Development, Sustainability & Culture
Lecture 1:
Development from historical, economic & institutional perspectives

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1. The problem
Lessons from Darwin’s Nightmare

• Vicious circles, lock in situation → poverty trap

• World system in which the West (Europe) dominates

• Poverty, disease, ecological destruction

• Illegal arms trade, civil wars → bad institutions

• Enterprise / entrepreneurship remains “alien element”

• Low self esteem

• Etc.
Inequality, inequity, injustice

• 20% of the world population receives 75% of the world income; 20% gets 2%

• 73% of the world population receives 28% of the world grain production

• 27% of the world population consumes food produced with 83% of the world quantity of artificial fertilizers

• 2/3 of the world population has no clean drinking water

• yearly some 16 million people die of hunger

• 7% of the world population has 1 or more cars

• 5% of the world population (USA) produces 23% of the world food

NB: 10% of the yearly beef protein consumption converted into soy beans protein could banish the hunger in the world
Growing gap between rich and poor

Source: The Conference Board of Canada, IMF, 2011
Questions

• When did world poverty become a problem? A “development problem”?

• Why should we, the rich, help the poor?
World poverty as a problem: the cynical answer

20 January, 1949: president Truman, in his Inaugural Address:

“We must embark on a program for making the benefits of science and industry available for the improvement of underdeveloped areas. No imperialism, exploitation for profit anymore, but a program of development based on democratic fair dealing.”

Cold War: *Green Revolution* instead of *Red Revolution*
Moral history of world poverty (Sachs)

- Abolition *slavery*: England - Quakers, Wilberforce, 1833

- End of *colonialism*: 2 world wars, Mahatma Ghandi (non-violent action), 1947 India independent

- Anti-*racism* movements: for Civil Rights in the USA and against apartheid in South Africa: Martin Luther King (I have a dream, 1963), Nelson Mandela (1990)

- Fight against *world poverty*: UN Millennium meeting in September 2000, Kofi Anan (We the peoples), Millennium Declaration defining 8 development goals: income, hunger, disease control, education & environment of the poorest of the poor by 2015
Poverty & war cause extremism & migration
We should fight poverty on the basis of a mixture of **compassion** and (enlightened) **self-interest**

Note: it is a **Western concern**!
2. The causes
What are the causes of the income inequality in the world?

What are the causes of world poverty?

And of the prosperity in the world?

- Biology?
- Geography?
- Culture?
- ?
The answer of Jeffrey Sachs

Steam engine of Newcomen 1712, Watt 1763-75
Figure 3: GDP per Capita by Region in 1820 and 1998

Source: Data from Maddison (2001); average annual growth rate in parentheses.
The spread of economic growth

- World inequalities results from the Industrial Revolution in Great Britain, from 1750
- Rich have become rich through autonomous development, the poor will follow
“Development of underdevelopment” through capitalism, colonialism and imperialism as a consequence of the Industrial Revolution

- Enrichment through exploitation, poor have become poor
- E.g. cotton industry in India
Internal cause: England had coal, could escape from population growth and deforestation everywhere

External cause: colonies, esp. USA, for wood and cash crops like cotton and sugar (cultivated with slaves)
3. Development
What is development?

- **Industrialization** processes all over the world following the Industrial Revolution in 18\(^{th}\) century England
- **Self-sustained** process of economic growth and social change, ultimately based on human rights and the possibilities of nature, organization and technology
- Sustainable in terms of **ecological** possibilities and social **equity** effects, beside **economic** opportunities
- **Transition** from a stagnating economy and society to a growing welfare state
Economic development: from stagnation to growth

- **economic stagnation**: zero (or little) income growth per capita; economic and population growth are more or less equal; analysed/described by the *classical economists*

- **economic growth** (the economy as we know it): income per capita clearly increases; economic growth exceeds population growth; described/analysed by the *mainstream economists*

- **economic development** (in narrow sense): structural process of social and economic change and transformation to another type of economy, from stagnation to growth; described/analysed by *development economists and innovation scientists*
Questions

• How to engineer a transition from stagnation to growth? How to stimulate development?

• Three answers
  o Economic & institutional-economic development: today
  o Institutional-cultural transition: 2nd lecture by Otto Kroesen
  o Institutional & technological innovation & reform: 3rd lecture
4. The development debate
How to address the world poverty problem?

- **Jeffrey Sachs**, Earth Institute, University of Columbia, New York
- **William Easterly**, University of New York
- **Paul Collier**, University of Oxford
- **Dambisa Moyo**, “one of the 100 Most Influential People in the World”, Time Magazine 2009
- **Coimbatore Krishnarao Prahalad**, University of Michigan, “the world's most influential business thinker”, The Times 2009
- ...

N.B. All but Prahalad are economists. All but Sen & Prahalad have been affiliated to the World Bank.
Rostovian model of development

Transitions:
- Pre-development
- Take-off
- Acceleration
- Stabilisation

Paths:
- Path 1
- Path 2
- Path 3

Time
Walt Rostow

1. **Traditional society**: Limited technology, static society ↔ Classical economists

2. **Preconditions for take-off**: Commercial exploitation of agriculture and extractive industry

3. **Take-off**: Development of a manufacturing sector

4. **Drive to maturity**: Development of wider industrial and commercial base

5. **High mass consumption** ↔ Modern economists

Motor: capital investments

*The stages of economic growth; a non-communist manifesto (1960)*
Jeffrey Sachs

- *Economic Possibilities for Our Time*

- A professor of economics passionately argues in favour of drastically increasing the development aid budget.

- The rich countries should help the poor to enable them to help themselves, in the first place through providing *cheap money* for *good (national) plans and (local) initiatives.*
Live Aid

Bob Geldof 1985
Do they know it's Christmas?
Feed the World

Bono 2005
Make poverty history
“Glamour aid”
Top-down: Millennium goals, halving poverty, 2000-2015

Goal 1
Eradicate Extreme Hunger and Poverty

Goal 2
Achieve Universal Primary Education

Goal 3
Promote Gender Equality and Empower Women

Goal 4
Reduce Child Mortality

Goal 5
Improve Maternal Health

Goal 6
Combat HIV/AIDS, Malaria and other diseases

Goal 7
Ensure Environmental Sustainability

Goal 8
Develop a Global Partnership for Development
Bottom-up approach

- Experts and local population work together
- Problems are defined
- Local committees have to be formed to solve the problems and undertake “community development”, supported by donations
- Model villages in Africa
- Sauri, Kenya: 5000 people suffering from food shortages, aids and malaria, requiring investments in agriculture, health, drinking-water, education, transport and energy
Development failures

- William Easterly: $2.3 trillion in foreign aid over the past 50 years, most to Africa; not much effect!

- Paul Collier: the billions of aid dollars have contributed to a more or less zero growth instead of yearly 1% shrinkage of the economy in Africa - over the past 30 years
### Millennium goals 2015

| Goal Number | Goal Description | Targets
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<tbody>
<tr>
<td><strong>GOAL 1</strong></td>
<td>Eradicate extreme poverty and hunger</td>
<td><strong>Africa</strong>&lt;br&gt;Reduce extreme poverty by half: low poverty, very high poverty&lt;br&gt;Productive and decent employment: large deficit, very large deficit&lt;br&gt;Reduce hunger by half: high hunger, moderate hunger</td>
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<td><strong>GOAL 2</strong></td>
<td>Achieve universal primary education</td>
<td><strong>Africa</strong>&lt;br&gt;Universal primary schooling: high enrolment, moderate enrolment&lt;br&gt; <strong>Asia</strong>&lt;br&gt;Women's equal representation in national parliaments: low representation, very low representation</td>
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<td><strong>GOAL 3</strong></td>
<td>Promote gender equality and empower women</td>
<td><strong>Africa</strong>&lt;br&gt;Equal girls' enrolment in primary school: close to parity, parity&lt;br&gt;Women's share of paid employment: low share, medium share&lt;br&gt;Women's equal representation in national parliaments: moderate representation, low representation</td>
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<tr>
<td><strong>GOAL 4</strong></td>
<td>Reduce child mortality</td>
<td><strong>Africa</strong>&lt;br&gt;Reduce mortality of under-fives: low mortality, high mortality&lt;br&gt; <strong>Asia</strong>&lt;br&gt;Access to reproductive health: moderate access, low access</td>
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<td><strong>GOAL 5</strong></td>
<td>Improve maternal health</td>
<td><strong>Africa</strong>&lt;br&gt;Reduce maternal mortality by three quarters: low mortality, moderate mortality&lt;br&gt;Access to reproductive health: moderate access, low access</td>
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<td><strong>GOAL 6</strong></td>
<td>Combat HIV/AIDS, malaria and other diseases</td>
<td><strong>Africa</strong>&lt;br&gt;Halt and begin to reverse the spread of HIV/AIDS: low incidence, very low incidence&lt;br&gt;Halt and reverse the spread of tuberculosis: high mortality, moderate mortality</td>
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<td><strong>GOAL 7</strong></td>
<td>Ensure environmental sustainability</td>
<td><strong>Africa</strong>&lt;br&gt;Halve proportion of population without improved drinking water: high coverage, very low coverage&lt;br&gt;Halve proportion of population without sanitation: moderate coverage, very low coverage&lt;br&gt;Improve the lives of slum-dwellers: low proportion of slum-dwellers, moderate proportion of slum-dwellers</td>
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| **GOAL 8** | Develop a global partnership for development | **Africa**<br>Internet users: moderate usage, high usage

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The progress chart operates on two levels. The text in each box indicates the present level of development. The colours show progress made towards the target according to the legend below:

- Target met or excellent progress.
- Good progress.
- Fair progress.
- Poor progress or deterioration.
- Missing or insufficient data.
Since 2016

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reduced Inequalities
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice and Strong Institutions
17. Partnerships for the Goals
William Easterly: The White Man’s Burden

Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good

A professor of economics pens an informed and excoriating attack on the tragic waste, futility, and hubris of the West's efforts to improve the lot of the so-called developing world, and provides constructive suggestions on how to move forward.

The poor should help themselves through entrepreneurship.
Easterly

- Planners

- Searchers

- Practical solutions for specific problems, e.g. impregnated mosquito nets, battery load systems and roads
The others: institutions

• Paul Collier: Nature + technology + regulation = prosperity; regulation to prevent corruption and secure stability, peace & good governance

• Dambisa Moyo: through foreign aid, governments not accountable to the people

• Amartya Sen: freedoms or capabilities
5. Institutions
Institution

• Dictionary: Organisation or, better, established custom, habit, practice, routine.

• Sociology = arrangement, regulation, order

• Opposite of disorder, chaos, unregulated mess
Institutional reform

• “Institutional reform” is a hot issue in the West and everywhere, because of the financial crisis and development in general

• It is an important ingredient of development, e.g. in terms of a transition to “good governance”
Theory of Acemoglu & Robinson

Answers questions like:

• How did the West develop?
• What are the causes and backgrounds of development problems?
• Why falling behind or underdevelop?
Examples: Nogales Arizona vs Sonora (1918)
Other examples

• Haiti (poor) vs Dominican Republic (better): results from French vs Spanish colonization?

• East & West Germany: East Germany has become a “footnote” in German history

• Hongkong vs China: Development zones in China copy Hongkong; democracy in Hongkong hot issue

• North vs South Korea: split from 1945, one became rich, one remained poor
Key concepts (1)

- Institutions: incentive structures like rules/regulations, laws, connected organizations

- Inclusive vs extractive: the people are included or excluded; the people or the state in control; people dominated, repressed and exploited or not by the elite

- “Inclusive development”: everybody takes part
Key concepts (2)

- Inclusive vs extractive political institutions:
  - democracy (one person one vote / equal rights) vs autocratic rule (favours & corruption)
  - pluralism vs control by elite
  - meritocracy vs heredity
  - private vs state property

- Inclusive vs extractive economic institutions: free market / level playing field vs monopolies / state-owned companies

- Centralization: formation of a strong state, able to enforce law and order (otherwise: “empty institutions”)

Mechanism: how does it work?

- Innovation requires **creative destruction**
- Inclusive institutions enable that, prevent the “happy few” from **sticking** to their positions of power and dominance
- **Broad coalition** is necessary for change
- Virtuous and vicious **circles** strengthen tendencies
5. In sum: what is required for development?

- **Money** (Sachs)
- **Entrepreneurship** (Easterly)
- **Inclusive institutions** (Acemoglu & Robinson)

- As well as:

- **Enabling culture**, including a work ethic of hard work for a wished better future (David Landes)