PAPER IVA: DEVELOPMENT ECONOMICS (50 marks)

General Introduction:

The Nature of Development Economics

Traditional economics is concerned primarily with the efficient, least-cost allocation of scarce productive resources and with the optimal growth of these resources over time so as to produce an ever-expanding range of goods and services. Traditional economics deals with an advanced capitalist world of perfect markets, consumer sovereignty, automatic price adjustments and equilibrium outcomes in all product and resource markets. Political economy goes beyond traditional economics to study, among other things, the social and institutional processes through which certain groups of economic and political elites influence the allocation of scarce productive resources now and in the future, or that of the larger population as well. Development economics, in addition to being concerned with the efficient allocation of existing scarce productive resources and their sustained growth over time, also deals with the economic, social, political and institutional mechanisms, both public and private, necessary to bring about rapid and large-scale improvements in levels of living of the masses. In other words, development economics must be concerned with the economic, cultural, and political requirements for effecting rapid structural and institutional transformations of entire societies in a manner that will most efficiently bring the fruits of economic progress to the broadest segments of their populations.

Why Study Development Economics? Some Critical Questions

These questions illustrate the kind of issues faced by every developing nation.

1. What is the real meaning of development, and how can different economic concepts and theories contribute to a better understanding of the development process?
2. What are the sources of national and international economic growth? Who benefit from such growth and why? Why do some countries make rapid progress toward development while many others remain poor?
3. Which are the most influential theories of development and are they compatible? Is underdevelopment an internally (domestically) or externally (internationally) induced phenomenon?
4. Do educational systems in LDCs really promote economic development, or are they simply a mechanism to enable certain select groups or classes of people to maintain positions of wealth, power, and influence?
5. What do we mean by "environmentally sustainable development"? Are there serious economic costs of pursuing sustainable development as opposed to simple output growth, and who bears the major responsibility for global environmental damage – the rich North or the poor South?

And so on…

TOPIC 1

1.1 Meaning of Development

One of the central issues in development economics is concerned with what is exactly meant by *development* and how to measure it. During the two or three decades succeeding the Second World War, it was believed that rapid economic growth (as measured by the growth of Gross National Product) was the best way of raising the average levels of living of the people which was the ultimate goal of development economics. Economists were almost unanimous on the view that rapid rises in Gross National Product (GNP) would increase average per capita income and benefits of this growth would ultimately *trickle down* to the masses. Developing nations were therefore advised to give topmost priority to economic growth.

However, the experience of many developing countries during the 1950's and the 1960's showed that although these countries had achieved the overall growth targets set by the United Nations, there was no improvement (and in some cases even deterioration) in the general levels of living of the people. It was also observed that populations in countries with similar levels of per capita GNP differed widely in terms of attainments in health, nutrition, education, etc. This signaled that something was wrong with this narrow view of development. As a result, during the 1970's, development came to be viewed in terms of reduction or elimination of poverty and inequality within the context of a growing economy. That is, the focus shifted from "growth" to **"growth with redistribution".**

However, it was soon realized that redistribution of income is not sufficient to ensure a good *quality of life* for all which should be the ultimate goal of development. Hence, the emphasis shifted towards improving the quality of life of the people. This gave rise to the **"basic needs approach"** to development which concentrated on the provision of basic goods and services for the deprived population groups. The basic needs approach, which was first articulated in the 1970s, was an important contribution to the debates on development. It queried the focus on growth and income as indicators of development. Methodologically, it challenged the dichotomous relationship between means and ends. It put forward the idea that poverty is not an "end" that can be eradicated by the "means" of a higher income. At the World Employment Conference held in 1976, the International Labour Organization (ILO) expressed the view that "creation of more and better jobs is not enough" and proposed that "*development planning should include, as an explicit goal, the satisfaction of an absolute level of basic needs"*. The basic needs approach shifted the attention of development agencies from actual or potential income earners to the needs of all members of society which includes not only the workers but also children and old people, the sick and disabled.

As a consequence of these developments, the World Bank, which had so far championed economic growth as the ultimate goal of development policy, joined the chorus of economists taking a broader perspective, and asserted that the main objective of development policy should be to improve the quality of life of the people. In 1980, the World Bank published data on basic needs indicators for a fairly large number of countries. The indicators included were: adult literacy rate, life expectancy at birth, percentage of population having access to safe water, number of persons per physician and daily calorie intake as a percentage of the amount required. One may include many more such indicators like primary school enrolment rate, housing facilities, hospital beds, protein intake and energy consumption, and so on.

Gradually, it came to be realized that the existence of a chronic state of underdevelopment has a mental aspect in addition to the physical aspect. It was asserted that the condition of underdevelopment is a consciously experienced state of deprivation. It was also observed that the process of development is inextricably related to political ideas, forms of government, social structures, cultural factors, etc. Development, therefore, came to be defined as a sustained elevation of an entire society towards a more “humane” life. Thus, the paradigm of development shifted to ***human development***.

In the 1980s, Amartya Sen developed a new perspective of visualizing human well-being. He argued that the capability to function is what really matters for the status of a person as poor or nonpoor. He stressed the need to think beyond the availability of commodities and consider their use, i.e., what a person does with the commodities of given characteristics that they come to possess or control (or can do with them). Sen identifies five sources of disparity between (measured) real incomes and actual advantages:

(i) personal heterogeneities (such as those connected with disability, illness, age, or gender);

(ii) environmental diversities (such as heating and clothing requirements in cold climates, infectious diseases in the tropics, or the impact of pollution);

(iii) variations in social climate (such as the prevalence of crime and violence) and "social capital";

(iv) differences in relational perspectives; and

(v) distribution within the family.

According to Amartya Sen, what we can eat depends on what food we are able to acquire. The mere presence of food in the economy, or in the market, does not entitle a person to consume it. In each social structure, given the prevailing legal, political and economic arrangements, a person can establish command over some alternative commodity bundles. He can choose to consume any one of these bundles. These bundles could be extensive, or very limited. The set of alternative bundles of commodities over which a person can establish such command are referred to as this person's *entitlements*. However, Sen argued that greater entitlements do not always lead to greater *capabilities*. According to Sen, *functionings* represent the various things that a person may value doing or being. The valued functionings may vary from such elementary things as being adequately nourished and being free from avoidable diseases, to more complex ones as having self-respect. *Capabilities*, on the other hand, denote what a person is actually able to do or the set of alternatives available to the person. In other words, the capability of a person represents the alternative functioning bundles that the person can achieve with his or her economic, social and personal characteristics and from which he or she can choose one bundle. This can extend from such elementary capabilities as the ability to avoid undernourishment and related morbidity and mortality, to more sophisticated social capabilities such as taking part in community life and achieving self-respect. The concept of *capability* is much broader than the concept of *standard of living*. Living standards relate specifically to the richness of the person's own life, whereas a person may value his or her capability also to be socially useful and influential (going well beyond the pursuit of his or her own living standard). The focus on capability helps to clarify the purpose of public action in different fields.

Thus, entitlement of a person is a set of alternative commodity bundles whereas the capability of a person is a set of alternative functioning bundles. Larger entitlements contribute to wider capabilities, but the relationship is different for different persons. For example, the relationship between food intake and nutritional achievement can vary greatly depending not only on features such as age, sex, pregnancy, metabolic rates, climatic conditions and activity level, but also on access to complementary inputs such as health care, drinking water and so on. Hence, the focus on entitlements, which is concerned with the command over commodities, has to be seen as only instrumentally important, and the main focus should be on basic human capabilities.

Based on this approach economists like Goulet identified three basic components or **core values of development**:

(i) <u>Sustenance: The Ability to Meet Basic Needs</u>

All people have certain basic needs without which life would be impossible. These life-sustaining basic human needs include food, shelter, health and protection. When any of these is absent or in critically short supply, a condition of absolute underdevelopment exists.

(ii) <u>Self-Esteem: To Be a Person</u>

A second universal component of the good life is self-esteem – a sense of worth and self-respect, of not being used as a tool by others for their own ends.

(iii) Freedom from Servitude: To Be Able to Choose

A third and final universal value is human freedom. Freedom here is to be understood in the sense of emancipation from alienating material conditions of life and from social servitude to nature, ignorance, other people, misery, institutions and dogmatic beliefs, especially that one's poverty is one's predestination.

Objectives of Development:

The new approach to development led economists to identify three primary objectives of development that is relevant to all societies. They are:

1. To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection
2. To raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values
3. To expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery

Difference between Growth and Development:

Economic Growth may be defined as a steady and constant rise in the country's output of goods and services over a period of time. It indicates the expansion of the Gross Domestic Product (GDP) of the country. Economic Development is a wider concept than Economic Growth. It is perceived as a multidimensional process involving major changes in social structures and popular attitudes in addition to acceleration of economic growth, reduction of inequality and eradication of absolute poverty. There is no doubt that growth is necessary for development, but the mere achievement of growth targets does not ensure development. In fact, growth is possible without development. The upswing of the trade cycle is the most obvious example of the possibility of growth without development.

Growth is usually measured in terms of growth of per capita income. However, lots of controversies exist regarding the use of **per capita income as an index of development**. Apart from the difficulty of measuring income in many countries and the difficulty of making intercountry comparisons, per capita income ignores the distribution of income within countries, differences in development potential of countries and other physical indicators of the quality of life. An increase in income is not a sufficient condition for an increase in welfare, because an increase in income can involve costs as well as benefits. It may have been generated at the expense of leisure or by the production of goods not immediately consumable. If development is looked upon as a means of improving the welfare of present generations, probably the best index to take would be **consumption per man-hour** worked. This index, in contrast to an index of per capita income, focuses directly on the immediate utility derivable from consumption goods in relation to the disutility of the work effort involved in their production. In spite of these limitations, per capita income is perhaps the best single index of development as it focuses on one of the most important objectives of development – raising living standards and eradicating poverty.

1.2 Measures of Development

Purchasing power parity and per capita income as an index of development

There were certain problems associated with using GNP or per capita GNP as a measure of development. Some of the major criticisms are as follows:

1) The first criticism relates to the basic definition of GNP and its method of computation. It has been argued that the coverage of GNP is incomplete as it does not take into account the value of the non-marketed goods and services of the economy which form a substantial portion of the Gross Domestic Product (GDP) or Gross National Product (GNP) of a country (particularly in developing countries which often lack well-developed

markets). Hence, by excluding these activities from the estimation of GDP/GNP, we get an incomplete picture of the economy.

2) When per capita GNP measured in US dollars is used as an index of development, there arises the problem of international comparisons. This is because the purchasing power of one dollar may not be the same in different countries. In order to solve this problem, in the 1970s the International Comparison Project estimated (for 34 countries) per capita GDP measured in *international dollars* whose purchasing power is, in theory, the same everywhere. Since then it has become the standard norm to estimate purchasing power parity (PPP) adjusted GDP/GNP for making international comparisons.
3) It has been argued that per capita GNP is an average measure that does not take into account the distributional aspect. A country with high level of per capita GNP may have large sections of population living in abject poverty.

What is Purchasing Power Parity?

When making comparisons between countries which use different currencies it is necessary to convert values, such as national income (GDP), to a common currency. This can be done it two ways:

(i) using market exchanges rates, or

(ii) using purchasing power parities (PPPs)

The market exchange rate often fails to express the real purchasing power of Rupee in India while expressing India's GDP, Per Capita Income etc., in Dollar terms. Most international comparisons on economic indicators are expressed in terms of the official exchange rate. But we all know that one Dollar will purchase less commodities in the US compared to what Rs 70 can purchase in India (we assume that 1$ =Rs 70). So the market exchange rate doesn't reflect the purchasing power of a currency and there is need for some adjustment.

Purchasing power parity is defined as the number of units of a country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the US. The technique of purchasing power parity allows us to estimate what exchange rate between two currencies is needed to express the accurate purchasing power of the two currencies in the respective countries.

<u>An illustration:</u>

Let us suppose that the market exchange rate between the US Dollar and the Indian Rupee is given by $1 = Rs 70. One Dollar in the US will buy 1 litre of milk there. Corresponding money in terms of Rupee, i.e., Rs 70 can buy 2 litres of milk in India. Let us assume that India's GDP is Rs 700. This will become $10 in market exchange rate terms. If milk is the only commodity produced in the world (assumed for the sake of simplicity), one will think that India is producing 10 litres of milk, if we use the market exchange rate. But actually, India produces 20 litres of milk. This higher volume of production in India is not revealed if we use the market exchange rate to measure GDP. To overcome this defect, we can use the Purchasing Power Parity exchange rate. Under PPP, we measure the GDP of India by measuring how much milk Rs 70 can purchase in India and $1 can purchase in the US. In this case, $1 can purchase 1 litre of milk in the US whereas Rs 35 can purchase 1 litre of milk in India. So, $1 = Rs 35. This is the purchasing power parity exchange rate we obtained. Using this exchange rate we can calculate that India's GDP of Rs 700 will become $20. Thus, in terms of PPP, India's GDP is $20 in contrast to the $10 we estimated by using market exchange rate. The PPP exchange rates help to minimize misleading international comparisons that can arise with the use of market exchange rates.

The most common way of constructing a PPP ratio between two countries is to revalue the national incomes of the two countries by selecting a comparable basket of goods and services in each country and estimating the purchasing-power equivalent of each item in country A relative to country B. Thus, if P_{ia} is the price of item i in country A and P_{ib} is the price of item i in country B, the purchasing-power equivalent of item i in country A relative to country B is P_{ia}/P_{ib}. By extending this calculation to all goods, and applying the price ratios to the average quantities consumed of each item in the two countries, we obtain a formula for the overall purchasing-power equivalent in country A relative to country B:

$$\frac{\sum_i Q_i P_{ia}}{\sum_i Q_i P_{ib}}$$

where Q_i is the geometric mean of the quantities of each good consumed in the two countries. The purchasing-power equivalent ratio can then be used to convert one country's national income measured in local currency into another country's currency as the unit of account.

Irving Kravis and his associates have developed a method of making multilateral comparisons of real per capita incomes across countries by constructing world price ratios based on price and quantity data for over 100 commodity categories in over 100 countries. The international prices are then used to value quantities in each of the countries. The international prices and product values are expressed in international dollars (I$). An international dollar has the same overall purchasing power as a US dollar for national income as a whole, but relative prices for each country are relative to average world prices rather than US prices. This multilateral approach allows a direct comparison between any two countries using any country's currency as the unit of account.

The Human Development Index

In 1990, the United Nations Development Programme (UNDP) published the Human Development Report (HDR) that has helped to further refine the concept of human development. The HDR (1994) states that development "must enable all individuals to enlarge their human capabilities to the fullest and to put those capabilities to the best use in all fields — economic, social, cultural and political". Hence, the HDR (1994) emphasizes that while income is an important objective, development must encompass improvements in other non-income indicators as well because human well-being in the ultimate analysis refers to both the physical and mental quality of being and income is only an instrument to enhance human well-being. This new approach to development led to increased focus on the social attainments like education, health, etc. which are now considered to be desirable not only in themselves but also because of their role in supporting better opportunities for people. However, the HDR (1991) propagates enlargement of human choices with two caveats. First, enlarging the choices of one section of society should not restrict the choices of another. Second, the development process must be sustainable, i.e., enlargement of the choices of the present generation should not be done at the cost of the choices of future generations.

In order to facilitate comparison of the levels of human development across countries, the UNDP constructed the Human Development Index (HDI). The

Human Development Report (1990) defines human development as "a process of enlarging people's choices". The Report also recognizes that "in principle, choices can be infinite and change over time. But at all levels of development, the three essential ones are for people to lead a long and healthy life, to acquire knowledge and to have access to resources needed for a decent standard of living". The UNDP selected a suitable indicator to capture and represent each of these dimensions of human development. Longevity is measured by life expectancy at birth. Access to knowledge is measured as an average of mean years of schooling (MYS) for the population aged 25 or above and expected years of schooling (EYS) for the population aged 3-18. Access to resources is measured using per capita gross national income expressed in 2011 purchasing power parity (PPP) US dollars. A normalized index is calculated for each indicator by using the following formula:

$$I_{ij} = (X_{ij} – \min.X_i) / (\max.X_i – \min.X_i)$$

Here I_{ij} denotes the normalized index for the jth region with respect to the ith indicator (X_i) and X_{ij} denotes the actual value of the ith indicator for the jth region. These indices are computed with reference to standards on the minimum and maximum values of the measure of each component so that they can be compared with similar indices on other populations. The HDI is the geometric mean of normalized indices for each of the three dimensions.

The following table (Table 1) shows the rankings of some selected countries of the world on the basis of HDI and its components – life expectancy at birth (LEB), expected years of schooling (EYS), mean years of schooling (MYS) and per capita Gross National Income (PCGNI) – for the year 2015. It also shows the difference in HDI and PCGNI rankings for 2015. From the table we observe that India occupies the 131st position and falls in the group of countries having medium level of development. The HDI value for India is 0.624 which is much lower than that of the best performing country Norway which has a HDI value of 0.949. Moreover the difference in PCGNI rank and HDI rank is -4 implying that it has relatively better performance in terms of PCGNI. India's HDI rank has remained more or less unchanged as the latest HDR reveals that India ranked 131 among 188 countries in 2018.

Table 1: HDI and Its Components for Some Selected Countries for 2015

HDI rank	**Country**	**HDI**	**LEB (yrs.)**	**EYS (yrs.)**	**MYS (yrs.)**	**PCGNI (2011 PPP $)**	**PCGNI rank – HDI rank**
	VERY HIGH HUMAN DEVELOPMENT						
1	Norway	0.949	81.7	17.7	12.7	67,614	5
2	Australia	0.939	82.5	20.4	13.2	42,822	19
5	Singapore	0.925	83.2	15.4	11.6	78,162	-3
10	USA	0.920	79.2	16.5	13.2	53,245	1
12	Hong Kong	0.917	84.2	15.7	11.6	54,265	-2
16	UK	0.909	80.8	16.3	13.3	37,931	10
17	Japan	0.903	83.7	15.3	12.5	37,268	10
18	Korea	0.901	82.1	16.6	12.2	34,541	12
49	Russian Fed.	0.804	70.3	15.0	12.0	23,286	1
51	Kuwait	0.800	74.5	13.3	7.3	76,075	-48
	HIGH HUMAN DEVELOPMENT						
52	Belarus	0.796	71.5	15.7	12.0	15,629	19
59	Malaysia	0.789	74.9	13.1	10.1	24,620	-13

64	Mauritius	0.781	74.6	15.2	9.1	17,948	1
69	Iran	0.774	75.6	14.8	8.8	16,395	-2
73	Sri Lanka	0.766	75.0	14.0	10.9	10,789	21
79	Brazil	0.754	74.7	15.2	7.8	14,145	-1
87	Thailand	0.740	74.6	13.6	7.9	14,519	-11
90	China	0.738	76.0	13.5	7.6	13,345	-7
94	Jamaica	0.730	75.8	12.8	9.6	8,350	16
105	Uzbekistan	0.701	69.4	12.2	12.0	5,748	21
	MEDIUM HUMAN DEVELOPMENT						
107	Moldova	0.699	71.7	11.8	11.9	5,026	31
111	Egypt	0.691	71.3	13.1	7.1	10,064	-7
113	Indonesia	0.689	69.1	12.9	7.9	10,053	-8
131	India	0.624	68.3	11.7	6.3	5,663	-4
132	Bhutan	0.607	69.9	12.5	3.1	7,081	-12
133	Timor-Leste	0.605	68.5	12.5	4.4	5,371	-1
139	Bangladesh	0.579	72.0	10.2	5.2	3,341	8
144	Nepal	0.558	70.0	12.2	4.1	2,337	19
145	Myanmar	0.556	66.1	9.1	4.7	4,943	-6
147	Pakistan	0.550	66.4	8.1	5.1	5,031	-10
	LOW HUMAN DEVELOPMENT						
148	Swaziland	0.541	48.9	11.4	6.8	7,522	-33
154	Zimbabwe	0.516	59.2	10.3	7.7	1,588	20
162	Senegal	0.494	66.9	9.5	2.8	2,250	3
163	Haiti	0.493	63.1	9.1	5.2	1,657	9
165	Sudan	0.490	63.7	7.2	3.5	3,846	-22
169	Afghanistan	0.479	60.7	10.1	3.6	1,871	1
174	Ethiopia	0.448	64.6	8.4	2.6	1,523	5
179	Sierra Leone	0.420	51.3	9.5	3.3	1,529	-1
187	Niger	0.353	61.9	5.4	1.7	889	1
188	Central African Rep.	0.352	51.5	7.1	4.2	587	4

Table 2 presents a consolidated picture of HDI and its components across different groups and regions.

Table 2: HDI and Its Components for different groups and regions for 2015

	HDI	LEB	EYS	MYS	PCGNI
Human development groups					
Very high human development	0.892	79.4	16.4	12.2	39,605
High human development	0.746	75.5	13.8	8.1	13,844
Medium human development	0.631	68.6	11.5	6.6	6,281
Low human development	0.497	59.3	9.3	4.6	2,649
Developing countries	0.668	70.0	11.8	7.2	9,257
Regions					
Arab States	0.687	70.8	11.7	6.8	14,958
East Asia and the Pacific	0.720	74.2	13.0	7.7	12,125
Europe and Central Asia	0.756	72.6	13.9	10.3	12,862
Latin America and the Caribbean	0.751	75.2	14.1	8.3	14,028
South Asia	0.621	68.7	11.3	6.2	5,799
Sub-Saharan Africa	0.523	58.9	9.7	5.4	3,383
Least developed countries	0.508	63.6	9.4	4.4	2,385
OECD	0.887	80.3	15.9	11.9	37,916
World	0.717	71.6	12.3	8.3	14,447

1.3 Definition of Developing Economy

The most common way of defining the developing world is by per capita income. The World Bank has ranked countries by their level of gross national income (GNI) per capita as low-income country (LIC), lower-middle income country (LMC), upper-middle income country (UMC), high-income OECD, and other high-income countries. The developing countries are generally defined as those countries with low-, lower-middle or upper-middle incomes.

1.4 Characteristics of a Developing Economy

The dominance of agriculture and petty services

One of the major distinguishing characteristics of poor developing is the fact that their economies are dominated by agriculture and petty service activities. There is very little manufacturing industry. Majority of the population relies on agriculture to make a living. Moreover, most of those working on land in poor countries are either subsistence farmers (producing only for themselves), tenant farmers (with no land rights and no incentive to increase output) or landless labourers (selling their labour in a daily labour market). The dominance of agriculture has a number of implications and poses a number of problems for developing countries. First, agriculture is a diminishing returns activity because land is a fixed factor of production. Secondly, on the demand side, the demand for most agricultural products is income inelastic.

Low level of capital accumulation

A second major distinguishing characteristic of developing countries is their low level of capital accumulation – both physical and human. Physical capital refers to the plant, machinery and equipment. Human capital refers to the skills and expertise embodied in the labour force through education and training. Low levels of capital accumulation are a cause of low productivity and poverty, but are also a function of poverty, because capital accumulation requires investment and saving and it is not easy for poor societies to save.

Rapid population growth

A third distinguishing feature of most developing countries is that they have a much faster rate of population growth than developed countries. Rapid population growth, like low capital accumulation, may be considered as both a cause of poverty and a consequence. High birth rates are themselves a function of poverty because child mortality is high in poor societies and parents wish to have large families to provide insurance in old age. High birth rates also go hand in hand with poor education, a lack of employment opportunities for women and ignorance of birth control techniques. Population growth in turn helps to perpetuate poverty if it reduces saving, dilutes capital per head and reduces the marginal product of labour in agriculture.

Exports dominated by primary commodities

A fourth distinguishing characteristic of developing countries is that their trade tends to be dominated by export of primary commodities and the import of manufactured goods. This has consequence for the terms of trade of developing countries, the distribution of the gains from trade between developed and developing countries and the balance of payments situation.

Weak institutional structures

The term institution has been defined in different ways. Douglass North (1990) describes institutions very broadly as the formal and informal rules governing human interactions. There are also other narrower definitions of institutions that focus on specific organizational entities, procedural devices and regulatory frameworks. At a more intermediate level, institutions are defined in terms of the degree of property rights protection, the degree to which laws and regulations are fairly applied, and the extent of corruption.

In recent times, many economists have argued that weak institutional structures are the fundamental cause of underdevelopment because the character of institutions is the determinant of all proximate causes of progress such as investment, education, trade and so on.

Other dimensions of the development gap:

Unemployment

The developing countries contain a huge reservoir of surplus labour. For a long time, poor countries, particularly since the population explosion, have been characterized by underemployment or disguised unemployment in rural areas. What has happened in recent years is that disguised rural unemployment has transferred itself into disguised and open unemployment in the towns. Several factors are responsible for this. The push factors have to do with the limited job opportunities in rural areas and a greater willingness and desire to move, fostered by education and improved communications. The pull factors relate to the development of urban industrial activities that offer jobs at a higher real wage than can be earned in rural areas.

Education

Another dimension of the development gap is the difference in educational opportunities between rich and poor countries. As a result, developing countries are characterized by low enrolment rates, high illiteracy rates and relatively low levels of human capital formation. Low levels of education and skills make it more difficult for these countries to develop new industries and to absorb new technology; it makes people less adaptable and amenable to change; and it impairs the ability to manage and administer enterprises and organizations at all levels.

Inequality: vertical and horizontal

The distribution of income, wealth and power is also very unequal in developing countries. Very often, the growth and development that takes place in poor countries benefits the richest few, and the vast majority of the population is left untouched. Traditionally, inequality in income distribution was measured in terms of vertical inequality. Vertical inequality refers to the distribution of income across individuals and households. A more recent measure is that of horizontal inequality which is concerned with how different groups in society are treated based on race, religion, language, class, gender, etc.