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Course Material on Political Economy of Development (CESt 2051).

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Chapter One: A General Overview on Political Economy of Development

1.1. The Notion of Development

1.1.1. The Meaning of “Development” and its Evolving Conceptions

Despite the fact that the word ‘development’ is one of the most commonly and frequently used concepts in our daily life, there are misconceptions and differences in meaning attached to it. It is a complex concept since the term may mean different things to different people, context and time.

In economic term, development has traditionally meant the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its Gross national product (GNP) at rates of perhaps 5% to 7% or more. A common alternative economic index of development is the use of rates of growth of income per capita or per capita GNP to take in to account *the ability of a nation to expand its output at a rate faster than the growth rate of its population*. The levels and rates of growth of real per capita GNP (Monetary growth of GNP per capita minus the rate of inflation) are normally used to measure the overall economic well-being of a population-how much of real goods and services is available to the average citizen for consumption and investment.

Economic development in the past has also been typically seen in terms of the planned alteration of the structure of production and employment so that agriculture’s share of both declines and that of the manufacturing and service industries increases. Development strategies have therefore usually focused on rapid industrialization, often at the expense of agriculture and rural development. Prior to the 1970s at least, development was nearly always seen as an economic phenomenon in which rapid gains in overall and per capita GNP growth would either ‘’ Trickle down’’ to the masses in the form of jobs and other economic opportunities or create the necessary conditions for the wider distribution of the economic and social benefits of growth. Problems of poverty, discrimination, unemployment, and income distribution were of secondary importance to ‘’ getting the growth job done.’’

The Modern Concept of Development

The experience of the 1950's and 1960's, when many developing nations did realize their economic growth-targets but the level of living of the masses of people remained for the most part unchanged, signaled that something was very wrong with narrow definition of development. During the 1970's, economic development came to be redefined in terms of the reduction and elimination of poverty, inequality, and unemployment within the context of a growing economy. Redistribution from growth'' became a common slogan. A number of developing countries experienced relatively high rates of growth of per capita income during the 1960's and the 1970's but showed little or no improvement or even an actual decline in employment, equality, and the real incomes of the bottom 40% of their populations. The situation in the 1980's and 1990's worsened further as GNP growth rates turned negative for many least developed countries/LDCs, and the governments, facing mounting foreign-debt problems, were forced to cut back on their already limited social and economic programs. An increasing number of economists and policy makers clamored for the '' dethronement of GNP'' and the elevation of direct attacks on widespread absolute poverty, increasingly inequitable income distributions, and rising unemployment.

Economic progress is one of the essential components of development. However, development is not purely an economic phenomenon. In an ultimate sense, it must encompass more than the material and financial side of people's lives. Development should therefore be perceived as a multidimensional process involving the reorganization and reorientation of entire economic and social systems. In addition to improvements in incomes and output, it typically involves radical changes in institutional, social, and administrative structures as well as in popular attitudes and, in many cases, even customs and beliefs. Although development is usually defined in a national context, its widespread realization may necessitate fundamental modification of the international economic and social system as well.

Amartya Sen's View on Development (Capabilities Approach)

The view that income and wealth are not ends in themselves but instruments for other purposes goes back at least as far as Aristotle. Amartya Sen, the 1998 Noble laureate in economics, argues that the ''capability to function'' is what really matters for status as a poor or non-poor person.

As Sen put it, ‘’ Economic growth cannot be sensibly treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy.’’ In effect Sen argues that poverty cannot be properly measured by income or even by the utility as conventionally understood; what matters is not the things a person has-or the feelings these provide-but what a person is, or can be, and does or can do. What matters for the wellbeing are not just the characteristics of commodities consumed, as in the utility approach, but what use the consumer can and does make of commodities? For example, a book is of little value to an illiterate person (except perhaps as cooking fuel or as a status symbol). Or as Sen noted, a person with parasitic diseases will be less able to extract nourishment from a given quantity of food than will someone without parasites.

Development must therefore be conceived of as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty. Development in its essence, must present the whole range of changes by which an entire social system, tuned to the diverse basic needs and desires of individuals and social groups within that system, moves away from a condition of life widely perceived as unsatisfactory toward a situation or condition of life regarded as materially and spiritually better.

1.1.2. Core Values and Objectives of Development

Core Values of Development

i. ***Sustenance: The ability to meet basic needs***

All people have certain basic needs without which life would impossible. These life-sustaining basic human needs include food, shelter, health, and protection. When any of these is absent or in critically short supply, a condition of absolute underdevelopment exists. A basic function of all economic activity, therefore, is to provide as many people as possible with the means of overcoming the helplessness and misery arising from a lack of food, shelter, health, and protection.

ii. Self-Esteem: To be a person

It is sense of worth and self-respect, of not being used as a tool by others for their own ends. All peoples and societies seek some basic form of self-esteem, although they may call it authenticity, identity, dignity, respect, honor, or recognition. The nature and form of this self-esteem may vary from society to society and from culture to culture.

iii. Freedom from servitude: To be able to choose

It is related to the concept of human freedom. It is to be understood in the sense of emancipation from alienating material conditions of life and from social servitude to nature, ignorance, other people, misery, institutions, and dogmatic beliefs, especially that one's poverty is one's predestination. The concept of human freedom should also encompass various components of political freedom including, but not limited to, personal security, the rule of law, freedom of expression, political participation, and equality of opportunity.

Objectives of Development

Whatever the specific components of this better life, development in all societies must have at least the following three objectives:

- To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection.
- To raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem.
- To expand the range of economic social choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation states but also to the forces of ignorance and human misery.

The Concepts of Sustainable Development

The term "sustainability'' derives from the Latin root sus-tinere, which means to "under-hold" or hold up from underneath. Accordingly, sustainability depicts a paradigm that seeks to protect the planet's life support system to endure longevity for humans and other species. Sustainable development sees the survival, continued progress, and maintenance of the human community as dependent on the continued health and viability of the earth's life support systems.

Most definitions of the terms 'sustainability and sustainable development' center on the relationship between human beings and the resources they depend on for all developmental activities.

Sustainable development refers to a development, which meets the needs of the present generation without compromising the needs of future generation to meet their own needs. Sustainable development is concerned with the development of a society where the costs of development are not transferred to future generations, or at least an attempt is made to compensate such costs. It is a strategic process of changes in our social systems and institutions needed to achieve sustainability. Sustainable development is a means of improving the quality of human life whilst living within the carrying capacity of the ecosystem For economists, a development path is sustainable “if and only if the stock of overall capital assets remains constant or rises over time.

Sustainable development is about creating a better alternative to the system at work, because, based on our present understanding, the business as usual scenario will bring great disasters to humankind, and is not sustainable. It is important to mobilize successfully international, national, community and human intellectual resources in general towards solving problems that degrade the life support system, compromising the viability of local communities, and hunting the health and well-being of individuals.

To achieve sustainability, society needs to stop putting their knowledge in to separate compartments, acting on the mistaken premise that issues can be dealt with discretely. It has to overcome the bias of over-specialization, and look at the world as one planet, with an integrated set of systems, where everything is connected to everything else. To respond to the challenge of finding ways in which all members of the human family can live satisfying life’s within the means of nature, would require collaborative efforts from a multiplicity of talents: thinkers about society, scientists and practitioners, business leaders, farmers, governments and citizens.

Sustainable development management is about making advances within the sustainable development sector (for instance pollution monitoring and mitigation technologies) and in areas where the sustainable development interest is seen as overlapping with other sectorial priorities (for example, employment in resource extraction and processing industry; new housing in suburbs).

Causes for the Emergence of Sustainable Development

The fundamental premise that underpins the concept of sustainable development is that the peoples of the world depend for their survival on an ecological system that is both global and finite. Therefore, observing nature's limits is important to prevent an irreversible depletion of the life support systems. The followings are the causes for the emergence of sustainable development:

- Future growth and quality of life are critically dependent on the quality of the environment.
- The natural resource base of a country and the quality of its air, water and land represents a common heritage for all generations.
- Destroying endowments indiscriminately in the pursuit of short-term economic goals penalizes both present and especially future generations. In this regard, policy makers should incorporate some form of environmental accounting.

> The earth is one but the world is not. We all depend on one biosphere for sustaining our lives. Yet each community, each country, strives for survival and prosperity with little regard for its impact on others. Some consume the Earth's resources at a rate that would leave little for future generations. Others, many more in numbers, consume far too little and live with the prospect of hunger, squalor, disease, and early dead.

The shift of paradigm from present practices to holistic thinking ad strategic actions that link immediate to long-term needs and priorities depends on the successful mobilization of community and human intellectual resources. The transformation depends on aboard base of trust and cooperation. Community solidarity rests upon some basic conditions of human dignity and social cohesion. The challenge, therefore, is to bring all sectors of society (government, business, farming and agriculture, the civil society) into some kind of basic agreement on values and concerns, a new perspective based on a common understanding of sustainability challenges and opportunities. This will facilitate the sharing of resources that is important for the making of wise decisions by countries, communities and individuals in facing the daunting task of "bending the curve'' toward sustainability.

1.1.3. Dimensions of Development

Since development is multidimensional should not be discussed in terms of economic development alone. Development is a complex phenomenon comprising many dimensions political, social, economic, administrative and so on.

Political Development: is the capacity of the political system to deal with its own fundamental problems more effectively while responding to the changing political demands of the people.

While Gabriel A. Almond defines political development in terms of "*performance capabilities"*; David Easton in his Analysis of Political Systems argued that the political system as part of the society engaged in the "authoritative allocation of values". The political component of development seems to be consists of; increasing rationality, secularization, equality and participation in the political system.

Political and Civil liberties do constitute the non- economic components of development. A free press and expanding flow of information often spur social and economic progress by exposing actions of the government or the private sector that might otherwise hold development back. Civil liberties include the rights to free expression, to organize or demonstrate as well as rights to a degree of autonomy such as freedom of religion, education, travel and other personal rights

Social Development: is a broad concept and which is quite close with economic development. As Schumpeter rightly says, "economic development is not a phenomenon to be explained economically …. (but) is dragged along by the changes in the surrounding world. It has come to mean bringing about improvement in the social being of the people and stress on; provision of health services, education, housing, protection of children, a change in the status of women, regulation of labor, improved status for workers and, reduction of disease, poverty and other social ills.

The social component of development consists of such features as:

- ❖ Accent on rationality as opposed to reliance on traditions and customs.
- ❖ Transformation of obligations from a network of individual, family or group relationships into obligations to the community and
- ❖ Selection by achievement rather than ascription.
- ❖ Increase in social mobility and social freedom as opposed to social rigidities.

Economic Development/ ED*:* has traditionally been seen as the first form of development. It has often been strictly associated with the concept of economic growth, in turn defined as an increase in the *per capita* income of the economic system. It is essentially an important component of development. Its essential components are:

- Raising National income (total earnings of resource suppliers during a given period of time)
- Reducing poverty and
- More equitable distribution of wealth and income.

Economic development has the following main features:

- ✓ ***It is a dynamic process***: It suggests that all economic development variables should continue changing to suit the requirements of economic development.
- ✓ ***It is a long-term phenomenon:*** Economic development is not a miracle (an event that can't be considered by laws of nature an act of God) which can be performed in a short span of time.
- ✓ ***It is measured by the real per-capita income****:* Higher per -capita income in national income is possible only when on one side there is a continuous increase in the national income and per-capita income, and on the other side price rise and growth of population is under control.
- ✓ It is the quantitative as well as qualitative improvement in the variables (real national income, net national output, capital investment, value of savings etc.)

Per capita income: Average income per person; the total income of the Population divided by the number of People. It implies growth plus change. Change or improvement refers to the alteration in the social, political, technical and institutional framework to increases: the productivity of capital, efficiency of labor, technical skill, level of effective demand and employment, poverty, ill-health etc.

- ✓ ***Distributive justice:*** Fair and equitable distribution of wealth is an essential condition for ED, because in the face of glaring inequalities, people will not be prepared to give their whole-hearted and continuous cooperation for the implementation of economic programs for development.
- ✓ ***Human approach*:** ED refers to the raising of people from inhuman elements like poverty, unemployment, ill-health etc and making them more human.

Administrative Development: The emerging problem in developing countries is how to combine skills and bring them to bear more effectively on action development programmes which will develop their economy, such improvements in the system and increase the capacity of the political system. In Africa, Asia and Latin America, the need for development administration has been well recognized as an instrument of implementing policies and plans directed towards nation- building and socio-economic progress. Its basic assumption is building and improvement of a public administration system as part of the totality of efforts for national development.

Administrative development implies the creation, improvement and enhancement of administrative capabilities to achieve prescribed development goals. The process depends on;

- Modernization of administrative processes
- Inducing the spirit of innovation
- Cultivating a highly motivating climate
- Increasing differentiation
- Effective integration and
- Positive attitudinal and behavioral changes among the task force.

However it is not possible to draw a line of demarcation between the political, economic, social, administrative, and other components of development since these components tend to come into play when development is seen taking place through the cumulative circular causation process.

1.1.4. Development and Economic Growth

Economic growth is the increase in the value of the goods and services produced by an economy. It is conventionally measured as the percent rate of increase in real gross domestic product/GDP. In economics, "economic growth'' or '' economic growth history'' refers to growth of potential output, i.e., production at '' full employment,'' which is caused by growth in aggregate demand or observed output. It is measured as annual percent change of national income,

The word development, on the other hand, signifies changes that are permanent. It is true when a country permanently achieves a higher level of welfare than it had previously. However, it is quite possible for actual growth to be short lived: during war, for example, a country might achieve remarkably high growth rates: but the physical output is immediately turned to dust as bombs and missiles are exploded, and at the end of this growth period the country as a whole could be worse off than before. Development implies that growth in one sector has substantial effects on other sectors as well. As far as potential growth is concerned however, a country's productive capacity might be expanded by growth in just a single sector as an oil producing country which expands its oil-related industries and discovers new reserves will experience potential growth.

Economic growth and development is different in that the former centers on 'quantity', whereas the latter also considers quality. Growth takes place when there is an increase in the per capita income or output of a country; development occurs when the cost of growth is minimized, and when the benefits of growth are distributed among the whole population. Development cannot be said to have taken place unless there have been improvements in the quality of life such as better living conditions, health care, improved diets, increased literacy, lower infant mortality rates, reducing poverty, increasing life expectancy, freedom to take part in the decision making and feeding the people. Cultural, recreational and social amenities are also essential components of the quality of life. Economic growth could take place without any economic development. An example is provided by those oil-exporting countries, which experienced sharp increases in national income but saw hardly any changes in their economic structure. Hence, economic growth does not necessarily make people happier or satisfied that development does.

Social scientists have stated that development should pay attention to changes in family structures, attitudes, and mentalities, cultural changes, demographic developments, political changes, and nation building, the transformation of rural societies and processes of urbanization. Development also involves a change of the entire society in the direction of the modernization ideals that include;

- Rationality (in policy, in the application of technological knowledge, in structuring social relations, in thinking about objectives and means).
- Planning for development; searching for a coherent system of policy measures to change situations that are considered undesirable.
- Increases in production per capita and production per worker, primarily through industrialization and increased capita intensity of production.
- Improvements in the standard of living.

- Declines in social and economic inequality. Development ought to be for the benefit of the people, the masses.
- Consolidation of the national state integration.
- National independence
- Political democratization
- Increased social discipline.

1.1.5. Measures of Development

In measuring development a person's values are important here; for instance, different religious or political views can affect what might go in. Fashion can also be a factor – e.g., in some periods and countries, freedom may be valued more. Tastes vary too, for instance hot baths matter a lot in Japan but not much in Australia. Number per thousand or ten thousand of the population, of things like doctors, nurses, hospital beds, telephones, newspapers, TV sets, or radios also important in that the higher the figure the "more developed" the country registers.

There are several techniques to measure development. Some are discussed below.

Economic Wealth: In practice to those living in western industrialized society economic development tends to be synonymous with wealth. Wealth is a means of explaining a country's material standard of living. It is measured, or explained as the Gross Domestic product (GDP) or Gross National Product (GNP). GDP is the total monetary value of goods and service produced by a nation/region in a year. Gross Domestic Product per capita or Gross National Product per capita income is calculated by dividing the total monetary value of all goods and services produced in a country by its total population. Although GDP and GNP per capita income figures are easier to measure and obtain than other development indicators such as social wellbeing, there are limitations to their use and validity.

Some critics (drawbacks) of using GDP in measuring development includes;

- It does not provide any information relevant to the distribution of income in a country.
- It does not take into account negative externalities from pollution consequent to economic growth. Thus, the amount of growth may be overstated once we take pollution in to account.

- It does not take in to account positive externalities that may result from services such as education and health.
- It excludes the value of all the activities that take place outside of the market place (such as cost-free leisure activities like hiking).
- It does not consider some service for example home services by women
- It requires huge financial and human capital to carryout and gathers data.

Hence, GDP should always be viewed merely as an indicator and not an absolute scale.

Human Development Index: The Human Development Index (HDI) of the United Nations Development Program (UNDP), invented in1990 by Mahbul ul Haq, is a standard means to measure the impact of economic policies on quality of life and published each year in the Human development Report (HDR) with information for each of the 160 countries. The UNDP defines human development as a ‘process of enlarging people’s choices’ like;

- GDP per capita, adjusted by purchasing power parity (PPP) which means what the money buys in that country.
- Long and health life (reflected by figures for life expectancy).
- Education (measured by the adult literacy rate).

HDI measures a country’s average achievements in these three dimensions of human development. Hence, the UNDP sees “human development” to mean that people are long lived (longevity), well educated (knowledge), and enjoy a high standard of living (standard of living). Each country receives a score of between 0 and 1. Within this range; 0 is the worst, <0.5 is a low, 0.5 - 0.8 is “medium, >0.8 is high and 1 is best level.

Yet this measure misses out things like freedom, human rights, unemployment, and access to clean water.

Human Poverty Index (HPI): measures deprivation using the percent of people expected to die before age 40, the percent of illiterate adults, the percent of people without access to health services and safe water and the percent of underweight children under five.

The Misery Index: It measures the political significance of the state of the economy. It is an economic indicator, created by economist Arthur Okun, and found by adding the unemployment rate to the inflation rate. It is assumed that both a higher rate of unemployment and a worsening of inflation create economic and social costs for a country.

Happy Planet Index: Is an index of human well-being and environmental impact that was introduced by the New Economics Foundation (NEF) in July 2006. It is designed to challenge well-established indices of countries' development, such as GDP and the HDI, which do not taking sustainability into account. In particular, GDP is seen as inappropriate, as the usual ultimate aim of most people is not to be rich, but to be happy and healthy.

1.2. The Notion of Political Economy/PE

The term PE is derived from the Greek ***polis***, meaning "city" or "state," and ***oikonomos***, meaning "one who manages a household or estate." Thus, PE can be understood as the study of how a country—the public's household — is managed or governed, taking into account political and economic factors. It is developed in the 18th C as the study of the economies of states largely as a reaction to mercantilism, when the Scottish philosophers Adam Smith (1723–90) and David Hume (1711–76) and the French economist François Quesnay(1694–1774) began to approach the systematic systematically. They took a secular approach, refusing to explain the distribution of wealth and power in terms of God's will and instead appealing to political, economic, technological, natural, and social factors and the complex interactions between them.

Mercantilism: *is an economic system in Europe, as the case in Japan, India, and South Korea in 18th C to increase a nation's wealth by government regulation of all of the nation's commercial interests. It emphasizes the needs of the state to grow wealthy and power above the needs of society. It is a system that the government owned or controlled (often indirectly) industries based on some perceived need for international competitiveness with no emphasizes for freedom and equality*.

Political economy meant deals with the production, distribution and consumption of goods and services, and their management at the state level. It is the study and use of how economic theory and methods influences political ideology. It is interdisciplinary studies drawing upon economics, political science, law, history, sociology and others in explaining the crucial role of political factors in determining economic outcomes. It also deals with political science and economics as a unified subject and their interrelationships. PE also deals with production and trade and their relations with law, custom, and government;

the distribution of national income and wealth, and the relationships between individuals and society and between markets and the state.

International political economy (IPE) is about the interplay of economics and politics in world affairs. Its core question is: what drives and explains events in the world economy? It tries to explain what creates and perpetuates institutions and what impact institutions have on the world economy.

1.2.1. The nexus between Politics and Economics

The word economy, drawn from two Greek words, house and law, which together signify the management or arrangement of the material part of household or domestic affairs, or in most common sense the avoidance of waste. In a wider sense it refers to a system/arrangement/adaptation of means to ends or of parts to a whole.

The word political on the other hand is related to citizens and state, things coming within the scope and action of the commonwealth or government and public policy. Politics is the theory and practice of influencing people through the exercise of power. PE involves a political dimension that accounts for the use of power by a variety of actors, including individuals, domestic groups, states, international organizations, NGOs, and transnational corporations (TNCs) who make decisions about the distribution of tangible things (such as money and products) and intangible things (such as security and innovation). In almost all cases, politics involves the making of rules pertaining to how states and societies achieve their goals.

PE also involves an economic dimension that deals with how scarce resources are distributed among individuals, groups, and nation-states. A variety of public and private institutions allocate resources on a day-to-day basis in local markets where we shop. Today, a market is not just a place where people go to buy or exchange something face to face with the product’s maker. The market can also be thought of as a driving force that shapes human behavior. When consumers buy things, when investors purchase stocks, and when banks lend money, their transactions constitute a vast and sophisticated web of relationships that coordinate economic activities all over the world.

In theory, economics could be non-political. An ideal economist should ignore any political bias or prejudice to give neutral and unbiased information and recommendations on how to improve the economic performance of a country. Elected politicians could then assess this economic information and decide. However, in practice there is a strong relationship between economics and politics because the performance of the economy is one of the key political battlegrounds. Many economic issues are inherently political seen through the eyes of political beliefs. For example, some people are instinctively more suspicious of government intervention. Therefore, they prefer economic policies which seek to reduce government interference in the economy. If you set different economists to report on the desirability of income tax cuts for the rich, their policy proposals are likely to reflect their political preferences. Other economists may have a preference for promoting greater equality in society and be more willing to encourage government intervention to pursue that end. Some economist, who may remain neutral without any political leaning, may produce a paper that perhaps challenges their previous views.

Politicians are interested in conducting policy as much as possible. Dependent on public support, however, they have to make sure that conducting their policy is sufficiently justified in the eyes of the public. Economics can provide politics with precisely this sort of justification. The politics exerts influence over economic science to make it more justification theories

1.2.2. The Nature of Domestic and International Political Economy

The core of the domestic – international connection is the impact of domestic institutions interest on international interaction, and vice versa. The interaction of domestic and international conditions can be analyzed in terms of three factors: *interest, institution and information.* The interests of economic and political actors are a driving force behind economic policy decisions.

Political economists attempting to understand domestic macroeconomic policy often study the influence of political institutions like legislatures, executives, and judiciaries, and the implementation of public policy by bureaucratic agencies. The influence of political and societal actors such as interest groups, political parties, churches, elections, and the media, and ideologies like democracy, fascism, or communism also important.

Comparative analysis also considers the extent to which international political and economic conditions increasingly blur the line between domestic and foreign policies in different countries.

For example, in many countries trade policy no longer reflects strictly domestic objectives alone but also takes into account the trade policies of other governments and the directives of international financial institutions.

1.3. The Interplay between Political Economy and Development

Economic growth and political stability are deeply interconnected. Uncertainty associated with unstable political environment may reduce investment and the speed of economic development. Poor economic performance may lead to government collapse and political unrest. Political instability is likely to shorten policymakers' horizons leading to a more frequent switch of policies, creating volatility and thus, negatively affecting macroeconomic performance. Political instability also leads to higher inflation.

Chapter –Two

Theories on Development

2.1. Modernization Theory

For many people, ideas of development are linked to concepts of modernity. ‘Modernity’ in its broadest sense is the condition of being modern, new or up-to-date, so ‘the idea of “modernity” situates people in time’. Because of social, economic, political and cultural dynamism, what is ‘modern’ will change over time and also spatially. However, more specifically, ‘modernity’ has been used as a term to describe particular forms of economy and society based on the experiences of Western Europe. In economic terms, ‘modernity’ encompasses industrialization, urbanization and the increased use of technology within all sectors of the economy. This application of technology and scientific principles is also reflected within social and cultural spheres.

Modernization theory (1950s-1960s and 1990s) linked to urbanization, industrialization and the spread of education. Traditions are considered as obstacles to economic growth; hence, they need to be destroyed and replaced by Eurocentric or Westernized culture. The individual becomes more important as the fundamental unit of society than the family. All societies progress through similar stages of development. Underdeveloped countries are thus in a similar situation to that of today's developed areas at some time in the past. Therefore, underdeveloped countries can be helped to develop by accelerating them along these stages of development, through investment, technology transfers, and integration into the world market.

According to Alvin So, there are three main and historical elements which were favorable to the beginning of the modernization theory of development after WWII.

First, there was the rise of the United States as a superpower. While other Western nations, such as Great Britain, France, and Germany, were weakened by World War II, the United States emerged from the war strengthened, and became a world leader with the implementation of the Marshall Plan (A United States program of economic aid for the reconstruction of Europe (1948-1952); named after George Marshall) to reconstruct war-torn Western Europe.

Second, there was the spread of a united world communist movement. The Former Soviet Union extended its influence not only to Eastern Europe, but also to China and Korea.

Third, there was the disintegration of European colonial empires in Asia, Africa and Latin America, giving birth to many new nation-states in the Third World. These nascent nation-states were in search of a model of development to promote their economy and to enhance their political independence.

Modern and Traditional Society

Modernization originally referred to the contrast and transition between a 'traditional' agrarian society and the kind of 'modern' society that is based on trade and industry.

✓ A traditional society is 'vertically' organized by hierarchical division by class or caste — a specialization of prestige. But a modern society is 'horizontally' organized by function, such that the major functions are performed by modular social systems which include the political system, the public administration (civil service), the armed forces, the legal system, the economy, religion, education, the health service and the mass media.

✓ While a traditional society is like a pyramid of top-down authority, a modern society is more like a mosaic held together by the cement of mutual inter-dependence.

✓ Traditional societies consist of a single, unified system with a single center of power; while a modern society is composed of a plurality of autonomous systems which interact with each other, influence each other, but do not absorb each other.

✓ Modern societies are fundamentally heterogeneous with multiple centers of power; and this is no accident but intrinsic to their nature.

✓ Modern societies are much more complex than traditional societies and are growing ever-more complex. Traditional societies are simpler and have a static structure (or one that increases its complexity so slowly or erratically that they perceive themselves as static).

✓ Complexity is favored by selection processes, which are more powerful in modernizing societies, because specialization of function enables greater efficiency (for instance when division of labor, or increased trade and communications enables greater efficiency). Increasing efficiency then frees resources and drives further growth.

- ✓ The cohesion of modernizing societies requires more or less continuous growth. This is why it is impossible to stop modernization at a particular favored point— if growth stops then the nature of society reverts towards a traditional form.
- ✓ Growth in modern societies includes economic growth (increasing output and productivity), but also entails 'cognitive growth' — which means an increase in knowledge and capability across a wide range of activities such as science, technology and political administration.
- ✓ The difference between modernizing and traditional societies is profound — being the difference between simple static structure and complex dynamic process.

Modernization can be seen as the general mechanism by which the social transformation from agricultural dominance to domination by trade and industry takes place, and the permanent continuation of this process. According to modernization theories, *internal factors* in the countries, such as illiteracy, traditional agrarian structure, the traditional attitude of the population, the low division of labor, the lack of communication and infrastructure, etc., are responsible for underdevelopment (poverty and inadequate culture).

Differences in structure and historical origin are considered of little importance; international dependencies are not taken into account. Consequently, a change of these endogenous factors is the strategy for development. The industrialized countries are the model for economy and society, and this model will be reached sooner or later. Suitable measures are the modernization of the production apparatus, capital aid, transfer of know-how, so that the developing countries can reach the stage of industrialized countries as soon as possible. Development is seen as an increase of production and efficiency and measured primarily by comparing the per capita income.

Major Assumptions of Modernization Theory

- ✓ **a** phased process
- ✓ a homogenizing process: modernization produces tendencies toward convergence among societies, "as time goes on, they and we will increasingly resemble one another because the patterns of modernization are such that the more highly modernized societies become, the more they resemble one another" (Levy, 1967).
- ✓ a Europeanization or Americanization process

- ✓ an irreversible process, once started modernization cannot be stopped. In other words, once third world countries come into contact with the West, they will not be able to resist the impetus toward modernization
- ✓ a progressive process which in the long run is not only inevitable but desirable.

Rostow's Evolutionary Ladder of Development (Economic Factors)

1. Traditional Society: characterised by subsistence economy/output not traded or recorded , existence of barter , high levels of agriculture and labour intensive agriculture
2. Pre-Conditions for take-off: characterized by development of mining industries, increase in capital use in agriculture, necessity of external funding, some growth in savings and investment
3. Take off: characterized by increasing industrialisation, further growth in savings and investment, some regional growth, number employed in agriculture declines.
4. Drive to Maturity: characterized by growth becomes self-sustaining – wealth generation enables further investment in value adding industry and development, industry more diversified, increase in levels of technology utilised.
5. High mass consumption: characterized by high output levels, mass consumption of consumer durables, high proportion of employment in service sector

- ✓ a **lengthy process**. It is an evolutionary change, not a revolutionary one. It will take generations or even centuries to complete, and its profound impact will be felt only through time.

According to **Parsons'** sociological theories modernization has assumptions of:

- Modernization is a **systematic process**. The attribute of modernity forms a consistent whole, thus appearing in a cluster rather than in isolation;
- a **transformative process**; in order for a society to move into modernity its traditional structures and values must be totally replaced by a set of modern values; and
- an **imminent process** due to its systematic and transformative nature, which builds change into the social system.

2.2 The Dependency Theory

The underdevelopment of poor nations is derived from systematic imperial and neo-colonial exploitation of raw materials; underdevelopment is made not created. Resources flow from poor ("periphery") to wealthy ("core") states, enriching the latter at the expense of the former. Core states owned industries while the peripheries sell their raw material.

Core-Periphery relationships lead to accumulation of wealth in the rich states at the expense of the poor developing states. Developed nations try to preserve their dominance through investment by multinational corporations, loans, and aid. The debt crisis arose because many developing countries were not able to repay the loan they used to fund large infrastructure and development schemes because the prices of primary commodities fell reducing their export earnings. Developing countries would remain economically vulnerable unless they reduce such harmful dependency on the developed world.

2.2.1. The Neo-colonial Dependence Model

Neocolonialism is a term used by late 20th century critics of developed countries' involvement in the developing world. Critics of neocolonialism argue that existing or past international economic arrangements created by former colonial powers were used to maintain control of their former colonies and dependencies after the colonial independence movements of the post-World War II period.

The term *Neocolonialism* can combine a critique of current *actual* colonialism (where some states continue administrating foreign territories and their populations in violation of United Nations resolutions) and a critique of modern capitalist businesses involvement in nations which were former colonies.

Critics of neocolonialism contend that private, foreign business companies continue to exploit the resources of post-colonial peoples, and that this economic control inherent to neocolonialism is akin to the classical, European colonialism practiced from the 16th to the 20th centuries. In broader usage, current especially in Latin America, Neocolonialism may simply refer to involvement of powerful countries in the affairs of less powerful countries. It implies a form of contemporary, economic Imperialism: that powerful nations behave like colonial powers, and that this behavior is *likened to* colonialism in a post-colonial world.

Neocolonialism first saw widespread use, particularly in reference to Africa, soon after the process of decolonization. Upon gaining independence, some national leaders and opposition groups argued that their countries were being subjected to a new form of colonialism, waged by the former colonial powers and other developed nations. It has three major streams of thought: the neocolonial dependence model, the false-paradigm model, and the dualistic-development thesis.

Neo-colonial Dependence Model: is an indirect outgrowth of Marxist thinking. It attributes the existence and continuance of Third World underdevelopment primarily to the historical evolution of a highly unequal international capitalist system of rich country-poor country relationships.

Whether because rich nations are intentionally exploitative or unintentionally neglectful, the coexistence of rich and poor nations in an international system dominated by such unequal power relationships between the **center** (the developed countries) and the **periphery** (the LDCs) renders attempts by poor nations to be self-reliant and independent difficult and sometimes even impossible. Underdevelopment is seen as an *externally* induced phenomenon, in contrast to the linear-stages and structural-change theories' stress on *internal* constraints such as insufficient savings and investment or lack of education and skills. Revolutionary struggles or at least major restructurings of the world capitalist system are therefore required to free dependent Third World nations from the direct and indirect economic control of their First World and domestic oppressors.

The False-Paradigm Model: it attributes underdevelopment to *faulty* and *inappropriate advice* provided by well-meaning but often uninformed, biased, and ethnocentric *international "expert"* advisers from developed-country assistance agencies and multinational donor organizations. These experts offer sophisticated concepts, elegant theoretical structures, and complex econometric models of development that often lead to inappropriate or incorrect policies. Leading university intellectuals, trade unionists, high-level government economists, and other civil servants all get their training in developed-country institutions where they are unwittingly served an unhealthy dose of alien concepts and elegant but inapplicable theoretical models. Having little or no really useful knowledge to enable them to come to grips in an effective way with real development problems, they often tend to become unknowing or reluctant apologists for the existing system of elitist policies and institutional structures.

Economic development relies heavily on funds from international donor agencies such as the World Bank and IMF. The policy of these agencies is to support urban industrial growth and impose capitalistic austerity measures and reinforce the pattern of "dependent development".

It proposed that developing countries have failed to develop because development strategies have been handed down to them by blinded western economists. Western economic advice is focused on capital accumulation rather than social and institutional changes.

The Dualistic Development Thesis: Dualism is a concept widely discussed in development economics. It represents the existence and persistence of increasing divergences between rich and poor nations and rich and poor peoples on various levels. Its four key arguments are:

1. Different sets of conditions, of which some are "superior" and others "inferior," can coexist in a given space. Examples of this element of dualism include Lewis's notion of the coexistence of modern and traditional methods of production in urban and rural sectors; the coexistence of wealthy, highly educated elites with masses of illiterate poor people; and the dependence notion of the coexistence of powerful and wealthy industrialized nations with weak, impoverished peasant societies in the international economy.
2. This coexistence is chronic and not merely transitional; the international coexistence of wealth and poverty is not simply a historical phenomenon that will be rectified in time.
3. Not only do the degrees of superiority or inferiority fail to show any signs of diminishing, but they even have an inherent tendency to increase. For example, the productivity gap between workers in developed countries and their counterparts in most LDCs seems to widen with each passing year.
4. The interrelations between the superior and inferior elements are such that the existence of the superior elements does little or nothing to pull up the inferior element, let alone "trickle down" to it. In fact, it may actually serve to push it down—to "develop its underdevelopment."

Structural transformation models create a “dualistic” pattern of development, resulting in an ever-increasing degree of economic inequality both nationally and internationally: urban vs. rural, industrial vs. agricultural, modern vs. traditional and rich vs. poor.

- Dualism theories assume a split of economic and social structures of different sectors so that they differ in organization, level of development, and goal structures.
- Economic, technological, and regional dualism are often the consequence of a social dualism, the absence of relationships between people of different race, religion, and language, which, in many cases, is a legacy of colonialism.
- Development in dualism concepts is the suppression of the traditional sector by concentrating on and expanding the modern sector.
- Concentration on the modern sector led to an increasing regional disparity, rural urban migration, urban unemployment, a decrease in agricultural production, and hindrance in industrial development because of a lack of purchasing power in the rural areas.

The World Systems Analyses/New dependency” Theory: This theory states that a capitalist economy which seeks cheap commodities and labour relocates investment capital to underdeveloped areas, taking advantage of cheap labour. Hence, poor states are impoverished and rich ones enriched by the way poor states are integrated into the world system

2.3. The Marxist Perspective of Development

According to the Marxian School (Karl Marx), capitalism has emerged through the accumulation of capital by colonial plunder of resources and human energy (slavery); robbing tenants at home of traditional rights to common lands; driving the victims into cities and factories to work for wages; and extracting surplus value or profits from the labor of workers. Capitalists to pay no more than subsistence wages to their employees and extract for profit (surplus value); the difference between wages and the selling price of market commodities. Capitalism helps development by breaking down the backward pre-capitalist economies; but it was certain to fall because its tendency to concentrate wealth in fewer hands. Capitalism would be replaced by socialism, then communism; which unites capitalist technology with public ownership of factories and farms.

- Marxism is the economic and political theories of Karl Marx and Fredric Engels which hold that human actions and institutions are economically determined and the class struggle is needed to create historical change and that will ultimately be superseded by communism

- Communism –political theory favoring collectivism in a classless society
- Originally, Marxism was a Eurocentric doctrine that addressed itself to a postindustrial revolution that would liberate society from the disabilities produced by intensive industrialization.
- Since the turn of the century, however, Marxism has become a rationale for revolutionary movements in industrially underdeveloped, non-European societies, peopled by essentially non-proletarian populations.
- Feudalism: found in 'Western' societies; based on agricultural production organized around large estates; land owned by a few, but tenants able to keep their produce once they had paid the landlord Asiatic: found in 'Eastern' societies, e.g. India, China, Turkey, Persia; capitalism
- Different classes dominated the economy and the state apparatus; needed to ensure centralized control of important technologies such as irrigation systems
- Society divided into those who own the means of production and those who do not; those who do not have to earn a living by selling their labor.

Socialism

- Communal ownership of means of production by state or the people; people no longer have to struggle for a living and individual needs can be met by the distribution systems of the collective.

Marxism and Development

- Marxism is a philosophy of history. It is also an economic doctrine.
- Marxism is a theory of revolution and the basic explanation for how societies go through the process of change.
- Marx and Engels didn't write much about development but more about capitalism and lots about dominant and subordinate classes.

The specialization of the hand enables humans to handle and employ tools to make changes in nature. This process is termed as production, which Marx conceived as a specific human activity. Again, when people started coming together and cooperate, it resulted in social production. Marx considers production as the distinctive human activity.

Marxism opposes both the idealists—who claim that it is consciousness which determines matter; and metaphysical materialism—which asserts matter determines consciousness. Marxism affirms that, while matter determines consciousness, the latter in turn influences the former materialist conception of history and dialectical materialism. Marx claims that the mode of production of a particular society is not static as it changes and develops all the time. The changes in production are initiated changes in production relations, which in turn lead to the transformation of the entire social system, social ideas and political views, which make up the superstructure of the society.

There are two basic ideas in Marxism: ***Materialism and Class Struggle.***

Materialism is the engine that drives society is the economy. Economic forces are more complex and pervasive than we think; even determines how we think: “consciousness is from the very beginning a social product.” The Mode of Production in material life determines the general character of the social, political, and spiritual processes of life. It is not the consciousness of men that determines their existence, but on the contrary their social existence that determines their consciousness.

The Role of Idea

According to Marx, we think and believe the way we do because we are products of the mode of production (i.e. we are all products of capitalism). Ideas played no role here whatsoever. It does not move the world. "The history of humanity must always be treated in relation to the history of industry and exchange, independent of the existence of any political or religious nonsense.”

Marx is dismissing political history and political life as “nonsense.” But that does not mean that ideas or even religion, for that matter, are unimportant. Both (politics and religion) are tools of the dominant class in society; both are means of controlling the masses. Hence, Marx’s famous dictum: “Religion is the opiate of the masses.

The other basic rule of Marxist analysis takes historical materialism a step further. All of human history can be explained and predicted by the competition between antagonistic economic classes; “The history of all hitherto existing society is the history of class struggles.” In political terms, this means that the social classes are competing in essence for control of the state; the class that controls the mode of production also controls the state. Political life is an illusion or distortion of reality so, it is better to concentrate on the reality behind the veil of politics: the economic structure of society. *Thus the ancient state above all was the slave owner's state for holding down the slaves, as the feudal state was the organ of the nobles for holding down the serfs, and the modern state is the instrument of the exploitation of wage labor by capitalism.* Marx regards classes and class struggle as a historical phenomenon which took place at a given stage of historical development.

- ✓ The existence of classes is connected only with a certain historical phases of development of production;
- ✓ That Class Struggle leads necessarily to the dictatorship of the proletariat and that the dictatorship itself is only a transitional stage leading to the abolition of classes and to classless society

Classes’ and Class Struggle are, above all, the product **of** economic development. The consequence of the distribution of ownership is the power distribution in society. The economic superiority of the owners conditions their political superiority. The class which owns the means of production and which has economic power, assumes political power as well. They hold state power and all the means of political power which go with it (police, prisons, army, courts, etc.). Thus it can be said that the domination of production produces also all other types of domination of society. Ideas prevailing in a given period are the ideas of the class holding economic power.

In capitalist society, two basic classes emerge with contradictory interest: the '*proletariat* and the *bourgeoisie*.

Bourgeoisie: capitalist, those who control the means of production.

Proletariat: The industrial working class wage labor who do not belong artisans, peasants, farm laborers. They are factory workers who have nothing but their hands.

The contradiction of two classes, leads to the workers unite against capitalists in economic matters, predominantly those which concern wages.

1.4 . The Neo-classical (Neo-liberal) Perspective

By the end of the 1970s, the shortcomings of state-led development became clear as the growth of many developing countries, due to state inefficiency, was becoming much slower than expected. State intervention is artificial, inefficient, partisan, value-led and subjective that it finally undermines the very essence of capitalistic dynamism and progress. It is a violation of the natural rights of the individual. Market is absolutely efficient, value-free, natural, objective and impartial.

Neo-liberalism is modernism, human capacity to change things, the superiority of reason, technology advance, automation of human labor (for efficiency and effectiveness), and scientific discoveries as opposed to traditionalism, egalitarian life, superstitions, and cults. It is the superiority of industrial economy as the advanced stage of human society in terms of efficient use of time, resources, human capacity, and socialization of labour bringing people from diverse backgrounds, as opposed to agriculture which is static, monotonous and unrewarding. Neo-liberalism is the supreme importance of the individual as a basic unit of society in an industrialized and heavily urbanized society over any social groups or group identities which were fundamentally diluted in a fast process of vast social intermingling. It argues that in a capitalist society all people can never be equally rich because there are unavoidable natural individual differences in exploiting opportunities, capacity, innovativeness, entrepreneurship. Winners grow to be owners while losers became their workers. The number of losers outnumbers the number of winners. Since the rich few employ the poor many wealth trickles down to the majority through wages.

Donor agencies from the developed world began pressuring third-world governments to shift to the neoliberalism. Many accepted because the debt crisis has weakened their bargaining power. Neoliberalism in the developing world was introduced into the developing world through Structural Adjustment Programmes (SAP) which includes;

- Deregulation to stimulate the free market

- Reduction in government spending (Fiscal austerity)
- Privatization of state firms to improve efficiency
- Removal of state subsidies
- Encourage foreign investment
- Devaluate currency to makes imports more expensive than exports
- Trade liberalization: removal or reduction in tariffs to maximize comparative advantage and thus encouraging imports
- Improvements in tax system and increase state income
- Removal of minimum wage controls; wages to be set by the market
- Reduced government workforce by cutting back on bureaucracy.

2.5. Alternative Development Theories

Countries, according to the structure of their international trade, apply two different industrialization strategies: import substitution (IS) and export promotion (EP).

2.5.1. Import Substitution Strategies

Import Substitution (IS) a policy that eliminates the importation of the commodity and allow**s** for the production in the domestic market. The main point of import substitution is that the imported goods are replaced by the locally produced goods to meet the internal demand. IS, is a strategy that appreciates the local production via government intervention to the whole economy.

It is a development strategy that seeks to accomplish objectives: **to** learn from, and gain from, the rich countries and at the same time, to protect the domestic economy that the society can find its own way, can create its own form of development and can redo its economy. The strategy starts with producing consumption goods that do not need a progressed technology, because less-developed countries actually have industries for such a production. The idea is a matter of creating an economy that sufficiently flexible, diversified, and responsive to and indeed creates opportunities for growth and can generate continually increasing welfare for its people.

This strategy needs a protection from the government. The government can do this via tariffs, quotas and exchange rate, prices of the factors of production and interest rate. The policy of import substitution is achieved through discrimination of capital goods (goods that are used in the production of other goods) against consumer (goods intended for direct use or consumption) goods by tariffs, quotas, exchange control barriers, exchange rate policies and fiscal and credit policies.

The objective of this policy is to bring about structural changes in the economy. The structural change is brought by creating gaps in the process of eliminating imports and thus making investment possible in the non-traditional sectors. To bring about industrialization, it is essential that domestic circuits be built in the economy and this could be achieved by protecting the domestic economy from the world economy.

The political argument for adoption of this strategy is that it is essential to be economically self-reliant and independent. The economic argument was that a temporary isolation would bring about rapid development.

Import substitution is often measured by a change in the ratio of imports to the total availability (imports plus domestic output) of a single product or category of products.

2.5.2. Export-Oriented Strategies evening

The idea of an export oriented/promotion strategy/EP is to make production for international trade and hence to increase exports.in this strategy the external demand is the source of activity. EP strategy promotes only the industries that have potential for developing and competing with foreign rivals. So the industries at their childhood must be protected for a while. The indicator of EP is the increase of the rate of exports in GNP. The goal of this model includes;

- ✓ to increase the national and the rate of exports
- ✓ to increase the rate of industrial goods in exports
- ✓ to prepare the “potential” industries for competition with the foreign rivals

The viability and the necessity of the export-led strategy can be explained by the following factors.

- Concerning many industrial goods, narrow domestic markets do not offer opportunity for developing internationally *competitive economies-of-scale production*.
- Competitive advantages fueling growth can only be utilized if a national economy orients itself towards foreign markets.

- Export orientation enhances specialization with additional positive impact on economies-of-scale production and competitive imports as inputs for export-oriented production. In this context, we have to emphasize the importance of openness to imports that can replace uncompetitive domestic inputs by cheaper and higher-quality imports.
- As a result of openness to imports, the export-oriented country regularly gets more competitive imports, enjoys the benefits of technology transfer and efficient managerial methods.
- Foreign direct investments, in most cases the owners of new technologies used to play a pivotal role in successful export-led growth.
- According to international experience, involvement into the global and/or regional production and service network of transnational companies may strengthen and deepen the pattern of international division of labor in general, and that of export orientation, in particular.

- The key external anchor of successful export-led strategy lies in the openness, size and dynamics of international/regional markets. Trade liberalization, both on the global scale or in the framework of regional or even bilateral free trade agreements, generates a relevant and positive impetus on opening up and offers new chances for exporting. It should not be ignored that cooperation with foreign (both transnational and small- and medium-sized) firms many times opens up external markets for domestic production and fosters the export-led growth pattern

- Declining or stagnating domestic demand can act as a pressure or push factor for export orientation, since many companies may see their only chance for survival in finding new, external markets.

The export-led growth pattern delivered convincing arguments to be followed. It generated high growth rates, created new jobs, led to higher labor productivity, introduced new organizational and managerial methods of production, ensured relevant inflows of capital and technology, substantially increased export revenues and, in several cases, turned traditional trade deficit into surplus, improved the current account balance and as a result contributed to higher financial stability of the given economy.

2.6. Developmentalism and Developmental State

Developmentalism is an economic theory which states that the best way for Third World countries to develop is through fostering a strong and varied internal market and imposing high tariffs on imported goods. It is a cross-disciplinary school of thought that gave way to an ideology of development as the key strategy towards economic prosperity. The school of thought was, in part, a reaction to the United States' struggle to contain communism and deal with national liberation movements throughout Asia and Africa.

The theory is based on the assumption that there are similar stages to development for all countries and there is a linear movement from one stage to another that goes from traditional or primitive to modern or industrialized. In the international economic contex, it can be understood as consisting of a set of ideas which converge to place economic development at the center of political endeavors and institutions and also as a means through which to establish legitimacy in the political sphere. Advocates to the theory of developmentalism hold that the development of economic success in developing nations (particularly in Latin America and East Asia) grants legitimate leadership to political figures.

Developmentalists believe that national autonomy for 'Third World' countries can be achieved and maintained through the utilization of external resources by those countries in a capitalist system. It is a paradigm used in an attempt to reverse the negative impact of international economy on developing countries in the 1950s–60s, a time in ehich Latin American countries had begun to implement import substitution strategies. There are four main ideas that are integrated behind the theory of developmentalism:

First, the performance of a nation's economy is the central source of legitimacy that a regime may claim. Rather than subscribing to the notion, for example, that the ability to make and enforce laws gives a state power, developmentalists argue that the sustenance of economic growth and the subsequent promotion of citizens' welfare gives the general population incentive to support the regime in power, granting it both *de facto* and *de jure* legitimacy.

Second, it is the role of regimes to use their governmental authority to spread out the risks associated with capitalist development, as well as to combine governmental and entrepreneurial wills to maximize the advancement of national interest.

Third, state bureaucrats become separated from politicians, which allows for the independent and successful redevelopments of leadership structures and administrative and bureaucratic procedures (when such changes become necessary). This separation is key to balancing the needs of the state and the importance of forming and maintaining strong international economic ties.

Fourth, it is necessary for nations to utilize the capitalist system as a means of advancement in the international economy. Privileged positions in capitalist systems arise from active responses to external affairs in order to obtain the external resources with which to gain larger amounts of economic autonomy. The resources gained from active participation in international economic affairs help propel countries out of being exploited by capitalism to positions from which they can exploit the international economy for its own national gain.

2.6.1. Developmental State

Developmental state, or hard state, refers to the phenomenon of state-led macroeconomic planning in East Asia in the late twentieth century. A developmental state is a state where government is intimately involved in the macroeconomic and micro-economic planning in order to grow the economy. A developmental state is characterized by having strong state intervention, as well as extensive regulation and planning. The idea of Developmental state (DS) is simply an attempt to conceptualize the position/ momentum which a Nation or Society has attained or is transiting in its developmental efforts. Chalmers Johnson defined the developmental state as a state that is focused on economic development and takes necessary policy measures to accomplish that objective.

Woo-Cummings (1999: 1-2) explains, the developmental state is 'neither socialist...nor free-market...but something different: the plan-rational capitalist developmental state... [which links] interventionism with rapid economic growth'. The supporters of the Developmental State argue that the government should direct the trend of national industries and pick the "winners" to become the leading industries (or business locomotives). To play this role powerfully, the government should manipulate industrial policy (protection, subsidies, lower tax), offer cheap loans, and give administrative guidance that can direct business people to choose certain business strategies.

The assumption of this approach is that the government knows more than the market how to achieve the highest national economic growth. A developmental state intervenes more directly in the economy through a variety of means to promote the growth of new industries and to reduce the dislocations caused by shifts in investment and profits from old to new industries. Japan is a good example of a state in which the developmental orientation predominates.

Johnson's main thesis is that the origin of Japan's developmental state is best understood not in cultural terms, but by examining the specific events that shaped the country's history. In particular, Johnson contends that the evolution of this model was closely connected to efforts aimed at coping with an international order dominated by the Western developed countries. He locates Japan's motivation behind the creation of a developmental state in two major contexts, namely in its condition as a late developer and within East Asian revolutionary nationalism.

2.6.2. The Historical Evolution of Developmental State

The idea that the state should play a central role in economic development stretches back to the pre-modern mercantilist period. The reality of market failure (including imperfect market competition, necessity of public goods, positive and negative externalities resulting from production and consumption, etc.) has long been identified as the principal justification for state intervention. More recently, i.e. since the Keynesian revolution of the 1930s, the idea of an interventionist state for macroeconomic countercyclical adjustment became an accepted norm.

The developmental state used a large variety of instruments, both direct and indirect, to promote industrialization: general and targeted subsidies; tariffs; credit and direct finance; regulation of foreign investment and foreign capital inflows. It enlarged the size of the domestic market by unifying politically and by infrastructure investments.

The concept of a developmental state has a long history, dating back for example to the protectionist measures of Germany and other now developed countries, including the US, to promote infant industries with the potential ultimately to compete with British manufacturing supremacy. Latin American import-substituting industrialization is a more recent example of this concept of a developmental state. But it has been superseded by the notion of the East Asian newly industrialized countries (NICs) as developmental states, with Japan in the historical and intellectual lead. These countries have all used commercial state-owned entities, to pursue some of the objectives of the developmental state.

2.6.4. Common Characteristics of Developmental States

Leftwich (2000) presents the following common characteristics:

- ✓ Developmentally driven political purpose and institutional structures as well as politically driven developmental objectives;
- ✓ Constituted by particular political forces “creating interests and organizations in an increasingly complex economy and society”. These political forces may be democratic or non-democratic and this explains why non-democratic China and democratic Botswana are all developmental states;
- ✓ Leftwich identifies six main features of DS as: *determined developmental elite; the relative autonomy of a powerful, competent and insulated bureaucracy; a weak and subordinated civil society; the effective management of non-state economic interests; and performance-based legitimacy*.
- ✓ **Development (elites)-Oriented Political Leadership:** DS is driven by a sense of urgency to grow economically and industrialize to “catch up” with the developed countries. Developmental States have been led by leaders who are relatively uncorrupt, patriotic, visionary and nationalistic with a genuine intention to rapidly grow their country economically. These elites gave the bureaucracy sufficient scope to take initiatives and act authoritatively in pursuit of the desired development goals.
- ✓ **Relative State Autonomy/Embedded Autonomy of Bureaucracy:** embedded relationship between bureaucracies and other economic agents engenders public-private drive that enhances powerful and effective attainment of developmental goals. State autonomy means that the state has achieved “relative independence from the demanding clamors of special interest” A state is said to be autonomous, asserts Evans, if its civil service cannot be manipulated by influential rent-seeking groups outside the state.
- ✓ **Bureaucratic Power:** Development orientation and determination of the elites coupled with relative state autonomy helps to engender a civil service that is very powerful, career-

oriented, independent and professionally competent. Meritocratic (The belief that rulers should be chosen for their superior abilities and not because of their wealth or birth) democracy is a major characteristic as well as condition that favors emergence of DS. Civil servants have relative degree of independence to do their jobs professionally, they collaborate with other arms of Government and non-political economic agents to create a public-private mechanisms that enhances powerful and effective attainment of developmental goals.

- ✓ **Performance based legitimacy:** Legitimacy-Lawfulness by virtue of being authorized or in accordance with law Legitimacy is best explained by the manner in which states have been able to distribute the benefits of rapid growth. One way of legitimizing a state/government is through performance which is evidence of the tangible results it offers to its citizens.

UN lists the characteristics of developmental states as follows

- ➢ A government with the political will and legitimate mandate to perform the required functions.
- ➢ A competent and neutral bureaucracy that ensure implementation. This requires a strong education system and efficient set of public sector organization with little corruption.
- ➢ An institutionalized process where the bureaucracy and government engages with other stakeholders.
- ➢ An established development framework and a comprehensive governance system to ensure the program is implemented, e.g. a central function responsible for overall coordination.

Other Models/Types of State and Their Role in Economy

Minimal State: is (a concept from Adam Smith) argues that market mechanisms know best and work more efficiently than governments. The role of government should be kept as minimal as possible to have the most favorable conditions for business.

The Regulatory State: goes one step further than the Minimal State. The supporters of the regulatory state argue that the government is also responsible for the welfare of society as a whole and may help business people by ensuring a better government. Government should be more active in giving direct help and should sometimes be selective. Two variants of the regulatory state are the *Associative State and the Welfare State*. The Associative State frames government to work together with business people and labor to mobilize productivity and allocate distribution for welfare. The Welfare State frames government to distribute welfare programs (e.g. housing, unemployment aid, healthcare, etc.) and sometimes, to protect small businesses from the threat of big business.

A regulatory state governs the economy mainly through ***regulatory agencies*** that are empowered to enforce a variety of standards of behavior to protect the public against market failures of various sorts, including monopolistic pricing, predation, and other abuses of market power, and by providing collective goods (such as national defense or public education) that otherwise would be undersupplied by the market. The United States is a good example of a state in which the regulatory orientation predominates.

The Predatory State: is the developmental state without bureaucratic competence." Like a developmental state, the predatory state also directs the trend of business and picks the "winners". However, the criterion for the intervention is not technical competence based on assessments of expertise, but nepotism and corruption.

2.7. Post-Development Thinking: Environment and Development

The twentieth century has been a century of unprecedented population growth, economic development and environmental change. From 1900 to 2000, world population grew from 1.6 billion to over 7 billion persons (UN). However, while world population increased close to 4 times, world real gross domestic product (GDP) increased 20 to 40 times allowing the world to sustain a fourfold population increase and to do so at vastly higher standards of living. Nevertheless, this rapid population growth and economic growth occurred unevenly throughout the world and not all regions have benefited equally from economic growth. Population growth and economic development occurred simultaneously with increasingly unsustainable utilization of the earth's physical environment.

Discussion of the interrelationships among population, environment and economic development long precedes the writings of Thomas Malthus in the late eighteenth century. According to Malthus, populations and food supply expand in different ways. Food supply increases *arithmetically*, i.e. with every generation food supply increases the same amount, by, for example, bringing new land into cultivation. This leads to a linear pattern of growth. In contrast, even if the number of children each family has remains the same, the population will grow *geometrically* because in each generation there will be more people to have children. As a result of these different growth rates, the human population was doomed unless limits were put on population growth rates. Eventually, population would outstrip the food supply and there would be massive starvation and famine and so the population would be reduced.

The recurrent theme was the balance between population and natural resources conceptualized as means of subsistence or, more concretely, food and water. Mercantilist ideas in Europe during the 17th and 18th century saw the positive aspects of large and growing populations and favored policies to encourage marriage and large families.

In Malthus' approach, the natural environment acted as an obstacle to population growth. In the environmental determinism approach, the natural environment acts not just as an obstacle, but actually shapes the nature of human society and activity. Environmental determinism was popular in the late 19th and early 20th centuries, and stressed the ways in which human behavior was conditioned or determined by the physical environment. The differing levels of prosperity, economic development or what some called 'civilization' could be explained with reference to the differences in natural environment (Huntington).

The 'environment' is where we live; and development is what we all do in attempting to improve our lot within that abode. The two are inseparable." On one hand, material and social poverty are often identified as two of the main causes of living environment devastation. Environment is a system which provides natural surroundings for the existence of organisms (including humans) and which is a prerequisite for their further evolution.

- Ecological Approach: Environment is a set of all factors with which a living subject interacts, and of all surroundings which encompass it. Thus, it is everything that a subject influences, directly or indirectly. A subject can be an organism, a population, a human or whole human society. Usually, the notion of living environment is conceived in the sense of human environment.
- Biological Approach: 'environment' denotes the surroundings of an organism or a species, eventually the ecosystem in which an organism or a species lives. At the same time, it is a

physical environment and other organisms with which the organism or the species enters into contact (interacts). The notion of biome is very similar to a living environment.

Types of resources

I. Renewable Resources

- These resources are capable of natural regeneration into useful products within a reasonable time span. These have the potential to renew themselves and be indefinitely available as long as their capacity to regenerate is not interrupted by natural catastrophes. For example, clean water, clean air, soil, flora and fauna.

II. Non-Renewable Resources

- These resources are available only in finite amounts or else the rate of their renewable is so slow that they are regarded as available on in fixed quantities. For example, ground water, minerals, etc.

III. Continuous Resources

These resources are available and with the possible exception of solar energy, the receipt of which could be affected by atmospheric pollution, cannot be degraded even with gross mismanagement. Eg. solar energy, wind, gravity, tidal energy and geothermal energy.

IV. Extrinsic Resources

These resources are prone to breakdown or degradation, yet are available continuously if managed properly for example, human skill, institutions ‟management abilities, etc.

As development is impossible without a good condition of living environment, so quality environment cannot be maintained in inhabited or intensively exploited areas without their sustainable development. This impact is determined specifically by the following two factors: If we regard development narrowly only as economic growth, the quality of environment in general is not quite so important as abundance. If we understand development more broadly, for example in the sense of sustainable development, the quality of environment and its sustainable condition will become one of key priorities. In that case, the long term preservation of environment's inhabitability or eventually the betterment of its condition (in case of its past devastation) will be at the center of attention. The condition or quality of living environment after/during implementation of development programs can have negative or positive impacts on the living environment.

Chapter Three

Basic Features of Developing Countries

Of course, there must be differences between developing countries… (But) to maintain that no common ground exists is to make any discussion outside or across the frontiers of a single country meaningless. It is hazardous to try to generalize too much about the 160 member countries of the United Nations (U.N) that constitute the developing world. While almost all are poor in money terms, they are diverse in culture, economic conditions, and social and political structures. Thus, for example, low income countries include, India with about 1 billion people and 26 states, as well as Grenada, with less than 100, 000 people, fewer than most cities in the United States. Large size entails complex problems of national cohesion and administration while offering the benefits of relatively large markets, a wide range of resources, and the potential for self-sufficiency and economic diversity. In contrast, for many small countries in the situation is reversed, with problems including limited markets, shortages of skills, scarce physical resources, weak bargaining power, and little prospect of significant economic self reliance, but strong incentives for exports of manufactured goods.

In this section, I provide you an overview of the great diversity of developing countries. Despite these variations, however, developing countries share a common set of problems, both domestic and international problems that in fact define their state of underdevelopment. It also invites you to have understanding common goals, structural features and diversity of developing countries.

3.1 Definition of developing world

The most common way to define the developing world is by per capita income. Several international agencies including the organization for economic cooperation and development (OECD) and the United Nations offer Classifications of countries by their economic status, but the best-known system is that of the international bank for reconstruction and development (IBRD), more commonly known as the World Bank. In the World Bank's classification system, 208 economies with a population of at least 30, 000 are ranked by their levels of gross national income (GNI) per capita income low income countries (LIC), lower middle income (LMI), Upper-middle income (UMC), high income OECD, and other high income countries.

Generally speaking, developing countries are those with low, lower middle or upper middle income countries. These countries are grouped by their geographic region.

- Low income countries ______ having per capita GNI $755 or less.
- Lower middle income countries___between $756 and $2,995.
- Upper-middle income countries___between $2,996 and $9,265
- High income countries_____$9,265 or more.

Common goal of developing countries

- ✓ Reduction in poverty, inequality and unemployment.
- ✓ Provision of minimum levels of education, health, housing and food to every citizen.
- ✓ Broadening of economic and social opportunities
- ✓ Forgoing of cohesive nation state.

3.2. Common problems shared in varying degree by most developing countries

- Widespread and chronic absolute poverty.
- High levels of unemployment and underemployment.
- Wide and growing disparities in the distribution of income.
- Low and stagnating levels of agricultural productivity.
- Sizable and growing imbalance b/n urban and rural levels of living and economic opportunities.
- Serious and worsening environmental decay.
- Antiquated and inappropriate educational and health systems.
- Sever balance of payments and international dept problems.
- Substantial and increasing dependency on foreign technologies.

3.3 Major Characteristics of Developing Countries

(i) Lower per-capita income
(ii) Low levels of human capital
(iii) High levels of poverty and under-nutrition
(iv) Higher population growth rates
(v) Predominance of agriculture and low levels of industrialization

(vi) Low level of urbanization but rapid rural-to-urban migration

(vii) Dominance of informal sector

(viii) Underdeveloped labor, financial, and other markets.

1. **Lower Per-Capita Income:** As we have already discussed, developing countries have lower per-capita income compared to developed countries.

In 2005, the country with the highest per capita income, Switzerland, had 345 times the per capita income of one of the poorest countries of the world, Ethiopia, and 76 time that of one of the world's largest nations, India. However, such per-capita income comparison exaggerates the differentials in standards of living between developing and developed countries. Recall that what matters for the well-being is the amount of goods and services one can purchase. The amount of goods and services one can purchase depends on two things: income and the price level. Same amount of income buys fewer goods and services if prices are high compared to the case when prices are low.

For example, suppose that there are two individuals A and B. Both have identical incomes say $1000. Now suppose that A lives in a country where price level is 50, but B lives in a country where price level is 100. Then, A can buy 20 units of good, while B can buy only 10 units of goods. Thus, despite identical incomes A will have higher standard of living than B.

This implies that if we ignore differences in price level across countries, then just the comparison of per-capita income across countries can give misleading picture of differences in the standards of living. The main reason for lower prices in developing countries is relatively low labor cost.

Researchers have tried to take into account such price differences across countries and developed the concept of purchasing power parity (PPP). PPP is calculated using a common set of international prices for all goods and services produced, valuing goods in all countries at U.S. prices. PPP is defined as the number of units of a foreign country's currency required to purchase the identical quantity of goods and services in the local markets as $1 would buy in the United States.

2. Low Levels of Human Capital

The developing countries are characterized by low HD score. Part of the reason is their low per-capita income. However, low HD score is also due to low human capital levels in terms of health and education.

The average life expectancy in low income countries in 2005 was 59 years, while in high income countries it was 79 years. Thus, people in high income countries, on average, live 20 more years than people in low income countries. Similarly, there is wide disparity in under-5 mortality rate. Under-5 mortality rate in low income countries was 20 times higher than in high income countries.

3. High Levels of Poverty and Under-Nutrition – Developing countries, particularly low income countries, are characterized by very high incidence of poverty and prevalence of hunger and under-nutrition. It shows that 24 percent of people in low income countries were under-nourished in 2005. The corresponding figure for high income countries was 3 percent. This show that fully one fourth of people in low income countries does not get adequate food and nourishment. The incidence of under-nourishment was highest in the Sub-Saharan region. In this region, nearly 1/3rd of populace does not get adequate food.

The incidence of abject poverty varies widely around the developing world. The world Bank estimates that the share of the population living on less than $ 1 a day is 9.1% in East Asia and the Pacific, 8.6% in Latin America and Caribbean, 1.5% in the Middle East and North Africa, 31.7% in South Asia, and 41.1% in Sub-Saharan Africa. The incidence of people living in extreme poverty has declined over years. However, most of the decline has taken place in East Asian and Pacific Region. The decline in Sub-Saharan and South Asian regions has been painfully slow.

4. **Higher Population Growth Rate** – Developing countries, particularly low income countries, are characterized by relatively high population growth rate despite the fact that they have high child mortality rate. High population growth rate is due to vey high birth rate. Within developing countries, Sub-Saharan countries have highest crude birth rate and East Asian and Pacific countries lowest.

5. Predominance of Agriculture and Low Levels of Industrialization – One striking feature of developing countries is that agriculture accounts for a large part of gross domestic product and employment. The share of agriculture in both employment and GDP is tiny in the developed countries. However, its share in GDP and employment in developing countries is quite substantial. In many developing countries, agriculture accounts for more than a quarter of GDP. Its dominance in employment is even more striking. In many developing countries, majority of male and female are employed in agriculture.

6. Low Level of Urbanization -- Most of the people in developed countries live in urban areas. On the other hand, the share of urban population in developing countries is much smaller. Only 41 percent of population lived in urban areas in less developed countries, while the share of urban population was 77 percent in more developed countries. The share of urban population is particularly low in South Central Asia and Sub-Saharan countries.

There is a strong positive relationship between the level of urbanization and per-capita income. Higher the per-capita, larger is the level of urbanization.

7. Dominance of Informal Sector – One very important feature of the developing countries is the dominance of informal sector in economic activities. The main characteristics of the informal sector jobs are: (i) low skill, (ii) low productivity, (iii) self-employment (iv) lack of complementary inputs particularly capital, (v) small scale measured in terms of sales, assets, employment etc., (vi) favored by recent migrants, (vii) ease of entry for employers and workers, and (viii) lack of formal contractual agreements. Rural areas in developing countries are largely informal. Even in cities informal sector in developing countries is quite big. Due to the dominance of informal sector, most of the workers are engaged in low productivity and low paying jobs. Dominance of the informal sector is largely due to underdeveloped labor, financial, and other markets in developing countries.

8. **Underdeveloped Labor, Financial, and Other Markets --** Markets and institutions in developing countries are quite different from markets and institutions in developed countries. Markets and institutions are largely informal in developing countries. Informality of these markets can largely be traced to informational and incentive constraints and limits to contractual enforcement. Asymmetric information arises when the market participants or agents do not have

identical information. Such situation can arise in variety of settings: a worker may know more about his innate ability and skills than his employer, a seller may have better information about the quality of good than a buyer, and an employer may not perfectly observe effort exerted by his employee.

9. **Unobserved Actions (Moral Hazard)**: Moral hazard problem arises when there is asymmetric information with regard to actions. Basically, one side cannot observe the actions of other side. For example, suppose an employer cannot (perfectly) observe/monitor the effort exerted by the worker and there is no one to one relationship between output and effort exerted. The lack of one to one relationship between output and effort exerted prevents the employer from inferring amount of effort exerted by the worker by observing output. This provides incentive to worker to put less effort. While hiring worker and designing wage contract, the employer takes into account incentive of the workers to shirk.

10. **Unobserved Types or Quality (Adverse Selection)**: Adverse selection may arise when there is asymmetric information regarding the quality or type of agents, products, or commodities. Such asymmetric information also provides incentive to better informed agents to exploit their private information in a manner that adversely affects less informed agents. For example, suppose an employer cannot (perfectly) observe the type or quality of workers. In this case, a worker of low quality has incentive to lie about his quality and pretend to be of high quality. Similarly, lenders may not perfectly know the type of borrowers (their ability, risk of default, riskiness of projects etc.). This provides incentive to low quality borrowers to pretend as high quality borrowers.

11. **Asymmetric Information, Markets, and Policy**: Asymmetric information arises because it is costly to obtain information. Informational imperfections impose transaction cost on the working of markets and affect the nature of contracts and incentive schemes. These imperfections to a large extent explain the existence of phenomena such as the prevalence of share cropping, very high inequality of land holding, village money lenders, micro-credit organization etc.

Design of contracts and incentive schemes also depends on the extent to which contracts can be enforced. Developing countries may not have formal institutions (e.g. law courts) or weak institutions or inadequate capacity to enforce contracts. Weak enforcement limits the development of markets. For instance, formal insurance or credit market may not develop due to weak enforcement.

Informational failures, difficulty in designing appropriate incentive system, and enforcement problems limit the growth of formal institutions and arrangements in developing countries. Informal institutions emerge as a substitute to formal institutions to ameliorate these problems and facilitate trading.

3. 4 Structural diversity for developing countries

1. The size of the country (geographic area, population and income). Obviously the sheer physical size of the country, the size of its population and its level of national income per capita income are important determinants of its economic potential and major factors differentiating one developing nation from another.

- 87 had fewer than 5 million people.
- 58 had fewer than 2.5 million.
- 38 had fewer than 500, 00 peoples.
    - ✓ Large population nations like Brazil, India, Egypt and Nigeria.
    - ✓ Very small population like Paraguay, Nepal, Jordan and Chad

Large size_ Advantage

- Diverse resource endowments
- Large potential market.
- Lesser dependence on foreign sources of material and products

Disadvantage-difficult for administration control, national cohesion and regional imbalance

- Its historical and colonial background
- Its endowments of physical and human resources
- Its ethnic and religious composition
- The relative importance of its public and private sectors.
- The nature of its industrial structure.

Its degree of dependence of power and institutional and political structure within the nation.

Chapter Four: The Political Economy of Development Planning and the State and Market

Introduction

In the initial decades after the Second World War and decolonization, the pursuit of economic development was reflected in the almost universal acceptance of development planning as the unquestionable and most direct route to economic progress. Until the 1980s, few people in the developing world would have questioned the advisability or desirability of formulating and implementing a national development plan. Planning had become a way of life in government ministries, and every five years or so, the latest development plan was paraded out with great fanfare. National planning was widely believed to offer the essential and perhaps the only institutional and organizational mechanism for overcoming the major obstacles to development and for ensuring a sustained high rate of economic growth. To catch up with their former rulers, poor nations were persuaded that they required a comprehensive national plan. The planning record, unfortunately, did not live up to its advance billing. But a comprehensive development policy framework can play an important role in accelerating growth, reducing poverty, and reaching human development goals.

4.1. The Nature, Rationale, and Process of Development Planning

4.1.1. The Nature of Development Planning

Planning is the process of deciding how we will do something before doing it. A basic management function involves the formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources. A plan is a trap laid to capture the future. Planning is deciding, what is to be done. It is an intellectual process, conscious determination of course of action, the basing of decisions on purpose, facts and considered estimates.

Economic planning on the other hand is a deliberate and conscious attempt by the state /governmental attempt to coordinate economic decision making over the long run and to influence, direct, and in some cases even control the level and growth of a nation's principal economic variables (income, consumption, employment, investment, saving, exports, imports, etc.) to achieve a predetermined set of development objectives. It is formulate decisions on how the factors of production shall be allocated among different uses or industries, thereby determining how much of total goods and services shall be produced in one or more ensuing periods. It is simply a specific set of quantitative economic targets to be reached in a given period of time, with a stated strategy for achieving those targets. **Economic plan** is a written document containing government policy decisions on how resources shall be allocated to attain a targeted rate of economic growth or other goals over a certain period of time.

Economic plans may be comprehensive or partial. A comprehensive plan sets its targets to cover all major aspects of the national economy. A partial plan covers only a part of the national economy—industry, agriculture, the public sector, the foreign sector, and so forth.

Development planning refers to the strategic measurable goals that a person, organization or community plans to meet within a certain amount of time. Usually the development plan includes time-based benchmarks. It includes the criteria that will be used to evaluate whether or not the goals were actually met. It takes many forms as it is different across countries and times. The nature of a country's development planning is influenced by many elements, like the availability of natural resources, skilled manpower, and the level of technical, administrative and managerial competence. But two factors: *institutional framework and its stage of development* are more than any others condition determine country's planning. Despite some similarities, development planning in highly socialized economies tis also differs substantially from planning in mixed economies.

4.1.2. The Rationale for Development Planning

Proponents of economic planning argued that the uncontrolled market economy can, and often does, subject nations to economic dualism, unstable markets, low investment in key sectors, and low levels of employment. Therefore, planning came to be accepted, as an essential and pivotal means of guiding and accelerating economic growth in almost all countries.

***Resource Mobilization and Allocation*: **This argument stresses that developing economies cannot afford to waste their very limited financial and skilled human resources on unproductive ventures. Investment projects must be chosen not solely on the basis of partial productivity analysis dictated by individual industrial capital-output ratios but also in the context of an overall development program that takes account of external economies, indirect repercussions, and long-term objectives. Skilled workers must be employed where their contribution will be most widely felt. Economic planning is assumed to help by recognizing the existence of particular constraints and by choosing and coordinating investment projects so as to channel these scarce factors into their most productive outlets. In contrast, it is argued, competitive markets will tend to generate less investment and to direct that investment into areas of low social priority (e.g., consumption goods for the rich).

Attitudinal or Psychological Impact: It is often assumed that a detailed statement of national economic and social objectives in the form of a specific development plan can have an important attitudinal or psychological impact on a diverse and often fragmented population. It may succeed in rallying the people behind the government in a national campaign to eliminate poverty, ignorance, and disease or to boost national prowess. By mobilizing popular support and cutting across class, caste, racial, religious, or tribal factions with the plea to all citizens to work together toward building the nation, it is argued that an enlightened central government, through its economic plan, can best provide the needed incentives to overcome the inhibiting and often divisive forces of sectionalism and traditionalism in a common quest for wide-spread material and social progress.

Foreign Aid: The formulation of detailed development plans has often been a necessary condition for the receipt of bilateral and multilateral foreign aid. With a shopping list of projects, governments are better equipped to solicit foreign assistance and persuade donors that their money will be used as an essential ingredient in a well-conceived and internally consistent plan of action.

In addition, planning has the following importance

- ✓ Planning offsets future uncertainty and change
- ✓ Planning helps in management by objectives

- ✓ It helps in coordination
- ✓ Economy in operation
- ✓ Helps in control
- ✓ Helps in executive development

4.1.3. Process Development Planning

Planning process is the procedure for drawing up and carrying out a formal economic plan. It can be described as an exercise in which a government first chooses social objectives, then sets various targets, and finally organizes a framework for implementing, coordinating, and monitoring a development plan. The planning process includes**;**

1. Identifies the goals or objectives to be achieved,
2. Formulates strategies to achieve them,
3. Arranges or creates the means required, and
4. Implements, directs, and monitors all steps in their proper sequence.

Moreover, development planning typically follows a set of distinct phases:

a. Situation analysis, both internal to the area, and the forces which are shaping the area. This may involve a range of tools to assess the strengths, weaknesses, threats and opportunities *(SWOT*) facing an area
b. Prioritizing key issues, problems or outcomes
c. Developing objectives
d. Developing plans to address the objectives, including strategies, activities and projects
e. Developing a spatial picture of the situation as well as plans
f. Developing budgets to achieve the plans

Most development plans have traditionally been based initially on some more or less formalized macroeconomic model. Such economy wide planning models can be divided into two basic categories;

1. Aggregate growth models, involving macroeconomic estimates of planned or required changes in principal economic variables, and
2. Multi-sector input-output, social accounting, and computable general equilibrium (CGE) models, which ascertain (among other things) the production, resource, employment, and

foreign-exchange implications of a given set of final demand targets within an internally consistent frame-work of inter industry product flows.

3. The detailed selection of specific investment projects within each sector through the technique of project appraisal and social cost-benefit analysis is also probably the most important component of plan formulation. These three "stages" of planning—aggregate, sectorial, and project—provided the main intellectual tools of the planning authority which are extensively used by the WB, other development agencies and developing country governments.

1. Aggregate Growth Models: Projecting Macro Variables

It deals with the entire economy in terms of a limited set of macroeconomic variables deemed most critical to the determination of levels and growth rates of national output: savings, investment, capital stocks, exports, imports, foreign assistance, and so on. It is a formal economic model describing growth of an economy in one or a few sectors using a limited number of variables. It provides a convenient method for forecasting output (and perhaps also employment) growth over a three- to five-year period.

2. Multi-sector Models and Sectorial Projections, Input-output model (inter-industry model)

It is a formal model dividing the economy into sectors and tracing the flow of inter-industry purchases (inputs) and sales (outputs). All industries are viewed both as producers of outputs and users of inputs from other industries. For example, the agricultural sector is both a producer of output (e.g., wheat) and a user of inputs from, say, the manufacturing sector (e.g., machinery, fertilizer).Thus direct and indirect repercussions of planned changes in the demand for the products of any one industry on output, employment, and imports of all other industries can be traced throughout the entire economy in an intricate web of economic interdependence.

3. Project Appraisal and Social Cost-Benefit Analysis

- ***Project appraisal*****:** The quantitative analysis of the relative desirability (profitability) of investing a given sum of public or private funds in alternative projects.

- ***Cost-benefit analysis:*** A tool of economic analysis in which the actual and potential private and social costs of various economic decisions are weighed against actual and potential private and social benefits.

National Development Plan

A National Development Plan is a large scale investment project to develop the infrastructure of a country. It requires central planning and monitoring on a national level and implementation on a micro, local level. Adequate funding from government agencies as well as support from citizens, will allow short, medium and long term goals to be met. It incorporates the following elements.

Goals

Goals should focus on the micro and macro strategy for national growth. This can include development of the economic infrastructure, education, social welfare, science, and innovation. Before setting goals, a government should review the current strengths of each sector and articulate room for growth (both in the long and short term). Nations also should consider advice from outside consultants to review current national conditions and proposed strategies to ensure that they are sustainable and not just politically expedient. The scope of goals will depend upon whether a country is a developed or developing nation and should be tailored to the cultural, economic and social needs of a specific country. Goals should avoid being politically motivated and have sustainability regardless of what is politically popular at the time.

Monitoring/Overseeing

The scope involved with a national project requires a large scale project manager, like a Central Monitoring Committee. Depending on the government structure, it will usually be chaired by a top level official in the office of finance or treasury. Since the funding of a program is integral to its implementation, the financial perspective will be crucial in setting and meeting goals. The Monitoring Committee will ultimately report to the executive/cabinet level of the government and the work of the overseeing committee can be audited by a government accounting/accountability office.

Communication

A communication strategy for a development plan is important so taxpayers and citizens understand what investments and initiatives are being addressed. Typically the committee overseeing a national development plan will develop an Information Office that will market and publicize the plan and also can field questions/suggestions from concerned citizens.

Timeline

It's important that a national plan address short, medium and long terms goals. The purpose of the plan is to prioritize for national immediate needs (food, water, housing, and health-care) that should be met but also to predict in the medium and long run, what are larger goals that should be achieved.

Implementation

The key to any national plan is actually accomplishing goals. A central planning body typically oversees the national plan and acts as a project manager of sorts to oversee the execution of goals on the micro level. This will involve liaising with government agencies that regulate various sectors (transportation, education, health & human services, etc.). It will also need to coordinate with local and municipal governments.

Funding

Funding can come from a variety of sources. Depending on qualifications, certain projects of a national development plan can be financed by foreign donors, international organizations or even corporate/non-profit partners. It also can liaise with various government agencies responsible for an area or industry included in a development plan. The funding issue will most likely be the most politically sensitive and will require support from taxpayers and elected officials to advocate for funding in the budgeting process. Realistic resource forecasts should be considered before establishing a project because if funding dries up, cynicism may arise from voters.

Publicizing Accomplishments

Once development goals have been met, it's appropriate to publicize infrastructure and national improvements to other foreign countries. Such improvements can encourage foreign direct investment, international commerce and tourism that will further promote economic productivity. The buzz and excitement of meeting national goals will also improve morale among citizens since it demonstrates involvement and action by the national government.

1.2. The State and Market: Debates of State Failure versus Market Failure

Market Failure

Markets in developing economies are permeated by imperfections of structure and operation. Commodity and factor markets are often badly organized, and the existence of distorted prices often means that producers and consumers are responding to economic signals and incentives that are a poor reflection of the real cost to society of these goods, services, and re-sources. A phenomenon that results from the existence of market imperfections (e.g., monopoly power, lack of factor mobility, significant externalities, lack of knowledge) weaken the functioning of a market economy.

It is therefore argued that governments have an important role to play in integrating markets and modifying prices. Moreover, the failure of the market to price factors of production correctly is further assumed to lead to gross disparities between social and private valuations of alternative investment projects. Government may intervene in the market for different reasons

i. Provide information and assure information flows.
ii. Combat externalities.
iii. Provide public goods.
iv. Control noncompetitive behavior.
v. Change income distribution

The first four reasons may be justified because they promote Pareto optimality (efficiency). The fifth reason may be justified also if society desires to guide the economy to a particular Pareto optimal resource allocation, for example, one that is more equitable.

In the absence of governmental interference, therefore, the market is said to lead to a misallocation of present and future resources or, at least, to an allocation that may not be in the best long-run social interests. This market failure argument is perhaps the most often quoted reason for the expanded role of government in less developed countries.

There are three general forms in which market failure can be observed;

- ✓ The market cannot function properly or no market exists;
- ✓ The market exists but implies an inefficient allocation of resources;

- ✓ The market produces undesirable results as measured by social objectives other than the allocation of resources.

The market may be efficient in allocating resources at the margin, allowing certain industries to emerge and others to fail, but may be ineffective in producing large discontinuous changes in the economic structure that may be crucial to the country's long-term development. Market power occurs when firms can influence price by restricting quantity, a power most common under increasing returns to scale.

Under certain conditions, the production and distribution of a commodity through a competitive market in which all the relevant agents are pursuing their own self-interest will result in an allocation of that commodity that is socially inefficient. Market failure is when the price mechanism leads to an inefficient allocation of resources and deadweight loss of economic welfare. Market failure exists when the competitive outcome of markets is not satisfactory from the point of view of society. Market failure can be c**complete or partial. While complete market failure** occurs when the market simply does not supply products at all - we see "missing markets", p**artial market failure** occurs when the market does actually function but it produces either the wrong quantity of a product or at the wrong price.

Reasons for market failure can be:

- ✓ **Negative externalities** (e.g. the effects of environmental pollution) causing the social cost of production to exceed the private cost
- ✓ **Positive externalities** (e.g. the provision of education and health care) causing the social benefit of consumption to exceed the private benefit
- ✓ **Imperfect information** or **information failure** means that merit goods are under-produced while demerit goods are over-produced or over-consumed
- ✓ The private sector in a free-markets cannot profitably supply to consumers **pure public goods** and **quasi-public goods** that are needed to meet people's needs and wants
- ✓ **Market dominance by monopolies** can lead to under-production and higher prices than would exist under conditions of competition, causing consumer welfare to be damaged
- ✓ **Factor immobility** causes unemployment and a loss of productive efficiency

- ✓ **Equity (fairness) issues**. Markets can generate an 'unacceptable' distribution of income and consequent social exclusion which the government may choose to change

State Failure

Government failure may also occur in the many cases in which politicians, bureaucrats, and the individuals or groups who influence them give priority to their own private interests rather than the public interest. Analyses of incentives for government failure helps guide reforms such as constitution design and civil service rules.

The word “failed state” refers the condition where the organization, authority, law, and political order have fallen separately and the government lost the personality performing in the name of the people, its control over territory, its legitimacy, and the competence to produce regular commodities

Variety of indicators used to determine state failure can vary from the simple to the complex. The Brookings Index ranks the 141 developing countries, as part of the World Bank classifies as low-income, lower middle-income, and upper middle-income. Specifically, the Index relies on four “baskets,” each of which contains five indicators. These four are economic, social, political and security baskets for state vulnerability range from Stable economic environment to Occurrence and intensity of violent conflict or its residual effect (e.g. population displacement). The variety of indicators to identify a weak, failing, failed and collapsed state illustrates the depth of the challenge of defining state failure. The variety of states in the international system demonstrates the difference between strong, weak, collapsed and failed states. These labels are not compatible as they represent different levels of states in the international political system.

According to Bilgin and Morton (2002), “The notion of a ‘failed’ state, for instance, is used to describe the internal characteristics of a state, whereas ‘rogue’ states are labeled as such because of their foreign policy behaviors”. According to Rotberg (2004), strong states outperform weak states in performance of political will by delivering political goods as security, education, health, economic opportunity, environmental surveillance, making and enforcing an institutional framework, providing and maintaining infrastructure. On the other hand, strong states provide security within their borders to their citizens. In comparison, weak states do not provide such levels of political will. *Weak* states (broadly states in crisis): they may be inherently weak because of geographical, physical, or fundamental economic constraints; or they may be basically strong, but temporarily or situation ally weak because of internal antagonisms, management imperfections, hunger, repression, or external attacks. Weak states typically haven ethnic, religious, linguistic, or other tensions that have not yet, or not yet thoroughly, become overtly violent. In weak states, the ability to provide adequate amounts of other political goods is diminished or is diminishing. They usually honor rule of law precepts in the breach. They harass civil society are often rules by despots (tyrant), elected or not.

All weak states do not necessarily slip into failing, failed or collapsed categories. The threshold between state weaknesses transforming into state failure has additional indicators tipping a state into failure. The dissolution of central and local administrations is the leading cause to state failure. Failed States" may have regimes that target their own citizenry, encourages or is even the cause of conflicts, which results in escalating criminal violence within state borders. The legitimacy of the state is lost as the state institutions deteriorate or is completely destroyed; the economy weakens then collapses, key indicators to identifying state failure.

In order to rank the ***severity*** of state failure, Rotberg suggests that there is a hierarchy of positive state functions. These are:

- Security;
- Institutions to regulate and adjudicate conflicts; rule of law, secure property rights, contract enforcement;
- Political participation; and
- Social service delivery, infrastructure, and regulation of the economy.

4.3. **The state and Economic Development in Developing Countries**

Deficiencies in Plans and Their Implementation: Plans are often overambitious. They try to accomplish too many objectives at once without consideration that some of the objectives are competing or even conflicting. They are often grandiose in design but vague on specific policies for achieving stated objectives. In this they have much in common with the excessive lists of 60 to 100 or more issue areas in conditionality agreements set out by the World Bank and the International Monetary Fund (IMF). Finally, the gap between plan formulation and implementation is often enormous (many plans, for reasons to be discussed, are never implemented).

Insufficient and Unreliable Data: The economic value of a development plan depends to a great extent on the quality and reliability of the statistical data on which it is based. When these data are weak, unreliable, or nonexistent, as in many poor countries, the accuracy and internal consistency of economy wide quantitative plans are greatly diminished. And when unreliable data are compounded by an inadequate supply of qualified economists, statisticians, and other planning personnel (as is also the situation in most poor nations), the attempt to formulate and carry out a comprehensive and detailed development plan is likely to be frustrated at all levels.

Unanticipated Economic Disturbances, **External and Internal**: Because most developing countries have open economies dependent on the vicissitudes of international trade, aid, "hot" speculative capital inflows and private foreign investment, it becomes exceedingly difficult for them to engage in even short-term forecasting, let alone long-range planning. The oil price increases of the 1970s caused havoc in most development plans. But the energy crisis was only an extreme case of a general tendency for economic factors over which most governments in the developing world have little control to determine the success or failure of their development policies.

Institutional Weaknesses: The institutional weaknesses of the planning processes of most developing countries include the separation of the planning agency from the day-to-day decision-making machinery of government; the failure of planners, administrators, and political leaders to engage in continuous dialogue and internal communication about goals and strategies; and the international transfer of institutional planning practices and organizational arrangements that may be inappropriate to local conditions. In addition, there has been much concern about incompetent and unqualified civil servants; cumbersome bureaucratic procedures; excessive caution and resistance to innovation and change; interministerial personal and departmental rivalries (e.g., finance ministries and planning agencies are often conflicting rather than cooperative forces in governments); lack of commitment to national goals as opposed to regional, departmental, or simply private objectives on the part of political leaders and government bureaucrats; and in accordance with this lack of national as opposed to personal interest, the political and bureaucratic corruption that is pervasive in many governments.

Lack of Political Will: Poor plan performance and the wide gap between plan formulation and plan implementation are also attributable to a lack of commitment and political will on the part of many developing-country leaders and high-level decision makers. Political will entails much more than high-minded purposes and noble rhetoric. It requires an unusual ability and a great deal of political courage to challenge powerful elites and vested-interest groups and to persuade them that development is in the long-run interests of all citizens even though some of them may suffer short-term losses. In the absence of their support, be it freely offered or coerced, a will to develop on the part of politicians is likely to meet with staunch resistance, frustration, and internal conflict.

Conflict, Post conflict, and Fragile States: In extreme cases, violent conflict or the large-scale failure of a state to otherwise function meaningfully has resulted in catastrophic failure of even the most basic development objectives. In these cases, development assistance is usually essential.

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College of Social Science Department of Civic and Ethical Studies

Individual assignment on Political Economy of Development.

1. **Select two of the following** *models of developmental states and* **d***iscuss their development policies and experiences (maximum 6 page.*
    - A. Japan
    - B. South Korea
    - C. China
    - D. Ethiopia
    - E. South Africa
    - F. Brazil
    - G. India
    - H. Botswana
2. List and explain the Historical Incidences (internal and external) of Contemporary Development Crisis in Developing Countries. *(maximum 6 page)*
3. Write an essay on the following ideas regarding to development planning;
    - I. Crisis in Planning: Problems of Implementation and Plan Failures
    - J. Public Enterprises and Privatization *(maximum 8 page)*

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