

GLOBALIZATION AND HUMAN DEVELOPMENT: AN OVERVIEW

Syed Nawab Haider Naqvi

Federal Urdu University of Arts, Science & Technology, and Higher Education Commission, Islamabad, Pakistan

Keywords: Globalization; TRIPS Accord; Multinationals (MNCs); Knowledge Monopolies; Minimal Government; WTO-sponsored International Trading System; Non-consequentialism; Individual Liberty; Structural Transformation; Orderly Transformation; Mixed Economy; Moral Values; Capability Calculus; Human Development; Global Governance.

Contents

1. Introduction
 2. The Foundational Issues
 - 2.1 Globalization
 - 2.1.1 Technological Change
 - 2.1.2 Liberalization of Trade and Capital (and Labor) Flows
 - 2.1.3 Multinational Corporations
 - 2.2 "Free" Markets/Trade
 - 2.3 Economic Development
 - 2.4 Human Development
 - 2.5 The Importance of Being Moral
 - 2.6 Mixed Economy
 3. Globalization, "Price Rightism," and Free Markets/Trade
 - 3.1 Economic Agents in This Age of Globalization
 - 3.2 Globalization and Market Access
 - 3.2.1 Asymmetrical Nature of the GATT-WTO System
 - 3.2.2 The Inaccessible OECD Market
 4. Globalization and the Slowing Down of the Engine of Economic Growth and Human Development
 - 4.1 The Weakening of Structural Transformation
 - 4.2 The Worsening Human Development
 5. The Twenty-First Century and the New Frontiers
 - 5.1 The Monkey Wrench in the Works
 - 5.2 Regulating Globalization
 - 5.3 An Overarching Vision
 - 5.3.1 The End of Laissez-Faire
 - 5.3.2 Resolving the Moral Dilemma
- Acknowledgements
Glossary
Bibliography
Biographical Sketch

Summary

Globalization and human development promise to enhance the well-being of the people and their freedom to choose, in ways which do not always converge. Guided by a value-neutral Invisible Hand and a minimalist government, globalization aims to do this by enhancing production possibilities and consumer choices through a free (freer) movement of goods, services, capital and knowledge around the globe, and by improving the functional distribution of income by equalizing factor prices. Contrariwise, human development seeks to enlarge people's capabilities to translate economic progress into multidimensional human happiness—e.g., leading a long life, being knowledgeable, and enjoying a decent standard of living—by strengthening links between economic development and human development. Making efficient outcomes equitable, and fructifying human development require non-minimalist government, (i.e., a mixed economy) informed by altruistic motivation, which supplements or modifies self-interest behavior, given that altruism tends to increase with more frequent use.

As things are, globalization has undermined human development and its own moral base because: (a) it is driven by a handful of OECD-resident multinational monopolies (MNCs) which do not generally produce efficient or equitable solutions; (b) the international trading system has become increasingly inequitable as developing countries are made to liberalize voluntarily while the Western countries keep protectionism alive on one pretext or another; and (c) world inequalities of income and wealth and the incidence of poverty have increased, and the engine of growth has slowed down. To make matters worse for the developing countries, the free movement of capital across international borders has exposed them to exogenous shocks. There is consensus now that a "global governance" mechanism must be devised to humanize globalization by: (a) restricting the writ of MNCs to let competition flower; (b) refocusing the Trips Accord narrowly on genuine intellectual property rights to prevent the so-called innovators from misusing it for maximizing their personal gains; (c) disallowing formation of knowledge monopolies and removing constraints on transmission of knowledge to developing countries; (d) devising mechanisms to limit undue exposure of national economies to crises over which they have little control; and (e) saving globalization from itself by internalizing a sense of wider social obligation.

1. Introduction

Globalization has been recognized as the dominating force of the economic universe. It promises to light up the world with economic prosperity. To this end, it seeks a victory of market over government and of self-interest over altruism. No less important is the global commitment to continuing (even accelerating) the pace of human development, which signifies the culmination of the historical processes of cultural evolution, and a high point of what has been referred to previously by T. H. Marshall (1950) as the revolutionary eighteenth-century idea of the rights of citizen. The dilemma is that while globalization is a lusty, ineluctable historical process whose march can be stopped only by endangering the prosperity of peoples and nations, it also threatens to disfigure human development in the manner of its unfolding. A dynamic force for change throughout the world, it is expected to cause unprecedented surges in the wealth of nations by extending outwards the world production-possibility frontier, and by recreating the world in the image of a "Global Village." However, it is also reviled as a process destined to cause social and economic disintegration and ecological decay. It is

feared to be spurring on a race to the bottom by grabbing from the poor and giving to the rich, marginalizing nations already integrated into the world economy, decoupling them from scientific advancements carried out in the developed world, and widening the preexisting disparities in the levels of economic well-being within nations and between nations, to a point where they have become economically, socially, and morally unacceptable. There are also fears, not all unfounded, that the developed countries may increasingly use globalization to re-enact colonialism by another name. Therefore, it is not surprising that the public support for globalization has waned in both the developed and the developing countries, and there is frantic search for the "third way" out of the morally enervating regime of unvarnished capitalism. There is a universal demand now, that to recapture at least some of its attractive glow, the superior claims of globalization be given it a "human face," by saddling the increasingly ungovernable world of trade and finance with a global civic ethic, by minimizing the role in it of multi-nationals, and by informing it with the notion of balancing rights and responsibilities.

One of the reasons for present globalization and human development processes to diverge is that despite huge strides towards opening world markets, big swathes of world economy, such as agriculture, textiles, and shipping, still remain only imperfectly accessible to the developing countries, because the protectionist sentiment in the OECD countries is still very much alive. More ominously, while the developing countries are having to liberalize, under duress (as part of the structural adjustment programs which they must serve to qualify for their badly needed financial assistance), the developed countries have shown little on this count except dithering and neglect. A sign of this dichotomy of "voice" and "exit" in the market-led world economy is the sharply rising inequalities of income and wealth within and between nations. Thus, for instance, thanks to its faithful implementation of the IMF's structural adjustment programs--named misleadingly as Growth, Employment and Redistribution (GEAR)-- South Africa has the unenviable distinction of becoming the most unequal country in the world, perhaps next only to Guatemala! Also, the incidence of income and non-income poverty, though declining on average, has risen significantly in Latin America, and even more dramatically in Europe, Central Asia, and sub-Saharan Africa. More fundamentally, globalization has led human society toward a new system of moral values dominated by efficiency considerations. But this is a systemic weakness because the vast increases in material prosperity that it is expected to bring about may have pushed the frontiers of the (rich person's) demand into a terrain where the rich person's gain is the poor person's loss. Then, by increasing the contact of national and global morality with corrosive capitalistic values—i.e., the pursuit of private and essentially economic goals by consumer enterprises, and of workers in their market choices—globalization may have sown the seeds of its own undoing. It has increased the cost of policing the economic system, and of guiding it in the socially desired direction. Thus, a fundamental national and global concern should be to prevent the pursuit of efficiency and self-interested behavior from completely overwhelming the universally shared sense of moral values—mutual honesty and trust and a natural desire to help the least-privileged people in the society—which are necessary inputs into much of economic output, and without which the world welfare will not be optimized; and even if optimized will not be worth having.

It is a matter of vital importance for peaceful coexistence to safeguard the human

development already achieved, to improve upon it as globalization undermines it, and to weave these historical forces into a symbiotic relationship to accelerate humankind's cultural evolution—by not seeking efficient solutions only, but rather by insisting on equitable outcomes at the domestic and global levels. To this end, survival strategies need to be designed to enhance the economic "endurance" of the poor nations (and peoples), to help them grow fast enough so that they converge more quickly to the world's economic performance levels; which, incidentally, is also a necessary condition to participate effectively in the globalization process. In addition, the systemic bias of the world trading system must be corrected so that it lays out the promised "level playing field" for a mutually profitable exchange between the rich nations and the poor nations, and keeps a tight rein on Western unilateralism and plurilateralism. No less important is the regulation of the increasing misuse of the so-called Intellectual Property Rights (Trips Accord) by the Multinational Corporations (MNCs), which keep the fruits of technical advances beyond the grasp of the developing countries. There is a widespread consensus now that a balance should be kept between the market and the government nationally and internationally, to convert market-friendly strategies into people-friendly outcomes. But this mission cannot succeed if globalization is seen merely as a reassertion, at the world level, of the old-fashioned laissez-faire, profit-seeking capitalism, beyond the touch of human hands. What needs to be clearly understood in this context is that the eighteenth century liberalist heresy—that humankind is essentially a reasonable entity, rational enough to know the limits to the pursuit of self-interest so that rationality eventually triumphs over arbitrariness and chaos—can no longer be taken for granted in this age of globalization. Such sunny optimism about the quintessential rationality of human behavior leading in inscrutable ways to social good completely ignores the universal phenomenon of the individual's propensity to free ride. With proper domestic and global economic management and through what is known in the economics literature as "mechanism design" (i.e., giving people the incentive to reveal their "private information") it is possible, however, to escape from Prisoner's Dilemma-type situations by informing individual rationality with a sense of collective rationality, and by evolving stable mixtures of competitive and collaborative behaviors. Even more important it is to make public the universally accepted principles of justice (now enshrined in the UN's Millennium Declaration) so that, as Rawls (1999) put it, "they become morally recognized convictions shared by members of a well-ordered society".

This chapter seeks to analyze the multi-layered phenomena of globalization and human development, both of which draw strength from some traditional notions passionately held about what ultimately moves the economic universe—that is, self-interest and self-love and/or a sense of social obligation and commitment to higher goals of human existence. The general point made here is that to define globalization as simply a process that leads to a freer and faster flow of goods, capital, services, and knowledge, at breath-taking speed, is essentially circular reasoning; because if it did not do so, it would not be globalization. To avoid this circularity, globalization must be defined in terms of what it does to advance human development, by making world production bigger and better, by enhancing the well-being of the peoples around the globe, and by strengthening a sense of moral obligation to lessen for the poor the pain of wrenching change.

2. The Foundational Issues

It will be useful to begin by identifying some of the main factors—namely, free markets, economic development, moral values, and the mixed economy—, which define the relationship between globalization and human development and make the benefits of the former trickle down to the latter.

2.1 Globalization

Globalization has been identified by the World Bank's 2000 Annual Development Report as one of the key characteristics of the economic landscape in the twenty-first century to which national and global development policies must willy-nilly adjust with a view to realizing the pursuit of economic prosperity. Three principal forces drive globalization—technological change, liberalization of trade and capital (and labor) flows, and the multinational corporations—which makes national economies interdependent by integrating them into a complex web of interlocking economic (political, social and cultural) relationships.

2.1.1 Technological Change

Technological change has made it possible to increase total factor productivity—to produce goods (and services) in greater quantity, more cheaply and better, and still make profits. By abridging great distances that separate peoples and places, it has vastly increased the economy and ease with which information is stored, analyzed, and communicated; so that goods, capital, and knowledge travel in much shorter time and at much less expense than was imaginable even a decade ago. Of the three most revolutionizing contemporary technological advances—namely, fuel-cell technology, genetic engineering and the internet economy—the last-mentioned is set to illumine new pathways to knowledge by extending the reach of the human mind in much the same way as the Industrial Revolution enhanced the power of the human hands. It has made the emergence of free global markets irreversible, mainly through business-to-business (B2B) exchanges, which are worth about \$4 trillion in the US alone. It promises to create a "new economy," in which buying and selling increasingly takes place in the virtual web market, with transaction costs driven down towards a zero level, which so far has only been the economists' fantasy. Also, it is expected to raise the level of OECD output significantly over time. However, since this Internet-driven knowledge economy is hugely concentrated in the hands of countable Western (indeed, largely US) monopolies, its spillover to the rest of the world has been indeterminate at best. And the situation is made worse by a liberalist philosophy that does not recognize the economic rights of the poorer nations to the fruits of economic progress.

2.1.2 Liberalization of Trade and Capital (and Labor) Flows

The increasing trend toward liberalization signifies a gradual lifting of the tariff and non-tariff restrictions on the flow of goods, services, factors of production (mainly capital, and labor), and ideas so that these move freely (or nearly so) across national borders—and ideally, as if no national borders existed. The metaphor of a globalization-induced "Global Village— term coined by the Canadian academic Marshall McLuhan in 1962—conjures up the image of a borderless, physical (or virtual) marketplace in

which different peoples interact without having to cross national borders. A positive movement towards this goal has been facilitated, since 1948, by the General Agreement on Tariffs and Trade (GATT), and since 1995 by the World Trade Organization (WTO). Both these have sought, although not with much success so far, to facilitate market access and to promote "rule-based" trade in a multilateral and nondiscriminatory fashion—multilateral and nondiscriminatory, because bilateralism and discrimination between nations severely limit the possibilities of mutually beneficial trade through "third-market" competition. The pre-war enthusiasm for multilateralism seems to have waned significantly. As Bhagwati (1990) pointed out, the proliferation of bilateral trade agreements and the regional trading blocs in the post-Cold War era have greatly weakened the multilateral trading system. There are definite signs that bilateral trade agreements will become the preferred mode of doing business with the developing countries, to extract better terms from them than is possible in multilateral bargaining at the WTO, where they have come to acquire considerable leverage.

2.1.3 Multinational Corporations

Finally, the Multinational Corporations (MNCs) are the principal agents through which goods, capital and knowledge move around the globe, and which decide what goods are produced, where these are produced, and in what quantities they will be consumed. These objectives are achieved mainly by the increasing fragmentation (slicing up) of the hitherto monolithic production processes into smaller ones (by outsourcing), which transcend national borders. Greatly facilitated by the Internet, this new phenomenon has meant the participation in production (of spare parts, components, etc.) by even those countries, which do not possess a comparative advantage in the integrated production of goods. It has also led to a freer international flow of capital—which has increasingly taken the form of Foreign Direct Investment (FDI)—within the web of production networks owned by the MNCs. According to the WTO 1998 Annual Report, the flow of FDI increased seventeen-fold, from US\$21.5 billion to almost US\$350 billion, between 1973 and 1996. The rapid growth of such networks has tightened the hold of the MNCs on the direction, content, and form of the emerging trade in goods, services, capital, and knowledge throughout the world, and it has also increased the pressure on national economies to liberalize the international movement of trade, capital, and skilled labor, while leaving unskilled labor out in the cold. Needless to state these are aspects, which must be improved upon to make globalization good.

2.2 "Free" Markets/Trade

It is widely claimed that free (and perfect) domestic and global markets lead to the most efficient production and consumption configurations. The basic reasons for such guarantees of market success are rather technical in nature. The efficiency-maximizing consequences of free markets/trade flow from the First and Second Fundamental Theorems of Welfare Economics, which prove that under some very restrictive assumptions (especially, the existence of all contingent markets peopled with "selfish" consumers and producers, the absence of strategic behavior, and asymmetric information) every competitive equilibrium is Pareto optimal (i.e., when everyone's welfare cannot be increased simultaneously, so that if someone is to gain, others must lose), and that given the possibility of lump-sum transfers and of some even more

restrictive assumptions, every Pareto-optimal state is also a competitive equilibrium state. Once these conditions are satisfied, the market prices perform an inexpensive informational role in organizing production, consumption and distribution efficiently. The free markets are deemed, by the Hayek-Friedman maxim, to be even morally superior because they maximize the common social good as the best preservers of individual liberty, and because they offer, as Buchanan (1986) asserted, "the best avenue for the generation of support for free institutions." An immediate implication of these observations is that government intervention is "bad" because it paves the way to totalitarianism even when it seeks to maximize social welfare; it is morally inferior because it compromises individual liberty; and it is in any case redundant because a Pareto-optimal solution, once secured, is unimprovable. The Coase Theorem (1960) shows that optimal solutions can still be achieved even when markets are incomplete and not fully competitive. All that is required to achieve optimal results is to let the economic actors bargain freely; they will then negotiate their way to optimality. An important implication of this result is that government intervention will not be required even to make changes in the structure of property rights, provided no mutually beneficial bargain is missed. This all-round superiority of free markets, asserted both on efficiency and moral grounds, is also carried over to the world markets. If the prices are "right," the international economy is in equilibrium, and the international allocation of resources satisfies all the first-best properties required for securing competitive equilibrium in the domestic economy, then free trade (read, globalization) maximizes world welfare—and, for the same reasons, it "depicts" a morally correct state. Another way of looking at the matter is that if Pareto-optimal equality between the domestic rates of substitution and transformation is extended to equality with the foreign rate of transformation—and if the domestic and world prices get equalized—then world welfare will also be a maximum. Under these first-best conditions, the Smithian Invisible Hand organizes the economic universe of Walrasian vintage into a single, all-embracing unit of activity efficiently; and when at its invisible best, it reconciles the apparently irreconcilable trade-off between private selfishness (indeed, unalloyed greed) and social good, domestically and globally. Free trade will then be superior to no trade, and even restricted trade will be superior to no trade. Under the same set of conditions, the Ricardian Law of Comparative Advantage will govern the structure of world trade—that is, regardless of its absolute advantage in the production of any number of goods, if each trading country specializes in the goods in which it has the most comparative advantage (or, the least comparative disadvantage). The well-known Heckscher-Ohlin-Samuelson (HOS) Theorem makes this law more specific by relating comparative advantage to the inter-country differences in the relative scarcity of the factors of production (say, capital and labor), and to the varying proportions in which these factors are used in the production of different tradable goods. The central proposition here is that, subject to the satisfaction of all the simplifying assumptions, a country's exports use its abundant factor intensively.

Furthermore, a series of powerful theorems—namely, the Stolper-Samuelson Theorem, and the Samuelson Factor Price Equalization Theorem—assure us that free trade will increase the demand for the country's abundant factor and decrease it for the scarce factor. As a matter of logical necessity, the relative and absolute factor rewards of the abundant factor will rise, and those of the scarce factor decline, in each country; in addition to fulfilling the efficiency requirements for the first-best allocation of world

resources, these theorems ensure that the world distribution of income is the first-best. These propositions, which appear to be a fairly faithful description of the real world, form the economic and moral foundations of globalization. But appearances can be deceptive here because they rely on much too heroic assumptions. Thus, for instance, the seemingly obvious HOS proposition will not hold if the production functions/consumption patterns between trading partners are not identical. Also, there are problems with defining factor abundance—e.g., in physical terms or in price terms; and the unique (one-to-one) relationship between product prices and factor prices, which the HOS proposition demands, cannot be guaranteed if the number of factors and goods exceeds two, which is always the case in the real world. Little surprise then that the empirical tests of the HOS Theorem have been far from conclusive in establishing its "truth." Furthermore, the case for free (internal, international) markets just described is more of an abstraction of the real world (i.e., a logical construct), designed to advertise the ubiquity of the self-interest principle; it is by no means a justification for unfettered self-interest maximization in the real world, nor is there warrant to regard it as working to everybody's advantage. No less important is that an economy run on unmitigated self-interest maximization may be optimal, yet perfectly rotten from equity point of view. This point is amplified in Section 3.

-
-
-

TO ACCESS ALL THE 41 PAGES OF THIS CHAPTER,
Visit: <http://www.eolss.net/Eolss-sampleAllChapter.aspx>

Bibliography

Arrow K. J. (1972). Gifts and Exchanges. *Philosophy and Public Affairs* 1(4), 343–363. [This oft-cited paper is a comment on Richard Titmuss's *The Gift Relationship: from Human Blood to Social Policy*. Arrow disputes Titmuss's generalization—based on the relative merits of blood-donation systems when blood is commercially marketed, and when it is voluntarily donated as "gift"—that voluntary giving should be assigned a starring role to produce a more efficient and humanitarian social order, and argues that, while ethical behavior is desirable in achieving economic efficiency, it will be unwise to "use recklessly the scarce resources of altruistic motivation" by substituting ethics for self-interest on a large enough scale. However, he does recognize the non-universality and incompleteness of the price system, which for that reason needs to be "supplemented by an explicit social contract."]

Barro R. J. (1996). *Determinants of Economic Growth: a Cross-Country Empirical Study*, NBER Working Paper 5698. Pp. 1-71. Cambridge: National Bureau of Economic Research. [This study of the growth performance of around 100 countries for the period 1960–1990 strongly supports the notion of "conditional convergence." That is, given diminishing returns to capital, a negative relationship holds between growth rates of GDP and the initial level of per capita GDP because poorer countries tend to have a higher rate of return on capital and higher growth rate relative to the richer countries. However, this property is "conditional" to the poorer countries enjoying, in the initial situation, a high level of schooling and life expectancy, and lower fertility, etc.]

Bhagwati J. (1990). *Departures from multilateralism: regionalism and aggressive unilateralism*. The

Economic Journal 100(December), 1304–1317. [Written before the conclusion of the Uruguay Round Agreement, this paper identifies departures from the GATT ideal of multilateralism, which rests on: (i) nondiscrimination among its members (which is implemented through the application of the Most Favored Nation (MFN) treatment), and (ii) First-Difference Reciprocity (a balanced, mutual and reciprocal trading of trade concessions). In the first case, the departure has taken the form of outbreak of regional trading blocs. Similarly, the Reciprocity Principle is being threatened by US "aggressive unilateralism" (reflected in U.S. Section 301) to extract unrequited concessions from weaker trading partners.]

Bruton H. (1998). A reconsideration of import substitution. *Journal of Economic Literature* 36(2), 903–936. [This important study evaluates the relative merits of the import-substitution and export-expansion strategies practiced by the developing countries in the postwar era. It concludes that, contrary to the liberalist contention (supported by the so-called Washington Consensus), the former accelerated the growth rates of those countries (like South Korea and Taiwan) where it led to much "learning and knowledge accumulation," which are the "primary sources of development," but that it failed where it did not do so. On the other hand, too much outward export orientation fails because "learning requires conditions that are essentially internal and dependent on the basic characteristics of the society." In this context, the author disputes the liberalist pet remedies of a minimalist government and market friendliness because "there is much that only governments can do." Also, the recommendation to get the prices right is by no means a straightforward matter where "learning and productivity growth are the basic objectives."]

Buchanan J. M. (1986). *Liberty, Market and State: Political Economy in 1980s*. 274 pp. Sussex: Wheatsheaf Books Ltd. [This book spells out, among other themes, a research program aimed to "preserve a social order based on individual liberty" and on the Smithian "catallactics" (the science of exchange). The author strongly supports market arrangements and confines the government to facilitating "constitutional choices" made by self-interested individuals.]

Coase, R.H. (1960). The problem of social cost, *Journal of Law and Economics*, 3; pp.1-44. [The article has been one of the most influential ones to have exercised the minds of economists and policy-makers. At a theoretical level, it has shown that complete and competitive markets are not necessary to prove their efficient working, provided there are no restrictions on individuals to enter into mutually beneficial bargains and if all the beneficial bargains are in fact struck. Then, even if market outcomes are inefficient, individual players can still bargain their way to optimality. Its practical use has been to show that government intervention is not required even to restructure of private property rights efficiently. It has also been used as an argument in favor of privatization]

Coats A. W., ed. (1971). *The Classical Economists and Economic Policy*. London: Methuen. [This collection of papers throws light on the widely held notion that nineteenth century England represented the "Age of Laissez-Faire." An important essay by Scott Gordon ("The ideology of Laissez- Faire") concludes: "Laissez- Faire was not a maxim which determined the issue in any instance; but it played a notable role in the contemporary lobbying and propaganda." The book also emphasizes the restricted reach and salience of self-interest in that Age, which was assumed to be subject to built-in moral restraints.]

Greenwald B. C. and Stiglitz J. E. (1986). Externalities in economies with imperfect information and incomplete markets. *Quarterly Journal of Economics* 101(2), 229–264. [This paper shows that free-market equilibria in real-world situations of imperfect information, incomplete markets, moral hazard etc., are rarely ("constrained") Pareto-optimal, which implies that contrary to the First Fundamental Theorem of Welfare Economics, competitive equilibria are (almost always) improvable by suitable government intervention.]

Hayek F. A. (1960). *The Constitution of Liberty*. 540 pp. London: Routledge and Kegan Paul. [This book advocates that individual liberty be assigned priority over all other social goals. As to the problem of ensuring a modicum of distributive justice, the author "solves" it by taking it off his reformist agenda: "Even the poorest to-day owe their relative well-being to the results of past inequality." He opposes state because state intervention even to achieve a higher level of well-being because it paves to way to totalitarianism.]

Hirsch F. (1977). *Social Limits to Growth*. 190 pp. London: Routledge and Kegan Paul. [This work questions the operational viability of economic liberalism based on unrestricted self-interest, notwithstanding its success in achieving material prosperity in the West by decentralizing knowledge and decision-making. Thus, to make it operational, an internalized sense of social obligation is required because "morality of the minimum order is necessary for the functioning of the market system." Also required is a mixed-economy framework, if only because: "market capitalism has never been the basis of political economy in any country, at any time."]

International Monetary Fund (2000). *World Economic Outlook*. 186 pp. Washington, DC: IMF. [In addition to highlighting the dangers that the volatility of asset prices poses for the financial systems, even when inflation rates and budgetary deficits are generally low (in the developed countries), this report analyses the possibility of the poor countries catching up with the developed countries, and of the factors that impede this process. It recommends low budget deficits, low inflation rates, market-determined exchange rates, and liberalization of trade and capital flows, as nearly always helpful of the growth of per capita income and poverty reduction.]

Keynes J. M. (1971–73). *Collected Writings, Volume 9. The End of Laissez-Faire*. London: St Martin. [This book, published in 1924–1926, shows that the nineteenth century laissez-faire doctrine no longer acts as an oriflamme of economic forces; and that a minimal state never formed the basis of political consensus. In general, "it is not a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally is enlightened"—the emphasis is given in the original.]

Lewis W. A. (1954). *Economic development with unlimited supplies of labor*. *Manchester School* 22, 139–191. [This oft-quoted paper explains that to finance rapid capital accumulation, savings must increase relatively to national income because capital and labor move unidirectionally from the low-productivity agricultural sector to the high-productivity manufacturing sector at an unchanged wage rate—unchanged, because the supply of labor is assumed infinitely elastic in the former. This fact, combined with the higher productivity of (capitalist) manufacturing sector, explains why profits rise relative to the wage rates and why savings rise because only (or mostly) the capitalists save.]

Lewis W.A. (1955), *The Theory of Economic Growth*, Homewood Illinois: Richard D. Irwin, Inco. [One of the best books ever written on the subject, the author gives a logically tight explanation of basic drivers of economic growth, which he identifies in the book as "the effort to economize, the accumulation of knowledge, and the accumulation of capital". Far from advocating growth fundamentalism, of which he has been unjustly criticized, he presents a theory of economic development (not just growth) that encompasses an essentially egalitarian systemic change. The book, which has mostly been referred to without having been read carefully (which has been the fate of most classics), still remains unsurpassed for its quintessential wisdom, a keen sense of economic history, and a correct identification of forces of change.]

Marshall T. H. (1950). *Citizenship and Social Class*. Cambridge: Cambridge University Press.

Naqvi, Syed Nawab Haider (1993). *Development Economics: a New Paradigm*. 180 pp. New Delhi/Newbury/London: Sage Publications. [This book highlights the need for a mixed economy and the inevitability of making normative judgments as integral elements of the paradigm of development economics. Without these elements the perennial problems of human existence—e.g., ensuring growth with distributive justice, the quickest alleviation of poverty and social deprivation—cannot even be addressed by neoclassical economics with its emphasis on efficient solutions.]

Naqvi, Syed Nawab Haider (1995). *The nature of economic development*. *World Development* 23(4), 543–556. [This paper formalizes the concept of "orderly transformation"—one that envisages managing a harmonious pattern of economic development in which a high rate of growth of per capita income leads the way, while ensuring macroeconomic stability, distributive justice, poverty reduction and human development. Empirical evidence on 40 developing countries shows that this tendency sets in motion when the growth rate of per capita income of 3% per annum or more is sustained over an extended period of time.]

Naqvi, Syed Nawab Haider (2003), *Development Economics: Nature and Significance*, New Delhi/Newbury/London: Sage Publications [The book attempts to present development economics as a paradigm in its own right that does science differently from other competing paradigms. It has its own research priorities, a distinct world-view of the basic processes of economic development, and it offers a distinctly different, and relevant, analytical framework to tackle development-related issues. It identifies the basic building-blocks of development economics as: commitment to achieving high rates of growth of per capita income with a focus on distributive justice and poverty alleviation; an uncompromising emphasis on bringing ethics and economics into a logically tight framework when it is neither irrational to act morally nor immoral to act rationally; and a mixed economy framework].

Naqvi, Syed Nawab Haider (2006/2007). *The Evolution of Development Policy: A Reinterpretation* (to be published) [The book offers a paradigmatic account of the evolution of development policy in the last half a century or so. It identifies three principal paradigms---namely the Traditional Development Paradigm, the Liberalist Paradigm, and the Human Development Paradigm---that have had a direct effect on development policy. In sharp contrast to the universal academic practice, it argues that the Traditional Development Paradigm was essentially a correct representation of economic reality in the developing countries in the early post-Colonial period; and that it offered hypotheses that are still valid. And yet, in 1980, the Liberalist Paradigm supplanted it---an unwise move the adverse effects of which on the development potential of the developing countries have been immense. Based essentially on the inviolate orthodoxy of neo-classical economics, which takes pride in its universality, the Liberalist Paradigm has been implemented through the conditionalities of the Structural Adjustment Programs, which imposed on the developing countries a vision of economic processes, without regard to the reality in the developing countries. The Human Development Paradigm, inaugurated in 1990, has brought ethics formally into development policy and it has offered its own world-view of development in which income is only a means to achieving the freedom to choose certain valuable "functionings" that a person has reason to value most. While the Human Development Paradigm has made an original contribution to understanding the problems of distributive injustice, poverty and human deprivation; yet its de-emphasis on income maximization is by and large unwise. The book argues that the stage has been set for a New Development Paradigm, which synthesizes the valid parts of the preceding paradigms (especially of the Traditional Development Paradigm and the Human Development Paradigm) to tackle the elemental development issues--- economic growth, distributive justice (including gender equity), poverty reduction and convergence--- as an irreducible set of policy objectives]

Nozick R. (1974). *Anarchy, State and Utopia*. 334 pp. Oxford: Basil Blackwell. [This work offers a moral-rights theory of entitlement and "historical justice" which is strictly procedural and non-consequentialist---procedural, because it insists that one is fully entitled to whatever (property) one comes to hold by the legal principles of "acquisition and transfer"; and non-consequentialist because the owner is allowed unlimited exercise of his/her property (or of income from it). An implication of Nozickian non-consequentialism is to confine the (minimalist) state to safeguarding "negative freedoms" of the individuals (i.e., the freedom from interference by the state and/or other individuals).]

Rawls J. (1971/1999). *A Theory of Justice*. 538 pp. Cambridge, Massachusetts: Harvard University Press/Oxford: Clarendon Press. [In one of the most influential books of the 20th century, the author rejects Benthamite monoconcentration on the metric of (total) utility, spells out the "Justice-as-Fairness" principle and the Difference Principle. The operational part of the theory is the concept of the "social primary goods" that all individuals demand no matter what else they do---i.e., liberty, opportunity, income and wealth, and the bases of self-respect---which are used as indices of human well-being. The "Justice-as-Fairness" principle demands that these goods be distributed equally, "unless an unequal distribution of any, or all of [them]...is to everyone's advantage"; and the Difference Principle requires that "the least-disadvantaged people draw the greatest benefit" from holding these goods.] The revised version appeared in 1999.

Sen A. K. (1992). *Inequality Reexamined*. 152 pp. New York: Oxford University Press. [The author explores the all-important social-economic and political question: "Equality of What"; and answers it by reference to the "capability" of different persons to achieve valuable "functionings", which are constitutive of a person's well-being. The point of this approach is to focus on "substantive freedoms that people have rather than on particular outcomes with which they end up." The originality of the capability calculus is to take into account the essential diversity of the circumstances "internal" to a person, which

determine his/her ability to convert ownership of say assets, primary goods, etc., into his/her capability to live well.]

Sen, A.K. (1999), *Development as Freedom*, New York: Anchor Books, a Division of Random House, Inc., [In what is sure to become a classic, the author sets out a powerful case for seeing development as a process of expanding freedom that people enjoy. He explicitly argues for a non-Utilitarian consequentialist moral philosophy as a basis of an essentially egalitarian reordering of domestic and global economic relations. It also provides a scientifically cogent framework for analyzing the elemental problems of distributive justice, poverty alleviation and redressing human deprivation. His ideas have deeply influenced the global thinking on development issues.]

Singer H. W. (1950). The distribution of gains between investing and borrowing countries. *American Economic Review* 40(2), 473–485. Also reproduced in Caves R. E. and Johnson H. G., Eds. (1968). *Readings in International Economics*, 306–317. Homewood, Illinois: Richard Irwin, Inc. [This paper argues that "structural differences" between the developed countries (which typically are exporters of high value-added manufacturing) and the developing countries (which export lower value-added primary goods) introduce a systemic bias in the international trading system because of which trade and investment hinder the growth-promoting process of structural transformation in developing countries. This paper is the basis of the well-known Singer-Prebisch thesis.]

Sirageldin I. (2002). *Sustainable Human Development in the Twenty-First Century: An Evolutionary Perspective*. In *Perspectives and Overview of Life Support Systems and Sustainable Development*, *Encyclopedia of Life Support Systems (UNESCO-EOLSS)*. Paris; UNESCO. [This article draws attention to the multidisciplinary character of human development, which cannot proceed independent of its interaction with environment change and without regard to the state of educational advancements, technological processes and scientific achievements—all of which have a direct bearing on the quantity and quality human well-being. In this pluralistic view, human development is seen as an outcome of the historical process of symbolic cultural evolution, which takes human development beyond the slow grind of anatomical evolution. This characterization of human development has been applied in the article to such vital problems as distributive justice, poverty, demographic change and globalization.]

Stiglitz, Joseph, E. (2003), *Globalization and Its Discontents*, USA: W.W. Norton & Company [One of the most widely, though highly controversial, book to appear in the last decade, the author mounts a frontal attack on the corporate interests that have guided the policies of international donors. He holds the IMF responsible for practicing market fundamentalism as a cure-all, and for bringing misery to the people in the developing countries. He illustrates the damage that the IMF has caused to the very fabric of the developing countries economies, by the predicament of East Asian miracle economies in 1996/1997 financial crises and of Soviet Russia in the post-reform period. The former had to go through a crisis, not of their making, which destroyed the hard work of decades in a matter of days and weeks. The latter shows how taking a short cut to capitalism can be highly damaging for a country that not long ago was a world super-power].

Streeten P. (1998). *Globalization: threat or opportunity*. *Pakistan Development Review* 37(4), 51–85. [This paper shows that contrary to the normal expectation of a beneficial outcome, globalization so far has posed a threat to these countries (and to the world) as ethnic, religious and racial tensions have resulted in impoverishment, inequalities, work insecurity, a weakening of institutions and social-support systems, an erosion of established identities and values, and reduced protection of agriculture. Also, because of globalization, the income gaps between the rich and poor countries, regions and peoples have doubled over the last 30 years.]

United Nations Conference on Trade and Development (1998, 1999). *Trade and Development Reports (TDRs)*. 226 pp and 274 pp. New York: United Nations. [The TDRs, especially since 1995, have shed "light on some of the pressing policy issues facing developing countries." The 1998 TDR analyzes the East-Asian crisis, which it blames almost entirely on the fickleness of the foreign capital markets, which need to be regulated. The 1999 TDR builds on this theme and warns that "unbridled competition, particularly among unequals, has never, by itself, delivered faster growth and shared prosperity even in to-day's developed countries and it has at times been destructive. There is no reason to expect a better outcome now." In this context, it holds Western protectionism mainly responsible for endangering the

liberalization of trade regimes by the developing countries and for creating a paradoxical situation in which the latter's growth is accompanied by higher current-account deficits than in the past, necessitating greater reliance on international capital.]

United Nations Development Program (1996, 1999, 2005). Human Development Reports (HDRs). 105 pp. and 114 pp. New York: Oxford University Press for UNDP (Human Development Report Office, HDRO). [The HDRs, published each year since 1990, present, in addition to a very rich set of data, a pluralistic Human Development Index (HDI) and a Human Poverty Index (HPI). The 1996 HDR features, among other things, a fairly detailed explication of the links between growth of per capita GDP and human development, and concludes that these links are "mutually reinforcing" when strong." The 1999 HDR comments on the adverse consequences of unregulated globalization on human development and recommends stronger global governance to ensure that "the opportunities and benefits of globalization [are] shared much more widely." The 2005 HDR argues that inequalities of income and wealth have to reduce significantly to permit effective human development. It also argues for a greater role of the state in economic matters and advocates a more equitable international economic order.]

World Bank (2000, 2001), World Development Reports (WDR). 174 pp and 204 pp. New York: Oxford University Press. [The WDRs, published each year since 1978, have more or less advocated "market-friendly" policies and governments. The 2000 WDR recognizes globalization—notwithstanding its potential to do harm—as a force for the good of all peoples and nations, which needs to be strengthened, mostly by market-friendly policies—i.e., trade liberalization, export orientation, freer international capital flows, protection of intellectual property rights and privatization. The 2001 WDR duly notes that "poverty among plenty is the world's greatest challenge," but "market-friendly reforms" are seen as essential to ensure high growth and lower poverty, and so are those which aim to make governments market-friendly to make them responsive to the needs of the poor.]

World Trade Organization (1998). Annual Report, 1998. 172 pp. France: WTO. [This two-volume report by the WTO presents a sympathetic analysis of globalization, which is seen as benefiting all nations and all peoples. It denies that international trade and capital flows have "marginalized" the poor countries. However, it does note in the passing that the share of sub-Saharan Africa, which is the most "integrated" in the world trading system, has declined from 5% in 1948 to only 2% in 1996, and that to lesser extent, the same has been the case for Latin America. The report generally favors outward orientation as opposed to import-substitution.]

Biographical Sketch

Professor Syed Nawab Haider Naqvi, M.A (Yale) and Ph.D. (Princeton) is HEC Distinguished National Professor and Director General at the Federal Urdu University of Arts, Science and Technology, Islamabad, Pakistan. Professor Naqvi was the Director General of Pakistan Institute for Development Economics, President, Pakistan Society for Development Economics, and Professor, Quad-i-Azam University, Islamabad. He has published extensively, articles and books, on issues of economic development, international finance, and economic theory. He has been advisor and consultant to many governments and international agencies on economic policy and planning.