

CONSEQUENCES OF GLOBAL CHANGE TO HUMAN DEVELOPMENT

"The Social Process is really one indivisible whole"

[Joseph Schumpeter, *The Theory of Economic Development*]

Mohamed M. El-Imam

Economic Consultant, Cairo Egypt: Former Minister of Planning, Egypt

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Summary

Global change is interpreted in a wide sense to cover waves of change that occurred over history rather than merely the current stage of change. It represents what may be considered a process of long-term development. Development in the narrow sense became a preoccupation of human kind during the second half of the nineteenth century to cover both the reconstruction of developed countries and the improvement of conditions of under-developed countries. The present stage is a combination of a new phase of long-term development (change) in global condition and concern with the narrow sense. The latter has evolved over time, coming gradually closer to human beings. During the sixteenth and seventeenth centuries, development was akin to the power of the State. Hence there was by definition a differentiation between groups of nations according to their place on the scale of power, as well as between people within nations whether concerning political or economic rights. There was an attempt to explain the wealth of nations (and people within) on the basis of command over natural resources, hence the school known as physiocrats. But since wealth was expressed in terms of precious metals, mercantilists advocated trade as a source of wealth of states. It was Adam Smith who drew attention to the fact that neither land per se nor protectionism to insure trade surpluses ensured the wealth of nations, but rather it was human efforts which could be made more beneficial by means of the division of labor. This pointed to the fact that

wealth belongs to nations at large rather than to the State, and the concept of (political) economy steadily grew with the works of what became known as classical economists. Distinction was made between efforts of entrepreneurs and those of labor. While the earnings of the former were considered as an addition in terms of profits, the wages of the latter were on the debit side as costs. The profit maximization concept worked for the expansion of the economy, which called for wages being at a minimum defined by subsistence requirements. Though the benefits of economic activity accrue to human beings, there was no direct recognition of the need to realize the well-being of all groups of people. It was the development of the economy which was at stake, rather than of people comprising the whole nation. Eventually factors working for the expansion of the economy would come to a standstill, and a state of stagnation or a stationary state takes over. Two implications are evident: the supremacy of the economy over people, and the eventual dwindling of the factors working for its development. Rather than development, experience showed that strong cyclical variations took over, and concern was directed to explanation of cycles rather than development.

After the Second World War growth became a preoccupation of more advanced economies, while development meant for the rest removal of factors responsible for underdevelopment, and applying measures to set the development process in motion. So long as external factors, especially those created by colonialism or resulting from dependency due to unequal international relationships, were held responsible, solutions were sought in rectifying these relationships. Soon it became evident that this is a necessary but not sufficient condition. Development has to emerge from within and to be undertaken by people, provided the benefits accrue to them. This calls for their participation irrespective of their situation in the production system, with implications for the social and political systems. With the precipitation of the pace of the current technological revolution two major changes in thinking are taking place. The first is the emergence of knowledge as an additional factor of production, whose impact is a function of new additions to the stock of knowledge rather than the mere size of that stock. The second is the enhanced role of the human element, both as contributor to knowledge and as a beneficiary. At the same time there is a growing concern with the healthy conditions of the economy, irrespective of adverse social effects entailed. There is need to expand the outlook to the laws governing the performance of the economy, to those governing all aspects of human life, and going beyond the rectification of the economic structure to realize an overall equitable societal organization or social capital. The concept of efficiency, so far confined to the economic sphere, has to be extended to a composite societal efficiency. Measures have to be taken to improve people's contributive capabilities, as well as their range of choices.

1. Introduction

The process of global change is not a new phenomenon as is often assumed. What we live now is one phase of a series of global changes that have affected conditions of human life since the early days of history. Phases of change are usually characterized by differences in the economic life, mainly through changes of the role played by various factors of production and the pattern of the production function. The change over history occurred in a series of revolutionary shifts associated with a gradual increase of the role played by human beings. Thus at the beginning it was nature that led the way

and determined the fate of people, both in their daily lives and in the satisfaction of their needs, and determined the structure of relations between groups of people living in different natural environments. With the emergence of more sophisticated activities of trade and manufacturing, the dominant role shifted to the factor capital, and with it the social change occurred through transfer of power from landlords to capitalists. What we witness at present is a new, third wave in which the factor knowledge is taking over, and has the characteristic that it is much closer to human beings, being accessible by any person, and capable of growth as a result of the contribution by anyone.

This process of change represents a type of development that has fundamental impacts on the economic, social and political life of people, spreading from one part of the world to the other. The present stage is characterized by universality due to the technological revolution especially in the fields of information and telecommunications. Further, the loosening of the dominance of location which was imposed by the factor nature, due to the transfer of leadership to the factor capital, has eventually created interest in development in the narrow sense, since possession of capital was limited by capabilities to produce and exchange. Economic development drew attention after the Second World War, consequent to the wide changes in political and social orders created by the big wave of independence which ended the tying up of the fates of many nations, to their limited natural resources. Literature on the subject searched for its roots in the classical economic school that was tailored to the needs of running economic conditions in already developed countries. A similar attempt is currently made to readjust conditions in developing countries to the requirements decided by the technological revolution, guided by the experience of more advanced countries.

Thus we have reached a stage where the current wave of global change is contributing to both long-term development, which defines the stage of change itself, and to medium-term development, which involves adaptation to the long-term one. Further, we are for the first time becoming aware of the specificity of human development, while at the same time being driven more towards economic development. We have to dig into the history of development in general to register points of conformity and disparity of the two types. A scrutiny of the process of development indicates that it is societal organization, rather than merely the economic structure, that is relevant to the interpretation of development. This emphasizes the interrelationships between the various aspects of human development. The claim that economics provides the solid basis for development through the concept of “efficiency”, which insinuates that other dimensions, especially the social, are “soft”, is found to be misleading. There is need to develop a comprehensive societal concept that ties up the economic to the other dimensions.

2. Three Revolutions

Anthropologists defined landmarks in the history of mankind, which distinguished three revolutionary stages in development. The *Neolithic Revolution* took place in the later part of the Stone Age when mankind started to manage nature’s properties and to minimize its hazards. People moved from social systems based on hunting and gathering to more complex communities that depended on agriculture and the domestication of animals, besides extraction of minerals. The raw state of products

called for processing them, mainly by means of manual treatment, hence the term “manufacture”. Further, differences in outputs called for their exchange, hence the need for trade. Both help to provide people with means of satisfying needs that could not be met by direct use of their own natural resources. The main determinant of the wealth of societies was natural endowments. The second big leap took the shape of the *Industrial Revolution* which originated in England during the second half of the eighteenth century and spread from there to other parts of Europe and the rest of the world during the two following centuries. Five types of change took place simultaneously: The first is the emergence of new types of economic activity, hence the multiplicity of new products, and the complexity of constituents of standards of living. The second is establishment of the fundamental role of physical capital in the form of machinery that defined the skills that should be acquired by workers who operated it, and drew attention to the concept of productivity of both labor and capital. The issue of employment and wages became a problem which gradually gained more importance. The third is the fact that capital is itself a product of economic activities; hence progress depended more on human endeavor than natural endowments. The production paradigm became dynamic with current production being a function of previous production. The fourth is that the concentration of human agglomerations was delinked from the norms defined by nature, and followed capital to urban centers. The fifth was that time became more manageable by human action, which eventually conveyed a larger degree of precision on human actions.

The present *Technological Revolution* initiated a third stage conducted by deep changes in knowledge through "R&D, Research and Development". Some authors consider that what is happening today is a precipitation of the speed and magnitude of occurrence of phenomena that started a long time ago, producing simultaneity and impulsiveness of changes in familiar phenomena, that bring them to some sort of a climax. Other authors call it a "Third Wave" to indicate that a new pattern is in the making, and that some rationale can be given as an explanation. More recently the term "globalization" emerged as a catchall term that asserts the extent of the process, leaving much to be said about its contents. Anticipating the third revolution, economists expected expansion in services sectors. Thus Colin Clark (1957, p, 402) stated that "as time goes on and communities become more economically advanced, the numbers engaged in agriculture tend to decline relative to the numbers in manufacture, which in turn decline relative to the numbers engaged in services". Rates of wages move in line with this shift. At the beginning, adjacency of people was a condition for the development of several types of services. The pronounced shift towards services occurred as a result of the new shape they took as a result of the revolution that occurred in information and communications. Benefits from services were strengthened by the development of good government, which paid direct attention to the welfare of the people, rather than the power of the State and its command over economic resources. The third revolution is not confined to putting emphasis on service sectors, but is also introducing marked changes in the techniques of production of all other sectors, creating what is called the “new economy”, covering both modern agriculture and industry. The change is an expression of the emergence of a distinct factor of production, namely knowledge, which is not only altering traditional production functions, but is also embodied as software within the hardware of the factor capital. Knowledge is the closest factor of production to human beings, and reshapes their qualities both as workers and managers, as well as

consumers. Quality of life is changing in a manner showing great disparities with traditional norms of life, and the resulting “quality of people” is a condition for the realization of an advanced stage of development.

The changes caused by the consecutive revolutions also brought changes in the location of control over resources involved in production, and of the possession of its outputs, i.e. shifts in the distribution of wealth and income. The move from the first to the second revolution not only led to a movement of people from rural to urban areas, with differing social fabrics; it also shifted domination over major sources of wealth, from land and landowners to manufactured resources accumulated in the shape of capital, which rapidly concentrated in the hands of a few owners, while the share of labor in society’s output remained tied to its reproduction requirements. The role of the human factor was heavily influenced by the needs to expand production rather than to equal entitlement to proceeds of production. It was recognized that expanded production is a requisite of increasing the means of satisfying improvements in levels of living. But the emphasis remained focused on the production structure rather than on humans per se.

In the meantime time and space assumed new patterns that eventually led to a reversal of traditional ones, with impacts on human societies that are significant to their development. With the emergence of modern manufacturing industry, time and space changed in a dramatic manner. Population became more densely concentrated in new urban centers, discipline replaced the erratic behavior of nature, and the elementary unit of time relevant to human activities became much smaller, while their output became more precise. Development became closely related to the rate of expansion per unit of time of the economy, relating to the space occupied by a given society. With the advent of the third revolution people have come to comprehend the length of time that ranges from millions of light years to the femtosecond (one millionth of one billionth of a second), and conceive the contents of changes that could occur in each, and within the spectra of periods in between. By reducing time drastically the third revolution helped cover space all over the world, making it “a big village”. Means of transportation became so quick as to enable human beings to move swiftly to any place on the globe or even the universe, but at the same time communications have considerably reduced the need for moving around physically to fulfill many tasks required by involvement in productive activities or in satisfaction of certain human needs. Time became in many cases a substitute for space itself, in the sense that many human interactions are covered through reduced time rather than by actual movement over distant space. Both consumer and producer services that necessitated adjacency of both supplier and user could be performed at long distance. This applies not only to (absent) landowners and capitalists, but also to several categories of labor. The efficiency of human beings is gaining in importance and represents an extension of the productivity concept, which had been confined so far to the elementary components of economic activity. A human being has not only to be highly productive; but has also to be a more competent consumer. He/she has to be considered as an integrated system, and not simply as an element of distinct production and consumption variates involved in the process of development.

3. Concern with Economic Structures

With the development of modern nationalism during the sixteenth century, three major

issues attracted attention. The first was the form of government in the national state. The second was the means to increase its wealth and power. The third was the role of the individual in society and government. Up to that time, rulers possessed nobility derived from the claim that they were God's agents, which provided them with command over commoners; hence inequality was taken for granted. The debate, essentially in Great Britain, culminated in the creation of parliamentary democracy, which gave commoners a limited share in running national affairs, while still leaving power in the hands of elites. Natural endowments of arable land and mineral resources determined the fortunes of those who happened to live within reach. Since precious metals provided a store of value free from the locational condition, countries like Spain sought them through exploiting gold and silver mines in the New World, while others sought to obtain them through trade for products of natural wealth, which led to the prevalence of "Mercantilism" in Western Europe from the sixteenth century through the early eighteenth century. The previously quoted statement by Colin Clark was based on a statement by Sir William Petty in 1691 that "there is much more to be gained by *Manufacture* than by *Husbandry*; and by *Merchandise* than by *Manufacture*". Selling more merchandise to foreigners than a country bought from them compelled them to cover the balance by shipping gold and silver. Rulers of the recipient countries could use such riches to mobilize troops, build up fleets and buy weapons, uniforms, and food to supply the soldiers and sailors, including mercenaries required to fight the colonial wars that helped to add to the nation's wealth and power. This called for a protective foreign trade policy, while citizens ensured the competitiveness of the country in international trade through accepting low wages for their labor. People had to grow in number, and their children had to go earlier into work, to provide the necessary civilian labor and armed forces. Neither the individual nor the society was relevant to the concept of development, which was interpreted as the improvement of the conditions of the State and strengthening of its external power.

"Physiocracy" expressed discontent with mercantilism, and claimed that all wealth originates in agriculture by farmers and flows from them to other groups through trade. This school was mainly concentrated in France during the second half of the eighteenth century, and was led by François Quesnay, a French physician at the royal court of King Louis XV, who expressed the manner of the flow of wealth within the economy by means of the *Tableau économique* which was a crude forerunner of the twentieth-century national income accounting. Physiocrats considered that farmers were the main contributors to wealth, and held a negative outlook towards landowners and the State. The latter had to be content with taxing landowners by a single direct tax levied on the land, as the source of its revenue. To ensure an unobstructed flow of wealth physiocrats opted for free trade and laissez-faire, and paved the way for arguments favoring free markets, rather than the protective outlook of mercantilism; they were mainly interested in the working of the economic structure, rather than the power of the State. That set the tune for the "classical school" that soon took over in Great Britain under the leadership of Adam Smith (1723-1790), by means of his famous *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776).

Smith ascribed the creation of wealth to human endeavor rather than natural resources, and its expansion to "division of labor", which required capital accumulation. He advocated private property and called for limiting the economic role of government,

recommending competition and the “invisible hand” of free markets as the basis for the economic structure. This gained acceptance with the emergence of the industrial revolution, especially in the British textiles industry. Further, he emphasized the expansion of markets, including external markets in the Americas. To him this represented a final stage of a series of long-term developments by which communities moved from hunting to the pastoral, then agricultural, manufacturing and commercial stages. His concern with markets enabled him to broaden the scope of economics through concern with consumption and an interest in improving general standards of living, thus taking one step towards the satisfaction of the needs of human beings, and improving human conditions. But he stressed that the promotion of national prosperity required ensuring that individuals should follow their self-interest.

This was further supported by the work of the British philosopher Jeremy Bentham (1748-1852) who developed the doctrine of “utilitarianism”. His work on *Morals and Legislation* (1789) emphasized the concept of “utility” producing happiness and pleasure, as a means to ascertain scientifically what was morally justifiable. The process of comparing pleasures and pains provided a basis for what is right, hence legal, that replaced theories of natural rights and natural law. To sum up, Smith’s *Wealth of Nations* may be considered as a theory of steady progress. The division of labor enables larger output and larger capital stock, thus providing higher incomes that can sustain a larger population. This in turn means a wider market and more division of labor, leading to higher profits and hence savings leading to capital accumulation and further demand for labor, thus raising wage rates. But the increasing stock of capital reduces profits, and therefore limits further demand for labor. As the economy approaches full employment of its natural resources, the process halts and a “stationary state” is achieved, at lower rates of profits, wages and savings. In a sense this was an early concern with the concept of development that considered it as a feature of the economic structure rather than a change in social relations of human beings. Consumption by civilians was the main propeller rather than the demand by the State.

Robert Malthus (1766-1834) questioned in his famous *An Essay on the Principle of Population* (1798) Smith’s claim that population growth may lead to economic progress. He claimed that population tends to increase faster than the supply of food available to satisfy its needs. If, as a result of excess availability of food, population grows at a faster rate, then famine, disease, and war would check population size. This provided the foundation for claims that wages had to keep in the long run close to the level of subsistence, which was accepted by his contemporary and friend David Ricardo (1772-1823), whose *The Principles of Political Economy and Taxation* (1817) initiated many of the basic elements of classical thinking. His labor theory of value stated that costs of production were determined by the amount of labor required to produce products, and wages were determined by the price of food, which in turn is determined by its labor cost, leading to an “iron law of wages” and a theory of the long-range distribution of wealth. He explained rent on the basis of relative land productivity, rather than it being attributed to farmers as the physiocrats asserted, and claimed that agriculture was eventually found to work under what became widely known as the “law of diminishing returns”. This replaced Smith’s concept of increase in returns based on division of labor employed with given amounts of land and capital. Under such conditions it was hardly conceivable to think of development through intensification of

efforts on the same area of land. In line with these thoughts he considered that the contribution of an economy to international trade was determined by its natural endowments, and that exchange occurred as a result of differences in relative wage costs. This provided the basis for the comparative cost theory of international trade. It followed that the lower the comparative wages were, the larger was the gain in trade. This again emphasized the development of the economy rather than that of individuals. The main force in the process of development was profits relative to wages. A rise in profits above zero encourages capitalists to save a portion of their incomes and allocate more to wage funds, thus raising wages beyond their minimum natural level. This increase is directed towards different items of consumption, leading to changes in the structure of demand and hence production. But workers assign part of the high wage rate to sustain more children, eventually increasing labor supply and reducing wage rates. Money wages may be high compared to initial levels since they have to cover higher costs of food, but they are nevertheless back to subsistence level. Since rent cashes the increase in food prices, money profits may remain the same, but fall in real terms, due to higher money costs and prices. The lower profit rates curtail the rate of capital accumulation, and the rate of growth of national income declines. Eventually the profit rate is too low to warrant any growth, and a stationary state is achieved, with no increase in capital or in population. Rents are high, the real wage is at its minimum, and the profit rate is near zero. Thus capital is a major factor in development, but in the long run wage and profit rates are at their minimum with higher population. This fairly expressed the classical view of development.

The next important contribution came in 1838 through the attempt by the French philosopher Auguste Comte to develop the discipline of Sociology as a new science that would apply methods of factual investigation proven successful in the physical sciences to discover laws of human society resembling the laws of nature. This was further developed by the British philosopher Herbert Spencer (1820-1903), who stressed in his *Social Statics* (1850) the importance of individual freedom and the inevitability of human progress. In *Principles of Psychology* (1855) he claimed that all organic matter originates in a unified state and that individual characteristics gradually develop through evolution. This was sharpened by reference to the natural selection principle developed by Charles Darwin in *Origin of Species by means of Natural Selection* (1859), and he asserted that the outcome of competition among human individuals and groups is “survival of the fittest”. It was another economist, John Stuart Mill (1806-1873), who combined the Bentham utilitarian approach, the economics of Ricardo and the growing tendencies towards empiricism and collectivism. Although he is probably most famous for his essay "*On Liberty*" (1859), J. S. Mill's *Principles of Political Economy* (1848) remained the leading text on economics until the end of the nineteenth century. Thus the principles of utility, competition and selectivity combined to create a philosophy that defined the fate of the individual within a society through individual freedom. At the same time J. S. Mill took one long step towards socialist thinking of the pre-Marxian era, developed by the French social philosopher the Comte de Saint-Simon and the British reformer Robert Owen. Even though he claimed that without being based on competition, economics could hardly claim to be a science, he was also a reformer, and favored taxing inheritances heavily, and even allowed government a larger role in protecting children and improvement of conditions of the working class. His critical attitude towards business people led him even to favor worker ownership of factories

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Streeten, Paul Patrick, 2001 *Globalisation: Threat or Opportunity?* 190 pp. [Deals with the main aspects of globalisation, namely trade, global financial flows, technology and transnational corporations, and international convergence of real wages, indicating its beneficial and harmful aspects. Examines the impact of globalization on growth, productivity, unemployment, income distribution, technology and institutions, as well as on culture, and discusses the role of government in the era of globalization, arguing that globalization and free markets call not for less government but for more, as well as for pressures from the civil society.]

Ugarteche, Oscar, 2000 *The False Dilemma; Globalization: Opportunity or Threat?* (Translated by Mark Fried). London, New York: Zed Books Ltd. 240 pp. [Questions the assumption that globalization is either good or necessary for Latin America and examines the neo-liberal theories that promote it. Considers recent trends in economics, questions the link between industrialization and progress, reviews economic theory behind recent policies in Latin America, and examines the evidence of the past five years to show how the deepening systemic crisis, disparities between countries, and financial volatility are linked to productivity, in particular to the constant transfer of resources from South to North. Denies the "false dilemma" that countries must either export goods or their economy will die.]

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United Nations Institute for Social Development (UNRISD), 2001. *Visible Hands*. Earthscan Publications, Limited. 194 pp. [A critical review of the failure to realize the objectives of the World Summit for Social Development in 1995, and a penetrating critique of over-reliance on the "invisible hand" of unregulated markets to achieve them. Presents a comprehensive review of policies, strategies and institutional reforms. Reveals the failings of unregulated markets and the importance of a well-run public sector, as well as a healthy, educated and well-informed public. Shows how the "visible hands" of public participation and democratic governance are crucial in creating a decent society.]

Waldrop, M. Mitchell, 1993. *Complexity: The emerging science at the edge of order and Chaos*. New York: A Touchstone Book, published by Simon and Schuster. 359 pp. [Combines the works of Nobel Laureates in physics and economics, mathematicians, biologists, and computer scientists who founded in 1984 the Santa Fe Institute to study the new science of "complexity", a field that searches for order in systems previously thought to be chaotic. They refuse the kind of linear, reductionist thinking that has dominated science since the time of Newton. Instead, they are gathering novel ideas about interconnectedness, coevolution, chaos, structure, and order, and they're forging them into an entirely new, unified way of thinking about nature, human social behavior, life, and the universe itself.]

Webster, F., 1995. *Theories of the Information Society*, Routledge. 257 pp. [Examines what thinkers mean by an information society, and assesses the variety of theories of information in society currently available, and different approaches to informational developments, taking into account that the Western economic base has shifted from production/manufacturing to service and information, which has changed the class structure and political process. Provides critical commentaries on the major post-war theories:

Daniel Bell's ideas on a post-industrial information society; Anthony Giddens' thoughts on the growth of surveillance and the expansion of the nation state; Herbert Schiller's insistence that information both expresses and consolidates the interests of corporate capitalism; Jurgen Habermas' account of the diminishment of the public sphere; Jean Baudrillard's thoughts on postmodernism and information; and Manuel Castells' depiction of the "informational city". Concludes that, while there has undoubtedly been an information explosion, it is premature to conceive of an information society.]

Biographical Sketch

Mohamed M. El-Imam, born 1924, got his B.Com. in Economics from Cairo University, 1945, Ph. D. in Econometrics, 1957. He lectured in economics, statistics, and econometrics in Egyptian Universities. In 1957 he joined the Egyptian Planning Committee, and the Institute of National Planning (INP), Cairo as Senior Expert. In 1964 he became Head of the Research and Operations Department, and Plan follow Up and Evaluation of Performance, Central Audit Agency. In 1966 he became the Director of INP. In 1976 he became Minister of Planning, member of the Egyptian Cabinet. During the period 1977-1996 he held the post of the Assistant to the President in the Arab Monetary Fund (Abu Dhabi). At present he is an Economic Consultant and Chairman of the Board of Directors, Development Projects Company (DPC).

During his work-life he held several posts with the UNDP, as instructor of planning techniques in the UN African Planning Institute, IDEP (Dakar), Senior Economist and Project Manager of Assistance in Development Planning (ADP, Iraq), Team Leader of the project on Economic Integration and Trade Expansion, EIATE, advising the Council of Arab Economic Unity. He held various consultation missions with several United Nations, its specialized Agencies, and Pan Arab Specialized Agencies of the Arab League. Among these was leading an expert group for the preparation of a Pan Arab Social Development Declaration for LAS and ESCWA. He was secretary General to the Arab Society of Economic Research, ASER, Cairo, besides holding membership in several scientific societies. He is the author of several publications in economics, statistics, econometrics, development and development planning.