

Development Issues: Settled

Summary of

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A development issue may be defined as a matter regarding the course of development that demands resolution. For seven development issues, there is unanimity within the economists, although there could be demand in the finer points or coefficients. These seven issues have become common wisdom and serves as a foundation for policy in both the poor and rich countries of the world.

- Capital accumulation and factor productivity that arise from research, learning, technological change, and improvements in the quality of labour are of prime importance for sustained growth. Thus, promoting investment in equipment and infrastructure and encouraging the accumulation of usable knowledge through a variety of channels are among the central tenets of development. Because investment must, to a large extent, be financed from domestic resources, raising the level of savings is integral to a pro-growth strategy.
- Low and stable rates of inflation is desirable goal for development countries. Moderate to high inflation revealed detrimental consequences for investment, equity, allocative efficiency, trade, and foreign direct investment. Macro-stability requires flexible labour markets and a prudent and coordinated mix of fiscal, monetary, and exchange rate policies – a mix now enshrined among the fundamentals of macroeconomic policy.
- Outward orientation is a more successful strategy (compared to protection and import-substituting industrialization). The advantages are: increased allocative efficiency, dynamic gains from freer trade, greater resilience in the face of shocks, ability to attract larger flows of FDI, increased growth rate through the link between exports and domestic investment, and technological progress through export competition as well as increased access to more technologically sophisticated imports. The trend is to lower trade barriers and increase trade volume.
- Secure and enforceable property rights are the lifeblood of an efficient free-market economy. By improving investor confidence, secure property rights boost the flow of capital into productive activities and encourage income growth. Secure property rights also increase FDI and, through it, the volume of both trade and technology transfer. What is required is a clear definition of rights and rules to enforce the rights. The State should also abide by the rules and respect the property rights – it should not confiscate the private property at its will and pleasure. However, the rights and their enforcement are costly. “The right to freedom of contract has public costs no less than the right to health care, the right to freedom of speech no less than the right to decent housing. Therefore, rights can only be better

defined and enforced by a rich country. But to develop, we require secure and enforceable rights. Thus, this forms a beneficial circle – as the State uses its meagre resources to define and enforce the property rights, the more easily it develops. The more it develops, the more are the resources available to the State to enforce the property rights.

- Poverty cannot be left to the exclusive mercy of long-term policy initiative to maximize growth and improve market functioning. It is now clear that trickle-down, which can take many years to reach the lower income levels, must be supplemented by policies of inclusion that lessen sharp disparities in income and assets, enhance human capital accumulation and employment opportunities, and help provide safety nets for the more vulnerable elements of a society.
- Tradeoffs between environment protection and economic growth are no longer an issue – the developing countries must consciously promote sustainable development with due attention to environmental exigencies. Only in the short run can depletion of environmental resources lead to growth. The readiness of developing countries to pursue environmentally friendly policies is a function of costs, political will, a clearer sense of what needs to be done and how, and the capacity to implement particular actions.
- Though centrally planned socialism is not a good option, the State should direct macroeconomic policy, provide public goods, be responsible for safety nets, support privatization, regulate natural monopolies, or manage competition. The central question is how to equip the State with the administrative capacity to perform these functions efficiently. Possible policy approaches available for the State to control include direct ownership or close management of industry, direct sponsorship of pilot production facilities, credit allocation, provision of export subsidies, etc. Most experience suggests that when a State-owned or State-favoured industry is granted preferred or monopoly status – and managed in a way that offers few institutional incentives for high levels of service or productivity growth – direct government support of that industry will prove wasteful or even counter-productive.