

CHAPTER THREE

**ECONOMIC AND NON-ECONOMIC FACTORS IN ECONOMIC
DEVELOPMENT:
THE CONCEPTS AND THEIR DIFFERENCES**

S. MORTEZA AFGHAH

**SUPERVISOR
BARBARA M. D. SMITH**

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CHAPTER THREE

ECONOMIC AND NON-ECONOMIC FACTORS IN ECONOMIC DEVELOPMENT: THE CONCEPTS AND THEIR DIFFERENCES

3.0 Introduction

In economic development literature, there is considerable significance attached to the terms ‘economic factors’ and ‘non-economic factors’ though economic factors are more common and have been more used. As the previous chapter widely showed, the term ‘non-economic factors’ has been commonly used in economic development studies related to Third World Countries especially during last forty years. Absolutely critical to this are two questions, first, what are economic and non-economic factors? And, second, how can we distinguish these two groups and what are the criteria for this distinction?

This chapter reviews the writing of social scientists on these two concepts. Afterwards, some suggestions are made to distinguish the concepts as practical and theoretical issues fundamental to this thesis and its fieldwork.

3.1 Economic Factors in Economic Development

Reviewing economic growth and development literature (as in chapter two) shows that the concepts of growth and development been changed qualitatively and quantitatively. Historically, economic growth factors, have normally been associated with the economic circumstances in a particular period, e.g. when trade was the prevailing economic activity during the Mercantilist era¹, gold and trade were the main economic factors seen as leading to growth. Likewise, land

¹ “The age of *Mercantilist Capital* (or early Capitalism) covers the 16th and 17th centuries. This was an era of major transformations in the economic life of Western Europe, with the extensive development of seafaring trade and the emerging predominance of commercial capital” (Rubin, 1979, 20).

was the most important factor in economic progress when agriculture was the main economic activity in the Physiocrats' period².

However, the main economic factors in economic growth are traditionally land, labour, and capital. These factors have normally been mentioned in Classic and Neo-classic writings, though, sometimes, other factors such as technology and management have been added to the above factors.

While land, labour and capital have been the main economic growth agents in most economists' view, in proportion to the structure of production and the level of economic progress, other factors have often been added since. Alfred Marshall, in 1895, stated: "The agents of production are commonly classed as Land, Labour, and Capital". Marshall then added that: "Capital consists in a great part of knowledge and organization" (Marshall, 1895, 214).

Rapid progress in technology and its considerable role in economic growth caused it to be a major factor in economic growth. Thus, in addition to capital accumulation and the labour force, Todaro added technological progress to the main factors that affect economic growth (Todaro, 1994, 100) "Algebraically, these components can be written in the standard neoclassical 'production function' format as $y = f(l, k, t)$ where y is national output, l is labor, k is capital, and t is technological progress" (Todaro, 1994, 121).

In Thirlwall's view, the economic factors were: land, labour, agriculture, capital and technological progress (Thirlwall, 1994, 87-125). Like Thirlwall, some other economists have indicated agriculture as a main factor in economic development (Kuznets, 1966a, 133-144). The importance of agriculture in developing countries' progress is probably the main reason for

² The Physiocratic theory was developed in France during the middle of the 18th century. The entire first half

economists considering agriculture as a critical factor in economic development. Livingston also listed four economic factors affecting economic growth: natural resources³, capital, knowledge and human resources (Livingston and Goodall, 1970, 2-10), and Richard T. Gill classified economic growth factors as: labour, land, capital, large scale production, division of labour and organisation (Gill, 1967, 19). The statement of Joseph J. Spengler seems to be the most comprehensive related to economic factors in economic development:

The strictly economic factors governing economic development are variously classified; herein they are collected and treated under three heads. In category I are assembled (1) the main physical agents of production-labor force, reproducible wealth or capital, and provisionally nonreproducible wealth (land and natural resources) - and (2) applied technology. Under category II are included mechanisms and other circumstances which dominate the allocation of agents of production and finished goods and services (price system, extent of market, division of labor, intersector balance and aggregate demand, etc.). In category III are grouped (1) the major economic decision-makers and (2) the environment of economic decision. The role played by factors included in these categories vary with the degree of backwardness of economies (Spengler, 1957, 42).

Although new factors have been added to the traditional agents - land, labour and capital - , the prevailing views emphasise them, focusing on capital as the most important factor among economic factors.

On the whole, it can be concluded that capital is at the centre of all capitalist theories related to economic growth: “Post Keynesian capitalist growth theory for the mature economy generically has insisted on placing capital accumulation at centre stage and focusing on the resultant secular increases in labour productivity” (Ranis, 1965, 3).

of that century, however, can be looked upon as the age of the *Physiocrats'* forerunners (Rubin, 1979, 101).

³ Although many economists have placed land in place of natural resources as a main factor in economic growth, their purpose seems to refer to natural resources. For example, Marshall wrote: “By Land is meant the material and the forces which Nature gives freely for man’ s aid, in land and water, in air and light and heat” (Marshall, 1895, 214).

During recent decades, technological progress caused capital to have the most important role in economic growth and consequently the other factors' roles, - labour and land - decreased so that, nowadays, capital accumulation is the main factor and the Harrod-Domar theory is the prevailing capitalist theory: " In the language of the Harrod-Domar tradition, it is the propensity to save and the marginal capital-output ratio which determine the growth rate. One hardly needs to be reminded that the body of contemporary capitalist growth theory consists of extensions and modifications of this basic Harrod-Domar relationship" (Ranis, 1965, 4).

Economists over the last forty years have shown that quantitative growth in output is the main factor in most definitions of economic growth⁴; in other words, economic growth is the inevitable aim of all economic development processes, and depends, in turn, on the way capital can be accumulated. Todaro presented three major factors necessary for economic growth: "1- Capital accumulation, including all new investments in land, physical equipment, and human resources. 2- Growth in population and thus, although delayed, growth in labour force. 3- Technological progress" (Todaro, 1994, 100).

Nowadays, managing modern technologies needs an appropriately skilled work force. This growth in the labour force - skilled labour - and technological progress strongly depend on capital accumulation. Thus, one can conclude that capital accumulation is the major factor in all economic growth theories. In other words, while there is a consensus that capital, land, and labour are the main economic factors, with the present economic conditions in the world, it is obvious that capital plays the key role in production. Capital's pre-eminence probably derives from its relative scarcity.

⁴ Most former economists emphasised growth in GNP as an economic development measure and recent economists have distinguished between growth and development, but they also emphasised that

The above has indicated the factors that can be accepted as economic. Discussion now turns to non-economic factors and their role in economic progress based on the existing literature.

3.2 Non-economic Factors in Economic Development

This section tries to identify the main non-economic factors that affect capital accumulation and economic development. The variety of these factors is greater than for the economic ones. Thus, a wide range of views is to be expected on this topic. Some economists or sociologists have indicated a number of non-economic factors influencing economic development. Hoselitz indicated:

We may then consider that from the point of view of providing an explanation of the process of economic growth, the main functions of the preparatory stage are the changes in the institutional order, especially in areas other than economic activity, which transform the society from one in which capital formation and introduction of modern economic organisation of capital and the introduction of production processes appear as 'natural' concomitants of general social progress (Hoselitz, 1957, 29).

Kindleberger presented several non-economic factors: "The various aspects to be touched upon include the orientation of the individual in his society, family, class, race, and religion, rural-urban differences, national character, size of social unit, effect of culture on institutions, and interaction of cultural values and economic change" (Kindleberger, 1965, 20).

Hunter mentioned the following factors (Hunter, 1957, 57):

These variously include such items as the need for a generally educated population, the necessity for land reform, and an adequate legal structure, etc. The treatment of

development includes growth while growth is not necessarily followed by economic development. See: Kindleberger, 1965, p. 3-4 and Todaro, 1994, p. 16-17.

such factors, as non-economic, as the term preconditions seems to imply, leaves the resultant economic theory extremely sterile because of the overwhelming importance in the real live world of these non-economic factors.

There are, therefore, numerous non-economic factors that may impact on the process of economic growth and economic development. Here, some of the main non-economic factors that seem to influence economic growth and economic development are briefly introduced. These factors are: culture; religion; class and family; tradition; the role of individual; socio-political dependencies; the role of government; and existence of duality in the society. Only dependency and duality are not amongst the non-economic factors studied in this thesis. The main focus is on negative (for economic development) aspects of these factors.

3.2.1 Culture as a Non-economic Factor

The first non-economic factor in economic development to be considered is culture. Social scientists have presented a wide range of definitions for culture but, at this stage, it is not necessary to consider these. For our purpose, it may be enough to choose simply a general definition. A dictionary of sociology described culture as: “The human creation and use of symbols and artefacts. Culture may be taken as constituting the ‘way of life’ of an entire society, and this will include codes of manners, dress, language, rituals, norms of behaviour and systems of belief” (Jary, and Jary, 1991, 138).

Culture can, thus, be considered as a set of beliefs and the behaviour that shape the identity of a society. According to these definitions, it can be concluded that all society’s behaviour and activities are affected by a collective cultural identity. This, in turn, is formed over a long period and is transferred from generation to generation. Moreover, many of society’s attitudes toward economic activities and other factors that affect these activities, are formed into this cultural

personality. Thus, the culture of a society can be a major impetus for economic development. Societies which have considerable potential for economic development, such as discipline and positive attitudes towards work, capital accumulation, production, and the quantity and quality of consumption are in a better position to become economically developed than those which are deprived of these attitudes. Kindleberger offered some examples of this:

Ruth Benedict in *Pattern of Culture*, traced similar attitudes, particularly in the Zuni and Kwakiuti Indians, to permissive and authoritarian upbringing, and emphasised the capacity of the Zuni to work together co-operatively and the competitive hostility of the Kwakuit Indians, which led to conspicuous and wasteful consumption (Kindleberger, 1965, 34).

Or, as Livingston and Goodall argued, how society values its existing activities is obviously a cultural aspect of a society, and affects economic aprogress:

It is often said that in America the businessman is shown greater respect by society compared, for instance, to the philosophers or university teachers. This respect increases the higher the person's income and the money he is seen to spend on his house, motor car, and other such things. For this reason Americans find business an attractive career... this position is often contrasted with that in India and other Eastern countries where values are less materialistic: where the 'wise man' of the village is more respected than the one who makes most money. Unfortunately such attitudes do not make for the same economic progress as where there is a constant striving for material gain (Livingston and Goodall, 1970, 12-13).

Todaro, too, has indicated other cultural personalities affecting economic productivity (Todaro, 1994, 47). It is therefore obvious that culture plays a fundamental role in economic developmental processes and needs a separate work that is far beyond the limitation of this discussion but is, like all these non-economic factors, considered at greater length in subsequent chapters (on methodology, Iran, etc.).

3.2.2 Religion as a Non-economic Factor⁵

Religion is second important non-economic factor in economic development, though the precise effect of it is not entirely clear. Some social scientists relate economic growth in the United Kingdom to the Protestant Reformation (Kindleberger, 1965, 27 and below where Max Weber's and Tawney's work is considered). In fact, it seems that this event changed religion into being a personal and individual affair. In other words, the substitution of a materialistic world view for a religious (spiritual) world view has caused a huge transformation over recent centuries not merely amending the existing religion. Kuznets has already been quoted on secularism (see p. 8) in chapter one. As is obvious, secularism is a most effective factor in capitalism's economic progress.

Although it seems that religious beliefs generally are associated with a slower rate of economic growth, this does not necessarily mean that all religions have the same effect on economic development. There are a wide range of religious world views and various religious attitudes to material life. Some religions have considered economic activities as an important aspect of life - though they are a means for spiritual growth rather than an aim - and, in contrast, some religions recommend their followers to have an ascetic life.

One notable point that affects the relationship between religion and economic development is the degree of people's commitment to their religion. Thus, to examine the relationship between religion and economic growth, one should distinguish between religion itself and religious people. Kindleberger argued: "A recent book by a Swedish economic historian has suggested that economic

⁵ See also chapter four page 119, for a more the history of studies about the role of religion in the economic development.

development is to be associated less with religion than with religious minority groups” (Kindleberger, 1965, 28).

As a result, there is no evidence to show that religion is necessarily an obstacle to economic development, but it depends indirectly on religious’ world views and how they value economic development. However, Kindleberger disagreed with the existence of such a relationship between religion and economic growth, presenting some instances of societies with the same religions but different stages of economic development (Kindleberger, 1965, 28).

One can conclude that both religious and secular life can lead to economic growth - though at a different rate - but, in a religious society, the initial aim is doing religious tasks while, in a materialistic society, the aim of life is maximising material benefits. However, the critical conclusion from this section is that to deal with the effect of non-economic factors on economic development in a society, one needs to study the current religion in that society to see how it views material life and economic activities. This is useful in order to present a more realistic judgement about the role of that religion in the economic development of that society. In this thesis, the concern is with Iran and Islam where the rule of religion is powerful - see chapter five and six.

3.2.3 Class, Family and Tradition as Non-economic Factors

A third group of non-economic factors in development embrace class, family and tradition. Although rapid progress in communication technology has affected traditional societies, traditional and peasant societies still predominate in Third World countries. According to Todaro, more than sixty percent of people in Third World countries live in rural areas (Todaro, 1994, 150). In other words, the majority in such societies in the world live, produce, consume, and behave in a traditional way.

Hagen defined traditional society. “A society is traditional if ways of behaviour in it continue with little change from generation to generation. Where traditionalism is present certain other characteristics are also found. Behaviour is governed by customs, not law. The social structure is hierarchical. The individual’s position in the society is normally inherited rather than achieved” (Hagen, 1964, 55).

According to Hagen’s view, the traditional style of living is a major reason for society’s backwardness. He divided traditional societies into three kinds, stating: “Traditional peasant societies will be of special interest here, for people of hunting and pastoral societies, not having settled habitations, can hardly accumulate artefacts and enter upon continuing technological progress” (Hagen, 1964, 56).

It is notable that, although traditional societies are seen as backward, their economic behaviour, and perhaps other aspects of their life, has been based on rational reasons. Over time, customs may become rigid, which prevents all economic development. Todaro pointed out:

We may conclude that peasant farmers do act rationally and are responsive to economic incentives and opportunities. Where innovation and change fail to occur, we should not assume that peasants are stupid, irrational, or conservative; instead, we should examine carefully the environment in which the small farmers operate to search for particular institutional or commercial obstacles that may be blocking or frustrating constructive change (Todaro, 1994, 307).

Family structure is one aspect of traditional societies that can hinder society from achieving economic development. Three reasons have been mentioned in this regard:

- 1) Individuals in extended families are not sufficiently motivated to adopt economic risks or to work hard.

2) The system of inheritance is another obstacle in families' efforts for economic growth, since dividing land among the children causes low productivity in economic activities and prevents society from taking advantage of large-scale production.

3) Extended families are disinclined to save and this prevents society from accumulating capital, the main factor in economic growth. This is because, in such a society, the family provides insurance for dependants and security for old age from current production (Kindleberger, 1965, 22-3).

However, the existing literature embraces a variety of views that suggest class and family are also important factors favourably influencing the economy of developing countries⁶.

3.2.4 The Role of the Individual as a Non-economic Factor

Many social scientists have considered the role of certain individuals in social and economic transformations. This is the fourth non-economic factor considered here. These individuals include entrepreneurs, dynamic persons, marginal persons, deviants and authoritarian and innovative persons as well as the elite. Hoselitz considered that: "A deviant always engages in behaviour which constitutes a breach of existing order and which is either contrary to, or at least

⁶ Although most social scientists have addressed traditional behaviour and activities as obstacles to modernisation, there are plenty of positive traditional habits which are potentially valuable resources for economic development.. Bauer and Yamey, for instance, argued that:

The institution of the extended family is a feature of a subsistence or near-subsistence economy. In such a society surpluses cannot be marketed; this partly explains the readiness of people to make gifts of their surpluses and the dictate of custom implies that they should do so. Moreover, wide personal obligations act as form of insurance in societies in which most people live at a very low level of income and have little or no reserves. The larger the number of people who have recognised obligations to contribute their surplus as well as rights to share in the surplus of others, the more effective is the insurance. This is valuable when there is no alternative private or public provision for the relief of distress. The extended family system serves as an insurance fund, as an informal poor law, as a means for pooling and circulating capital within a group, and also as an outlet for charity and generosity (Bauer and Yamey, 1956, 65).

not positively weighted in, the hierarchy of existing social values” (Hoselitz, 1957, 37). This deviant behaviour could promote growth if it ran counter to traditional (including religious, family, etc.) values that are adverse to development.

Kindleberger accepted Hagen’s view based upon the role of individuals in social transformations, but denied that it was a key role (Kindleberger, 1965, 37). Schumpeter is a well-known economist who explained the entrepreneurial role in economic growth (Schumpeter, 1934 - see below p. 72).

It is undeniable that certain individuals have had a dynamic role in social and economic transitions, but this role is clearer in traditional societies than in modern societies because the numbers of such individuals are likely to be fewer proportionately and the inertia more general. In other words, it is suggested that the role of individuals in economic growth in underdeveloped countries is likely to be more significant than in developed countries.

3.2.5 Political Dependency as a Non-economic Factor

Political dependency⁷ which is one of the main characteristics of Third World countries is a fifth non-economic factor in development. After World War II, despite the end of the colonisation period, dependency of weak countries on powerful countries continued but in a different way. Apart from the exploitation of underdeveloped countries by developed ones, there are at least two aspects in the association between these countries that prevent Third World countries from achieving appropriate economic development.

⁷ By dependent is meant that most Third World countries that follow powerful countries have not authority to choose their own policy independently. According to Todaro, political dependency is one of the main characteristics of underdeveloped countries (Todaro, 1994, 53).

First, developed countries, and the international organisations (International Monetary Fund, World Bank, etc.) that they dominate, tend to control developing countries politically and economically in ways that serve their own economic interests. This is not necessarily concordant with the long-term benefits of underdeveloped countries. As a result, Third World countries have often to follow projects and plans that are not normally appropriate to their social and economic potential. After some time, not only do they not progress, but their dependency has been aggravated - because of wastage of economic resources. The experience of the last forty years of economic development in Third World countries is the best evidence of this.

Second, political dependency has caused instability in underdeveloped countries, which, in turn, causes capital flight from them to developed ones. Thus, even if there are enough entrepreneurs in developing countries, given that the political situation is not reliable for long-term investment, they still prefer to transfer their capital to developed countries,.

3.2.6 Social and Cultural Dependency as a Non-economic Factor

Nowadays, the rapid spread of communication and transportation technologies has resulted in many social and cultural values in developed countries being transferred to underdeveloped countries. These values constitute a sixth non-economic factor. Fast technological development and consequent welfare in developed countries, on the one hand, and the failure of Third World countries to develop appropriately, on the other, has given rise to an inferiority complex in underdeveloped societies. Thus, not only has technology been imported, but Western socio-cultural values. As with political dependency, these values tend to be inappropriate to underdeveloped social and economic capacities. This also causes physical and human resources to be wasted. Todaro argued that: "With the proliferation of the "modernizing values" of

developed nations, many societies in third world countries that had a profound sense of their own worth suffer from serious cultural confusion when they come in contact with economically and technologically advanced societies” (Todaro, 1994, 17).

The most obvious sign of this socio-cultural transition has been the tendency towards mass consumption, especially of luxury goods, often imported. Furthermore, consumption among the rich in these countries usually leads to prodigality and dissipation, with the consequence that the society is disabled in terms of productive investment. Todaro commented:

Unlike the historical experience of the new developed countries, the rich in contemporary Third World countries are not noted for their frugality or for their desire to save and invest substantial proportions of their incomes in the local economy. Instead, landlords, business leaders, politicians, and other rich elite are known to squander much of their incomes on imported luxury goods, gold, jewellery, expensive houses, and foreign travel or to seek safe havens, abroad for their savings in the form of capital flight (Todaro, 1994, 159).

This propensity among the rich people is opposed to economic theories that suggest the marginal propensity to save among rich people is high and prepares society for productive investment. But, if Todaro is correct, this spending aggravates backwardness and dependency on developed countries.

As a result of the spread of mass consumption, advertising and emulation is the main motive that leads to a false demand among societies. This, in turn, leads to national capital waste and, ultimately, backwardness aggravation. Hoselitz comments on this: “At the same time, one would find that the lack of suitable institutions or the presence of institutions which may lead to dissipation of accumulated saving will tend to prevent a society from arriving at a stage in which a take-off is likely or even possible” (Hoselitz, 1957, 32).

3.2.7 The Role of Government in Economic Development as a Non-economic Factor

Rapid technological progress during recent decades caused major differences in today's world, compared with previous centuries. Global interdependence is a conspicuous difference that now is an important characteristic of the modern epoch (Todaro, 1994, 635-6). One of the most important consequences of this interdependence is the attempt of powerful countries to form a new order under their rules. Thus, it is difficult for a government in an underdeveloped country to achieve an appropriate rate of economic development without considering global interdependence and the influence of powerful countries in underdeveloped societies and their political affairs.

As a result, in such a political environment, the government in developing countries can play a vital role in national economic development in order to guide the country to development. This constitutes a seventh non-economic factor. This role is considered here in two parts: first, the position of dependent governments in the economic development process of underdeveloped countries and second the role of the independent state.

3.2.7.1 Dependent Governments

Although it is believed that global interdependence is an important characteristic of countries nowadays, it is obvious that many Third World governments follow powerful countries and have not enough ability to choose their own national policies. In fact this is a new form of the old colonialism. Thus, since the powerful countries pursue their profits, it is hardly possible for a dependent country to follow its own national concerns. Instability of state is a major consequence of the government dependency that hinders economic development. The interaction between government and economic development can be discussed in two aspects:

1) If the state prefers to use the government sector in its economic growth process, it will meet at least two probable problems:

a) Based on economic theories and recent decades' experience, governments have not been successful entrepreneurs, particularly in Third World countries and the country will be deprived of private abilities and potential.

b) Since the economic development process, in normal conditions, takes at least 30 to 50 years⁸, government instability will slow, or even stop, the process of economic development. In other words, whether instability is the result of revolution, coup, riot, or social and political conflicts, it entails a wide ranging wastage of natural and human resources in the country.

2) If the government intends to use the private sector in its economic development plans, it will again meet some difficulties. First, since the aim of the private sector is maximising profits, it tends, based on microeconomics theories, to participate in activities that have the maximum profits, rapid capital returns and safety for its capital. However, the private sector knows that, in an underdeveloped country, there is no stability. So it feels its capital is unsafe; that leads to capital flight that, in turn, deprives the underdeveloped country of its capital resources, or, alternatively, the private sector prefers to use its capital in commission and dealing activities (Todaro, 1994, 159).

⁸ This period is reasonable, because of the wide range of socio-cultural changes necessary as prerequisites for economic development and obviously these changes occur in the long term. (Rostow, 1990).

3.2.7.2 Independent States

A major task for a national and independent government is to provide a suitable environment in its society to improve people's knowledge and release them from illogical traditional affiliations⁹ such as previous non-economic factors. The rigidity and inflexibility of the social and economic structure of underdeveloped societies hinders their economic development. In other words, many traditional structures - such as the extended family, ethnic affiliations, etc. - are not compatible with modern economic conditions. "Steam and electric power and the large-scale plants needed to exploit them are not compatible with family enterprise, illiteracy, or slavery. ... Nor is modern technology compatible with the rural mode of life, the large and extended family pattern, and veneration of undisturbed nature" (Kuznets, 1973, 247).

It is also the role of an independent government to ensure provision of a wide range of 'social overhead investments'. This is the most difficult stage in the economic development process because one of the most important problems in Third World countries is shortage of capital. As a result, since such huge investments need people to save more and consume less, government must try to prepare people to tolerate these economic and social pressures for a more important end. If the society is not prepared to undertake a financially tough period, this stage may lead to many socio-political conflicts, that, in turn, waste natural and capital resources. Kuznets pointed out: "Only if such conflicts are resolved without excessive cost, and certainly without a long-term weakening of political fabric of the society, is modern economic growth possible" (Kuznets, 1973, 252).

⁹ Although some economists believe that many traditional societies' reaction in their economic activities are logical and we should understand their problems and unsteady situations. See: Todaro, 1994, Chapter 9.

Another important task of an independent government is providing suitable and relatively attractive conditions for elites, scientists and other expert people to deter them from migrating overseas. This ‘brain drain’ is a critical characteristic of Third World countries. Since, nowadays, economic growth needs technological and scientific progress, the brain drain is a serious problem in Third World countries (Todaro, 1994, 383-4). The government, thus, should try to provide an environment that will reduce or even stop skilled and expert migration. Professor Spengler argued: “While the state can contribute in many specific ways to economic development, most of its positive contributions consist in establishing an environment of decisions and incentives conducive to growth that brings the marginal social cost and the marginal social benefit of development, appropriately determined, into balance” (Spengler, 1957, 55-6).

However, there is an unanswered question: how to distinguish non-economic from economic factors? This is the subject of the next section.

3.3 Distinguishing Criteria to Separate Non-economic and Economic Factors

An absolutely critical matter for this thesis and realistic discussion involves distinguishing non-economic and economic factors. Three suggestions can be presented for the purpose of the thesis and its fieldwork.

1) The economic development factors could be classified into two categories: physical and non-physical. Those which are merely physical could be placed amongst economic factors. This means that the factors which are non-physical would be put into the non-economic factors’ category.

Some economists have used this approach in their writings. Behrman, for instance, has used ‘real physical stock’ to indicate the importance of capital in economic development. “Although

questions have been raised about the widely assumed dominance of real physical stock investment in the economic development process, the importance of real physical stock as one of the major factors in development still is widely accepted” (Behrman, 1972, 837).

Spengler, too, has used a similar term related to economic factors: “Applied technology is of greater importance for long-run per capita economic growth than is any physical agent”. Or: “...namely, the contributions through time, respectively, of technological change and increase in the stock of physical agents” (Spengler, 1957, 48-9).

The problem with this classification is that some factors such as knowledge, management, organisation, etc., that seem to be non-physical are commonly treated as economic factors.

2) Another criterion for separating economic from non-economic factors could be that the factors that are in the sociology realm are considered non-economic and, therefore, the factors that are studied by economists - mostly those promoting production and growth - would be economic factors. According to this classification, labour, capital, land or natural resources, technology, management etc., are considered economic factors and culture, religion, tradition etc. non-economic factors. There is still an ambiguity about the situation of knowledge - which has an important role in economic development.

3) The last suggestion which is adopted in this thesis is as to how to distinguish economic factors from non-economic factors could be that the factors that directly affect production functions and economic growth are put in the economic factors category and those which affect human behaviour and shape and form kinds of activities - including economic activities - are classified as non-economic factors. This criterion seems to be clear, useable and practical. Thus, factors, like management, the price system, large scale production, division of labour and special skills and

knowledge, that influence production levels directly can be placed amongst economic factors and culture, religion, social values, traditional societies' characteristics, general knowledge and the level of literacy that has shaped and formed societies' behaviour and individual activities - including economic activities - and, in turn, but less directly has affected national production or economic growth, are considered non-economic factors.

However, in spite of this attempt to distinguish the two groups of factors influencing economic development, it should be remembered that these economic and non-economic factors strictly interact with each other. So, one has to be most precise in drawing distinctions and to consider this interaction in any research related to the above topic.

3.4 Summary and Conclusion

This chapter has covered a discussion about the differences between economic and non-economic factors based on the existing literature. Reviewing social scientists' views, some of the more common non-economic and economic factors, have been discussed. What is obvious is that capital, labour, and natural resources are the main economic factors affecting the process of economic development. However, capital, among others, is emphasised as the more influential economic factor in the present economic literature. Culture, religion, and traditions, on the other hand, are the main non-economic factors.

At the end of the chapter, three possible criteria have been suggested to distinguish these two groups of factors. It has been decided that factors that have direct effects on economic progress; e.g. capital, labour, etc., are to be considered as economic factors, while those which affect the economic activities only indirectly, i.e. through influencing societies' behaviour, e.g. culture, religion, world view, etc., are to be treated as non-economic factors.

However, it is now necessary to clarify if Islam, as the prevalent religion in Iran, is compatible with the interpretation of development, mentioned in chapter two, or adopts a different view about development. This is the subject of next chapter.