

Keynote Address

Limits of Economic Development

by

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What do we mean by basic needs? According to UNDP the basic needs should be looked at from two directions and they are: (i) ensuring the provision of certain minimum requirements of a family for private consumption (adequate food, shelter, and clothing); and, (ii) essential services are provided by and for the community at large (safe drinking water, sanitation, public transport, health, and education). The new trend however, is to include participation in the development process and protection of human rights in the definition of basic needs. So, first of all the person must live, then she/he should be a part of the community for giving and taking certain goods and services to and from the community. In other words any person must take part in the decision making process that might have an influence on him or her.

What is economic development? It ideally refers to the sustained, concerted actions of communities and policymakers that improve the standard of living and economic health of a specific locality. The definition of economic development given by Michael Todaro is an improvement in living conditions, improvement of the citizens' esteem and a just society. Todaro agrees and most other new generation economists also agree that economic development can be measured using Human Development Index. Or it is far better than most of the other indicators we learned about when we were students.

Economic development has to be supported by a whole nation. It leads to creation of more opportunities for education, health, environmental improvement and human development. It means an increase of the per capita income of every citizen, while guaranteeing the provision or availability of other aspects of basic human needs. Can the science of economics deal with all these parameters, all at once? Is it the mandate of economists? In my view the mandate of economics is much narrower. On the other hand, we economists have failed and in fact we are incapable of dealing with all of those parameters, in particular all at once. So, at the outset I would argue that the scope of economics is too narrow and limited to handle broad areas that come under investigation of (economic) development.

To begin my argument, let me ask a few fundamental, simple and basic questions very pertinent to this topic. In our undergraduate economics classes we learned the difference between short run and long run. We also learned many other concepts like demand function, utility function, location theory and the difference between microeconomics and macroeconomics. We learned to believe economics is a science that deals with human behavior and made a set of assumptions, and non-testable hypothesis in understanding consumer and producer behavior. Then we also learned that there cannot be hard and rigid coefficients or numbers and constants in economics like in physics or chemistry.

Let us take an example of a demand equation. We defined quantity demanded as a function of price, keeping everything else constant. When it comes to the real world it was not that simple to consider everything else is constant. We ignored this impossibility to a large extent. However, we made predictions using the demand theory ignoring whether everything else is constant or not. We made policy prescriptions based on the part of the equation we knew, ignoring the

other half of it, correct or incorrect. What are the chances of these policies being correct?

Now, I take another example. We analyzed short run equilibrium of economic phenomena, ignoring the fact that the long run equilibrium is different from the short run equilibrium. It doesn't matter whether we use partial equilibrium or CGE modeling or any other tool to analyze the situation. What is important here is the time element of the economic issue or problem we are dealing with. Let me take an example. At one point a factor of production (e. g. population) can be a real resource and at another point of time the same resource can be a limiting factor to continued economic development. In other words, economic development is a continuing and dynamic process. Similar dynamics might not be applicable to the resources that we are concerned with and there can be asymmetry in the development process and (the?) factor of production in hand.

Technological advancements have made and continue to make remarkable changes in society. They made changes in every aspect of human life, natural eco-systems and our psychological processes. It is true that we economists pay a great deal of respect to technology and its advancements. However, most technological developments came into effect through entrepreneurs, philosophers and other scientists; not by economists. Only a few new discoveries or technological developments came into effect due to even economic reasons. In my view, the scope of economics cannot cover a whole range of issues that are associated with technology, its development, use and non-use etc.

Most economic policies or issues have not worked in a similar manner in two different locations. For example, some of the ingredients that prevailed during the pre-East Asian financial crisis can be found in Sri Lanka today. For example, large and unproductive investments on infrastructure (no quick returns), debt ridden economy, borrowing

from foreign sources and investing in the sources that do not earn foreign exchange, continuing financial problems in the US economy, difficulties in balance of payment, high debt to GDP ratio are some of such issues. Since some of the major issues in the SL economy are similar to the pre-financial crisis in East Asia, can we conclude that the SL economy will face a similar financial crisis soon? This is an excellent point for a major discussion, not only among economists but also among concerned parties,

Ecological and natural resource status and conditions are binding economic development everywhere, all the time. Public goods, common property, and externalities associated with environmental considerations including inter-temporal matters economics failed to understand even the problem of properly rather than providing management solutions.

Status, inequality of initial endowment: Prof. Edgeworth himself admitted that the contract curve he developed is insensitive to initial distribution or endowment. It is in a way meaningless to talk about the best efficiency (or optimum of optimorum), unless there is a mechanism to share the economic cake. It is neither sustainable, nor just. Power is the last issue I am taking into this discussion, though, the list of such limits can be non-exhaustive. How can power be a limit to economics or economic development? It is not that simple. In my view power destroys everything, including the power itself.

Now let me share with you what Max-Neef classifies as the fundamental human needs and they are: subsistence, protection, affection, understanding, participation, leisure, creation, identity and freedom. Needs are also defined by him according to the existential categories of being, having, doing and interacting, and from these dimensions, a 36 cell matrix is developed.

Need	Being (qualities)	Having (things)	Doing (actions)	Interacting (settings)
subsistence	physical and mental health	food, shelter, work	feed, clothe, rest, work	living environment, social setting
protection	care, adaptability, autonomy	Social security, health systems, work	co-operate, plan, take care of, help	social environment, dwelling
affection	respect, sense of humor, generosity, sensuality	friendships, family, relationships with nature	share, take care of, make love, express emotions	privacy, intimate spaces of togetherness
understanding	critical capacity, curiosity, intuition	literature, teachers, policies, educational	analyze, study, meditate, investigate,	schools, families, universities, communities,
participation	receptiveness, dedication, sense of humor	responsibilities, duties, work, rights	cooperate, dissent, express opinions	associations, parties, churches, neighbor-hoods
leisure	imagination, tranquility, spontaneity	games, parties, peace of mind	day-dream, remember, relax, have fun	landscapes, intimate spaces, places to be alone
creation	imagination, boldness, inventiveness, curiosity	abilities, skills, work, techniques	invent, build, design, work, compose, interpret	spaces for expression, workshops, audiences
identity	sense of belonging, self-esteem, consistency	language, religions, work, customs, values, norms	get to know oneself, grow, commit oneself	places one belongs to, everyday settings
freedom	autonomy, passion, self-esteem, open-mindedness	equal rights	dissent, choose, run risks, develop awareness	Anywhere

This matrix and list goes far beyond what we thought as economic development as well as the scope of economics cannot be used to explain all of them. I have not touched on the problems that the western market economies have encountered. For example environmental degradation, social problems such as crime, drugs, divorces, degrading family values, war, discrimination, are a few to name. Unfortunately, countries like China and India are also using models similar to those in the west.

The limits of economic development are not over. I have not even touched the developments in physical sciences and the inability of economists to learn from them and improve their analytical procedures. Time series analysis, dynamic optimization, and rational expectation theory are just only a scratch on the surface of quantum physics. I am not talking about sub-atomic particles and their behavior here in this presentation. It is about the real world applications of new developments of physics or chemistry or bio-medical sciences.

What about the issues that are covered under various religions? I am incapable of comparing them but I know there is something in religion that economics or economic development could not address. Human life is much more complex than most economists believe and economics is only one aspect of it. No need to be arrogant, impatient and vindictive, or promise to deliver what we cannot deliver, even academically.

References

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