

NATIONAL OPEN UNIVERSITY OF NIGERIA

DEVELOPMENT ECONOMICS II

ECO 348

FACULTY OF SOCIAL SCIENCES

COURSE GUIDE

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Introduction

Welcome to ECO: 348 DEVELOPMENT ECONOMICS II.

ECO 348: DEVELOPMENT Economics II is a three-credit and one-semester undergraduate course for Economics student. The course is made up of Seventeen units spread across fifteen lectures weeks. This course guide gives you an insight to development economics and follow up/continuation to development economics I in year three first semester. It tells you about the course materials and how you can work

your way through these materials. It suggests some general guidelines for the amount of time required of you on each unit in order to achieve the course aims and objectives successfully. Answers to your tutor marked assignments (TMAs) are therein already.

Course Content

This course is basically on Economics Development, which is an extension to a more broader discuss of what is really happening in the economy and the players of the economy. The topics covered include Governance and Corruption, Civil Society and Development, Globalization and Poverty, Equity and well-being.

Course Aims

The aims of this course is to give you in-depth understanding of the Development Economics as regards

- Fundamental concept and practices of Development Economics
- To familiarize students with issue of Governance and corruption
- To stimulate student's knowledge on civil society and development
- To make the students to understand what is Globalization and Poverty
- To expose the students to differences between international trade and international financial flow
- To ensure that the students know more about the meaning of equity and well-being.

Course Objectives

To achieve the aims of this course, there are overall objectives which the course is out to achieve though, there are set out objectives for each unit. The unit objectives are included at the beginning of a unit; you should read them before you start working through the unit. You may want to refer to them during your study of the unit to check on your progress. You should always look at the unit objectives after completing a unit. This is to assist the students in accomplishing the tasks entailed in this course. In this

way, you can be sure you have done what was required of you by the unit. The objectives serves as study guides, such that student could know if he is able to grab the knowledge of each unit through the sets of objectives in each one. At the end of the course period, the students are expected to be able to:

- Define and understand the meaning of Good Governance and Good Policy
- Define and understand the meaning of Corruption
- Know the importance of civil society
- Understand the test of Good Governance
- Define and understand the meaning of corruption
- Know the forms of definition of corruption
- Understand the explanation of corruption
- Know the measurement of corruption
- Define and understand the meaning of macroeconomics as a field of study
- Know the basic macroeconomics concepts
- Know and understand the Evidence from the Global Corruption barometer (GCB) on Petty bribery.
- Understand the Evidence from the consumer price index (CPI)
- Know and understand all the problems of corruption across the countries.
- Understand the rationales of Public Sector activity
- Know and Understand the meaning of Stabilization
- Define and know the meaning of Public and Merit goods
- Define and understand the meaning of civil society
- Know the importance of civil society for the operation of state and market
- Define and understand the meaning of macroeconomics as a field of study
- Know the basic macroeconomics concepts
- Define and understand the impetus among workforce, farmers and the community
- Know the basic key to be turned in each case of change behaviour.
- Define and understand the meaning and History of Globalization
- Know the basic fundamentals of Globalization.
- Understand the Pre first world war Globalization
- Understand the second wave of Globalization and some other aspect of Globalization
- Define and understand the meaning of New Globalization
- Know the differences relationship between international organization and Globalization

- Understand how technology can be used as a means of information
- Define and understand the meaning of New Globalization
- Know the differences relationship between international organization and Globalization
- Understand how technology can be used as a means of information
- Define and understand the meaning of international trade
- Know the meaning of the dynamic gains from trade
- Understand the impact of trade liberalization on Growth and Poverty
- Define and understand the meaning of international financial flows to developing countries
- Know the basic concept of Financial Globalizing and Economic Growth in Developing countries.
- Define and understand the meaning of Poverty
- Define Poverty in Absolute and Relative terms
- Know the meaning of human capital development
- Understand the meaning of measurement by income or objective indicators of wellbeing and welfare indicators.
- Know the meaning of bearing of Poverty on capacity for growth
- Know the basic fundamentals of Poverty and inequality
- Know the meaning of Dutch Disease in Economics development
- Define and understand the meaning of strategies of growth led and support led security
- Know the meaning of Famine
- Understand what Social Safety Nets is

Working Through The Course

To successfully complete this course, you are required to read the study units, referenced books and other materials on the course.

Each unit contains self-assessment exercises called Student Assessment Exercises (SAE). At some points in the course, you will be required to submit assignments for assessment purposes. At the end of the course there is a final examination. This course should take about 15weeks to complete and some components of the course are outlined under the course material subsection.

Course Material

The major component of the course, What you have to do and how you should allocate your time to each unit in order to complete the course successfully on time are listed follows:

1. Course guide
2. Study unit
3. Textbook
4. Assignment file
5. Presentation schedule

Study Unit

There are 17 units in this course which should be studied carefully and diligently.

MODULE ONE GOVERNANCE AND CORRUPTION

- Unit one: Good Governance and Good Policy
Unit two: Corruption as a Developmental issue
Unit three: Rating Corruption across the World
Unit four: Corruption Justification
Unit five: Public Sector Scope and Enhancing Public Sector Performance

MODULE TWO: CIVIL SOCIETY AND DEVELOPMENT

- Unit one: The Role and Potential of Civil Society
Unit two: Positive Feedback Mechanisms of Civil Society
Unit three: Change in Behaviour: Generalizations from the four cases

MODULE THREE: GLOBALIZATION AS A DEVELOPMENTAL ISSUE

- Unit one Globalization
Unit two Concept of Globalization
Unit three The New Globalization
Unit four International Trade
Unit five International Financial Flows

MODULE FOUR: POVERTY, EQUITY AND WELL-BEING

- Unit one Concept and Definition of Poverty
Unit two Measurement of Equality of Distribution
Unit three Measurement and Assessment of Poverty
Unit four Priority for Growth-Targeted Versus Poverty-Targeted Intervention

Each study unit will take at least two hours, and it include the introduction, objective, main content, self-assessment exercise, conclusion, summary and reference. Other areas border on the Tutor-Marked Assessment (TMA) questions. Some of the self-assessment exercise will necessitate discussion, brainstorming and argument with some of your colleges. You are advised to do so in order to understand and get acquainted with historical economic event as well as notable periods.

There are also textbooks under the reference and other (on-line and off-line) resources for further reading. They are meant to give you additional information if only you can lay your hands on any of them. You are required to study the materials; practice the self-assessment exercise and tutor-marked assignment (TMA) questions for greater and in-depth understanding of the course. By doing so, the stated learning objectives of the course would have been achieved.

Textbook and References

For further reading and more detailed information about the course, the following materials are recommended:

Akintson, K. K., (2011). Corruption in Africa, a comtemporary issues, 1st edition, Macgrill

Publication Company.

Alinkey, T. W., (2011). Civil Society, a propeller for a better future in developing country,

Journal of Social sciences, vol 8, pg87-103, Macgill Concept Publication limited.

Andy, C. E. (2001). Essential Economics, Tonad Publishers.

Akeke Niyi (2009). Introduction To Business, Rakson Publishers, Isolo, Lagos.

Bakare I.A. O. (2003). Fundamentals and Practice of Macro-Economics, Gutbbak Publishers, Fadeyi, Lagos.

Badejo, R. A., (2014). Introduction to Development Economics: Poverty, Corruption and the Nigerian Economy, 1st edition, Grey-way Publication Limited, Lagos

Bell, H. O., & Dean, E.U. (2014). Introduction to Development Economics, Corruption and Poverty, 2nd edition, West point publication company.

Charity, N. J., (2013). Government and the Society, 2nd edition, Entepriises Publisher limited, Enugu.

Colander D. (2006). Macro Economics Scoh, Foresman and Co. Illinuous, USA.

Corden WM (1984). "Boom Sector and Dutch Disease Economics: Survey and Consolidation". Oxford Economic Papers. 36: 362.

Dale, O.O., (2015). Introduction to Development Economics of developed and underdeveloped countries, Mac Line Publisher, Lagos.

Daniel, O. K., (2014). Development Economics, 3rd edition, Ibadan Publisher, Oyo, Nigeria.

Development Report 1997, The state in a changing world', World Bank, Washington, DC.

Adesiyun, D. G., (2014). Issues of Economic Development in Africa, 4th edition, Mint Publication limited, Lagos

Debraj, R. O., (2012). Development Economics, 1st edition, Rabanxy Publication limited.

Daron, A. N., (2009). Why Nations Fails, 3rd edition, Prime Publication company.

Economics, a broader perspective, 4th edition, Ibadan Press limited.

Fosu, A., & Mwabu, G., & Thorbecke, E., (2009). Poverty in Africa: Analytical and Policy perspectives, 1st edition, University of Nairobi Publication.

George, K. K., (2013). The role of Civil Society on Corruption in Nigeria, Journal, vol 2, pg 43-59, Saiye Printers, Lagos.

Heiu, E. I., (2014). Introduction to Development Economics, 3rd edition, Hill Publisher

John Ravenhill, (2005). Global Political Economy Oxford University Press, 2005.

Julius, A. C., (2014). Introduction to Development of Economics, 2nd edition, Dalet Publication limited

Jhingan M.L. (1998). Money, Banking and International Trade, 5th Edition Vrinda Publication.

Krueger, A.O. (1974) 'The political economy of rent seeking society', American Economic Review, 64, pp. 271-303.

Madashiru, L. O., (2014). Why Poor Nation Fail to Developed, 1st edition, West Point Publication limited.

Mustapha, C. O., (2008). Poverty in Nigeria: Causes, Manifestations and Alleviation Strategies, 1st edition, Adonis & Abbey Publishers Limited.

Olofin, S. O., & Salisu, A. A., (2015). An introduction to Macroeconomics, 1st edition, Evans Publishers, Lagos.

Peters, P. G., (2011). Development Economics

Rasak, A. G., (2010). Reducing Poverty in Nigeria: A broader perspectives, 2nd edition, Sundry Publication limited.

Senior, I. (2006) Corruption – The World's Big C: Cases, Causes, Consequences, Cures, Institute of Economic Affairs in association with Profile Books Ltd, London.

Samuelson, P.A. (1954) 'The pure theory of public expenditure', Review of Economics and

Statistics, 36, November, pp. 387-9.

Samuelson, P.A. (1958) 'Aspects of public expenditure theories', Review of Economics and Statistics, 40, November, pp. 332-8. World Bank (1997) World

Todaro, M. P., (2000). Economic Development, 12th edition (The Pearson Series in Economics) 12th Edition.

The Dutch Disease" (November 26, 1977). The Economist, pp. 82-83.

Wayne Nafziger., (2006). Economic Development, 4th edition, Cambridge University Press the Edinburgh Building, Cambridge, UK

Assignment File

Assignment files and marking scheme will be made available to you. This file presents you with details of the work you must submit to your tutor for marking. The marks you obtain from these assignments shall form part of your final mark for this course. Additional information on assignments will be found in the assignment file and later in this Course Guide in the section on assessment.

There are four assignments in this course. The four course assignments will cover:

Assignment 1 - All TMAs' question in Units 1 – 5 (Module 1)

Assignment 2 - All TMAs' question in Units 6 – 8 (Module 2)

Assignment 3 - All TMAs' question in Units 9 – 13 (Module 3)

Assignment 4 - All TMAs' question in Unit 14 – 17 (Module 4).

Presentation Schedule

The presentation schedule included in your course materials gives you the important dates for this year for the completion of tutor-marking assignments and attending tutorials. Remember, you are required to submit all your assignments by due date. You should guide against falling behind in your work.

Assessment

There are two types of the assessment of the course. First are the tutor-marked assignments; second, there is a written examination.

In attempting the assignments, you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal Assessment in accordance with the deadlines stated in the Presentation Schedule and the Assignments File. The work you submit to your tutor for assessment will count for 30 % of your total course mark.

At the end of the course, you will need to sit for a final written examination of three hours' duration. This examination will also count for 70% of your total course mark.

Tutor-Marked Assignments (TMAs)

There are four tutor-marked assignments in this course. You will submit all the assignments. You are encouraged to work all the questions thoroughly. The TMAs constitute 30% of the total score.

Assignment questions for the units in this course are contained in the Assignment File. You will be able to complete your assignments from the information and materials contained in your set books, reading and study units. However, it is desirable that you demonstrate that you have read and researched more widely than the required minimum. You should use other references to have a broad viewpoint of the subject and also to give you a deeper understanding of the subject.

When you have completed each assignment, send it, together with a TMA form, to your tutor. Make sure that each assignment reaches your tutor on or before the deadline given in the Presentation File. If for any reason, you cannot complete your work on time, contact your tutor before the assignment is due to discuss the possibility of an extension. Extensions will not be granted after the due date unless there are exceptional circumstances.

Final Examination and Grading

The final examination will be of three hours' duration and have a value of 70% of the total course grade. The examination will consist of questions which reflect the types of self-assessment practice exercises and tutor-marked problems you have previously encountered. All areas of the course will be assessed

Revise the entire course material using the time between finishing the last unit in the module and that of sitting for the final examination to. You might find it useful to review your self-assessment exercises, tutor-marked assignments and comments on them before the examination. The final examination covers information from all parts of the course.

Course Marking Scheme

The Table presented below indicates the total marks (100%) allocation.

Assignment	Marks
Assignments (Best three assignments out of four that is marked)	30%
Final Examination	70%
Total	100%

Course Overview

The Table presented below indicates the units, number of weeks and assignments to be taken by you to successfully complete the course, Development Economics II (ECO 348).

Units	Title of Work	Week's Activities	Assessment (end of unit)
	Course Guide		
Module 1 Governance and Corruption			

1	Good Governance and Good Policy	Week 1	Assignment 1
2	Corruption as a Developmental issue	Week 1	Assignment 1
3	Rating Corruption across the World	Week 2	Assignment 1
4	Corruption Justification	Week 2	Assignment 1
5	Public Sector Scope and Enhancing Public Sector Performance	Week 3	Assignment 1
Module 2 Civil Society and Development			
1	The Role and Potential of Civil Society	Week 4	Assignment 2
2	Positive Feedback Mechanisms of Civil Society	Week 5	Assignment 2
3	Change in Behaviour: Generalizations from the four cases	Week 6	Assignment 2
Module 3 Globalization as a Developmental Issue			
1	Globalization	Week 7	Assignment 3
2	Concept of Globalization	Week 8	Assignment 3
3	The New Globalization	Week 9	Assignment 3
4	International Trade	Week 10	Assignment 3
5	International Financial Flows	Week 11	Assignment 3
Module 4 Poverty, Equity and Well-Being			
1	Concept and Definition of Poverty	Week 12	Assignment 4
2	Measurement of Equality of Distribution	Week 13	Assignment 4
3	Measurement and Assessment of Poverty	Week 14	Assignment 4
4	Priority for Growth-Targeted Versus Poverty-Targeted Intervention.	Week 15	Assignment 4

	Total	15 Weeks	
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How To Get The Most From This Course

In distance learning the study units replace the university lecturer. This is one of the great advantages of distance learning; you can read and work through specially designed study materials at your own pace and at a time and place that suit you best.

Think of it as reading the lecture instead of listening to a lecturer. In the same way that a lecturer might set you some reading to do, the study units tell you when to read your books or other material, and when to embark on discussion with your colleagues. Just as a lecturer might give you an in-class exercise, your study units provides exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit.

You should use these objectives to guide your study. When you have finished the unit you must go back and check whether you have achieved the objectives. If you make a habit of doing this you will significantly improve your chances of passing the course and getting the best grade.

The main body of the unit guides you through the required reading from other sources. This will usually be either from your set books or from a readings section. Some units require you to undertake practical overview of historical events. You will be directed when you need to embark on discussion and guided through the tasks you must do.

The purpose of the practical overview of some certain historical economic issues are in twofold. First, it will enhance your understanding of the material in the unit. Second, it will give you practical experience and skills to evaluate economic arguments, and understand the roles of history in guiding current economic policies and debates outside your studies. In any event, most of the critical thinking skills you will develop during

studying are applicable in normal working practice, so it is important that you encounter them during your studies.

Self-assessments are interspersed throughout the units, and answers are given at the ends of the units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-assessment exercises as you come to it in the study unit. Also, ensure to master some major historical dates and events during the course of studying the material.

The following is a practical strategy for working through the course. If you run into any trouble, consult your tutor. Remember that your tutor's job is to help you. When you need help, don't hesitate to call and ask your tutor to provide it.

1. Read this Course Guide thoroughly.
2. Organize a study schedule. Refer to the 'Course overview' for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information, e.g. details of your tutorials, and the date of the first day of the semester is available from study centre. You need to gather together all this information in one place, such as your dairy or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working breach unit.
3. Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their course work. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.
4. Turn to Unit 1 and read the introduction and the objectives for the unit.
5. Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will also need both the study unit you are working on and one of your set books on your desk at the same time.
6. Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit you will be instructed to read sections from your set books or other articles. Use the unit to guide your reading.
7. Up-to-date course information will be continuously delivered to you at the study centre.
8. Work before the relevant due date (about 4 weeks before due dates), get the Assignment File for the next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help

you meet the objectives of the course and, therefore, will help you pass the exam. Submit all assignments no later than the due date.

9. Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.
10. When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.
11. When you have submitted an assignment to your tutor for marking do not wait for it return before starting on the next units. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments, both on the tutor-marked assignment form and also written on the assignment. Consult your tutor as soon as possible if you have any questions or problems.
12. After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in this Course Guide).

Tutors and Tutorials

There are some hours of tutorials (2-hours sessions) provided in support of this course. You will be notified of the dates, times and location of these tutorials. Together with the name and phone number of your tutor, as soon as you are allocated a tutorial group.

Your tutor will mark and comment on your assignments, keep a close watch on your progress and on any difficulties you might encounter, and provide assistance to you during the course. You must mail your tutor-marked assignments to your tutor well before the due date (at least two working days are required). They will be marked by your tutor and returned to you as soon as possible.

Do not hesitate to contact your tutor by telephone, e-mail, or discussion board if you need help. The following might be circumstances in which you would find help necessary. Contact your tutor if.

- You do not understand any part of the study units or the assigned readings
- You have difficulty with the self-assessment exercises
- You have a question or problem with an assignment, with your tutor's comments on an assignment or with the grading of an assignment.

You should try your best to attend the tutorials. This is the only chance to have face to face contact with your tutor and to ask questions which are answered instantly. You can raise any problem encountered in the course of your study. To gain the maximum benefit from course tutorials, prepare a question list before attending them. You will learn a lot from participating in discussions actively.

Summary

The course, Economics Development II (ECO 348), expose you to the field of development Economics, Governance and Corruption, Good governance and Good Policy, Corruption as a developmental issue, rating corruption across the world, Corruption Justification, Public Sector and enhancing Public sector Performance etc. This course also gives you insight into Civil Society and Development, the role and Potential of civil society, Positive feedback Mechanisms of Civil Society, change in behavior which includes; generalization from the four cases of behavior, Globalization as a developmental issue, concept of Globalization, the new Globalization and international trade.

However, international financial flows was also examined. Furthermore the course shall enlighten you about the Poverty, equity and well-being, concept and definition of poverty, measurement of equity of distribution. Conclusively it analyses the measurement and assessment of poverty and priority for growth targeted verses poverty targeted intervention.

On successful completion of the course, you would have developed critical thinking skills with the material necessary for efficient and effective discussion on economic development II: Governance and Corruption, Civil society and Development, Globalization as a developmental issue and the problems of Poverty, equity and well-being.

However, to gain a lot from the course please try to apply anything you learn in the course to term papers writing in other economic development courses. We wish you success with the course and hope that you will find it fascinating and handy.

MODULE ONE GOVERNANCE and CORRUPTION

- Unit One: Good Governance and Good Policy**
- Unit Two: Corruption as a Developmental Issue**
- Unit Three: Rating Corruption across the world**
- Unit Four: Corruption Justification**
- Unit Five: Public Sector Scope and Enhancing Public Sector Performance**

Unit One: Good Governance and Good Policy

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- 2.0 Objectives
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 - 3.1 Definition of Corruption
 - 3.2 Good Governance and Good Policy
 - 3.3 Importance of Civil Society
 - 3.4 Tests of Good Governance
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

Since the 1990s, governance – the quality of government – has become explicitly and generally recognized as a highly important element in economic growth and in the enhancement of all the aspects of welfare that are covered by ‘development’.

In this chapter we first try to distinguish between good government and good policy, and we represent government, the market and civil society as three resources on which countries can draw to enhance their people's welfare. We review briefly the closely

interconnected elements that go to determine the quality of government; and explain the reason for concentrating on questions of corruption, by implication embracing within that topic what is in large measure its antithesis, the rule of law.

Next we consider the basic meaning of corruption and its definitions (broad and narrow) and varieties. We outline the concepts of regulatory rent and of rent-seeking in the business of explaining corruption. We follow one explanation of why patterns in various countries of either extensive bribery or of prevailing honesty in government tend to persist. We outline attempts at regularly measuring corruption in the sense of comparing its incidence across countries; and from one of these regular assessments we observe the marked, though far from perfect, negative relationship across countries between the incidence of corruption and income per head.

We consider briefly arguments sometimes heard for justifying corruption; and we review the question of the various factors that are empirically related to corruption, and which way the causal relationships if any are likely to run.

Finally we consider the fields of national life in which corruption is likely to be especially damaging, the directions to which we might look for combating corruption, and the measures that might be taken.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning of Good Governance and Good Policy
- Define and understand the meaning of Corruption
- Know the importance of civil society
- Understand the test of Good Governance

3.0. Main Content

3.1 Definition of Corruption

Corruption converts government from a potential servant of the public into a system of plunder – and one that hits the poor hardest. It is much more common on the whole in poorer countries and worst in failed states. Though its connection with low income might, on a priori reasoning, be either as cause or as effect, there are strong grounds for thinking that the contribution of corruption to poverty is at least an important part of the story.

Self-Assessment Exercise

Define the term Corruption

3.2. GOOD GOVERNANCE AND GOOD POLICY

Good governance can be distinguished conceptually from good policy, though the dividing line can sometimes be hard to draw. Unless a line is drawn, consideration of governance becomes simply consideration of any and all elements of policy, and the question of ‘governance for development’ becomes the same as government policy for development.

So, we attempt a distinction as follows. Policy is what a government decides explicitly to do: its executive and legislative decisions, such as whether it taxes foreign trade, how much it is prepared to borrow, whether it caps interest-rates. Governance concerns the workings of the mechanisms by which government operates: through which policy decisions are implemented, laws enforced, and recognized rights upheld. However, the term is also extended to cover the nature of those recognized rights. It is in such areas as this last-over the nature of the laws, explicit or implicit, that define people's rights-that distinguishing between good governance and good policy becomes especially difficult. Some laws are products of current policy, and some are elements in the way government works, and the categories overlap.

Governance in a particular instance may be considered good instrumentally, that is for what it achieves – for example, economic growth and reduction in material poverty - or good in itself, because it treats people impartially, predictably, tolerantly, responsively, as on the whole people desire to be treated, and as – to state a (surely) widely held judgement of value-they ought to be treated. Whether or not governance is to be rated only instrumentally, and if so with what ends in view, has a bearing on the criteria on which it should be judged. Recent studies distinguishing between ‘thin’ and ‘thick’ concepts of the rule of law reflect this distinction. If the test is the extent to which government promotes growth in income per head, then it may be enough that law should effectively defend property rights, so reducing the uncertainty and other transaction costs of productive investment and supporting economic growth. If, however, the test is the contribution that government makes to development in the broadest sense of enhancing human freedom and capabilities, this inevitably involves the distribution as well as the growth of income; the public provision, or shoring up, of certain essentials of social welfare; and the enforcement of what are agreed under international conventions to be human rights.

The separation for the present purpose of questions of governance from those of policy and the concentration in this chapter on the avoidance of corruption leaves out of account some vital issues about the role and character of the state.

Self-Assessment Exercise

Differentiate Between Good Governance and Good Policy

3.3. IMPORTANCE OF CIVIL SOCIETY

Civil society covers the organizations, institutions, and practices that are not coercive and at the same time not motivated by the pursuit of the private individual or corporate profit of those engaged in them.

The importance of civil society in social and economic development, like that of the quality of government, has also been recognized explicitly from the 1990s. Its role may be seen as analogous to that of the market and of government. Each of the three represents a mode of organization that depends on harnessing, potentially for the common good, certain fundamental human propensities. These are respectively: the exercise of rational and flexible activity for one's own and one's family's benefit, which is the foundation for the market; the readiness to accept certain kinds of rule, and, on the part of certain people, a readiness or desire to exercise authority, which between them form the base for government; and what may be called active humanity, namely a propensity for accepting responsibility in the interest of others, for trust and trustworthiness, and for creation: which three elements constitute the seedbed of what we call civil society. It is the mobilization of these three sets of propensities that gives the three vital organizational ingredients for living together harmoniously and efficiently in large integrated societies.

Self-Assessment Exercise

Discuss in details the importance of Civil Society in Governance

3.4. TESTS OF GOOD GOVERNANCE

The World Bank, in its Worldwide Governance Indicators, judges governance on six characteristics: Voice and accountability, Political stability and absence of violence, Government effectiveness, Regulatory quality, Rule of law, Control of corruption.

In other words, to be judged good in the way it works, government should:

- be based on institutions that keep it responsive and responsible to the populace;
- be able to maintain the peace and to implement its decisions;
- attempt to regulate only what it can effectively and usefully regulate and do so in ways that are advantageous to the population;
- be subject consistently to rules of justice and public interest rather than being available at discretion for the benefit of any of those in power and authority.

The six are causally linked. Much of the discussion of good governance revolves around control of corruption. This is closely connected with the rule of law in that each is in some degree a condition of the other. If corruption is extensive enough, the effective rule of law is impossible. Conversely, arbitrary government, unchecked by law, makes corruption (in the broad sense employed below) extremely likely and not easy to identify as a prelude to eradicating it. 'Voice and accountability' requires not only popular elections for those in power (and a degree of activity from civil society) but also

transparency and openness in decision-making, and elections that are subject to law and substantially free from corruption. Unenforceable regulations, or those that are not respected by the public for their manifest usefulness, greatly increase the likelihood of corruption, and, like any attempt of government to undertake more than it can perform, undermine its effectiveness for doing what it needs to do. It is also virtually a precondition of all the other desirable characteristics that a government should be able to keep the peace throughout its jurisdiction, and that each layer of government should be able to have its lawful decisions on specific tangible action implemented.

The term failed state is applied to one in which the government cannot keep the peace, nor exercise its legal powers, over the whole, or at least the great bulk, of the area and population within its jurisdiction. As we shall see, failed states – such as Somalia and arguably Myanmar – are among those in which corruption is identified as most extreme.

Perhaps a seventh item should be added to the list. If ‘development’ is taken to include expanded individual freedoms and immunities, then the governance conducive to development should also be biased by its institutions to upholding human rights, which, as the term is normally understood, involves, first, strictly limiting state violence, and, second, defending the weak from the strong, the poor from the rich, and the minorities from the majority. This entails the rule of law, but law which, although of course impartial in its administration/ tends to be biased in its content in favour of the poor and socially weak. Because - as with the avoidance of corruption - law, political rhetoric, and the preponderance of world ethical judgements, largely favour this human-rights objective, the circumstances that foster it will overlap considerably with those discouraging corruption.

Because the issue of corruption in its broadest sense - its causes and effects and the means for controlling it- is so closely tied to the other criteria of good governance, and because of its apparent importance in the economic systems of many developing countries and its ostensible bearing on economic growth and the reduction of poverty, we focus on corruption in this unit upon governance.

Self-Assessment Exercise

Discuss the tests of a Good Governance.

4.0 Conclusion

Good governance is an indeterminate term used in the international development literature to describe how public institutions conduct public affairs and manage public resources. Governance is the process of decision-making and the process by which decisions are implemented (or not implemented). The term governance can apply to corporate, international, national, local governance or to the interactions between other sectors of society.

5.0 Summary

In this unit, we have learnt that Governance in a particular instance may be considered good instrumentally, that is for what it achieves. It often emerges as a model to compare ineffective economies or political bodies with viable economies and political bodies. The concept centers on the responsibility of governments and governing bodies to meet the needs of the masses as opposed to select groups in society. However, the unit also talk about corruption which is one of the problem of development in most African countries especially Nigeria and the concept of civil society was also discussed.

6.0. Tutor-Marked Assignment

1. Differentiate between Good Governance and Good Policy
2. The civil society are the checkmate of the public servant. Discuss.

7.0. REFERENCES/FURTHER READING

Akintson, K. K., (2011). Corruption in Africa, a comtemporary issues, 1st edition, Macgrill

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UNIT TWO CORRUPTION AS A DEVELOPMENTAL ISSUE

CONTENTS

- 1.0. Introduction
- 2.0. Objectives
- 3.0. Main content
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 - 3.2. Definitions and Classification of Corruption
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2.0 INTRODUCTION

In this we will discuss on corruption as a developmental issue in every economies in the world. Let us start this class by defining corruption. A lot of definition can come to your mind on this term corruption base on what is happening in our country Nigeria. However, corruption is seen as an act done with intent to give some advantage inconsistent with official duty and the rights of others. It includes bribery, but is more comprehensive; because an act may be corruptly done, though the advantage to be derived from it be not offered by another. Sometimes corruption is understood as something against law; such as, a contract by which the borrower agreed to pay the lender usurious interest. It is said, in such case, that it was corruptly agreed, etc.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning of corruption
- Know the forms of definition of corruption
- Understand the explanation of corruption
- Know the measurement of corruption

3.0. Main Content

3.1 Nature of corruption

One salient feature that distinguishes a state of good governance from bad is impartiality. One general view of governmental corruption is that it is a departure from impartiality in government. The structures and culture and practices of government should be such that it is not exercised in the interest of the officials or the politicians or the judges or the police or military officers in power, or of those whom they favour or to whom they owe favours.

That is a demanding ideal. Probably it is never completely attained. Politicians and high officials acting quite legally may well play a part in determining their own remuneration, for example, and they are likely to be more interested in their own pay than in that of say office messengers or farm workers. It will be no surprise if this influences their judgement. Nevertheless, the closer those with any authority can be brought by the system to use that authority completely regardless of whatever connection – personal or political or commercial – they themselves have to the particular people that their decisions affect, the better governance can be judged to be. There will inevitably be an element of chance – of a lottery – in how any particular citizen or alien is affected by official decisions, such as which firm will be engaged to undertake some public project, or who will be offered some position in government service, but it should be an unbiased lottery. Then it will be possible at least – not of course guaranteed but possible – for social priorities to be observed over public spending, for the most competent person to be chosen for each public role, and for incentives to be related to performance and social efficiency. Less-than-ideal decisions will still be made, since it is humans, no matter how well motivated, who must do the deciding. However, honest mistakes, we suggest, are far less damaging over the long haul than a regular habit of siphoning off – say for the Minister's wife's overseas shopping trips – 10 per cent of the funds appropriated to build a road or equip a set of clinics; or than giving the management of a public project to a charming nephew who happens to be no use in the family business; or than deciding the winner of a works contract by the generosity of the gifts that the lucky firm has been prepared to offer. (Some opinions contesting, or seeking to qualify, such judgements as

these will be considered later.)

Governmental corruption, in the broadest sense in which we shall define it below, can be taken to cover all departures from impartiality.

Self-Assessment Exercise

Define the term “Nature of Corruption”.

3.2. DEFINITIONS AND CLASSIFICATIONS OF CORRUPTION

There are narrow and wide definitions of corruption. The narrow definition would confine it to bribery, which is the form of malpractice with which ordinary people have most contact in their day-to-day lives. Senior (2006) defines corruption in this narrow sense, saying that it requires ‘five conditions that must all be satisfied simultaneously’:

Corruption occurs when a corruptor (1) covertly gives (2) a favour to a corruptee or to a nominee to influence (3) action(s) that (4) benefit the corruptor or a nominee, and for which the corruptee has (5) authority.

He notes that the favour must be a positive good or service, so as to exclude from his definition extortion and blackmail.

Much of what people mean when they complain of government corruption is indeed bribery, corruption in this narrow sense. Senior’s definition deliberately includes comparable dishonesty perpetrated by officials of private bodies such as corporations, which no doubt breeds on similar social attitudes.

The term ‘corruption’ is also used more widely to cover virtually any misuse, or unlawful use, of government power in the interest of particular individuals or groups.

Transparency International (TI) defines corruption for the purposes of its Corruption Perceptions Index simply as ‘the abuse of public office for private gain’ (TI, 2008). The World Bank definition, ‘the abuse of public power for private benefit’ (Tanzi, 1998) is virtually identical. These, unlike Senior’s definition, include not only forms of financial malpractice that go well beyond bribery, but also the improper use or threat, by the state and its officials, of violence or other harm. However if we are to consider corruption only in the abuse of public office, we shall ignore practices that entail cheating, theft, or misdirection in which the parties on both sides are non-government entities, and also misdemeanors in which no politician or official is culpable; and in these respects the definition would be narrower than Senior’s.

Self-Assessment Exercise

The term corruption is used widely to cover virtually any misuse, or unlawful use of Government power in the interest of particular individuals. Discuss

3.3. FORMS OF DEFINITION CORRUPTION

Items in the following list are adapted from those in Caiden (1988) and in Johnson and Sharma (2004) with the exclusions mentioned above and some amalgamations. Official corruption may be taken to cover:

- Bribery (accepting or demanding gifts for official services, favours, or influence)
- Kleptocracy (stealing by politicians or officials of public funds or property)
- Misappropriation (any other illegal use of public funds or property)
- Illegal use of coercive power (intimidation, torture, unlawful detention)
- Perversion of justice by police, judges, or other officials
- Nepotism and cronyism (favouring relatives and friends in official appointments and contracts)
- Clientelism and patronage (biased political decisions made to keep a segment of popular or influential support)
- Concealment to protect maladministration and malpractice
- Links of officials or politicians with organised crime
- Electoral manipulation (falsification of results, gerrymandering, voter-intimidation)
- Misuse of inside information obtained through official channels
- Tax-evasion, and facilitation of tax-evasion, through the use of official position
- Illegal use of surveillance for private purposes.

There is clearly some overlap among these categories; not all are equally bad; and some are quite legal. There may be considerable favouritism ('cronyism') in the award of government contracts and franchises that is not against any law, even though it may be costly for the country. Also most elected politicians will be expected to seek some favours for the districts or cultural groups that elected them, and that will often be completely legal and not subject to wide disapproval, especially as it will probably be fairly open. Other practices on the list, however, can seriously undermine the function of the state as a benevolent institution, and risk reducing it to the level of an association for plunder.

It will be seen that corruption in this broad sense covers a great variety of activities. One distinction is between micro and macro corruption. On the one hand there is the more or less petty corruption that ordinary people meet in their daily lives and that constitutes a highly tangible burden. This accounts probably for all or most of the corruption recorded on TI's Global Corruption Barometer. On the other hand there is the monstrous plunder of public assets, on the part of heads of government and similarly exalted people of the Mobutu, Suharto, Sukarno, Saddam, and Marcos variety, which may greatly affect people's lives but is often largely invisible to the general public until either the big man is toppled or a disaffected intimate or determined journalist or investigator brings it to light. In between the micro and macro in scale, and also hidden from the general public, is the fairly large-scale bribery of officials, including some below the very highest, that often goes with the award of contracts for big public projects.

Tanzi (1998) lists seven distinctions among forms of corruption:

1. ... 'petty' . . . or 'grand' . . . [micro or macro]
2. cost-reducing (to the briber) or benefit-enhancing
3. briber-initiated or bribee-initiated
4. coercive or collusive
5. centralized or decentralized
6. predictable or arbitrary
7. involving cash payments or not.

Self-Assessment Exercise

Discuss the forms of definition of corruption

3.4. EXPLAINING CORRUPTION

(i). Basis for bribery of officials: the idea of regulatory rents

The term rent in economics refers to the returns to the holders of property simply because it is their property, independently of any rewards to effort, saving, or risk-taking on their part. Regulation that restricts, whether for good or bad reasons, any form of gainful activity raises its market price and therefore its value to whoever engages in it. This potential gain in value to the person who is able to engage in the restricted activity is described as a regulatory rent. Area planning – deciding who can build or operate what where – and allocation of quotas on foreign trade or capital movement are examples. Officials who determine the result of planning applications or who allocate import quotas, and those whose job is to enforce planning decisions or trade restrictions, have a source of rents at their disposal for which members of the public may be prepared to pay. Police who de facto have the discretion to enforce, or not to enforce, legal penalties, or to recover, or not, stolen property for its owners, or (with impunity) to fabricate offences, have similar assets of value that they can sell. Corrupt judges in civil cases in which large amounts are at stake may have some big rents at their disposal. The currency of the concept of regulatory rents in this sense is attributed to Anne Krueger (1974).

It is an entirely reasonable principle of policy that the value of any regulatory rents should accrue not to the officials who administer them but to the community through central or local governments. (One important school of economic-policy thought, the followers of Henry George (1839-97), holds that the same principle ought to be applied to the rents due to possession of all the 'gifts of nature' - land and other natural resources - on grounds implying that this is both fair and efficient.) This rule is implemented if such payments as fines and taxes on trade are treated as government revenue. There are analogous ways of dealing with other regulatory rents through devices such as auctioning-for state revenue -trade and capital-export quotas and building permits, and increasing local site taxes on defined areas when, and to the extent that, regulatory

changes have increased their value.

(ii) Persistence of corruption (and honesty)

Some writers have tried to explain why, as they see it, a routine practice of bribery in some societies and of honesty in others each seems to be self-sustaining (Mishra, 2006). To simplify: Mishra's explanation depends on people's response to net rewards (material and also psychic) in view of two effects. First, the more corrupt people there are, the greater are the net expected material rewards to any official or member of the public from corrupt behaviour (because the less is the risk of prosecution or losing reputation, and the greater is the prospect or ease of finding a corrupt counterpart). Second, the more corrupt people there are, the more being corrupt tends to become the social norm, and the less the psychic (and perhaps reputational) penalties. On both grounds there will be a tendency for any initial movement towards, or away from, corruption, once it passes a certain point, to generate a positive feedback and hence to sustain itself. So there may be two potential stable-equilibrium positions for any society: one relatively corrupt, one relatively uncorrupt. Policy measures increasing the size of penalties, or the likelihood of being detected and if detected penalized, will not necessarily be irrelevant, but, with established practices of corruption and ethical norms permitting it, measures such as this will face considerable obstacles to a decisive shift out of the vicious circle that maintains the corrupt equilibrium.

Surveys reported by Miller (2006) in four 'transitional' European countries suggested a gap between people's normative views about corruption (which were predominantly unfavourable) and their readiness nonetheless to offer, demand, pay, or receive, bribes. But the normative views were probably not irrelevant. The countries of the four with the most and least unfavourable views were also those with the least and most reported readiness respectively to engage in bribery. However, one of Miller's inferences from these results was that attempts at moral argument or indoctrination against bribery were unlikely to be effective in seriously reducing it in these countries - since it was already widely disapproved, even by people who felt obliged, or were sufficiently tempted, to practise it.

Figure 1.1

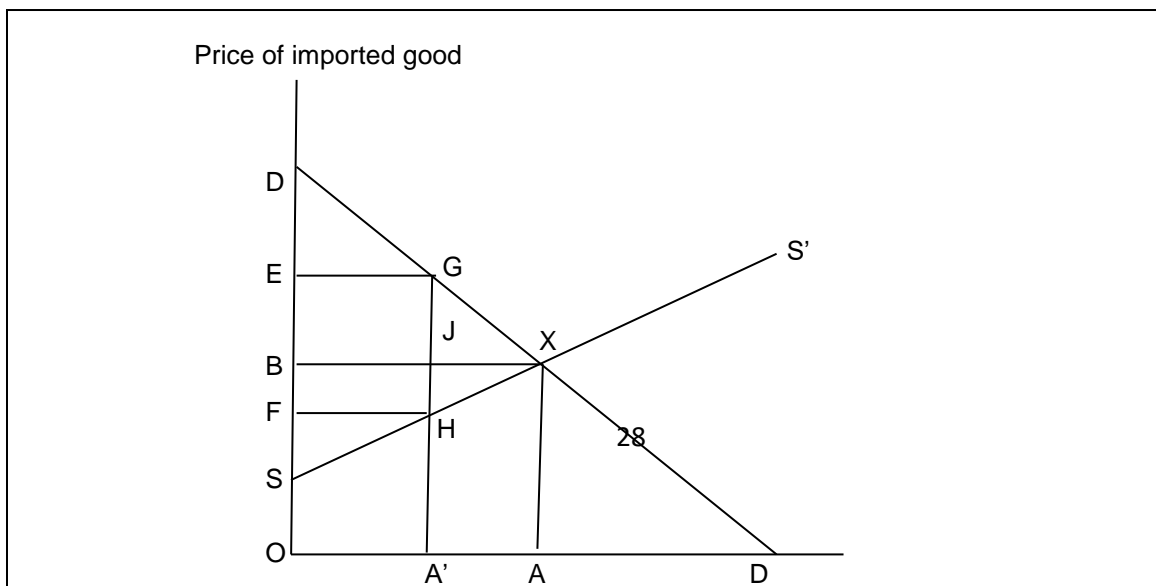


FIGURE 1.1 Regulatory Rent

In Figure 1.1 vertical and horizontal axes represent price and quantity of an imported good.

DD' and SS' are demand and supply functions for the good in the domestic market in the absence of restriction.

Then, OA and OB are the free-market equilibrium quantity and price.

Suppose import purchases of the good are limited by regulation to OA'.

The quota raises the buyer price to DE and lowers the seller price to OF.

The area EG HF represents the regulatory rent.

A trader who is allocated the quota free of charge, as the only one allowed to import the good, can buy the good at a price of OF and sell it on domestically at a price of OE. Simply by virtue of being allocated the quota, he is able to make a gain of EGHF, the regulatory rent.

If instead the state auctions the quota, the regulatory rent accrues to the public finances.

Self-Assessment Exercise

Discuss the basis of bribery of officials in Government

3.5. MEASUREMENT OF CORRUPTION

Given the many forms and the often secret nature of corruption, there are difficulties in measuring it meaningfully, and particularly in giving a single rating for the degree of corruption for each country. Transparency International (TI), however, a non-profit organization centred in Berlin with national branches across the world, attempts to give for each year some critical indicators of corruption on global and national scenes through three sets of summary information, derived from questionnaire-based surveys. The three reflect respectively the judgements of (foreign and national) business people and analysts; the experience of ordinary citizens; and the behaviour of potential bribe-payers in transnational transactions. TI also publishes information on corruption measurement and on research relating to factors affecting corruption and the effectiveness of attempts to combat it. Other surveys (Tanzi, 1998) are provided by Global Competitiveness Report (Geneva); Political and Economic Risk Consultancy (Hong Kong); Political Risk Services (Syracuse, NY); and the World Bank.

3.5.1. TRANSPARENCY INTERNATIONAL'S THREE SETS OF RATINGS

The Corruption Perception Index (CPI) is described by TI (2008) as: a composite index, a poll of polls, drawing on corruption-related data from expert and business surveys carried out by a variety of independent and reputable institutions. The CPI reflects views from around the world, including those of experts who are living in the countries evaluated.

For the 2007 index, the various countries were assessed from the responses to varying numbers of surveys, between 3 and 9 each. The index drew on altogether 14 different polls and surveys from 12 independent institutions. Each country is given a composite score between zero and 10, with 10 representing the lowest level of perceived corruption. From their scores, the countries are then given rankings, starting from 1 (highest score, least corrupt).

The Global Corruption Barometer (GCB) ‘is concerned with attitudes toward and experience of corruption among the general public’. It seeks to answer questions such as how often, how much per year, to what groups of officials, and for what, the average person in any particular country pays in bribes. The survey for 2007 took responses from 63 199 people in 60 countries across the world. There was a reasonably close relationship – a correlation coefficient of 0.66 – between countries’ scores on the GCB and their scores on the CPI. The 2006 results are summarized with exposition in TI (2007, pp. 314-7) and those of 2007 briefly in TI (2008).

The Bribe Payers Index (BPI) ‘focuses on the propensity of firms from leading export countries to bribe abroad - providing an indication of the “supply side” of corruption’ (TI, 2008). The 2006 scores for the 30 countries covered are given with discussion and exposition in TI (2007).

Self-Assessment Exercise

Discuss the measurement of corruption.

4.0 Conclusion

Corruption is an intractable problem. It is like diabetes, can only be controlled, but not totally eliminated. It may not be possible to root out corruption completely at all levels but it is possible to contain it within tolerable limits. Honest and dedicated persons in public life, control over electoral expenses could be the most important prescriptions to combat corruption. Corruption has a corrosive impact on our economy. It worsens our image in international market and leads to loss of overseas opportunities. Corruption is a global problem that all countries of the world have to confront, solutions, however, can only be home grown.

5.0 Summary

In this unit, we have been learnt that corruption is a disease in any nation of the world and its hindered development in all aspect of the economy of a country. However, we discuss on the nature, classification, forms and measurement of corruption and the reason

why some of the Government officials involves in bribery. Therefore, we can conclude that if corruption is eradicated in an economy, there will surely be development some extent.

6.0. Tutor-Marked Assignment

1. Discuss some of the problem of corruption in developing countries.
2. Corruption is a disease but if controlled can leads to development. Discuss

7.0. REFERENCES/FURTHER READINGS

Bell, H. O., & Dean, E.U. (2014). Introduction to Development Economics, Corruption and Poverty, 2nd edition, West point publication company.

UNIT THREE: RATING OF CORRUPTION ACROSS THE WORLD

CONTENTS

- 1.0. Introduction
- 2.0. Objectives
- 3.0. Main content
 - 3.1. Evidence from the Global Corruption Barometer (GCB) on Petty Bribery
 - 3.2. Evidence from the consumer price index (CPI) on prevalence of corruption across countries
 - 3.3. Connection of corruption with level and growth-rate of GDP per head
 - 3.4. Possible reasons why poorer or slower growing countries may generate more corruption.
 - 3.5. Ill-effect of Corruption
 - 3.6. Upholding Human Rights
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0. INTRODUCTION

Transparency International (TI) has published the Corruption Perceptions Index (CPI) since 1995, annually ranking countries "by their perceived levels of corruption, as determined by expert assessments and opinion surveys." The CPI generally defines corruption as "the misuse of public power for private benefit. However, corruption across the world emanated through; the emergence of political elite who believe in interest-oriented rather than nation-oriented programmes and policies, artificial scarcity created by the people with malevolent intentions wrecks the fabric of different economy. Corruption is caused because of the change in the value system and ethical qualities of men who administer the old ideals of morality, service and honesty are regarded as an achronistic.

More so, tolerance of people towards corruption, complete lack of intense public outcry against corruption and the absence of strong public forum to oppose corruption allow corruption to reign over people. Vast size of population coupled with widespread illiteracy and the poor economic infrastructure lead to endemic corruption in public life and in a highly inflationary economy, low salaries of government officials compel them to resort to the road of corruption. Graduates from the universities with no experience draw a far handsome salary than what government secretaries draw.

Finally, election time is a time when corruption is at its peak level. Big industrialist fund politicians to meet high cost of election and ultimately to seek personal favour. Bribery to politicians buys influence, and bribery by politicians buys votes. In order to get elected, politicians bribe poor illiterate people, who are slogging for two times' meal and all this are more prominent in developing countries in the world.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning of macroeconomics as a field of study
- Know the basic macroeconomics concepts

3.0. Main Content

3.1 Evidence from the Global Corruption Barometer (GCB) on petty bribery

The GCB surveys of 2006 and 2007 show the pervasiveness in ordinary people's lives of the demands for bribes as conditions of receiving basic services or avoiding (just or unjust) penalties or adverse judicial decisions. The poor, as expected, were hit hardest. Worst of the 'services' across the world in both years was the police. In 2006 17 per cent, and in 2007 25 per cent, of respondents who had had dealings with the police had been asked for a bribe: in 2006 the figure was about 55 per cent in Africa; 33 per cent in Latin America; 15-20 per cent in each of South and East Europe, Asia-Pacific, and the region comprising Russia, Ukraine and Moldova; and small percentages in North America and

in the EU and Western Europe. Second-worst service overall in 2007 was the judicial system. Other sectors that were large bribe-demanders were registry and permits; health; education; utilities; and taxation. Across the regions there were differences in the sectors where bribe demands were apparently specially prominent. In the EU and Western Europe, it was medical services; in Africa and Russia-Ukraine-Moldova, both medical services and education; in Latin America, Asia-Pacific, and North America, bribery was especially prevalent in the courts (it is not clear from the source whether these sectors were the next most prevalent in all the regions concerned after the police) (TI, 2007; 2008).

Self-Assessment Exercise

Analyze the Global Corruption Barometer on Petty bribery

3.2. Evidence from the Consumer Price Index (CPI) on prevalence of corruption across countries

The countries' scores and rankings on the 2007 CPI shows that three countries came out best, and they are; were Denmark, Finland, and New Zealand, with Singapore and Sweden next. The two worst were Myanmar and Somalia. It is clear that there is a strong tendency for the high-income OECD countries to come out relatively well. Also there is a tendency for those near the very bottom of the list to be more or less failed states, where any central government has limited control and there may be, or have recently been, large parts of the country outside its control altogether. Among the high-income OECD countries, Greece is the lowest-ranking, at number 56 out of 180. Of middle-income countries Chile is the highest at 22nd. Botswana is the highest in Africa at 38th. In Asia-Pacific, Japan, Malaysia and the 'Four Tigers' are all in the top 43, with Singapore 4th equal (in company with the Nordics), Hong Kong 14th, and the two lowest of those six, Malaysia and South Korea, roughly on a par with Italy. However, rapid growth is no guarantee that a country scores reasonably well on corruption. China, with for long apparently the fastest growing economy in the world, was only 72nd equal on the CPI (together with India, Brazil and Mexico), scoring 3.5 while the least corrupt registered 9.4. Yet, though the positive relationship of CPI score with income level is very imperfect, it is inescapable, and, as a rough generalization, it seems to dominate over any independent relationship of the score with region of the world.

Self-Assessment Exercise

What is the consumer price index (CPI) on corruption across the countries?

3.3. Connection of corruption with level and growth-rate of GDP per head

In fact, there is an abundance of cross-sectional econometric evidence that corruption tends to be associated with lower GDP per head (e.g., Tanzi and Davoodi, 1997; Senior, 2006) and lower growth-rates of GDP (e.g., Mauro, 1995; Tanzi and Davoodi, 1997; and, with reservations, Rock and Bonnett, 2004). This in itself, however, leaves open the

question which way the causation works: from corruption to low level and/or low growth-rate of income, or from the level and/or growth-rate of income to corruption; or perhaps there is a two-way relationship; or perhaps, for each statistical relationship, each variable is associated causally with some 'third factor'. Plenty of reasons and some empirical evidence (see below) can be given for supposing that the first-mentioned direction (from corruption to the level or growth of GDP per head) is important. But what about the second?

Self-Assessment Exercise

Does corruption tends to be associated with lower GDP per head? Discuss

3.4. Possible reasons why poorer or slower growing countries may generate more corruption

If we presumed, purely for the sake of argument, that it was the character of the society – the income level and the other features that tend to go with it, the typical nature of 'developing' as against 'developed' countries – that at least partly determined the prevalence of corruption, we could postulate the following reasons why this might be so. There are at least three possible reasons why low level of income per head - or some characteristic closely connected - might favour the possibility of corruption.

First, it might be a greater residue of traditional views of power, which do not distinguish between the personal and the public rights and property of a 'big man', and look to him, because of his personal wealth and the influence that goes with it, as a protector and object of loyalty.

Second, maybe some part may be played by the greater gap in poorer countries today between material aspiration and reality for most people.

A third plausible factor, not so obviously related either to poverty or to relics of traditional attitudes, is the fact that in poorer countries there is often a high degree of unnecessary regulation with inadequate capacity for enforcement, so that its main impact is often as an obstacle to necessary or harmless activity and as fertile ground for arbitrary exactions.

It is a partly separate question whether a low growth-rate of GDP can be expected to encourage corruption. Mishra (2006) speculates that the process of economic growth may act against 'collusive behaviour' because it can raise the opportunity-cost of resources devoted to collusion. To put it another way, the changes likely to be associated with economic growth may make production more rewarding to time and effort for talented people in relation to regulatory rent-seeking.

Self-Assessment Exercise

What are the reasons why poorer or slower growing countries may generate more

corruption?

3.5. Ill-effects of corruption

There are various ways of looking at the ill-effects of corruption. Some of them are largely alternative ways of seeing others. They do not all denote mutually independent effects. The following list is informed in large part by Cartier-Bresson (2000), and by Tanzi (1998) (the items seem in most cases inevitable consequences a priori, with the connection in some cases supported by statistical evidence):

1. Loss of revenue and hence reduction of the state's capacity for high-priority activity.
2. Inefficiency in official decisions including appointments and award of public contracts.
3. Inefficient and unnecessary levies on useful productive activity.
4. Distortion of public spending toward the kinds of projects and techniques in which bribery and overcharging are easy and profitable. There are likely to be too many capital projects at the expense of recurrent provision and maintenance; a preference for 'custom-built, high-tech equipment' regardless of the optimum choice of techniques; and distortion of sectoral priorities, for example, away from education and toward defence (Cartier-Bresson, 2000, citing evidence from Winston, 1979 (no further reference given) and Mauro, 1997). Mauro (1998) finds that corruption tends to reduce spending on education. There is incidentally evidence that developing countries tend to spend too much - as judged on grounds of efficiency - on public investment in relation to public consumption (Devarajan et al., 1996).
5. Increased inequality, especially between 'ins' and 'outs', resentment, civil conflict. With petty bribery it is disproportionately the poor who pay and those higher up the social ladder who benefit. Where there is any law that can be invoked against bribery, wealthier people are the ones most likely to be able to invoke it. With macro-corruption, it is only those near the top who make the large killings. In legal processes, whenever there is competition over who can pay the highest bribe, as in civil cases before corrupt judges, the richer parties are always likely to win. Where there are ethnic or other distinctive subsets of the population that are in any case relatively disadvantaged, corruption is likely to aggravate their grievances, increasing the risk of civil conflict which is always latent in divided societies.
6. Reduction in the ability of the government to implement necessary regulation in order to correct for market failure, as over environmental externalities (Tanzi, 1998).
7. Reduction in quality or increase in cost or both of public services and infrastructure. There are plenty of incidents of buildings that have fallen down because dishonest or incompetent contractors have improperly been awarded contracts or have been allowed by corrupt officials to ignore building regulations. The alternative outcome is that the cost rises, sometimes to an extreme degree. It was estimated that, when the excess costs of corruption in Milan were rooted out by activist magistrates in what was known as the 'clean hands' operation, the cost per kilometre of the underground railway's

construction fell by 57 per cent and the cost of building the airport by 59 per cent, and that the additional cost resulting from bribes in construction of telecom and power installations had been around 14 to 20 per cent (Senior, 2006).

8. Profitability of rent-seeking diverting talent from useful activity.

9. Increased taxes because of corruption-based loss of revenue discouraging production, driving producers into the informal sector, and (through a likely switch to broad-based indirect taxes) raising the relative burden on the poor.

10. Reduction or distortion in 'the fundamental role of the government in such areas as enforcement of contracts and protection of property rights' (Tanzi, 1998).

11. Reduction in 'the legitimacy of the market economy and perhaps also of democracy'. (Tanzi, *ibid.*, where he asserts that the criticisms expressed in many countries against democracy and the market economy, especially in 'transitional' countries, are often motivated by the existence of corruption.)

12. Cynicism and consequent slackness in performance of official and unofficial duties. Corruption engenders cynicism, which makes it contagious and is likely to stifle public spirit. It is discouraging to those officials who might be disposed to act with integrity, and to those members of the public who might be inclined to take their civic duties – official and unofficial - seriously. Public spirit is a precious resource that no country can afford to squander.

Self-Assessment Exercise

Discuss the ill effects of corruption across the world

4.0 Conclusion

Corruption is an intractable problem. It is like diabetes, can only be controlled, but not totally eliminated. It may not be possible to root out corruption completely at all levels but it is possible to contain it within tolerable limits. Honest and dedicated persons in public life, control over electoral expenses could be the most important prescriptions to combat corruption. Corruption has a corrosive impact on our economy. It worsens our image in international market and leads to loss of overseas opportunities. Corruption is a global problem that all countries of the world have to confront, solutions, however, can only be home grown.

5.0 Summary

In this unit, we have been learnt that corruption is a disease in any nation of the world and its hindered development in all aspect of the economy of a country. However, we discuss on the nature, classification, forms and measurement of corruption and the reason why some of the Government officials involves in bribery. Therefore, we can conclude that if corruption is eradicated in an economy, there will surely be development some extent.

6.0. Tutor-Marked Assignment

3. Discuss some of the problem of corruption in developing countries.
4. Corruption is a disease but if controlled can leads to development. Discuss

7.0. REFERENCES/FURTHER READINGS

Bell, H. O., & Dean, E.U. (2014). Introduction to Development Economics, Corruption and Poverty, 2nd edition, West point publication company.

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UNIT FOUR: CORRUPTION JUSTIFICATION

CONTENTS

1.0 Introduction

2.0 Objectives

3.0 Main content

3.1 Arguments used to Justify Corruption

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2.0. INTRODUCTION

Transparency International (TI) has published the Corruption Perceptions Index (CPI) since 1995, annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys." The CPI generally defines corruption as the misuse of public power for private benefit. However, corruption across the world emanated through; the emergence of political elite who believe in interest-oriented rather than nation-oriented programmes and policies, artificial scarcity created by the people with malevolent intentions wrecks the fabric of different economy. Corruption is caused because of the change in the value system and ethical qualities of men who administer the old ideals of morality, service and honesty are regarded as an achronistic.

More so, tolerance of people towards corruption, complete lack of intense public outcry against corruption and the absence of strong public forum to oppose corruption allow corruption to reign over people. Vast size of population coupled with widespread illiteracy and the poor economic infrastructure lead to endemic corruption in public life and in a highly inflationary economy, low salaries of government officials compel them to resort to the road of corruption. Graduates from the universities with no experience draw a far handsome salary than what government secretaries' draw.

Finally, election time is a time when corruption is at its peak level. Big industrialist fund politicians to meet high cost of election and ultimately to seek personal favour. Bribery to politicians buys influence, and bribery by politicians buys votes. In order to get elected, politicians bribe poor illiterate people, who are slogging for two times' meal and all this are more prominent in developing countries in the world.

2.0. Objectives

At the end of this unit, you should be able to:

- Know and understand the Evidence from the Global Corruption barometer (GCB) on Petty bribery.
- Understand the Evidence from the consumer price index (CPI)
- Know and understand all the problems of corruption across the countries.

3.0. Main Content

3.1 ARGUMENTS USED TO JUSTIFY CORRUPTION

Nevertheless, a case is sometimes made for certain forms of official corruption, notably bribery and official connivance in tax evasion. Here are some examples.

(i). Bribery serves to speed official action, ‘oiling the wheels of government’

It is important here not to confuse an assertion that bribing may in certain circumstances be to the private advantage of the briber from an assertion that bribery is of social value as an institution. The former of these assertions must surely be true; otherwise bribery would not be habitual. In view of the manifest inefficiency and unfairness of the effects of bribery in an economy otherwise working with reasonable efficiency, the latter can only be true if there is no other and socially better way of sparking or speeding official action, which is very much the same as saying that bribery may be of social value if (but only if) the relevant areas of government are irretrievably corrupt. That again may be true, but it does not by any means imply that bribery – and the official corruption (the susceptibility and quest for bribes) that makes it possible and drives members of the public to it – constitute a socially desirable institution, or that rigorous measures should not be taken to eliminate it. The case for the use of bribery to speed up official processes depends on supposing that they would otherwise be unreasonably and unnecessarily slow or that the queuing systems are so faulty that individual cases could easily be postponed indefinitely or regardless of any reasonable priority. There is also the suspicion that, where bribery is possible, processing will be deliberately slowed down in order to attract 'gifts' for speeding it up. In other words, a bribe may speed it up in an individual case because the prevalence of bribery has slowed it down across the board.

(ii) Market competition for regulatory rents will select the most productive uses and users

The reasoning here is that if, for example, the import of some industrial material is to be quantitatively restricted, (1) the most effective way of discovering which potential use and user will employ the limited supply most productively is to find who is prepared to bid the most for it; (2) the only effective way of finding who is prepared to bid most is to see who is prepared to pay the largest bribe. Though the first step of this reasoning may well be true, the second is not. What the bribery test discovers, at best, is which dishonest person is prepared to pay most; and, because of its covert nature, it may not even achieve that. Instead of, more or less secretly, selling the permits to the highest bidder with the proceeds going to the officials who happen to be dishonest enough and in the right place at the time, the administering agency could auction them openly for public revenue. This procedure could be authorized by law; it would indeed be more socially efficient than allocating the permits arbitrarily at some official's discretion; and, because of its obligatory openness, it would at least make bribery more difficult than under any set of rules that left the disposition of the scarce supply to be determined by administrative decision. On this ground bribery - even aside from all the arguments against it on grounds of injustice and the cynicism that it generates - is at most second-best to a perfectly simple, legal, and readily applied, device.

(iii). Reducing the burden of taxation will benefit the economy, and, if this happens because tax officials bend the rules, those officials are public benefactors

Following the logic of this argument, which is made by some quite respectable commentators, we should easily conclude that it would be better if there were no government revenue at all. However, if taxes on some people are reduced, either others pay more or the government is further restricted in what it can spend. Proponents of the argument are likely to claim that governments spend too much anyway, and that greater difficulties in raising revenue will lead them to cut waste. Yet, whatever waste there is in government spending, there is no guarantee at all that this is what will be cut. Governments of developing countries so often seem to have not enough resources at their disposal for meeting some of the most urgent humanitarian needs and filling the most glaring gaps in infrastructure. Many of these expenditures that would seem to have a high social priority nevertheless come into the 'discretionary' category: they are the ones that can legally and politically be cut if cuts have to be made. Reducing what the governments have to spend seems very likely to reduce these critical 'developmental' expenditures. It is a nice idea that only waste and misappropriation will be hit by diversion of public money to crooked officials, but not one borne out by experience. If the other response to the fall in revenue is followed, and reduction in the takings from one tax as a result of corruption in its administration is met by raising the rates applied to that tax or by increasing other taxes, not only will the supposed benefit of a lower tax burden not be realized, but the upshot is also likely to be more inefficient and more unfair. If the rate on the tax concerned is increased to make up, it will discriminate against some of those legally obliged to pay that tax (the ones who happen to be the more honest) in favour of others, [f, as is likely, the taxes evaded in this way are mainly direct taxes, the burden may instead be shifted to indirect taxes, which are likely to bear differentially against the poor.

However, the paradox that some very fast-growing 'emerging' countries, such as China and India, have reasonably high levels of corruption has at least raised doubts over the supposition of a wholly adverse influence of corruption on growth. Rock and Bonnett (2004) investigate quantitatively the possibility that corruption may be more damaging to growth in certain kinds of economy than in others. They find that it tends at least to be less harmful in large countries than in small and believe they have found evidence that in Northeast Asia it may actually have been favourable to growth. Their explanation seems to depend on the supposition that China today, and Japan at an earlier stage of development, have been able to establish more predictability for investors through extra-legal arrangements than would have been available in the legal economy. If correct, this would appear to go further in 'justifying' corruption in certain circumstances, even if only as a second-best, than the World Bank (WDR 1997) evidence mentioned at the end of the earlier sub-sub-section (headed 'A note: relevance of predictability') would allow. However, 'Northeast Asian countries' constitute a very small sample (presumably China, Japan and the Koreas, maybe Mongolia), and, whatever the estimated statistical significance of the findings, it is difficult to put much weight on econometric results in such a case.

Self-Assessment Exercise

Discuss the arguments used to Justify Corruption

3.2. FACTORS SHOWN ECONOMETRICALLY TO BE RELATED TO CORRUPTION IN GOVERNMENT: PROBABLY AS CAUSES

Senior (2006) tested across countries their perceived levels of corruption – as measured by the countries' rankings on TI's Corruption Perception Index (CPI) – against various economic and non-economic characteristics of the countries concerned. He found that low levels of perceived corruption were significantly associated (in several bivariate or multivariate regressions) with high prevalence of ethical standards (personal honesty) in the community, high degree of press freedom, high respect for property rights, low level of regulation, little informal-sector activity, and high GDP per head – all as he expected – but also, unexpectedly, with low levels of what he calls religiosity (measured by prevalence of regular attendance at public worship) and high levels of government intervention (this last in apparent conflict with findings made by others). Seven other characteristics tested did not give significant results. The precise meaning of the variables used is given in the source.

Brunetti and Weder (2003) also find a negative relationship between corruption and press freedom, with use of instrumental variables to support the view that at least part of the connection runs from press freedom to lower corruption.

World Bank evidence (WDR 1997) shows the extent of corruption positively related to the extent of market distortion (essentially state intervention in the price system), and negatively to the predictability of the judiciary, to the ratio of civil-service wages to manufacturing wages, and to the extent to which recruitment and promotion in the civil service is merit-based. Given the presumption and evidence that the incomes of tax administrators (on grounds both of differential competence and pecuniary advantage) will have a negative relationship to their propensity to corrupt collusion with taxpayers, UI Haque and Sahay (1996), faced with evidence of declining trends in real public-sector wages in a number of developing countries, use a priori reasoning to argue that there will be an optimum combination of tax and wage rate for a country to maximize, other things equal, its fiscal balance, and that departures from this optimum by cutting wages in the revenue service will reduce the balance.

It does not necessarily follow of course that any causation is entirely from the other characteristic tested to corruption. We consider below the question of the direction of the relationship with income. For most of the other characteristics among those mentioned in the three sources just cited as showing significant relationships, however, it seems quite reasonable to suppose that corruption is the 'explained' variable. Of these, the degree of press freedom and the extent of regulation, as well as the four identified by the World Bank, seem capable of favourable manipulation by state decision. It is certainly plausible that corruption might be reduced by changes in these variables.

Self-Assessment Exercise

What are the factors responsible for corruption in Government?

3.3. CORRUPTION: CAUSE OR EFFECT OF LOW AND STAGNANT INCOME?

From what has been said, it is clear that there are plausible reasons why low or stagnant income may be either a predisposing factor to corruption or a result of it. And there may be a two-way relationship. The important policy question is whether or not corruption is important as a cause, regardless of whether it is also an effect. The seven empirically established relationships just listed do very plausibly suggest that corruption plays an important role in limiting the growth of real income (seen as potential material welfare); we can see good reasons in each case why the causation should run in that direction. And a number of presumed effects enumerated earlier in the chapter tend strongly to the same conclusion. By contrast the case, as we have presented it above, for making poverty, or cultural attitudes that are associated with it, or stagnant income, the explanatory variable is fairly speculative. It has been pointed out that migrants from relatively poor and relatively corrupt countries migrating to places in which the institutions of the state are largely effective against corruption do tend to conform in this respect to the behaviour of their adopted areas. This might be taken to imply that poverty in itself does not play an overriding part in disposing to corrupt behaviour.

One relevant econometric study is that by Mauro (1995). Here he uses an instrumental variable in two-stage least squares to eliminate the possibility that the positive relationship observed between 'bureaucratic efficiency' (a somewhat wider variable including a low level of corruption as one of its components) on the one hand and investment as a proportion of GDP on the other is entirely one in which bureaucratic efficiency is the explained element. The 'purged' coefficients meet the usual standard of significance. The implication drawn is that corruption, or something close to it, is at least in some degree the explaining variable.

Self-Assessment Exercise

Do you think low income can lead to corruption? Discuss

3.4. FIELDS IN WHICH IT IS ESPECIALLY IMPORTANT TO GUARD AGAINST CORRUPTION

We may speculate that probably the most critical area for maintaining integrity is the judiciary, together with the court administration over which the judges preside. So long as the administration of justice is law-driven and impartial, there is a backstop for redressing complaints of corruption in other departments. If the courts are directed to justice (and adequately financed and staffed and free of partisan political pressures), there is hope even for reforming a corrupt police force, provided at least that there is some other strong power in government working to the same end; whereas the converse may not apply: reforming the police can probably not do much to correct unjust judges.

TI devotes its Global Corruption Report 2007 to 'corruption in judicial systems'. Among other items the publication gives in-country reports on the judicial systems of some thirty individual countries, showing a variety of deficiencies, some of which might appear fairly easily capable of correction, but also a number of attempts at reform more or less comprehensive, revealing some of the obstacles. Especially when it comes to reform of the judiciary, there is the dilemma expressed in the Latin saying: *Quis custodiet ipsos custodes?* Who will control the guardians? If it is vital to their function that the judges should be independent of the executive, how can a reform-minded executive restrain those that are corrupt - and, if not a reform-minded executive, who is or can be empowered and authorized to do it?

Second, in importance probably is the police, which TI's recent consumer surveys (the GCB, as mentioned above) identify across the world as the most corrupt service in the sense that it is the one that demands bribes in the highest proportion of its contacts with the public. Honest courts and police, if adequately resourced, with support for integrity from the highest levels of the executive, could surely do much to clean up the corruption in other institutions.

A further important candidate is electoral administration. It is vital for maintaining civil peace after a close election, and even a modicum of trust in the government elected, that the integrity of the body managing or overseeing elections is, and is believed to be, unimpeachable. This was blatantly lacking after the Kenyan election of 2007, which led to weeks of intercommunal fighting and destruction that was ended only after international mediation.

Vital, for obvious reasons implied above, to pursuing social priorities with fairness and efficiency is the incorruptibility of tax (and personal-benefit) offices.

Another characteristic and sometimes huge source of leakage of public resources is works-contract administration, which needs to be strictly bound by open-bidding procedures and to be administered in ways that are transparent and as far as possible exclude the possibility of 'conflict of interest'. The huge losses avoided by removing public-works corruption in Milan have already been mentioned.

Permit and regulatory offices are also often foci of graft and need to have similarly strict rules and conventions, to operate transparently, and as far as possible-through auctioning or otherwise – to reduce or eliminate administrative discretion.

In addition, to protect, promote, reward honest and capable public servants, and sift out the dishonest and incapable, in all departments, it is important that public-service appointments bodies and disciplinary tribunals should follow explicit rules or guidelines, act transparently, and again exclude possible conflicts of interest.

Self-Assessment Exercise

Do you think there are field important to guard against corruption or not? Discuss

3.5. UPHOLDING HUMAN RIGHTS

As we have suggested, the institutions and practices that are favorable to suppressing corruption tend also to be those favorable to the defence of human rights. This is because, in today's world, law, public rhetoric, and world public opinion, are most commonly both against corruption in most of the forms listed and for the human rights affirmed by international conventions. So administrative transparency, free comment, limitation of executive power by judicial or quasi-judicial tribunals or investigatory bodies to which there is genuinely free access - whatever makes state official decisions and behaviour public or subject to open review, and much of what checks the discretion of those in power – will be likely to further both objectives.

3.6.1. GENERAL APPROACHES TO CONTAINING CORRUPTION AND INFRINGEMENTS OF HUMAN RIGHTS

We can divide the measures that might be taken to reduce corruption and infringements of human rights within a country into three classes: those that can be promoted respectively by that country's own government; by international action; and by civil society within the country.

Individual forms of institutional change or action under these headings will mostly be simply listed below. However, none of this should be taken to imply that there are plenty of levers easily pulled that will produce the desired effect. A sufficiently repressive or mercenary individual or coterie at the head of government may succeed in blocking all the opportunities of reform or redress, as we have seen in the early twenty-first century in Myanmar and Zimbabwe. Even a reform-minded head of government may have too little control to be able to effect much of the change needed. Where the head of government, possibly with genuinely good intent, has appointed a person of integrity and zeal to prosecute corruption, and the action that person takes is widely popular, the appointee may be rendered ineffective by those whose predatory activities are threatened. So John Githongo, appointed by the Kibaki government to attack corruption in Kenya, was forced in February 2005 to leave the country, apparently because of threats to his life, after he had claimed 'to have discovered ministers looting millions of dollars. In Nigeria Nuhu Ribadu, who had chaired the Economic and Financial Crimes Commission since 2003, making it 'the second most trusted institution in the country, according to a 2007 poll' and attaining 'almost mythic status among his countrymen by charging and prosecuting the politicians who are responsible for most of the fraud and looting of public funds' was forced at the end of 2007 to resign on a technicality, ostensibly for legally obligatory re-education, after he had arrested an extremely rich and powerful state governor. These examples do not prove that the cause is always hopeless. They could indeed be taken to show that a determined and honest official may achieve a lot, but he or she is unlikely to be able to carry a purge through without complete support at the top of government.

Where corruption has become endemic, reform is likely to require attack from all available directions: action by and through the national government; supportive international action; and civil-society pressure.

With a highly committed head of government, chief of police, and chief justice; a fully empowered investigatory tribunal; a well-resourced ombudsman office with full investigatory powers; co-operation from the home governments of inward investors; free media; and some organized civil-society activity in support; there could be progress.

Self-Assessment Exercise

Discuss the role of human right in fighting corruption, especially in Nigeria.

4.0. Conclusion

There are a number of compelling reasons, generally supported by quantitative analysis, why corruption is likely to hinder economic growth and the reduction of poverty and indeed to increase inequality and bear hardest on the poor. However, it seems that any given level of corruption is less harmful to economic activity if it is organized and therefore relatively predictable in its exactions. However, arguments purporting to show that corruption (meaning usually bribery) is harmless or even beneficial in certain circumstances are still sometimes put forward.

Various factors that have been shown to have a statistical relationship across countries with corruption – such as the extent of regulation and distortion by government of the price system (positively); and a free press, the predictability of the judiciary, the ratio of civil-service wages to other wages, and the degree to which civil-service recruitment is merit-based (negatively) – are plausible candidates as part-determinants of the extent of corruption. Econometric evidence confirms the now prevailing view that at least part of the connection of corruption across countries with low or stagnant income per head reflects a causal connection from corruption to low growth. Coefficients have been estimated for the expected impact on this presumption, such as that a one-standard-deviation increase in corruption can be expected to reduce investment rates by three percentage points and average annual growth by about one percentage point. Finally, the fields in which it is particularly important to eliminate corruption are the courts (whose iniquities are particularly tricky to remedy from outside since their independence is so important to their function), the police (whose demands for bribes appear to have been those most frequently experienced recently by the general public across the world), the electoral system, tax administration, permit-issuing and regulatory bodies, and public-service appointments, promotions, and discipline.

5.0 Summary

In this unit, we have been learnt that the reason why some people justify for been corrupt, but the elimination of corruption is in most circumstances an unqualified social good, but a thoroughly corrupt state has strong mechanisms within it tending to perpetuate the

corruption, so that removing it presents an enormous challenge. All available forces need to be mobilized - within government, from overseas governments and multilaterals, and from civil society. With wholehearted support from the head of government, the head of the police and the head of the judiciary, a powerful investigatory agency and tribunal, free press, active civil society, and support from the home governments of inward investors, there may be some prospect of success.

6.0. Tutor-Marked Assignment

1. What particular difficulties do you see as facing any executive government that aims to reform a corrupt judiciary?
2. Why do you think the police rate so highly among the ‘services’ involved in bribery?
3. If lowish-income countries have a particular tendency to overregulate, is there an obvious reason for this? Is it simply that, if they did not overregulate, they would not be lowish-income countries? Or is that interpretation too simple?
4. What ground is there for saying that corruption bears especially Kardon on the poor?
5. Should the home-country governments of international investors take any responsibility for preventing them from bribing host-country governments, even if this may mean that they lose contracts that they might otherwise win? Is such preventative action against bribery unwarranted interference in the host-country's affairs?

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UNIT FIVE: PUBLIC-SECTOR AND ENHANCING PUBLIC SECTOR PERFORMANCE

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- 3.0. Main content
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1.0. INTRODUCTION

Though there is a wide range of functions in which state activity might in principle be required for the sake of efficiency or equity, it is important to trim any government's scope to its capacity. If the state is short on administrative competence or integrity, the best course may be to stick to the simplest methods and the most essential tasks.

The development economics of the mid-twentieth century was inclined to seek salvation through government action. The implicit underlying idea was that market failure was responsible for the backwardness of the lower-income countries. By the 1980s the presumption was largely upended: the influential 'Washington consensus' tended rather to see the heavy involvement of the state as a major obstacle to growth and even equity: it was government failure that had been principally at fault, and the prevailing message to governments was that they should withdraw from much of their role in economic life. The World Bank's World Development Report 1997, 'The State in a Changing World', seems to have been framed with the intention of helping to resolve the conflict by examining the important economic role of government and the reasonable criteria for fixing the boundaries between the state and the private sector in particular circumstances. It then explored how the public sector's performance of its vital task might be improved, and how reforms to reshape government for fulfilling its proper role might be engineered politically. This chapter draws considerably on that analysis.

The World Bank study says relatively little about macroeconomic management and specifically exchange-rate policy: major subjects of controversy over the role of government through much of the twentieth century. This was the subject matter of one of the two sets of events in the 1990s that in retrospect argued for reducing the sphere of the market somewhat further than had been favoured by the prevailing wisdom in the early 1990s.

Shortly after the study's publication, as it happened, the spate of currency crises of 1997 to 2001 in South-East and East Asia and Latin America and in Russia threw doubt on an element of then-prevailing market orthodoxy, in this case the one that would have rejected any control by governments on international capital movements and at the same time sought to put a country's exchange-rate-either by fixing it irrevocably or by allowing it to float freely – outside the range of its government's discretion.

Also, the unfolding story of ‘transition’ in the countries of the former Soviet Union and ex-Communist Central and Eastern Europe, again during the 1990s, showed the risks of mass privatization in the absence of an already functioning market economy ethically underpinned to a degree by civil society. This could mean handing over highly valuable assets to favoured individuals or limited groups of people who had no particular claim of right to them and might lack the credentials or the incentives conducive to managing them efficiently with the necessary modicum of public responsibility.

Later, in 2008, there was to be the collapse of major financial institutions, especially in the United States, shaking the world financial system. These experiences added further reservations to what had been the Washington consensus.

Here we list the basic justifications for government intervention, and then, following from that, explore the three main questions addressed in the World Bank study: how to fit a government’s scope to its capacity; how to improve the performance of the public sector; and how to overcome obstacles to necessary reform. In the course of examining the first of these questions we consider the cases for privatization of state enterprises and functions, and the ways in which it may be practiced, while avoiding both the drawbacks of private monopoly and the unfairness and inefficiency of crony and bandit capitalism.

2.0. Objectives

At the end of this unit, you should be able to:

- Understand the rationales of Public Sector activity
- Know and Understand the meaning of Stabilization
- Define and know the meaning of Public and Merit goods

3.0. Main Content

3.1 RATIONALES OF PUBLIC-SECTOR ACTIVITY

Government may need to act in economic affairs (spending, regulating, enterprising, intervening in markets) for three classes of reason: (i) to uphold the framework of the market economy; (ii) to correct for market failure, that is, for the sake of allocative efficiency or, in other words to provide more abundantly the goods and services that people want or need; and (iii) on grounds of equity: that is, for the sake of fairness or the reduction of excessive poverty. In the headings that follow, market framework and macroeconomic stabilization come under framework questions; public goods, externalities, monopolies, risk and imperfect credit markets, and imperfect or asymmetric information come under market failure; redistribution under equity; and merit goods awkwardly under a combination of equity and market failure.

All the cases listed are categories of circumstance in which government intervention of some sort may in certain circumstances be necessary or at least be of some value. However, the mere fact that some form of intervention can be fitted under one of these headings by no means implies that it is necessarily beneficial, even if it is honestly and effectively pursued.

Also, forms of intervention that might, with a supremely efficient government machine, be useful, may on balance do harm if what they aim to do cannot be coherently implemented with the administrative system and the prevailing ethical attitudes that are actually in place. On the other hand, where there are functions for which no such potential justification – on grounds of upholding the framework, or of economic efficiency or fairness - exists, there are good reasons for the government to leave the field to 'the market' and civil society.

More so, Government has an important role in setting or reinforcing the rules under which efficient markets are possible: civil order, and the enunciation and enforcement of commercial law. In this the state generally works best by co-operating with civil society in the broad sense: reinforcing the useful elements among informal rules, habits and attitudes.

Self-Assessment Exercise

Discuss the rationale for Public Sector activity, using Nigeria as a case study.

3.2. MACROECONOMIC STABILIZATION

The role of maintaining the value of the currency has long been recognized as a critical contribution on the part of government to the efficient working of an economy. In the twentieth century the function was extended to include that of keeping a stable level or growth path of economic activity and income or expenditure for the economy at large. The state has a particular role in circumstances where what is or appears to be privately beneficial to large numbers of people individually may in aggregate be harmful, as in the conditions in which runs on currencies occur, or where there are 'bubbles' in the prices of assets or waves of pessimism among investors.

Self-Assessment Exercise

Explain in details how the Government can use Macroeconomic stability to improve the economy.

3.3. PUBLIC GOODS

'Public-goods' by definition are those that are desired and needed but have one or both of the following two characteristics:

1. Non-excludability: they are necessarily enjoyed or consumed in such a way that what is called exclusion cannot be applied: in other words, if the good is supplied at all, those unwilling to pay cannot be excluded from its benefits. So the goods cannot be

financed by charging for their use.

2. Non-rivalry: their consumption or enjoyment by one person does not exclude or reduce the possibility of their enjoyment by others - so that, even if those unwilling to pay can be excluded, it will, at least in the short term, be socially wasteful to do so (because the extra consumer entails no extra cost).

Examples often cited to which both characteristics apply – pure public goods – are the provision of law and order through the police and the system of justice; protection from outside attack; and – a more homely example – street-lighting. (The theory derives from Samuelson, 1954, 1958.) The 'framework' benefits mentioned above, including macroeconomic stabilization, may also be classified as pure public goods. In all these cases the market unassisted will not do the job. It will have to be accomplished either by civil society (through consensus, which on the scale required will often be difficult to achieve in modern economies) or by the state (with the backing of coercion). Keeping the peace and protection against external attack may indeed be regarded as the original (beneficent) functions of the state: the main reasons why people by and large have been prepared to tolerate government, in spite of its frequent failings.

There are quite important cases in which enjoyment is non-rivalrous but exclusion is possible: so-called club goods. An instance is the provision of roads and bridges. Potential users who refuse to pay can be excluded. On the other hand, unless the road or bridge is congested, the extra social cost of an additional user is often negligible - and enforcing the payment of tolls has costs, including often delay to road users. Some major roads could be, and have been, provided through the charging of tolls by private enterprise, but much of the road networks that countries today enjoy and consider essential could not be so provided without manifest inefficiencies; and without state participation they might not be provided at all. Generally it is taken for granted that the state provides most of the roads.

There may also be rivalry without excludability, with so-called common-property goods. Examples are grazing rights on common land, and irrigation water. Failing local civil-society rules, of which in fact there are many examples, some of them persisting for centuries (Ostrom, 1990), the state must regulate use of the land to prevent its degradation, and of the water to prevent both the inefficiency and the unfairness of its excessive use by those farmers who happen to be well-placed to draw off as much as they like.

Self-Assessment Exercise

Discuss the term “Public Goods”

3.4 GLOBAL PUBLIC GOODS

Mainly since 1990 it has become common to talk of global public goods, which stand in much the same relationship to individual states as public goods in the usual sense stand to individual households. They are goods that every state after a fashion desires but which

unco-ordinated action by individual states will not deliver. Examples are keeping the peace internationally, or eliminating various contagious diseases such as smallpox or tuberculosis, or meeting some of the global environmental challenges such as ozone-layer destruction or global warming.

For obvious reasons consensual co-ordination among states is necessary for delivering these goods. It has sometimes worked spectacularly well, as over checking ozone-layer destruction under the Montreal Protocol of 1987, and (almost) eliminating smallpox. A number of consensual arrangements - agencies, treaties, clubs, and voluntary tribunals - have been set up, throughout the twentieth century and even earlier, that have produced the necessary international co-ordination in important fields, as over civil-aviation rules and collection of meteorological data. Since the late 1940s the UN has run a number of peace-keeping operations - IS current at the end of 2006-often with very small forces on shoestring budgets, that, despite some failures, have managed to prevent fighting or preserve truces in incendiary situations across the world, often with benefits that extend well beyond the areas concerned.

Yet it is clearly quite possible that relying on co-ordination through consent will not be enough in important cases. There will be costs that have to be borne, sacrifices that have to be made, by individual states (including sacrifices of insubstantial but very potent entities such as national myths}. There is no overriding global government that might operate courts to settle disputes, or impose tax systems to raise revenue - impartially and with powers of enforcement. Until there is, we must rely on institutions that operate - however imperfectly - through inter-governmental consent to deliver a number of the most crucial global public goods. This must often involve voluntary acceptance by the various governments of rules and procedures under which they agree to be bound very much as if they were under an enforced law: what one writer has called quasi-voluntary compliance (Ostrom, 1990).

Self-Assessment Exercise

Differentiate between Public Goods and Global Public Goods

3.5. MERIT GOODS

'Merit goods' are more difficult to define than public goods. Public goods can be so designated by virtue of the intrinsic character of the way the service concerned is provided, whereas the classing of a benefit as a merit good has to involve a value judgment by the authority providing it. My list of merit goods is not necessarily yours.

The term merit good is applied to any good that is not by its nature a public good (pure, club, or common property) but that the government concerned believes should be available to everyone in its jurisdiction or even should actually be consumed by

everyone. The most important examples in many countries are health and education services. Health services and schooling as goods provided to individuals are not intrinsically public goods: they possess 'excludability', and they are also 'rivalrous': those unable or unwilling to pay can be excluded; and they use scarce resources so that one person's use of the services may reduce what is available for other people or for other purposes.

The main motive behind free health services and free (or even compulsory) schooling is probably a sense of fairness. This implies that the provision has in large part a distributional objective. (Compulsion over education makes for a further degree of fairness, in that, if effective, it ensures that children have the benefit of schooling even if their parents would not otherwise arrange that they attended.)

Free health services and free or compulsory schooling may also have an allocative objective: to secure as far as possible a healthy and suitably competent population. This may be regarded as a public good: there are common benefits arising for the whole society over and above the benefits to the individuals who are taught or treated, and individuals cannot be excluded from these common benefits if they refuse to pay for them.

It is probably best to regard the provision of free or subsidized medical treatment and education as having both distributional motives (in which capacity they are merit goods) and allocative motives (based on the public-good elements they deliver).

Self-Assessment Exercise

Differentiate between Public Goods and Merit Good

3.6. MATCHING PUBLIC-SECTOR SCOPE TO CAPACITY

The World Bank study mentioned in the Introduction to this chapter (World Bank, 1997) puts forward the view that an effective state should be seen as 'central to economic and social development, not as a direct provider of growth but as a partner, catalyst, and facilitator' [emphasis ours]. It recognizes that solutions will differ widely from one country to another in response to a large number of variables.

The study enumerates the potential grounds for state intervention much as we have listed them above, but where it goes beyond this standard analysis is to propose priorities among the economic tasks of government, and to suggest what might be called degrees of intensity of government involvement in the economy, with the appropriate degree depending on the capacity of the state's institutions.

It lists what it presents as the five fundamental tasks of the state as:

1. 'Establishing a foundation of law
2. Maintaining a non-distortionary policy environment, including macroeconomic stability

3. Investing in basic social services and infrastructure
4. Protecting the vulnerable
5. Protecting the environment' (World Bank, *ibid*).

But it emphasizes that the best mix for fulfilling those tasks may well involve both state and market.

The study (*ibid*) distinguishes institution-intensive from institution-light approaches to the necessary regulation, relating the choices to three main fields of regulation: financial institutions, utilities, and the environment. 'Institution-light' arrangements, as exemplified there, go for simple rules that are readily enforceable legally, local regulation, public information, and adjustment of incentives, with differing variants for the three main areas of interest. In general they avoid administrative discretion, command-and-control, and reliance on supervisory authorities, which make bigger demands on administrators' competence and integrity and come into the 'institution-intensive' category. A decade later, we might perhaps be looking for some much stronger measures on the environment than are foreshadowed here; the world may be simply obliged to apply as best it can cap-and-trade systems on greenhouse emissions, which in their administrative characteristics arguably come into the command-and-control category. Furthermore, some of the proposed 'light' provisions, such as establishing incentives for bank owners and managers to maintain bank solvency, may require considerable ingenuity to devise in the first place. However, a system that thereafter maintains itself, with little need for bureaucrats' discretion, has obvious advantages.

Attempting functions that are unnecessary, such as much of the regulation of business that often goes on in developing countries, can be positively inhibiting to investment and destructive of economic activity.

Self-Assessment Exercise

Discuss in details matching public-sector scope to capacity.

3.7. ENHANCING PUBLIC-SECTOR PERFORMANCE

Under the heading 'Reinvigorating state institutions', the World Bank study (*ibid*) lists three directions in which action can be taken: toward effective rules and restraints, greater competitive pressure, and increased citizen voice and partnership, drawing respectively on the architecture of the state itself, the possibilities of market-type competition in what are currently government functions both within and without the boundaries of the state, and civil society. The particular classes of measure mentioned often fit under more than one of these categories. What helps to remove the incubus of corruption will largely also provide opportunities and incentives for positive improvement. Particular examples (loosely based on the items in the study) are: avoiding 'policy-distortion' such as levies, subsidies, and restrictions, other than those justified by externalities; these will misdirect government, as well as private, action; protecting the independence of the judiciary; watchdogs against corruption and official oppression; merit-based recruitment and

promotion in the public service; public-service pay adequate to attract able people; accountability for delivery in the public service; the suggestion is made of reorganizing departments into performance-based public agencies with specific objectives, as in New Zealand and Singapore; ending state monopolies by contracting-out, privatization, or allowing private competitors to operate alongside state enterprises; increased public information and transparency in state activities; citizen-opinion surveys; free and fair elections; participation of users of public services in their planning and monitoring; devolving power to local institutions – ‘carefully’, the study emphasizes, in order to avoid contributing to inequality or to macroeconomic instability, or capture of public operations by ‘vocal interest groups’.

The study argues (ibid) that – as well as competence – loyalty and (if we can interpret) a measure of inner or social, rather than material, motivation among public servants will be necessary. This enhances the importance of the last few items on the list above: those that involve active engagement with the public. Such involvement is perhaps becoming increasingly easy, it is suggested, since citizen participation through NGOs has been growing in the developing world. In India the proportion of respondents who said that they participated in a social organization or political party doubled between 1971 and 1996. Mention is made of a number of cases of joint community and official action, especially in irrigation (Taiwan and the Philippines cases are mentioned) that are apparently analogous to the irrigation-settlement, at least in the great improvements achieved in water management: co-operation that also seemed in that Sri Lanka case to transform for the better both the target community and the associated bureaucracy. Something similar is reported (ibid.) of ‘community monitoring of an innovative community health program’ in the State of Ceara in north-eastern Brazil which ‘provided the basis not only for a highly successful program but also for more effective co-operation among community members on other mutually beneficial courses of action’.

Self-Assessment Exercise

What are the ways Public Sector Performance can be enhanced?

4.0. Conclusion

The public sector is the part of the economy concerned with providing various governmental services. The composition of the public sector varies by country, but in most countries the public sector includes such services as the military, police, infrastructure (public roads, bridges, tunnels, water supply, sewers, electrical grids, telecommunications, etc.), public transit, public education, along with health care and those working for the government itself, such as elected officials. The public sector might provide services that a non-payer cannot be excluded from (such as street lighting), services which benefit all of society rather than just the individual who uses the service.

5.0 Summary

In this unit, we have been learnt and discuss extensively on the rationale of public sector activity, the macroeconomic stabilization of the Government to improve the economy, Public, Global Public goods, Merit goods, matching public-sector scope to capacity and Enhancing Public Sector Scope to Capacity. Therefore, I belief you must have gain a lot from this unit on the analysis of public goods.

6.0. Tutor-Marked Assignment

1. Differentiate between Public Goods and Merit Goods
2. Write short note on the following;
 - (i) Macroeconomic stabilization
 - (ii) Global Public Goods
 - (iii) Rationale of Public Sector activity.
3. What elements in enhancing the competence of the public sector are not necessarily covered by simply removing corruption in its broadest sense?
4. How do you explain the apparent association between government 'credibility' and economic growth?

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MODULE TWO: CIVIL SOCIETY AND DEVELOPMENT

Unit One: The Role and Potential of Civil Society

Unit Two: Positive feedback Mechanisms of Civil Society

Unit Three: Change in behaviour: Generalizations from the four cases

Unit One: The Role and Potential of Civil Society

CONTENTS

1.0.	Introduction
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3.1.	Meaning of Civil Society
3.2.	Importance of Civil Society for the operation of state and market
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
4.0	References/Further Readings

1.0. INTRODUCTION

The output of people and institutions is only roughly related to the inputs they receive'. (Norman Uphoff, 1996). Civil society, in the sense both of public-interest organizations and of conventions and values of responsibility and trust and creation, is important for the efficient and beneficent performance of both market and state. Releasing and mobilizing propensities for voluntary co-operation and creation may lead to remarkable achievements in solving intractable problems and enhancing welfare.

We consider here the meanings attached to the term 'civil society'; its importance for the operation of state and market; its propensity for positive feedback (virtuous circles); its role in resistance to corruption, upholding the law, safeguarding human rights, and shaping law and policy to meet human needs; and means for giving scope for positive achievements to the propensities that we have called 'active humanity'

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning of civil society
- Know the importance of civil society for the operation of state and market

3.0. Main Content

3.1 MEANING OF CIVIL SOCIETY

'Civil society' has two meanings, narrow and broad. The narrow usage, probably the more common, refers to organizations outside both the state and the profit-driven sector.

It is an open question whether the term should include organized interest groups, such as trade unions and bodies representing particular industries or localities, or whether it should be confined to ‘public-interest’ bodies such as charities and charitable foundations and campaigning groups for causes wider than their members' own or group interests.

The broader definition, probably corresponding more closely to what is believed to have been the original (though not particularly approving) use of the term by the Italian Marxist Gramsci in the early twentieth century, refers not only to organizations but also to values, ethics, and conventions tending to maintain the working of society, which today we may interpret as those that entail trust and trustworthiness; responsibility for others; and tolerance and encouragement of ideas, creative activity, and innovations.

Here we use the term active humanity for the human propensities that form the basis for civil society.

Self-Assessment Exercise

Define the term Civil Society

3.2. IMPORTANCE OF CIVIL SOCIETY FOR THE OPERATION OF STATE AND MARKET

Of the three modes of co-ordination – market, state and civil society – on which modern communities depend, civil society is the oldest. Before there was anything that could count as a market or as government, human societies depended - probably for their members' survival - on practices and customs drawing on trust and mutual responsibility and individual and small-group creativity. However, without markets or government, functioning societies had to be small in scale, with only limited material exchange – and with the possibility of destructive conflict – between them.

In the large integrated communities of the modern world, all three of these elements are necessary, and each of them depends to a degree for its beneficent and efficient practice on the effective operation of the other two. The market depends on government to protect property, to define and enforce the commercial rules, and to settle disputes consistently, so greatly increasing the predictability of the business environment; and it depends on civil society to maintain a culture of trustworthiness and qualified trust. In the absence of either of these elements transaction costs are considerably increased, with the effect of making many desirable economic arrangements impossible. Governments, on the other hand, that have tried to dispense altogether with markets have been found to be almost universally oppressive; and governments are also immensely helped in their enforcement of laws and in the equitable raising of revenue if civil society has directed a sense of responsibility into respect for law. Active civil society, with a free and lively press and open public discussion, also contributes to the recognition of people's needs and the formulation of efficient ways of dealing with them. Civil society in turn may rely, when matters are well arranged, on being sheltered by government through the independence

and accessibility of the courts, the openness of official records and processes, and the liberties and immunities given to campaigning for parties and issues, to dissent, and to ‘whistle-blowing’.

We regard civil-society habits and organizations as based upon three human propensities: for trust and trustworthiness, for responsibility, and for creation. The institutionalization of each of these attributes is of routine importance in the operation of large-scale modern, as it is of small-scale primitive, societies.

First, conventional and accepted signals of trustworthiness and the resulting trust greatly reduce what would otherwise be the transaction costs of commercial buying and selling, lending and borrowing, employing and investing. As a result one party in a transaction often needs to know not the actual record of trustworthiness on the part of the other party, but only the general conditions under which trustworthiness can be presumed. The existence of commercial law and its enforcement strengthen these presumptions, but the law would provide rather feeble assurance unless it could be assumed that, in more or less recognizable circumstances, habits of honesty prevailed notably among the police and judges.

Second, it is widely recognized that raising government revenue, especially through direct taxation, would be, and is, difficult except where there is some habitual sense of responsibility, on the part of many of those eligible, to pay the amounts prescribed by law. Similarly policing to maintain civil order and to prevent oppression and predation of one person by another is very difficult in any area unless there is among the public a widespread willingness, based upon ideas of what is right, to co-operate in the process or at least not to obstruct it. Effective policing cannot rely on fear alone – unless it lapses into an undesirable degree of violence. Moreover, keeping government honest depends on a measure of responsible self-motivated activity of scrutiny and criticism.

Third, enterprise development and enhancement of public services are unlikely to proceed far unless they draw on the propensity of workers in both sectors for creation. Without a habit of innovation and improvement routinely drawn upon and given its head, these activities would presumably have to be coaxed out by material rewards or else forgone.

The saving property of these habits of mind and behaviour so usefully institutionalized by civil society is that their status as propensities implies a capacity of our species to enjoy their exercise. Once we have experienced a culture of trustworthiness and trust, of responsibility for other people, or of creation, we easily come to enjoy it, a fact that probably has something to do with the need of our hunting-gathering ancestors for these qualities in order for their societies, and consequently for their own genes, to survive. So the institutionalized habits are to a degree self-reinforcing.

The increasing emphasis in the democracies since the 1990s on the need for public consultation over government measures seems to be a recognition of these possibilities. As an example of this even in an international context, the Cotonou Treaty between the European Union and its African, Caribbean and Pacific Associates specifically requires consultation with the people affected over measures to be taken under it.

Self-Assessment Exercise

Discuss the importance of civil society for operation of state and market

4.0. Conclusion

The role of civil society in resisting corruption, upholding the rule of law, and safeguarding human rights is exercised and stimulated through two activities: exposure and correction, the two of course overlapping. Exposure involves investigation and factual publication of abuses and of legal and other remedies available. Correction involves lobbying, mobilizing, demonstrating, making what use is possible of the courts and the media. Civil society also has the potential for using free institutions where they exist to make government aware of people's needs and to generate public discourse on how the needs may be met.

5.0 Summary

In this unit, we have been learnt and discuss extensively on civil society and their importance. However, we can summaries here that Civil society is a "space" whose function is to mediate between the individual and the State While there may not be a clear cut definition of civil society, they more or less agree that it comprises institutions such as religious organizations, labour unions, charities, community groups, nonprofits, and the media. In advanced and virile democratic systems these institutions supplement formal processes such as voting and help citizens shape the culture, politics, and economies of their nation.

6.0. Tutor-Marked Assignment

1. Differentiate between civil society and human right group
2. Do you think Civil Society in Nigeria are working?

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UNIT TWO: POSITIVE FEEDBACK MECHANISMS OF CIVIL

SOCIETY

CONTENTS

1.0	Introduction
2.0.	Objectives
3.0.	Main content
3.1.	Role of Civil Society in Resistance to corruption and upholding the rule of law
3.2.	Giving Scope to active humanity in Social and Commercial Ventures.
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Readings

1.0 INTRODUCTION

The positive feedback mechanisms in these civil-society institutions appear sometimes to go beyond common expectations if we can judge by the four striking cases presented in this chapter. Not only does the prevalence of trustworthiness in certain circles and situations promote the habit of trust, and the manifest collective advantages of law-observance once experienced tend (provided the laws are not perversely counterproductive) to make it a socially expected habit. It also seems from the examples that voluntary co-operation and mutual responsibility developed for one immediate purpose may lead to their mobilization for other desirable causes with which the original goal has no very obvious connection, such as (in some of the examples that follow) support for gender equality and active opposition to official corruption and to inter-ethnic violence. Perhaps more obviously to be expected, the social improvement achieved through voluntary co-operation on one project arouses hope that voluntary co-operation will be possible on other projects, and these hopes may be realized.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the Role of Civil Society in Resistance to corruption and upholding the rule of law
- Know the Scope to active humanity in Social and Commercial Ventures.

3.0. Main Content

3.1 ROLE OF CIVIL SOCIETY IN RESISTANCE TO CORRUPTION AND UPHOLDING THE RULE OF LAW

We have argued above that civil society has an important role in maintaining some key elements of good governance. This involves a readiness to use whatever freedoms and opportunities are provided by the governmental system to identify and combat abuses. Freedom of the media and of expression and electoral democracy are of course extremely important here, but it is civil society in both its senses that largely determines how far the opportunities provided by the political system will be used. Even where these freedoms do not exist, people of courage, sometimes with international support, may find ways to oppose abuses effectively.

There are two main functions required here: exposure and correction. Exposure involves investigation and publicity either of abuses or of citizens' legal rights, or of opportunities in practice for vindicating those rights. The publicity may take place through the press or other regular communication media or through ad hoc publications, street drama, public meetings, as occasion permits. Academic institutions or charitable foundations or campaigning bodies may finance or otherwise further the investigation, and it may sometimes be necessary also for civil-society organizations to take action -through lobbying and campaigning directed at the executive, through the law, through financial support, or through further exposure -to protect those who investigate and publicize.

Correction, within the law and the requirements of public order, may involve demonstrations, personal lobbying, letters or petitions to those in power, action through the courts, or the use of electoral politics.

Because of the varied temptations for those in power to misuse their power for private purposes, or to override the law, or to infringe human rights (sometimes with apparently plausible justification), it seems likely that even the 'cleanest' political system will need a readiness from outside government for active exposure and correction.

Amartya Sen (1995) stresses the importance of political freedoms for informing governments about what is really going on and about the needs that people feel and for generating the open discussion that can lead to the formulation of remedies. Again the readiness to use these channels and the organization to do so effectively is a function of civil society.

Beyond the support for honest government and the rule of law and defence of civil rights, and the expression to those in power of needs, and the thrashing out of ideas on how they may be met, we suggest through the cases that follow that the mobilization of what we have called above 'active humanity', on which civil society rests, has further large potential for improving and supplementing the working of governments and markets in their enhancement of human welfare.

Self-Assessment Exercise

Discuss the role of civil society in resistance to corruption and rule of law.

3.2. GIVING SCOPE TO ‘ACTIVE HUMANITY’ IN SOCIAL AND COMMERCIAL VENTURES

The four ‘cases’ presented in this unit reproduce accounts of how innovative mechanisms drawing on active humanity have produced remarkable results in commercial and social projects of significant scale. Of the four examples, three come from developing countries, though in one case from a relatively rich area of a country later just making it into upper-middle income. The fourth comes from what was initially a highly disadvantaged area (characterized by having a high proportion of recent immigrants from the Third World’) in an affluent country. One of the establishments concerned is a major infrastructure project in a squatter settlement within one of the world's mega-cities; one is a government-established irrigation settlement; one is a commercial manufacturing enterprise; and one is a network of community facilities in a highly deprived part of a rich-world conurbation.

In commercial enterprises a device exemplified here, Case 3, is to devolve an extraordinary degree of responsibility to small, face-to-face groups of workers, ensuring that they are provided at the same time with the incentives to pursue the objectives of the larger organization. The somewhat analogous device of ‘solidarity groups’ of very poor borrowers plays a key part in the Crameen model of micro-credit.

For public utilities, existing or projected, an approach adopted is to motivate those benefiting from, or subsisting on, a project to play a direct, voluntary part in constructing, maintaining, and managing it. This may, as in Case 2 below, replicate practices followed often in the past by purely non-state local activity for environmental conservation through regulation of access to some natural resource; in such cases the informal systems of management have sometimes persisted for centuries. Or it may, as in Case 1, work through undertaking a large infrastructure project-technically innovative perhaps but entirely modern – of a kind normally now constructed and managed by government, either directly or through contract with one or more commercial entities.

Alternatively, a big local non-government network of social projects may be built from scratch by starting with work by a small group of volunteers to provide a facility generally recognized as urgently needed, Case 4.

All those described have drawn on propensities for responsibility, mutual trust, and creativity, and all depended at first on one person or a very small group of people to generate the idea and to begin the process of motivation.

Self-Assessment Exercise

Discuss the four cases of giving scope to active humanity in social and commercial venture.

4.0 Conclusion

Civil society resistance has the power to expose and ultimately challenge state crime, violence, and corruption. It occurs not only in places where ‘the rule of law’ is absent or precarious, but also in those which have a normative commitment to upholding it.

5.0 Summary

In this unit, we have been learnt and discuss on the role of civil society in resistance to corruption and upholding the rule of law and the four cases to active humanity in social and commercial ventures.

6.0. Tutor-Marked Assignment

1. Discuss the role of civil society in resisting corruption in Nigeria.
2. Discuss the step to take in giving scope in social and commercial ventures.

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UNIT THREE CHANGE IN BEHAVIOUR: GENERALIZATIONS FROM THE FOUR CASES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main content
 - 3.1 Impetus Among workforce, farmers and the community
 - 3.2 The key to be turned in each case of change behavior
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 4.0 References/Further Readings

1.0 INTRODUCTION

According to Uphoff suggests that three elements were crucial in the Gal Oya experience of change behaviour: ideas, ideals, and friendship (1996). Ideas and ideals may be potently expressed in pithy sayings, ideas, if we understand him correctly, may be more-or-less value-free: about what leads to what or how some end may be attained. Ideals are a particular type of idea that expresses a commitment to values. Yet, in practice, the ideals and the value-free ideas are frequently bound up together. The Gal Oya farmers' slogan 'Water has no colour' (where 'colour' refers to political party allegiance) can be read to mean either that it is possible or most efficient to deal with water without bringing in politics, or that water is a gift to all and should not be appropriated for factional ends- or of course both. Pragmatic ideas shade into ideals. 'We find moral and practical considerations reinforcing each other'.

The weight given to friendship explains itself given that so much depended on the tapping of people's capacity for altruism. 'Once farmers started valuing others' well-being in addition to their own, many new possibilities opened up.... People's subjective willingness to contribute to each other's improvement produced measurable, objective consequences in terms of higher water use efficiency and larger harvests'.

In Semco and Balsall Heath, too, we can see a tendency for change to start with ideas of a fairly pragmatic kind but then to move on to ideals, and maybe also for friendships to be formed as events proceed and to help sustain what progress has been made. It is possible to see the reforms that Ricardo Sernler began to introduce from about 1984 as pragmatic – unusual only in that he was specially sensitive to what was wrong and exceptionally imaginative and daring in the search for remedies. Eventually, however, the reforms do

seem to have come to express a fairly clear set of human values. Similarly, the St Paul's project at Balsall Heath started with a nursery center where children of working parents and others could be left, if necessary right through the working day, and have among other things the benefit of pre-school: an urgently needed service. The community education and resource Centre, the school, the newspaper, the enterprises, the drama, resistance to crime, and all the rest followed, eventually expressing a strong community ideal, and, in Atkinson's words, 'achievement, quality, standards, hard work, neighborliness and faith'.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the impetus among workforce, farmers and the community
- Know the basic key to be turned in each case of change behaviour.

3.0. Main Content

3.1 IMPETUS AMONG WORKFORCE, FARMERS AND THE COMMUNITY

All the experiences discuss in the introduction depended on the emergence of a strong impetus from within: among the workforce, the farmers, the resident community, but it was often outsiders or incomers who set the fuse or pulled the trigger. Sometimes it is easier for outsiders than for insiders to believe that change is possible and to convince others. The starting move may be very simple. Neighbours who have similar interests but would not normally meet are led to come together. People geared to regarding each other as opponents or indifferent are brought into conversation. Someone behaves in a generous or accepting or respectful manner contrary to stereotype. A positive achievement breaks the cycle of despair. Some unexpected act or event opens up a new set of possibilities.

3.1.1. CHARACTER OF THE RAW MATERIAL

These stories, to which many analogues could no doubt be given from the experience of some of the 'development' NGOs, remind us of the remarkable character of the human raw material. Remember that these had to be regarded as specially unpromising cases for the kind of experiment that was mounted: certainly Gal Oya and Balsall Heath, and, given the labour-relations scene in Brazil and the economic turbulence of the period, probably also Semco. The results suggest that we carry within ourselves, as Uphoff argues, the capacity for generosity and co-operation; the capacity, we might add, for creation. It may need only a set of initial stimuli, the right personal move that will start the process, to bring these characteristics into play. The neighbourhood, the school, the farming settlement, the firm, that can tap into these capacities is on to a good thing.

Self-Assessment Exercise

Discuss the contribution of workforce to change in behavior in a work place

3.2. THE KEY TO BE TURNED IN EACH CASE OF CHANGE BEHAVIOUR

In each of the stories we may see some ingredient as a kind of key that has to be turned to set the process going.

In Gal Oya, the key was perhaps generosity. Whatever exactly set the process going in the first place, change became rapid as soon as this element was released. Once there was a framework in which it was clear that generosity need not be wasted, that contributions to the well-being of others formed part of a wider venture with large potential effects, farmers became co-operative, and indeed generous, often beyond the apparent call of duty. From what is recorded we can speculate that the respect for farmers shown by the Institutional Organizers, and indeed their generosity with time and attention, boosted these tendencies, and possibly formed the original stimulus. Uphoff also believes that the action of six (Sinhalese) farmer-representatives in protecting the houses of two minor (Tamil) irrigation officials, when some of the houses of Tamils in the district town had been burned by a mob, may have helped to generate a more respectful attitude to farmers on the part of irrigation officials generally, most of whom were Tamils. Also the constructive activity and effort of farmers made it hard for the demeaning stereotypes of them previously held by officials to persist.

In Semco the key was autonomy: autonomy for business units, and manufacturing cells within them, and individuals at large – autonomy of course always limited by the need to keep people and units working together, but this need fulfilled through personal ties of responsibility, and through common sense in response to knowledge and to personal appropriation of the purpose of the exercise, rather than through rules and commands. Autonomy for the very small units meant that it was easy for individuals to command respect and to play a creative role within them.

In Balsall Heath, perhaps, the key was confidence. The project, by bringing people together in visible achievements, showed that there were responses other than helplessness, apathy and destruction. Creation was a possibility. All it required was for people to act together with some sense of purpose, and the achievement that generated further confidence would follow. The purpose in turn depended on a certain measure of faith and hope, a vision. Though the mechanics are not spelled out, it seems that the act of providing the nursery both showed the possibility of community action and brought people together. From this combination a positive creative purpose could be born.

However, active humanity came to the fore front: mutual trust, responsibility, creation. Life became so much less nasty and brutish, not because a superior coercive power was introduced - in fact, in one way or another, that was precisely what was abandoned - but because the propensities of people to work together, to take care for each other, and to exercise their ingenuity and imagination - all potentially enjoyable experiences - were

brought into play.

3.2.1 COMMON FACTORS OR PRECONDITIONS

Among the common factors (which may have been preconditions) in all the experiences discuss so far were: communication – it was necessary for people to talk to each other when they might not normally have done so; respect – the essential actors had to be treated as responsible human beings if they were to behave as such; and vision, involving a form of risk-taking – some leaps of faith had to be made, relying on ‘the evidence of things not seen’.

Self-Assessment Exercise

What is the key to be turned in each case of change behavior?

4.0 Conclusion

Behaviour change is a research-based consultative process for addressing knowledge, attitudes and practices. It provides relevant information and motivation through well-defined strategies, using a mix of media channels and participatory methods. Behaviour change strategies focus on the individual as a locus of change.

5.0 Summary

In this unit, we have been learnt and discuss the impetus among workforce, farmers and the community and the key to be turned in each case of change behaviour

Tutor-Marked Assignment

1. Can you explain why the Gal Oya experience apparently led some Sinhalese farmers to defend Tamil irrigation officials from racist attacks?
2. Are some or all of the distinctive and unconventional practices in Semco likely to be transferable to other firms and in other countries? If not, why not? If so, what kind of firms in what kind of countries?

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MODULE THREE: GLOBALIZATION AS A DEVELOPMENTAL ISSUE

UNIT ONE	GLOBALIZATION
UNIT TWO	CONCEPT OF GLOBALIZATION
UNIT THREE	THE NEW GLOBALIZATION
UNIT FOUR	INTERNATIONAL TRADE
UNIT FIVE	INTERNATIONAL FINANCIAL FLOWS

UNIT ONE	GLOBALIZATION
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2.0	Objectives
3.0	Main content
3.1	What is Globalization
3.2	History of Globalization
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3.4	International Financial Flows
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1.0 INTRODUCTION

Few, if any, changes in the structure of the international economy have generated as much controversy as globalization. The energetic advocacy of globalization by its supporters in government, in international bureaucracies and in segments of academe has been met with equally vigorous opposition from an array of NGOs, trade unions, conservationists, politicians from both far left and far right, segments of academe and other elements of civil society. The opponents of the process include an active element willing to engage in vigorous street protests, sometimes riots, wherever the banner of globalization has been raised with a sufficiently loud fanfare to attract their attention. (Ironically, such opposition would be more muted were it not for the use of the World

Wide Web, one of the icons of globalization, both to publicize forthcoming meetings of supposedly pro-globalization personnel, and to rally opposition to such meetings). This polarization of views reflects genuine concern on both sides over the perceived benefits and costs of globalization.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning and History of Globalization
- Know the basic fundamentals of Globalization.

3.0. Main Content

3.1 WHAT IS GLOBALIZATION?

Readers whose familiarity with literature in the fields of economics and business is confined to material published from 1995 onwards will know that one of the most common words to be found in the titles of books and articles since that year is 'globalization'. They may be surprised to learn that, prior to 1970, there is no record whatsoever of the use of 'globalization' in a title.

Given the wide range of issues debated under the 'globalization' heading, it is necessary to define, and so delimit, the 'economic globalization' discussed in this chapter in such a way as to ensure that our primary focus on economic development is maintained. A much-quoted definition is provided by Joseph Stiglitz, former Chief Economist at the World Bank, for whom globalization is the closer integration of the countries and peoples of the world brought about by the enormous reduction of costs of transport and communication, and the breaking down of artificial barriers to the flow of goods, services, capital, knowledge and (to a lesser extent) people across borders.

To round out this view we may add that this integration process, which is heading in the direction of the creation of single, unified global markets in inputs and outputs, has required not just the technological advances noted by Stiglitz but also extensive political support, active encouragement by a number of international agencies and institutions, and enthusiastic participation by many private-sector firms.

We now take a preliminary glance at the different forms of economic globalization studied in this chapter, focusing on international trade in goods and services, international financial flows (with special reference to financial markets and foreign direct investment (FDI)), the international labour market and global flows of information and ideas.

Self-Assessment Exercise

Define the term Globalization

3.2. HISTORY OF GLOBALIZATION

The term globalization was apparently first published in a 1962 article in *Spectator* magazine, but it began to enter everyday English usage after the 1962 publication of Marshall McLuhan's *Gutenberg Galaxy*. "Globalism" is an even more recent term and appeared for the first time in the 1986 second edition of the *Oxford English Dictionary*.

Globalization has both technical and political meanings. As such, different groups will have different histories of "globalization." In general use within the field of economics and political economy, globalization is a history of increasing trade between nations based on stable institutions that allow individuals and organizations in different nations to exchange goods with minimal friction.

The term "liberalization" came to mean the combination of laissez-faire economic theory with the removal of barriers to the movement of goods. This led to the increasing specialization of nations in exports, and the pressure to end protective tariffs and other barriers to trade.

There were several eras of intense cross-cultural encounters in pre-modern times (pre-1500 C.E.). The first important era to mention here is the time of the Roman and Han empires. This is the era of the ancient silk-road, roughly 200 B.C.E. to 400 C.E. The consolidation of large imperial states pacified enough of Eurasia that trading networks could safely link the extreme ends of the landmass. Nomadic peoples played an especially prominent role in the economy of the silk roads, since they both consumed the finished products of settled lands and transported them to other customers. So long as the silk roads remained active, they facilitated not only the exchange of trade goods but also the communication of cultural and religious traditions throughout much of the Eastern Hemisphere. This era came to an end with the collapse of the Roman and Han empires, which had anchored and sustained much of the interregional commerce in goods and ideas, and with the outbreak of devastating epidemic diseases that disrupted societies and economies throughout Eurasia.

Beginning about the sixth century, however, a revival of long-distance trade underwrote a second round of intense cross-cultural encounters. The revival of cross-cultural dealings depended again on the foundation of large imperial states, such as the Tang, Abbasid, and Carolingian empires, which pacified vast stretches of Eurasia and gained the cooperation of nomadic peoples who provided transportation links between settled regions. But, long-distance trade in the sixth century benefited also from much more frequent use of sea

lanes across the Indian Ocean. Merchants once again linked the Eurasian landmass, while impressive numbers of missionaries and pilgrims traveled in their company. In an era often labeled a dark age quite inappropriately literacy and religions of salvation (particularly Buddhism, Islam, and early forms of Christianity) extended their influence to most parts of Eurasia.

The development of a consciousness of the world as a whole first came with the conquest of most of Eurasia, the biggest and long the most populous and culturally and technologically advanced continent, by the Mongols in the thirteenth century. Economist Ronald Findlay (2002) argues that:

For the first and only time in history, a single regime presided over the entire length of the overland trade routes linking China and the Near East. This made it possible for merchants and goods to move safely over these vast distances, facilitating the transmissions of ideas and techniques. Since China was substantially ahead of both Islam and the West in the general level of its technology, this flow chiefly benefited the lands at the western ends of the trade routes and beyond.

The first era of globalization, according to Findlay, began with “the unification of the central Eurasian land mass by the Mongol conquests and the reactions this aroused in the sedentary civilizations that they were launched against.” Among other things, it brought awareness to the Europeans of the civilizations of East Asia and a stronger desire to reach them by going around the Islamic world that had for so long stood in between. That, in turn, brought forth the effort to improve naval technology which enabled the European voyages of discovery of the fifteenth and sixteenth centuries. So, instead of being the first, this can rightfully be called the second (and decisive) state on the way to globalization—first Eurasia, then the world.

The unraveling of the Mongol state in China coincided with a phenomenon of much larger impact: the spread of bubonic plague, known in the West as the Black Death, throughout Eurasia. The pacified vast regions that facilitated overland travel throughout the empire made it possible for humans and their animal stock to transport microorganisms across long distances much more efficiently than ever before (Bently 1993). Long-distance trade probably did not disappear completely, but its volume certainly declined precipitously during the late fourteenth century.

The period of the gold standard and liberalization of the nineteenth century is often called "The Second Era of Globalization." Based on the Pax Britannica and the exchange of goods in currencies pegged to specie, this era grew along with industrialization. The theoretical basis was Ricardo's work on comparative advantage and Say's Law of General Equilibrium. In essence, it was argued that nations would trade effectively, and that any temporary disruptions in supply or demand would correct themselves automatically. The institution of the gold standard came in steps in major industrialized nations between

approximately 1850 and 1880, though exactly when various nations were truly on the gold standard is a matter of a great deal of contentious debate.

This Second Era of Globalization is said to have broken down in stages beginning with the first World War, and then collapsing with the crisis of the gold standard in the late 1920s and early 1930s.

Globalization in the era since World War II has been driven by multilateral Trade Negotiation Rounds, originally under the auspices of GATT and the WTO, which led to a series of agreements to remove restrictions on free trade. The Uruguay round led to a treaty that created the World Trade Organization, to mediate trade disputes. Other bilateral trade agreements, including sections of Europe's Maastricht Treaty and the North American Free Trade Agreement, have also been signed in pursuit of the goal of reducing tariffs and barriers to trade and investment.

Self-Assessment Exercise

Discuss in details the history of Globalization

3.3. INTERNATIONAL TRADE IN GOODS AND SERVICES

The most salient form of globalization is the continued expansion of international trade in goods and non-financial services. (Trade in financial services is discussed later in this section.) There have always been countries whose levels of economic activity were heavily dependent on trading performance – though, for most nations, this has not been the case, and the level of ‘trade dependence’ has been relatively low. There is, however, a fundamental difference between the trading structures being created today and those of earlier eras. ‘Outward-orientation’ of economies, including developing economies, is now seen as crucial to sustained growth.

Thus, for instance, the important ‘partnership agreement’ between the EU and the African, Caribbean and Pacific (ACP) states embodied in the ‘Cotonou Agreement’ sees ‘integration of the ACP countries into the world economy’ as the key element in the development package provided by the Agreement for its 77 developing-country signatories – over half of the world's developing nations (The ACP-EU Courier, 2000). The vision of world trade implied by this ambition is one in which trading is no longer a peripheral aspect of a nation's economic activity, but central to it – the ‘engine of growth’. This greatly increased emphasis on international specialization and interdependence of nations is a key feature of the true globalization of trade, and is regarded as the main reason for the accelerated economic growth that it is expected to bring with it.

Self-Assessment Exercise

Expansion of international trade in goods and non-financial services is a form of globalization. Discuss

3.4. INTERNATIONAL FINANCIAL FLOWS

Economic globalization processes are also important in relation to international financial flows. 'Modern' financial integration began in the early 1970s following the collapse of the Bretton Woods system which had, in effect, tied other currencies to the US dollar. With the move to flexible, in some cases floating, exchange-rates, the importance attached to controls on foreign-exchange transactions was greatly diminished. In particular, the regulation of international movements of capital was progressively wound down so permitting moves towards a unified, global market in capital.

Deregulation of financial markets in the US, Europe and Japan in the 1980s and 1990s, coupled with broadly favourable global business conditions in the shape of low interest-rates and rapidly rising share prices, encouraged massive increases in demand for international banking services by corporations and governments and opened up many opportunities for banks and other financial institutions wishing to develop and market new financial 'products' across national boundaries. Governments made increasing use of international financial institutions for, amongst other things, issuing government debt in the form of internationally marketed bonds, investing reserves, and managing privatizations. Multinational corporations became major purchasers of the international expertise and services of international financial institutions – to assist in raising investment capital, to facilitate foreign direct investment (FDI) abroad, to oversee mergers and acquisitions, and to provide regular banking services. Banks, corporations and financial institutions raised capital across the globe by borrowing, and by selling equity.

The greatly increased opportunities thus created for banks and other financial institutions to supply an ever-broadening array of financial services has led to intensified competition amongst providers. The shortage of genuine expertise in this booming market, and the difficulty many firms experienced in providing, on their own, adequate, broadly based services, have encouraged mergers and take-overs in the financial-services sector itself (as firms search for, and find, suitably qualified partners).

This process of international expansion of banking operations, of portfolio-investment markets, and of other financial markets, has been enormously encouraged by the rapid improvement in both international communications and data processing (changes

discussed in greater detail in the next section) which make possible the tight integration of widely dispersed transactions previously conducted on a more limited and specially fragmented way in individual national or regional markets.

At the level of the firm, the continued increase in the importance of FDI flows to developing (and developed) countries as a source of investment finance has been paralleled by the building by multinational corporations (MNCs) of worldwide networks of interconnected affiliates and subsidiaries - across which output and earnings (representing, in total, a significant proportion of the world's production and exports) are distributed according to globally optimized plans.

Self-Assessment Exercise

Discuss the analysis of international financial flows

3.5. GLOBALIZATION OF THE INTERNATIONAL LABOUR MARKET

A further manifestation of globalization is the gradual emergence of an integrated international labour market. The global market for labour is still fragmented and highly regulated but, the international movement of workers is becoming increasingly important both to host countries, which require the services provided by incoming labour, and to source countries, which in many cases derive considerable benefit from the flow of remittances from their citizens working abroad.

3.5.1. Globalization of information and ideas

Running in parallel with the changes mentioned above has been a very rapid broadening of the range of information, ideas and comment available quickly and cheaply, to economic agents and the general public alike, on all manner of topics. The use of the Internet, in particular, has tied together a worldwide network of information providers and seekers, greatly facilitating the free flow of knowledge and ideas from the highly technical, through news of current happenings in all parts of the world, to the polemical.

Self-Assessment Exercise

Discuss the Globalization of international labour market.

4.0 Conclusion

Globalization or globalisation is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. Advances in transportation (such as the steam locomotive, steamship, jet engine, and container ships) and in telecommunications infrastructure (including the rise of the telegraph and its modern offspring, the Internet, and mobile phones) have been major factors in globalization, generating further interdependence of economic and cultural activities

5.0 Summary

In this unit, we discuss, in the following; the drivers and history of economic globalization. We note that the combination of technological advance and political support that sustains the present wave of globalization has precedents, that in many ways the world economy was more extensively globalized in 1914 than it is now, and that waves of globalization can recede if political support is withdrawn. We then look in detail at the main international institutions promoting global integration – their history and current aims. A synoptic account of the evolution of trade policy since the 1950s follows, closing with a summary of the difficulties encountered by the WTO in attempting to pilot the ‘Doha Round’ negotiations to a successful conclusion in 2008. We then turn to examine the anticipated impact on developing countries - the theoretically predicted costs and benefits – of liberalizing international trade. This is followed by an account of recent trends in the international trade of the developing world and a review of the key results of the massive research effort devoted to ascertaining the impact of liberalization of trade on growth and poverty there. Attention then turns to financial globalization, which is examined in the same way as trade liberalization, special attention being paid to the so-called ‘collateral benefits’ that may result from the integration process. The impact – actual and potential – of liberalizing the global labour market is then assessed. This is followed by a brief look at key issues raised by globalization of ideas and knowledge. We conclude by assembling a roster of key issues that appear to require urgent action if the globalization process is to continue successfully, and advance policy proposals.

6.0. Tutor-Marked Assignment

1. Differentiate between Globalization and international trade.
2. Write short note on the following:
 - (i) History of Globalization
 - (ii) International financial flow
 - (iii) Globalization of the international labour market.

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UNIT TWO

CONCEPT OF GLOBALIZATION

CONTENTS

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3.1 Pre-first world war Globalization

3.2 The 'Second Wave' of Globalization

3.3 Aspects of Globalization

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/Further Readings

1.0 INTRODUCTION

Globalization, as a concept, refers both to the "shrinking" of the world and the increased consciousness of the world as a whole, whether it is old or new era. It is a term used to describe the changes in societies and the world economy that are the result of dramatically increased cross-border trade, investment, and cultural exchange. The processes and actions to which the concept of globalization now refers have been proceeding, with some interruptions, for many centuries, but only in relatively recent times has globalization become a main focus of discussion. The current or recently-past epoch of globalization has been dominated by the nation-state, national economies, and national cultural identities. The new form of globalization is an interconnected world and global mass culture, often referred to as a "global village."

In specifically economic contexts, globalization is often used in characterizing processes underway in the areas of financial markets, production, and investment. Even more narrowly, the term is used to refer almost exclusively to the effects of trade, particularly trade liberalization or "free trade."

Between 1910 and 1950, a series of political and economic upheavals dramatically reduced the volume and importance of international trade flows. Globalization trends reversed beginning with World War I and continuing until the end of World War II, when the Bretton Woods institutions were created (that is, the International Monetary Fund, or IMF, World Bank, and the General Agreement on Tariffs and Trade, later re-organized into the World Trade Organization, or WTO). In the post-World War II environment, fostered by international economic institutions and rebuilding programs, international trade and investment dramatically expanded. By the 1970s, the effects of the flow of trade and investment became increasingly visible, both in terms of the benefits and the disruptive effects.

As with all human endeavors, globalization processes are strongly affected by the values and motivation of the people involved in the process. In theory, globalization should benefit all people because it can produce greater overall economic value. Achieving an equitable distribution of the added value, however, would require the people who dominate the market to embody the virtue of sacrificing themselves to serve the higher purpose of the good of all. However, the legacy of colonialism, which causes a lingering arrogance among the powers in the Group of Eight and creates suspicion in the developing world, means that for many people, globalization is feared and resisted as a negative. Corporatist culture is seen as trampling upon local values and local economies. The Western, secular value system of the major economic actors is seen as a neo-colonial affront to people with non-Western religious and cultural values.

Thus, resistance to globalization is growing in many places, manifesting in the early twenty-first century with rise of Islamic terrorism. That al-Qaeda's target on September 11, 2001, was New York City's World Trade Center was no coincidence.

To be successful, the leaders of the globalization process need to practice the virtues of respect for religious and cultural values, and sacrifice their economic self-interest for the benefit of people suffering poverty and want. It is a challenge whose resolution requires world leaders to pay heed to the religious and cultural dimensions of life and to develop a global world view that lifts up the shared values of all cultures.

2.0. Objectives

At the end of this unit, you should be able to:

- Understand the Pre first world war Globalization
- Understand the second wave of Globalization and some other aspect of Globalization.

3.0. Main Content

3.1 PRE-FIRST WORLD WAR GLOBALIZATION

In some respects globalization is not a new phenomenon. Many writers have pointed out that the integration of hitherto ‘unconnected’ areas into world markets for goods and labour has been going on for centuries, very often with official encouragement. Thus the opening up of the New World following the fifteenth-century discoveries led eventually to the linking of factor markets in Europe and North America as international flows of capital and labour moved across the Atlantic. Indeed, in the case of labour, the pre-First World War flows of migrants from Europe, taking advantage of the introduction of rapid, and relatively safe and cheap, mass ocean travel, dwarfed those we currently observe. Thus:

It is generally believed that with respect to migration and labor flows the modern system is less globalized than it was a century ago. In 1911, nearly 15 percent of the United States population was foreign born; today that number is probably a bit above 10 percent. Emigration rates from Europe, especially Ireland and Italy, were amazing: 14 percent of the Irish population emigrated in the 1880s, and over 10 percent of the Italian population emigrated in the first decade of the twentieth century. (Fischer, 2003)

Migration was not confined to Europe-New World flows. Large-scale movements of population out of China and India were taking place at roughly the same time as the European migrations. All in all, it is estimated that around 10 per cent of the world’s population was on the move at some time in the nineteenth century – as part of the ‘first wave’ of globalization.

Similarly, the transformation of financial-market opportunities by radical new cost-reducing technologies is no new thing. The invention of the telegraph, and the laying of the first successful transatlantic cable in 1866, meant that information could be communicated across the Atlantic in minutes rather than the 10-30 days then taken by ocean-going vessels. This facilitated the closer integration of the financial markets in Europe and North America, making virtually instantaneous financial dealing possible and cutting typical ‘settlement times’ on deals to only three days.

Certainly, for citizens of the more developed countries, by the late nineteenth century the globalization process was already well advanced in several important dimensions. Thus J.M. Keynes, later to be involved in the founding of the IMF and the IBRD, could reflect on the favoured position of a Londoner (probably a fairly wealthy Londoner) for whom

the advent of the telephone, rapid transit by steamship and railroad, and the integration of far-flung colonies into the metropolitan milieu meant that worldwide commercial transactions and travel, and access to a wide array of foreign products, were already commonplace and easy.

Although, when writing in 1920, Keynes was aware of the damage already done to the world economy by the First World War, its causes, and its consequences, he could not be expected to foresee the full extent of the sequence of economic setbacks which was about to ensue. The retreat from global integration associated with economic nationalism and protectionism in the 1920s and 1930s, and the many-faceted loss of productive potential caused by the Great Depression and the Second World War, resulted in a post-war world economy less globalized than that of the late nineteenth century.

3.2. THE 'SECOND WAVE' OF GLOBALIZATION

Faced with widespread destruction of economic infrastructure, dislocation of national economies, and declining standards of living, post-Second World War governments were eager to rebuild – and to avoid the mistakes made after the Great War. They made energetic efforts to dismantle barriers to trade on a multilateral basis, largely under the auspices of the General Agreement on Tariffs and Trade (the GATT – of which more is said later). The considerable success enjoyed by efforts to rebuild the world economy from the 1950s onwards owed much to political support for this liberalizing process – seen by many economic historians as constituting a 'second wave' of globalization.

Self-Assessment Exercise

Define Monetary Policy and explain the objectives of Monetary Policy.

3.3. Aspects of Globalization

Globalization carries multiple meanings, nuances, and applications. These include:

- **The formation of a global village** through closer contact between different parts of the world, with increasing possibilities of personal exchange, mutual understanding, and friendship between "world citizens," and creation of a global civilization. The World Bank defines globalization as the "Freedom and ability of individuals and firms to initiate voluntary economic transactions with residents of other countries." Marshall McLuhan's idea of "the global village," was introduced in his book *Explorations in Communication* (1960). The United Nations has coined the term "Our Global Neighborhood" to describe an emerging world-political context.
- **Globalization Theory** aims to understand complex connectivity proliferating at the global level considering both its sources and its implications across the various spheres of social existence.

- **In political science and international relations**, the current unit of analysis is the nation state. Globalization has brought forth supranational organizations and international regimes, that is, commonly accepted laws and commonly accepted practices. The loss of sovereignty by the nation state to transnational and supranational organizations is of greatest concern. A world system perspective is a world with a common political system (with a common social and cultural system), linked by a common language, cultural practices, and institutions.
- **In sociology and communications**, globalization is understood as global mass culture dominated by the modern means of cultural production (movies, television, the Internet, mass advertising, and so on). Mass communication produces images that cross and re-cross linguistic frontiers more rapidly and easily than goods and services, and speaks across languages in an immediate way. Global mass culture is dominated by the ways in which the visual and graphic arts have entered directly into the reconstitution of popular life, of entertainment, and of leisure with the image, imagery, and styles of mass advertising. This is dominated by Western cultural values and techniques. This process is homogenizing but also enormously absorptive of techniques and practices.
- **Economic globalization** refers to free trade and increasing relations among members of an industry in different parts of the world (globalization of an industry), with a corresponding erosion of national sovereignty in the economic sphere. The IMF defines globalization as “the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, freer international capital flows, and more rapid and widespread diffusion of technology” (IMF, World Economic Outlook, May 1997).

Self-Assessment Exercise

Discuss the aspect of globalization.

4.0 Conclusion

The principle policy concern of globalization is usually put in terms of issues of economic efficiency. Economists tend to judge globalization largely in terms of the gains or losses that it brings to the productive development of scarce world resources. However, many would argue that economic growth should always be secondary to, and in service of, security, justice, and democracy.

5.0 Summary

In this unit, we can say that the issues and the evaluations of globalization have been both positive and negative. In some respects, globalization has promoted increased human security, for example, with disincentives to war, improved means of humanitarian relief, new job creation opportunities, and greater cultural pluralism. However, in other ways

globalization has perpetuated or even deepened warfare, environmental degradation, poverty, unemployment, exploitation of workers, and social disintegration. Thus, globalization does not automatically increase or decrease human security. The outcomes are positive or negative depending on the policies that are adopted toward the new geography.

6.0. Tutor-Marked Assignment

1. Discuss the Pre first world war Globalization
2. Discuss the second wave of Globalization
3. Briefly write short note on ‘Aspect of Globalization’

7.0. REFERENCES/FURTHER READING

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UNIT THREE: THE NEW GLOBALIZATION

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1.0 INTRODUCTION

You may be thinking what differentiates the wave of globalization which has engulfed the world since the early 1990s from earlier, more patchy and incomplete, bursts of international integration is the confluence of a particularly potent combination of factors:

- Technological innovations;
- Political willingness on the part of many influential countries to promote the international integration of markets by removing barriers to trade and other international economic transactions;
- The pro-globalization activities of a growing number of international agencies and institutions;
- An ever-expanding array of private-sector agents engaged in international trade and foreign investment-firms, banks, and other financial and commercial organizations focused on pursuing enhanced profits by participating in the globalization process;
- Feedback from the success of globalization itself: expansion of the global economy, and global income, which provide ever-increasing opportunities for profitable participation in the process -through involvement in trade, international finance, foreign investment, and other activities tending to reinforce globalization.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning of New Globalization
- Know the differences relationship between international organization and Globalization
- Understand how technology can be used as a means of information

3.0. Main Content

3.1 TECHNOLOGY AS A MEANS OF INFORMATION

Central to the feasibility of the ‘new’ globalization is the advent of a number of major technological innovations applicable to information technology. Particularly important is the use of ever more efficient microprocessors to make possible much faster and much cheaper digital computing. This, together with associated advances in fibre optics and electronic switching devices, has simultaneously greatly speeded up telecommunications and simplified and vastly expanded information-exchange possibilities over long distances while radically reducing communication and data-processing costs. Also, the use of satellite communication technology has ensured that no part of the globe with significant population is outside the range of mobile telephone services or the World Wide Web.

Specific examples of the globalizing effects of these technological innovations are:

- The use by manufacturers, especially the larger multinational corporations, of large amounts of information to adjust product characteristics to better suit market demand, to streamline the paperwork associated with transactions, and to co-ordinate, and optimize, the joint activities of branches and affiliates, however widely dispersed across a country or across the globe.
- The application of computer-based automation to production processes, typically in design and process control, to speed them up, make them more accurate, and cut costs.
- The use by consumers of web-based information sources to improve their access to information on the range of product choice and prices. Given the radical reduction, or elimination, of barriers to international merchandise trade, this can effectively integrate domestic and foreign consumer-goods markets, and significantly affect buying habits.
- In the labour market the much-improved flows of up-to-date information on job vacancies and job-seekers, covering much larger populations than heretofore, and crossing national boundaries to include overseas populations.

3.1.2. TRANSPORTATION

Improved, cost-reducing technologies interacting with privatization and deregulation, and increasing consumer affluence, have made air travel a cheap, mass-market phenomenon and air-freighting a genuinely competitive means of opening up distant markets for high-value products. At the same time, the steady advance of sea-freight technology has led to

continuing and significant reductions in the real cost of transporting goods by sea.

Self-Assessment Exercise

The ‘new’ globalization is the advent of a number of major technological innovations applicable to information technology. Discuss

3.2. GLOBALIZATION POLICY

It is important to recognize that a ‘technological revolution’ is not a sufficient condition for globalization to take place. The technological developments referred to above, and the political will to embrace them or to encourage their use, are both necessary for the pace of globalization to be stepped up radically. While the availability of the Internet and of satellite-communication technology have made possible for the first time easy and cheap communication over long distances, actually making use of the opportunities so created could have been, and still can be, made difficult by governments, including governments of developing countries. Thus, with regard to information flows themselves, it is still possible to block, up to a point, private access to long-range Internet and telephone facilities – and where there are technical problems with so doing, some reduction in usage can be achieved by making the use of such facilities illegal.

Second, even if access to international information technology is not deliberately restricted, systematic large-scale exploitation of the opportunities for economic globalization created by the availability of cheap information can be severely hampered simply by imposing traditional barriers (tariffs and non-tariff) on merchandise trade, by erecting obstacles to the international movement of persons (via tougher immigration laws and restrictions on working), by deterring the inflow of foreign funds (through denying legal protection to foreign owners of capital engaged in financial or direct investment), by restricting trade in services (through denying market access to foreign suppliers), and by obstructing the commercial trade in information-related services (through refusing to recognize intellectual-property rights).

Put another way, the massive strides made in globalizing over recent years could not have been taken had all governments been wedded to illiberal, anti-globalization philosophies; the potential of the technological revolution alone was not enough to guarantee the advent of globalization. A crucially important factor in securing the co-operation with globalization of most governments, including those of developing countries, has been the active encouragement (through pursuing policies of deregulation) of the process provided by some of the larger Western countries, together with prompting, even arm-twisting, by powerful international agencies, notably the WTO, the IMF and the World Bank – that owe their origins to the same countries.

Self-Assessment Exercise

Discuss on the term “Globalization Policy”.

3.3. INTERNATIONAL ORGANIZATIONS AND GLOBALIZATION

The process of globalization has been supported and promoted by a range of international economic institutions which have, in many cases, gained additional global influence as a result of the process. Particularly significant amongst these are the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO). Other supra-national institutions, both ‘official’ and emanating from civil society and NGOs have been – and may be in the future – influential in accelerating, or retarding, globalization.

3.3.1. THE WORLD BANK, THE INTERNATIONAL MONETARY FUND, AND THE WORLD TRADE ORGANIZATION

The origins of all three of these organizations lie in the Bretton Woods Conference (officially styled The United Nations Monetary and Financial Conference) held in the Mount Washington Hotel in Bretton Woods, New Hampshire, US, in July 1944, just one year before the end of the Second World War.

There a working group, headed by J.M. Keynes, drafted proposals for a body designed primarily to channel funds to repair the devastation done by the Second World War. This became the International Bank for Reconstruction and Development. The activities of this institution were soon to broaden to include providing financial assistance to developing countries, in which role it is better known as the ‘World Bank’.

A second working group, headed by Harry Dexter White of the United States, developed the terms of reference and format for an international monetary organization the purpose of which was to assist countries in reaching, and maintaining, balance-of-payments equilibrium, and stability in the foreign-exchange markets. This became the International Monetary Fund (IMF).

The Conference also proposed the creation of an International Trade Organization (ITO) to establish rules and regulations for international trade. Although the ITO's charter was later agreed at the UN Conference on Trade and Employment held in Havana, Cuba, in March 1948, it was not ratified by the US Senate. As a result, the ITO never came into existence. In its place a much more modest undertaking, the General Agreement on Tariffs and Trade (the GATT) – an international treaty rather than an institution, aimed at removing or reducing tariff and non-tariff barriers to trade – was agreed. Many years later, in 1994-5, the Uruguay Round of GATT negotiations established the World Trade Organization (WTO), a body charged with extending and developing the GATT principles into a comprehensive, rules-based system for governing world trade, and with administering the new, extended system.

Self-Assessment Exercise

Discuss the relationship and the differences between the World Bank, the international monetary fund, and the world trade organization.

3.4. THE IBRD/WORLD BANK

The World Bank began operations in 1945. Its main aim, initially, was to provide loans for the speedy rehabilitation of countries devastated by the Second World War. The first loan was made to France to finance a US\$250 million purchase of machinery. From the outset, developing countries comprised a substantial proportion of the membership of the Bank, and it was always intended that 'development' projects in these countries would become eligible for financing when the Bank's financial position permitted this. In the event, the advent of the Cold War brought the Marshall Plan, through which American funds were made available for European reconstruction on a scale far larger than could be contemplated by the Bank, so rendering its 'reconstruction' efforts largely redundant. This opened the way for a shift in the focus of its lending, and the first 'development' loan was made in 1947 -to Chile, to pay for electricity-generation equipment and agricultural machinery.

For some years thereafter the Bank acted very much as an orthodox commercial lender to developing-country governments, its main attraction to the latter being its willingness to lend for development projects at unusually low interest-rates made possible by its own 'non-profit' status, coupled with its ability to borrow cheaply from the international capital market because of its 'triple A' credit rating. The latter was achieved because of the perceived 'official' character of the Bank, which meant that lending to it was very low risk. A further reason for the low interest rates charged by the Bank was that the risk of default on loans that it made was also assumed to be very low, so that the Bank itself charged a minimal risk-premium on these loans.

However, from around 1960, when its affiliate, the International Development Association (IDA), was founded to provide low- (or zero-) interest-rate loans, and grants, to low-income countries, the Bank shifted progressively towards its present position as a development institution willing to fund projects and technical assistance in a very wide range of areas, including the social and humanitarian, and now heavily committed to pursuing the Millennium Development Goals of poverty reduction and sustainable development. By 2008 the Bank had increased its membership to 185 countries, had around 1800 ongoing projects (covering virtually every developing country) and an annual disbursement of development funds of the order of US\$24 billion. To this figure must be added the project aid provided by the International Finance Corporation (IFC) – another affiliate, formed in 1956 to promote private enterprise (at a time when state finance tended to dominate investment in the developing world).

The World Bank now has two further associates. The Multilateral Investment Guarantee Agency (MIGA) supports direct foreign investment by offering insurance against the adverse financial effects of political turmoil. And the International Center for Settlement

of Investment Disputes mediates in cases of dispute between foreign investors and host countries.

Self-Assessment Exercise

Differentiate between the IBRD and World Bank

3.5. THE IMF

The Articles of Agreement of the IMF defined its objectives as being ‘To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members’. This was to be done by ‘promoting international monetary cooperation through a permanent institution providing the machinery for consultation and collaboration on international monetary problems’. Promoting exchange stability and orderly exchange arrangements, while seeking the elimination of restrictions on any foreign-exchange transactions hindering the growth of world trade, were important elements in its programme, as was the setting up of a multilateral system of payments in respect of current transactions between members. The Fund would also help members to achieve relatively speedy removal of balance-of-payments disequilibria – ‘without resorting to measures destructive of national or international prosperity’ – by making ‘the resources of the Fund temporarily available to them under adequate safeguards’ (IMF, 1945).

In return for financial assistance, countries making use of the services of the IMF are usually required to agree in advance to certain conditions regarding policy changes (the ‘conditionally’ terms). These may be extensive, possibly including the adoption of thoroughgoing ‘structural adjustment programmes’ (SAPs) aimed at removing the underlying fiscal, monetary or political causes of the troublesome imbalances – typically large and persistent budget deficits, severe inflation, and counterproductive official intervention in the foreign-exchange market.

Self-Assessment Exercise

Discuss on the role of IMF in promoting Economic Development in a country.

3.6. DECISION-MAKING BY THE WORLD BANK AND THE IMF

Voting power on the Boards of the World Bank and the IMF is determined, not on the UN system of ‘one country one vote’, but in proportion to the respective financial contributions (‘quotas’) of each country. The IMF’s Articles of Agreement do not, in fact, indicate precisely how these quotas are to be determined. However, in practice, they are set, for both institutions, relative to the approximate ‘economic sizes’ of the different member countries. In 2008 the US (which traditionally provides the President of the Bank) had approximately 17 per cent of the total voting power and, as a consequence was, as it had been since 1945, the dominant decision-maker. Japan, Germany, the UK, France, Italy and Canada together had 28 per cent of total voting power and were also

influential in deciding policy. European influence has been further increased as a result of the convention of appointing a continental European as Managing Director of the Fund. A further 14 countries accounted for 27.1 per cent of the votes. The remaining 164 countries – 89 per cent of the total membership, and predominantly developing countries – had only 27.9 per cent of the votes.

Thus, despite being the focus of the activities of the World Bank and the IMF and, in many cases, having been significantly influenced by these activities, developing countries have, over the years since the founding of the Bank and Fund, had little say in determining their policies. These have tended to be set by (primarily) the US, and the wealthier European economies plus Japan. However, a package of reforms to be implemented by 2008 provides for both significant ad hoc increases in the quotas of 'the most underrepresented' members (China, Korea, Mexico, and Turkey), and the introduction of a new formula for determining quotas based on four variables – GDP, 'openness', reserves, and variability of current-account aggregates. The overhauling of the formula is seen as providing an important step towards reform of governance of the IMF and the World Bank, as the 'rebalancing' of quota shares will better reflect the current relative weight of member countries in the world economy and strengthen the 'voice and participation' of low-income members.

3.6.1 THE ROLE OF THE WORLD BANK AND THE IMF IN PROMOTING GLOBALIZATION

The relevance of the World Bank and the IMF to globalization is two-fold. First, since they have emerged as the dominant source of policy advice (backed up with funding) as to how developing economies should be run, they have, to a greater or lesser degree, induced a large number of developing countries to pursue parallel development strategies, thus in a sense 'globalizing' their development philosophies. Their second, and more directly 'globalizing', influence stems from their favouring deregulation and 'openness' and integrating member economies, as far as is practicable, into the global economy.

3.6.1. THE WORLD TRADE ORGANIZATION

The World Trade Organization (WTO) is the globalizer par excellence. Its creation, as the successor to the GATT, was announced in the Marrakesh Declaration of 15 April 1994, which marked the successful conclusion of the long-drawn-out Uruguay Round of multilateral negotiations on removing barriers to international trade. The conclusion of the Round, and the setting up of the WTO, were seen by the Ministers of the countries involved as a 'historic achievement. . . which they believe will strengthen the world economy and lead to more trade, investment, employment and income growth throughout the world'. Key features of the new WTO were 'the stronger and clearer legal framework . . . adopted for the conduct of international trade [in goods] . . . and the establishment of a multilateral framework of disciplines for trade in services and for the protection of trade-related intellectual property rights'. The truly worldwide coverage, and influence, of the new organization were emphasized in the Declaration which foresaw 'a new era of global

economic cooperation . . . [and] greater global coherence of policies in the fields of trade, money and finance, including cooperation between the WTO, the IMF and the World Bank for that purpose’.

At the end of 1995 the WTO had 112 members. By July 2008 membership had reached 153 (of which 32 were ‘least-developed’). A further 30 countries were engaged in the accession process. Thus total membership was heading for at least 183 - very close to the total membership of the United Nations (at 192 in 2008). Like the UN General Assembly-and unlike the World Bank and the IMF-the WTO operates a one-country-one-vote system.

3.6.2. BASIC PRINCIPLES

The basic principles upon which much WTO regulation of trade and associated activities are based are the most favoured nation (MFN) principle – which requires that any concession offered by one member country to a second member country (the ‘most favoured nation’) must also be offered to all other member countries (irrespective of whether or not they have been parties to the negotiations between the first two parties) – and the national treatment principle which bans discrimination in favour of local nationals and against foreigners in trade-related activities.

Self-Assessment Exercise

Discuss the decision making by the World Bank and the IMF

4.0 Conclusion

Experts generally acknowledge globalization brings both benefits and risks, which must be managed. More tightly integrated global economic markets, for instance, carry greater potentials for global recessions if countries are not able to work together to implement effective economic policies that reduce that risk. However, we can conclude that Globalization and the international organization has also brought a new techniques and innovation in trade policy in the world.

5.0 Summary

In this unit, we have been learnt and discuss at length technology as a means of information, Globalization Policy, international organization and Globalization, the IBRD/World bank, the IMF and the decision making by the world Bank and the IMF. Therefore we can conclude here that the new Globalization has brought new innovation, techniques and new ways of doing things base on the intervention of the international Organization.

6.0. Tutor-Marked Assignment

1. Differentiate between IBRD, World Bank and IMF
2. Discuss the role of international Organization in promoting trade among nations of the world

3. Define the term Globalization as a means of information technology.

7.0. REFERENCES/FURTHER READINGS

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UNIT FOUR: INTERNATIONAL TRADE

CONTENTS

- 1.0 Introduction
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- 3.0 Main content
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1.0 INTRODUCTION

So if you may be thinking what a trade or International trade means. A layman on the street will conclude that international trade is a trade between two international countries. The man maybe right or wrong but we can then define international trade as the exchange of capital, goods, and services across international borders or territories. It is the exchange of goods and services among nations of the world. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has existed throughout history its economic, social, and political importance has been on the rise in recent centuries.

If you walk into a supermarket and are able to buy South American bananas, Brazilian coffee and a bottle of South African wine, you are experiencing the effects of international trade.

International trade allows us to expand our markets for both goods and services that otherwise may not have been available to us. It is the reason why you can pick between a Japanese, German or American car. As a result of international trade, the market contains

greater competition and therefore more competitive prices, which brings a cheaper product home to the consumer.

Trading globally gives consumers and countries the opportunity to be exposed to new markets and products. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewelry, wine, stocks, currencies and water. Services are also traded: tourism, banking, consulting and transportation. A product that is sold to the global market is an export, and a product that is bought from the global market is an import. Imports and exports are accounted for in a country's current account in the balance of payments

At the end of this unit, you should be able to:

- Define and understand the meaning of international trade
- Know the meaning of the dynamic gains from trade
- Understand the impact of trade liberalization on Growth and Poverty.

3.0. Main Content

3.1 Potential benefits resulting from trade liberalization

The most straightforward manifestation of globalization is increased international trade (henceforth simply 'trade'). The dismantling of tariff, and other, barriers to commerce between nations, and the moves (however halting) towards a single, integrated world market for goods and services, may be expected to lead to a significant increase in the magnitude of world trade. The potential gains to developing countries from deregulating trade are conventionally divided into two components – ‘static’ efficiency gains, and ‘dynamic’ gains. These are discussed below.

	Units of labour input/ton output Nigeria	Units of labour input/ton output Ghana
Maize	6	1
Cement	24	2
Relative price (tons maize per ton cement)	4	2

A Table showing Hypothetical costs of production of maize and cement in Fiji and Italy

3.1.1 Static efficiency gains from trade: Ricardo’s Comparative Advantage theory

The possibility that welfare gains may be had by adopting a free-trade regime is the central conclusion flowing from David Ricardo's celebrated comparative-advantage

model.

Consider two countries – one a high-income country, the other a lower-middle-income country. For convenience, we will call them Ghana and Nigeria. Now make the grossly simplifying assumptions that both countries produce only two goods – maize and cement – and that, in both cases, the sole input is labour. The hypothetical production costs for the two goods in the two countries are expressed, in the table above, in terms of labour inputs per ton of output.

Assuming that product prices are set with reference to the respective labour inputs, in Nigeria 1 ton of cement (24 units labour) would exchange for 4 tons of maize (24 units labour); that is, the price of 1 ton of cement is 4 tons of maize. In Ghana, 1 ton of cement would exchange for 2 tons of maize.

Using a simple example of this sort Ricardo demonstrated that, despite the – at first sight – unattractive nature of Nigerian's products to Ghanaian consumers because of their higher unit cost in terms of labour input (bearing in mind that in this simple model labour is the only factor of production), it will, in fact, be to both countries' advantage to trade.

Note that, in both industries, production in Ghana is more efficient than in Nigeria, the labour input per ton output being lower in Ghana than in Nigeria. Note also that, despite being at an absolute disadvantage in maize production, Nigeria has a relative, or comparative, advantage in maize production, because it is 'less bad' at producing it. So, if the two economies were now opened to international free trade, Ghanaian would see Nigerian maize as a bargain. (By exporting 1 ton of cement they get 4 tons of Nigerian maize – whereas at home they get only 2 tons of maize). At the same time, Nigerians see Ghanaian cement as a bargain. (By exporting 4 tons of their maize they get 2 tons of cement – instead of only 1 ton). Put another way, by importing both trading partners reduce the opportunity cost of obtaining the imported good.

Given this new Ghanaian demand for its maize, in Nigerian producers of cement would shift resources into maize production. In Ghana the reverse would happen as Ghanaian cement production expands to satisfy the new demand from Nigeria. This move in the direction of specialization would affect global supply and demand and would thus very probably affect product prices, raising the price of Nigerian maize and the price of Ghanaian cement. The final, equilibrium price ratio, in effect now the world price ratio, or the world terms of trade, would lie somewhere between the two pre-trade price ratios, for instance at 3 tons of maize per ton cement.

What is the outcome of this process? The key conclusion is that both countries are better off with international free trade than without it because of the so-called static gains from trade flowing from specialization. Nigerians can now import from Ghana the same number of tons of cement as they bought before trade began, but at a smaller sacrifice in

terms of maize given up. The Ghanaians are in a similar position, with less cement sacrificed to get any particular amount of maize. This also means that specialization and trade have resulted in an increase in total (world) production. However, this simple model cannot tell us how the gains from trade will be divided between the two countries – a potentially important issue.

Neoclassical development of the law of comparative advantage: the basic classical law of comparative advantage discussed above hinges on the assumption that labour productivities, though fixed in any one country for the production of a given commodity, differ across countries for production of that commodity. (In fact, if these fixed productivities happen to be the same across countries, or in the same ratio – in our example, if Ghana required 4 units of labour to produce one unit of cement – relative productivities, and therefore price ratios, would be the same so there would be no incentive to trade.)

A more flexible, neoclassical development of the Ricardian model – the Heckscher-Ohlin model (Ohlin, 1933) – allows for differences in relative factor endowments across countries. These result in different relative prices of factors internationally. Relatively capital-abundant countries will have relatively cheap capital, and relatively labour-abundant countries will have relatively cheap labour. As a result, the former group of countries, which will tend to be high-income countries, will have a cost advantage in production of relatively capital-intensive goods, and will tend to specialize in, and export, them. Countries which are relatively labour-rich – mainly developing countries – will tend to specialize in, and export, relatively labour-intensive goods. Thus, differences in factor endowments, rather than differences in labour productivity or differences in technologies available to countries, become the source of differences in relative product prices, and hence of trading opportunities.

Important conclusions derived from the Heckscher-Ohlin theorem are:

- Specialization by countries in making and exporting those goods which use their relatively abundant factor relatively intensively in production results in ‘static’ welfare gains.
- Since ‘relatively capital-intensive goods’ tend to be the more sophisticated manufactures, and since ‘relatively labour-intensive goods’ tend to be agricultural goods and basic manufactures, production and exporting of the former kinds of goods will tend to be concentrated in developed countries, and production and exporting of the latter kinds of goods will tend to be concentrated in developing countries.
- The process of specialization referred to in the previous paragraph will tend, in each country, to increase demand for the relatively abundant factor. So the price of capital will tend to rise relative to that of labour in the capital-rich (developed) countries, and the price of labour will tend to rise relative to that of capital in the labour-rich (developing) countries. Put another way – relative factor prices will tend to converge in developed and developing countries (this is the ‘factor-price-

equalization theorem’). This also means that the relatively scarce factor in each country will tend to lose as a result of the opening of trade; that is, labour will lose in capital-rich/labour-poor developed countries, and capital-owners will lose in developing countries. (However, the dynamic gains from trade – discussed below – may well outweigh these specific losses.)

Self-Assessment Exercise

Discuss the potential benefits resulting from trade liberalization

3.2. The ‘dynamic’ gains from trade

In addition to reaping the ‘static’ gains accruing from engaging in international trade, participating countries may benefit from additional ‘dynamic’ gains – which could well be much more significant than the static gains. Such gains may take the form of:

- The opportunity for firms to benefit from economies of scale through access to markets larger than the domestic ones, especially if production is subject to increasing returns. Even in developing countries with fairly large populations, low per capita incomes can make the local markets effectively ‘small’.
- Improvements in efficiency of firms' performance. These may arise for several reasons, in particular: the need to cut costs in order to survive in the more competitive international economy; the improvement in products, production processes and managerial systems resulting from contact (competitive or collaborative) with outside firms; and acquisition of ‘knowledge’.
- Exchange of exports for imported resources to be used in producing other goods. Where these imported resources are more productive than the domestic alternative, they can improve overall efficiency, thus permitting a pushing out of the production-possibility curve (PPC).
- Use by export industries of imported technologies that permit ‘learning’ by the labour force, which may be transferred to other occupations, and again help to push the PPC outwards.
- Increases in exports that may make possible increased imports of food and medicinal products. Aside from their humanitarian benefits, these new imports are likely to improve the health of the population, and thus improve the productivity of the labour force.

Many analysts believe that the favourable effects resulting from expanding trade under a regime of globalization will have important pro-development consequences. It seems likely that improvements in productivity made possible by the combination of the ‘static’ efficiency gains resulting from specialization along lines indicated by comparative advantage, together with the multi-faceted ‘dynamic’ gains from trade liberalization, will result in accelerated growth which, in turn, will make possible, in addition to generally higher standards of living, reductions in the incidence of poverty, and improvements in income distribution.

Self-Assessment Exercise

List and explain the dynamic gains from trade

3.3. POTENTIAL COSTS RESULTING FROM TRADE LIBERALIZATION

Although the overall impact is expected to be favourable, liberalizing trade can inflict costs on some individuals and on some sectors of economic activity. Indeed, it is almost inevitable that, in the short term at any rate, there will be losers, as well as gainers, as a result of the economic restructuring which usually follows liberalization. Specific problems may include:

- Increased unemployment and failure of domestic firms because of intensified competition from imports. In small economies with few alternative employment opportunities, some of the older displaced workers may have to resign themselves to being unemployed for the rest of their lives.
- Localized increases in poverty in communities, or regions, particularly badly hit by competition from imports.
- Deterioration in income distribution in the period of adjustment following liberalization as some industries expand rapidly while others decline, and so long as increased levels of unemployment and poverty persist.
- Diminished enthusiasm on the part of governments for the introduction, or continuation, of measures such as statutory minimum wages which may erode competitive advantage in export markets.
- Relegation to a ‘low-growth trajectory’. The comparative advantage of some developing countries lies in ‘non-dynamic’ goods, production of which offers few opportunities for improving efficiency by upgrading technology, or by ‘learning by doing’ on the part of the labour force – and demand for which is slow-growing or declining. In such cases, liberalizing trade may bring to bear market forces, trapping countries in production of these goods. Growth is likely to be weak or non-existent in such situations. A variant of this argument was advanced to justify protective, import-substituting interventions to change the comparative advantage of developing countries; behind tariff barriers, it has been argued, local industries might become more efficient by taking advantage of dynamic scale benefits and opportunities for ‘learning by doing’.
- Erosion of local political sovereignty. The encroachment by the WTO on local legislative autonomy in areas such as trade barriers, business taxation, ‘technical’, and ‘sanitary and phytosanitary’ regulations relating to traded goods, and support confined to local firms producing traded goods, seems to many citizens of developing countries to infringe local sovereignty. The impression may be created that national governments in the developing world shape their economic policies along lines set by international agencies on behalf of the US or European countries – and that there is no reciprocity. Such elected national governments are seen as impotent, having influence neither in their own countries nor in the developed

world which moulds their policies. This implies what Stiglitz calls a ‘democratic deficit’.

- Adverse environmental impacts. It is frequently claimed that globalization of trade and environmental deterioration are linked. This allegation can refer simply to the possibility that increases in trade resulting from globalization give rise to increased production and hence more pollution. Or it may be argued that removing restrictions on the freedom of manoeuvre of multinational corporations enables some to relocate pollution-intensive processes in countries where pollution controls are weak – probably developing countries.

Self-Assessment Exercise

Do you think there is a potential cost resulting from trade liberalization?

3.4. THE IMPACT OF TRADE LIBERALIZATION ON GROWTH, AND POVERTY

The impact on growth of liberalizing trade has been one of the most worked-over topics in the debate on globalization. In fact, the same topic was regularly analyzed long before the advent of current globalization but, as the context is now markedly different, it is instructive to consult the more recent contributions to the literature. Here we look at the results of the major studies by, respectively, Dollar and Kraay (2004), and Frankel and Romer (1999).

Given the breadth and vigour of the attacks on globalization over this issue, it may seem a little unfair of Dollar and Kraay to open their influential analysis with what amounts to a pre-emptive strike on the credentials of critics – ‘Openness to international trade accelerates development: this is one of the most widely held beliefs in the economics profession, one of the few things on which Nobel prize winners of both the left and the right agree’. However, it is the case that the balance of academic opinion on the matter favours the views that trade liberalization usually leads to increased trade (this proposition is not the subject of serious dispute) and that increases in trade resulting from liberalization make a significant contribution to economic growth and hence to development.

The Dollar and Kraay study analyzed a group of ‘globalizers’ – developing countries which, post-1980, markedly increased their ratio of trade to GDP and/or significantly reduced their average import tariff rates – and compared their economic performance with that of ‘non-globalizing’ developing countries. The key findings were that the rate of economic growth in the globalizers (which included China and India) increased from the 1970s through to the 1990s, while the developed countries, and the non-globalizing developing countries, experienced falling growth rates over the same period.

In the 1990s the globalizing developing countries grew at 5.0% per capita; rich countries at 2.2% per capita; and non-globalizing developing countries at only 1.4% per capita.

Thus the globalizers are catching up with the rich countries while the non-globalizers fall further and further behind.

These Dollar and Kraay findings are supported by the results of many other studies, including those of the second major analysis quoted here: Frankel and Romer, using a gravity model and a sample of 63 countries, found a ‘substantial’ positive relationship between trade and income growth such that ‘increasing the ratio of trade to GDP by one percentage point raises income by between one-half and two per cent’.

Further support for this general conclusion is to be found in, inter alia, Sachs et al. (1995), Dollar (1992), Winters (2004) – and Ades and Glaeser (1999), who use evidence based on the experience of laggard areas in the nineteenth-century American economy to show that backwardness and openness can be (or, rather, have been) an effective combination of characteristics favouring growth.

This area of analysis poses particularly tricky analytical problems because of the difficulty experienced in separating statistically the effects on growth of measures affecting trade from the effects on growth of other measures or characteristics – an ‘identification problem’. Thus ‘countries with bad macroeconomic policies and weak institutions also have severe trade restrictions. And when countries liberalize their trade regimes, it typically takes place along with a macroeconomic stabilization programme’ (Hsieh, 2000). In other words, measures of the extent of ‘openness’, or ‘outward-orientation’, or ‘integration into the world economy’, or ‘trade liberalization’ used in analysis often capture the effects of other policies or country characteristics as well. (Notable examples of criticism of statistical methodology in this context are to be found in the attack on the Dollar and Kraay study by Nye and Reddy (2002), and in the more general broadside by Rodriguez and Rodrik (2000)).

However, it does seem that ‘the weight of the evidence supports the by-now conventional view that trade is good for growth’. (Kose et al., 2006). Lindert and Williamson (2001) certainly believe so. They offer a useful (if not wholly scientific) corrective to excessive preoccupation with fine points of statistical technique in the face of what seems, at the intuitive level, to be overwhelming evidence in favour of the existence of a positive link between trade and growth. Thus it seems safe to assume that, in many countries, globalization has increased trade – which has, in turn, increased growth rates.

Self-Assessment Exercise

Discuss the impact of liberalization on growth and poverty

3.5. Does liberalizing trade reduce the incidence of poverty?

Turning to the impact of liberalizing trade on poverty, the picture is less clear. Although it might seem likely, at the intuitive level that the increased growth resulting from trade liberalization will lead to reductions in poverty levels in developing countries it is necessary to bear in mind that the changes associated with liberalization create losers as

well as winners. It is, then, disappointing that no robust evidence has thus far been found linking trade liberalization directly to overall reductions in poverty. Until such time as harder evidence – either way – is available, we must content ourselves with the indirect finding that, since trade-driven growth does not seem to affect income distribution in developing countries, it is probable that the poor are better off in absolute terms as a result of liberalization – since they retain a constant share of an expanding cake. Or, as Dollar and Kraay (2004, p. 27) put it: ‘There is no systematic relationship between changes in trade volumes and changes in household income inequality. The increase in growth rates that accompanies expanded trade therefore on average translates into proportionate increases in income of the poor’.

Self-Assessment Exercise

Do you think liberalizing trade reduce the incidence of poverty? Discuss

4.0 Conclusion

International trade is the exchange of goods and services between countries. This type of trade gives rise to a world economy, in which prices, or supply and demand, affect and are affected by global events. Political change in Asia, for example, could result in an increase in the cost of labor, thereby increasing the manufacturing costs for an American sneaker company based in Malaysia, which would then result in an increase in the price that you have to pay to buy the tennis shoes at your local mall. A decrease in the cost of labor, on the other hand, would result in you having to pay less for your new shoes.

However, trading globally gives consumers and countries the opportunity to be exposed to goods and services not available in their own countries. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewelry, wine, stocks, currencies and water. Services are also traded: tourism, banking, consulting and transportation. A product that is sold to the global market is an export, and a product that is bought from the global market is an import. Imports and exports are accounted for in a country's current account in the balance of payments.

5.0 Summary

In this unit, we have been learnt and discuss about the potential benefits resulting from trade liberalization, the dynamic gains from trade, potential cost resulting from trade liberalization, the impact of trade liberalization on growth and poverty and whether liberalizing trade reduce the incidence of poverty.

However, as earlier discuss international trade is the exchange of goods and services between countries. This type of trade gives rise to a world economy, in which prices, or supply and demand, affect and are affected by global events. Political change in Asia, for example, could result in an increase in the cost of labor, thereby increasing the

manufacturing costs for an American sneaker company based in Malaysia, which would then result in an increase in the price that you have to pay to buy the tennis shoes at your local mall. A decrease in the cost of labor, on the other hand, would result in you having

	Units of labour input/ton output Nigeria	Units of labour input/ton output Mali
Crude Oil	6	1
Rice	24	2
Relative price (tons maize per ton cement)	4	2

to pay less for your new shoes.

6.0. Tutor-Marked Assignment

1. Write short notes on the following:
 - (i) Absolute Advantage
 - (ii) Comparative Advantage
 - (iii) Trade Liberalization
 - (iv) Gains from trade
2. Assuming two countries Nigeria and Mali are into trade as shown in the table below;

Consider two countries – one a high-income country, the other a lower-middle-income country. For convenience, we will call them Nigeria and Mali. Now make the grossly simplifying assumptions that both countries produce only two goods – crude oil and Rice – and that, in both cases, the sole input is labour. The hypothetical production costs for the two goods in the two countries are expressed, in the table above, in terms of labour inputs per ton of output. Discuss fully the potential benefits resulting from trade liberalization.

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UNIT FIVE: INTERNATIONAL FINANCIAL FLOWS

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main content
 - 3.1 Types of international financial flows to Developing countries
 - 3.2 Financial Globalization: What is being deregulated?
 - 3.3 Globalizing Financial Flows: Potential Costs and Benefits
 - 3.4 Evidence on Financial Globalization and Economic Growth in Developing countries
 - 3.5 Evidence on Financial Globalization and Financial Volatility/instability in Developing countries.
 - 3.6 Collateral Benefits from Capital inflows
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0. INTRODUCTION

International capital flows are the financial side of INTERNATIONAL TRADE. When someone imports a good or service, the buyer (the importer) gives the seller (the exporter) a monetary payment, just as in domestic transactions. If total exports were equal to total imports, these monetary transactions would balance at net zero: people in the country would receive as much in financial flows as they paid out in financial flows. But generally the trade balance is not zero. The most general description of a country's balance of trade, covering its trade in goods and services, income receipts, and transfers, is called its current account balance. If the country has a surplus or deficit on its current

account, there is an offsetting net financial flow consisting of currency, securities, or other real property ownership claims. This net financial flow is called its capital account balance.

When a country's imports exceed its exports, it has a current account deficit. Its foreign trading partners who hold net monetary claims can continue to hold their claims as monetary deposits or currency, or they can use the money to buy other financial assets, real property, or equities (stocks) in the trade-deficit country. Net capital flows comprise the sum of these monetary, financial, real property, and equity claims. Capital flows move in the opposite direction to the goods and services trade claims that give rise to them. Thus, a country with a current account deficit necessarily has a capital account surplus. In BALANCE-OF-PAYMENTS accounting terms, the current-account balance, which is the total balance of internationally traded goods and services, is just offset by the capital-account balance, which is the total balance of claims that domestic investors and foreign investors have acquired in newly invested financial, real property, and equity assets in each other's' countries. While all the above statements are true by definition of the accounting terms, the data on international trade and financial flows are generally riddled with errors, generally because of undercounting. Therefore, the international capital and trade data contain a balancing error term called "net errors and omissions."

Because the capital account is the mirror image of the current account, one might expect total recorded world trade exports plus imports summed over all countries to equal financial flows payments plus receipts

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning of international financial flows to developing countries
- Know the basic concept of Financial Globalizing and Economic Growth in Developing countries.

3.0. Main Content

3.1 TYPES OF INTERNATIONAL FINANCIAL FLOWS TO DEVELOPING COUNTRIES

(a) Portfolio investment – equity and bonds

Equity portfolio foreign investment (PFI) refers to the purchasing of shares in a company as an 'indirect' investment-that is, a purely financial investment not related to control of the company. It is thus unlike the foreign 'direct' investment carried out by MNCs, which brings with it participation in management and control of the company. Bonds sold by developing-country governments and corporations to foreign buyers are also classed as portfolio investments.

(b) Commercial-bank lending

Commercial banks involved in international finance lend to foreign governments, firms and individuals. They may do so at arm's length from bank offices in their home countries (technically 'international banking') or, increasingly, from branches set up abroad, often in the countries in which their borrowers reside or operate ('multinational banking').

(c) Foreign direct investment

Foreign direct investment (FDI) is investment, usually by a multinational corporation (MNC), which involves the investor in active participation in the productive activity being financed – generally by operating the production facility.

FDI flows to developing countries qualify as an aspect of globalization in two ways. First, and most obviously, an act of direct foreign investment represents the extension of the activities of a firm into the international arena. Moreover, for the larger MNCs, which provide the vast bulk of FDI (and over one-third of total global exports), acts of overseas investment are very often integral parts of global corporate strategies. Thus, many firms scour the globe looking for the optimal locations in which to site subsidiaries, as part of a strategy of global maximization of profits (or market share, or whatever variable the firm seeks to maximize).

Second, the expansion of FDI may be seen, in part at least, as a response to promotion of globalization by the WTO. The latter clearly seeks to create, as nearly as possible, a global 'level playing field' for all investors – local or foreign – by removing discrimination against incoming MNCs on the part of host governments. The present Agreement on Trade Related Aspects of Investment Measures (TRIMs), goes some way towards this goal by barring member governments from discriminating between local and incoming foreign firms in tax treatment of trade-related activities. It also bans certain devices aimed at restricting the operations of MNCs, for instance requiring that incoming MNCs purchase a certain proportion of their inputs locally (a 'local-content requirement') or restricting an MNC's purchase of imports to an amount equivalent to the level of its exports (a 'trade-balancing' requirement). These TRIMS measures date back to the conclusion, in 1994, of the Uruguay Round, though their implementation by many developing countries has been phased over a lengthy period.

It is worth noting that, although discussion of the foreign-investment issue was dropped from the Doha Round agenda in 2004 in order to make room for discussion of less contentious issues, it seems likely that, in time, it will reappear- as the WTO continues to push towards a truly non-discriminatory 'globalized' framework for trade and investment.

(d) Migrants' remittances

The growth of migration, and the counter-flow of remittances, have been greatly facilitated by the interaction of several aspects of globalization. The sharp falls in the cost of international air transportation, together with the improvement in international information flows about employment opportunities in other countries, now accessible to residents of developing countries through the Internet, have encouraged migration. In addition, improvements in the geographical coverage, and reliability, of international money transfer arrangements facilitate the process of regularly remitting funds between countries.

(e) Foreign aid

Official development assistance (foreign aid), a significant component of financial flows to developing countries. Different international countries in world give aid to assist the less developing one to improve their economy.

(f) Exports and imports of goods and commercial services

Trade in goods and commercial services gives rise to flows of current-account expenditures (on imports) and receipts (from exports). The balance of these items – the ‘balance of trade’ – may be an important element in the overall net cash flow position of a developing country.

Self-Assessment Exercise

List and discuss the type of international financial flows to developing countries.

3.2. Financial globalization: what is being ‘deregulated’?

The ‘deregulation’ which forms the basis of ‘integration’ or ‘globalization’ of financial markets is the removal of controls which affect international flows of capital directly through explicit administrative measures, or indirectly through market-based measures. The most commonly encountered ‘direct’ measures are specific limits on the value of capital transactions (including, in some cases, total prohibition), requirements that permission be granted by the authorities for capital transactions (usually above a certain amount), limits on the importing or exporting of currency and gold, rules governing the operation of cross-border bank accounts, regulations affecting the use or surrender of foreign exchange earned by exporters, controls on cross-border transactions in bonds, equities and other securities, restrictions on the granting of credit to non-residents, controls on the financial activities of incoming MNCs – including importing, exporting, funding and liquidation of investments, controls on expatriate transactions in real estate, and prudential regulation of financial institutions. Market-based measures include the use of multiple exchange-rates – with different rates for different uses of foreign exchange - and taxes on foreign-exchange transactions. (A comprehensive account of regulatory measures, and of the current status of legislation in all member countries, is given in IMF (2007).

A large part of ‘deregulation’ of international financial markets involves the winding

down of these regulatory measures.

Self-Assessment Exercise

Define the term “Financial Globalization”

3.3. GLOBALIZING FINANCIAL FLOWS: POTENTIAL COSTS AND BENEFITS

(i) Potential benefits

Increased investment in developing countries: Standard neoclassical theory suggests that deregulation/globalization of capital markets should lead to more, and cheaper, capital becoming available to finance increased levels of investment in developing countries. Removing capital controls should lead to a major reorientation of capital flows towards capital-poor countries (that is, towards developing countries) where rates of return on capital should be relatively high. This improvement in the efficiency of resource allocation internationally would, of course, benefit investors, but would also be of major potential benefit to developing countries in which local savings were inadequate and/or local interest-rates high, as the incoming funds could be used to widen the capital base, increase the level of investment, and thus accelerate economic growth.

Additionally, increased overall investment (worldwide) should result from the broadening and deepening of the international capital base over which risks are spread. This effect, which is logically distinct from the reorientation of funds mentioned above, should further augment capital stocks, and growth potential, in developing countries.

Upgrading financial systems: Increasing inflows of funds of different kinds into developing countries may generate ‘collateral benefits’ – in particular by helping to develop the financial systems. This is expected by most commentators to be favourable to further improvement of growth prospects. It is discussed in detail later in this section.

Reduction in instability of production and associated macroeconomic aggregates: The impact of globalization, working through increased inward flows of portfolio investment, commercial bank lending, and FDI, can improve stability of output, employment and incomes in some developing countries – especially countries at a relatively early stage of development – by broadening the production base.

However, for more advanced developing countries, increased investment resulting from globalization, by encouraging greater openness of trade and increased specialization along lines dictated by comparative advantage, can narrow the output base. This in turn can increase the risk of output instability, especially in small developing countries – and would, of course, be seen as a cost rather than a benefit.

(ii) Potential costs

Capital flight: Abandoning controls on outward movement of capital may encourage capital flight, as nervous owners of capital make use of the opportunity to move their funds abroad in order to earn higher returns, or simply to shift these funds to what they perceive to be more secure locations. Such maneuvers narrow the resource base of the countries in which they occur.

Volatile inflows of capital: If flows of capital funds into a developing economy fluctuate widely from year to year, so giving rise to unpredictable variations in levels of investment, employment, incomes and budget revenues, problems may be created for both individual firms and workers, and for macroeconomic stabilization. Given the heterogeneous nature of these flows, their sources and their motivation, it would be surprising if there were no year-on-year variation. In view of this, the important considerations are just how volatile these deregulated flows are, and whether or not there are systematic differences in volatility across the different kinds of flow.

Financial crises/panics: Financial deregulation has also been identified as a contributory cause of financial crises in developing countries, these being triggered by the volatile behaviour of certain financial flows. The core element of many financial crises is likely to be the sudden, large-scale withdrawal or liquidation of foreign-owned funds and financial assets - made easier by deregulation.

Such crises often follow a characteristic pattern – with heavy inflows of capital into a developing country being followed by massive expansion of domestic credit and the creation of financial ‘bubbles’, which trigger a liquidation panic when they burst. The root cause of these crises is believed by some analysts to be a ‘market distortion’. This takes the form of asymmetry in the extent and accuracy of information available to lenders and borrowers, respectively, such that borrowers are better informed than lenders of the true nature of the risks associated with any given transaction. Reaction by lenders (who feel themselves to be relatively ill-informed), to a shift in market sentiment may be excessive, going well beyond anything justified by the actual facts of the situation, and may be sufficient to spark off a chain reaction of 'herd instinct' behaviour. Lack of, or inadequacy of, information is common throughout the financial world, but is particularly prevalent in long-range deals between institutions in developed and developing countries. Cultural differences may exacerbate the problem, as the case maybe greater difficulty experienced in enforcing contracts at a distance. Lacking information, investors are likely to over-react to both good and bad news. In the former case they display over-enthusiasm in investing; in the latter they withdraw their funds more quickly, and more completely, than market ‘fundamentals’ would justify.

Both portfolio and commercial-bank lending have been blamed for triggering financial crises. Debt flows are believed to be particularly sensitive to 'bad news' in this context.

They are easily reversible in a crisis, so, in principle, making those developing countries that rely on them rather than on FDI for long-term-investment finance much more vulnerable to negative shocks (Wei, 2006). Also, some analysts argue that commercial bank lending may be particularly prone to setting off panics since the lenders (banks) are highly leveraged and therefore particularly vulnerable, and sensitive to threats of non-repayment (Dobson and Hufbauer, 2001).

It should also be noted that governments are alleged to have, in some cases, intensified ‘financial panics’. By assisting financial institutions under threat they may actually have exacerbated the situation by encouraging even more risky behaviour by these institutions – which now perceive themselves to be in a less vulnerable (perhaps totally invulnerable) position.

Self-Assessment Exercise

List and Explain the potential and Benefits of financial globalization

3.4. EVIDENCE ON FINANCIAL GLOBALIZATION AND ECONOMIC GROWTH IN DEVELOPING COUNTRIES

The evidence on the key matter of the impact of financial globalization on growth rates in the developing world is mixed. Some authors find evidence supporting the hypothesis that financial globalization accelerates growth in developing countries. Thus, for instance, Bekaert et al. (2005), examining a sample of countries including a large majority of developing countries, ‘demonstrates that financial liberalization did increase economic growth’ so that ‘We find that a financial liberalization leads to a one percent increase in annual real per capita GDP growth over a five year period, and find this increase to be statistically significant’. This result is ‘robust’, surviving ‘a wide variety of experiments including: an alternative set of liberalization dates, different groupings of countries . . . and four different time-horizons for measuring economic growth’.

The rationale offered for these findings includes the possibility, noted earlier, that the improvement in risk-sharing which accompanies financial liberalization may reduce the cost of capital, so encouraging increases in total investment – including investment in riskier-than-usual projects with higher expected rates of return.

Support for the Bekaert finding comes from the results of a large number of studies, including that by Reisen and Soto (2001), who further refine the analysis by differentiating between the positive growth effects of different kinds of capital flows resulting from financial integration. They find that the strongest positive impact comes from increased inflows of portfolio equity investment, followed by FDI. Bond sales were found to have no effect on growth, and commercial bank lending had a negative effect.

Despite these, and many other, favourable reports regarding the impact of financial deregulation on growth in developing countries, doubts remain as to the true strength of the pro-growth effects. A wide-ranging study (Kose et al, 2006) draws attention to two analytical difficulties encountered in research in this field. The ‘identification problem’ again leads to difficulty in separating cleanly the impact on growth of globalization of finance from that of contemporaneous macroeconomic changes and policy shifts. A further major problem arises in measuring the actual degree of deregulation of financial markets, as there is frequently a significant difference between de jure measures of openness (the legal position) and the de facto situation (what happens in practice). Some developing countries have what appears to be a prohibitive battery of controls on capital movements, but do not enforce them effectively. Others have apparently liberal legislation, but maintain effective informal controls over financial flows. Failure to take such discrepancies fully into account – which may be impossible without detailed case-study analysis – can mislead researchers seeking to assess the strength of the impact of financial deregulation on growth.

Kose’s agnostic overall finding on this central issue is that, on the basis of a wide-ranging review, there is ‘little robust evidence of a ‘causal relationship between financial integration and growth’ (Kose et al., 2006). But, clearly, on this issue the last word has not yet been spoken.

Self-Assessment Exercise

Discuss in details the financial Globalization and Economic growth in developing countries

3.5. EVIDENCE ON FINANCIAL GLOBALIZATION AND FINANCIAL VOLATILITY/ INSTABILITY IN DEVELOPING COUNTRIES

(i) Relative volatility of different financial flows to developing countries: Looked at from the perspective of their relative volatility, portfolio investment (both equity and bonds) and commercial-bank lending, showed much more variability over the decade 1998-2007 than did FDI, foreign aid, or migrants' remittances. Commercial-bank lending, in particular, displayed marked volatility, with an initial swing from positive to negative, then a very rapid recovery over the last five years of the period. This instability is clearly a disadvantage of this form of finance vis-a-vis FDI as a means of funding long-term investment projects.

(ii) Volatility and financial crises: As noted earlier, the increased exposure of developing countries to the volatility of portfolio investment and commercial-bank lending following capital-account liberalization has been widely identified as an important precursor of many financial crises in developing countries. Indeed, as Kose et al. (2006) observe, ‘If there is anything close to a consensus in the literature on financial globalization, it is that debt flows, which include portfolio bond flows and commercial

bank loans, generate the greatest risks from financial openness’.

This view has special resonance when taken together with the fact that the incidence of financial crises in developing countries has increased dramatically over the period we associate with financial globalization. The Asian crisis of 1997-98 was triggered by a sudden reversal of short-term capital flows – from a net inflow into the affected economies (Indonesia, Thailand, Korea, Malaysia and Philippines) of \$92.8 billion in 1996 to a net outflow of \$12.1 billion in 1997. This turnaround – in effect, a net shift in the balance of funding of \$104.9 billion – made possible by the liberalizing of controls on international capital movements, was equivalent to approximately 11 per cent of the combined GDP of the five countries and, inevitably, had very costly consequences for the affected economies.

The initial loss of ‘hot money’ (much of it flowing to the US in response to favourable interest-rate differentials), triggered a cumulative depreciation of local currencies, the impact of the initial loss of funds being reinforced by increasing debt servicing and repayment costs on outstanding loans (where these were denominated in US\$), coupled with the drying-up of further short-term inflows of capital in the face of increasing default by local borrowers. Sharp falls in stock-market prices (by a massive 75 per cent in the case of Thailand), and widespread declines in asset values followed, with an associated rash of bankruptcies, and significantly increased rates of unemployment.

The impact on the real economies of the five Asian countries, in terms of lost output, was severe, especially in Indonesia where the nominal GDP per capita (expressed in US\$) fell by around 40 per cent (and was, in 2005, still below its 1996-7 level). Millions in Indonesia were pushed below the poverty line, the proportion of the population ‘in poverty’ rising from around 11 per cent prior to the crisis to somewhere between 40 per cent and 60 per cent. Thailand also suffered a major economic setback, with a fall in its per capita GDP (again expressed in US\$) of somewhere around 21 per cent. And in Korea the corresponding fall was in the region of 18 per cent and unemployment increased from 3 per cent to 10 per cent.

Despite the clear tendency for the number of such crises to grow in recent years, many commentators are optimistic regarding the long-term implications for the developing world, asserting either that the instability arising from financial globalization is a relatively short-run phenomenon which will disappear or, at least, be greatly diminished, in the long run, or else that its ill-effects can be significantly reduced by appropriate policies. Three separate arguments have been advanced in support of this case. First, it can be contended that liberalization permits long-run, cross-country diversification of investment portfolios, so reducing risk levels. Second, there is evidence to suggest that experience with financial crashes leads to a tightening of prudential legislation and the undertaking of institutional reform designed to head off future financial crises. Third, there is room for improvement in the macroeconomic policy-making of many developing

countries. Specifically, it is argued that the response to a large new inflow of capital has too often been adoption of an expansionary macroeconomic stance rather than the required contractionary one. The result of such pro-cyclical policy action is an intensifying of the ‘trigger’ problem of the excessive expansion of domestic credit – leading to a financial ‘bubble’ and a financial crisis. The adoption of counter-cyclical policies, it is believed, could go a long way to neutralizing this problem.

This having been said, it is important to differentiate between the implications of different kinds of financial liberalization by developing countries in the global context.

Thus, the freeing-up of cross-border financial transactions relating to FDI and other forms of inherently long-term investment is unlikely to lead to financial instability or crises. These financial inflows are used to purchase relatively illiquid assets in developing countries and cannot easily be reversed in the short-to-medium term. As such they seem very unlikely to cause substantial, unforeseen withdrawal of funds of the kind responsible for many of the financial crises experienced by developing countries in the past.

The situation with regard to short-term capital flows into developing countries, PFI and bank lending in particular, is quite different. Where comprehensive financial deregulation has been undertaken – involving, typically, the removal of all restrictions on inward and outward movement of capital, on local interest-rates, on currency convertibility, on the kinds of financial transactions that may be undertaken and on the kinds of financial instruments that may be bought and sold – then the probability that large, violent and unpredictable movements of funds into or out of the country will occur is greatly increased. Such volatility may affect both the banking system – where it has pyramided medium/long-term local, or overseas, lending on short-term borrowing – and other enterprises dependent on the stability and reliability of resource flows from abroad.

It is also important to draw attention to the point that, where local banking expertise is not yet fully developed, the risks arising through dealing in complex financial ‘products’ – such as the mortgage-backed securities problems with which triggered the great global financial crisis of 2007-09 – are even greater than is the case in mature financial systems, and carry with them the potential for precipitating local banking crises.

Self-Assessment Exercise

Discuss the relative volatility of different financial flows to developing countries

3.6. COLLATERAL BENEFITS FROM CAPITAL INFLOWS

Always assuming that adequate measures, along the lines suggested above, are taken to minimize the risk of financial crises arising in developing countries, integration into the global financial system can bring benefits not just from increased capital inflows but also from 'collateral' changes which may be triggered by these flows. Some commentators

believe that such effects can, in the long run, have more important direct consequences for growth rates in developing countries than the effects of the financial inflows themselves. Moreover, the collateral changes may have favourable, indirect, feedback effects on growth by encouraging further increases in capital inflows. The ‘changes’ we are talking about here fall into one of three categories – development of the domestic financial sector, improvements in institutions (defined very broadly to include governance, the rule of law, and so on), and improved macroeconomic policies. We now look at these ‘direct’ and ‘indirect’ effects in turn.

3.6.1 WHY AND HOW DOES FINANCIAL GLOBALIZATION BRING ‘COLLATERAL BENEFITS’?

(a) Financial globalization encourages improved performance by the domestic financial sector in developing countries

Financial globalization seems likely to improve the quality and performance of the financial sectors in developing countries in the following ways:

Foreign banks now find it easier to set up operations in developing countries: This can be expected to yield the following benefits:

- There is now easier access to overseas international financial markets and hence enhanced inflows of funds-at interest-rates below those formerly prevailing domestically;
- The regulatory and supervisory frameworks used by the incoming banks are very likely to be superior to those used by domestic banks, and will probably be emulated by the latter (in order to appear equally sound commercially to prospective customers);
- The introduction of new financial instruments and technologies, and increased competition, will improve the quality and range of financial services offered to customers, probably at reduced cost;
- Foreign banks can provide an in-country home for funds when and if there are concerns about the solvency of domestic banks, so these funds do not have to be withdrawn from the local banking system altogether.

At the same time it should be noted that, if the domestic banking sector is very small and weak, it could be wiped out by incoming foreign banks, which might then lose interest in local small depositors and small businesses, with damaging effects on the local economy. Moreover, embarking on financial integration prior to strengthening domestic financial institutions could have serious adverse consequences, with deregulation of capital flows leading to net outward flows of funds (‘capital flight’) and negative effects on growth prospects.

Globalization can also promote deregulation of developing-country equity markets. This may be expected to lead to increased efficiency as these stock markets become larger and

more liquid.

(b) Financial globalization encourages improvement in institutions and governance – including both corporate governance and broader public governance

Corporate governance can be expected to improve with financial globalization because:

- Foreign investors often have the skills and information technologies that enable them to monitor management of firms operating in developing countries better than can local investors.
- Domestic governments may be spurred to tighten up corporate governance systems in response to pressure exerted by international investors.

Public governance can be expected to improve because:

- Developing countries may find difficulty in attracting FDI and portfolio equity inflows, which are in principle more readily available after globalization, unless and until they improve governance by taking effective action to curb corruption, cut red tape, improve the transparency of policies, and ensure the effective rule of law.
- Incoming banks and multinational companies are often large enough, have the resources and expertise, and are sufficiently ‘footloose’, to be able to challenge deviations by host governments from good governance practices. Smaller local firms, often wholly dependent on the domestic market, may feel too vulnerable to mount such a challenge.

(c) Financial globalization encourages improvement in macroeconomic policies

Because ‘capital account liberalization makes a country more vulnerable to sudden shifts in global investor sentiment, it can serve as a signal of commitment to better macroeconomic policies’ (Kose et al., 2006). Thus, the opportunities offered by financial globalization may encourage governments of developing countries to make their economies more ‘investor-friendly’ by, for instance, strengthening their policies on inflation, moving towards a freer foreign-exchange market, and avoiding capricious changes in fiscal policy.

Self-Assessment Exercise

Discuss the collateral benefits from capital inflows

4.0 Conclusion

In this unit, we can conclude that the international financial flow is also known as a cash flow. But it is primarily used to measure a financial company's health and status. As it many refers to the movement of cash moving in and out of a company and were it is begin used. The movements are tracked by the cash receipts minus any of the cash payments that are being made over a given period of time or a set period of time made by that company. Also a financial flow also tracks any securities begin use add or removed during that period of time also.

5.0 Summary

In this unit, we have been learnt and discuss the type of international financial flows to developing countries, financial globalization, globalizing financial flows, financial globalization and Economic growth in developing countries, financial globalizing and financial volatility/instability in developing countries and the collateral benefits from capital inflows.

6.0. Tutor-Marked Assignment

1. Discuss the benefits of financial flows to developing countries
2. Discuss the impact of financial globalization on Economic growth in developing countries.
3. Discuss how financial globalization bring collateral benefits

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MODULE FOUR: POVERTY, EQUITY AND WELL-BEING

Unit One	Concept and Definition of Poverty
Unit Two	Measurement of Equality of Distribution
Unit Three	Measurement and Assessment of Poverty
Unit Four	Priority for Growth-Targeted Versus Poverty-Targeted Intervention

Unit One	Concept and Definition of Poverty
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1.0. INTRODUCTION

Who can tell me what is the meaning of Poverty? To many of you, poverty is when some is poor and cannot feed himself or his family. You may be right but the explanation of poverty is far more than that, so let us now define the meaning of poverty. Poverty is general scarcity or the state of one who lacks a certain amount of material possessions or money. It is a multifaceted concept, which includes social, economic, and political elements. Absolute poverty or destitution refers to the lack of means necessary to meet basic needs such as food, clothing and shelter. Absolute poverty is meant to be about the same independent of location. Relative poverty occurs when people do not enjoy a certain minimum level of living standards as compared to the rest of society and so would vary from country to country, sometimes within the same country.

After the industrial revolution, mass production in factories made producing goods increasingly less expensive and more accessible. Of more importance is the modernization of agriculture, such as fertilizers, to provide enough yield to feed the population. Providing basic needs can be restricted by constraints on government's ability to deliver services, such as corruption, tax avoidance, debt and loan conditionalities and by the brain drain of health care and educational professionals. Strategies of increasing income to make basic needs more affordable typically include welfare, economic freedoms and providing financial services. Poverty reduction is a major goal and issue for many international organizations such as the United Nations and the World Bank.

However, much effective action of a human-development type against extreme deprivation is possible even in countries of low income. In the face of the more foreseeable emergencies such as crop failures the suffering may be effectively mitigated, and rises in death rates prevented, by appropriate measures adequately prepared that draw on state, market, and civil society. But progressive improvement in living standards for the bulk of a population from a low base requires continuing economic growth generally beyond the point at which labour has become 'scarce' and proceeding substantially faster than population growth. Where there is a capacity for fast growth, combining it with progressive equalization has been shown to be possible, and ideally it can be accompanied and boosted by continuing human-development action, with safety-nets for those who would otherwise lack minimal acceptable means of support.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning of Poverty
- Define Poverty in Absolute and Relative terms

- Know the meaning of human capital development

3.0. Main Content

3.1 Meaning of Poverty

What do we mean by poverty? What are its signs? How do we measure it? How extensive and serious is it? Where is it concentrated? What can be done about it?

Before we get to the big question – what can be done about it – we go through some of the concepts and devices that enable us to make coherent factual statements about poverty across the world and in particular countries, statements not about the averages but about the lower reaches of what life in the society concerned has to offer.

We consider various concepts of poverty: first, the important distinction between relative and absolute poverty; then poverty seen in its various aspects – as inability to satisfy basic needs or as lack of capacities and capabilities, poverty as tied to vulnerability, poverty as unjust deprivation.

We next consider how to measure the inequality of income distribution in particular countries, and then how to measure their poverty in its extent and depth. For the latter purpose, we compare two ways of gauging the seriousness of poverty in any country or population: first with reference to income-poverty lines (or as a substitute food-calorie-poverty lines), and second through the extent to which particular basic needs – such as nutritional and health status, literacy, access to water and sanitation, or access to education and health services – are met. There is no single measure, even a composite that is satisfactory for all purposes.

How may we expect income-distribution to change with economic growth? We discuss what observed relationship there is between average-income levels on the one hand and income-poverty and inequality on the other and what effect economic growth can be expected to have on income-poverty and inequality. Then we ask the converse question: does poverty have any bearing on the capacity for growth? In other words may poverty itself generate a vicious circle for whatever reason, so that an economy may be trapped at a low level, as early development-economists argued?

We next consider how the functional distribution of income – its distribution through the market process between labour, land, and physical and human capital – might be used, or altered, or overridden, to reduce inequality and poverty, and how far and on what conditions reliance can be placed on economic growth to reduce poverty.

We also note that poverty and deprivation are not entirely covered by considering income distribution between households: that there may be discrimination within households by gender and age.

This leads on to the big questions: the various possible strategies of poverty-reduction; and the possibilities of combining equalizing redistribution with rapid growth. In order to combat poverty most effectively does it make more sense to target poverty directly or to go primarily for growth? Or is there – or can matters be arranged so that there is – no conflict?

Then we consider two particular topics. The first is the character of famines and the means of preventing or ameliorating them, involving not only government but also market mechanisms and civil society. The second is social safety-nets: last-resort payments to individuals who would otherwise be destitute or exceptionally deprived.

However, certainly one central reason behind the interest in development economics for people in the developing countries, and the overriding reason for the rest of the world. That very statement risks trivializing poverty as if it were one problem among others – rather than covering the whole range of material deprivations, or at least those that modern technology has made avoidable. Absolute poverty, on the most conservative and restrictive definition, is a matter of desperate importance for over a billion people: at least the billion to a billion and a half generally reckoned to be living in the early twenty-first century on less than the rough equivalent of one US dollar a day and with all the other deprivations likely to go along with that condition. The big question is how poverty can be relieved.

Self-Assessment Exercise

Discuss the term “Poverty” in details

3.2. CONCEPTS AND DEFINITIONS OF POVERTY

By poverty we understand inability, through the circumstances of a person’s life, to satisfy essential material needs for what can be called well-being or happiness. Satisfying material needs can never be a sufficient condition for happiness, but some degree of material satisfaction must be virtually a necessary condition for most of us. Most people would judge that there are forms and degrees of material deprivation for themselves, or forms and degrees of material deprivation for anyone that would make well-being impossible.

However, that definition – failure through circumstances to satisfy the necessary material conditions for well-being – immediately leads us to the important distinction between absolute and relative poverty.

Self-Assessment Exercise

Discuss briefly the concepts and definitions of Poverty

3.3. ABSOLUTE AND RELATIVE POVERTY LINES

People's sense of well-being is inevitably conditioned by the conditions that they see around them, and what they have come to expect. This is a matter of common experience and is confirmed by more systematic evidence from questionnaires. One family might regard as almost luxury a diet confined to a few vegetables and as much of a staple cereal as its members can eat, and having plenty of clean water available, though only from a nearby public standpipe; while another, in a much richer society, would see this as sheer and utter misery. Absolute expressions for poverty set lower limits – absolute levels of disposable income, and minimal provision of social goods such as disease prevention and physical security – below which, it is implied, no one anywhere should be allowed to fall. On the other hand, the authorities in a particular country, concerned with relevantly identifying poverty for their own people, may specify requirements, relative to the country's prevailing standards of living, whose absence, they believe, would preclude a sense of minimal well-being for their citizens: for example, an income per person in each household not less than half the median for the country.

Poverty lines are set up as signposts of what ought to be. The bearing of various experiences on happiness or well-being may be a matter for empirical investigation, but where exactly a poverty line- absolute or relative- is drawn involves also a value-judgement.

Much of what is said below about measurement of the extent and intensity of poverty with reference to defining limits may be applied to either absolute or relative lines, but it is useful to bear in mind which of the two is being discussed in any instance. In this chapter it will be absolute lines. International concern about poverty centres inevitably on absolute limits, but how people stand in relation to their own country's or community's material standards may also still be an important indicator of material limits to their well-being.

Yet even absolute poverty, on these understandings, is in an important sense relative: it is a matter of degree. The interpretation of absolute poverty depends on what needs are regarded as essential to every human being and to what extent – food quantity and nutritional quality; access to clean water, to means for sanitary disposal of waste, to clinical health services and to public protection against disease; access to literacy, numeracy, specialized skills, and knowledge about the world; and, in part summary or general indicator, in part supplement, some measure of overall spending-power – all matters of more or less.

So lines defining what is essential are inevitably arbitrary; and, as we shall see, the standard international ones have almost inevitably been subject to change in order to increase their usefulness and relevance. Yet they have a necessary role in setting policy targets. To be useful the lines drawn must bear some relationship to possibilities – what social arrangements could in principle achieve – as well as to ideals.

Self-Assessment Exercise

Define Poverty in relative and absolute terms

3.4. VIEWS OF POVERTY

The basic-needs and capabilities approaches to development (Stewart, 2006; Clark, 2006b) can be taken to imply corresponding emphases in the understanding of poverty. The basic – needs discussion arose in the 1970s as a human-centred reaction against the preoccupation with aggregate economic growth. The capabilities approach, stemming from Amartya Sen in a number of publications since the early 1980s (e.g., 2005), attempts a further degree of humanization by emphasizing needs that go beyond physical and emotional comfort to include capacities for purposive activity.

A basic-needs approach to poverty, then, is one under which policy at any time or place sets minimum absolute standards of (mainly material) need in a number of measurable dimensions. Listing them implies that it is a vital responsibility for each political community, and for the world, to aim to meet them. Yet the operational target does not have to be static. Making the goals realistic often requires them to be reached gradually. This is the view behind the Millennium Development Goals, which have set the world intermediate targets to be met by certain dates.

We can also see poverty as a lack of basic capacities or capabilities. This is Sen's view of the deficiency to which development is the answer. The poor are those deprived not only in what they receive but also in what they can achieve, with the one lack closely related to the other. Because of the close connection between material deprivation and the lack of capabilities, it has been argued that the basic-needs and capability approaches can be defined so as to be mutually consistent.

Human development, as the term is used by the United Nations Development Program (UNDP), covers progress or attainment in any and all aspects of human material welfare – but in a very broad sense of 'material' – to include education, for example. The agency's Human Development Index (HDI) for individual countries is a composite of average spending power with ratings on some concrete basic-welfare indicators. The HDI can be no more than a rough pointer which, by including a few health and education statistics, at least gives a more human-centred and poor-oriented assessment of a country's achievement in material well-being than average income alone. Its use of country indicators in constructing the index has to be limited in practice to those that are almost universally available. Insofar as it includes literacy rates and school-enrolment ratios, as well as life-expectancy, it can be regarded as not entirely neglecting capabilities in its assessment of basic needs. The UNDP has a corresponding Human Poverty Index (HPI).

Self-Assessment Exercise

Discuss the analysis of basic need of poverty

3.5 HUMAN DEVELOPMENT INDEX

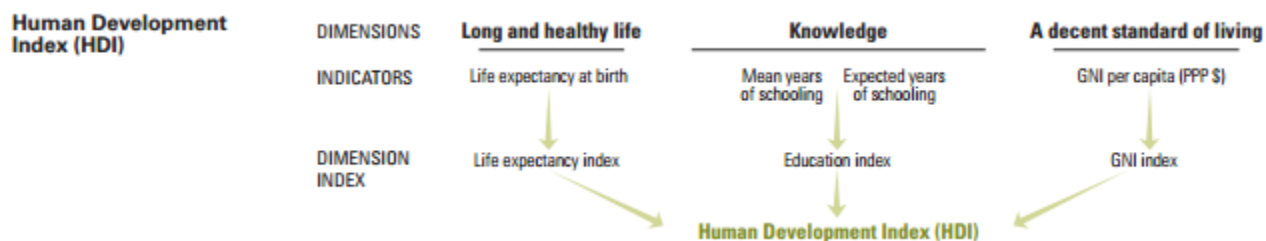
The HDI was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The HDI can also be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. These contrasts can stimulate debate about government policy priorities.

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

The health dimension is assessed by life expectancy at birth, the education dimension is measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age. The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI. The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean. Refer to Technical notes for more details.

The HDI simplifies and captures only part of what human development entails. It does not reflect on inequalities, poverty, human security, empowerment, etc. The HDRO offers the other composite indices as broader proxy on some of the key issues of human development, inequality, gender disparity and human poverty.

A fuller picture of a country's level of human development requires analysis of other indicators and information presented in the statistical annex of the report.



Source: Human Development indicator 2012

Self-Assessment Exercise

With the aid of a diagram discuss the human development index in details.

4.0 Conclusion

Poverty has become a great issue in our world. Though many organizations have been created to find solutions for this matter nobody could not save our world completely from poverty. The most common fact which we can realize when we consider on information about poverty is that poverty is mostly occurring in developing countries. What are the reasons caused for poverty mostly? According to the economists, reasons for poverty are History, War and Political instability, National Debts, Discrimination and social inequality and vulnerability to natural disasters. Poverty is the significant lack of money or poorness. Precise definitions of poverty are controversial; according to one definition, poverty is having so little money that one cannot pay for basic necessities, such as food and shelter

5.0 Summary

In this unit, we have been learnt and discuss at length the meaning of poverty, concept and definition of poverty, absolute and relative lines of poverty, views of poverty and the human capital development. Therefore, I belief you must have understand the meaning of poverty and its rudiment.

6.0. Marked Assignment

1. Define poverty in absolute and relative terms.
2. Discuss the impact of poverty on growth of developing countries especially in Africa
3. Discuss the impact of human capital development on Economic growth in Nigeria.

7.0. REFERENCES/FURTHER READINGS

Mustapha, C. O., (2008). Poverty in Nigeria: Causes, Manifestations and Alleviation Strategies, 1st edition, Adonis & Abbey Publishers Limited.

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UNIT TWO MEASUREMENT OF EQUALITY OF DISTRIBUTION

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main content
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1.0. INTRODUCTION

A variety of strategies exist for the operationalization of income inequality. However, health researchers have usually been limited to using one of the most popular measures the Gini coefficient at the expense of other, more nuanced measures. Drawing upon the economic and sociological literature on income inequality, this glossary aims to provide public health researchers with additional tools with which to operationalize income inequality.

This is a particularly relevant task, given the rapid development of the literature on the health effects of income inequality. More than 115 empirical tests of the income inequality hypothesis have been published, yet a consensus has not emerged. Indeed, whilst a number of theoretically plausible pathways through which income inequality may influence patterns of population health have been investigated (including psychosocial mechanisms and the effects of social capital), recent reviews of the income inequality and population health literature have reached mixed conclusions and the hypothesis is yet to be fully integrated within the broader literature on proximal and distal determinants of health.

One of the central points of contention in this literature is how to measure income inequality itself. The impetus behind the debate is Kawachi and Kennedy's influential US study, which compared the behaviour of six different measures of income inequality: the Gini coefficient, the decile ratio, the proportion of income earned by the poorest 50%, 60% and 70% of households, the Robin Hood index, the Atkinson index and Theil's entropy measure. Their analysis indicated that the measures behaved very similarly and were highly correlated, with Pearson correlations ranging from 0.86 to 0.99. Furthermore, all of the measures were also highly correlated with state-level mortality indicators. Given these relationships, Kawachi and Kennedy concluded that the choice of income inequality indicator was unlikely to influence results of empirical tests of the health effects of income inequality.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning of Lorenz curve and Gini Coefficient
- Know the basic of Quintile Ratio and other measures of inequality

3.0. Main Content

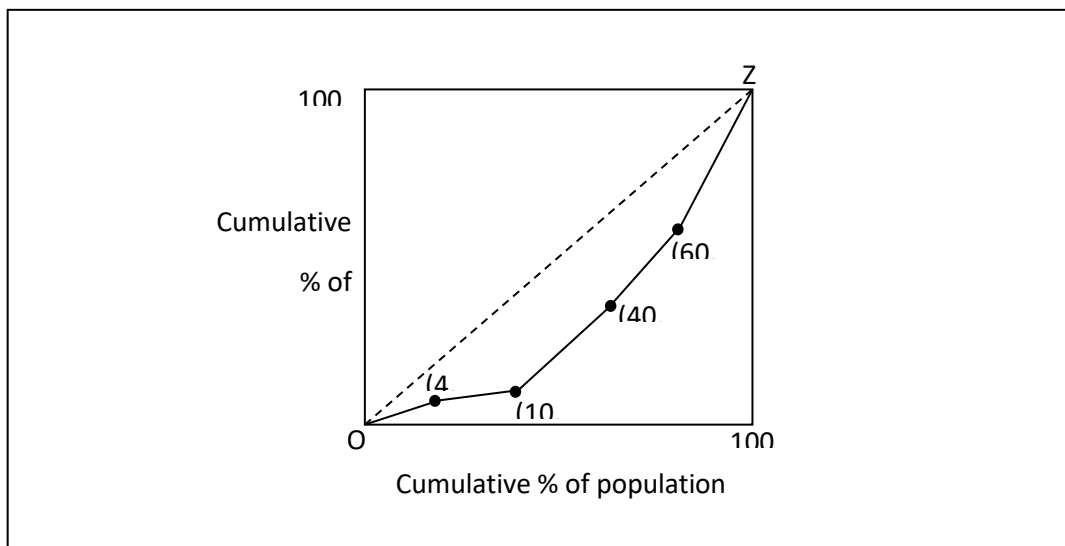
3.1 Lorenz curve and Gini coefficient

One method is the Lorenz curve and its derivative, the Gini coefficient. The Lorenz curve is a curve showing visually the distribution of one variable (here income) across a population. It is plotted from an origin, O in Figure 4.1, at the intersection of two axes, the horizontal one measuring proportions of total population, and the vertical representing

proportions of total income. Successive points on the curve, starting from O, are found by plotting the poorest say 1 per cent of the population, x_1 , against the proportion, y_1 , of total income that that poorest 1 per cent receives; then say the population share, x_2 , of the poorest 2 per cent, against the share of income it receives, y_2 ; and so on until the point is reached at 100 per cent on the x axis and 100 per cent on the y axis, point Z in Figure 4.1.

The farther the Lorenz curve deviates from the diagonal of the diagram, the more unequal the distribution is. The Gini coefficient is a numerical measure of inequality. It is given by

FIGURE 4.1 Lorenz Curve



Obadan (2013) Introduction to Development Economics
the ratio of (i) the area between the Lorenz curve and the diagonal to (ii) the total triangular area below and to the right of the diagonal. Gini coefficients for a number of countries are given in Table 4.1.

However, there are different ways of being unequal. Degrees of inequality cannot be ranked entirely satisfactorily on a single scale. If two countries, A and B, have the same average income and their Lorenz curves imply the same Gini coefficient for both, A's curve may be closer to the diagonal than B's in the lower left of the diagram but further away in the middle and upper right. The poor in A will then be better off than those in B, but a segment of the middle earners, above a certain lowish level of income but below the very richest, will be poorer than the corresponding people in B. There is no compelling answer to the question which of the two countries is the more unequal. All of this can be taken to illustrate the point that there is no ideal way of measuring inequality.

Self-Assessment Exercise

Differentiate between Lorenz curve and Gini coefficient

3.2. RICHEST-TO-POOREST-QUINTILE RATIO

The second common way of expressing the degree of inequality of income in a country is to compare the share of its total income earned by say the top fifth ('quintile') or tenth ('decile') of income earners' income with the share going to the bottom fifth or tenth, for example by showing the ratio between the shares of the top fifth to the bottom fifth. The order of inequality rates on one of these measures will not necessarily be the same as the order of Gini coefficients. In Table 4.1, for example, has a slightly lower Gini than South Africa but a higher top-to-bottom-quintile ratio. Still, the ordinal rankings of the countries in that table on the two measures are very similar.

Self-Assessment Exercise

Define the term "Quintile Ratio".

3.3. OTHER MEASURES OF INEQUALITY

There are other indicators of inequality, some of which are directed at making assessments of material-welfare improvement or achievement that take into account in a single figure both the increase or attainment of income and how it is distributed. The Atkinson (1970)

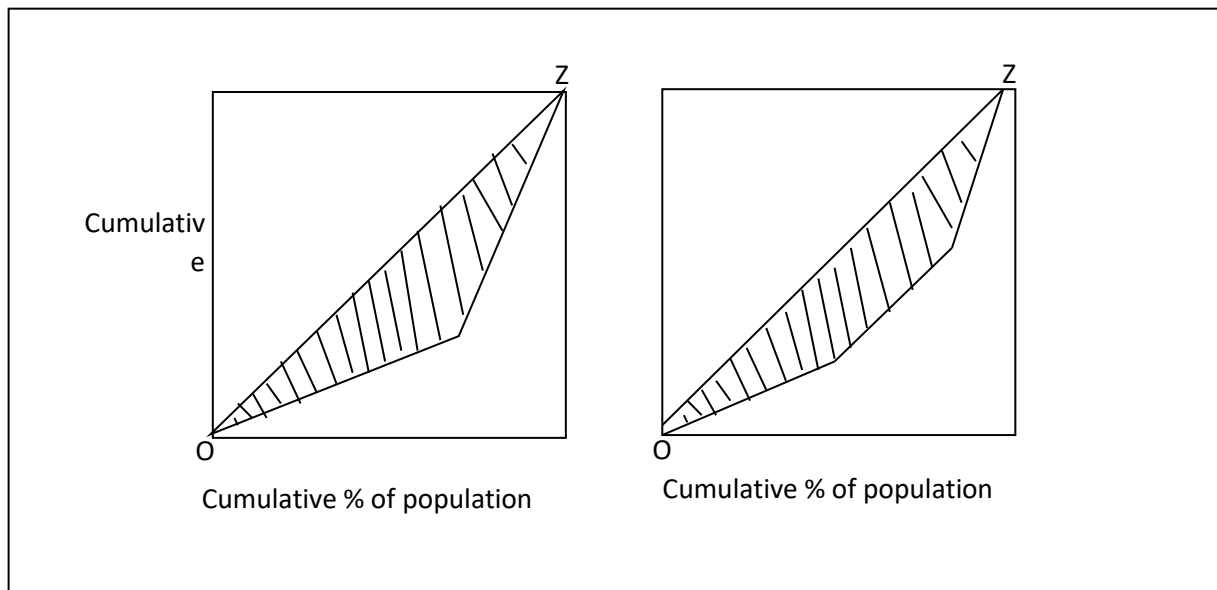


FIGURE 4.2 The same Gini Coefficient in both but A more equal at the lower and of the distribution (lowest 40% of people) index, directed only at comparisons of inequality, depends for its value in any case on an explicit judgement (arguably one of value): in effect on how the marginal utility of income (the value that is put on a marginal unit of income) should be taken as diminishing as income increases (Fields, 1980).

The approach of Ahluwalia and Chenery (Chenery et al., 1974) to taking account of distribution in evaluating income growth is to apply weighting factors to the aggregate incomes of the various quintiles of income-earners. The point of doing this rather than simply citing an aggregate rate of growth is seen as follows. If the top quintile earns ten times as much as the bottom quintile, giving a rate of aggregate growth of income of the whole population in the usual way weights any given proportional rise in income ten times as highly if it occurs in the top quintile as if it occurs to the same number of people who form the bottom quintile. One way of distribution-weighting of growth would be to give the same weight to the income of each quintile. This could be called an equalizing weighting. A ‘poverty-weighting’ could give even higher relative importance to the incomes of the poorer ranks. Again fixing the weighting would be a matter of explicit value-judgement.

Self-Assessment Exercise

With the aid of a diagram, discuss the term “Gini Coefficient”.

4.0 Conclusion

In this unit we can conclude that income inequality (metrics) or income distribution metrics are used by social scientists to measure the distribution of income, and economic inequality among the participants in a particular economy, such as that of a specific country or of the world in general. While different theories may try to explain how income inequality comes about, income inequality metrics simply provide a system of measurement used to determine the dispersion of incomes. The concept of inequality is distinct from poverty and fairness.

5.0 Summary

In this unit, we have been learnt that the Gini coefficient has been the most popular method for operationalizing income inequality in the public health literature. However, a number of alternative methods exist, and they offer researchers the means to develop a more nuanced understanding of the distribution of income. Income inequality measures such as the generalized entropy index and the Atkinson index offer the ability to examine the effects of inequalities in different areas of the income spectrum, enabling more meaningful quantitative assessments of qualitatively different inequalities.

6.0. Tutor-Marked Assignment

1. Differentiate between Lorenz curve and Gini Coefficient.
2. Do you think income inequality has been reduced among the populace in Nigeria?
3. Discuss the term “richest-to-poorest-quintile ratio”

7.0. REFERENCES/FURTHER READINGS

- Fosu, A., & Mwabu, G., & Thorbecke, E., (2009). Poverty in Africa: Analytical and Policy perspectives, 1st edition, University of Nairobi Publication.
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UNIT THREE MEASUREMENT AND ASSESSMENT OF POVERTY

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2.0 Objectives

3.0 Main content

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3.2 Objective Welfare indicators

3.3 Poverty, inequality, National-income level and growth relationship

3.4 Dutch Disease

3.5 Bearing of Poverty on capacity for growth: Are there vicious circles

3.6 Implications for Poverty of the functional distribution of income

3.7 Factors related to Poverty Not caught in household figures

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

8.0 References/Further Readings

1.0. INTRODUCTION

Economists have differed as to whether poverty should be measured in absolute sense, defining poverty as people falling below some fixed minimum income or consumption level; or whether it should be defined in relative terms, so that poverty means inability to afford what average people have. If an absolute measure is accepted, it is at least conceivable to have everybody lifted above the poverty line whereas if poverty is measured in relative sense, some people will at least fall below the so called poverty line, which means the poor will always be with us.

Poverty line is a basic measure and an instrument for identifying and measuring income poverty. It is defined as an arbitrary income measure, usually expressed in constant dollars (e.g. \$1 per day), used as a basis for estimating the proportion of a country's population that exists at bare level of subsistence. Based on household income or consumption, poverty lines quantify absolute poverty in monetary terms and characterize people in terms of their monetary income or consumption, particularly of food. Thus, a poverty line is just a cut-off line (or threshold) used to distinguish between "poor" and "non-poor" households Setting a poverty line permits the calculation of the following poverty indicators

- poverty rate or incidence of poverty

- depth of poverty or poverty gap
 - severity of poverty
- The poverty rate or incidences of poverty, is simply an estimate of the percentage of people living below the poverty line.
 - The depth of poverty is measured as the average distance below the poverty line, expressed as a percentage of that line. It is also called the poverty gap as it shows the average distance of the poor from the poverty line.
 - The severity of poverty is measured as a weighted average of the squared distance below the poverty line, expressed as a percentage of that line. The weights are usually given by each individual gap. Since the weights increase with poverty, this measure is sensitive to inequalities among the poor.

One final measure of poverty, credited to the United Nations Development Programme (UNDP) in its 1997 Human Development Report, was introduced against the background of dissatisfaction with the dollar –a –day World Bank income measures. As articulated in the Report.

“Poverty has many faces. It is much more than low income. It also reflects poor health and education, deprivation in knowledge and communication, in ability to exercise human and political rights and absence of dignity confidence and self-respect” [UNDP, Human Development Report, 1997]. Hence, in place of the World Bank’s notion of income poverty, the UNDP developed a measure of human poverty – that is, human poverty index (HPI). The HPI constructed is a multidimensional measure of poverty, incorporating three key deprivations in respect of survival, knowledge, and economic provisions. The deprivation in longevity (survival) is measured as the percentage of people not expected to survive to age 40, and the deprivation in knowledge is measured by the percentage of adults who are illiterate. The third deprivation, economic provisions, relates to a decent living standard. It is represented by a composite of three variables, namely the percentage of people without access to safe water, the percentage of people without access to health services, and the percentage of malnourished children under five.

The measure, HPI, provides a quantitative and more comprehensive poverty indicator when compared to income poverty index. Income poverty, no doubt, needs to be measured, but income alone is too narrow a measure. Thus, HPI developed by UNDP, provides a more robust and broad measure of poverty indicator, summarizing the extent of poverty along several dimensions. The index makes possible a ranking in relation to a combination of basic deprivations and also serves as a useful complement to other measures of poverty and human deprivation-including income poverty. A shortcoming of HPI, however, is that it is somehow aggregative as it is not possible to associate the poverty incidence with a specific group of people or number of people.

2.0. Objectives

At the end of this unit, you should be able to:

- Understand the meaning of measurement by income or objective indicators of wellbeing and welfare indicators.
- Know the meaning of bearing of Poverty on capacity for growth
- Know the basic fundamentals of Poverty and inequality
- Know the meaning of Dutch Disease in Economics development

3.0. Main Content

3.1 Measurement by income or by objective indicators of well-being

There are two basic approaches to measurement of the poverty of a community or region: by the prevalence and extent of failure on the part of individuals or households to reach certain income or expenditure levels; and by the extent of the collective achievement in satisfying certain concrete basic needs or attaining other desirable welfare goals.

3.1.1. Income-poverty as indicated by poverty headcounts and gaps

The usual summary way of measuring the extent and depth of income-poverty, for purposes of comparisons between countries or over time, is by the use of poverty lines. Cross-country comparisons have to be made by some standard that is absolute in the sense of being the same for all the countries compared. The World Bank uses two lines for what can be called poverty and extreme poverty: respectively where household income per person is below US\$2 a day and US\$1 a day in PPP ('purchasing-power-parity') equivalents-all in 1985 prices, so that the \$1 a day was actually PPP \$1.08 a day in 1993 and would have been \$1.45 a day in 2005. (The PPP-\$1-a-day standard denotes not what a US dollar can actually buy in the country concerned, which for many goods would be appreciably more than in the US, but as near as possible to what a US dollar would buy in the US in 1985, which for daily sustenance is not a lot: not much more, at most, than a euro a day would buy in Germany or 60 pence a day in Britain in the early 2000s.) An alternative, which avoids the problem of comparable cash-valuation but has other limitations would be to express the bounding lines as food-calories, instead of US dollars, per day.

The compilers of the World Bank's poverty statistics (WDR, 2007) recognize horrendous difficulties of making the poverty figures accurate and comparable across countries. Beside income or output measures in local currencies (which have the usual difficulties such as valuation of non-marketed goods) they depend upon surveys of prices in each country to work out equivalents in PPP dollars. A number of price surveys for this purpose have been conducted since 1970. The eighth of these, for 2005, had the biggest range to date, of 146 economies (101 of them low – or middle-income countries) covering over 95 per cent of the world's people (World Bank, WDI, 2008). In spite of the great effort clearly put into making the published figures internationally comparable, they have to be taken as approximate at best.

As a result of the 2005 price survey, there was near the end of 2007 news of the need for

massive correction to the factors for converting a numbers of currencies, notably those of India and China, into PPP dollars. This would mean that China's total PPP income was some 40 per cent smaller than previously estimated, and India's some 36 per cent smaller. The change is explained in World Bank WD/2008.

The extent of extreme poverty in a country is in this way very roughly indicated by the number of its population meeting the arbitrary test of living in households with less than one PPP dollar a day per member, a 'headcount index'. What might be called the weight or depth of extreme poverty can correspondingly be measured by the amount (in, say, PPP dollars) by which the aggregate incomes of people in this category fall short of a PPP dollar a day per person. This can be expressed as (1) simply an aggregate amount of annual income (the total poverty gap, TPG); or as (2) the average gap per person across the total population (the average poverty gap, APG); or as (3) the proportion that the TPG bears to total possible income below the poverty line (that is to the poverty-line income per person multiplied by the total number of the population], that proportion being the normalized poverty gap, NPC.

The TPG is the amount of extra income that would have to be distributed to those below the poverty line concerned in order to bring all their incomes up to that line. The percentage 'gap', as presented by the World Bank (e.g., 2006), is the NPG. If all the extremely poor are just below the extreme-poverty line, the NPG percentage will be low. If they are all living on next to nothing, it will be close to the percentage of people living in extreme poverty.

Table 4.1 shows an income measure, column (2); two inequality measures, columns (4) and (5); and four poverty measures, columns (6) to (9). In the World Bank's classification, all those countries in the table from Argentina to Turkey at the time are upper-middle-income, from Brazil to Indonesia lower-middle-income, and from India downward low-income. South Korea and Norway, inserted for comparison, are high-income countries.

We should expect the incidence and depth of poverty to be determined by a combination of per capita income and inequality of distribution. In principle, if we had enough measures of distribution capturing inequality from various angles, an appropriate selection of them, together with average income, might predict reasonably closely a country's rating on each of the various poverty measures, but that is definitely hypothetical. With the limited inequality indexes we actually have, let alone the much more limited selection given here, that is a long way from being the case. There seem in fact to be loose relationships of the form expected, but some puzzles.

Broadly, as we would expect, the poverty measures become higher as we go down the list, but not consistently. South Africa is higher on three of the poverty measures than any

country on the list above the income of China. Beside South Africa, Argentina and Mexico also have higher \$2-poverty measures than any other country above Brazil in the table. The relatively high poverty ratings of all three of these countries among those of comparable incomes do, however, fit with the fact that all three have exceptionally high inequality measures in columns (4) and (5). Russia and Ukraine, on the other hand, have low (favourable) poverty ratings for their income range, partly explained by low inequality counts, though in Russia's case the \$2-poverty ratings are higher than those of Malaysia and Iran, which have very much higher inequality measures.

Lower down the list there is similarity among Sri Lanka, Egypt, and Indonesia (with similar incomes) in their inequality measures and also in their poverty indicators (Indonesia, with the lowest of the three incomes, rather higher on \$2 poverty than the other two). There is roughly similar consistency among the next three on the list: India, Pakistan, and Bangladesh; though Pakistan, with an average income a third lower than that of India and similar inequality measures, surprisingly shows much lower incidence of \$1-poverty. (Difference in timing of the poverty-distribution surveys between countries, and within each country from the timing of the average-income figures, may be part of the explanation.) However, differences in poverty incidence and depth between these South Asian three on the one hand and Sri Lanka, Egypt, and Indonesia on the other – all with very similar inequality measures - are more puzzling, especially the contrast between Indonesia and India, which in 2005 also had very similar average incomes. (Again timing of the surveys -Indonesia's like Pakistan's dates from 2002, India's from two or three years earlier -combined with India's very rapid spurt of growth in the early years of the century, may help in the explanation.) Timing of surveys may also explain the puzzle over the much larger poverty indicators for Mozambique than for Kenya, in spite of the fact that in the tables they have very similar average incomes and Gini coefficients. Surveys relating to income distribution and poverty were conducted eight and nine years respectively before the income year cited here, and Mozambique after the end of its civil war was recording much higher growth rates than Kenya.

One lesson from these figures remains. Poverty, even straight income-poverty, let alone the direct welfare and capability measures, does have some relationship, but a very loose one, with average income taken alone. A complete account of distribution must, logically must, explain the rest. But favourable figures on particular measures of inequality, such as a low Gini-coefficient, do not consistently imply relatively low absolute-poverty indicators at any given average-income level.

What we have seen from Table 4.1, in the comparison between Indonesia and India, is that two countries with very similar average-income levels and similar scores on both indicators of inequality, can have very different headcounts and intensities of poverty. Gary Fields, who looks at a number of such inequality indicators that might be expected to predict the extent of poverty at a particular income level, concludes that it is a mistake to treat one as a surrogate for the other; indeed that summary income-inequality measures

and absolute-income measures of poverty are answering different questions motivated by or reflecting different implied value-judgements. So a low Gini or quintile ratio should not console us if absolute-poverty incidence and depth are still high.

Self-Assessment Exercise

Discuss the measurement of Poverty by income.

3.2. OBJECTIVE WELFARE INDICATORS

Objective indicators, particularly if they refer to basic needs, may well be thought to provide better poverty comparisons than income-based poverty lines. They could be held to relate to outcomes rather than inputs, as well as being more easily interpreted and for the most part probably more reliable. This is also the case if we are making comparison on grounds of equity. Yet Sen (1998) shows the complexity of summary country-to-country comparisons by objective indicators on either absolute-poverty or equity grounds: for example that, though India at the time had a Gini of 33.8 against China's 41.5, 62 per cent of adult women in India were illiterate compared with only 27 per cent in China, and 63 per cent of children in India under 5 were undernourished by the World Bank's definition, while in China the figure was 17 per cent. To take another comparison, India had higher life-expectancy than sub-Saharan Africa, but on the other hand a greater proportion of undernourished children. Also the rating of any one country as a whole even on one indicator alone may be a very crude basis of judgement.

Self-Assessment Exercise

Briefly discuss the Objective of welfare indicators

3.3. POVERTY, INEQUALITY, NATIONAL-INCOME LEVEL AND GROWTH: RELATIONSHIP

Whether there is any relationship consistent enough to be meaningful between income level and degree of inequality – and, if there is, what it means for policy – are contentious questions. Simon Kuznets (1955, 1963) concluded, from cross-sectional comparison, that inequality, as measured by the proportional shares of various income-quintiles, tended first to increase as one moved from lower to higher per capita incomes, and then beyond a certain income level to fall. A number of subsequent studies (almost all cross-country, not for individual countries over time) found similarly, using various measures of inequality. This pattern could be represented by an inverted U-shaped curve, the Kuznets curve, with inequality on the vertical axis and per capita income on the horizontal.

Gary Fields in 1980 reviewed a number of these studies to that date, generally accepting the empirical findings but then interpreting what they did and did not mean. This he did with reference to a threefold division of types of economic growth in an economy supposed to be 'dualistic' – that is, with a traditional and a modern sector. These types were traditional-sector-enrichment growth, modern-sector-enrichment growth, and

modern-sector-enlargement growth. The third of these involved the movement of people and activity into the modern sector (often but not necessarily urban) from the traditional. It was assumed that the modern sector would have higher labour-productivity and higher labour-incomes than the traditional and that the poor would be concentrated disproportionately in the traditional sector. All three types of growth would by definition raise overall income, but in Fields' analysis they would have different impacts on relative inequality and absolute poverty. The first, raising income differentially in the poorer sector, would tend to reduce absolute poverty and relative inequality. The second would increase relative inequality and have little effect on absolute poverty. The third would reduce absolute poverty but might either raise or lower relative inequality, depending on the balance between different effects. On the supposition that growth was predominantly of modern-sector-enlargement type, Fields provided a demonstration that, according to his model, relative inequality, as judged in various ways, would indeed first rise and then decline as this growth proceeded, so that the inverted U-curve could in those terms be explained.

However, what did the inverted U-curve, if it existed, mean for policy? One interpretation was that rising inequality had to be accepted in the 'early' stages of growth, and that interfering with distribution in the direction of equalization would tend to inhibit growth. This view could be attacked on various grounds, several of them used by Fields. One was that the observed relationship between income level and distribution was not a close one (as can be seen, for example, by casual inspection of the table in Chenery et al., 1974. A number of other factors showed relationships with income distribution. A second was that the association was not necessarily causal in the direction the argument would imply.

Fields also argued that looking at relative inequality was concentrating on the wrong indicator from a welfare viewpoint. What ought to be of interest was absolute poverty. On that score growth, unless confined to modern-sector enrichment (in which case poverty was unaffected), would move in the right direction, so that between absolute-poverty reduction and overall growth there was no conflict. On the other hand falling relative inequality might, as possibly for India in the 1960s, be consistent with an increasing headcount of extreme absolute poverty.

A further argument more specifically against the view that growth and equalization policies were mutually inconsistent at certain levels of income, was given by Fei, Ranis, and Kuo (1979). They argued that one contrary case was enough to falsify the generalization, and that Taiwan from some time in the late 1950s provided a striking example of continued rapid growth with simultaneously falling inequality indicators. Tables (Fei et al., 1979; Fields, 1980) show mean household income in Taiwan growing at 3.3 per cent a year between 1953 and 1964 but thereafter at 8.2 percent a year until 1972; while the income ratio of the top to the bottom tenth fell from 30.4 in 1953 to 8.6 in 1964 and 6.8 in 1972; and the Gini fell from 0.558 in 1953 to 0.328 in 1964 and 0.301 in 1972. Similarly the scatter-diagram in Figure 10.3 on p. 263 shows Taiwan's total GNP over

eight years growing at around 7 per cent a year between 1953 and 1961, while the income of its poorest 40 per cent grew at around 12 per cent a year.

So, though there is quite a lot of cross-sectional evidence of some tendency for inequality to rise and then fall as mean income rises, there is no reason whatever to think that equalizing policies at any stage of growth ipso facto limit growth, or (a different question) that growth and the reduction of absolute poverty must be, or are likely to be, competing objectives.

The practical bearing of Fields' supposition that per capita growth will always tend to reduce poverty unless it is of the modern-sector-enrichment type may perhaps be seen in the following way. An increase in income that is registered simply because of a natural-resource bonanza with little direct (first-round) positive employment effect will do little to draw workers into the modern sector and to that extent will constitute modern-sector enrichment rather than modern-sector enlargement and may have little or no positive effect in poverty reduction. Any increase in employment in the resource industry itself will tend to be

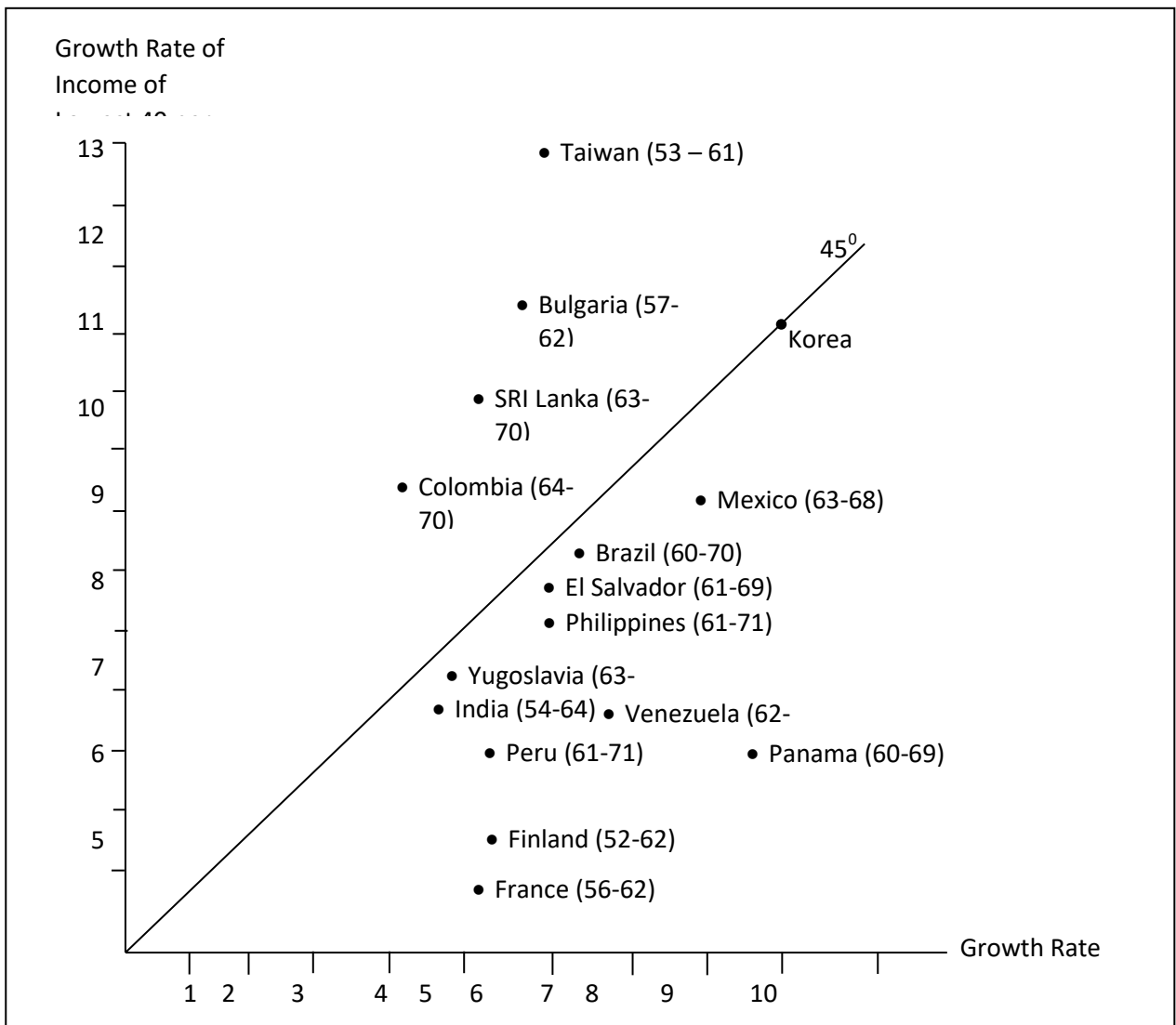


FIGURE 10.3 Growth rate of GNP and of income of lowest 40 percent: countries and periods indicated Source: Chenery et al. 1974, p. 14. Reproduced by permission.

counterbalanced by a 'Dutch-disease' effect, which in itself will reduce modern-sector employment. However, if the process can be turned into modern-sector enlargement through the spending by the recipient (the state itself, at least in part) of the resource rents, especially on projects (such as transport and energy infrastructure) that will be geared to producing growth of other kinds - rather than dispersing the resource rents abroad as personal plunder or hoarding them as reserves -the effect on poverty-reduction may well be positive.

Another possible example of the bearing on poverty of whether growth is concentrated on enrichment or enlargement of the modern sector is provided by the comparison of recent fast growth between India and China. India's spurt in exports has depended heavily on services of back-office type, requiring language, mathematical, and programming skills, but not, in its first-round effects, demanding much unskilled labour. Manufactured exports of comparable value-added, more important relatively in China, have a large appetite for low-skilled workers, drawing surplus labour from the traditional sector, and on the whole increasing the incomes both of those who move and of those who remain. By the late 1990s China had begun to show significantly rising wages in both town and village, suggesting that it had moved out of the 'Lewis' stage.

Self-Assessment Exercise

Discuss the bearing of growth and per capita income level on equality and poverty

3.4. DUTCH DISEASE

In economics, the Dutch disease is the apparent causal relationship between the increase in the economic development of a specific sector (for example natural resources) and a decline in other sectors (like the manufacturing sector or agriculture). The putative mechanism is that as revenues increase in the growing sector (or inflows of foreign aid), the given nation's currency becomes stronger (appreciates) compared to currencies of other nations (manifest in an exchange rate). This results in the nation's other exports becoming more expensive for other countries to buy, and imports becoming cheaper, making those sectors less competitive.

While it most often refers to natural resource discovery, it can also refer to "any development that results in a large inflow of foreign currency, including a sharp surge in natural resource prices, foreign assistance, and foreign direct investment".

The term was coined in 1977 by The Economist to describe the decline of the manufacturing sector in the Netherlands after the discovery of the large Groningen natural gas field in 1959

3.4.1 ECONOMIC MODEL OF DUTCH DISEASE

The classic economic model describing Dutch disease was developed by the economists W. Max Corden and J. Peter Neary in 1982. In the model, there is a non-tradable sector (which includes services) and two tradable sectors: the booming sector, and the lagging (or non-booming) tradable sector. The booming sector is usually the extraction of natural resources such as oil, natural gas, gold, copper, diamonds or bauxite, or the production of crops, such as coffee or cocoa. The lagging sector is usually manufacturing or agriculture.

A resource boom affects this economy in two ways:

1. In the "resource movement effect", the resource boom increases demand for labor, which causes production to shift toward the booming sector, away from the lagging sector. This shift in labor from the lagging sector to the booming sector is called direct-deindustrialization. However, this effect can be negligible, since the hydrocarbon and mineral sectors tend to employ few people.
2. The "spending effect" occurs as a result of the extra revenue brought in by the resource boom. It increases demand for labor in the non-tradable sector (services), at the expense of the lagging sector. This shift from the lagging sector to the non-tradable sector is called indirect-deindustrialization. The increased demand for non-traded goods increases their price. However, prices in the traded good sector are set internationally, so they cannot change. This amounts to an increase in the real exchange rate.

In 2016, a number of scholars from the Ruhr-University Bochum in Germany put forward a new theoretical model showing that both effects have the same effect on the labor market dynamics. Hence, it is not possible to compartmentalize the resource movement and spending effects econometrically

Self-Assessment Exercise

Do you think Dutch disease occur in Nigeria? If Yes or No, discuss its effect on Nigerian Economy.

3.5. BEARING OF POVERTY ON CAPACITY FOR GROWTH: ARE THERE VICIOUS CIRCLES?

A further question is whether there are low-level 'traps' entailed by low, or at least falling, per capita income nationally or locally, or by absolute poverty beyond a certain extent or intensity, that themselves inhibit economic growth. A 'vicious circle of poverty'

model was common in early development-economics thinking, as outlined in Chapter 5. This generally explained the trap by a low or zero rate of net saving (and hence of investment and economic growth) that could be expected with incomes below a certain level. It was one argument for the injection of substantial funds from abroad in order to produce a sufficient once-for-all spurt of growth to turn the vicious circle into a virtuous one.

Subsequent experience has thrown doubt on whether saving rates at the relevant low levels of income are necessarily low enough to cause this effect. Microfinance has been held to demonstrate that, with appropriate institutions, even very poor people may consistently save to invest.

However, new forms of vicious-circle argument have recently been put by Jeffrey Sachs (2005) and Paul Collier (2007), with diagnoses that at least overlap with one another, though the policy implications they draw are not precisely the same.

Sachs's argument (2005) is applied at both national level (Bolivia in its hyperinflation at the time of the 1980s debt crisis and the collapse of tin prices, and contrasting stories of the treatments of Poland and Russia after the Communist collapse) and local level. Briefly it is that, when a country or local community has fallen into a sufficiently serious crisis, once-for-all massive help from outside may be necessary to restore it or to stop further deterioration, and failure to provide the help can lead to bad political repercussions locally and even on occasion for the rest of the world. There will often be critical blockages to growth that need to be identified. Removing them within a locality may involve directly humanitarian action such as measures to increase food production and to protect against disease. In those circumstances such assistance with basic needs will itself be a path to economic growth.

Concentrating attention on those poor countries, mainly in Africa, that have stagnant or falling mean income, Collier also explains their plight by expounding various 'traps' that interact negatively with unchanging or increasing poverty and with each other. Those traps most obviously aggravated by poverty and also contributing to it are what he calls the 'conflict trap' and bad government. The implication is that, without some route to significant growth, conditions are likely to become cumulatively worse. Financial or technical aid from abroad may sometimes help but is not always the only or most relevant escape hatch. Natural-resource bonanzas may be more problem than solution because of Dutch-disease effects and because of their propensity to encourage bad government and civil conflict. Sometimes military intervention, possibly in the shape of UN peacekeeping forces, may represent an effective, and the most efficient, way out (Collier, Chauvet and Hegre, 2008).

Self-Assessment Exercise

What is the meaning of "VICIOUS CIRCLES of Poverty?"

3.6. IMPLICATIONS FOR POVERTY OF THE FUNCTIONAL DISTRIBUTION OF INCOME

The functional distribution of income refers to income's distribution among factors of production (generally before taxes and transfers). The factors of production are commonly simplified for analytical purposes into three or four: land, labour, and capital, with human capital commonly a fourth. In a market economy – such as those of most developing countries now broadly are, at least as concerns their poorer citizens, who are mostly outside public-sector employment – returns per unit to the various factors will be determined (other things being equal) by their relative scarcity. The larger the unskilled labour force is in relation to endowments of the other factors, the lower the unskilled wage will tend to be. The 'unskilled wage' in this sense covers not only the rates of pay of those whose only source of income is unskilled wage-work. It includes the part of the income of anyone – self-employed farm family, small-business operator, and independent service worker – that is attributable to unskilled work. Income from unskilled or low-skilled labour is liable to play a large part in the incomes of the very poor.

In the logic of the functional distribution of income, policy to increase the gross (i.e., before-tax-and-transfer) income of the very poor can be expected to be largely dependent on either transferring to the poor possession of larger shares of the other factors (land, capital and skills) or increasing the economy's stocks of the other factors in relation to that of unskilled labour. In economies that fit the general description of the Lewis model, the story is complicated by the existence of 'unlimited supplies of labour' in the traditional sector that is of labour surplus to the needs of existing production. Increasing the stocks of other factors will then not render unskilled labour 'scarce' (and so raise its return per unit) until the surplus labour has been drawn into the modern sector.

As a result of taxes and transfers, the final distribution of disposable income in the non-state sector may differ from that determined by relative factor scarcity. The pattern of taxation - how it bears differentially on rich and poor – can make a difference. Indirect taxes are likely to bear more severely on the poor than income taxes, which can be tempered to ability to pay and are likely, even if only for administrative reasons, to exempt the very poor. However, deliberate redistribution of cash income through transfers has been thought difficult to manage fairly and efficiently in these countries, and until recently has rarely been tried to any serious extent. (How it can be attempted to a limited degree is discussed below under 'Social safety-nets').

Regulating wage levels with a view to increasing them is at best questionable. If it succeeded in raising the level of the wages paid, this would be quite likely to reduce

wage-employment in the 'formal' (regulated) sector unless (a) wages had previously been kept low through monopsony power or some form of bondage or (b) the country happened to be in the fortunate situation in which it could safely at the same time expand total demand by macroeconomic means. In the absence of either (a) or (b), it might still be the case that the regulation increased the share of total income going to wages. But, even if that were so, it could still be expected to move some workers out of the formal economy, either to no work at all or into the informal sector. Any informal-sector work into which they transferred would presumably be less desirable than the work from which they had been moved; otherwise they would already have chosen it in preference. Also, the movement itself would tend to reduce the returns to work in the informal sector, a change likely to be adverse for the poor.

Except in the special circumstances mentioned, it is likely that at least some workers would be impoverished by attempts to raise wages by regulation. This presents a dilemma for policy. How far working conditions should be regulated, even in the interests of workers' health and safety, when the regulation, by raising costs, is quite likely to reduce modern-sector employment? There will be gainers and losers from any rules imposed. Whatever compromise is chosen, there will probably be narrow limits at best within which poverty can be reduced by regulating wages upward. It is quite possible that the one-dollar or two-dollar absolute-poverty headcount might be increased.

So the functional distribution itself may appear resistant, except in the rather long term over which extensive investment is possible, to moves that might be made by government policy.

However, beside undertaking and encouraging investment that will increase the endowments of 'physical' and human capital in relation to that of unskilled labour, policy may also encourage (or at least not discourage) the pattern of demand to shift toward more intrinsically labour-intensive goods. For low-wage countries this shift can often be promoted by opening the economy to more uninhibited overseas trade, which will often favour more-labour-intensive exports and less-labour-intensive imports, moving the low-wage economy's production in a labour-intensive direction, which in that case would also be the general direction of its comparative advantage. Government may also in some degree tilt public-sector expenditure in a labour-using direction, and it may for the same purpose remove any internal subsidy or privilege (as on the import of capital goods or the use of fuel) that would increase the incentives for substituting other factors for labour. Opening to inward direct investment will also tend to bring technical and managerial skills and know-how. These, even if they are not transferred to the local population (as some surely will be), still contribute to current national income and to raising the unit returns to unskilled labour.

A further possibility of acting in an equalizing direction on the distribution of pre-tax incomes is to redistribute the ownership or usage-rights of productive assets, notably land

(as in the radical land reforms of Japan and Taiwan after the Second World War), and also to redistribute the shares of skills among households by reducing the preferential access that richer families may otherwise have to acquiring them.

So, even if it is the case that there are no realistic opportunities for extensive cash transfers to the very poor, other routes are potentially open to government policy, even in the relatively short term, for reducing the extent and depth of absolute income-poverty. Incidentally, if there are no realistic opportunities for cash transfers relevant in size to the extreme-poverty gaps, this, for all but the lowest-income countries, would appear to be primarily for administrative and political reasons rather than because it would make unreasonable demands on the richer sections of the countries' populations, let alone on the richer part of the world. The figures given in Tables 10.3 and 10.4 in Appendix 10.1 (available on the Online Learning Centre) put the scale of sacrifice that might be required from the rest of the community in context. In some middle-income countries, they imply, the cost for say the richest fifth of the countries' populations for clearing their one-dollar-poverty entirely would be utterly trivial. Even for some of the low-income countries the cost would not be inordinate, and for the rich world eliminating one-dollar poverty from all the low-income countries might require only say tripling Official Development Assistance from its current level. We stress that these calculations are hypothetical – but in many cases only because of the administrative and political difficulties, not because they would make extravagant demands on the rich in low- and middle-income countries or on the rich world.

However, the political and administrative difficulty of attacking poverty by this route turns our attention to direct action on public facilities and programmes for health, education, water, sewerage, and the rest. Some of these have a public-good character and are necessarily enjoyed by all if they are provided at all. Others, though not intrinsically public-goods, may be treated as merit goods and laid open to all without charge or means test. In either of these cases, such provisions avoid the administrative problems of benefits designed to be confined to the poor. Some of them, by increasing human capital and spreading it more widely, may not only contribute to economic growth, as suggested in the next section, but also increase differentially the productive assets in the hands of the poor.

Nevertheless, consideration of the realities determining the functional distribution calls attention to an ultimate limitation. Despite the various ways mentioned here by which poverty might be reduced by redistributing assets or giving production a more labour-intensive cast, we probably have to recognise that general affluence of the degree achieved by Taiwan and South Korea will be impossible without prolonged public and private investment in direct production, physical infrastructure and skills, so that income and output grow at a rate sufficient eventually to render unskilled labour increasingly scarce. Some patterns of production rather than others will help the process along and reduce the time or the volume of investment needed to reach any degree of affluence.

Expanded basic-needs provision of public and merit goods can make the intervening period more tolerable for the poor, but, without the investment in capital assets and skills that is fast enough first to mop up surplus labour and then to keep progressively 'farther ahead' of the growth of the workforce, the elusive affluence cannot be attained.

Self-Assessment Exercise

What are the implications for Poverty of functional distribution of income?

3.7. FACTORS RELATED TO POVERTY NOT CAUGHT IN HOUSEHOLD FIGURES

Absolute-poverty figures used here and in many of the sources count by household. This may leave out of account inequalities that affect the poverty within households related to age and gender. The disadvantageous position of women and girls in a number of cultures, and the objections to it not only for its own sake but also because it may well go with a waste of productive resources.

Another element that may escape attention is the differential poverty experienced by certain ethnic or caste groups because of prejudice against them, which may well, as with traditional limitations on women, be productively wasteful as well as bad in itself. There may be vicious circles that will tend to keep the disadvantaged down by denying them channels by which they might otherwise advance their skills and experience.

Self-Assessment Exercise

Discuss the inequalities that affect Poverty within an households..

4.0 Conclusion

Poverty is a mass phenomenon in sub Saharan Africa, including Nigeria. It is not really a simple and straightforward concept; rather it is complex, dynamic and multi-dimensional in nature. The phenomenon presents itself as a situation of pronounced deprivation of all kinds which could be material or non-material in nature; and income of human poverty. As far as operational definition is concerned, the understanding of poverty has evolved considerably from a simple notion of low income and low consumption, characterized by poor nutrition and poor living conditions. It is becoming more apparent that poverty is far-more complex than material deprivation with mere emphasis on income. This traditional notion of income poverty has thus given way to the idea of human poverty. The concept of human poverty is an attempt towards having a comprehensive understanding of poverty, having realized the multidimensionality of the phenomenon.

5.0 Summary

In this unit, we have been studies and discuss on the measurement by income or by objective indicators of well-being, objective of welfare indicators, poverty, inequality,

National income level and growth relationship, bearing of poverty on capacity for growth: Are there vicious circles, implications for poverty of the functional distribution of income and factors related to poverty not caught in household figures.

6.0 Tutor-Marked Assignment

1. List and explain the measurement by income/objective indicators of wellbeing.
2. Discuss the impact of Poverty and inequality on Economic Growth in Nigeria.
3. Can household avert vicious circles of Poverty? Discuss

7.0. REFERENCES/FURTHER READINGS

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UNIT FOUR: PRIORITY FOR GROWTH-TARGETED VERSUS POVERTY-TARGETED INTERVENTION

CONTENT

1.0 Introduction

2.0 Objectives

3.0 Main content

3.1 Strategies of Growth Led and Support Led Security and Unaimed Opulence

3.2 What is Famine

3.3 Famines and their prevention and alleviation

3.4 How can Famines be Prevented

3.5 Social Safety Nets

4.0 Conclusion

5.0 Summary

6.0 Tutor-Marked Assignment

7.0 References/Further Readings

1.0. INTRODUCTION

What is clearly desirable, if a way can be found to do it, is to pursue growth by means that also entail equitable redistribution and poverty-reduction. The concept of redistribution with growth is attributed to Hans Singer in the course of work on the ILO mission to Kenya in 1971. The term is the title of a book by Hollis Chenery, Montek Ahluwalia and others (1974), setting out to re-orient the framework of planning for growth so that the benefits should be differentially distributed toward the poorer. By the late 1970s Taiwan and South Korea seemed to be star examples of how rapid growth could be combined with low Gini coefficients and persisting or even increasingly large shares of total income for the lowest 40 per cent of earners. Growth with Equity: the Taiwan Case by John Fei, Gustav Ranis, and Shirley W.Y.Kuo (1979) gave this process a name and set out to explore it.

The Chenery team proposed that planning for growth should separate the effects of particular measures according to their impacts on people at various income levels in the population and on groups otherwise defined as particularly poor such as landless rural labourers. We have mentioned their distribution-weighted growth estimates. Their own

cross-sectional analysis of the impact of a number of variables separated national income into three parts: earned by respectively the lowest 40 per cent, the next lowest, and the top 20 per cent. They found for example that the extent of primary schooling was positively related to the income share of the lowest 40 per cent; the population growth rate, negatively; and the overall per capita growth rate, positively. Each of these three findings suggested at least that there need be no conflict between growth and poverty reduction (relative as well as absolute).

However, a well-known scatter diagram of overall growth rates against growth rates of income of the lowest 40 per cent (Chenery et. al.), reproduced here by permission as for 18 developed and developing countries over various periods suggests to casual inspection little if any relationship between the two, with overall growth rates ranging from about 4 to 9 per cent but growth rates of the income of the poor ranging from 1 to 12 per cent. South Korea (1964-70) has the same rate (about 8.5 per cent) for both variables, and Taiwan (1953-61) 7 per cent for overall growth and 12 per cent for that of the poor. The Taiwan pattern suggests that some important influence other than overall growth had affected the incomes of the poor in that period, even, as Fei et al. point out, before the ‘turning-point’ out of the ‘Lewis stage’, and they find this influence in the radical land reform. In any case the experiences of both countries certainly confirm the interpretation that there is no necessary conflict of priorities between growth and poverty reduction.

2.0. Objectives

At the end of this unit, you should be able to:

- Define and understand the meaning of strategies of growth led and support led security
- Know the meaning of Famine
- Understand what Social Safety Nets is.

3.0. Main Content

3.1 STRATEGIES OF ‘GROWTH-LED’ AND ‘SUPPORT-LED SECURITY’ AND ‘UNAIDED OPULENCE’

Dreze and Sen (1995), distinguish three policy approaches bearing on what they call ‘endemic undernourishment and deprivation’: namely ‘growth-led security’, ‘support-led security’, and ‘unaided opulence’. At the time they wrote (actually in the early 1990s), these were typified respectively in their view by South Korea; by Sri Lanka and China (with Chile, Costa Rica, Jamaica, Cuba also mentioned); and by Brazil. (They did of course recognize the extraordinary aberrations in China at times during the Mao period; and on the other hand it is possible that they might have put China into the growth-led category if they had been writing ten years later. A few years later again, and they might also have reclassified Brazil into that category.)

They distinguish the first two types by the priority in time assigned to growth promotion as against direct welfare and redistribution measures, rather than by any suggestion of fundamental conflict between growths on the one hand and contemporary poverty-reduction on the other. Growth-led policy does require in addition deliberate attention to poverty if it is to serve the purpose of enhancing human security, but by definition it also gives high priority to growth from the first, whereas support-led security leads with directly poverty-reducing interventions. The ‘unaided-opulence’ strategy, attributed at the time to Brazil, relies wholly on economic growth, giving no particular attention to poverty in its selection of policies.

The growth-with-equity approach, as described by Fei, Ranis, and Kuo (1979) in their account of Taiwan, however, is not simply growth policy tempered by poverty-reducing interventions. As they see it, what Taiwan had chosen was a growth policy with an equalizing cast written into it throughout. Their most important policy conclusion, as they present it is that: It is possible for economic growth to be compatible with an improved distribution of income during every phase of the transition from colonialism to modern growth.

The success of Taiwan in this respect they attribute in part to features of its post-1945 endowment, such as a good rural transport network, but also to the right policies. If we interpret the authors aright, these allowed Taiwan to reallocate resources so as to make use of its endowments while at the same time, and often through the same policies, changing the distribution of income in an equalizing direction. Rural industrialization, promoted by avoiding policies that would positively have encouraged urban concentration, served both purposes; so did the country's abandonment of the promotion of first-stage import-substitution. In place of this Taiwan moved to the export-orientation which, from around 1960, allowed a rapid expansion of labour-intensive manufactured exports.

Fields, drawing on Ranis, identifies four strategies as responsible for Taiwan's success: strategies for decentralized development; for balanced rural development (expansion of non-agricultural rural industries); to do with industry and trade (open economy and export-promotion); and for human-resource development (1980).

Fei and colleagues not only recognize the importance in income equalization of the radical distributive land reform that the island underwent in the early 1950s. They also highlight the fact that the economy reached a ‘turning-point’ around 1968, when urban wage levels began to rise consistently, imparting an equalizing tendency to the urban sector as land redistribution and rural industrialization had earlier done for the rural. Taiwan’s ‘growth with equity’, which has considerable analogies with South Korea’s experience, seems to be a star example of ‘growth-supported security’ in the classification of Dreze and Sen. The turning-point, at which labour becomes ‘scarce’,

marks an economy's exit from the Lewis world of 'unlimited supplies of labour', giving those with least economic power, provided that they are not brought down by illness or other personal disaster, the prospect of rising absolutely and perhaps also relatively. If a country starts with some degree of fit with the Lewis model and then grows fast enough and in a sufficiently equalizing way to reach the turning-point, there are reasons for thinking that it is on the path to affluence. If it is possible, growth with equity on this pattern has considerable advantages for an initially Lewis-type economy.

However, the argument that can be made for 'support-led security', even when average income is comparatively low and its growth slow, is supported by cases in which poor countries have attained surprisingly high scores on certain welfare indicators. Sri Lanka was particularly notable here, at least until about 1990. Writing around then Sudhir Anand and Ravi Kanbur (1995) presented the case:

The life expectancy at birth of a Sri Lankan is almost 70 years, which is a figure approaching that found in industrial market economies, and much higher than that typical of developing countries at similar or even higher levels of per capita income. Infant mortality rates in Sri Lanka are below 40 per 1,000 live births. Literacy rates are at 80 per cent or more, compared with the developing countries' average of around 50 per cent.

Sri Lanka's pre-eminence in these respects has not been quite so clear in the early 2000s, as shown in Tables 10.1 and 10.2, though child mortality is still strikingly low and literacy now close to 100 per cent. Poverty headcounts and gaps are also low compared with other South Asian countries of similar income. From the perspective of the earlier date, Anand and Kanbur conclude that 'purposive and directed intervention has had considerable effects on health and education standards both in the early part of the century and in the period after independence'; and moreover, from econometric analysis, that 'income growth alone would not have achieved for Sri Lanka its enviable basic needs record'. The comparatively slow growth that might be associated with a support-led-security strategy need not inhibit interventions that considerably improve living conditions for the relatively poor. (If, as Sachs suggests, the welfare-enhancing interventions can be chosen so as themselves to form a path to growth, so much the better.) For other examples of striking 'human-development' achievements, even in a low-income state or under potentially disastrous crop failure.

Self-Assessment Exercise

Discuss the Strategies of 'Growth-Led' and 'Support-Led Security' and 'Unaimed Opulence.

3.2. WHAT FAMINE?

From the experience of four African countries in the crop failures of 1983-84, Dreze (1995) gives striking evidence showing how human welfare can be safeguarded when the will and the understanding are there. These were the crop failures that affected much of

the continent and presented the rest of the world with the horrifying famine pictures from Ethiopia. Yet the four countries – Kenya, Cape Verde, Botswana, and Zimbabwe, one with low income, the other three low-middle – were able to prevent famine deaths or even reduce mortality, and to maintain, or in one case (Cape Verde) actually improve, nutrition, even though the four concerned suffered greater proportional food crop reductions (at least three times as great in two of the cases) than Ethiopia and Sudan, where famine deaths were numerous.

A further well-known example of important aspects of human welfare preserved in conditions of poverty is Kerala, one of the poorer Indian States, where some social indicators approach First World levels. Kerala's under-five mortality rate in 2000 was 19 per 1000 (contrasting with India, 95; and Uttar Pradesh [UP], the largest State, 123). Its percentage of children receiving all vaccinations was 80 (India, 42; UP, 21); percentage of births attended by a health professional, 94 (India, 42; UP, 22). No doubt as a result in large part of such differences, giving much higher probability of any child's surviving, Kerala's total fertility rate ('expected' births per woman over her lifetime at current age-specific rates⁶) was as low as 2.0 (India, 2.9; UP, 4.0), a figure comparable with that of the US or New Zealand and consistent in the long term with a stable and even slightly falling population (UNDP, 2005).

It seems that nationally or regionally low income does not preclude important aspects of social provision.

Conversely, it is also the case that reliance cannot be placed on fast economic growth or a relatively high level of income for quick elimination of income-poverty and adequate social provision. South Africa, an upper-middle-income country, admittedly at the time extremely affected by AIDS, had in 2003 a life-expectancy at birth of 48.4 years, comparable to those of low-income Kenya, Nigeria, and Ethiopia. Its under-five death rate of 66 per 1000 live births was comparable to that of Bangladesh.

Above we have not disputed Fields' view that growth – other than of a kind that is solely 'modern-sector-enriching' such as that based on natural-resource proceeds that are purloined or squandered – can be expected to reduce poverty; but to what extent and how fast?

Growth of income might, as we have seen, act to increase or reduce inequality or leave the shape of income-distribution unchanged; but prevailing rates of growth in a number of countries on their own (without a change in distribution at the same time) would take an awfully long time to eliminate extreme poverty. Projecting the impact of growth in itself on absolute poverty on the simplifying assumption that the existing distribution would remain, Ravi Kanbur (1991) estimated how many years of income-per-capita growth at the rate achieved over the years 1965-84 it would take to raise the average less-than-one-dollar-poor person in each of nine Latin American countries over that one-

dollar-poverty line. Apart from Chile and Peru, which had shown negative per capita growth over 1965-84, and where the answer was therefore infinity, the number of years ranged from 14 in Brazil and 17 in Mexico to 98 in Argentina and 143 in Honduras. Even doubling the rate of growth would only halve the time. Remember this would be enough to raise only the average extremely poor person above the line, not by any means everyone currently below it.

‘Unaimed opulence’ as a policy and objective, it would seem to follow, cannot be relied on to bring a timely solution to poverty.

Unless there was reason to believe that growth in the particular case would of itself have a redistributive cast, faster reduction of income-poverty than could be expected to follow from maintaining a constant distribution of income as income grew would demand either that such a cast should be introduced by policy to the growth process or that there should be direct welfare-oriented intervention. As one possibility for such recasting, redistribution of assets across households, which could include not only land reform but also policies on human capital – training and education – that opened opportunities widely so as to help neutralize the advantages flowing from privileged family income, might be designed to promote both growth and equalization – to that extent speeding poverty reduction beyond the rate that would be set by aggregate growth in the absence of redistribution.

Furthermore it is clear that raising minimal welfare standards in water, sanitation, health, and education, and promoting improved food production, will to a large extent require government action and public spending. Higher income all round will certainly make this easier but will not guarantee it. At the same time – provided the economy is given its head – much of this welfare improvement will itself contribute to economic growth, even if only in the longer term. It will not be generally competitive with growth-promotion. However, at any one time, it may of course be competitive with particular valid means of growth-promotion, such as improvement of transport, power, and communication infrastructure.

However, we can further summarize as follows:

- Effective poverty-reduction with equalizing policies and moderately high human-development standards, even in low-income countries and regions, are not necessarily impossible or indeed unknown, and suitable actions to this end are not inconsistent with economic growth.
- Relatively high income or rapid growth does not necessarily produce high levels of basic-needs provision and human development, though, given the will, it makes their achievement through appropriate policies easier.
- Growth of any significant magnitude with built-in equalization requires policy combinations designed to make full use of endowments of unskilled labour and opportunities of human-capital development.
- Resting content with negative or even zero per capita growth is risky because of its

propensity to lead subsequently, through civil conflict or corrupt government or both, to progressively worsening conditions, including very probably increasing poverty.

- Public action to improve basic-needs provision and human development is not in general competitive with economic-growth promotion but at any one time may be competitive with particular forms of it, so that priorities may have to be set implying judgements of, among other things, time-preference.
- Though policies shifting allocation in an efficient and labour-using direction may facilitate both economic growth and equalization, and attention to basic-needs provision through public facilities may at the same time greatly ameliorate the welfare of the poor, the attainment of secure affluence by modern standards from low or low-middle income will require a sufficient rate of public and private investment over a sufficiently long period first to use up ‘surplus’ labour and then to make labour increasingly ‘scarce’.

The policy message is then both to move progressively into poverty reduction (basic needs and a bias to equalization, safety-nets if possible) and to remove impediments to growth, but to seek out ways that reduce any conflict between these objectives and measures and that have the effect of serving both.

Self-Assessment Exercise

Write briefly on the term “Famine”

3.3. FAMINES AND THEIR PREVENTION AND ALLEVIATION

A famine can be said to exist if large numbers of people simultaneously have so little access to food that their lives are threatened. Deaths from famine, however, commonly arise from diseases brought on by severe malnutrition, not necessarily from sheer starvation. A famine in this sense needs to be distinguished from a crop failure, however serious, which may or may not lead to famine. It also needs to be distinguished from chronic hunger and malnutrition, a much more difficult problem for a reasonably organized and well-motivated government to eliminate.

Much of what applies to famines applies to the aftermaths of natural disasters such as floods, cyclones, and earthquakes. In the latter cases the causal events will probably be more difficult to foresee and hence onset of the human damage will be more sudden; the kinds of urgent and extraordinary need will be more varied (shelter and water perhaps as well as food); but on the other hand those in serious need may be easier to identify.

Economic analysis of famines, extending to food deficiency generally, largely began with Amartya Sen in the mid-1970s. He is famous for the judgement that famines do not happen in democracies with a free press. This typified his starting-point: famines are not natural events; they are social phenomena that have to be explained and combated by social arrangements.

Famines recurred in pre-independence India, culminating in the Great Bengal Famine of 1943-4, in which millions died. There have been none in post-independence India: plenty of hunger and malnutrition, plenty of crop failures, but no famines. This is not because the climate has changed for the better. The main reason, in Sen's view, is changed political and social institutions.

China had its last serious famine in the 'Great Leap Forward' time of 1959-61, in which tens of millions died. Another remotely similar event is not expected because the extraordinary political conditions of the time are not likely to return. But famines have been still regrettably common in sub-Saharan Africa.

The key concept in Sen's account of famines is entitlement.

Famines occur when large numbers of people lose their entitlements to food. A loss of entitlements means in the extreme that people have neither food produced by themselves nor money or other assets with which they can buy it. There may or may not be less food around than normally, though a famine is usually precipitated by a crop failure. But, if people had enough money and enough warning, they could buy food from other localities or from abroad. On the other hand – even though there may be as much food grown as normal and importing it may be no more costly than before – if, because of economic disruption or civil conflict, large numbers of people lose their jobs and consequently their incomes, or much trading activity becomes impossible, there may, in the absence of radical government intervention, be no peaceful way in which the people who need it can get their hands on the food.

Why do famines, as Sen repeatedly reminds the world, not generally occur in democracies with a free and independent press? On the assumption that the generalization is true, the reason is surely something like this: that the onset or threat of famine becomes widely known and discussed; those likely to be affected complain; the press takes it up; and elected politicians take action to see that essential entitlements are maintained or restored.

Self-Assessment Exercise

Discuss the Prevention of a Famine.

3.4. HOW CAN FAMINES BE PREVENTED?

First there is preparation against the possibility of crop failure. Early-warning systems of abnormal weather can be and have been set up, though they are by no means infallible. What is essential is that there should be stocks of basic foods: stocks continually 'turned over' and sufficient to cover the period from the time when shortages begin to be observed to when extra supplies ordered then can be brought in from other areas in the

country or from abroad. The supply of food needs to be adequate to meet basic needs. The necessary stocks and emergency supplies have to be procured, or at least backstopped, by government action. Where collapse of food supply or distribution is possible, it is also important that administrative arrangements are in place for dealing with it promptly when it arises.

What then needs to be done is to see that people have the resources, the entitlements, to buy the food. Those in need may be farmers producing wholly or largely for their own needs, whom a crop failure will deprive of their income. Then there will be agricultural labourers who have lost their employment if there is no harvest work to be done, and the farmers who would normally pay them have no income or motive for doing so. There may be others in industries that depend on agriculture who are similarly deprived; and, with a general fall of purchasing power, the range of affected industries may extend widely.

As far as possible, the state should aspire to keep up the general level of purchasing-power through its macro-policy, as well as that of the groups whose well-being and survival is most affected. The more nearly the general level of spending is maintained, the more the ranks of those severely affected or at risk and in need of extraordinary help will be reduced.

What is definitely counterproductive is to subsidize the staple food generally in response to the tendency of its market price to rise. Subsidy's first-round effect will be to increase demand from those that have purchasing power. It will do nothing for those who have none, and if anything it will discourage any tendency to economize on the part of those who still have enough food. If there is not a corresponding increase in supply, the consumer price after subsidy will move back towards its pre-subsidy level. Insofar as the consumer price is reduced without an increase of supply, the subsidizing authority will be supplementing the incomes of those that have the entitlements to buy food, quite possibly increasing the share of the supply taken by those who have more to spend at the expense of those who have less, and leaving out entirely those who have nothing. If, on the other hand, the supply to the market can be increased to its normal level, with confidence established that the supply can be maintained, this will bring the price down to normal without the need for subsidy. Any subsidy to help deal with the inadequacy of certain people's entitlements to food will need to be closely targeted on the most needy if it is to be serve its purpose, just as any increase in market supply will need to be supplemented by other measures to provide entitlements for those who otherwise would have no purchasing power at all or next to none.

In short, both food supply and entitlements must be adequate if the symptoms of famine are to be avoided.

Also counterproductive in most circumstances (and certainly without other measures)

will be controls on food prices. They will increase the opportunities for persecution and extortion to be practiced on traders and will risk destroying the public markets and hence any efficient and reliable access for consumers to the food that there is. During whatever period supplies to the market cannot be restored – while at the same time the authorities themselves may well need to make claims on the limited supply, or else distribute claims on it, for the sake of feeding those who are really destitute – the market-price must be allowed to rise. This will encourage economy on the part of those that are above the level of subsistence and will give incentives for supplies to move in from less badly hit areas or from abroad.

On similar grounds restrictions imposed by states or districts on movements of food will aggravate problems in the worst affected areas. There will of course be gainers as well as losers from such restrictions, but on the reasonable value-judgement that the poorest have the most urgent claims – the highest welfare weightings at the margin – free flow will generate net gain. Ethiopia in 1984 was one of the instances in which food movement had been arbitrarily blocked.

This does not for a moment imply that everything must be left to the market. When significant numbers of people – beyond the likely capacity of charity and informal arrangements to cover – are threatened, the state must step in, not only ensuring that, as far as possible, supplies are minimally adequate but also with feeding programmes, food supplements, coupons, or cash, for those in most need. Similar problems arise to those discussed in the next section on ‘Social safety-nets’. Ways have to be found of identifying those in serious need and excluding others.

One way of doing this is category-targeting: directing food staples or nutritional supplements to an easily identified category who collectively have a particular claim, such as young children and pregnant and nursing mothers, for whom the shortage of food is likely to have the most serious long-term consequences. Such programmes seem to explain why sometimes nutritional status in the most vulnerable groups improves in famines or threats thereof, as mentioned above for Cape Verde in 1983-4.

Another is to require work to be done on labour-intensive public projects at subsistence wages for those people who appear able-bodied. Because it commits the workers' time to the programme, this sifts out from support those who might expect to be able to provide for themselves through the informal sector (Chu and Gupta, 1998). It is also held to have the advantage of preventing the emergence of a habit of dependency and preserving self-respect, which is often valued by the beneficiaries themselves; and, of course, if proper preparation is made in advance to provide against the need for work programmes, they can do things of local or wider use, such as maintaining local roads, irrigation, soil conservation, and tree planting. Always invoked as a successful example is the Maharashtra Employment Guarantee Scheme in India in 1972-3 and again in the early 1980s. Chu and Gupta (1998) mention a similar scheme as preventing famine in Bangladesh in 1988, and relate that the African successes mentioned above in the crop failures of 1983-4, as in Cape Verde and Botswana, also used targeted public works. An

example from the US (Friedman, 2007) is of the Civilian Conservation Corps and the Works Progress Administration, set up in 1933, which directly provided work for 8 million people rendered unemployed in the Great Depression, and created a number of public buildings and other great public projects still in use seventy years later.

A further lesson from bitter experience, such as that of Ethiopia in the 1980s, is that as far as possible food should be moved to people rather than people to food. For already weakened people to walk over long distances and assemble with huge numbers of others, also weak and many already sick, is a lethal recipe. Only the worst policy failures and delays are likely to make this concentration of feeding centers necessary.

In general what seems to be needed is a combination of prompt and well-prepared government action; no arbitrary blockage to adjustments made by the market, and reliance for certain purposes, especially for help with fair distribution, on civil society.

Self-Assessment Exercise

Do you think Government can help to prevent Famine? Discuss

3.5. SOCIAL SAFETY-NETS

The idea of a social safety-net has two related connotations. One is a protection against adverse change, a device to reduce risk, the purpose to which private insurance is directed. The other is a system of supports to bring everyone up to some minimum standard of material well-being. In practice the two cannot be readily distinguished. Either one provided by the state conveys elements of the other. We are concerned here with people in developing countries for whom any form of private insurance is likely to be out of the question. They consider themselves too poor to buy insurance and probably they would not in any case be considered insurable by those who purvey insurance policies. So we are concerned with social safety-nets: those provided by 'the community', namely the state, possibly with some input from civil society.

A number of developing countries have 'social-insurance' schemes, but usually for relatively privileged workers in the public sector, to provide retirement income and benefits in the case of illness or premature incapacity. These are framed like private insurance, at least to the extent of having contributions from the insured people and their employers, though there is often a degree of state subsidization as well. Access to these schemes can be important benefits attached to certain forms of employment. They allow risks to be spread and also help in the spreading of disposable income over time. Here we consider safety-nets only for those who fail outside the range of these privileges.

One component of the security aspect of safety-nets can be provided by stabilization of the macro-economy. Benefits may also be given to workers who lose their means of livelihood as a result of policy changes such as the removal of trade protection. These

latter have been advocated in IMF publications as facilitators of efficiency-directed economic reform in that they are expected to reduce political opposition to it. They have been provided in the US, for example, where other safety-net provisions provide less of a cushion against personal disaster than in most other rich countries. They have the awkward feature for policy that they have to be framed to some extent ad hoc.

We concentrate here on the forms of safety-net that are in some places, or might be, provided routinely in developing countries. 'Developing countries' here includes middle-income, even upper-middle-income countries, among which are a number of 'transition countries': former members or satellites of the Soviet Union, and a few others that have moved from systems of planning and centralized economic control toward greater market-orientation. These have often kept a form of the social-security provisions inherited from their ostensibly Marxist pasts. They may provide models that other middle-income countries can follow.

However, setting these models from 'transitional' countries aside, we are faced with the possibilities of three ways in which state support to individual poor households may be given: in cash; as goods in kind or coupons that allow goods of particular kinds (food, for example) to be bought; and in the form of free or highly subsidized access to public services such as schools or clinics.

The potential dilemma of safety-net provisions directed at the poor is the same one we have mentioned in connection with famine relief: to include all those regarded as needy for this purpose and to exclude others.

If the intention with certain health and education facilities is in any case to make them free for all (as is the case with Uganda and Kenya, for example, over primary schooling), their provision without charge avoids this dilemma.

On the other hand, where there must be a means test to fulfil the purpose of the support without excessive expense, there are real difficulties in reliably determining eligibility in any society, rich or poor, but especially where much income may be in non-cash form, where it is irregular, where record-keeping is not a common habit, and where the bureaucracy may be mediocre. The devices used must often be compromises, excluding some of the targeted poor or including some of the non-poor, or both. To this end, some performance conditions may be imposed on the benefits, or their use may be restricted in various ways.

'Category-targeting', mentioned above with reference to famine relief, is one compromise. Food supplements or standard food may be provided for children, or for children who on objective signs are malnourished, and for pregnant and nursing mothers, and perhaps also for old people living alone or serving as principal earners for their households.

Where improving nutrition is an important objective, an ostensibly poor family may

either be given nutritious foods directly or be given coupons that can be exchanged for food, or for certain kinds of food, alone. The coupon method (and cash even more so) can be regarded as more efficient in the traditional economic sense than food provided in kind in that it gives the recipient greater choice, but by the same token coupons may be less reliable (and cash less so again) in directing the benefits to nutrition. However, food given directly may also be traded unless it is provided in prepared form through schools or feeding centers, and the alternative of giving the benefits in the form of food coupons – or, even more so, cash – allows the same result to be realized but much more conveniently. Even if it is the nutrition of children that is in question, it can be questioned whether attempts should be made to constrain the choices of parents in these ways rather than trusting them to decide in their children's interests.

In neither of the last two cases mentioned is there any ready guarantee that the non-poor will be excluded, and judgements of fact may also have to be made over category-targeted benefits; but often the size of any land a family possesses, household composition, the character of their dwellings, and their occupations, may give enough indication. These are situations in which use might well be made of 'civil society' in the form of neighbours, local leadership, or anybody representative of the village or commune, to help establish the relevant facts. Such use is made now in Bangladesh for determining who is eligible for rudimentary safety-net payments for the destitute old.

The same use of local institutions might be invoked in the absence of adequate government funding to have local responsibility accepted for minimal support of the destitute. Models in which something of the sort happened come from modern China, at least in the intervals and areas of comparative normality between 1962 and the reforms of the 1980s, and from England under the 1601 Poor Law, which remained in force for over 200 years, before giving way to the much less humane 1834 Poor Law associated with the workhouses and fixed in public memory by *Oliver Twist*.

Self-Assessment Exercise

What do you understand by the term “Social Safety-Nets?”

4.0. Conclusion

Performance indicators should be consistent with the project development objective and the specific targeting mechanisms. For example, if a program seeks to reach the poorest communities using poverty maps, performance indicators should include monitoring geographic allocations; if an objective is to create empowerment and inclusion at the local level, indicators should measure the degree of participation of marginal groups in project processes as well as outcomes on preference targeting; if the aim is to benefit the poor and vulnerable, household measurements of program incidence will be necessary.

5.0. Summary

In this unit, we have discuss the strategies of growth led and support led security and unnaimed opulence, meaning of famine, famines and their prevention and alleviation, how famines be prevented and social safety nets.

6.0 Tutor-Marked Assignment

1. Differentiate between Strategies of growth and Support led Security.
2. Famine has been one of the problems facing less developing countries in Africa. Discuss.
3. How do you think Famine can be prevented in Nigeria?
4. Write briefly on Social Safety Nets.

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