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Common Dreams, Different Circumstances: Lessons from Contemporary Development Economics

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Abstract:

Freedoms, rights, and equality are common dreams among different human societies irrespective of their economic, social, political and cultural circumstances. This paper presents a brief discussion on the reasons for the divergence of circumstances different civilisations find themselves into by linking this dichotomy with arguments available in contemporary development economics.

1. Common Dreams

To start off, I would like to take you into the life of some one; a child - a school going girl may be, who currently dwells in Southern Afghanistan, Southern Sudan or Southern Indonesia; Rural India - somewhere in Tamil Nadu or a Kashmiri Village near the line of control between India and Pakistan; Tribal belts of North West Frontier Province of Pakistan or the warring tribes of Balochistan. There are many lands like the above mentioned impoverished lands all over Asia, Africa and Latin America. This girl is from one such land where the lives of her people are consumed with war and poverty. She feels sad and she feels frustrated. She wants to live a life without fear and war. To define her circumstances, there can be many words and 'Conflict' is one good word to express her surroundings.

Now change the kaleidoscope a bit in time and space. Assume that the same girl lives as a grown up adult in today's United States of America (USA) and she has helped making history as she has participated in recent national elections to elect first Black President of the Country. She lives a life of an empowered citizen, while lives around her indicate economic prosperity. Her life can no more be defined by conflict. Still, the words to define her circumstances and her surroundings would be many, and one good word is 'Democracy', and yet another is 'Capability'.

Her circumstances differed by an accident of birth, not her dreams and aspirations. We are increasingly aware of our basic rights. Then why this disparity of circumstances when human

dreams and human needs are common in all of us irrespective of where we dwell? Today, some lands are well developed to cater to our dreams and some are still underdeveloped and lagging behind. Why it is not easy to follow a success story if development is to follow success of other nations. What are the dynamics of underdevelopment?

There are many ways to answer these questions. One may define under-development through politics, sociology, history or economics. Here I investigate these questions while specifically utilizing arguments developed in the field of contemporary development economics. The research in development economics analyze the differences in circumstances between developed and developing countries which lead to impoverishment or which can sustain development in developing countries.

2. Premise of Applied Development Economics:

Though it may sound trivial to some, economics primarily focuses on income generation to measure development or lack of it. The difference between developed and developing countries is partly measured as differences in their respective per capita GDPs where as developed countries have much higher levels of per capita incomes than developing countries. Higher incomes are also correlated with other capabilities, human rights and development indicators. In order to develop, the populous lands of the South need to grow on sustainable basis to eventually converge to higher levels of per capita GDPs which correspond to the income levels in developed countries. As rightly pointed out by many economists and non-economists, this focus on income has led to many mis-conceptions in development discourse where many developing countries were led into socio-economic and political failure when in 1980s and 1990s, International Organizations like the World Bank and the IMF pushed hard for market reforms while ignoring the larger circumstances of underdevelopment. The fallacy of the argument was the assumption that economic growth eventually trickles down to bring prosperity and real change in social, economic and political lives of the people in developing countries. Eventually, growth did not trickle down as it was anticipated. Commodity and capital markets, which are so closely related with incomes, may fail in absence of the sound mechanisms of regulation and facilitation. These mechanisms are known as institutions. These institutions can be of economic, political, social or legal nature.

In the development discourse, economic change should be defined on the premise of the quality of their economic, political, social and legal institutions. Difference in economic prosperity among nations is indeed due to lack of well developed institutions in developing countries. (Rodrik et al, 2004) Good national institutions constitute outcomes like educated population, precedence of rule of law, accountable and stable polity and regulations for competitive market structures. Institutions are the binding constraint for income generation and its fair distribution among different strata of the population. Some institutions are more about process (for example: rule of law, democracy), and others about outcomes (for example: regulation).

However, institutions cannot develop in isolation. International trade does not only represent economic competition but it also represents economic cooperation among nations. The development recipe cannot completely ignore an outward orientation in addition to its focus on the fundamentals of development. (Murshed and Mamoon, 2010)

3. South Asian Story of Development

For example, India and Pakistan represent two similar economic constituencies that have suffered from institutional under-development. However, when compared to each other, India performs better than Pakistan in many institutional outcomes and processes. India is well practicing democracy and history of Pakistan is mired with many autocratic rules spanning decades. Rule of law is better in India when compared to Pakistan. India is also witnessing growth rates above 6 percent, while decline in extreme poverty is observed. So much so that India is finally emerging as a success story among other developing countries. Rapid income generation (or you may call it higher economic growth rates) have occurred only when India opened up its economy to global trade in the early 1990s. Pakistan opened up also but the country has largely failed to benefit from trade. Incidence of autocracy, political instability, lack of accountability of the polity and the elite, poor rule of law, lack of education have contributed to Pakistan's economic failures as it would be true for any other developing country in the world.

India is a relatively stable economy in the region. India has had conflict with her neighbors, especially Pakistan. Despite high levels of hostilities, there have been periods of relative tranquility. Historically, it has been Indian and Pakistani relevance to the outside world which has played the most significant role in influencing bilateral belligerence in favor of peace. The role of outside world in conflict mitigation between India and Pakistan has become more evident in last two decades when India and Pakistan increased their efforts to integrate into global economy through means of trade. Trade deters conflict.

4. Second Best Options in Development Discourse

Thus countries which cooperate more would benefit more economically and politically. Trade may be as important as good institutions. Trade may have global dynamics as well as regional ones. But the devil is in the detail. Trade may promote peace and prosperity, but it can also be very disruptive and even destroy livelihoods. Global trade is good for income generation but may carry unequal distributional effects because a skilled biased technical change, as an outcome of trade between developed and developing countries, would favor richer or more educated among the population in developing countries. Since more are poorer and uneducated in developing countries, benefits of trade entailing growth fail to benefit the poor as much as it benefits the rich. Such circumstances call for more trade among developing countries by promoting the idea of regional trade agreements.

It took centuries for developed nations to build their institutions. (see North,) There are no short cuts for development. Investing in education (and human capital), which may be adopted even as a short term development strategy, may solve this long term institutional dilemma to some extent. Formal education brings countries closer to each other because educated populations eventually ensure rule of law, voice and accountability, political stability. Education also ensures economic inclusion of all segments of the society in the population once countries trade among each other –something which institutional development also demands.

Trade and not only good institutions form a complete recipe for economic prosperity through poverty alleviation, more equitable distribution of economic gains and conflict mitigation. (Mamoon, 2008)

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