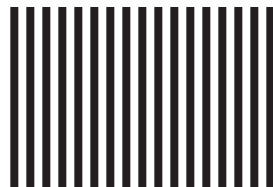


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“Which Way?”

*A series of occasional papers published by
The Frederick S. Pardee Center for the Study
of the Longer-Range Future at Boston University*

Thoughts About Development: Which Are Mere Fads? Which Are Here to Stay?



by Paul Streeten
Introduction by David Fromkin



Which Way? pamphlets highlight emerging controversies at the crossroads: the crossroads where decisions must be made about choices that will affect the future of humankind through the twenty-first century and into the next. They are intended to illuminate, inform, arouse interest, and inspire debate among opinion-molders, decision-makers, and an informed and thoughtful public.

Which Way? pamphlets are published by Boston University's Pardee Center for the Study of the Longer-Range Future, established in 2000 to produce intellectual analysis of options for confronting inevitable change looking out 35 to 200 years. Pardee Center studies are intended to be international, interdisciplinary, non-ideological, and realistic.

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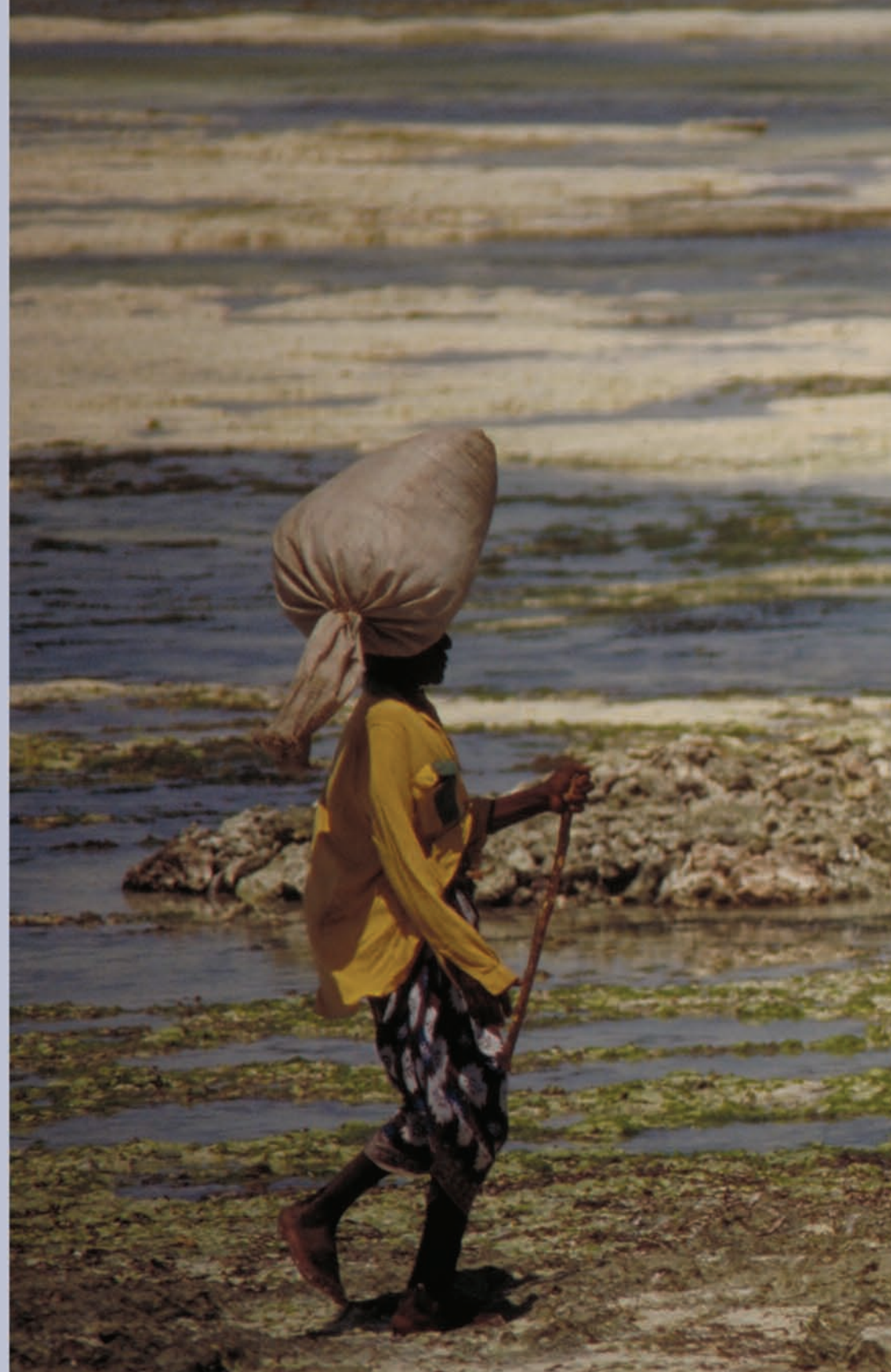
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Controversies About the Future

Thoughts About Development: Which Are Mere Fads? Which Are Here to Stay?

by
Paul Streeten

Introduction by
David Fromkin

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A native of Massachusetts, Frederick S. Pardee received both a bachelor's and a master's degree from the Boston University School of Management. He worked for 13 years at the RAND Corporation as a systems analyst, studying long-term economic forecasts. He then spent several years working as an independent consultant, primarily for the U.S.

government. In 1974, he turned his professional attention to managing his real estate investments, while actively maintaining his interest in studying the future.

In 2000, at the turn of the millennium, Mr. Pardee established the Frederick S. Pardee Center for the Study of the Longer-Range Future at Boston University with an endowed professorship and annual visiting professorship to consider the challenges that lie ahead for mankind in the decades to come.

For more information about the Pardee Center at Boston University, visit our website at www.bu.edu/pardee, or contact us at pardee@bu.edu or 617-358-4000.

INTRODUCTION

by David Fromkin

The Pardee Center at Boston University, which began life only a few years ago with the new century and the new millennium, already is known for the quality of its workshop-symposia each semester and its visiting professor lecture series each year. These have vindicated the generosity and the imaginative vision of Frederick S. Pardee, who founded this Center in 2000–2001 to explore the challenges that lie ahead for the human race in the longer-range future.

Every now and again in the course of our activities, we come across an issue or an author or an essay to which we would like to draw attention. To do so we have inaugurated this pamphlet series of occasional papers.

“Thoughts About Development: Which Are Mere Fads? Which Are Here to Stay?” 1 represents an important contribution to the study of human development. It comes from the pen of Paul Streeten, a leader in the field. It is the third pamphlet in our “Which Way?” series. In recognition of its importance, the United Nations Human Development office is assisting in its distribution to a network of people around the world actively engaged in human development analysis and research. It is bound to stimulate discussion by students of the field.



Dr. Streeten is the founder and chairman of the board of World Development, a consultant to the United Nations Development Program and to the United Nations Educational, Scientific and Cultural Organization (UNESCO). He has worked for several UN bodies. Among other institutions, he has played a major role in the Institute of Commonwealth Studies and the Institute of Development Studies in Sussex. He is a principal thinker behind the Human Development paradigm and has been intensely involved in the writing of all the United Nations Human Development Reports, either as a part of the team of authors or as an advisor. Dr. Streeten has participated in numerous conferences and conventions worldwide. Many of his earlier lectures have been published in the book *Thinking About Development* (Cambridge University Press, 1997).

THOUGHTS ABOUT DEVELOPMENT: WHICH ARE MERE FADS? WHICH ARE HERE TO STAY?

by Paul Streefen

Deficiencies of Growth

It used to be said that there are three forms of discourse: monologue, dialogue, and Balogh. My old tutor, mentor, and friend, Thomas Balogh, who indeed practiced a unique form of conversation, once wrote a book about fads and fashions in economics. Had he been asked to write on the subject that I have chosen to attempt to discuss here, he would probably have begun by saying that the models produced by the fads of development economics are elegant and shapely, but lack the vital organs. I would not have agreed. I believe that we have made progress.

It is true that sometimes the changes in the fashions of thinking about development appear like a comedy of errors, a lurching from one fad to another, a wild-goose chase. Economic growth, employment creation, jobs and justice, redistribution with growth, basic needs, bottom-up development, participatory development, sustainable development, market-friendly development, development as liberation, as liberalization, as freedom, human development, development with good governance; thus goes the carousel of the slogans. My own view is that there has been an evolution in our thinking about development, though there have also been periods of regress. Both internal logic and new evidence have led to the revision of our views. A brief survey of the progress of our thinking will be helpful.

3

Our thinking about development and the place of people in it has, as I said, undergone an evolution, an uneven progress. Both internal logic and new evidence have led to the continual revision of our views. Previous and partly discarded approaches have taught us much that is still valuable, and our current approach will surely be subject to criticisms and be overtaken and replaced by new insights.

Thinking about the purpose of our social arrangements goes back at least to Aristotle. The full development of human beings as the end of all our activities was a recurring theme in the writings of most philosophers from the ancient Greeks to David Hume, Immanuel Kant, and John Stuart Mill, and of such political economists as Adam Smith, Karl Marx, Alfred Marshall, and John Maynard Keynes.

The discussion was resumed in the 1950s, when economic growth was emphasized as the key to poverty eradication. Even at this early stage, sensible economists and development planners were quite clear that economic growth is not an end in itself, but a performance test of development. In 1955 the Nobel Prize-winning West Indian economist Arthur Lewis defined the purpose of development as widening “the range of human choice,” exactly as the Human Development Reports since 1990 have done. The only difference is that Lewis had faith in the efficacy of economic growth for promoting this objective.

Three justifications were given for the emphasis on growth as the principal performance test. One justification assumed that through market forces—such as the rising demand for labor, rising productivity, rising wages, lower prices of the goods bought by the people—economic growth would spread its benefits widely and speedily, and that these benefits are best achieved through growth. Even in the early days some skeptics said that growth is not necessarily so benign. They maintained that in certain conditions (such as increasing returns, restrictions to entry, monopoly power, unequal initial distribution of income and assets), growth gives to those who already have advantages; it tends to concentrate income and wealth in the hands of the few.

4

This is where the second assumption came in. Its premise was that governments are concerned with the fate of the poor. Therefore progressive taxation, social services, and other government interventions would spread the benefits downwards. The reduction of poverty would not be automatic (as in the first assumption), but governments would take action to correct situations in which market forces by themselves concentrated benefits in the hands of the few.

The third assumption was more hardheaded than the previous two. It said that the fate of the poor should not be a concern at the early stages of development. It was thought necessary first to build up the capital, infrastructure, and productive capacity of an economy, so that it can improve the lot of the poor later. For a time—and it could be quite a long period—the poor would have to tighten their belts and the rich would receive most of the benefits. But if the rewards of the rich are used to provide incentives to innovate, to save, and to accumulate capital which could eventually be used to benefit the poor, the early hungry years would turn out to have been justified. Classical, neoclassical, and palaeo-Marxist economists all agreed on this. Some radical liberal philosophers such as John Rawls¹ would sanction such a strategy. Inequalities, in their view, are justified if they are a necessary condition for improving the lot of the poor.

Another powerful influence was the so-called Kuznets curve.² Named after Nobel Laureate Simon Kuznets, it relates average income levels to an index of equality and suggests that the early stages of growth are accompanied by growing inequality. Only at an income per head of about \$1,000 (in 1979 dollars) is further growth associated with reduced inequality. One measure of inequality is the share of the bottom 40 percent of the population in total national income. This association has been suggested by tracing the course of the same country over time (time series), and of different countries, with different incomes per head, at the same time (cross section). In the early stages of development, as income per head increases, inequality tends to grow. This may mean that absolute poverty for some groups also increases. But eventually the turning point, the bottom of the U-curve, is reached, after which growing income is accompanied by greater equality and, of course, reduced poverty. The golden age is ushered in.

None of the assumptions underlying these three justifications turned out to be universally true. Except for a very few countries, with special initial conditions such as radical land reform and special policies such as heavy emphasis on mass education and health measures, there was no automatic tendency for increasing incomes to be spread widely. Nor did governments often take corrective action to reduce poverty. Governments were themselves often formed by people who had close psychological, social, economic, and political links with beneficiaries of the process of concentrated growth, even though their motives were often mixed. And it certainly was not true that a period of enduring mass poverty was needed to accumulate savings and investment and to raise productivity. It was found that small farmers saved at least as high a proportion of their incomes as big landowners; that they were more productive, in terms of yield per acre; that entrepreneurial talent was widespread and not confined to large firms; and that some forms of consumption by the poor were not only desirable in themselves but also made them more productive. Prolonged mass poverty was therefore not needed to accumulate capital and to stimulate entrepreneurship.

To judge by the growth of the gross national product (GNP), the development process since World War II has been a spectacular, unprecedented, and unexpected success. But at the same time we witnessed increasing diversity of growth between different developing countries, and increasing dualism within many of them. Despite high rates of growth of industrial production and continued

general economic growth, not enough employment was created for the rapidly growing labor force. Nor were the benefits of growth always widely spread, and the lower income groups often did not benefit.

In a much-quoted, classical article Arthur Lewis had predicted that poor and low-productivity subsistence farmers and landless laborers would move from the countryside to the high-income, urban, modern industries.³ This move would increase inequality in the early stages (so long as rural inequalities were not substantially greater than urban inequalities), but when more than the critical number of rural poor had been absorbed in modern industry, the golden age would be ushered in, when growth would be married to greater equality. In this way an explanation for the statistical association of the Kuznets curve was provided.

It became evident, however, that the Lewis model, which strongly dominated not only academic thought but also political action, did not always work in reality. It did not apply for four reasons. First, the rural-urban differentials were much higher than had been assumed, owing to trade union action on urban wages, minimum wage legislation, differentials inherited from colonial days, and other causes. This produced an excess of migrants to the towns. Second, the rate of growth of the population and with it that of the labor force was much larger than expected: between 2 and 3 percent per year. Third, the technology transferred from the industrial countries to the urban industrial sector of the developing countries was labor-saving, and although it raised labor productivity it did not create many jobs. Fourth, in many developing countries a productivity-raising revolution in agriculture was a precondition for substantial and widespread progress in industry, and this revolution had not occurred.

6

Jobs and Justice

It was not surprising, then, that attention turned away from GNP and its growth. Some even wanted to "dethrone GNP" in the 1960s, not for the currently fashionable reason of environmental protection, but because it neglected employment and income distribution, jobs, and justice. Since 1969 the International Labor Organization had attempted under the World Employment Programme to promote jobs in the developing countries. It had organized employment missions to several countries—Colombia, Kenya, The Philippines, Iran, Sri Lanka, the Dominican Republic, the Sudan, and Egypt—to explore ways of creating more productive and remunerative employment. While this was an extremely useful learning exercise,

it soon became evident that unemployment was not really the main problem. "Employment" and "unemployment" make sense only in an industrialized society where there are employment exchanges, organized and informed labor markets, and social security benefits for the unemployed who are trained workers, willing and able to work, but temporarily without a job. Much of this does not apply to the poorest developing countries, in which livelihoods are more important than wage employment.

Another Nobel Laureate, Gunnar Myrdal, tried to replace the concept of "employment" by the concept of "labor utilization." It has numerous dimensions when applied to self-employed subsistence farmers, landless laborers, artisans, traders, educated young people, saffron-clad monks, beggars, caste-conscious Brahmans, or women, in societies without organized labor markets. "Employment" as interpreted in industrial countries was found not to be the appropriate concept. To afford to be unemployed, a worker has to be fairly well off. To survive, an unemployed person must have an income from another source. The root problem, it was found, is frequently poverty, or low-productivity employment, not unemployment. Many of the moderately poor are not unemployed but work very hard and long hours in unremunerative, unproductive forms of activity. True, among the poorest of the poor, unemployment can be a common form of suffering, but even then its roots are quite different from those of unemployment in industrial countries.

7

The discovery that the problem is often unremunerative work of low productivity drew attention to the informal sector: the street traders, garbage collectors, and casual workers, as well as many in small-scale production such as blacksmiths, carpenters, sandal makers, builders, and lamp makers. These people often work extremely hard and long hours, are self-employed or employed by their family, and are sometimes very poor. Attention was also directed to the women who, in some cultures, perform hard tasks without being counted as members of the labor force because their production is not sold for cash. The problem was the redefinition of the "working poor."

Labor utilization covers more dimensions than the demand for labor (the lack of which gives rise to Keynesian unemployment) and the need for cooperating factors of production such as machinery and raw materials (the lack of which gives rise to Marxian "non-employment"). There is a good deal of evidence that not only labor but also capital is grossly underutilized in many developing countries.

This suggests other causes for underutilization than surplus labor in relation to scarce capital. More specifically, the causes of low labor utilization can be classified under four headings: consumption and levels of living (including education and health), attitudes, institutions, and policies.

Nutrition, health, and education are elements of the level of living that are important for fuller labor utilization. They have been neglected because in advanced societies they count as consumption and this has no effect on human productivity. The only exceptions that have been admitted in the literature until recently are some forms of education. In poor countries, however, better nutrition, health, education, and training can be very productive forms of investment in human capital. This is one thread that goes into the fabric of human development.

The second dimension, attitudes, makes a difference in the kinds of jobs people will accept. In Sri Lanka, for example, a large part of unemployment is the result of the high aspirations of the educated, who are no longer prepared to accept "dirty" manual jobs. Caste attitudes in India also present obstacles to fuller labor utilization. In Africa those with primary education wish to leave the land and become clerks in government offices. In many societies manual work or rural work is held in contempt.

8

The third dimension is the absence or weakness of such institutions as labor exchanges, credit facilities, marketing organizations, centers of information, and a system of land ownership or tenancy that provides incentives and ability to till the soil. As a result, labor is underutilized.

Finally, the wrong policies for fuller labor utilization are often adopted: labor in the organized sector is over-priced, capital is under-priced, food bought from the small growers is under-priced, the exchange rate is over-valued, making labor-intensive exports difficult, etc.

For reasons such as these, the concepts of unemployment and underemployment as understood in the North were found to be not applicable, and an approach to poverty that assumes levels of living, skills, attitudes, and institutions fully adapted to full labor utilization has turned out to be largely a dead end. Unemployment can coexist with considerable labor shortages and capital underutilization.

Inappropriate attitudes and institutions can also frustrate some approaches to meeting basic needs. Focusing on the needs of men, women, and children draws attention to the appropriate institutions (such as land reform, public services, and credit facilities) to which households need access, and to the attitudes (such as those toward women's welfare) that need changing to secure better distribution within the household.

The employment concept was questioned for other reasons too. The creation of more employment opportunities, far from reducing unemployment, increases it. Those who come from the countryside to the towns in search of jobs balance the expectation of high earnings against the probability of getting a job.⁴ As job opportunities increase, they attract more people. The influx of migrants in turn contributes to the high rate of urban drift and the growth of shantytowns. The employed urban workers, though poor by Western standards, are among the better-off when measured against the distribution of income in their own countries.

These difficulties turned the development debate to the question of income distribution. One of the landmarks was the book published in 1974 for the Development Research Center of the World Bank and the Institute of Development Studies of the University of Sussex entitled *Redistribution with Growth*.⁵ Among many questions about relations between growth and redistribution were the following: do conventional measures of growth involve a bias against the poor, and how can this be changed? How can strategies of redistribution be combined with strategies of growth? Is it possible to identify groups whose members have common characteristics and to direct strategies toward those groups? What are the principal instruments of policy? But apart from these questions, it raised two sets of questions, of special interest in the present context:

- (1) What can be done to increase the productivity of the small-scale, labor-intensive, informal sector "discovered" by the ILO employment mission to Kenya? How can we remove discrimination against this sector and improve its access to information, credit, and markets? The question is how does redistribution affect efficiency and growth? Does helping the "working poor" mean sacrificing productivity; is it an efficient way of promoting growth?

(2) To turn the question the other way around, how does economic growth affect distribution? It was quite clearly seen that in low-income countries economic growth is a necessary condition for eradicating poverty, but it also seems that economic growth sometimes reinforced and entrenched inequalities in the distribution of incomes, assets, and power. Not surprisingly, when growth began with an unequal distribution of assets and power, it was more difficult to redistribute incomes and to eradicate poverty. And the results of redistributing incremental income turned out to be pitifully small. According to one simulation exercise, an annual transfer of 2 percent of GNP over 25 years into public investment to build up the stock of capital available to the poor—thought to be a very “dynamic” policy—would, after 40 years, raise the consumption of the poorest 40 percent of the population by only 23 percent; that is to say, their rate of consumption growth would accelerate by 0.5 percent a year: \$1 for a \$200 income. The model excludes, however, the human capital aspect of some forms of consumption and the impact on labor utilization, which are stressed by the basic needs approach.

10

In spite of its title, most of Redistribution with Growth is concerned not with relative income shares but with the level and growth of income in low-income groups. Much of the redistribution literature measures inequality by the Gini coefficient, which runs through the whole range of incomes, from the richest to the poorest. It measures somewhat meaningless percentiles instead of socially, regionally, or ethnically significant deprived groups. It does not tell who is in these decile groups, for how long, or for what reasons. Nor does it indicate the scope for mobility or the degree of equality of opportunity. Normally there is no particular interest by those concerned with poverty reduction in redistribution to the middle, which would reduce inequality but leave poverty untouched. Nor is the fate of income deciles as such of much interest, for these are not sociologically, politically, or humanly interesting groups.

An empirical question is how economic growth affects the reduction of inequality and poverty, and how this reduction in turn affects efficiency and economic growth. The answers to these questions will depend on the initial distribution of assets, the policies pursued by the government, the available technologies, the scope for labor-intensive exports, which enlarges the application of labor-intensive technologies, and the rate of population growth. Land reform and access to basic mass education

are preconditions for equitable growth, but they are not enough. Continuing policies and vigilance are needed to prevent large inequalities from reestablishing themselves, even if they are eliminated initially. Another important empirical question is how policies to reduce inequalities and meet basic needs affect freedom and human rights.

It is true that we do not have a production function for meeting adequate standards of nutrition, health, education, and family planning. It is not known precisely which financial, fiscal, and human resources policies produce these desirable results. The causes are multiple and interact in a complex and still partly unknown manner. But at least it is fairly clear when the objective has been attained, and the criteria by which it is judged are also clear.

Basic Needs

After the disappointment with growth, after the dead end of "employment" as interpreted in industrial countries, and after the limitation and irrelevance of egalitarianism and redistribution, basic human needs were the next logical step in development thinking. The basic needs approach emphasized that income increases are not enough to reduce poverty. Mass education, safe water, family planning, health services, and other services depend on public action. Some poor people are incapable of earning income. The basic needs approach has also always called for participatory community involvement and self-governing institutions in the design and implementation of projects and programs. The best shorthand way of describing the basic needs approach is: incomes + public services + participation.

The basic needs approach has at least four advantages over previous approaches to growth, employment, income redistribution, and poverty eradication. First, the basic needs concept is a reminder that the objective of development is to provide all human beings with the opportunity for a full life. However a "full life" is interpreted, the opportunity for achieving it presupposes meeting basic needs. In the previous decades those concerned with development have sometimes lost their way in the technical intricacies of means—growth rates, production, productivity, savings ratios, export ratios, capital-output ratios, tax ratios, and so on—and lost sight of the end. They also emphasized the economic component of development at the expense of nonmaterial ones that contribute to human development. They came near to being guilty, to borrow a term from Karl Marx, of "commodity

fetishism.” Being clear about the end obviously must not imply neglecting the means: on the contrary, it means efforts are directed at choosing the right means for the ultimate ends that are desired. In the past, planners have moved away from one aim of development, which is meeting basic needs, to some conglomeration of commodities and services valued at market prices, irrespective of whether they are air conditioners or bicycles, luxury houses or rural shelters, whether they benefit the rich or the poor, and irrespective of noneconomic costs and benefits such as human rights, freedom, and participation. The basic needs approach recalled the fundamental concern of development, which is human beings and their needs.

Second, the approach went beyond abstractions such as money, income, or employment. These aggregates have their place and function; they are important concepts and, though in need of revision, should not be abandoned; but they are useless if they conceal the specific, concrete objectives that people themselves seek. To consider basic needs is to move from the abstract to the concrete, from the aggregate to the specific, from commodities to people.

The evolution sketched above shows that the concepts have become decreasingly abstract and increasingly disaggregated, concrete, and, above all, centered on people. Starting with GNP and its growth, a highly abstract and unspecified conglomerate of goods and services, irrespective of what, how, for whom, and for what, development thinking then turned to employment, a somewhat more specific goal. The discussion was then narrowed down to particular groups of unemployed: school leavers, recent migrants to the city, landless laborers, small-scale farmers without secure water supply, and so forth. But “employment” also was seen to have serious limitations. Ideas were next further narrowed to identify deprived groups of individuals and families—women, children under five, the elderly, youth with specific needs, ethnic groups discriminated against, communities in distant and neglected regions. Economic growth is no longer the ultimate objective of economic development, but an incidental result of aiming at the right composition, distribution, and use of production, and a satisfying way of accomplishing it, for the present and future generations.

Third, the basic needs approach appealed to members of national and international aid-giving institutions and was therefore capable of mobilizing resources, unlike more vague (though important) objectives, such as raising growth rates to 6 percent, contributing 0.7 percent of GNP to development assistance, redistributing for greater equality, or narrowing income gaps. People do not normally share lottery prizes or other gains in wealth with their adult brothers and sisters, but they do help when their siblings are ill, or their children need education, or some other basic need has to be met. The same is true in the wider human family. Meeting basic needs has some of the characteristics of a public good. One person's satisfaction from knowing that a hungry child is fed does not detract from other people's satisfaction. The basic needs approach therefore has the power to mobilize support for policies that more abstract notions lack.

Fourth, the basic needs approach has great organizing and integrating power intellectually, as well as politically. It provides a key to the solution of problems that are at first sight separate, but, on inspection, prove to be related. If basic needs are made the starting point, these otherwise recalcitrant problems fall into place and become solvable.⁶

In one sense, this was a homecoming. For when the world embarked on development more than half a century ago, it was primarily with the needs of the poor in mind. Third World leaders wanted economic as well as political independence, but independence was to be used for people's self-fulfillment. The process got sidetracked, but many important discoveries about development were made: the importance of making small-scale farmers and members of the informal urban sector more productive and raising their earning power; the scope for "efficient" redistribution, that is, redistribution that contributes to more equitable economic growth; the numerous dimensions of labor markets; and the importance of creating demand for certain types of products and the labor producing them.

A common minimum formulation of the objectives of development is sustainable growth (of consumption) with equity, or, better, with rapid poverty reduction. Equity means that there should not be unfair or unjustified discrimination. Some poverty reduction may have to be unequal, in the sense that not all the poor can become better off at the same time, so that some groups, or some regions, may have to be favored, at least for a time. This is particularly important if the selective policy favoring one group eventually helps to eradicate more speedily the poverty of those left behind.

We should distinguish between inequality and inequity. If A, whose situation is in all relevant respects the same as B's, has more than B, that is inequality; if he or she has more because B has less, or if B has less because A has more, that is inequitable or iniquitous. But even where exploitative and iniquitous inequality is absent, we should still be concerned with the fate of the poor. Both poverty and some forms of inequality are evils, but poverty is the greater evil. And inequality can also be a source of hope when those left behind rightly think that they can catch up with those ahead and grasp the opportunities to advance by their own efforts.⁷

Equality can refer to many things: income, resources, utility, achievements, primary goods, opportunities, freedom, human rights, the right to vote, etc. Equality in one dimension means inequality in another. Even those most wedded to free markets who think that more productive work deserves higher rewards believe in equality of opportunity; those who believe in markets believe in equality of freedom to choose. The basic aim is to find a practical conception of equality that can give people a sense that they receive equal consideration from society and so have a stake in it. The kind of equality denounced by Anatole France when he wrote "the law in its majestic equality forbids the rich as well as the poor to sleep under bridges, to beg in the streets, and to steal bread" is not enough. Equality of freedom to choose is generally acknowledged as desirable.

14

Raising production and productivity of the poor, although important, is not enough. Many productivity gains in the Third World have been passed on to foreign buyers (e.g., in lower prices of export crops) or to large multinational corporations, or to the better-off groups at home. The gains must also be remunerative for the poor, as well as productive.

But basic needs comprise more than economic benefits. We may also wish to add the objective of security and stability: economic, political, and legal. Greatly fluctuating gains and insecure jobs are discounted, even if their average is larger than a more stable, though lower, level. So, as a first approximation, the objective became productive, remunerative, sustainable, stable, and equitable growth of consumption (or, to remove the ambiguities in "equity," growth with rapid reduction of absolute poverty).

But this does not exhaust the range of objectives. Some of the most important contributions to poverty reduction, reflected in what poor people actually want, do not show up in growth figures, and are not achieved by economic growth. Poverty is multi-dimensional and cannot be subsumed under one or two or a few indicators of deprivation.

As the basic needs concept entered the North-South dialogue, all sorts of misconceptions and misinterpretations grew around it.⁸ First, it was said that basic needs are confined to basic commodity bundles and that the choices are limited: educational services, health services, food, shelter, and that it amounts to a prescription of "count, cost, and deliver": count the poor, cost the bundle, and deliver it to the "target groups" (people who are not only got at, but, metaphorically, shot at, instead of being regarded as active agents). Second, it was thought that the role allotted to the state was too powerful, both in determining what basic needs are and in providing for their being met, and that this type of paternalism is both inefficient and unworthy. Third, it was held that there was a neglect of opening up opportunities to people: access to jobs, income, assets, credit, and power were neglected in favor of so many calories, so many yards of cloth.

Opposition in developing countries also grew, particularly to the use of the concept by donor countries. Some of the objections raised by the developing countries were justified, such as the use of the concept as an excuse to reduce development aid and to put up protectionist barriers, or its use to divert attention from the need to reform the system of international relations; others reflected the vested interests of the rich in the poor countries who resist attempts to reduce their power and wealth. Similarly, the rich countries raised both legitimate and illegitimate objections. The result was that the concept faded away in international conversations, although it still has adherents among many of the drafters of plans in the developing countries, among private voluntary organizations and activists, and among thinkers and those with common sense.

15

Retreats and Advances

The 1980s were a period of crisis, of setbacks and retreats. The debt problem, and adjustment and stabilization policies were the principal concerns. Stabilization was sought through deflationary policies that reduced output and employment. The poor were either forgotten or, instead of seeking ways to reduce their number, ways were sought to prevent an increase.

Many criticisms were voiced against the prescriptions of the International Monetary Fund (IMF). Among them was the charge that IMF recommendations attempt to solve structural problems, such as an oil price increase in oil-importing countries, or a permanent deterioration in the terms of trade from some other reason, by monetary restrictions, thereby inflicting unnecessary unemployment, underutilization of capacity and forgone production, as well as being counterproductive by depriving firms of the means to invest in the exploration of new deposits and in related industries, in oil substitutes, and in conservation.

Another criticism is that the IMF concentrates on reducing demand instead of increasing supplies, on cutting imports rather than expanding exports. During the 1980s many countries, instead of raising exports and reducing imports, found that both exports and imports were reduced. It is almost always possible to achieve stabilization and correction of the balance of payments by policies that reduce income, demand, and employment sufficiently, without reallocating resources to investment and exports, in other words without fundamental adjustment. The criticism is that the IMF has advocated this kind of "stabilization without adjustment."

At the same time, this period witnessed a worldwide surge to freedom, democratic government, and demand for participation. During the 1980s, and while stabilization and adjustment policies were pursued, new concerns were incorporated in the development dialogue: the role of women (and children), the physical environment, population, habitation, human rights, political freedom and governance, empowerment, corruption, the waste of military expenditure and the "peace dividend," and the role of culture among them. The basic needs approach was regarded as too narrowly focused on commodity bundles delivered to people by the government, and it had to carry the ballast of past misinterpretations.

At this time in the 1980s several authors proposed a variety of "new growth theories." These have a bearing on the relation between human development and economic growth. The observation that output has grown faster than population for over 200 years, while different countries have remained on different growth paths, was an important motivation for the construction of these new models. In the older growth theories, growth is seen as the result of the accumulation of productive factors and of exogenous technological progress that makes factors more productive. In the new growth theories, the emphasis is switched to the way the changes in total factor productivity can be related to several external

economies (benefits from investment to others than those who incur the costs) that are present in most economies and to the acquisition of knowledge, education, and on-the-job training. In this framework the long-term growth rate is not determined by the exogenous rate of technical progress, but by the behavior of people responsible for the accumulation of productive factors and knowledge.

There are two implications of this switch: first, growth is not explained by technological progress that comes from outside the economic system but by the “endogenous” behavior of people. Second, education and knowledge, particularly in the form of Research and Development (R&D), incorporated in human or physical capital or in books and blueprints, play an important part in increasing total productivity and thus in enhancing growth.

The impact of higher levels of education is twofold. First, a better-educated and trained workforce raises the productivity of the cooperating factors because better-educated people are more likely to innovate and to be more efficient in general. Second, better education benefits others who can now earn more, in addition to the educated person.

R&D similarly improves not only the productivity and profitability of the firm that invests in it, but also those of other firms or individuals that buy its products. Moreover, some discoveries are freely accessible to all firms that can benefit from them. In these ways investing in human capital can overcome the diminishing returns of investing in physical capital. It follows from the external benefits of education, R&D, and knowledge generally that private agents will tend to underinvest in them and that public interventions such as subsidies are necessary to ensure adequate investment.

A problem with any model that emphasizes a single factor, such as education or R&D, as the driving force of development is that it is easy to point to counter-examples. Although it is true that, looking at many countries, a correlation between economic growth and education can be found, there are also important exceptions. Sri Lanka had high levels of widespread education without spectacular growth, while Brazil enjoyed high growth rates with low levels of education. Reality is more complicated than single-factor models suggest.

Human Development and Capabilities

The 1980s were also the time when Amartya Sen set out to propose an alternative approach to utility and “welfarism,” expanding and deepening the basic needs approach. People value commodities, he argues, not in their own right but for their characteristics and for the needs they meet. But going beyond this, he noted that the results of consuming commodities depend also on the characteristics of the consumer (whether he or she is able-bodied or disabled) in the society of which he or she is a member. Sen also emphasized that freedom to choose is important to well-being. The well-being of a fasting monk is different from that of a starving pauper. The standard of living should be judged by a person’s “capability” to lead the life that he or she values, from being well fed and healthy to achieving self-respect and participating in the life of the community.

The time had come for a wider approach to improving the human condition that would cover all aspects of human development, for all people, in both high-income and developing countries, both now and in the future. It went far beyond narrowly defined economic development to cover the full flourishing of all human capabilities. It emphasized again the need to put people, their needs, their aspirations, and their choices at the center of the development effort and to assert the unacceptability of any biases or discrimination, whether by class, gender, race, nationality, religion, community, or generation. Human Development had arrived.

18

The first Human Development Report of the United Nations Development Programme, published in 1990 under the inspiration and leadership of its architect, Mahbub ul Haq, came after a period of crisis and retrenchment, in which concern for people had given way to concerns for balancing budgets and payments. It met a felt need and was widely welcomed. Human development was there defined as a process of enlarging people’s choices, not just between different detergents or television channels or car models, but of jobs, education, and leisure pursuits. These choices can change over time and can, in principle, be infinite. Yet, infinite choices without limits and constraints can become pointless and mindless. Choices have to be combined with allegiances, rights with duties, options with bonds, liberties with ligatures. It is true that bonds without options are oppressive; but options without bonds are anarchic. Indeed, choices without bonds can be as oppressive as bonds without choices.

Just as at the end of the 19th century the reaction against extreme Manchester liberalism took the form of "collectivism," not nowadays a popular concept, so today we see a reaction against the extreme individualism of the free market approach towards what has come to be called communitarianism. The exact combination of individual and public action, of human agency and social institutions, will vary from time to time and from problem area to problem area. Institutional arrangements will be more important for achieving environmental sustainability, personal agency more important when it comes to the choice of household articles or marriage partners. But some complementarity will always be necessary.

Among the most important choices is the ability of people to lead a long and healthy life, to acquire knowledge, and to have access to the resources needed for a decent standard of living. If these essential choices are available, many other opportunities are opened. These three basic choices are reflected in the Human Development Index. But many additional choices are valued by people. These range from political, social, economic, and cultural freedom to opportunities for being productive and creative, and enjoying self-respect and human rights.

Human development has two sides: (1) the formation of human capabilities, such as improved health, knowledge, and skills; and (2) the use people are willing, able, and permitted to make of these capabilities: for leisure, productive purposes, or participation in cultural, social, and political activities. The rapid expansion of these capabilities—including those associated with education, health, social security, credit, gender equality, land rights, and local democracy—depends crucially on public action that is neglected by many developing countries. On the other hand, by removing itself from excessive regulation and bureaucratic interventions in production and trade, the government can also contribute to expanding social opportunities.

The use of these capabilities can be frustrated if the opportunities for their exercise do not exist or if they are deprived of these opportunities as a result of discrimination, obstacles, or inhibitions: if there is no demand for their productive contributions so that people are unemployed, or if they do not have enough leisure, or if political oppression or deprivation of human rights prevents them from full participation in the life of their communities. There can be "jobless" growth, there can be "voiceless" growth, there can be "rootless" growth, and there can be jobless, voiceless, and rootless non-growth. Different countries illustrate each of these cases.

Getting income is one of the options people would like to exercise. It is an important, but not an all-important option. Human development includes the expansion of income and wealth, but it includes many other valued and valuable things as well.

For example, in investigating the priorities of poor people, one discovers that what matters most to them often differs from what outsiders assume. More income is only one of the things desired by poor people. Adequate nutrition, safe water at hand, better medical services, more and better schooling for their children, cheap transport, adequate shelter, continuing employment and secure livelihoods, and productive, remunerative, satisfying jobs do not show up in higher income per head, at least not for some time.

There are other non-material benefits that are often more highly valued by poor people than material improvements. Some of these partake in the characteristics of rights, both positive and negative, others in those of states of mind. Among these are good and safe working conditions, freedom to choose jobs and livelihoods, freedom of movement and speech, self-determination and self-respect, independence, mobility, liberation from oppression, violence, and exploitation, less dependence on patrons, security from persecution and arbitrary arrest, not having to move in search of work, a satisfying family life, the assertion of cultural and religious values, a sense of identity, access to power or direct empowerment, recognition, status, adequate leisure time and satisfying forms of its use, a sense of purpose in life and work, the opportunity to join and participate actively in the activities of civil society, and a sense of belonging to a community. These are often more highly valued than income, both in their own right and as a means to satisfying and productive work. They do not show up in higher income figures. No policymaker can guarantee the achievement of all, or even the majority, of these aspirations, but policies can create the opportunities for their fulfillment.

Economic growth can be quite rapid without an improvement in the quality of life of the majority of the people, and many countries have achieved a high quality of life with only moderate growth rates of income. It has been observed that there is a positive correlation between income per head and the indicators of human development. Some have drawn the erroneous conclusion that it is only income that matters. But, first, this relationship is far from perfect, and interesting questions are raised by the outliers and particularly by countries that have achieved high human development at low levels of income; and, second, this relation depends entirely on

the extra income that arises from growth being used for public education and health and for specific attacks on poverty. If these two conditions are absent, the correlation disappears.⁹ Much depends also on the initial distribution of assets. If land ownership is fairly equally distributed and mass education is widespread, the benefits of economic growth will be reflected in good human development.

Economic growth is often considered to be an essential component of human development. But growth (in the narrow sense of a continuing increase of the quantity of goods and services produced and consumed over time) is simply the intertemporal dimension of any policy objective, although it has been wrongly monopolized by production and consumption: it should apply to poverty reduction, employment, investment, a more equitable income distribution, environmental protection, leisure, and, of course, also to income. But once you specify for income, consumption, production—the what? to whom? by whom? for what? and when?—growth becomes the incidental result, not the objective, of a sensible economic policy. Growth is too unspecified, abstract, aggregate, and unbounded to be a sensible objective of policy. It also implies an infinite horizon, without limits to increases in income. What matters is the composition of the national income, to what uses it is put, its distribution among beneficiaries, now and for future generations; and with how much effort and in what conditions it is produced. If, and only if, the extra resources resulting from growth go largely to the poor, and they are spent on public health and education, will a contribution to human development result.

The national income is a quite inadequate measure of human development for several reasons. It counts only goods and services that are exchanged for money, leaving out of account the large amount of work done inside the family, mainly by women, and work done voluntarily for children or older people or in communities. Public services are counted at their cost, so that doubling the wages of all public servants appears to double their contribution to welfare or development. National income accounting does not distinguish between goods and regrettable necessities, like military or anticrime expenditure, products needed to combat “bads.” Addictive eating and drinking is counted twice: when the food and the alcohol are consumed, and when large sums are spent on the diet industry and on cures for alcoholism. Much of what is now counted as economic growth is really either combating evils, and fixing blunders and social decay from the past, or borrowing resources from the future, or shifting functions from the community and household to the market.¹⁰

National income accounting does not add leisure gained by fewer working hours or an earlier retirement age, and it does not subtract from the extra income generated and leisure lost if women are forced (or desire) to take on jobs outside the family, or men to take on a second job. Environmental degradation, pollution, and resource depletion are not deducted, so that the earth is treated, it has been said, like a business in liquidation. Freedom, human rights, and participation are ignored. It would be perfectly possible to attain high incomes per head and the satisfaction of all material needs in a well-managed prison. Most important, the conventional measure does not allow for the distribution of income, counting all goods and services at their market prices. Increasing the production of whiskey, bought by rich men, counts for much more than increasing the production of milk that would have gone to a starving child. Attempts have been made here and there to correct for these faults and omissions, but national income remains a quite inadequate measure of economic welfare or of human development.

Some of these shortcomings can be removed by adjustments in the accounting methods. These concern those components of well-being that can be, in principle, brought into relation with the measuring rod of money. A monetary value can be attached to leisure time. Income distribution can be allowed for by attaching greater weights to the incomes and their growth of the bottom 20 percent or 30 percent or 40 percent of the population. Depletion of nonrenewable raw materials can be evaluated, and a measure for sustainable income can be designed.

For other components of choice and welfare, monetary measurement is much more difficult or may be impossible. The enjoyment we derive from an unspoiled wilderness, the satisfaction from work, political engagement that results from participation, the sense of community, brotherhood, and sisterhood that grows out of social activities, the freedom, peace, and sense of security that are common in a well-run society, these cannot easily be reduced to dollars and cents. Yet they form the essence of human development.

The contributing tributaries to human development can be grouped under five headings: (1) economic growth, (2) human resource development, (3) human rights and participation, (4) peace and security, and (5) sustainability. The role of culture is discussed under the heading of human rights and participation. Issues of equity and in particular of gender equity run through all five tributaries.

We now live in a “risk society.” People are bombarded with assessments of the risks of decisions (from what they eat to whether they should build nuclear power stations). They have lost the old certainties about how their lives will turn out: no more jobs, or marriages, for life.

Human development is the end, the tributaries are the means; but they can also acquire end characteristics themselves. Environmental sustainability, peace, participation, human resources, and by some even economic growth are valued in their own right. To the extent that they are ends, they all have to be included in human development. The five tributaries can augment each other, for example, when human resources contribute to higher growth, or respect for human rights advances peace. There are also feedbacks from achievements in human development to further improvements in human development. These may be indirect by improving the five components (economic growth, human resource development, human rights and participation, peace and security, and sustainability), or they may be direct. The latter occur within and between families when knowledge is passed on and when better education of mothers has an impact on their children. Several studies have shown that women’s education, control over cash income, and access to power, in addition to being desirable in themselves, improve the health, nutrition, and education of children, reduce fertility, reduce infant mortality, reduce health hazard of adults arising from low birth weight, raise productivity, reduce inequality, are beneficial for the environment, and increase the range and effectiveness of public debates.

Gender issues are particularly important for reproductive freedom: for people, especially women, to be able to choose the size of their families. There is now a wealth of evidence to show that given the opportunity to choose smaller families without adverse economic and social consequences, smaller families are indeed chosen. With human development—that is, with the expansion of education, especially of girls and women—the reduction of infant mortality rates, and medical facilities (including the opportunity of birth control), fertility rates have come down sharply. It may seem paradoxical that reduced infant mortality rates, more children surviving, should contribute to reduced population growth. But there is overwhelming evidence that parents try to over-insure themselves against the deaths of their children (particularly sons) and that more surviving children reduce the desired family size. Human development is the best way to reduce population

growth, and reduced population growth advances human development. Human development, in addition to longer life expectancy, better education, and securer lives, makes it possible for people to opt for smaller families.

It is thought that some of these links lend themselves more easily to measurement than others. The human resources of education can be captured under literacy rates and school enrollment rates, of health under life expectancy and infant mortality. It is for this reason that more attention has been paid to these links than to others, such as that between participation and human development, not so readily brought into relation with a measuring rod. Some may have become victims of the fallacy that what cannot be counted does not count or even exist. But it may be questioned whether the quality of education or the attitudes that a good education instills, such as punctuality, discipline, teamwork, etc., are caught under the conventional statistical social indicators. The same goes for health measures. Economic growth, based on increases in GNP, has, of course, been the archetypal case of counting and has attracted the limelight of attention.

The Human Development Index

24

The most eye-catching and headline-making contribution of the Human Development Reports has been the Human Development Index (HDI). It comprises (1) the logarithm of GDP per head, calculated at the real purchasing power, not at exchange rates, up to the international poverty line; (in Reports after the 1990 Report this was modified in various ways); (2) literacy rates (and, since the 1991 Report, mean years of schooling); and (3) life expectancy at birth. These disparate items are brought to a common denominator by counting the distance between the best and worst performers and thereby achieving a ranking of countries. Critics have said that not only are the weights of the three components arbitrary, but also what is excluded, and what is included.

Partha Dasgupta has pointed out that the HDI misrepresents concerns about the future, since it does not deduct capital depreciation; that it reflects only current well-being and that it is an index only of human capital, leaving out natural capital. If these omissions are allowed for, what appears as a good human development performance turns out to be much worse.¹¹

Another problem with the HDI is the implicit trade-off between life expectancy and income. For a country with an income per head less than the world average (\$5,711 per year at 1993 purchasing power parity, which is about the income

per head of Costa Rica) an increase of annual GDP per head of \$99 will exactly compensate for one year less of life expectancy, so as to keep the HDI constant.¹² If the people in one poor country have one year less of life expectancy but \$100 higher GDP per head than in another country, this country will have a higher HDI. The value attached to longevity rises sharply with income. For a country with twice the average income (about the income per head of Malta), an extra year of life is valued at \$7,482 in income per head. At three times the average (about the income in the United Kingdom), it is worth \$31,631, about twice the country's income per head. At four times the average (about Switzerland's income), its value reaches \$65,038, about three times actual income. The implication is that life is far less valuable in poor countries than in rich ones. The value judgments underlying these trade-offs have been rightly rejected. So "Human Development" and the Human Development Index are not ultimate insights and other ideas will take their place. We are all free to guess what these will be.

Another question is, should a freedom (or human rights) index be integrated with the Human Development Index? There are some arguments in favor, but the balance of arguments is probably against. First, it might be said that "freedom from" is so important (and, opportunity costs apart, costless) that no trade-off should be possible between its loss and gains in some of the other indicators.¹³ Secondly, political conditions are much more volatile than education and health. Once a mother knows the importance of education for her children, or of hygiene, this knowledge is not lost even when the family's income drops. So human indicators tend to be fairly stable. There is a ratchet effect that prevents rapid, large downward moves. Political indications, on the other hand, can change overnight with a coup. A third argument against aggregating freedom with the positive aspects of human development is that grading is more subjective and less reliable than measuring life expectancy or literacy. Using indicators for freedom and human rights is open to the objection of Eurocentricity.

Finally, one of the most interesting questions is how freedom is related to human development more narrowly interpreted, or how negative and positive rights or freedom are associated. This can be done only if they are recorded by separate indexes, not components of the same.¹⁴ Thus, we might formulate a hypothesis that freedom, though not a necessary condition of human development, narrowly defined, is entirely consistent with it, even at quite low levels; and that human development, once it has reached a certain stage, leads inevitably to the call for freedom by the people. Here is a message of hope.

ENDNOTES

1. John Rawls, *A Theory of Justice* (Cambridge, MA: Harvard University Press, 1971), 302.
2. Simon Kuznets, "Economic Growth and Income Inequality," *American Economic Review* 45, no. 1 (March 1955): 1-28; and Simon Kuznets, "Quantitative Aspects of Economic Growth of Nations, VIII: Distributions of Income by Size," *Economic Development and Cultural Change* 11, no. 2 (January 1963): 1-80.
3. W. A. Lewis, "Economic Development with Unlimited Supplies of Labour," *Manchester School of Economic and Social Studies* 22, no. 2 (May 1954): 139-91.
4. John R. Harris and Michael P. Todaro, "Migration, Unemployment, and Development: A Two-Sector Analysis," *American Economic Review* 60, no. 1 (March 1970): 126-42.
5. Hollis Chenery et al., *Redistribution with Growth* (London: Published for the World Bank and the Institute of Development Studies, University of Sussex, by Oxford University Press, 1974).
6. Paul Streeten, "Industrialization in a Unified Development Strategy," in *Employment, Income Distribution and Development Strategy, Essays in Honour of H. W. Singer*, eds. Sir Alec Cairncross and Mohinder Puri (New York: Holmes & Meier Publishers, 1976). This essay was also published in *World Development* 3, no. 1 (January 1975): 1-9.
7. For some important qualifications to this and the links between absolute and relative poverty, see Paul Streeten, "Comment," *Frontiers of Development Economics. The Future in Perspective*, eds. Gerald M. Meier and Joseph E. Stiglitz (New York: Oxford University Press, 2001): 87-93.
8. For a discussion of these, see Paul Streeten et al., *First Things First: Meeting Basic Human Needs in Developing Countries* (New York: Published for the World Bank by Oxford University Press, 1981), chapter 8.
9. Sudhir Anand and Martin Ravallion, "Human Development in Poor Countries: On the Role of Private Incomes and Public Services," *The Journal of Economic Perspectives* 7, no. 1 (Winter 1993): 133-50.
10. Clifford Cobb, Ted Halstead, and Jonathan Rowe, *The Genuine Progress Indicator: Summary of Data and Methodology* (San Francisco, CA: Redefining Progress, 1995).
11. Partha Dasgupta, "Valuing Objects and Evaluating Policies in Imperfect Economies," *The Economic Journal* 111, no. 471 (May 2001): C2.
12. Martin Ravallion, "Good and Bad Growth: The Human Development Reports," *World Development* 25, no. 5 (May 1997): 631-38.
13. This objection could be mitigated by using a geometrical rather than an arithmetic average. With a zero weight for freedom, the total index becomes zero, however high the other components.
14. It could be said that the same argument applies to the relation between, e.g., literacy and life expectancy, and that they should therefore not be lumped together in a single HDI. If they move together, only one is needed; if not, one would like to know why. Pioneering attempts to discuss related problems and to measure freedom have been made by Partha Dasgupta, *An Inquiry into Well-Being and Destitution* (Oxford: Clarendon Press, 1993).