



17

Some Additional Issues: In Search of a Comprehensive Development Strategy

What are the main factors of success in development?

Over the past several decades some **developing countries** have achieved high **economic growth** rates, significantly narrowing the gap between themselves and the most **developed countries**. But many more developing countries have actually seen the economic gap widen (see Figure 4.4). Thus, while accelerated growth and development leading to convergence with developed countries are possible, they are in no way guaranteed. Do we understand the main reasons for successful development? And what can governments do to catalyze their countries' development?

To begin to answer these questions, it is important to realize that development is far more complex than simply economic growth or the quantitative accumulation of national **capital**, even in the broader meaning of the term (as described in Chapter 16, for instance). Development is also the qualitative transformation of a whole society, a shift to new ways of thinking, and, correspondingly, new relations and new methods of production. Moreover, as you will probably agree, transformation only qualifies as development if it benefits most people—improves their **quality of life** and gives them more control over their destinies

(see Chapter 1). This comprehensive process of change has to involve most of the population and cannot be limited to modernization at the top or in the capital city.

Social Capital and Social Cohesion

Researchers analyzing development have shown that some countries and communities use all their **productive resources (human, physical, and natural capital)** much more **efficiently** than do others and so are developing more successfully. How can this be explained? Refer back to Figure 16.1. What this picture fails to acknowledge is perhaps the most critical factor in any society's development: the way people interact, cooperate, and resolve their conflicts. This is what conventional statistical indicators have trouble measuring. And this is what researchers have recently come to call the *social capital* of society.

Social capital refers to organizations and associations (including public, private, and nonprofit) as well as to norms and relationships (such as laws, traditions, and personal networks). It is the glue

that holds societies together—what social cohesion depends on. Abundant social capital considerably lowers the costs of doing business and increases productivity by promoting trust, coordination, and cooperation at all levels. By contrast, a lack of social capital leads to conflicts and inefficiencies.

Because social capital is so multidimensional, there can hardly be a single “best” way of measuring it. But that does not mean that measurement is impossible. Researchers measure social capital in a number of creative ways, usually by calculating composite indexes based on a range of data collected through surveys. The data used for these calculations generally reflect people’s trust in governments and in public institutions, memberships in civic organizations, and access to information.

Mounting evidence suggests that social capital is critical for economies to grow and for people to prosper. However, radical reforms or even rapid but unbalanced development often undermine existing forms of social capital without replacing them with new ones. Such degradation of social capital threatens social cohesion and renders development unsustainable. Some development experts believe that this is what has happened, for example, in many transition countries.

Consider corruption among public servants, including bribery, misappropriation of public funds, and misuse of

authority. Corruption not only wastes resources by distorting government policies away from the interests of the majority, it also generates apathy and cynicism among citizens, makes laws dysfunctional, and contributes to a rise in crime. Eventually, corruption discredits political democracy, which is essential for development, and undermines broad public support for economic reforms. No wonder that, according to some studies, countries suffering from high levels of corruption typically exhibit lower rates of economic growth. Such elements of social capital as good governance and the rule of law are no less important for **economic development** than such basic economic conditions as sufficient **saving** and **investment** (see Chapter 6) or strong incentives for efficiency (see Chapter 11).

The Role of Government Policies

Governments seeking to accelerate their countries’ development must do so with limited resources. Even though development is a comprehensive process of change, governments must, nevertheless, identify and focus on areas where their limited action can make the biggest difference. In addition to making up for well-known **market failures** (see Chapter 11), government can also play an important role in coordinating the involvement of all development agents—private firms, public agencies,

How can countries build their social capital?

Which roles in national development should the government play? How can the government catalyze national development?

and civic associations—within the framework of a national development strategy. Government can help different segments of society arrive at a common vision of the country's short-term and long-term future, build broad national consensus on ways of making this vision a reality, and enable all the development agents to act in accordance with their social responsibilities. Formulating national development priorities and coordinating their achievement is a crucial task that cannot be entrusted to the market system—let alone underdeveloped markets in poor countries.

The roles of the government and the private sector in implementing the national development strategy cannot be the same in all countries. They depend on the maturity and capabilities of the country's market system, on the one hand, and on the organizational and financial capabilities of the government, on the other. But there are certain areas where government involvement is indispensable: providing for universal health care and education, protecting the economically vulnerable, creating and maintaining an effective legal system with strong law enforcement and well-functioning courts.

Supporting the preservation and development of national culture is another important role for government, particularly where the private sector and civic associations are weak. Cultural values can serve as a strong cohesive force when

other forces are being weakened by rapid change. Cultural development is not a luxury, but a way to strengthen social capital and thus one of the keys to successful social and economic development.

In the economic sphere, the government is indispensable in promoting and safeguarding market competition in the private sector. The government can also play an important role in improving public access to the information and knowledge needed for development—for example, by supporting modern means of communication (telephones, faxes, Internet), investing in fundamental research, and creating a favorable environment for independent media and civic associations.

Some government roles are still highly debatable, however. For example, it is not clear to what extent governments should support and protect from foreign competition those industries identified as areas of a country's **comparative advantage** (see Chapter 12). Nor is it clear how best to monitor and supervise private banks and other financial institutions to avoid restraining private initiative while protecting society from the risk of painful financial crisis.

Choices and Challenges

Every country faces many choices in dealing with its development issues. These choices are made daily in more or less

coordinated and more or less democratic ways, with a longer- or shorter-term perspective in mind. They entail big risks or big benefits for entire nations, but there is a lot of uncertainty in every choice. Learning from historical experience, national as well as global, may be the best way to minimize this uncertainty. The authors of this book hope that it will help you start thinking about your country's development in a global context—comparing countries and searching for useful lessons of development experience from around the world—and looking forward to what can realistically be achieved in 10, 20, or 50 years.

The authors also hope that this book will encourage you to play an active role in your country's development efforts, including discussions on the vision for its future and on its unique path of development. Your attitude—active or

passive, optimistic or pessimistic—is part of your country's social capital too. You can make a real difference by developing informed opinions and making them known to other people, by influencing the course of public debates and eventually the choice of government policies.

The experience of many countries shows that policies can be sustained over the long term only if they are understood and supported by most of the population. If the changes that these policies bring about do not contradict most people's values and sense of fairness, the ongoing process of change is broadly acknowledged as development. That is why your participation, and that of your peers, in shaping and implementing a national development strategy is so important for your country's future success.