THE NEW PARADIGM OF DEVELOPMENT: THEORY AND PRACTICE

SUMMARY OF THE PhD THESIS

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DEBRECEN
1. Motivation for research

From the beginnings during my studies, and later during my research I was always especially interested in the problems of developing countries. I wrote my master thesis at the Faculty of Economics and Business Administration of the University of Debrecen (DE KTK) about the debt crisis in developing countries, and the trials of its solution in 2001 with the supervision of István MUSTÓ. After graduating I took part in the postgraduate course of the Institute of Regional Sciences / Regional Planning at the University of Karlsruhe in Germany. This course was international (with 80% of the students coming from developing countries) and interdisciplinary (due to the characteristics of the discipline and the courses taught).

In 2004 I started with my doctoral research and teaching activities also with emphasis on development economics at the Department of World Economy and International Relations at the DE KTK. Among others I prepared, introduced and taught two new courses at the department: Global Problems and Economic Development was a specialisation course in English, and Globalisation Processes was held in Hungarian.

Thanks to the invitation of my supervisor, Prof. László CSABA I took part on the doctoral course The New Political Economy of Development in the winter trimester 2006/07 of the Central European University. My doctoral thesis profited invaluable of the added value of the lectures and readings of this course, as well as that of the discussions raised among the participants.

During the doctoral research period I participated on national and international conferences, and these professional meetings all contributed to the final limitation of my research topic as well as to the final form of the thesis. The Southern Engines of Growth UNU WIDER conference held in September 2007 is especially to emphasize. It gave me the possibility to learn the newest results of international research in development economics from first hand and provided me not just with useful knowledge but also with motivation for further research.

I was further motivated by the fact, that in the Hungarian literature the newest results of the international research of development economics hardly or incompletely appeared. According to this I tried to document my doctoral research with own publications, which can be seen on numerous book reviews and scientific articles written in the last three years.

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1 This is a summary of the PhD thesis and was prepared taking into account the comments made on the institutional discussion of the thesis. I would like to express my thanks to the first opponents of my dissertation, to László ANTAL and László MURAKÖZY, and also to the supervisor of my research, László CSABA.

2 United Nations University World Institute of Development Economics Research
Beside acquiring the classic and recent literature in development economics I was always interested in testing empirically the theories on practical problems, this means the appliance of normative approach. Due to this in the dissertation application of theories, empirical testing is emphasized and the focus is on economic policies.

2. **Introduction to the research topic**

Issues of development have been central research areas of social sciences, especially of economics. Within the framework of economics in the 50ies a sub-discipline emerged, which put development in the heart of its research: development economics. This sub-discipline emphasized from the beginnings the importance of social relevance, as applied science it always aimed to serve as scientific background for decision making of economic policies. In the last half century the understanding of development has changed radically, and there have been important changes in development economics, but according to my statement its relevance is undiminished, and even its content and territorial coverage is wider than it used to be at the beginnings.

In our globalizing world the process of development has to be understood as covering the whole world. With interdependencies getting more and more intense it is to put in question how long the developed countries can run away or close themselves up from problems of the developing world. There are pressing problems, which arise today as global challenges endangering the whole globe. Among others these are environmental pollution, social exclusion, infectious diseases, problems of refugees, displaced and migration, technological fetishism and vulnerable networks. It is shown in the dissertation that the urbanisation crisis is part of the mentioned list as well. The spatial dimension of sustainable development is a key question of the future whether we regard it on the local or global level.

However many areas of the so-called third world is still on the eve or first phase if the urban revolution and faces different challenges as known from first world’s experiences. The population growth of the world in the next decades will almost exclusively concentrate in the cities of developing countries. The analysis of urbanisation, discovering its causes, drivers and consequences belongs to the open questions of development economics. Due to the already mentioned globalizations processes and the new informational and communicational technologies (ICT) the understanding and evaluation of space and spatial happenings is changing. The new logic of agglomeration (Ricz, 2007) is appearing and modifying traditional urbanisation into concentrating heavily in large cities and its surroundings. This means a further argument to analyse the spatial dimension of development. One specific
characteristic of spatial development in developing countries is overwhelming concentration in mega-cities. This is the urgent, pressing problem, which is used to test the applicability of the new paradigm of development. According to these the level of analysis in the dissertation is the meso-level (between global and local, or macro and micro level).

3. Relevance, objective and methodology of research

Since 1990ies a new approach is present in development economics and in the light of the newest theories a new paradigm is emerging, but its break-through is still in process to use the terms of György SZAKOLCZAI (2006:1). In the international literature of development economics numerous author apply the new paradigm of development and its effects can be seen in development policies. However there are at least two reasons to explicitly deal with the new paradigm of development. On the one hand although the new approach is used and applied in most recent research, there is (to my best knowledge) no synthesising, systemising writing tackling the new paradigm of development as a whole, and introducing its consequences relevant for economic policies. On the other hand in the literature in Hungarian language the new paradigm is rarely used nor explicitly described.

The main objective of the dissertation is thus the explicit exposition of the new paradigm of development and the comprehensive and positive description and analysis of this new approach. Going beyond synthesis and systemising I tested empirically the new paradigm and formulated normative consequences. The application was made on a generally neglected area in economics both in theory and in practice: the spatial pattern of economic activities and human life through the lenses of broadly understood development. Although thanks to Paul Krugman (1991) and the new economic geography (NEG) the question of where has been lately put into reflector lights, the development consequences of spatial concentration still lack research.

The research questions of the dissertation can be formulated as follows:

1. What is the relevance of development economic research today, what is the emerging paradigm of development, and what follows from this new approach for the role of state in development?

2. What are the causes and driving forces of concentration in first cities, especially mega-cities in developing countries, what are its development-related effects and what consequences can be drawn for economic policies and state interventions?
3. Is the theoretically presented approach, which goes back to the Indian model of development applicable in other context, on other continents, in different cultural, historical, geographical and other circumstances? What can be stated after the empirical testing of the new approach regarding the level and sustainability of development?

4. Due to the analysis of the urbanisation crisis what is the role of the state in surging development, which is spatially more or less balanced? What is the role of explicit spatial policies and what are the consequences of other economic policies causing indirectly (and unintended) spatial effects? What are the normative consequences to be drawn from this?

5. What kind of state is needed for making the broadly defined development happen? In a wider sense which are the tasks of a state and how it can reach them of the main objective is not maximising economic growth, but promote economically, socially and ecologically development taking place in a spatially harmonized way?

From the formulation of these research questions follows that the main objective of the dissertation was to draw a coherent framework, which as a verbal, qualitative model serves as a new approach to development, and for development strategies and policies. Meanwhile I was basing on existing literature, statistics and analysis, thus I did not aim to gather primary data, nor creating new indicators. However it cannot be denied that the measurement and operationalization of the new broad concept of development needs further research, it was not seen as a puzzle to solve in this dissertation. From these it follows that mainly based in secondary sources I have made independent theoretical analysis and empirical testing. Regarding the latter one I have made comparative analysis using the methodology of comparing different cases. Thus in the case studies I have made deep drilling in the case of Brazil and Egypt, and afterwards mainly on the level of stylized facts comparing the results of the qualitative and quantitative analysis of the different cases I searched for possible generalizations for economic policy-making.

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3 László ANTAL, the opponent of the dissertation has especially drawn my attention to this problematic. Accepting his critic I regard this as a field of further research.
4. The structure of the dissertation

The dissertation has three main parts. The first part contains the theoretical background and is in three parts as well. In the first chapter the understanding of development is clarified, and the new paradigm of development is presented in the light of the latest results in development economics, and according to this approach the development tendencies in the world economy are highlighted. The second chapter applies the theoretical approach of the first chapter to the spatial dimension of development and analyses the urbanisation crises, as one of the open research questions in today’s development economics. Finally the third chapter contains the main consequences which follow from the theory and the practice of urbanisation crisis. These are treated as hypothesis for the empirical testing.

The second part of the dissertation serves for the empirical testing: within two case studies, for Brazil and Egypt the relevance of the formerly formulated hypothesis is empirically analysed. The case studies have the same structure and can be divided in three chapters as well. First the economic development paths of the countries are presented, including institutional and political changes. Secondly the spatial dimension, the urbanisation process is analysed with focus on the largest cities (on Rio de Janeiro and São Paulo, and Cairo accordingly). Finally the rapid economic growth is contrasted with the criteria of sustainable development, still concentrating on the case of the first cities of the countries.

The last part of the dissertation summarizes the main consequences. Firstly the insights regarding the role of state in development are presented, secondly the answers to the research questions are explicitly formulated, thirdly the new scientific results, the thesis are stated, and finally attention is drawn to some further research areas.

5. Results of the doctoral research: theses

Seven statements, the so called theses are formulated as result of the doctoral research. These follow from the analysis provided in the corresponding chapters of the dissertation and are directly connected to the research question presented formerly. In this summary just the presentation of the thesis and a very short explanation can be provided (due to time and spatial limitation), for further details please read the full dissertation.
1. thesis: The renewed analytical framework of development economics, which can be described by the broad understanding of development according to Amartya SEN, by the interdisciplinary approach of Michael P. TODARO, which emphasizes poverty reduction, and furthermore by the critical, but positive view of the state, as known form the works Joseph E. Stiglitz, is relevant and applicable in the most different geographical, historical, cultural, political and economic circumstances and on different development levels. Development economics as discipline gained its way back to mainstream economics, while at the same time maintaining its social relevance, the need for serving as background of normative consequences, and thus economic policy-making.

The argumentation of the first thesis means that there is no need for treating developing countries as special cases in economic analysis. Taking politics and institutions as endogenous makes it possible to analyse developed and developing countries within a single theoretical framework. If we control for the effect of political and institutional factors, than the role of other factors, as geographical endowments, religious characteristics, ethnical or linguistic fragmentation disappear, while explaining development levels. This furthermore means that in the case of developing countries so often cited statistical dummies (as African dummy) do not exist. According to this statement one does not has to differentiate developing countries from developed ones during economic analysis, but as Ross LEVINE (2005) excellently shows legal origin and property right systems play important, central roles in defining the level of development.

On the level of economic theories (institutional analysis and models of economic policies) the same principles are valid for all countries (developed or less developed). The formulation of concrete economic policies however needs discrete analysis, but this is once again the case for all countries, independently of development level.

The renewed development economics is thus a discipline dealing in general with under- or mal-developed territories, its scene and scope (dimensions and territorial levels) have widened thanks to the new paradigm of development. The new approach based on system theory marks the frameworks for sustainability, and maintains social relevance, the aim to serve for economic policy-making and decision-making.
thesis: Changes occurring in time in the human development indicator (HDI) are striking regarding the development paths of a country. Comparing changes in level of HDI to GDP, one can conclude regarding the directions and quality of changes and its sustainability. One possibility of making international comparisons is to compare the rankings achieved among the world countries. The comparison of per capita levels (measured in purchasing power parity) of GDP and HDI shows whether in economic or human development dimensions performed better the country. This general picture however can be wrong as the Human Development Index (being a composite indicator) contains trade-offs (not without value judgements), and thus covers the real dimensions of differences. Without knowing these it is impossible to formulate appropriate recommendations for economic policies. In economic analysis, aiming normative conclusions human development indices have to be taken into account one by one (as well in time series analysis, as during comparative analysis between countries).

Aggregate, composite indicators, without measurement unit are not adequate for describing real situations, thus cannot be appropriately used for discovering the causes, nor the solutions. In normative analysis the use of composite indicators is not just not appropriate, but is misleading, and leads to false consequences. The explanation for this is, that the sub-indices of HDI represent different dimensions of development with different measurement units, and thus cannot be compared. A further problem is that during aggregating different measurements into a single measure, weights are used, which represent subjective value judgements. For formulating development policies or recommendations for economic policies human development indices have to be taken into account one by one, as for example in the case of world development indicators. These can be compared and referred to in each case of country on one by one basis. Just such a detailed comprehensive analysis, and not a merely comparison of two composite indices can serve as appropriate background for economic policies and decision-making.

This thesis was well illustrated in the empirical testing, in the case of Brazil and Egypt. The HDI of the two countries has been converging during the last quarter century. Although the Brazilian HDI exceeds by 10 percentage points that of Egypt, it does this at a GDP per capita level, which is triple of the Egyptian. The educational and the health component of the HDI is quite comparable in the two countries, as well as other human development components. This remains however hidden in the composite indicator, which thus cannot be used in economic policy-making.
In Brazil and in Egypt, parallel to global tendencies of the world economy the decline in absolute poverty was not accompanied by the decline of income inequalities. In the case of Brazil the extremely high inequalities are practically stagnating, while in Egypt from a lower initial level, they are rising. This phenomenon can be described in different territorial levels: on global, national scale, or even within the largest cities. This statement is consonant to the globalisation thesis of Nicholas Crafts (2004), David Dollar (2005), Martin Ravallion (2003), Kaushik Basu (2004) and others. It follows on the one hand that state intervention is necessary not only for poverty reduction, but to decrease extreme inequalities as well. On the other hand it follows that the spatial dimension of development contains key information for policy-making, as different causes are behind poverty and inequality rates in rural and urban areas (and even in smaller or larger cities).

According to experiences of development policy and the results of theoretical analysis in the last half century, today it is obvious that the effects of economic growth do not trickle down automatically to the poorest strata of the society. The trade-off between economic growth and poverty reduction results through inequalities, thus all the three factors has to be analysed together in order to get a real picture of advance. Interventions of economic policies are needed to reduce poverty and inequalities, as appropriate institutions result these only on the long run. Poverty reduction due to merely economic growth appears to be inadequate in developing countries, and inequalities tend to stagnate on the long run. These latter ones are not reduced by market forces (however it is not the task of the market neither).

The analysed Brazilian and Egyptian processes fit well into the above drawn picture, train of thought, and support the thesis. Taking into account different dimensions of poverty (as was shown on the spatial pattern of development) means a totally new set of poverty reduction policies. The different components of poverty are interrelated, so combining them appropriately opens the way for synergies, which make cumulative processes possible (in ideal cases this leads to virtuous circles, which enable the breaking out of poverty trap). For these aspects of poverty and inequality reduction have to be integrated in decision making of economic policies due to the new approach of development (instead of taking them as distinct sectoral policies). Improvements in different dimensions of development spills over into

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4 This train of thought is explicitly presented in an article being under publication in the Journal Köz-gazdaság (Public Economy) (Ricz, 2008).
other dimensions and increases the income-generating capabilities, which through economic growth further improves development components.

4. thesis: In contrast to assumptions in classical development economics, and to nowadays widely spread antiglobalist views economic and political liberalisation does not lead to larger spatial concentration. To the territorial dimension of development thus the cannot be applied automatically the logic of “poor gets poorer, rich gets richer”, which comes originally from Karl MARX, but has been later re-discovered by Raúl PREBISCH, Gunnar MYRDAL, and other development economists. According to the argumentation of new economic geography and new political economics due to liberalisation driving forces of concentration in the largest cities decrease. However territorial de-concentration is a time consuming process, and on the short run inertial effects prevail from path-dependencies.

During the analysis of the spatial pattern of development numerous drivers of spatial concentration have been presented, which worked as micro-incentives and paved the way for cumulative processes. Such concentration forces were among others the world economic isolation, import substitution industrialization (ISI), and fragile political systems, dictatorships. Paul Krugman and Livas Elizondo (1996) emphasized the spatial effects of ISI as follows: due to low international trade levels and the minimalization of transport costs on the internal market a growing local market is emerging, which attracts new producers and thus creates a virtuous circle and further enhances the local market. For the thesis the important conclusion (fitting into the logic of NEG as well) is, that export-orientation can be a constraint for the further growth of giant cities in developing countries, and thus paving the way for a more balanced territorial development. The statement is in conditional term, because spatial processes result from different forces and drivers, and the final pattern is a result of some kind of balance of all forces. Thus other driving forces, for example political system, and the stability of it, strength of rule of law, etc. are to examined at the same time.

Furthermore the adjustments in the location of economic activities and change of residence of the population are time consuming processes, which might have mentionable results only after leaving the breaking point (known from NEG). Thus trade opening or political liberalisation might at the beginning even strengthen monocentric structure, and spatial de-concentration might take time. The inverse effect was not shown in neither the Brazilian, nor
the Egyptian case, but inertia and path dependency were present in the case of all analysed mega-cities.

The strongest concentration forces were observed in both cases during the ISI. The effects of trade liberalization and economic reforms were stronger in Brazil, but these processes in Egypt were countered by the missing democratization and the lack of strong smaller and medium-sized cities.

5. thesis: To the over-whelming concentration in the largest cities besides the historical and geographical endowments and economic factors, contribute driving forces originating from institutional and political systems as well as expectations and perceptions. Thus to the elimination of development failures resulting from concentration in giant cities comprehensive institutional and economic policy reforms are necessary, and the decreasing of the informational asymmetry is also needed. The integrated treatment of rural and urban areas is inevitable for sustainable solutions. (While traditional rural areas has to be differentiated from urban areas of smaller and medium sized cities, and these latter ones has to be distinguished from larger cities.) This insight originates from the application of institutional economics (a la Douglass NORTH), and more concretely the theories of property rights and asymmetric information to the spatial dimension of development. Due to the statement institutional failures and expectations play central roles in the emergence of distorted territorial processes.

The Todaro model (1969) has shown that because of the chronic imbalances between economic possibilities in rural and urban areas high immigration rates into the cities are inevitable, even if accompanied by high urban unemployment rates. If the difference between rural and urban income rates is large enough, than even by high unemployment rate it might be rational on the micro-level to migrate to the city, as individuals decide according to expected incomes, and not real levels.

Urban incomes tend to be higher than rural ones, and beyond productivity reasons, other institutional and economic political factors are in force: urban labour force has better lobby possibilities, better self-organizing possibilities. Furthermore due to different development strategies economic policies tend to favour urban labour (with higher wages and other advantages).

Knowing all these it is straight forward to understand why “solving” urban problems with direct interventions cannot work out: by increasing the attractiveness of the cities and thus the differences between rural and urban areas, they motivate further rural-urban migration, and thus resulting further concentration in the cities and worsening the urban problems of
overcrowded giant cities. The only real solution to this problem according to the presented logic is the development of rural areas, and the integrated treatment of rural and urban territories, as a system. Thus the spatial dimension has to be incorporated into development studies and development strategies.

Finally subjective value judgements has to be emphasized. As during individual decision-making not necessarily real facts decide, but perceptions and expectations. Promoting information flows thus is as integrative part of a reform package surging spatially balanced development, as institutional and political adjustments. In the dissertation this thesis is supported by both the Brazilian and the Egyptian analysis.

6. **thesis:** Realizing the principles of good governance, especially improving participatory mechanisms, transparency and accountability, related to these decreasing corruption and promoting pro-poor and shared growth is decreasing spatial anomalies as well (in contrast to direct policy interventions aiming at governing spatial processes, which are ineffective and have no sustainable results on the long run). To decrease extreme spatial concentration on a cost-effective (and on the long run only sustainable working) way institutional adjustments and the correction of micro-incentives are needed.

During the explanation of the fourth and fifth thesis it was already mentioned that behind extreme spatial concentration, and especially behind first city concentration among other (historical, geographical and economic) reasons, political factors play an important role. These are typically related to the lack of law and order, and rule of law, thus corruption and rent-seeking can flourish, and these motivate the proximate location. It is straightforward that completing with the principles of good governance is shutting these driving forces down, and so promoting a more balanced spatial pattern.

In today’s development economic literature there is consensus about the advantageous effects of good governance on economic growth, but this works in the case of widely defined development as well. The rule of law, lack of corruption, political participation and thus a more responsive institutional environment promotes an economic growth which is pro-poor and shared. In territorial aspects this means that the situation of rural inhabitants improves, and this happens on place (in rural areas), thus the incentives of migrating towards the largest

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5 It is worth to draw attention to bounded rationality theorem of Herbert Simon, to the insights of Kahnemann and Tversky, and the asymmetric information theories of Akerlof and Stiglitz.
cities decrease. The more balanced spatial pattern is result of corrections in incentive systems on the micro-level.

Both the Brazilian and Egyptian case proved the failure of direct territorial policy interventions, which were costly and on the long run in-effective. For a real solution institutional adjustments and the correction of the micro-incentives is inevitable.

7. thesis: On the long run political and economic institutions are the main driving forces of development. However most pressing problems in developing countries need “immediate” responses. Thus besides institutional reforms appropriate and consonantly realized economic policy interventions are inevitable. On the short run namely economic policies have central role in poverty reduction and in improving other components of development. Without these and in the light of political power relations not just the effects of institutional reforms resulting on the long run get in question, but the realization of any component of sustainable development as well.

In economic literature there is consensus about institutions being the main driving forces behind economic development. The effects of formal and informal institutions however appear only on the long run. Formal institutions are on the one hand political variables as well, and their quality and stability or changes depends on decision-making of the political coalitions in force. Political power on the other hand can be divided into de jure and de facto power. The latter one according to my argumentation is influenced on the short run by economic policies. Interventions of economic policies affect namely present and future factor endowments and distribution, and through this influence political power relations as well.

Although on the long term final drivers of development are the institutions, according to the logic described above, without “good enabling and supporting policies” even the best institutions can fail. However good, technocratic policies can only sustain if they work towards supporting institutions. There is a need of complementary relations between institutions and policies, forming virtuous circles. Emphasizing the relation between institutions and policies highlights the need for connecting theory and practice, and the need for normative approach.
8. References of the summary


9. List of publications

Scientific articles

Paradigmaváltás a fejlődés-gazdaságtanban Competitio, 2005, 4. évf., 2. szám, 109-123.o.

Articles published in conference volumes:

Book reviews:


Presentations held on conferences:

*Fejlesztéspolitikai dilemmák: az állam fejlődésben betöltött szerepének újradefiniálása.*

Előadás a Budapesti Corvinus Egyetem által szervezett „Három éve az 50 éves Európai Unióban” című konferencián (2007. november 27. - december 1., Budapest)

*A fejlődés térhelyisége: a brazil eset*


*Urbanisation Crisis in Developing Countries: The Case of Brazil*


*Az első városok új politikai gazdaságtana*


**Gazdaságpolitikák területi hatásai: a brazil eset.**


**Az agglomerálódás új logikája**

Előadás a Fiatal regionalisták V. országos konferenciájára, melyet a Magyar Tudományos Akadémia Regionális Kutatások Központja és a Széchenyi István Egyetem Multidiszciplináris Társadalomtudományi Doktori Iskolája rendezett 2006. november 10-11-én, Győrben.
Posters presented on conferences:

Régió – a regionális tudományok értelmezésében
A 2006.06.02-án a DE BTK által szervezett „Régió és oktatás” c. nemzetközi konferencia keretében bemutatott poszter.

Grenzüberstreichende Regionen: ein semiotischer Ansatz (Határmenti regiók: szemantikai megközelítésben - német nyelvű poszter)
A 2006.06.09. DE TTK - KTK – JTK által szervezett nemzetközi konferencia keretében bemutatott poszter.