</p>	Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	 <p>13 CLIMATE ACTION</p>	Goal 13. Take urgent action to combat climate change and its impacts
 <p>5 GENDER EQUALITY</p>	Goal 5. Achieve gender equality and empower all women and girls	 <p>14 LIFE BELOW WATER</p>	Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development
 <p>6 CLEAN WATER AND SANITATION</p>	Goal 6. Ensure availability and sustainable management of water and sanitation for all	 <p>15 LIFE ON LAND</p>	Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
 <p>7 AFFORDABLE AND CLEAN ENERGY</p>	Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all	 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>	Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	 <p>17 PARTNERSHIPS FOR THE GOALS</p>	Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development
 <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation		

TABLE 1.2 Global Ambitions: Selected Targets of the Sustainable Development Goals*

- 1.1 By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day
- 2.1 By 2030, end hunger and ensure access by all people. . . to safe, nutritious and sufficient food all year round
- 2.2 By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women. . .
- 3.1 By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births
- 3.2 By 2030. . . reduce neonatal mortality [below] 12 per 1,000 live births and under-5 mortality [below] 25 per 1,000 live births
- 3.8 Achieve universal health coverage. . . access to quality essential health-care. . . affordable essential medicines and vaccines for all
- 4.1 By 2030 ensure all girls and boys complete free, equitable, quality primary and secondary education. . .
- 4.2 By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education
- 5.1 End all forms of discrimination against all women and girls everywhere
- 5.2 Eliminate all forms of violence against all women and girls in public and private spheres, including trafficking, sexual, other types of exploitation
- 5.3 Eliminate all harmful practices, such as child, early and forced marriage and female genital mutilation
- 6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all
- 6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene. . . [with] special attention to the needs of women and girls
- 7.1 By 2030, ensure universal access to affordable, reliable and modern energy services
- 8.1 Sustain. . . at least 7 per cent gross domestic product growth per annum in the least-developed countries
- 10.1 By 2030. . . sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average
- 11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
- 12.4 By 2020, achieve environmentally sound management of chemicals and wastes. . . reduce their release to air, water and soil
- 13.a [Mobilize] \$100 billion annually by 2020 to address the needs of developing countries in the context of meaningful [climate change] mitigation
- 16.2 End abuse, exploitation, trafficking and all forms of violence against and torture of children
- 17.12 Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least-developed countries. . .

*For the full target list see the SDG website: <https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals>

The MDGs came in for some criticism, which some hoped the SDGs would address.³³ Some critics argued the MDG targets were not ambitious enough, others argued that goals were not prioritised; for example, reducing hunger may leverage the achievement of many of the other health and education targets. At the same time, although the interrelatedness of development objectives was implicit in the MDGs' formulation, goals are presented and treated in reports as stand-alone objectives; in reality, the goals are not substitutes for each other but complements, such as the close relationship between health and education. Further, when the MDGs measure poverty as the fraction of the population below the \$1-a-day line, this is arbitrary and fails to account for the intensity of poverty—that a given amount of extra income to a family with a per capita income of, say, 70 cents a day makes a bigger impact on poverty than to a family earning 90 cents per day (see Chapter 5). Moreover, other critics complained about the lack of goals on reducing rich-country agricultural subsidies, improving legal and human rights of the poor, slowing climate change, expanding gender equality, and leveraging the contribution of the private sector. While the reasonableness of some of these criticisms was questioned, it was widely acknowledged that the MDGs had some inherent limitations.

Achievements were generally positive, but mixed. The first, “headline” MDG had two targets to be achieved by 2015: to reduce by half the proportion of people living on less than \$1 a day (\$1.90 inflation-adjusted) and to reduce by half the proportion of people who suffer from hunger. “Halving poverty” came to serve as a touchstone for the MDGs as a whole. The United Nations reported that halving income poverty was achieved by 2012, largely because incomes rose in China.

The world did not quite halve the hunger rate; although the fraction hungry fell from about 23% in 1990 to about 12% in 2015, this still left close to 800 million people still hungry.³⁴ There was significant progress on enrolments, but the universal goal was not met—57 million children were still not in primary school in 2015—generally among the poorest. Under-5 mortality dropped about 41%: progress, but not halved, let alone cut by the targeted two-thirds—a difference meaning nearly 3 million extra child deaths annually. Maternal deaths were about halved—but the target three-quarters was not reached. The clean drinking water target was met, but the sanitation goal was not. Notably, significant progress was made on reducing several diseases, including TB and malaria.

Substantial progress would have been made even without official adoption and widespread use of the MDGs, but they made a significant difference.³⁵

1.7.3 Implementing the Sustainable Development Goals

Measurement is generally vital to the achievement of goals. In addition to the 17 SDGs and 169 targets, there are at least 232 indices intended to track progress, to be measured regularly. Challenges of measuring and achieving the SDGs are examined throughout this text; Box 1.3 provides a guide that matches the goals with their chapter coverage.

Sustainable Development Goals: Progress and Challenges

Progress reports toward achieving the SDGs The United Nations issues annual reports on progress and challenges toward achieving the SDGs. Each year, different sets of goals receive the primary focus.³⁶

BOX 1.3 Development Policy: The 17 Goals, and Where They are Examined in This Text

- *Goal 1.* End poverty in all its forms everywhere (Chapter 5)
- *Goal 2.* End hunger, achieve food security and improved nutrition, and promote sustainable agriculture (Chapters 5, 9)
- *Goal 3.* Ensure healthy lives and promote well-being for all at all ages (Chapters 5, 8)
- *Goal 4.* Ensure inclusive and equitable quality education, and promote lifelong learning opportunities for all (Chapter 8)
- *Goal 5.* Achieve gender equality and empower all women and girls (Chapters 5, 8, 9)
- *Goal 6.* Ensure availability and sustainable management of water and sanitation for all (Chapter 10)
- *Goal 7.* Ensure access to affordable, reliable, sustainable, and modern energy for all (Chapter 5)
- *Goal 8.* Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all (Chapters 3, 4, and 5)
- *Goal 9.* Build resilient infrastructure, promote inclusive and sustainable industrialisation, foster innovation (Chapters 5, 11, and 12)
- *Goal 10.* Reduce inequality within and among countries (Chapters 5)
- *Goal 11.* Make cities and human settlements inclusive, safe, resilient, and sustainable (Chapter 7)
- *Goal 12.* Ensure sustainable consumption and production patterns (Chapters 9, 10)
- *Goal 13.* Take urgent action to combat climate change and its impacts (Chapter 10)
- *Goal 14.* Conserve and sustainably use oceans, seas, marine resources for sustainable development (Chapter 10)
- *Goal 15.* Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss (Chapter 10)
- *Goal 16.* Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels (Chapters 2, 4, 5)
- *Goal 17.* Strengthen means of implementation and revitalise global partnership for sustainable development (Chapter 13)

Some of the criticisms of the MDGs led to changes as the SDGs were designed and implemented. However, the SDGs have been criticised as were the earlier MDGs, though at times for somewhat different reasons. A common critique is that the goals are not prioritised; for example, reducing hunger may leverage the achievement of many of the other health and education targets. Further, when the SDGs measure the end of poverty as no one living on less than \$1.90 per day, this avoids discussion about prioritising help for the poor. If attention to all the poor is equally merited, then those close to the poverty line will receive more attention than those far below it; this shows progress over time, but if the goals are not met, the poorest of the poor may have seen little improvement. Even more, some have criticised the sheer number of 17 goals and many targets, in that one cannot focus on everything, so in the end little if anything may get focused on at all.³⁷

Nonetheless, the SDGs are the current global framework for assessing key aspects of development progress; and each are addressed, to varying degrees, in the coming chapters.

1.8 Some Critical Questions for the Study of Development Economics

Here are some of the other important questions to be addressed in this text, along with the chapters where they are considered:

1. What are economic institutions, and how do they shape problems and prospects for successful development? (Chapter 2)
2. How can the extremes between rich and poor be so very great? (Chapters 2, 4, and 5)
3. What are the sources of national and international economic growth? Who benefits from such growth and why? (Chapters 3 and 5)
4. Why do some countries make rapid progress toward development while others remain desperately 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 2, 3, and 4)
6. What constraints most hold back accelerated growth, depending on local conditions? (Chapter 4)
7. How can improvements in the role and status of women have an especially beneficial impact on development prospects? (Chapters 5, 6, 7, 8, 9, and 10)
8. With hundreds of millions of people still living in extreme poverty, what are the causes 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)
9. With world population approaching 8 billion people, on its way to a projected 10 billion shortly after mid-century, is rapid population growth threatening the economic progress of low-income countries? Why do poor families have more children than families that have moved out of poverty? Does having large families make economic sense in an environment of widespread poverty and financial insecurity? (Chapter 6)
10. With this in mind, why have births per woman (fertility rates) been falling so dramatically throughout most of the world? But given this, why does world population continue to grow at a historically rapid rate? (Chapter 6)
11. Why are steady, formal jobs—such as many take for granted in rich countries—so scarce in low- and lower-middle-income countries; and what can be done to promote formal job creation? (Chapters 5 and 8)
12. Many migrants to cities do not find the kind of job they seek, knowing there are more workers than vacancies; why would they come anyway? (Chapter 7)
13. Under what conditions can cities act as engines of productive economic transformation? (Chapter 7)
14. Wealthier societies are also healthier ones because they have more resources for improving nutrition and health care. But does better health also help spur successful development? (Chapter 8)

15. What is the impact of poor public health on the prospects for human development, and what is needed to address these problems? (Chapter 8)
16. What are the causes of child labour and failures to keep more children in school, and what policies help address these problems? (Chapter 8)
17. As nearly half the people in low- and lower-middle-income countries still reside in rural areas, and a large majority of those living in extreme poverty are rural, how can agricultural and rural development best be promoted? (Chapter 9)
18. What is meant by “environmentally sustainable economic development”? Are there serious economic costs for pursuing sustainable development as opposed to simple output growth, and how is the responsibility for global environmental damage being borne by different countries? (Chapter 10)
19. What is the impact of climate change on low- and middle-income countries, and how are they responding to adapt and increase their resilience? (Chapter 10)
20. What are the roles of markets and governments in economic development, and how is this contingent on development constraints? (Chapters 4 and 11)
21. Why do so many developing countries select such poor development policies, and what can be done to improve these choices? (Chapter 11)
22. What is the role of nongovernmental organisations (NGOs), sometimes called the non-profit sector? (Chapter 11)
23. Who receives the gains from international trade, and can trade be used successfully as an engine of broad development? What policies can affect this under different circumstances? (Chapter 12)
24. What is meant by globalisation, and in what ways does it affect different countries? (Chapters 12, 13, and 14)
25. What has been the impact of international financial organisations including programmes of the IMF and the World Bank Group on the growth and stability prospects of low- and middle-income countries? (Chapters 12 and 13)
26. Should exports of primary products such as agricultural commodities and ores be promoted, or should policy support export diversification? (Chapter 12)
27. How do many low- and middle-income countries get into serious foreign-debt problems, and what are the implications of debt problems for economic development? How do financial crises affect development? (Chapter 13)
28. What is the impact of foreign aid from high-income countries? Should low-income countries continue to seek such aid, and if so, under what conditions? Should high-income countries continue to offer such aid, and if so, for what purposes? (Chapter 14)

29. Should multinational corporations be encouraged to invest in low- and middle-income countries, such as through investment promotion programmes, and if so, under what conditions? (Chapter 14)
30. What is the role of the financial intermediation in economic development? (Chapter 15)
31. How can financial and fiscal policy help promote development? (Chapter 15)
32. What is microfinance, and what are its potential and limitations for reducing poverty and spurring grassroots development? (Chapter 15)

There has been substantial—even dramatic—progress in growth and poverty reduction in Africa, Asia, and Latin America in the last three decades. Many countries in these regions have enjoyed faster, albeit uneven, growth than rich countries. The income poverty rate has been more than halved. International economic relations have become less one-sided—if also more fragile.

Yet the scale of challenges for sustainable economic development and ending poverty remains enormous. Inclusive growth, and the drive to zero-poverty, is not a simple matter of continuing along a trend line. Many of the world's poorest people must survive in areas with ongoing violent conflicts, or the threat of their recurrence. Many middle- as well as low-income countries face other serious governance challenges including corruption and repression. Manufactured exports may not be as feasible in an age of robotics and a sudden resurgence in protectionism. There remain risks of a repeat of the global financial crisis and great recession of 2007–2009. Environmental problems are growing, through both climate change and domestic environmental deterioration; and climate change is already presenting new and unprecedented challenges, particularly in Africa and Asia.

In this text we address many difficult problems. Something not to lose sight of is that enormous progress has been and is being made in most of the problems we examine. We will also see that a great deal of the longer-term, bigger-picture news is actually quite good. This becomes especially clear when we examine closely the meaning of development, as we have done in this chapter. Our questions often concern how progress now being made can be continued and accelerated.

In the next chapter we continue our study, examining global and historical perspectives on comparative economic development.

Case Study 1


Comparative Economic Development: Pakistan and Bangladesh

In 1971, Bangladesh declared independence from Pakistan. Previously, Bangladesh had been known as East Pakistan, and what is now Pakistan was called West Pakistan. Though separated by more than 1,600 kilometres (1,000 miles), both were part of a single country, with economic and political power concentrated in West Pakistan. Because they were once the same country, Pakistan and Bangladesh make for an interesting exercise in comparative development, in that the two shared a common national policy in the early years, even if they did not benefit from it equally. Pakistan and Bangladesh had a similar population in 2017: an estimated 197 million in Pakistan and 165 million in Bangladesh. Both countries are located in the South Asian region, are overwhelmingly Islamic, and were once part of the colonial British Raj of India. Bangladesh was for a long time the global symbol of suffering, from the Bengal famine of 1943 to the globally publicised 1971 Concert for Bangladesh organised by former Beatle George Harrison, to the horrors of the 1974 post-independence famine.

But analysts such as William Easterly have declared Pakistan a leading example of “growth without development,” with low social indicators for its income and growth. Meanwhile, Bangladesh, though still afflicted with many of the social problems found in Pakistan, has transformed itself from a symbol of famine to a symbol of hope. When Bangladesh gained its independence in what is known as the Bangladesh Liberation War, it was viewed as lagging insurmountably behind (West) Pakistan. Indeed, its poor social and economic development in comparison with West Pakistan was a major impetus behind the independence movement, which complained that Bangladesh was being drained of tax revenues to benefit West Pakistan.

The war for independence itself and the economic destruction deliberately visited on Bangladesh’s industry left an even wider gap, while human rights abuses, including mass rape as a weapon of war, left severe psychological and physical scars. A severe famine followed the war. One US statesman undiplomatically dubbed Bangladesh the “international basket case.” Others somewhat more tactfully called it the “test case for development”—meaning that if development could happen in Bangladesh, it could happen anywhere. A half-century later, Bangladesh is still confounding the sceptics. Pakistan has held a lead in per capita income, which was more than 40% higher than Bangladesh in 2017. However, there was understandable widespread celebration in Bangladesh in 2014, when Bangladesh passed the threshold from being a low-income country to reach lower-middle income status. Moreover, Bangladesh has now moved to the lead in the new Human Development Index (HDI) rankings; in the 2018 update, Bangladesh ranks #136, nine places above on the HDI than predicted for its income level; while Pakistan, at #150, is 14 places below what would be predicted by income alone. Bangladesh is also ahead on many of the Sustainable Development Goal indicators.

The point is not that Bangladesh has surpassed Pakistan by all important measures; as mentioned, Pakistan remains significantly ahead in average income and Bangladesh continues to have serious development problems that need to be addressed. It is rather that Bangladesh has made relatively better progress than Pakistan, particularly on social development indicators, despite its handicaps at independence and expectations that it would continue to fare badly. Bangladesh started at a much



lower level of human development and still has lower income. But in achieving more progress on human development, Bangladesh now also has the conditions for accelerating economic progress in the coming years, particularly if continuing problems of governance can be overcome.

Output and Income Growth

PPP-adjusted income estimates vary, but all show average income remains higher in Pakistan than in Bangladesh (\$5,311 in Pakistan in 2017 and \$3,677 in Bangladesh according to UNDP estimates). In Pakistan, per capita income grew at about 2.2% per year in the half-century from 1950 to 2000. As a result, per capita income tripled. But the growth rate declined over time, even as it rose in other countries such as India. The decline in the growth rate may be a result of the poor performance on social indicators, for example with a less educated cohort entering the workforce. From 2000 to 2017, GDP growth in Pakistan averaged 5.1%; with population growth in this period of 2.1%, per capita GDP growth was about 3%. In Bangladesh, GDP growth averaged 6% from 2000 to 2017 (World Bank). With a significantly lower 1.3% population growth in this period, per capita GDP growth in Bangladesh was about 4.7%, outpacing Pakistan in this period.

Agriculture

Agricultural development proceeded more rapidly in Bangladesh, and the benefits were less unequally distributed. Farm yields are up dramatically. Social constraints may have been the most important factor holding back agricultural development in Pakistan. William Easterly speculates that in earlier stages, growth of the agricultural sector may have been “possible with the landlord elite taking advantage of the immense potential of the irrigation network and the green revolution, using only unskilled agricultural laborers. But agricultural growth may also have run into diminishing returns, as irrigated land and human capital did not grow at the same rate as other factors of production.”

Textile and Garment Sectors

As with many countries in their early stages of industrialisation, the textile and garment sectors have been central to growth in Bangladesh. When the international textiles quota system of the

Multi-Fiber Arrangement ended in 2005, Bangladesh garment factory jobs—a major source of job creation—were at ongoing risk. The speed and astuteness of the market response was a major test of the resilience of the Bangladeshi economy. The outcome was substantially better than many predicted; and the impact of the 2008 global financial crisis on employment in the sector was also comparatively modest. But horrifying mass factory deaths due to fire and building collapse in the early 2010s, such as the 2013 Rana Plaza disaster that resulted in the loss of nearly 1,200 lives, were caused by negligence and irresponsibility of owners and put future growth of this sector in jeopardy. Some high-profile international customers threatened to stop sourcing products from Bangladesh. The subsequent international monitoring and other agreements and regulations led to some improved conditions. But as Sarah Labowitz and Dorothée Baumann-Pauly document, many factories still operate in the informal sector, unobserved and even unrecorded by the monitoring programmes established since 2013. Work conditions still have plenty of room for improvement, especially for women. (We return to this critical topic later, in the section on gender equality.)

Poverty

In Bangladesh, 14.8% live below the \$1.90 per day poverty line, with 59.2% under \$3.20, and 84.5% living on less than \$5.50 per day based on 2015 data. In Pakistan, income poverty is lower than Bangladesh, with 4% living on less than \$1.90 per day, 34.7% with less than \$3.20, and 75.4% less than \$5.50 (World Bank WDI, survey data from 2016 and 2015 respectively). But poverty progress has been impressive in the one-time “basket case” of Bangladesh, and incomes of the poorest people are rising. Many factors have contributed to the relatively rapid decrease in extreme poverty in the country, including the early and quickly disseminating green revolution, the impressive role of Bangladesh-based nongovernmental organisations (NGOs) fighting poverty in rural areas, opportunities for women’s employment in export industries, and remittances from relatives working abroad.

But the poverty comparisons are reversed when examining the Pakistan UNDP Multidimensional Poverty Index (MPI, discussed in Chapter 5). The MPI in Pakistan was 0.228, with 43.9% living in

multidimensional poverty; the corresponding figures for Bangladesh were a still-high 0.194 and 41.1% (survey data are from 2012–13 and 2014 respectively in the 2018 HDR statistical update).

Education and Literacy

According to UNESCO, the youth (ages 15–24) literacy rate was 85.6% in Bangladesh but 72.8% in Pakistan (2014 comparable data). Much of the difference is explained by gender, with Bangladesh rated as having gender parity, but Pakistan rated as female strongly disadvantaged. Rates are substantially worse for adults over 24, reflecting progress over time. The UNESCO comparable (2011) estimates for Pakistan a female literacy rate of just 40% for all women over the age of 15 (the male rate was 69%), while for Bangladesh there was 53% literacy for all women over the age of 15 (the male rate was 62%).

In Pakistan, about 30 times as many public education dollars are spent per pupil for university education as for primary school education. Primary school expenditures are extremely unequal, with the lion's share of funds going to schools that more often train the few students who will eventually go on to universities. Many teachers are hired for political reasons rather than professional competence, and their absence from the classroom and, all too often, from school altogether ("teacher truancy") is a serious problem. Easterly and other analysts such as Ishrat Husain believe that Pakistan's poor performance on education and literacy may result from the incentives of the elite to keep the poor from gaining too much education. Looking to the future, Bangladesh has the clear edge in school enrolments; for example, in 2016 Bangladesh had a 69.0% (gross) enrolment in secondary school, compared with just 46.1% in Pakistan (2018 WDI, Table 2.8). Despite school quality problems in both countries, this differential will translate to higher literacy rates and general knowledge in Bangladesh in a few years. Thus, as we look ahead, we can also expect much greater parity in male and female literacy levels in Bangladesh. In Bangladesh just a few decades ago, attending school was an almost unimaginable luxury for most of the poor. The non-formal education programmes of NGOs such as BRAC provide a major contribution to this progress, especially in education's early stages (see the case study in Chapter 12). But despite the

large and apparently growing gaps, both countries are making progress.

Health

Life expectancy in Bangladesh is now 69 years, compared with only 65 in Pakistan (2012 Population Reference Bureau); but in 1970 life expectancy was 54 in Pakistan and only 44 in Bangladesh. Since 1990, the prevalence of child malnutrition in Bangladesh has fallen from two-thirds to less than half. Nutrition in Bangladesh has benefited from a successful green revolution. But child malnutrition remains lower in Pakistan, at about 38%.


Under-5 mortality in Bangladesh has fallen dramatically. On the eve of independence in 1970, the under-5 mortality rate in Bangladesh was 239 per 1,000 live births; the rate in Pakistan was 180 per 1,000. In 1990, the rate in Bangladesh had fallen to 139, and in Pakistan to 122. By 2011, both countries continued to make strong progress, but again their positions were reversed, with the Bangladesh under-5 mortality rate falling to 46 per 1,000, but that in Pakistan only to 72 per 1,000 (2013 WDI, Table 1.2). Thus, both countries have made progress on health, but the edge is strongly with Bangladesh.

Population

Bangladesh has made much greater progress than Pakistan in reducing fertility. Shortly after independence in 1971, both countries had an extremely high level of over six births per woman. In Bangladesh, fertility fell to 2.2 by 2011. But for Pakistan, fertility has fallen only to 3.3 (2013 WDI data), with much of Pakistan's decline very recent.

Accordingly, Pakistan's population has increased far more quickly. In 1960 (a decade before Bangladesh become independent), the populations were almost identical: Bangladesh had a population of 45 million, and Pakistan 48 million.

These changes reflect both cause and effect. Fertility tends to fall as social and economic progress increases. Women perceive better economic opportunities and less need to rely on having several children for security. But with lower fertility, more can be invested in each child in health and education, by families, by governments, and by NGOs. Thus, the productivity of the next generation is higher. A virtuous cycle can take hold as the country passes through its demographic transition (see Chapter 6). Looked at



differently, given the negative relationship between population growth and income per capita growth (see Chapter 6), continuing high fertility augurs relatively poorly for Pakistan as we look ahead (though fertility is falling in Pakistan as well). Rather than simply converging, Bangladesh is actually on a trend to pull ahead of Pakistan as they follow divergent paths, with greater human capital investment in Bangladesh. The early and strong emphasis on an effective family planning strategy was an important factor in the progress of Bangladesh.

Finally, it should also be mentioned that aside from a few city-states, Bangladesh is the most densely populated country in the world. For perspective, the Netherlands is famous for its crowding and has 509 people per square kilometre (km²). But Bangladesh is more than twice as densely populated, with 1,265 people per km² (Pakistan has 256 per km²). Bangladesh has more than half the population of the United States, living in an area less than the size of Wisconsin. (A partial countervailing factor is the greater ease of connecting people and economic activity, facilitating the benefits of the division of labour, for example; see Chapter 7.)

Geography

To the degree that geography constrains development success, Bangladesh would seem to be at a considerable disadvantage. Tropical and sub-tropical countries such as Bangladesh have done more poorly around the world, other things being equal. Pakistan, though facing some geographic disadvantages, including difficult-to-reach mountainous areas, would seem to hold the edge here.

Natural Resources Not an Explanation

The most commonly cited other examples of countries exhibiting “growth without development” are the Middle Eastern oil-exporting economies of the Persian Gulf states. Elites contest control of natural resources, an enclave economy develops with relatively few strong links to other sectors of the economy, and social spending is crowded out by national defence expenditures—nominally to ward off external attack, but at least implicitly also to control the domestic population. In contrast, Pakistan has minimal oil reserves, has to import about four-fifths of its crude oil requirements, and may have to begin importing natural gas. Bangladesh has even fewer


natural resources. But, apparently, natural resources do not offer an explanation for differing social performance.

Fractionalisation

William Easterly and Ross Levine propose that countries with a multitude of social divisions, ethnic groups, and languages tend to have lower social development and growth rates, although the result is largely muted if the regime is democratic (see Chapters 2 and 14). It is essential to note that the problem with such “fractionalisation” is a global average, for which there are important exceptions that offer lessons on how to improve conditions elsewhere. For example, Mauritius is very diverse but has experienced successful development; India is diverse but has done better than either Pakistan or Bangladesh. Nonetheless, Bangladesh is quite homogeneous; as much as 98% of the population is considered ethnic Bangla (Bengali) and speaks the Bangla language. Pakistan has a very high level of ethnic and language diversity. Even its name derives from a compound of the first initials of three of its major provinces or regions: Punjab, Afghanistan, Kashmir. Other distinct areas include Baluchistan. Pakistan’s official language is Urdu, but it is spoken as a first language by only 7% of the population (the largest language group is Punjabi, at 48%). The failure to provide a fair allocation of revenues and services and resolve other issues for one of the largest ethnic groups, the Bangla, led to the division of Bangladesh from Pakistan in the first place. Easterly concludes that part of the cause of Pakistan’s “fractionalism lies in ethnolinguistic fractionalisation” and argues that “Pakistan is the poster child for the hypothesis that a society polarised by class, gender, and ethnic group does poorly at providing public services.”

Gender Equality

As already seen, today in Bangladesh, more girls than boys are enrolled in education, while in Pakistan, the enrolment level of girls is less than three-quarters that of boys. But both countries have a male-to-female ratio of 1.05, an indicator of gender inequality (higher mortality of girls and selective abortion). The availability of opportunities for work outside the home, notably in garment factories, has probably increased the autonomy of women. Improved safety is the most urgent priority.



Conditions are harsh in other ways by Western standards, and many workers are paid below the official minimum wage; unions are often suppressed. At the same time, incomes are still far higher than alternatives such as domestic work, in which women are often abused; and the factory jobs have offered a way out for hundreds of thousands of formerly impoverished Bangladeshi women. Ongoing risks facing women factory workers were brought into public view with a factory fire that killed 112 people in November 2012, and a building collapse in April 2013 that killed 1,127 people—the most deadly garment factory disaster in history. More than half of those killed were women; some of their children also died in the buildings. The factory owners knowingly subjected garment workers to risky factory conditions; sustained government, union, and civil society action will be needed to help ensure that safety can be instituted to avoid other needless deaths. Rather than simply treating this as a public relations disaster and shifting contracts to other countries, in 2013 a group of major European retailers set up an “Accord,” and a grouping of North American retailers set up an “Initiative,” to set standards and monitor workplaces producing their contract garment orders. Of the two programmes, the European Accord was viewed by many civil society and union observers as being more legally binding than the North American Initiative—and hence more effective (US retailers claim this is because they could face lawsuit risks). As mentioned earlier, there remains a long way to go, as many subcontractors are not even monitored or identified. BRAC University in Dhaka (affiliated with the famous Bangladesh NGO) is engaged in a project to fully identify this industry. In any case, Bangladeshi workers would benefit from enhanced cooperation and coordination between these two alliances. Meanwhile, conditions do not seem to be much, if any, better in Pakistan; for example, in less-publicised incidents, more than 300 garment workers died in factory fires in Pakistan in September 2012.


Foreign Aid

Pakistan has received a great deal of aid. Since independence in 1947, it has been one of the top aid-receiving countries. In the aftermath of the terrorist attacks on the United States on September 11, 2001, Pakistan assumed great importance as a strategic ally of the United States in the struggle against terrorism. Sanctions were lifted,

and various forms of aid were greatly increased. The country was also a major Cold War ally of the United States, but the poor seemed to derive little benefit from that association. Bangladesh also received considerable aid. Effectiveness in the use of aid may be important, particularly the active involvement of effective NGOs in Bangladesh, which received directly a significant portion of aid from some sources. The major indigenous NGOs and similar groups in Bangladesh placed a central emphasis on empowerment of women, and the impacts are generally viewed as having been very strong.

Governance, Entrenched Elites, and the Role of the Military

The military has always played a prominent role in Pakistan, and from 1999 to 2008 the nation was governed by a military ruler, General Pervez Musharraf. Pakistan’s long-standing rivalry with India and territorial dispute with it over Kashmir since 1947 have diverted resources as well as government attention from social priorities while reinforcing the influence of the military. The conflicts in northwest Pakistan and neighboring Afghanistan also emphasise a military role. On the other hand, in a heartening sign that democracy is taking firmer root, the May 2013 elections were widely considered fair and represented the first time that Pakistan has seen a civilian transfer of power after successful completion of a full term in office of a democratically elected government. Although the military was very active in Bangladeshi politics for nearly two decades after independence in 1971, the military’s relative withdrawal from politics and government after 1990 probably has been a factor in the country’s subsequent progress. Military involvement as the backer of a caretaker government in Bangladesh in 2007 and 2008 was widely viewed as relatively benign, and the country returned to elected civilian rule in 2009, but political polarisation and violence escalated dangerously in late 2013 and early 2014. In the 2014 elections, one of the two major parties (the BNP) boycotted the election, after which the ruling Awami League party took decisive control. Neither country has been particularly transparent or free from corruption. In fact, in its 2017 Corruption Perceptions Index, Transparency International gave poor scores to both countries, with 32 for Pakistan and an even worse 28 for Bangladesh (out of a possible 100). Crony capitalism is a major



problem in Pakistan, but is also a serious concern in Bangladesh. Pakistan elected a new government in 2018 on an anti-corruption platform, and has begun new, if small-scale, poverty alleviation programmes. The new president was elected with high hopes, but with awareness that elites are so entrenched that it is difficult to achieve transformative changes.

Civil Society

When both government and the private sector have serious weaknesses, there is a special need for civil society or “citizen sector,” including nongovernmental organisations (NGOs), also called nonprofit organisations. Here the difference is dramatic. Bangladesh has one of the most vibrant NGO sectors in the world, the most highly developed in Asia. This will be explored in detail in the end-of-chapter case study in Chapter 11, where different approaches of NGOs to poverty action in Bangladesh will be discussed in the cases of BRAC and of the Grameen Bank. An indicator of how far Bangladesh has come—both its economy and civil society—is the way it handled the Rohingya refugee crisis after 750,000 Muslims fled from atrocities and persecution in Myanmar (Burma) by 2018. If a larger NGO sector could be developed in Pakistan, perhaps led by the many educated Pakistanis living in the United Kingdom, the United States, and Canada, it might play a similar catalysing role.

Ishrat Husain proposed that Pakistan has experienced an “elitist growth model,” which he identified as combining a powerful leader or succession of leaders operating without checks and balances, a bureaucratic class that unquestioningly implements the wishes of the leader, and a passive and subservient population. He argued that “failure of governance and the consistent domination of political power and state apparatus by a narrowly based elite seeking to advance private and family interests to the exclusion of the majority of the population lies at the root of the problem.” Husain showed that Pakistan has exhibited these characteristics since independence and points out that “this combination of strong autocratic leaders, a pliant bureaucracy, and a subservient population made it possible for the benefits of growth to be unequally distributed and concentrated.” He concluded that “the ruling elites found it convenient to perpetuate low literacy rates. The lower the proportion of literate people, the lower the probability

that the ruling elite could be replaced.” One reason is that, while education for girls as well as boys is a boon for development as a whole, it is not necessarily in the economic and political interests of some of the elites in powerful positions, especially at the local or regional level. The dominance of large landowners over tenants in the social, political, and economic spheres is all too apparent in rural Pakistan. With education, as some landlords and business operators well know, workers, especially women, may finally demand that laws that are in place to protect them be enforced. It is sometimes in the owners’ interest to see that this does not happen.

Concluding Remarks

The differences in social development in Bangladesh and Pakistan are not as overwhelming as would be found in a comparison with Sri Lanka, which has had favourable human development statistics for its low-income level despite enduring civil conflict, or even as dramatic as found between low-income states in India, such as the relatively high human development state of Kerala and the low-development state of Bihar. But Pakistan’s growth has been higher than many countries that have made much greater social improvements and have done much better with available aid. The alternative interpretation of Pakistan’s experience is that economic growth is, after all, possible even without high investment in health and education. But the long-term trends are for slower growth in Pakistan and higher growth in Bangladesh, making this interpretation simply untenable. As Easterly conjectured, some “development and growth was attainable with a skilled managerial elite and unskilled workers, but over time this strategy ran into diminishing returns, as human capital did not grow at the same rate as the other factors. . . .”

The current development levels of these two countries are not dramatically different. But this itself is the dramatic finding, given the wide disparity when the countries separated in 1971.

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Concepts for Review

- | | |
|------------------------------|--------------------------------------|
| Capabilities | Lower-middle income countries (LMCs) |
| Development | Living standards strata |
| Development economics | Millennium Development Goals (MDGs) |
| Functionings | Sector |
| Gross national income (GNI) | Social system |
| High-income countries (HICs) | Subsistence economy |
| Institutions | Sustainable Development Goals (SDGs) |
| Low-Income Country (LIC) | Upper-middle income countries (UMCs) |

Questions for Discussion

1. Why is economics central to an understanding of the problems of development?
2. Briefly describe the various definitions of the term '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 text description of development is adequate.
3. Why is an understanding of development crucial to policy formulation in developing nations? Do you think it is possible for a nation to agree on a rough definition of development and orient its strategies accordingly?
4. 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 and even have reached high average incomes but may still not be developed?
5. It has been said that ending extreme poverty and achieving genuine development are possible but not inevitable and that this gives the study of economic development its moral and intellectual urgency. What is meant by this? Comment and evaluate.
6. What would achieving the vision of ending extreme income and multidimensional poverty "look like," beyond raising minimum family income to above the poverty line to be able to buy basics? (To illustrate with an example to consider on childhood: children being well nourished, not stunted, not vulnerable to avoidable disease, not having to be doing child labour, going to school, with a trained teacher, who shows up, and teaches well, where students are able to really learn.)
7. How does the concept of "capabilities to function" help us gain insight into development goals and achievements? Is money enough? Why or why not?
8. Besides those discussed in the text, propose at least one other potential *functioning* (in the sense of Amartya Sen), and briefly justify in what way your suggested functioning is important.
9. In this chapter we have already been addressing some of the most basic questions for development economics. What is the real meaning of development? To what extent do the Sustainable Development Goals fit with these meanings? Describe the SDGs as an approach, and identify the types of information they span.
10. Briefly, what major relationships can you identify between Sen's capabilities approach on one hand and SDGs on the other hand? To what extent is the SDG list close to Sen's framework? How does it less-than-fully reflect Sen's approach?
11. What forces may be at work in giving the Sustainable Development Goals, like the Millennium Development Goals before them, such a high profile in international economic relations?
12. What are some key similarities and differences between the SDGs and the earlier MDGs?
13. To what extent do the same criticisms apply to SDGs as were raised in the past concerning the MDGs? If you think one or more criticisms are addressed—at least in part—please explain (for example, how significant is adopting the "Universality" principle?). If you think a new criticism is relevant—specific to SDGs, or that applies also to MDGs but not listed above—specify and explain. Do you have a proposal for how to remedy a problem that you specify or that has been raised?
14. Regardless of your specific views about the SDGs, do you think it is better to have these goals (or perhaps even any goals) than not to specify international development goals? How, or why not?
15. In what ways is the concept of the developing world a useful and informative one? In what ways could it be an overgeneralisation or even misleading for some purposes?
16. What fundamental factors in human development are brought out in the comparative case study of Bangladesh and Pakistan?

Notes

1. Lucas, R.E. (1988), 'On the mechanics of economic development,' *Journal of Monetary Economics*, 22(1): 5.
2. People within each of the four individual/family-level strata differ significantly from others grouped in their stratum; the introductory vignettes are "stylised" in the sense that they represent conditions common for the strata, that are put together to provide a sense of conditions rather than detailed statistics and combinations of characteristics applying throughout the strata. They are not specific cases, but provide some intuition for the statistics we examine in the coming chapters. The global income level for living in "extreme poverty" is \$1.90 per person per day in real income. Of course there are many ways to categorise and portray features of different levels of living; this is just one way to do so to provide a first introduction. An excellent and more detailed presentation of four living strata may be found in *Factfulness*, by the late Hans Rosling (with Ola Rosling and Anna Rosling Ronnlund) (Flatiron Books, 2018). We deeply mourn Dr. Rosling's untimely passing.
3. The calculation is known as "Purchasing Power Parity" (PPP), and is explained in the next chapter. The amount is calculated on average prices in the country—for the US this would not be one of the high-cost coastal cities, but also not an area where the cost of living is strikingly low. In September 2018 the World Bank estimated that about 10% of the world's population lives on incomes below the level of \$1.90 per day: <https://data.worldbank.org/indicator/SI.POV.DDAY?locations=1W&start=1981&end=2015&view=chart> MPI Update: <http://hdr.undp.org/en/2018-MPI> (accessed 14 November 2018). All of this is examined in detail in Chapters 2, 5, 6, and 7.
4. Roughly, \$1.90 corresponds to what is often referred to as "a dollar a day," but adjusted for inflation (to 2011 dollars) and for the lower prices generally found in low- and lower-middle-income countries. Estimates of income distributions among the poor may be generated at <http://iresearch.worldbank.org/PovcalNet/PovCalculator.aspx>.
5. This is partway between the World Bank's official secondary poverty line of \$3.20 per day and its final, tertiary poverty line of \$5.50 per day. A peri-urban area is usually defined as located near a modern city centre but characterised by substandard housing and other slum conditions, as examined in Chapter 7.
6. For a vivid and insightful description of the lives of some young rural women who moved to cities to take factory jobs, see Chang, L.T. (2009), *Factory Girls: From Village to City in a Changing China*, New York: Spiegel & Grau. The book is important in part because of the way it portrays the types of skills needed to succeed in a high-growth but low-regulation environment—these skills are learned on the job, and often require only minimal standards. (However, the description of the paragraph leading to this endnote is a much more generalised one than the women featured in the book, a composite, and perhaps more typical. We thank Maggie Chen for reviewing this description.)
7. This box had its inspiration in the highly recommended *Factfulness*, by Hans Rosling with Ola Rosling and Anna Rosling Ronnlund (Flatiron Books, 2018).
8. The usefulness of a "very high-income countries" category is discussed briefly in Chapter 2.
9. These numbers are based on exchange rates, similar to the rate you could get exchanging dollars at the airport—we will see shortly that better measures adjust for real differences in the cost of living; they usually show that lower- and middle-income countries have significantly higher real incomes than these numbers suggest.
10. A common view is that it has been more difficult for a middle-income country to become and stay a high-income country, than for a low-income country to become a middle-income country. The 1990 population share for LICs was 53%, as reported in the World Bank 1991 WDR.
11. Stephen C. Smith, "Development economics meets the challenges of lagging US areas: applications to education, health and nutrition, behavior, and infrastructure," in *Place-Based Policies for Shared Economic Growth*, eds. Jay Shambaugh and Ryan Nunn (Washington: Brookings Institution, September 2018), pp. 185–242: <https://www.brookings.edu/research/development-economics-meets-the->

- challenges-of-lagging-u-s-areas-applications-to-education-health-and-nutrition-behavior-and-infrastructure/.
12. Amartya Sen, "Development thinking at the beginning of the 21st century" in *Economic and Social Development in the XXI Century*, ed. Luis Emmerij (Inter-American Development Bank and Johns Hopkins University Press, Washington, D.C., 1997) [Also available as LSE working paper, Copyright Amartya Sen, at <http://eprints.lse.ac.uk/6711/>.] See also Sen, *Commodities and Capabilities* (Amsterdam: Elsevier, 1985). We thank Sabina Alkire and James Foster for their helpful suggestions on updating this section for the thirteenth edition to reflect Professor Sen's latest thinking on his capability approach, including ideas reflected in his book, *The Idea of Justice* (Belknap Press, 2011).
 13. Amartya Sen, *Commodities and Capabilities*, p. 12.
 14. See Sen, *Commodities and Capabilities*, pp. 25–26; and *Development as Freedom* (Anchor, August 15, 2000), pp. 70–71.
 15. Sen, *Commodities and Capabilities*, pp. 25–26. Copyright © 1999 by Amartya Sen. Reprinted with permission.
 16. *Ibid.*, p. 21. Sen points out that even if we identify utility with "desire fulfillment," we still suffer from the twin defects of "physical-condition neglect" and "valuation neglect." He notes that "valuing is not the same thing as desiring." Ignoring a person's objectively deprived physical condition just because the person considers this subjectively unimportant yields an obviously defective measure of well-being. The paper by Foster and Handy is "External capabilities," in *Arguments for a Better World: Essays in Honor of Amartya Sen*, eds. Kaushik Basu and Ravi Kanbur (Oxford: Oxford University Press, 2008).
 17. *Ibid.*, pp. 10–11. From *Commodities and Capabilities* by Amartya Sen. Copyright © 1999 by Amartya Sen. Reprinted with permission.
 18. Amartya Sen, *Commodities and Capabilities*, p. 13.
 19. See, for example, William Easterly, "The political economy of growth without development: A case study of Pakistan," in *In Search of Prosperity: Analytic Narratives on Economic Growth*, ed. Dani Rodrik (Princeton, N.J.: Princeton University Press, 2003).
 20. Dudley Seers, "The meaning of development," paper presented at the Eleventh World Conference of the Society for International Development, New Delhi (1969), p. 3.
 21. Denis Goulet, *The Cruel Choice: A New Concept in the Theory of Development* (New York: Atheneum, 1971), pp. 90 and 23. Quotes reprinted with permission from Ana Maria Goulet. 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* (New York: Continuum, 1990).
 22. W. Arthur Lewis, "Is economic growth desirable?" in *The Theory of Economic Growth* (London: Allen & Unwin, 1963), p. 420.
 23. Sen, *Commodities and Capabilities*, p. 52.
 24. See Richard Layard, *Happiness: Lessons from a New Science* (New York: Penguin, 2005), pp. 32–35 and 62–70. The data on happiness and satisfaction are based on an average of the two responses on opinion surveys.
 25. Layard, *Happiness: Lessons from a New Science*. For more on the underlying data and analysis, see <http://cep.lse.ac.uk/layard/annex.pdf>. For an excellent review of the literature that puts the data and their interpretation in useful perspective, see Carol Graham, *Happiness around the World: The Paradox of Happy Peasants and Miserable Millionaires* (New York: Oxford University Press, 2010).
 26. For the revised happiness index formula being considered in Bhutan, see <http://www.grossnationalhappiness.com/gnhIndex/introductionGNH.aspx>. The formula is closely related to the Alkire-Foster Multidimensional Poverty Index, examined in detail in Chapter 5. For earlier background see Andrew C. Revkin, "A new measure of wellbeing from a happy little kingdom," *New York Times*, 4 October 2005, <http://www.nytimes.com/2005/10/04/science/04happ.html>.
 27. This is sometimes referred to alternatively as the "Sarkozy" Commission, because it was formed and reported when Nicolas Sarkozy was president of France.
 28. Sustainable Development Goals Resolution adopted by the General Assembly on 25 September 2015: http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E.

29. The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda, 2013, may be found at: <http://www.un.org/sg/management/hlppost2015.shtml>. The Open Working Group (OWG) on Sustainable Development Goals made a proposal for universally applicable goals: <https://sustainabledevelopment.un.org/owg.html>. The Intergovernmental Expert Committee on Sustainable Development Financing provided a parallel report: <https://sustainabledevelopment.un.org/intergovernmental/financecommittee>. The Secretary-General's Post-2015 "Synthesis" report is found at: http://www.un.org/ga/search/view_doc.asp?symbol=A/69/700&Lang=E.
30. Source: <https://sustainabledevelopment.un.org/post2015/transformingourworld>.
31. See <https://unstats.un.org/sdgs/indicators/indicators-list/>.
32. See <https://sustainabledevelopment.un.org/sdgs>.
33. See Jan Vandemoortele, "Can the MDGs foster a new partnership for pro-poor policies?" in *NGOs and the Millennium Development Goals: Citizen Action to Reduce Poverty*, eds. Jennifer Brinkerhoff, Stephen C. Smith, and Hildy Teegen (New York: Palgrave Macmillan, 2007), and Sabina Alkire with James Foster, "The MDGs: Multidimensionality and Interconnection," at www.ophi.org.uk/wp-content/uploads/OPHI-RP-8a.pdf.
34. The amount by which this fraction fell is partly determined by the increase in world population. The 2016 estimate (the year after the MDG period concluded) is that 815 million people were living in hunger (UN SDG Report 2018).
35. For econometric evidence see Ahimbisibwe, Isaac and Rati Ram, "The contribution of millennium development GOALS towards Improvement in major development indicators, 1990–2015," *Applied Economics*, v. 51, 2 (January 2019), pp. 170–180.
36. See: The Sustainable Development Goals Report 2018, at <https://unstats.un.org/sdgs/report/2018/>, and <https://unstats.un.org/sdgs/files/report/2018/TheSustainableDevelopmentGoalsReport2018-EN.pdf>.
37. A prominent aid critic posted "just shoot me" as his response when the goals were announced (the post was soon removed so the critic, who may regret the comment, will not be named).