

**INSTITUTE FOR APPLIED RESEARCH IN SUSTAINABLE ECONOMIC
DEVELOPMENT – IPADES**

**THE LONG ROAD TO UNDERSTANDING AND APPLICATION OF
DEVELOPMENT ECONOMICS**

In a way, the economics of development today is like the 18th-century medicine, where doctors used leeches to drain blood from their patients, and often happened they perish in the healing process.

Jeffrey Sachs, 2005

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The current society has as main goal the ongoing search for sustainable economic development. This, without the adjective sustainable, is a historical phenomenon which happens to occur in countries or nation States that held their capitalist revolution, and is characterized by the sustained increase in productivity or per capita income, accompanied by a systematic process of capital accumulation and incorporation of technical progress.

To which the capitalist revolution could trigger, from the 11th century, in Europe, it was necessary that first there was an agricultural revolution that, through the use of plows with iron blade, rotation of crops, the increased use of organic fertilizer and the two-axle wagon, produced the economic surplus needed so that workers could be transferred to the trade and the industry. From the 15th century begins a new revolution, the commercial, which depended on maritime technology, for which Portugal had important role.

Once started, the economic development tends to be relatively automatic or itself sustainable which does not mean to say that is balanced and that there can be no backsliding as far as in the capitalist system the market mechanisms involve incentives for the continued increase in the stock of capital and expertise, or not to do so. However, the rate of development will not be equal for all; on the contrary, will vary substantially depending on the ability of companies to use its institutions, and the main one, the market, to promote development.

For a better understanding of this process, seek support in economic history. Until the mid-18th century, even with the agricultural and commercial revolutions, the world was extremely poor, considering any of the current standards. John Maynard Keynes wrote about the stagnation of human economic progress in his essay: *The economic possibilities for our grandchildren*, written in 1930.

From the earliest of times of which we have records, say, two thousand years before Christ, until the beginning of the 18th century, there were no really big change in the standard of living of the average man living in civilized centers of Earth. Ups and downs, the certainty of pestilences, famines and wars, golden intervals, but no violent progressive change. Some periods were maybe 50% better than others at most 100% better than others in the four thousand years have ended, say, in the year 1700 after Christ.

What changed? The shock of the Industrial Revolution, supported by an increase in agricultural productivity in North-West Europe. The "casualty" England have been the cradle of this revolution is subject of study among economic historians that at least six main conditions for this issue: 1) British society was relatively open, with more room for individual initiative and social mobility; 2) Britain had strengthened institutions of political freedom; 3) England had become a major center of European scientific revolution; 4) Britain had crucial geographical advantages; 5) England was sovereign and had minor scratches to invasion than its neighbors; 6) Britain had coal and, with the invention of the steam engine, this liberated mineral society of energy constraints that had limited the scale of economic production throughout the history of mankind.

In his seminal work of 1776, the *Wealth of Nations*, Adam Smith referred to the natural advantages of Britain.

England, due to the natural fertility of its soil, the large expanse of its coastline in proportion to the territory of the country as a whole and to the many navigable rivers which cross and allow the convenience of river transport to some of his prettiest interiors, is perhaps just as well endowed by nature as any major country in Europe to be the place of foreign trade, manufactures for sale apart and all improvements that may arise.

One of the most important factors for economic development has had continuity is the transfer of technologies and the ideas underlying them. More important than having coal, was the ability to use modern scientific ideas to organize production. The beauty of ideas is that they can be used repeatedly without ever dies. To the economists they are not rivals, in the sense that a person makes use of an idea does not diminish the ability of others to use as well. So, we can imagine a world in which all reach prosperity.

However, in order to spread prosperity for all countries, it is necessary for the development economics today employed to modernize. To do this, you can take as a parameter the modern medicine, both in the development of the underlying science as in the systematization of the practice, i.e. the point where science is brought into contact with the patient, here understood as the company that will be developed or in development. This is because the development economics still hold to macroeconomic, revenue mainly budget belt tightening for patients so poor that neither has belt. It is necessary to use other tools and procedures for poor or impoverished societies can overcome their difficulties. To this end, some aspects should be considered.

The first is that development is a *complex process* in which a lack or failure in the analysis of variables that make up can lead to many additional flaws that compromise the objective to be achieved. The second point is that this complexity requires a *differential diagnosis*. For example, poverty can be caused by many different factors. The first impulse is to find out what the root cause. The third aspect is that development *involves society as a whole*, to treat it successfully, it is important to understand the scenario in which the company is inserted. The fourth aspect is the *monitoring and evaluation* which allows to adopt another approach to the problem, if it is necessary, in other words, change the treatment.

However, the practice of development economics still isn't up to that task. The economists do not learn to think as clinicians and rarely have opportunity of clinical experience in their advanced studies. A graduate student from a program in developed countries might as well study the development crisis in Africa or Latin America without ever set foot in the country. An adviser can pass a data and ask the student to make a statistical analysis without the benefit of context, history or direct observation. Years later, the student may have the opportunity to visit this country for the first time and you will see that its historical context was more complex than the data with which it worked.

This is because as with the complexity of the human system in which the fault in a system can lead to additional failures cascade complicating the health or life of the patient, in the study of history, geography, anthropology, culture and politics which involves society are important systems and in many cases pertaining to the advancement or stagnation of this society. As an example, cite examples of Bolivia and Poland in their respective crises experienced at the end of the last century.

When the USA Government asked that the Bolivia eradicated the coca plantations in late 1990, the result was the deepening of rural poverty. When the Government responded to the growing rural poverty with social programs, the crisis has become. When the fiscal

crisis did not receive foreign aid, the crisis came to be civil disorder. Finally, the Government was overthrown and the Bolivia entered a new period of instability. Detail: Bolivia came from a successful combat of its hyperinflation in the years 1980, quelled by a macroeconomic policy to increase its hydrocarbons.

Poland to move from a centralized economy to a market economy and adopt macroeconomic recipe had included in his plan, the underlying issues, but of vital importance to freedom of the Polish people. It was the cancellation of the debt of 30 billion dollars of the Soviet era, in 50%; and the creation of the fund of one billion dollars for the stabilization of the Polish currency, the Zloty. Debt cancellation reflects social, economic, political realities and more, the country's commitment to practice healthy economic policies. Then, the debt cancellation raises the "credibility", instead of reducing it. After all, a country well governed with low debt can take on new debts.

It becomes evident with the examples cited that development planners should focus their attention more effectively the underlying causes of economic difficulty and propose solutions to the specific conditions of each society, in other words, not just the laboratory study is necessary to go to the field. The theory is one thing, the practice is quite another.

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