2. Development and Crisis

2.1 Development efforts in the past few decades have had considerable success. Few developing countries stand today where they did after the second world war, and some have achieved remarkably fast rates of growth. Despite these achievements, there is a strong sense of economic crisis in the developing world today. Partly, this is a reflection of the current international recession which has made the development efforts of all countries harder and which has begun to have devastating effects on some of them. But aside from these recessionary problems and the particular difficulties caused by the energy crisis, there are also deep-rooted structural problems which add to political and economic concerns. It is recognised that there has been a widespread failure to realise the much desired objectives enshrined in programmes of successive development decades. Part of the disquiet arises from these long-run failures, and especially from the inability of the world economic structure – with its inequalities and asymmetries – to come into equilibrium with the changed political structure arising from the emergence of the colonial peoples into politically independent nations. The contrast between expectations and achievements provides a sombre backdrop to the current economic crisis.

2.2 Eradication of poverty has been a major international preoccupation in the changed political situation after the second world war. During the 1950s and 1960s the fast expansion of the world economy held up the hope that the more acute problems of the developing countries might disappear through sharing this rapid economic growth. This has not happened. First, the expansion of the world economy has not been sustained in the 1970s and there has been a deepening of recession recently. Second, even when the expansion of the world economy was fast and some particular developing countries fully shared in this rapid growth, it failed to carry with it many other developing countries. Finally, even in some developing countries that did grow fast, the poverty problem did not get substantially reduced, partly because of growing inequality. While this last is largely a matter for the internal policy of developing countries, pointing to a need for institutional changes within their economies, the widespread failure of developing countries to share in economic growth has brought into question the efficiency and justice of the existing economic order in the world. It has contributed to Third World demands for a new international economic order and for corresponding structural changes in international economic relations. The existing international order has, however, proved resistant to change, and the present crisis has occurred in a world economy that was already in difficulties despite high average growth rates in the 1960s.

2.3 In this context, it is also important to examine the exceptional vulnerability of substantial sections of the population within the poorer economies to any economic deterioration. The poorer sections of the population in developing countries live precariously close to starvation, and even a relatively small decline in their economic position can push them into it. There is, in fact, evidence that much starvation, and even many of the major famines in this century, have taken place in good food availability situations, and hunger has been caused not by a fall in food supply, but by a sharp decline in the so-called 'economic entitlements' of substantial sections of the population.[1] Economic entitlements of a family refer to goods and services over which that family can establish command through the economic, political and legal mechanisms in operation in that country. A peasant who grows his own food is entitled to that food without having to buy it in the market. But the question of incomes and prices is crucial for others who do not grow food (e.g. craftsmen, urban labourers), or who do not own the food they grow (e.g. agricultural wage labourers), or who have to sell substantial parts of their output of superior food to buy larger amounts of cheaper calories (e.g. fishermen or herdsmen having to exchange fish or animals for foodgrain). The overall availability of food is only one factor among many which influence the food entitlements of each section of the community. An economic crisis leading to substantial unemployment in a country without social security in general and unemployment benefits in particular, can precipitate starvation through lack of income to buy food, even when food supply is completely unaffected. So can sudden changes in relative prices and other parameters of economic entitlement.

2.4 In understanding the problems created by the current crisis in the world

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1. For a study of these issues, prepared for the ILO World Employment Programme, see A.K. Sen: *Poverty and Famine: An Essay on Entitlement and Deprivation* (Oxford University Press, 1980).

economy, we have to take note both of the special difficulties of the developing economies in the unreformed international economic order *and* of the special vulnerability of wide sections of the population in the developing countries to economic fluctuations. The former aspect of the problem has been much discussed recently, and we are in sympathy with the analysis of world economic problems in the McIntyre Group's report[1] and in the Brandt Commission's report.[2] The latter aspect has, however, received less attention than is justified, and the seriousness of the economic dangers facing the developing world has been frequently underestimated.

2.5 The possibility of a world food crisis has recently been widely discussed. The importance of expanding world food output has been rightly stressed, especially in view of the problems created by the rise in the price of fertilisers linked with the energy crisis. Current trends, however, do not yet show world food supply lagging behind population growth, and a single-minded concern with the ratio of population to food may have the effect of blinding the world community to the real immediate dangers that face the developing economies. The fact that large-scale starvation is associated with *economic* fluctuations, which are not always accompanied by fluctuations of food supply, is the important point to keep in sight in analysing the current economic crisis. The international recession can lead to widespread starvation even without a food crisis as such.

2.6 The balance of payments problems created by the energy situation have received attention, since it has become increasingly difficult for net oil-importing developing countries to meet their import bills. However, from an economic – rather than a narrowly defined trade – point of view, there are two additional aspects of the problem. The first is the obvious one that the rise in energy costs is more than a payments problem for energy-deficient countries; it amounts to a decline in real income, and for countries that are already poor, this can be particularly serious. The less obvious but no less important point concerns the question of vulnerability of entitlements. The payments crisis as well as the real income effect of the rise in energy costs may lead to a sudden and sharp contraction in certain sections of the economy of developing countries. Those whose livelihood depends on economic activity in these sections will then suddenly find their occupation gone, and income too. If the economy were buoyant, they could get other gainful occupations, but these economies are not at present buoyant. If an adequate

1. A final report by a Commonwealth Experts' Group: *Towards a New International Economic Order* (Commonwealth Secretariat, London, 1977).

2. Independent Commission on International Development Issues, op. cit.

system of social security were in operation in the developing countries, the economic problems of the displaced people would be partially compensated, but for various obvious reasons, social security is typically absent in the poorer developing countries. Of such situations, starvation is born.

2.7 Again, there is an important asymmetry between unemployment problems in the developed countries and those in most of the developing ones. In the former, unemployment precipitates suffering, but – given the system of social security – very rarely leads to starvation. Not so in the developing economies. This sharp contrast has to be borne in mind in understanding the problems created by different aspects of the current world economic crisis. The balance of payments difficulties created both by the slowdown in the growth rates of the OECD countries and by the rise in energy costs threaten the developing world with accentuation of poverty in general and widespread starvation in particular. The urgency of devising ways and means of preventing sudden contractions in the developing economies which could have such disastrous effects must, therefore, be viewed in more specific terms than provided by the aggregate statistics of stagnation and sluggish performance. For example, when in Chapter 3 we discuss schemes for international lending and 'recycling' of funds to avoid a sudden economic contraction, we are talking also about starvation and not only about the level of economic activity.

2.8 The same issue is present in the analysis of protectionism in the developed economic world. While the object of such protectionism is to shield the workers in particular sectors of the developed countries from the dole queues (that object may or may not in fact be realised by protectionism), the consequence may be to push craftsmen and labourers in the corresponding sections of the developing countries to acute misery and starvation, without encountering any dole queues since there are no doles.

2.9 The focus on entitlement vulnerability also permits a fuller appreciation of the dangers of exporting inflation. Starvation can be caused not merely by unemployment, but also by a shift in relative prices of other goods vis-a-vis food, and indeed severe starvation – even famine – has been caused in the past by such shifts in relative prices. One of the more alarming aspects of inflation is that it leads to sharp changes in relative prices, and this can precipitate starvation even without any decline in food supply and even without much unemployment. The fact that the current world economic crisis has led to the exporting of *both* unemployment and inflation, thus makes it urgent for us to view it especially in the perspective of the variability of economic entitlements.

2.10 The contrast between different developing countries becomes relevant in this context also. Some of them are rich enough to have a cushion between typical earnings and acute poverty, though even in many of the richer developing countries starvation still does take place among the more vulnerable sections of the population when a sudden economic crisis occurs. Some other developing countries (for example Sri Lanka), while not particularly rich, have found it possible to provide a modicum of social security (for example in the form of free distribution of some food rations), and have been able to lessen the problem of vulnerability to economic crisis. But for the bulk of the developing countries the problem of starvation and acute poverty is present, and is liable to be devastatingly intensified by economic fluctuations.

2.11 Even those developing countries which are fairly immune from the problem of starvation as such have other areas of vulnerability in facing the current international crisis. The balance of payments problems can lead to the collapse of development efforts, making the already hard battle against underdevelopment that much harder still. The dampening effects of energy shortage as well as of protectionism in the developed world market can have severe destabilizing effects on earnings, employment, investment and consumption. The specific problems to which much of this Report is devoted can be seen in their proper perspective only when the background – outlined above – is kept in view. In that background lies much economic vulnerability, much frustration with the international order, and much gap between expectations and achievements.

2.12 Finally, while the economic problems are substantially more acute in the developing countries than in the developed ones, the extent of misery caused by the present crisis even in the developed economies must not be underestimated. With severe (in some cases, unprecedented) unemployment, acute inflation and deepening recession, substantial sections of the population of the richer countries have also been plunged into economic deprivation and suffering. While the nature and seriousness of the problems as well as their genesis vary from country to country, there are enough threats in common to call for an international programme of concerted action. To the requirements of such a programme we now turn.