Do consequences exist for developing countries experiencing significant growth which don't improve the welfare of their citizens in conjunction?

Third Prize – 2nd Year Undergraduate Category

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Economic growth is often the primary goal of developing countries. It is important to realise that research which shows that the standard of living is rising in developing countries may be misleading, because it is measured by per capita consumption. This per-person measure of economic gain is not synonymous with quality of life and therefore this measure does not summarise welfare. In fact, most people describe a 'high quality' lifestyle in non-monetary terms (Douthwaite, 1992:5). The following essay will show that focus on economic growth alone can have negative effects. This will be shown by assessing three key factors which impact the quality of lives of citizens: war, inequality and lastly culture. Focus will be on whether these three factors are directly linked to significant growth. If it is found that they are it will be useful to analyse how negative the effect can be on welfare, and whether these effects would outweigh the benefits of economic growth.

Coup d'états and civil wars

When a country is experiencing significant economic growth it can often be seen that this influences the security situation. Negative consequences are mainly experienced when a country is relying on primary exports, as it can be seen that "the risk of civil war has been systematically related to a few economic conditions, such as dependence upon primary commodity exports and low national income" (Collier, 2006, P 1). The economic wellbeing of people seems to be a key causal factor in conflict, and has more influence than social factors: "after controlling for per capita income, more ethnically or religiously diverse countries have been no more likely to experience significant civil violence in this period" (Fearon and Laitin, 2003, P 1). It is interesting to

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note that this seems to occur when there is a high dependence on primary exports, which is a form of economic growth that is often accompanied by a decrease in welfare. This can be explained when one is looking at the Dutch disease: in the 1960s the Netherlands sold their gas reserves in the North Sea. This was however accompanied by a loss of welfare in the non-natural resources sector as: “Unexpectedly, this ostensibly positive development had serious repercussions on important segments of the country's economy, as the Dutch guilder became stronger, making Dutch non-oil exports less competitive” (Zadeh, 2003). Primary commodity exports can thus be seen to only increase the welfare of the sector exporting, whereas the rest of the economic life in the country will get penalised for the loss of competitiveness due to the rising exchange rate. This is a consequence of the “spending effect” in which “the conversion of the foreign currency into local currency would increase the country's money supply, and pressure from domestic demand would push up domestic prices.” (Zadeh, 2003). This increases the real exchange rate leading to a loss of competitiveness and to a drop in general exports. This explains why the export of primary commodity seems to be accompanied by a low national income, especially when the export sector is not diversified and relies on one product. It can however be seen that Dutch disease also seems to occur when there are other forms of non-sustainable growth as it has also been linked to “foreign assistance, and foreign direct investment” (Zadeh, 2003). These often also seem to have the effect of a drop in welfare due to the earlier mentioned spending effect, meaning that it can be seen that countries not increasing welfare in relation to economic growth seem to experience negative consequences to their security situations.

Low national income thus seems to ignite civil violence, providing us with a direct link between welfare and security. It can also be seen that “Conflict is concentrated in countries with little Education” (Collier, 2006, P 6), further contributing to the link between violence and low welfare as education is a key indicator of the welfare of a country. One can however also argue that the violence originating from the unsustainable high economic growth due to commodity exports can be seen as a form of political protest, as one can often see that “trade often results in the impoverishment of less powerful nations” (Barbieri, 1996 ,P 32). This is related to the earlier mentioned Dutch disease but is also due to the nature of the goods exported. The civilians notice that the growth is unsustainable due to the growth being based on exports who are very dependent on the price governed by the world market. In some cases it can also be seen that the exports themselves are actually perishable, oil being a prime example. This means that the citizens would prefer to work towards a more sustainable growth, which would be accompanied by an increase in welfare. The government is also at a disadvantage due to the lack of welfare growth, as “low income does advantage the rebels” (Collier, 2006, P 10). This is due to the limited tax revenues of the government in these countries and it is also the case that “Primary commodity exports are the most lootable of all economic activities” (Collier, 2006, P 9). Enabling the rebels to have a source of funding similar to the government revenue: the government’s main source of income are the resources which are easily stolen by the rebels. Due to the lack of industry needed to sell primary exports it is also easy for the rebels to export the resources themselves: only some resources (oil, gas) need an advanced infrastructure whereas timber for example can be exported everywhere. Governments that do not seem to increase welfare in conjunction with the economic growth can thus experience a strong rebel opposition to their policy, and a higher level of violence.

It is however not only violence amongst civilians that is influenced by economic factors. Violence against the state can also be seen to have a correlation to economic welfare. As "some measures of positive economic performance are highly stabilizing, such as a high level of productive employment, robust economic growth, sound export performance (ratio of export-imports to GNP), and diversified commodity exports." (Barka, 2012, P 2). These are also factors related to economic welfare, and it can thus be seen that a spread of welfare helps to stabilise a government. If there is a bigger spread of welfare it can also lead to reform the system, as "rent-reducing reforms can deter coups if the rents to be won by the leaders of a successful coup attempt are sufficiently reduced." (Mcbride, 2004, P 689). This will lead to a further increase in stability and suppression of violence. Many examples of coups in the past also seem to confirm that bad economic policy which leads to a limited growth in welfare do indeed lead to coups as can be seen in Pakistan for example. It has been argued that "poor economic conditions are indeed linked with and may have had a motivating role in previous Pakistani coups" (Ibrahim, 2009, P 5).

Inequality; a contradiction

Development can seem to be a contradictory affair, in that in some cases some of the population can actually become worse-off (Black, 2002:13). This is true on a global scale. More people than ever are living on less than $2 a day despite huge development programs. Economic growth can ironically increase inequality in a state. This problem is twofold, causing both economic and social problems of inequality. In terms of economic inequality – states are likely to distribute their new economic income unfairly. Examples include many newly industrialised countries (NIC's). China is therefore a useful example here, being a state currently between stages of being an NIC and a developed country. Since the country began economic reforms which would lead to its infamously fast economic growth, its level of inequality has also increased dramatically. In 1980, two years after Chinese economic reform began, the countries Gini coefficient was just 0.33 (Sisci, 2005), which is relatively low indicating low inequality. The gini coefficient is the most widely recognised measure of economic inequality. 0 indicated perfect equality where 1 would indicate perfect inequality. Since then, inequality has grown and the Chinese have been ashamed of it – they have not released an official estimate of their own gini coefficient in over ten years (Xuyan & Yu, 2012). All estimates by other states or organisations indicate that the coefficient is close to 5.0 now; the

Chinese Academy of Social Sciences said the Gini coefficient was nearly 0.47 in 2005 (Sisci, 2005). China, and other states seeking economic gain, are likely to create economic disparity in their state, suggesting that their economic fortunes do not benefit their entire population.

Given however that economic growth leads to economic inequality, it is still questionable whether overall welfare decreases as a result. This too could be misleading. Regional media has emphasised that although high growth inevitably leads to higher visible inequality, it is still successful in lowering poverty, and is therefore a worthwhile price to pay (Sisci, 2005). Rawls suggested that increases in economic inequality are worthwhile, so long as absolute poverty is also being reduced. The alternative to this theory is a utalitarian outlook which would focus on increases in average earnings; *maximean*. Rawls's idea is that *maximin* earnings are most important (Pogge, 1994:68). Looking again to China, in 2008 3.2% of people were living on less that $1.25 a day. In 1981 this figure was more than ten times bigger, at 39.3% (World Bank, 2011). Both figures were adjusted for inflation at 2011 prices. Therefore, although China's inequality has increased dramatically, so has its level of poverty; arguably a worthwhile sacrifice. Alternatively, increased economic inequality implies that a state has been divided into a richer elite and a working class which feels relatively poorer, a clearer bourgeoisie and proletariat, which can create social tensions. Studies of multiple states with significant levels of income inequality suggest that it can cause both health and social problems; "income inequality is harmful because it places people in a hierarchy that increases status competition and causes stress, which leads to poor health and other negative outcomes" (Rowlingson, 2011:5). One study of Britian showed that health continually declined between 1955 and 1988 due to the governements focus on growth, which negatively effected welfare and consequently public happiness (Douthwaite, 1992:120-122). Consequently, the higher income inequality associated with economic growth may have the negative effect of lowering happiness, even if absolute poverty is reduced. Overall, increased inequality is related to increases in economic wealth. This sacrifice is often deemed worthwhile so long as absolute poverty is reduced, however the question of whether inequality also leads to an unhappy nation is hard to measure but does suggest another way in which overall welfare is reduced.

Culture

Given now that economic growth can have the effects of encouraging conflicts and economic inequality, it will now be useful to consider whether growth has any other negative connotations. Firstly, culture may be altered by the different ways of life, specifically with respect to job roles and spirituality, associated with a country pursuing significant economic growth. This is difficult to measure but best represented by a simple example; "we walked to school through high grass. Now the cattle have nothing to eat" (Black, 2002:8). Development can essentially make selfsufficiency more difficult. Industiralisation changes how people live and could therefore effect their welfare. Linked to this, economic growth could then have the secondary effect of changing family and community life in a way which is negatively in terms of welfare. Undeveloped countries are more likely to have strong family ties, leading to higher home production and yet lower "labour force participation of women and youngsters" (Alensina & Giuliano, 2007:1). This suggests that economic growth may simply change the roles of family members, from unpaid work in the home to paid jobs in the private or public sector. The difference is that the former may increase happiness by creating a stronger family ties; a more unified economic unit. Surveys conducted across 70 states, developed and otherwise, measuring happiness and satisfaction with life, showed that people were generally happier with stronger family ties (Alensina & Giuliano, 2007:11). These ties occur with lower levels of market activity; and therefore lower levels of economic growth.

Conclusion

In conclusion it can be said that there are definite negative consequences to be experienced by countries who do not increase their welfare in conjunction with economic growth. Due to the broad influence of economic policy these consequences are far stretching and affect different aspects of life on different levels, influencing both their everyday lives and they have a major influence on policy. This can be seen for example, in the negative consequences governments experience in a security context, in which there is an increased risk for violent conflict. The consequences are however also experienced by the normal citizens, who are affected by inequality and a change of culture. All of these consequences are without a doubt negative, and countries who are experiencing strong economic growth should aim to spread the welfare. Negative effects therefore include the following, listed respectively in order of importance: increased conflict through increasing the likelihood of coups and civil wars, increased economic and social inequality and changes in culture which reduce the strength of family ties and therefore, arguably, happiness. It is additionally useful to remember that benefits still exist which make it highly unlikely that governments will cease to pursue economic growth; even given these negative consequences. This essay, as well as an expanding field of research, should show that governments should alternatively consider *how* their growth is distributed to ensure that it is as advantageous to their citizens' welfare as possible.

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