

## ▶ CASE STUDY

### RAGS AND RICHES

#### GOAL

To introduce the different ways of defining and measuring the multifaceted phenomenon of **development**. You will recognize that certain countries perform better on human welfare than on economic dimensions.

#### LEARNING OUTCOMES

After completing the exercise, you will be able to:

- Define development in economic and human welfare terms.
- Identify countries where economic and human welfare measures yield different rankings of development.
- Interpret the reasons for these different rankings.
- Consult UN documents and Web sites to identify other development indicators.

#### SPECIAL MATERIALS NEEDED

- Calculator
- Computer with high-speed Internet access and a recent release of a Web browser. If using the Student Companion Site with the printed book, click on *Tech Support* for system requirements and technical support. (If using the e-book in WileyPlus, click on *Help* for details about the system requirements.)

#### BACKGROUND

We are all aware that some countries are better off than others. Because no measures of development are universally accepted, development can mean different things to different people,

depending upon how much weight they place on particular dimensions of progress and well-being. Just as individuals can be rich in money but poor in health, family ties, or sense of community, so also can countries rank high in economic terms but low in human welfare terms.

**Economic indicators** of development measure a country's development by assessing its economic base, comparing such variables as **gross domestic product (GDP)** per capita with percentage of the labor force engaged in agricultural activities. **Human welfare indicators** define development by how well a country is able to provide necessary resources for its citizens and measure development with variables such as life expectancy, female literacy, and infant mortality rates.

Countries that score high on the economic dimension do not always score well on human welfare indicators. Some countries experience rapid economic growth with little improvement in human welfare. Similarly, other countries experience relatively high levels of human welfare without high economic development by purposely allocating resources to meet the basic needs of their citizens. In this exercise, rather than collapsing these differences into a single composite ranking, you will examine development as a multidimensional phenomenon.

You will also be asked to develop your own measures and to justify them. Remember that there are no universally agreed upon indicators of development. What you put in determines what you get out.

The 20 countries (Figure 7.14) examined in these activities allow you to see different stages of development as measured by human welfare and economic variables. They have been selected to provide a broad coverage of political systems, continents, cultures, and, more generally, development strategies (Table 7.2).

## ▶ CASE STUDY (continued)

TABLE 7.2 Description of the Selected 20 Countries

Name	2008 Population	Government	Description
Afghanistan	32.7 million	Transitional	Extremely poor, landlocked, arid, and mountainous country. Highly dependent on farming and livestock raising. After end of Soviet occupation in 1989, Islamic law imposed by Taliban, which U.S. military action overthrew in 2002 for supporting the al-Qaeda terrorist network, resulting in a new interim government and constitution. Is currently occupied by U.S. and Allied troops. New president elected in 2004, but the government's sustainability without Allied occupation is unclear. Afghans are overwhelmingly Muslim (99%).
Argentina	39.7 million	Democracy	Temperate climate varying physically from rich plains to the high Andes Mountains. Was a very prosperous country last century; still maintains high levels of education and middle-class values. Although better off than other Latin American countries, has an inequitable distribution of wealth. Economy characterized by years of mismanagement and a current major financial crisis associated with neoliberal reforms.
Cambodia (formerly Kampuchea)	14.7 million	Democracy, transition economy	Tropical and rainy with a monsoon season. Much rice farming along the Mekong River, and gemstone mining elsewhere. Suffered mass genocide during the Khmer Rouge reign in the mid- to late 1970s. Destroyed by decades of war; later occupied by Vietnam; elections in 1998 brought new political stability. Economic growth hindered by undeveloped infrastructure.
Canada	33.3 million	Confederation, parliamentary democracy	Large land area with a climate varying from arctic to temperate. An affluent, high-tech, postindustrial society with great natural resources and a skilled labor force. However, there is potential for its dissolution along French/English linguistic lines.
Cuba	11.2 million	Communist state	Tropical island with a centrally planned economy. Suffered from the withdrawal of foreign aid upon Soviet Union collapse. Aggressively seeks new foreign investors and tourism while the United States maintains a trade embargo on Cuba. Relies on agricultural products but has a strong medical tradition. Is racially mixed, with 51% mulatto, 37% white, and 11% black.
Democratic Republic of Congo (formerly Zaire)	66.5 million	Dictatorship	Tropical, humid, or wet-dry. An ethnically diverse country composed of numerous indigenous groups. Has a vast potential for natural resource wealth but a history of rebellion and corruption that has resulted in little foreign investment. Long-running civil war and foreign occupation plagued the country from 1997 to 2002. Exports of minerals and tropical plantation agriculture.

## ► CASE STUDY (continued)

TABLE 7.2 Description of the Selected 20 Countries (continued)

Name	2008 Population	Government	Description
Iceland	0.3 million	Constitutional republic	Despite its northerly location, has a largely temperate climate and quite homogeneous population, with important historical, cultural, and linguistic ties with the remainder of Scandinavia. Has a Scandinavian-type capitalist economy characterized by an extensive welfare system, low unemployment, and an even income distribution. Economy heavily dependent on fishing but is beginning to diversify with manufacturing and tourism. Planning to become the first country in the world to get 100% of its energy from renewable sources.
Mexico	107.7 million	Federal republic	Great diversity of climate and physical features from tropical rain forest to desert and high mountains. Possesses a great wealth of natural resources, including oil. Changed economy to open-market policies after decades of government protectionism and management resulting in severe recession in 1994 that caused hardships for the transition. Like most of Latin America, has an inequitable distribution of wealth, is 89% Catholic, and has a sizable Amerindian population (30%).
Moldova	4.1 million	Republic, transition economy	A former Soviet Republic and a landlocked country with a steppe climate. Culturally and linguistically similar to Romania. Has an agriculturally based economy with the need to import almost all of its electricity and fossil fuels. Poorest country in Europe; elected a communist president in 2001.
Morocco	31.2 million	Constitutional monarchy	Mediterranean climate, more arid in the interior. Predominantly Muslim country suffering from foreign debt and unemployment causing many of its citizens to work temporarily in Europe, but has key resources—fishing, phosphates, and tourism—to develop.
Poland	38.1 million	Democracy, transition economy	Temperate climate with cold winters and industrial pollution. Historically a conflict zone on the plains between Europe and Russia. Conversion to democracy replacing the communist state in 1990. Underwent an economic shock when converted to capitalism. Large strides made toward privatization, but much of the economy still government controlled. Is 95% Catholic. Joined the European Union in 2004.
Saudi Arabia	28.1 million	Monarchy	Harsh, dry desert with great extremes of temperature. Mostly uninhabited sandy desert. Has a well-to-do, oil-based economy with strong government controls over economic activity but a highly inequitable distribution of wealth. Almost all export earnings and 75% of revenues from the petroleum sector. Has the world's largest petroleum reserves and exports the most. Is 90% Arab and 100% Muslim. Government has seen increasing threats from domestic terrorism.

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► CASE STUDY (continued)

**TABLE 7.2 Description of the Selected 20 Countries (continued)**

Name	2008 Population	Government	Description
Senegal	12.7 million	Republic	Tropical, wet-dry climate with multiethnic population of numerous indigenous groups, many of whom are Muslim. Recently made modest economic gains including a steady growth of its GDP and an increase in information technology, but still suffers from serious unemployment and drug abuse in the urban centers.
Singapore	4.8 million	Democracy	A tropical hot and humid island country at the tip of the Malay Peninsula whose location is a focal point for Southeast Asian sea routes that led to excellent international trading links. A prosperous country with an open and entrepreneurial economy whose people are 77% Chinese, 14% Malay, and 8% Indian.
South Africa	48.3 million	Democracy	Mostly semiarid to subtropical on the east coast with a high plateau immediately inland from most of the coasts. Rich in mineral resources. Population of 75% black, 14% white, 8% colored (mixed), and 3% Indian. Officially discriminated against blacks who lacked basic rights of citizenship under the system of apartheid, which ended in 1994. Still racially divided with most whites living on a par with the affluent West but most blacks living in poverty and Third World status. Many hardships created by change to an export-based economy.
Sri Lanka	20.3 million	Democracy	A tropical island at the tip of India with monsoonal rains and ethnicity of 74% Sinhalese, 18% Tamil, and 7% Moor. Has been in near civil war between the Sinhalese and Tamils since the mid-1980s, but with cease-fire signed in 2002. Some terrorism as the groups struggle for power. Economy relies on apparel industry exports and agriculture. Still in transition from state-run economy to export orientation. Religiously, 70% Buddhists and 15% Hindu.
Taiwan	23.0 million	Democracy	An island with tropical monsoon climate. Formerly a province of China that split from it in 1949 and whose status remains con-tested. Has a sparse natural resource base but a vibrant economy. Known as one of the Asian Tigers. A newly industrialized country (NIC) with rapid industrialization over the past half century.
Turkey	74.8 million	Parliamentary democracy	Mountains and high plateaus with hot summers. Straddles Europe and Asia and controls the strategic straits between the Black Sea and the Mediterranean Sea. Internal tensions between the tradition of Western government and more fundamentalist Muslims. Kurdish minority (20% of the population) want political autonomy. Economy hurt by fiscal deficits and inflation but economic and judicial reforms and a thriving private sector likely to increase prosperity. Has long exported workers to Europe; currently seeking membership in the European Union.

## ▶ CASE STUDY (continued)

**TABLE 7.2** Description of the Selected 20 Countries (*continued*)

Name	2008 Population	Government	Description
United Arab Emirates	4.5 million	Federation	A flat, desert nation that is largely Muslim with a mixed population of Arabs, Iranians, and South Asians. Has one of the world's highest per capita incomes, the result of its oil and natural gas production and its low population. Imports labor from Asia to work in oil and other sectors.
United States	304.5 million	Federal republic	Diverse physical environments with population of 80% white, 12.9% African-American, and 15.1% Hispanic. Most powerful, diverse, and technologically advanced economy in the world. Market-oriented and open. Predominantly Christian (79%), with many minority groups with diverse religious beliefs.

Source: Central Intelligence Agency, *The World Factbook* 2008: [www.cia.gov/cia/publications/factbook/](http://www.cia.gov/cia/publications/factbook/), and Population Reference Bureau, *2008 World Population Data Sheet*.

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## Rags and Riches: The Dimensions of Development

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### ▶ ACTIVITY 1: ECONOMIC MODEL OF DEVELOPMENT

In this section, you will use two indicators to assess a country's level of economic development. These indicators are GDP per capita and percentage of the labor force engaged in nonagricultural labor:

- GDP per capita, the most typical indicator of economic development, measures the total dollar value of all goods and services produced by a country divided by its population.
- Percentage of the population involved in nonagricultural activities is another commonly used indicator of development. Because a subsistence economy is extremely labor intensive, a country with an economy based primarily on subsistence agriculture has few resources to invest in industry and services. As a country develops its technological capabilities, a smaller and smaller percentage of the labor force is needed to produce enough food for the entire population, and a larger and larger percentage of workers are diverted into manufacturing, trade, and services.

You will find values for each of these indicators listed by country in *Columns B* and *D* of Table 7.3 and will calculate a composite economic development ranking for each country based on these two indicators. This index will appear in *Column F*.

- A. *Column B* lists GDP per capita for each country; *Column D* lists the percentage of the labor force in nonagricultural activities for each country. Columns C and E are for ranking the countries from best to worst according to the data in Column B and D, respectively. Column C is already filled out to show you how to do it. Your task in this question is to fill in the correct values for Columns E and F.
- B. Let's start with Column E, which ranks the countries by values given for *Column D*. Generally, as a country develops, its percentage of workers engaged in nonagricultural activities increases. Therefore, the country with the highest value in *Column D* should be ranked 20 (highest), and the country with the lowest value in *Column D* should be ranked 1 (lowest). In the event of a tie, both countries should receive the same highest ranking. For example, if two countries share the highest value for GDP per capita, both would be ranked 20. The country in third place would receive a ranking of 18. Remember to skip a ranking number after assigning two identical rankings for a tie (See Column C for an example). Fill in Column E using whole numbers (no decimal points.)
- C. *Column F* is a composite economic development ranking for each country based on rankings for GDP per capita and the percentage of the labor force involved in nonagricultural activities. To complete *Column F*, calculate the average of values in *Columns C* and *E*. Example: A country

with a GDP ranking of 4 (*Column C*) and a nonagricultural ranking of 3 (*Column E*) would have an economic development ranking (*Column F*) of 3.5. To confirm that you are calculating the values correctly, calculate the composite ranking for the United States; the answer should be 19.5.

Fill in *Column F* using one decimal place, even when none is needed (e.g., enter 10.0 instead of 10).

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## Rags and Riches: The Dimensions of Development

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### ▶ ACTIVITY 2: HUMAN WELFARE MODEL OF DEVELOPMENT

In this question you will do a calculation similar to that in Activity 1 but for a composite human welfare development ranking for each country, based on two indicators. You will rank the countries separately for each of the two human welfare indicators in Columns H and J. Then you compute an average human welfare ranking for each country and enter it in Column K. Finally, in Column L, you will subtract the economic ranking from the human welfare ranking to get a measure of how “balanced” development is in each country. That’s the big picture—now let’s take it step by step.

The two human welfare indicators we have chosen are infant mortality and female literacy:

- The infant mortality rate is the annual number of deaths of infants 1 year of age or younger per 1,000 live births. It is frequently used as a measure of human welfare because it measures a society’s ability to provide for its most vulnerable members. MDCs tend to have lower infant mortality rates than do LDCs because the populations of MDCs have better medical care, housing, nutrition, sanitation, and education.
- The female literacy rate—the percentage of women who can read and write—is also a common indicator of human well-being because literate labor forces can adopt new technologies and interact with the world market. The female literacy rate also reflects the status of women in society and whether the society is taking care of the needs of *all* of its citizens.
  - A. *Column G* shows infant mortality rates for all 20 countries. In *Column H*, rank these countries by their infant mortality rates. As a country develops, its infant mortality rate generally decreases. As a result, the country with the *lowest* infant mortality rate will be ranked 20, and the country with the *highest* infant mortality rate will be ranked 1. Don’t forget the tie-breaker rules from Activity 1. If two countries are tied, give both the higher ranking and then skip the lower of the two rankings (see *Column C*). Use whole numbers only in *Column H* (no decimals).
  - B. *Column I* displays female literacy rates for all 20 countries. In *Column J*, rank countries according to their female literacy rates. The MDCs generally have higher female literacy rates. Therefore, the country with the highest female literacy rate would be ranked 20, and the country with the lowest female literacy rate would be ranked 1. Use whole numbers only in *Column J* (no decimals).
  - C. *Column K* is a human welfare development ranking for each country based on its rankings for infant mortality and female literacy rates. To complete *Column K*, calculate the average of values in *Columns H* and *J*.



Enter the average ranks with one decimal place always, even if it is not needed (e.g., enter 10.0 instead of 10).

- D. In *Column L*, subtract the economic development ranking (*Column F*) from the human welfare development ranking (*Column K*). That is,  $L = K - F$ . This calculation allows you to see how a country ranks differently, depending on whether development is measured economically or with a human welfare model. A country with a negative value in *Column L* has a better ranking for economic development than for human welfare development, and a country with a positive value in *Column L* has a better ranking for human welfare development than for economic development. If *L* is zero or close to zero, it means the country had similar rankings on the economic and human welfare indicators and is somewhat "balanced" in its development levels. Thus, we might say that a country's value in *Column L* represents where it falls on the economic (negative numbers) to human welfare (positive numbers) spectrum. (*Note:* we are not attaching negative or positive judgments to these negative and positive numbers.)