# Development Economics: Lessons that Remain to be Learned

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Development Economics entered its fourth stage in the 1990s after having passed through three stages earlier. In the process it has undergone a great deal of transformation as a result of the lessons that it has learned through experience and intellectual insight. The subject is, hence, no longer in the same mould in which it was in its first stage. Can we then say that the strategy that has become crystallized so far after this transformation is sufficient to realize its generally understood goal of promoting *real* human well-being?

## Real Well-being

This brings into focus the questions of what constitutes real well-being and how it can be realized.[1] Does more money lead to higher well-being? Scholars have questioned the identification of well-being with income.[2] Empirical research has also provided a negative answer to this question. This is because, even though *real* income has drastically risen in several countries since World War II, the self-reported subjective well-being of their populations has not only failed to increase, it has in fact fallen slightly.[3] The reason is that happiness is positively associated with higher

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[1] Real well-being is also referred to in the Economic literature as "happiness and life satisfaction". See, Bruno S. Frey and Alois Stutzer, "What can Economics Learn from Happiness Research?" in *Journal of Economic Literature* (June, 2002), 403. The literature on the determinants of human well-being has been growing rapidly. For a survey of this literature, see David G. Myers, *The Pursuit of Happiness: Who is Happy and Why?* (New York: Avon, 1993).

[2] Daniel M. Hausman and Michael McPherson, "Taking Ethics Seriously: Economics and Contemporary Moral Philosophy" in *Journal of Economic Literature* (June, 1993), 693.

[3] Richard Easterlin, "Income and Happiness: Towards a Unified Theory" in *Economic Journal*, 111: 473 (2001), 472; idem, "Does Economic Growth Improve the Human Lot?: Some Empirical Evidence" in Paul David and Melwin Reder, eds., *Nations and Households in Economic Growth: Essays in Honour of Moses Abramowirz* (New York: Academic Press, 1974), 89–125; idem, "Will Raising the Income of All Increase the Happiness of All?" in *Journal of Economic Behaviour and Organization,* 27: 1 (1995), 35–48; A. J. Oswald, "Happiness and Economic Performance" in *Economic Journal,* Vol. 107

income only up to the level where all basic biological needs get fulfilled. Beyond that it remains more or less unchanged unless some other needs which are considered indispensable for increasing happiness are also satisfied. Most of these other needs are not necessarily material and need not become satisfied as a result of increase in income. Economists have generally tended to abstain from a discussion of these needs.[4] One of the most important of these non-material needs is justice, which demands that the fruits of development be shared equitably by all irrespective of their race, colour, sex or nationality. Some other of the equally important and generally-recognized requisites for well-being are mental peace, family and social harmony, freedom, security of life and property, and minimization of crime, tensions and anomie. This paper is an attempt to analyze whether the lessons learnt so far by Development Economics are adequate to promote comprehensive well-being of this nature.

## The First Three Stages[5]

During a major part of the first stage, which prevailed for more than 150 years, from 1776, when Adam Smith's *Wealth of Nations* was first published, to the Second World War, Development Economics was not a separate specialized subject. It was rather an integral part of Classical and Neoclassical Economics and reflected the liberal framework of *laissez-faire* capitalism. Accordingly, it insisted that market forces would themselves promote growth by enhancing efficiency. There was no role in this framework for institutions other than the market in the allocation and distribution of resources. The role of the family, the society, the state, and moral values was almost totally ignored.

However, the independence of many developing countries after the Second World War and the difficulties they faced in accelerating development, created doubts in the ability of market forces to accelerate development by themselves. These doubts were further reinforced by the success of the Keynesian and socialist strategies during the Great Depression and after the Second World War. These doubts led to the beginning of the *second stage* in which it began to be argued that there was need for a 'critical minimum effort' to promote 'self-generating' and 'self-sustained' growth in low-income countries. This, it was argued,

(445), (1997), 1815–1831; David G. Blanchflower and Andrew J. Oswald, "Well-being over Time in Britain and the USA" in *NBER, Working Paper 7487* (2000); E. Diener and Shigehiro Oishi, "Money and Happiness: Income and Subjective Well-Being" in E. Diener and E. Suh, eds., *Culture and Subjective Wellbeing* (Cambridge, M: MIT Press, 2000), 185–218; and Charles Kenny, "Does Growth Cause Happiness, or Does Happiness Cause Growth?" in *Kyklos,* 52:1 (1999), 3–26.

[4] The World Bank, *World Development Report 2003: Dynamic Development in a Sustainable World, Transformation in Quality of Life, Growth, and Institutions* (Washington: World Bank, 2003), ix and 1.

[5] For details on these three stages, see M. Umer Chapra, *Islam and Economic Development* (Islamabad: International Institute of Islamic Thought and Islamic Research Institute,1993), 21–58.

would not be possible without the playing of a more aggressive role in development by the state. The focus of Development Economics thus shifted away from the *laissez-faire* approach of Classical Economics to a greater role for the state in the economy under the influence of Keynesian and Socialist Economics. Since the state did not generally have adequate resources for this purpose, there were large budgetary deficits. These were financed by means of monetary expansion and borrowing with the blessing of the Keynsian strategy, and led to inflation and heavy debt-servicing burden. Even though the role of the state in development became recognized in this stage, that of the family, the society and values continued to be ignored.

During these two stages, Development Economics reflected the social Darwinist attitude of Classical Economics and did not regard promotion of equity as one of its express objectives. Some advocates of accelerated growth even argued in favour of the need for greater inequality to promote growth.[6] Misleading empirical support for this stand was sought in Kuznet's inverted-U curve which hypothesized that inequality would increase in the early stages of development and decline only in the later stages.[7] Even those who were more sympathetic towards equity argued that faster growth would itself automatically take care of distributional inequities through the 'trickle-down' mechanism.[8]

However, stagflation (simultaneous presence of both inflation and unemployment) of the 1970s shook confidence in the ability of governments to raise output and employment with the help of an expansionist fiscal policy. The 'rational expectations theory' weakened the confidence even more by providing a theoretical explanation for this failure.[9]

This led to the *third stage* when the focus of Development Economics shifted once again to liberalism and the market. There was resurgence of

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[6] The literature on economic development is full of assertions than an improvement in income distribution is in direct conflict with economic growth. For a summary of these views, see William R. Cline, *Potential Effects of Income Redistribution on Economic Growth* (New York: Praeger, 1973), chapter 2. For a recent paper arguing that income inequality has a positive relationship with economic growth, see Kristin J. Forbes, "A Reassessment of the Relationship between Inequality and Growth" in *The American Economic Review* (September, 2000), 869–87.

[7] See in Simon Kuznets, "Economic Growth and Income Inequality" in *American Economic Review* (March, 1955); Idem, "Quantitative Aspects of Economic Growth of Nations: VIII, Distribution of Income by Size" in *Economic Development and Cultural Change* (January, 1963); Idem, *Modern Economic Growth* (New Haven: Yale University Press, 1966).

[8] See David Morawetz, *Twenty-Five Years of Economic Development: 1950 to 1975* (Washington, DC: IBRD, 1977), 9.

[9] Lucas did more than any other economist to undermine confidence in the government's ability to increase employment and output growth with expansionary monetary and fiscal policies. See, in particular, Robert E. Jr. Lucas, "Some International Evidence on Output-Inflation Trade-Offs" in *American Economic Review* (June, 1973), 326–34; idem, "Econometric Policy Evaluation: A Critique" in *Journal of Monetary Economics*, Supplement Series (January, 1976), 19–46.

the anti-dirigiste and pro-free market stance of Classical Economics. However, even though this led to a realization of the limitations of government fiscal policy, it could not succeed in reviving the concept of *laissez faire*. The faith in an important role for the government in development through 'good governance' has not only survived but has rather gained prominence. Another important change in the subject in this third stage was the recognition of the role of justice in development. Since the trickle-down mechanism proved to be highly ineffective, Development Economics adopted a kindlier face this time around by becoming concerned with equitable distribution of the fruits of development. It did not just want to promote growth, it also wanted to become the 'trustee of the poor' by promoting 'growth with redistribution'.[10]

## The Fourth Stage

The improvements in Development Economics that took place in the first three stages were, of course, welcome. They were, however, not enough. Experience and intellectual insight have brought into light some of its glaring shortcomings and have led to the fourth stage in which a number of adjustments have been made in the strategy proposed for development. One of these is the realization that the market and the state are not all-enveloping social institutions. They are rather part of a wider set of institutions which together affect development. It was, therefore, futile to concentrate primarily on the role of the market *or* the state and to look for a single overreaching policy prescription.[11] It was necessary to take into account the role of social, institutional, political and historical factors and to harness the potential contribution of all these for accelerating development. The interdependent role of socio-economic and cultural factors as well as good governance in promoting development have become as clearly realized as that of well-functioning competitive markets. Of particular significance is the stress on the role of institutions, defined as rules of behaviour in Institutional Economics.

This adjustment has brought about a shift away from the narrow definition of Economics which had confined its role primarily to the study of markets where participants interacted through a decentralized process of decision making to determine what is to be produced by what method, by whom and for whom. The scope of Economics has now become broadened and the sharp distinction maintained earlier between market and social interactions has broken down.[12]

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[10] For details as well as references, see M. Umer Chapra, *Islam and Economic Development*, 39–40.
[11] The World Bank, "Entering the 21st Century" in *World Development Report, 1999/2000* (Washington: The World Bank, 2000), 2.
[12] Charles Manski, "Economic Analysis of Social Interactions" in *Journal of Economic Perspectives* (November, 2000), 115–16.

A second adjustment is the greater emphasis on equity. This conclusion has received support from a number of empirical studies which have found a negative correlation between growth and inequity.[13] These studies have in fact concluded that greater equity is a necessary condition for self-sustained economic growth.[14] It has begun to be emphasized that equity cannot be realized by relying on the trickle-down mechanism, as was believed in the third stage. It is rather necessary to address the distributional issues directly. Removal of poverty is considered indispensable for this purpose. It may, however, be difficult to remove poverty without enabling the poor to perform their role more effectively in development through improvements in their mental, physical, environmental and financial ability. This has led to a greater emphasis on education, health, proper nutrition, housing, clean environment, micro financing, and participation in public life.

A third significant adjustment is the realization that macroeconomic stability is an essential prerequisite for not only development but also equity. This has made it necessary to say good-bye to inflationary deficit-financing which had become widely used in the second stage as a result of the Keynesian strategy.

All these adjustments in Development Economics have led to a widespread recognition of the role of 'social capital' in development, in contrast with physical and human capital which were recognized before.[15] Social capital is, however, defined varyingly by different scholars.[16] An eclectic approach towards all these definitions may also lead one to refer social capital to a combination of three important constituents: trust that people have in each other, behavioural norms, and social networks. Together they provide the "glue that holds societies together".[17] Mutual trust is important because it makes people deal with, and provide resources to, each other. Without such trust, division of labour and specialization would not be possible and development would slow down. The trust comes, in turn, from the observance of the society's norms by the people. These norms or institutions are equivalent to moral values in

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[13] See Roland Benabou, "Inequality and Growth" in *NBER Macroeconomics Annual*, 11 (1996), 11–74, who has summarized the main results from 23 recent studies of the link from inequity to growth and investment. See also, Aghion Phillippe, Eve Caroli, and Cecilia Garcia-Penalosa, "Inequality and Economic Growth: The Perspective of the New Growth Theories" in *Journal of Economic Literature* (December, 1999), 1615–1660.

[14] See Michael P. Todaro, *Economic Development* (London: Longman, 1997) 165–66.

[15] See A. Zaheer, B. Mc Evily, and V. Perrone, "Does Trust Matter? Exploring the Effects of Inter-organizational and Interpersonal Trust on Performance" in *Organization Science*, Vol. 9 : 2 (1998), 141–159; Partha Dasgupta and Ismail Serageldin, *Social Capital: A Multifaceted Perspective* (Washington, DC: The World Bank, 2000); and Samuel Bowles and Herbert Gintis, "Social Capital and Community Governance" in *The Economic Journal* (November, 2002), F419–F436.

[16] Jonathan H. Turner, "The Formation of Social Capital" in Partha Dasgupta and Ismail Serageldin, *Social Capital: A Multifaceted Perspective*, 94.

[17] Ismail Serageldin, "Sustainability as Opportunity and the Problem of Social Capital" in *The Brown Journal of World Affairs*, 3 : 2 (1996), 196.

religious worldviews and constitute the basis for what is referred to as ‘good character’ in these worldviews. The more the people abide by these values or, in other words, the better their character is, the more they will fulfil their contractual and social obligations towards others and the greater will be the trust that they will command. It is social networks (families, clans, tribes, and other social groups) that help enforce these values by exerting social pressure on their members to abide by these norms and to abstain from opportunistic behaviour. In the absence of all these elements of social capital, the governments would have to resort more and more to regulations and controls which would be undesirable. Ibn Khaldun had put all these together in what he called *‘asabiyyah* or social solidarity.[18] A recent study by William Easterly and Ross Levnie (2001) has provided empirical support to this view by reaching the conclusion that institutions matter more than endowments and policies in promoting development. This conclusion is based on a sample of 72 rich and poor countries analyzed with the objective of determining the relative role of endowments, policies and institutions in successful development.

The fourth stage is thus a welcome development. It has led to the long-neglected emphasis on the role of ‘social’ capital. It has brought into focus the need for removing poverty and enhancing equity, both of which are indispensable for ensuring the well-being of all. This has, in turn, given rise to a discussion of concepts like trust, behaviroural norms, and social networks, which were otherwise an anathema to Economics, but which are now considered necessary for minimizing moral hazard and promoting equity and sustained development.

## The Needed *Fifth* Stage

What is, however, not yet realized is that mutual trust can not be effectively promoted among people by just the existence of values and social networks. These values need to be accepted by all members of society as absolute and beyond dispute and so designed that they promote not only trust but also justice and family and social harmony, and minimize crime, tensions and anomie. Moreover, values, even if they are of the right kind, would be of no use unless a vast majority of people were to abide by them faithfully. Even if some people violate them and are able to get away with it, then the violation may tend to spread as a result of the contagion effect and may later become locked in through the operation of path dependence and self-reinforcing mechanisms.

Thus the taking into account of values or institutions by Development Economics raises a number of crucial questions. One of these is about the

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[18] ‘Abd al-Ra□man ibn Khald□n, *al-Muqaddimah* (Cairo: Al-Maktabah al-Tij□riyyah al-Kubr□, n.d.), 41. Ibn Khald□n’s *Muqaddimah* has been translated into English by Franz Rosenthal and is titled *Ibn Khaldun: The Muqaddimah, An Introduction to History,* 3 volumes (London: Routledge and Kegan Paul, 1st ed., 1958; 2nd ed., 1967). For selections from it, see Charles Issawi, *An Arab Philosophy of History: Selections from the Prolegomena of Ibn Khald□n of Tunis (1322–1406)* (London: John Murray, 1950).

values that are conducive to the promotion of trust, equity, family and social solidarity, development, and the well-being of all. Institutional Economics, which has brought the subject of values into Economics, is concerned primarily with the existing values which are embedded in a society and arise from its customs and traditions.[19] These need not necessarily be in conformity with what is required to promote real well-being. What if the existing values of a given society are not conducive to the promotion of real well-being? Then it would be necessary to replace them by new ones. Can this be done without making value judgements which are an anathema to Economics?

This raises the second question: who is capable of providing values which are of the right kind and which everyone accepts as absolute and beyond dispute? Unless values are accepted by a vast majority of the members of the society concerned, they may be of little help in bringing about the desired transformation. Can human beings, motivated by their self-interest, provide the values that would promote family and social harmony and the well-being of all? The answer of Economics as well as other social sciences influenced by the 'Enlightenment' philosophy is perhaps yes. The answer of religious worldviews for a number of reasons, however, is no. Firstly, rules of behaviour formulated by human beings may tend to be influenced by the personal judgements of those who formulate them. It may not be possible for them to remain impartial, particularly if they are primarily committed to serving their self-interest. If wealth and power are also not distributed equitably, it may be possible for the rich and the powerful to tilt and interpret these rules in favour of their own vested interest. Even the slightest doubt about impartiality may tend to mitigate the chances of consensus. Secondly, human beings tend to be generally short-sighted. This is because the long-run is unknown and unpredictable. They are, therefore, inclined to take decisions that serve their short-term self-interest. They may, consequently, hurt their own as well as their society's long-run interest. Thirdly, human beings may not necessarily have all the information that is necessary to determine what is good for everyone and to assess the effects of their actions on others, especially those more remotely affected by them. Therefore, they need an impartial, well-meaning, and knowledgeable outsider who is capable of visualizing such effects and providing rules of behaviour that can save others from the adverse effects of their actions and to ensure their well-being.

The religions worldview considers the Divine Being to be the only one Who has these qualities and Who is capable of commanding the confidence of all. This is because He has created human beings and, therefore, perfectly understands their nature as well as their needs, their strengths as well as then limitations, and is capable of serving as their Sole Guide and the only source of all values. This assertion may not

[19] See Oliver E. Williamson, "The New Institutional Economics: Taking Stock, Looking Ahead" in *Journal of Economic Literature* (September, 2000), 597 and 608.

appear to be unrealistic if one were to look at the excessive emphasis given to the serving of self-interest, maximization of wealth and gratification of sensual pleasures in secular cultures. This, as Tawney has rightly pointed out, “makes the individual the centre of his own universe and dissolves moral principles into a choice of expediencies”. It “relieves him of the necessity of discriminating between different types of economic activity and different sources of wealth… because it treats all economic activities as standing upon the same level, and suggests that excess or defect, waste or superfluity, require no conscious effort of the social will to avert them, but are corrected almost automatically by the mechanical play of economic forces”.[20]

A vivid example of what happens when human beings insist on formulating values themselves is the legal blessing given in some secular societies to sexual gratification outside of marriage, cohabitation of unmarried couples, homosexualism and lesbianism. As is to be expected, short-term gratification of sensual pleasures received a grater weight in the legalization of these and their long-term effect on individuals as well as society, which could not be clearly foreseen, was ignored. This, along with a number of other changes in values is, unfortunately, leading to a rapid disintegration of the family in these societies and the ineffective upbringing of children. Since the family is the source of the human input for the market, the state, and all social networks, including the family itself, can a society be able to sustain its supremacy in the economic, technological and military fields, if the family disintegrates and the quality of the human input goes down? It is, therefore, not surprising that the religious worldview insists on the need to treat Divine Guidance as the right source of values, considers these values to be eternal, and does not allow human beings to tamper with them.

Once we have the right values, we get into the question of how to ensure the faithful observance of those values by everyone. Could the serving of self-interest ensure this? The answer would be ‘yes’ primarily in circumstances where individual self-interest is also served by their observance. But what about the many situations where a sacrifice is called for in the fulfilment of contractual and social obligations by individuals (e.g., performing a duty without taking bribe or helping someone even when there is no possibility of getting a *quid pro quo* reward)? What is it that will motivate them to make such a sacrifice? Economics may not, therefore, be able to take values and institutions into account unless it is able to show how everyone in a given society can be motivated to make the sacrifice called for in living up to these values.

Two very important forces which help motivate individuals to fulfil their obligations are: an inner urge on the part of individuals to fulfil their obligations on their own volition, and the presence of incentives and deterrents to induce them to do so. As far as the inner urge is concerned,

[20] R. H. Tawney, *The Acquisitive Society* (New York: Harcourt, Brace and Howe, 1920) , 31.

it comes from the innate goodness of human nature. Individuals do not necessarily always act in their self-interest; they also act in the interest of others and even make sacrifices for them under a feeling of moral obligation. This belief conflicts with the concept of the 'economic man' who is interested only in serving his self-interest. However, since individuals are also free, they may be tempted to act against their nature.

Incentives and deterrents are, therefore, indispensable for motivating individuals to observe moral norms or rules of behaviour. Those who abide by the norms should be rewarded and those who violate them should be punished. The market does this through profit and loss; the society does this through prestige, disgrace and ostracization; and the government does this through awards, fines and imprisonment. While Institutional Economics has addressed these three sources of incentives and deterrents, Development Economics has so far lagged behind. Unfortunately, incentives and deterrents may also not succeed in every case because of a number of clandestine ways of doing what is wrong without becoming detected and punished, even if the political and judicial systems are not corrupt and unfair. The creation of a foolproof social, legal and judicial environment for the effective enforcement of values may raise transactions costs to an unbearably high level. There is, hence, need to motivate everyone to abide by values voluntarily under all circumstances even if it is possible for them to get away undetected.

For this purpose religious worldviews have reinforced this-worldly incentives and deterrents by those in the Hereafter. They consider accountability before an All-Knowing and All-Powerful God in the Hereafter indispensable for a more effective enforcement of rules of behaviour? The concept of the Hereafter gives a long-term perspective to self-interest by extending it beyond a person's life span in this world. Individuals may be able to serve their self-interest in this world by being selfish and violating the rules without being detected and punished. They cannot, however, serve their self-interest in the Hereafter except by fulfilling their obligations towards others. This belief carries the potential for self-enforcement of values, particularly when doing so involves the sacrifice of self-interest. Therefore, if the institutions of the market, the society, and the government are further reinforced by belief in God and the Hereafter, it should be possible to ensure to a greater extent the observance of values and the well-being of all with minimum transactions costs. Hence, Sen has rightly remarked that "economics, as it has emerged, can be made more productive by paying greater and more explicit attention to the ethical considerations that shape human behaviour and judgement".[21]

[21] Amartya Sen, *On Ethics and Economics* (Oxford: Basil Blackwell, 1987), 9.

A large number of Muslim scholars,[22] and in particular Ibn Khaldun (d. 505 AH/1111 AC), have argued that development with the objective of realizing human well-being may not be possible by focussing attention primarily on the satisfaction of material needs and the application of this-worldly incentives and deterrents. Well-being is necessarily the end-product of interaction between a number of economic as well as moral, social, demographic, political and historical factors in such an integrated manner that none of them is able to make an optimum contribution without the support of others. Justice has to occupy a pivotal place in this process because real well-being cannot be realized if the fruits of development do not get equitably distributed among all participants. It is also necessary to ensure family harmony and social solidarity. This necessitates the existence of values and institutions and faithful adherence to this necessitates is the willingness of individuals to make sacrifices for higher purposes and the effective operation of this-worldly as well as other-worldly incentives and deterrents. This will create the trust that is now rightly considered necessary for development.

Once Development Economics takes all these factors into account, the Human Development Index (HDI), which is prepared by the United Nations' Development Programme (UNDP), would need considerable revision.[23] This index reflects the secular and restricted framework of Development Economics during its first three stages. It incorporates only three variables: life expectancy at birth, literacy, and GDP per capita adjusted for purchasing power parity. These variables are undoubtedly important with regard to human development and well-being. There are, however, a number of other variables which are equally important. Some of these, as already indicated, are: justice, family integrity, social harmony, mental peace, job security, and minimization of crimes, tensions and anomie. It is also important to incorporate in the index

[22] Some of these scholars are: Ab□ Y□suf (d. 182/798), al–Mas'□d□ (d. 346/957), al-M□ward□ (d. 450/1058), Ibn □azm (d. 456/1064), al-Sarakhs□ (d. 483/1090), al-□□s□ (d. 485/1093), al-Ghaz□l□ (d. 505/111), al-Dimashq□ (d. after 570/1175), Ibn Rushd (d. 595/1198), Ibn Taymiyyah (d. 728/1328), Ibn al-Ukhuwwah (d. 729/1329), Ibn al-Qayyim (d. 751/1350), al-Sh□□ib□ (d. 790/1388). For a brief account of the contributions of some of these, see Joseph Spengler, "Economic Thought in Islam: Ibn Khaldun" in *Comparative Studies in Society and History,* (April, 1964), 268–306; Joseph N. DeSmogyi, "Economic Theory in Classical Arabic Literature" in *Studies in Islam* (Delhi), (January, 1965), 1–6; Abbas Mirakhor, "The Muslim Scholars and the History of Economics: A Need for Consideration" in *The American Journal of Islamic Social Sciences,* (December, 1987), 245–76; M. Nejatullah Siddiqi, "History of Islamic Economic Thought", in Ausaf Ahmad and K. R. Awan, *Lectures in Islamic Economics* (Jeddah: IDB/IRTI, 1992), 69–90; A. Azim Islahi, *History of Economic Thought in Islam* (Aligarh, India: Department of Economics, Aligarh Muslim University, 1996); and M. Umer Chapra, "Islam and Economic Development: A Discussion within the Framework of Ibn Khaldun's Philosophy of History" in *Proceedings of the Second Harvard University Forum on Islamic Finance* (Cambridge, MA: Harvard University, 1998); and idem, *The Future of Economics: An Islamic Perspective* (Leicester, UK: The Islamic Foundation, 2000).

[23] For some details on this index, see UNDP, *Human Development Index (HDI)* (Oxford: Oxford University Press, 1990), 9–16.

democracy, freedom of expression, equitable distribution of income and wealth, and an honest and effective judiciary. Data may not be available for all these variables. Nevertheless, it is important to construct as comprehensive an index as is possible and to continue its refinement with the availability of data. Only then will it be possible to know whether human well-being in its comprehensive sense is being attained by a society and whether that society is likely to move on the path of development or decline. It should not be surprising if it is discovered that Muslim countries, which are already low on the existing HDI, may perhaps be even lower on the scale of a more refined and comprehensive index. The primary reason for this in Ibn Khaldun's model is the illegitimacy of the governments in Muslim countries. As a result of this there is hardly any accountability and the resources are not used effectively for the development of the country and the well-being of the people.

Once Development Economics starts discussing the right kind of values as well as the sacrifice that is needed to promote justice and mutual trust among people, it will have initiated the move into the fifth stage. It will then be required not only to tone down the excessive emphasis on the serving of self-interest but also to address the crucial question of why a rational person would make a sacrifice of his/her self-interest for the sake of others. If it continues to insist on the serving of self-interest as the only motivating force in human behaviour, then sacrifice may have to be ruled out and the objective of promoting the well-being of all human beings may have to be diluted.

## Conclusion

We may, thus, conclude this discussion by reiterating that, if Development Economics wishes to promote the *real* well-being of all people, it must move into the fifth stage as soon as possible. This fifth stage would stress not only economic prosperity but also overall human well-being. While it may be possible to promote economic prosperity by relying primarily on economic variables and serving individual self-interest, overall human well-being may be difficult to attain fully without bringing into play all the relevant socio-economic and political forces that affect human well-being. It would also be necessary to ensure justice, family and social solidarity, and freedom from being subjected to crimes, tensions and anomie. This requires strengthening the bonds of human brotherhood through the voluntary fulfilment by all individuals of their obligations towards others. Since this involves the sacrifice of self-interest, it is necessary to have some motivating mechanism that would induce the individuals to do so. This-worldly incentives and deterrents need to be reinforced by other-worldly incentives and deterrents, which the concept of Hereafter incorporates, and which is, therefore, indispensable.

Therefore, unless Development Economics sheds its secularist approach and takes into account moral as well as material uplift, self-interest as well as sacrifice, individuals and firms as well as families (not just households), other social networks and the government, it may not be able to promote the real goal of development which is the well-being of all mankind. Hence, Development Economics cannot avoid entering the fifth stage. The longer it waits the more it will fail in promoting human well-being and sustainable development.