

Modern Development Economics

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This book is in draft and is based mainly on the teaching materials of the two authors in the UK and Portugal respectively. It also reflects extensive advisory work in developing economies over many years. The materials on this web site are preliminary versions of the component chapters of the book which are still subject to checking and review. Use of the materials is welcome subject to this health warning and appropriate acknowledgement of source. Comments on the materials are also welcome. Further related materials can be found on the web site of Miguel Lebre de Freitas which is <http://sweet.ua.pt/afreitas/>

What follows in this present document is an extract from the book's Preface.

Preface (extract only)

Herodotus himself is driven on by an awareness of his own shocking ignorance. And it is that overwhelming need to dispel those clouds of ignorance, to find meaning and pattern amid the world's ceaseless tumult that drives the serious reporter on".

Comment on *Travels with Herodotus* by Ryszard Kapucinski. (*The Economist* July 2007)

Development is a complex process. In the past 60 years it has stimulated intellectual activity from a huge range of highly differentiated stakeholders. These include the thousands of non-governmental organisations (NGOs) including large players such as Oxfam, Save the Children and Care, a plethora of central, local and regional government agencies in the developing countries, numerous bilateral and multilateral development agencies based mainly in richer countries such as the World Bank and the WTO, many hundreds of thousands of concerned individuals, and above all a huge pool of academic talent in the world's universities and specialised think-tanks.

The assiduous reader will notice an enormous diversity of opinion across these various groups about both the *diagnosis* of the causes of development and under-development and the prescriptions about the appropriate *solutions*. In truth, the only thing that really seems to unify the groups is the moral outrage and the intellectual curiosity about WHY, in a world of such great prosperity at least one billion people - one sixth of the world's population - have been left behind to live in abject poverty. The *clouds of ignorance* on this topic afflict all stakeholders in varying degrees although not all of them are too ready to admit that fact.

This textbook sets out to try to insert a chink of light in the *cloud of ignorance* at least for a sub-set of students and concerned persons around the world. In doing so it needs to have a clear view about WHO its audience may be and FROM WHERE the main ideas that it seeks to codify originate.

Audiences

Our target audience is predominantly the student body in the senior years of University undergraduate programmes and the early-stage students in graduate programmes. The hope is that they will use the book not just to achieve success in examinations but also in their capacity as global citizens to try to understand better the scandal of persisting poverty in a world of plenty. A proportion of these students (e.g. those from Western Europe and the USA) may have little or no direct country experience of the problems of poor countries. So

the text (Part I in particular) has sought to offer a relatively easy lead-in with appropriate introductory including factual materials. But beginning in earnest in Part II the book also provides the more formal and rigorous explanations of key issues that today's economists need and expect.

In addition, and based on our own extensive experience of working with developing country governments and development agencies, we recognise also a large potential audience amongst the staffs of these organisations. The discipline of "economics" may not be their natural intellectual territory but it certainly does impact their work in all sorts of direct and indirect ways. So, based on some 40 years of advisory work in some 35 countries in Africa, Asia, the Middle-East and Eastern Europe, we feel sure that some of the formalisation and synthesis of leading development ideas that we present here will be of help to them also.

Sources and Biases

The intellectual ideas that the book attempts to synthesise are derived mainly from the voluminous *academic literature* – both journals and books - that has been written especially in the past fifty years. Our sources embrace the work of both academic and some practitioners from governments and the main development agencies. We confess at the outset to *two* biases in the selection of materials for review which our readers should take some note of.

First, the discipline of economics is the central focus of our attention and justifiably so since economics pervades almost all aspects of the development debate. However, other disciplines such as politics, sociology, law and anthropology unquestionably interact in crucial ways to impact the development situations that we observe and the solutions to problems that we seek. In those cases where the modern literature of economics has succeeded in identifying an explicit role for these other disciplines - good examples are (i) the multi-disciplinary literature on the so-called "development state"; (ii) the political economy literature on the so-called 'natural resources curse'; and (iii) much of the content of the new 'institutional economics', we have reflected that in our own synthesis. But we admit also to our own clouds of ignorance in relation to large parts of the development work of these other important disciplines.

The second bias starts from the proposition that the majority of our source materials for the book originates from writers who in practice are not particularly close – geographically and in other ways - to the actual problems of poor people or even poor countries. Professors of economic theory working on abstruse models of the development process and based on smart US or European university campuses are the obvious stereotype here: OK our own ears burn a bit as we write this!!! By contrast the famine relief worker and other practitioners at the grass roots of the problem and above all poor families in favelas in Brazil, in mud huts in Africa contending with ebola and other horrors are unlikely to contribute much to the burgeoning literature: they are close to the problems but have far more pressing things on their minds than writing about them. Hence the paradox: those who have the closest experience of the problems of development write the least about it !

However, in between these extremes of the professor and the favela slum-dweller we see hundreds of thousands of government officials, aid workers and development consultants who together write enough reports to fill any good sized library in any single year. We note that this parallel literature often involves strong maintained views on particular topics. In some cases these may and do conflict with the consensus in academic writings.

We can neither ignore this mountain of parallel *practitioner literature* but nor can we hope to review and synthesise more than a small fraction of it. The solution has been to include some selected materials that bear immediately on the contemporary debate about development policy. Much of this writing has chains of connection into some of the academic

literature and so provides a degree of cross fertilisation. Many of the larger practitioner organisations such as the World Bank and the IMF have their own large staffs of researchers who commit a part of their time to research activities having many intersections with the academic research of universities and specialised think-tanks such as the Centre for Global Development (CGD) in the USA , the Overseas Development Institute (ODI) in the UK and the World Institute for Development Economics Research (WIDER) based in Helsinki.

However, this applies to only a fraction of the non-academic writings: most of this is genuinely practical in nature and attracts little day-to-day interest from the academic research community. Obvious examples of areas of work that depend more on the non-academic than on the academic sources or writing include the bread and butter work of bilateral and international agencies such as the World Bank in preparing, implementing and supervising their huge numbers of lending and grant operations in poorer countries and in managing specialised programmes such as the debt relief initiatives (especially the Heavily Indebted Poor Country (HIPC) initiative the Multilateral Debt Relief Initiative launched at the Gleneagles heads of state summit in 2006). A prominent focus of the (mainly) non-academic writings at the present time and one that commands significant attention in the book is the ongoing initiative to help poor countries achieve the newer Sustainable Development goals – the successors to the Millennium Development Goals (MDGs) established by the UN as a target for 2015. Another is the new big issue of this millennium namely Climate Change. These and many parallel initiatives have emerged from the official United Nations system and generate their own voluminous literature. But today there is in addition a wide range of relatively new initiatives sponsored by various NGOs. These are not only significant in terms of the amount of funding they command (for example, the Global Fund to Fight AIDS, Tuberculosis and Malaria established only in 2002, has already attracted funding of more than \$ 9 million) but also in terms of the further analysis and writing that they attract¹.

So the second bias arises from our failure to address anything like the totality of such international initiatives and the associated large literature. This is due in part to our own cloud of ignorance of the relevant literature, but also because of judgements we make about the relative importance of different parts of this practitioner literature to the ongoing debate. By making such judgements and selections we will undoubtedly have left out some issues and initiatives that some of the readers will regard as important. In spite of this admitted bias, the book in general does try to appeal to an audience beyond the campuses and amongst the practitioner-profession. To that end we have tried to communicate our own fascination with the occasionally wide gulfs between the views of the academic writers and those of the development practitioners.

The Title

Since we as the authors of this book have presumed to give it the fancy title ***Modern Development Economics***, we should provide our readers a broad indication of what we have in mind by such a title. The answer will become fully clear only when you delve a bit into the substance of the book. But even at this early stage we owe you a brief explanation.

There are several difficulties involved in aspiring to be “modern”. Here are just three.

¹ For many more examples of this expanding new dimension in development see Roger Riddell (2007).