Economic Growth & Development

The issues
Development Economics analyses the economic structure and transformation of developing countries.
-What are the structural features that characterize developing economies?
-What drives development and growth?
-Is there a role for government policy? If so, which policies succeed?
Dudley Seers' (1969) definition of development is widely accepted.
Development occurs with the reduction and elimination of poverty, inequality and unemployment within a growing economy. Such outcomes are development because they mean improved the quality of life for all.

OUTLINE

Introduction
1. The facts: who are the poor? how many? where?
2. Some features of the economic lives of the poor (and of developing countries)
3. Meaning of development
4. Objectives of development
5. Nature of development economics: why study development economics?
6. Development policies: brief history

1. The facts: who are the poor? How many? where?

POVERTY: DEFINITIONS and MEASUREMENT
• Using survey data from 88 countries, Chen and Ravallion (2003) compute the level of income necessary to purchase a certain number of calories (gender specific)
• They suggested $1.08 a day as a poverty line
• The poor are those who live on less than “a dollar a day”
• Commonly used measure of poverty is the HEADCOUNT ratio, i.e. proportion of people living under the poverty line
World population 6.1 billion

...while the poorest 20% have only 2% of the income.

Dollars per day

Africa

Population: 630 million
Poor: 420 million

66%
East Europe
Population: 410 million
Poor: 10 million
2%

East Asia
Population: 1 880 million
Poor: 480 million
20%
**Regional Income Distribution**

**South Asia**
Population: 1,430 million
Poor: 330 million
23%

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**The changing face of poverty**

1970

In 1970 most poor lived in South and East Asia.

South Asia
East Asia
East Europe
Latin America
Africa

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Income below one dollar per day

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Poverty line

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Dollars per day

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$1

$10

$100

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2000
The last 30 years changed the face of global poverty. Now Africa is the home of one third of all poor.

South Asia
East Asia
East Europe
Latin America
Africa

In 2015 Africa will account for the majority of world poverty.

South Asia
East Asia
East Europe
Latin America
Africa
Increase in the number of LDCs

50 LDC of which 34 in Africa, 9 in Asia and 6 in the Pacific islands
Some Facts about poverty
* 43% the world – 2.7 billion people - live on less than 2$ a day;  
* 20% (1.2 billion) on less than 1$ a day.  
* The GDP (Gross Domestic Product) of the poorest 48 nations (i.e. a quarter of the world’s countries) is less than the wealth of the world’s three richest people combined.  
* Nearly a billion people entered the 21st century unable to read a book or sign their names.  
* Approximately 300 to 500 million people are infected with malaria.  
* Approximately three million people die as a result.  
* Some 1.1 billion people in developing countries have inadequate access to water, and 2.6 billion lack basic sanitation.

Additional facts about poverty
* 1 billion children live in poverty (1 in 2 children in the world).  
* 640 million live without adequate shelter, 400 million have no access to safe water, 270 million have no access to health services.  
* According to UNICEF, 30,000 children die each day due to poverty. And they “die quietly in some of the poorest villages on earth, far removed from the scrutiny and the conscience of the world.  
* Being meek and weak in life makes these dying multitudes even more invisible in death.”
*That is about 210,000 children each week, or just under 11 million children under five years of age, each year.

Poverty: trends

- Between 1990 and 2000 headcount index fell from 29.3% to 20%
- Decline in absolute numbers is more modest, 1.3 billion to 1.2 billion
- Robust conclusion: proportion living in poverty is falling, numbers living in poverty shows a more modest decline

And wide heterogeneity across countries:
- Stagnation in Africa, small increase in E. Europe
- Rapid decrease in East Asia (mainly due to China): largest fall in poverty ever witnessed

- Traditional view: persistence in poverty is due to some underlying trait that is difficult to change, e.g. resource endowment, disease, geography
- The Chinese experience castes some doubt as this as the sole explanation for why countries are poor, and remain so.

Figure 3.11 Absolute poverty declined globally, but not in every region

2. Some features of the economic lives of the poor (and of developing countries)
* Poverty is hunger.
* Poverty is lack of shelter.
* Poverty is being sick and not being able to see a doctor.
* Poverty is not having access to school and not knowing how to read.
* Poverty is not having a job, is fear for the future, living one day at a time.
* Poverty is losing a child to illness brought about by unclean water.
* Poverty is powerlessness, lack of representation and freedom.
The Kuenkaew family, 5:30pm, May 31, 1993 Ban Muang Wa, Thailand

The Natomo family, 6:30am March 27, 1993 Kouakourou, Mali
HUNGRY PLANET: WHAT THE WORLD EATS: CHAD
3. Meaning of development

Traditional Economic Measures

*In strictly economic terms, development has traditionally meant the capacity of a national economy to generate and sustain an annual increase in its gross national income (GNI) at rates of above 5%.

*Until recently, development was seen as an economic phenomenon: problems of poverty, income distribution, and unemployment were of secondary importance.

New Economic view of Development emerged in the 1970s: as levels of living despite growth remained unchanged (1950-1960s)

*Development is now conceived of as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty.

4. Objectives of development

Development is both a physical reality and a state of mind in which society has, through some combination of social, economic, and institutional processes, secured the means for obtaining a better life.

At least the following three objectives:

1. To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health, and protection.
2. To raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, so as to enhance material well-being and generate greater individual and national self-esteem.
3. To expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence.

5. Nature of development economics: why study development economics?

*One of the newest, most exciting, and most challenging branches of the broader disciplines of economics and political economy.

Greater scope than traditional economics:

*In addition to being concerned with the efficient allocation of existing scarce (or idle) productive resources and with their sustained growth over time, it must also deal with the economic, social, political, and institutional mechanisms, both public and private, necessary to bring about rapid and large-scale improvements in levels of living.

*Status of development economics as a separate field within the economics discipline: two founding differences

-specificities of developing countries: market imperfections
-development as a broader concept than per capita income
“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.” US President Franklin D. Roosevelt, second inaugural address, 1937

Why? Two Nobel Laureates Answer…
“The consequences for human welfare (..) are staggering: Once one starts to think about them is hard to think about anything else” --R. Lucas
“A study of LDCs is to economics what the study of pathology is to medicine (..) the difference is that in economics, pathology is the rule: less than a 1/4 of mankind lives in the developed economies”---Joseph Stiglitz

**More practical reasons to care:**
Growing interdependence between the developed and developing countries:
- global warming
- diseases: AIDS, avian flu virus
- migration
- terrorism
- systemic risks: debt crisis and the Asian financial crisis: “the world is like the human body: If one part aches, the rest will feel it; if many parts hurt, the whole will suffer.”

*There can no longer be two futures, one for the few rich and the other for the very many poor. In the words of a poet, “There will be only one future—or none at all.”

**6. Development policies: brief history:** There have been three main phases in the history of policy

- **Era of the developmental state: 1950-1980**
  - emphasis on industrialization through import substitution
  - guidance by state by explicit planning in many instances

- **Mixed performance**
  - Successes: East Asia especially Korea, Taiwan, Hong-Kong, Singapore
  - Failures: some in Latin America and Africa
  - Mediocre: India

- **Washington Consensus Era: 1988-onwards**
  - emphasis on macro-economic stability and fiscal discipline
  - openness
  - privatization

- **Post 2000 emerging consensus**
  - Governance: policy implementation, formation is important to generate “good” policies.
- Institutional Change: working with the “rules of the game” within economics, law, culture and politics.

**ECON 193**

Organization around 20 topic areas, that together provides comprehensive coverage of Development Economics.
- Models and theories of development economics: classic and contemporary
- Proximate determinants of economic development: population growth, capital accumulation: *focus on microfinance*
- Fundamental determinants of economic development: industrial policy, trade, openness, foreign financing: *focus aid*

### Additional Statistics

<table>
<thead>
<tr>
<th>Business entertainment in Japan</th>
<th>35</th>
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<tbody>
<tr>
<td>Cigarettes in Europe</td>
<td>50</td>
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<tr>
<td>Alcoholic drinks in Europe</td>
<td>105</td>
</tr>
<tr>
<td>Narcotics drugs in the world</td>
<td>400</td>
</tr>
<tr>
<td>Military spending in the world</td>
<td>780</td>
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</table>

And compare that to what was estimated as *additional* costs to achieve universal access to basic social services in all developing countries:

<table>
<thead>
<tr>
<th>Global Priority</th>
<th>U.S. Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic education for all</td>
<td>6</td>
</tr>
<tr>
<td>Water and sanitation for all</td>
<td>9</td>
</tr>
<tr>
<td>Reproductive health for all women</td>
<td>12</td>
</tr>
<tr>
<td>Basic health and nutrition</td>
<td>13</td>
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</tbody>
</table>

Consider the global priorities in spending in 1998

<table>
<thead>
<tr>
<th>Global Priority</th>
<th>U.S. Billions</th>
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</thead>
<tbody>
<tr>
<td>Cosmetics in the United States</td>
<td>8</td>
</tr>
<tr>
<td>Ice cream in Europe</td>
<td>11</td>
</tr>
<tr>
<td>Perfumes in Europe and the United States</td>
<td>12</td>
</tr>
<tr>
<td>Pet foods in Europe and the United States</td>
<td>17</td>
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