

**Development Economics**  
**Introducing Economic**  
**Development:**  
**A Global Perspective**

\*Dennis C. McCornac

# What is Development Economics?

- ☞ **Use of economic analysis, methods and tools to understand the problems, constraints and opportunities facing developing countries**
  - **Causes of poverty**
  - **Roads to escape poverty**
  - **Development and growth over time**
- ☞ **Theoretical and empirical work**
- ☞ **We study the economic, social, political and institutional mechanisms that lead to development and transformation of the economies**

**CAN YOU GIVE EXAMPLES OF DEVELOPING COUNTRIES?**

# What is Development Economics?

continued

- ☞ **How do people achieve material opportunities to live an acceptable life? (and what is acceptable anyway?)**
- ☞ **We discuss broad tendencies and stylized facts, that depend on the context of each country. We have no (or few) universal laws....**
- ☞ **We want to:**
  - **Achieve a better understanding of the problems of poor countries**
  - **Achieve a better understanding of how to apply economics**
  - **Answer policy questions**

# What Do We Mean by Development?

- ☞ **Traditional Economic Measures**
  - **Gross National Income (GNI)**
  - **Income per capita**
  - **Utility of that income?**
- ☞ **The New Economic View of Development**
  - **Leads to improvement in well-being, more broadly understood**
- ☞ **The Central Role of Women**
  - **To make the biggest impact on development, societies must empower and invest in women**
- ☞ **Amartya Sen's "Capability" Approach**

# Development as Freedom (Amartya Sen)\*

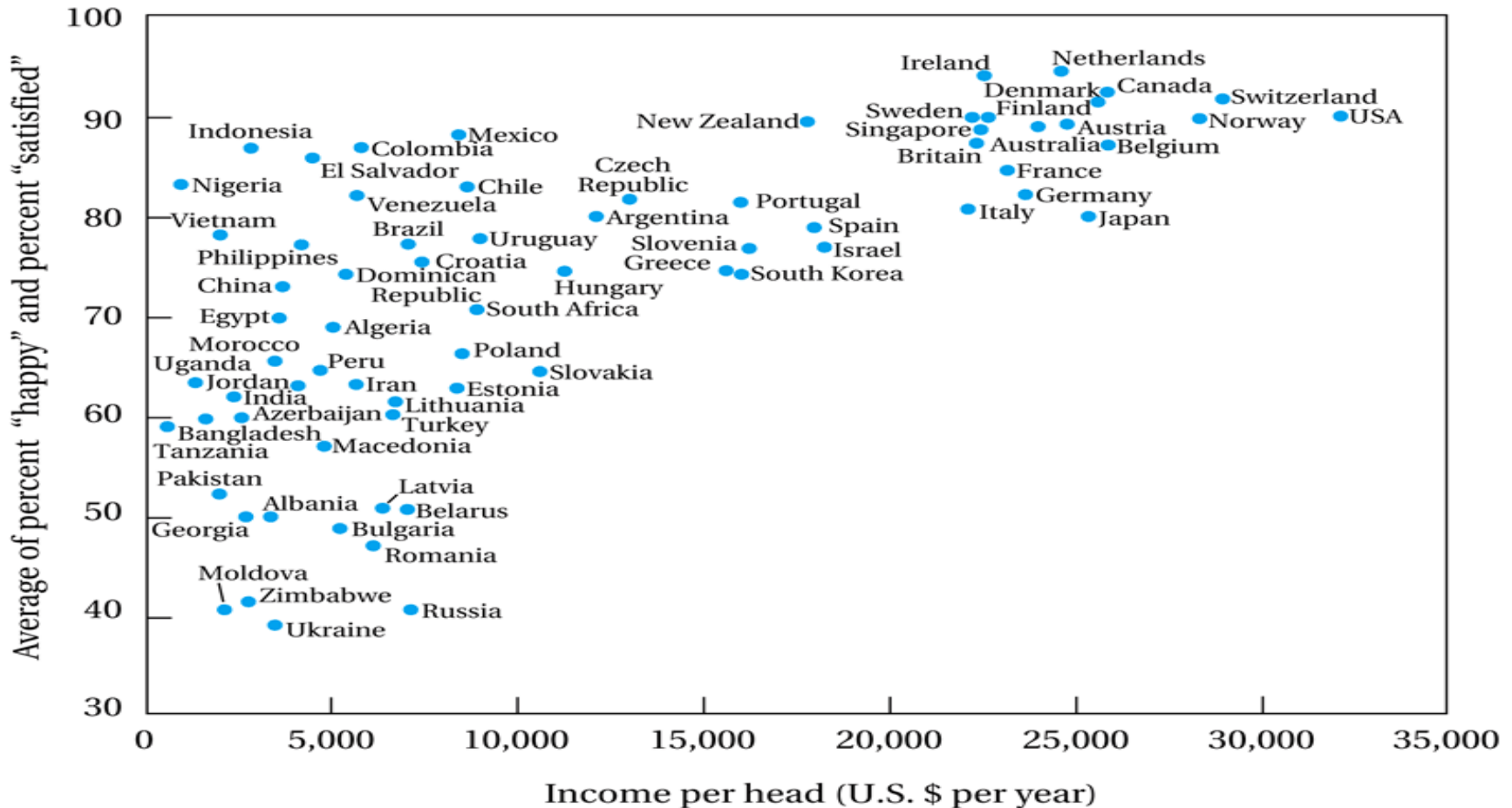
- Development can be seen, it is argued, as a process of expanding the real freedoms that people enjoy
- Development: enhancing the capability to lead the kind of lives we have reason to value.
- Focusing on human freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, or with the rise in personal incomes, or with the industrialization, or with technological advance, or with social modernization.
- Development consists of the removal of various types of unfreedoms that leave people with little choice and little opportunity of exercising their reasoned agency.
- If freedom is what development advances, then there is a major argument for concentrating on that objective, rather than on some particular means, or some specially chosen list of instruments.
- Viewing development in term of expanding substantive freedoms directs the attention to the ends that make development important, rather than merely on some of the means

\*Oxford University Press, 1999

# Some Key “Capabilities”

- ☞ **Some Important “Beings” and “Doings” in Capability to Function:**
  - **Being able to live long**
  - **Being well-nourished**
  - **Being healthy**
  - **Being literate**
  - **Being well-clothed**
  - **Being mobile**
  - **Being able to take part in the life of the community**
  
- ☞ **Being happy – as a state of being - may be valued as a functioning**
  
- ☞ **Three Core Values of Development**
  - **Sustenance: The Ability to Meet Basic Needs**
  - **Self-Esteem: To Be a Person**
  - **Freedom from Servitude: To Be Able to Choose**

# Income and Happiness: Comparing Countries



Source: From *Happiness: Lessons from a New Science* by Richard Layard, copyright © 2005 by Richard Layard. Used by permission of The Penguin Press, a division of Penguin Group (USA) Inc. and United Agents Ltd. ([www.unitedagents.co.uk](http://www.unitedagents.co.uk)) on behalf of the author.

# Happiness and Development

- ☞ **There is not a perfect correlation between happiness and per capita income: people could be poor, but happy; rich, but and unhappy**
- ☞ **Once per capita income increases above \$10,000 to \$20,000, the percentage of people who say they are happy tends to increase**

## **Factors affecting happiness:**

- ☞ **Family relationships**
- ☞ **Financial conditions**
- ☞ **Work satisfaction**
- ☞ **Community and friends**
- ☞ **Health and health-care services**
- ☞ **Personal freedom**
- ☞ **Personal values**



# **Distinction Between Economic Growth and Economic Development**

- ✓ **Economic Growth** – takes place when there is a sustained (ongoing for at least 1-2 years) increase in a country's output (as measured by GDP or GNP) or in the per capita output (GDP or GNP per person)
- ✓ **Economic Development** – occurs when the standard of living of a large majority of the population rises, including both income and other dimensions like health and literacy

*Why is there a distinction?*

# Why Study Development Economics?

## 1. Moral and ethical reasons

- Poverty is unfair
- Inequality is unfair (at least at current levels)
- Development is human right

## 2. Our own welfare

- Global interactions (wars, environment, refugee)
- Global coexistence
- Trade and investment

## 3. Private interests

- Job prospects
- Perspectives on economics, common allround knowledge

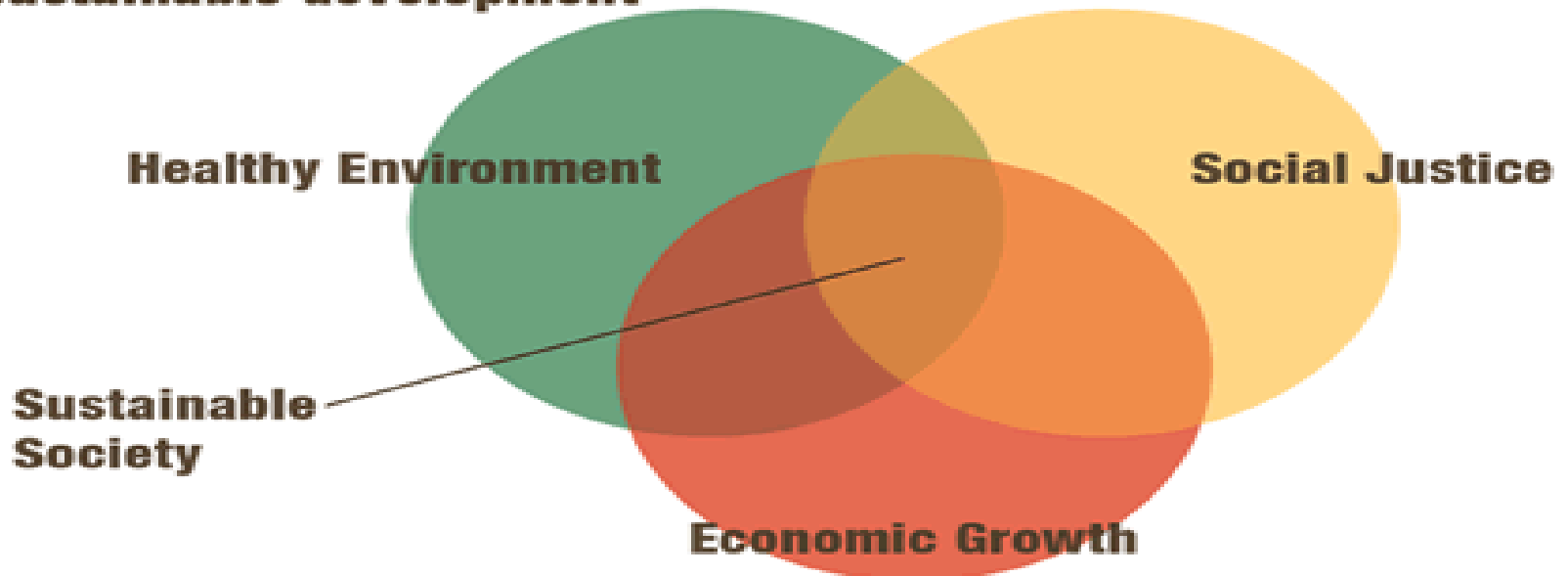
## 4. Intellectual curiosity

- What causes inequality and poverty and what can be done?
- Why do some countries grow and others don't?

# What Are the Objectives of Development?

- ☞ We can list three objectives of development
  - increases in availability and improvements in the distribution of food, shelter, health, protection, etc.
  - improvements in 'levels of living,' including higher incomes, more jobs, better education, etc.
  - expansions in the range of economic and social choices available to individuals and nations

## The three components of sustainable development



# **Important Factors to be Understood When Studying Development**

- ☞ Economics is important**
- ☞ Non-economic variables are also important**
- ☞ Values, attitudes, and institutions must be understood**

***What does the last statement mean and what are some examples?***

# The Concept of Poverty

We usually think of poverty as making less than a certain amount of income. Poverty, however, has many dimensions.

☞ ***Food (and nutrition) and shelter: directly related to real income***

☞ ***Health:***

- infant mortality
- general health
- overall life expectancy

***Social:***

- caste, gender
- freedoms

☞ ***Education:***

- Literacy, Skills

***Vulnerability:***

- probability of being exposed to any type of deprivation

# Relative and Absolute Poverty

- Relative Poverty - Share of people (in each region) living on less than one third of average national consumption
- Absolute Poverty - The amount of income a person or family needs to purchase an absolute amount of the basic necessities of life. These basic necessities are identified in terms of calories of food, BTUs of energy, square feet of living space, etc.

**Note:** The problem with the absolute poverty level is that there really are no absolutes when it comes to consuming goods. You can consume a given poverty level of calories eating relatively expensive steak, relatively inexpensive pasta, or garbage from a restaurant dumpster. The income needed to acquire each of these calorie "minimums" vary greatly. That's why some prefer relative poverty.

# A Glimpse Into How the Six Billion Live

Source: United Nations Population Division  
 Credit: The New York Times (2005)

	Current Life Expectancy	Fertility Rate Average number of children per woman.	Contraceptive Use by percent of currently married women.
Africa	51 years	5.1	20
Asia	66	2.6	60
Europe	73	1.4	72
Latin America and Caribbean	69	2.7	66
North America	77	1.9	71

### Countries or Areas With Highest Infant Mortality Deaths/1,000 live births.

Sierra Leone	170
Afghanistan	151
Malawi	138
East Timor	135
Lowest	
Japan	4
Singapore	5
Norway	5
Germany	5

### Largest Urban Areas Population in millions.

Tokyo	28.8
Mexico City	17.8
São Paulo, Brazil	17.5
Bombay, India	17.4
New York	16.5
Shanghai	14.0
Los Angeles	13.0
Lagos, Nigeria	12.8
Calcutta, India	12.7
Buenos Aires	12.3

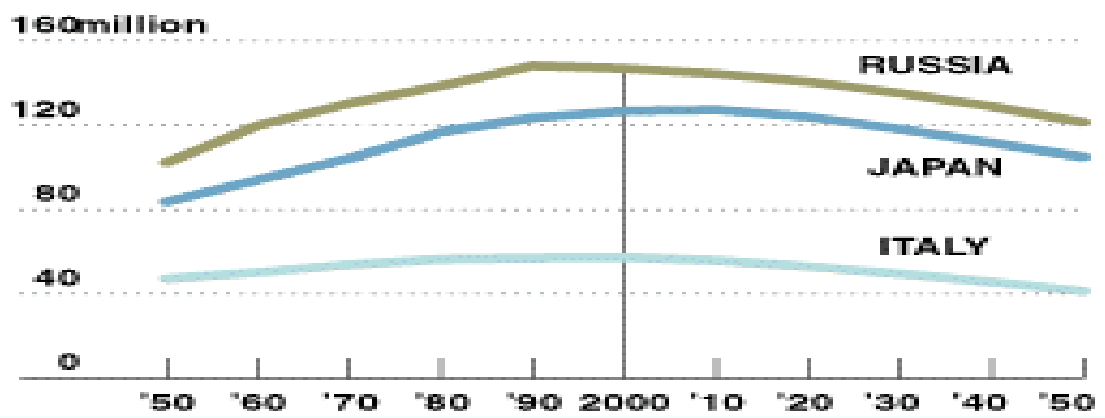
### Countries With Greatest In-migration 1970-95 Net number, in millions.

United States	16.7
Russia	4.1
Saudi Arabia	3.4
India	3.3
Out-migration	
Mexico	-6.0
Bangladesh	-4.1
Afghanistan	-4.1
Philippines	-2.9

### Oldest Countries Median age of population, 1999.

Italy	40.2
Japan	40.2
Germany	39.7
Sweden	39.7
Youngest	
Uganda	15.0
Niger	15.8
Yemen	15.9
Congo Republic	15.9

### Dropping Populations Populations, actual and projected, of selected countries.



# The Structural Diversity of Developing Economies

- ✓ **Size and income level**
- ✓ **Historical background**
- ✓ **Physical and human resources**
- ✓ **Ethnic and religious composition**
- ✓ **Relative importance of public and private sectors**
- ✓ **Industrial structure**
- ✓ **External dependence**
- ✓ **Political structure, power, and interest groups**

**Give Examples of Countries**



# Common Characteristics of Developing Nations

- ✓ **Low levels of living**
- ✓ **Low levels of productivity**
- ✓ **High rates of population growth and dependency burdens**
- ✓ **High and rising levels of unemployment and underemployment**
- ✓ **Substantial dependence on agricultural production and primary-product exports**
- ✓ **Prevalence of imperfect markets**
- ✓ **Dependence and vulnerability**

# How the Other Half Lives

- *When one is poor, she has no say in public, she feels inferior. She has no food, so there is famine in her house; no clothing, and no progress in her family. —A poor woman from Uganda*
- *Life in the area is so precarious that the youth and every able person have to migrate to the towns or join the army at the war front in order to escape the hazards of hunger escalating over here. —Participant in a discussion group in rural Ethiopia*
- *When food was in abundance, relatives used to share it. These days of hunger, however not even relatives would help you by giving you some food. —Young man in Nichimishi, Zambia*
- *We have to line up for hours before it is our turn to draw water. —Mbwadzulu Village (Mangochi), Malawi*

*A universal theme reflected in these quotes is that poverty is more than lack of income – it is inherently multidimensional, as is economic development*

# Daily Life in Developing Countries

- So what would it be like living on \$1.50 per day? An article from *USA Today* may put things into perspective.
- ☞ Get rid of your car and all of your furniture and appliances except one chair and one table – no TV, stereo, refrigerator, dishwasher, clothes washer, dryer, or even lamps.
  - ☞ Get rid of all your clothing except your oldest, most beaten-up shirt and pair of jeans. If you're the head of the family, you can keep one pair of shoes. If not, get rid of them too.
  - ☞ Remove the food from the kitchen. You can keep one small bag of flour, some sugar and salt, and a few potatoes, onions, cabbages or dry beans. You'll cook with firewood or dried cow dung.
  - ☞ Shut off the water, gas and electricity. While you're at it, dismantle the bathroom. Your new bathroom will be the local stream or pond. You'll get your drinking water from there too.

- ☞ **Move out of the house and into the toolshed. Your neighborhood will be a small village or shantytown.**
- ☞ **Don't waste any time on newspapers, books and magazines. They'll be meaningless to you because you'll give up literacy.**
- ☞ **Hold \$10 in case of emergency – no bank account, pension plan or insurance policies.**
- ☞ **Cultivate three acres as a tenant farmer. If the weather's good, you can expect \$300 to \$500 per year in cash crops. You'll pay one third of that to the landlord and another tenth to the moneylender.**
- ☞ **No need to worry about keeping yourself busy in retirement, because you'll be lucky if you live past 55 or 60.**



Zambia,  
\*Saki Hirano

# Millennium Development Goals and Targets for 2015

## Goals

## Targets



1. Eradicate extreme poverty and hunger

- Reduce by half the proportion of people living on less than \$1 a day
- Reduce by half the proportion of people who suffer from hunger



2. Achieve universal primary education

- Ensure that all boys and girls complete a full course of primary schooling



3. Promote gender equality and empower women

- Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015



4. Reduce child mortality

- Reduce by two-thirds the mortality rate among children under 5



5. Improve maternal health

- Reduce by three-quarters the maternal mortality ratio



6. Combat HIV/AIDS, malaria, and other diseases

- Halt and begin to reverse the spread of HIV/AIDS
- Halt and begin to reverse the incidence of malaria and other major diseases



7. Ensure environmental sustainability

- Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources
- Reduce by half the proportion of people without sustainable access to safe drinking water
- Achieve significant improvement in lives of at least 100 million slum dwellers by 2020

<http://www.un.org/millenniumgoals>

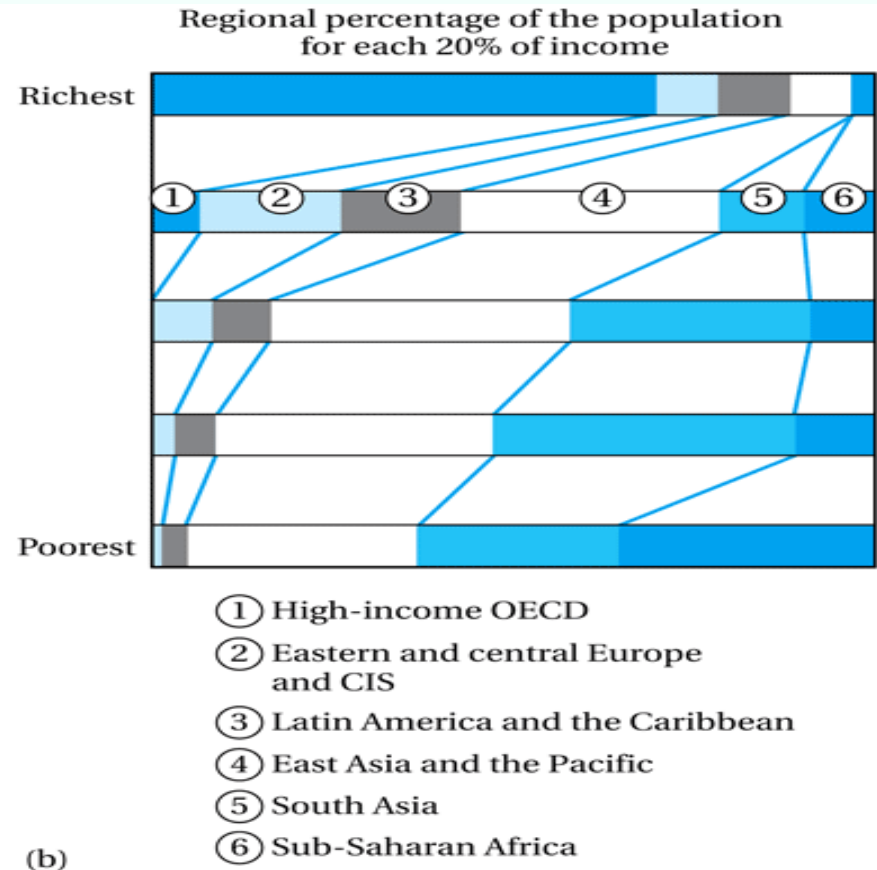
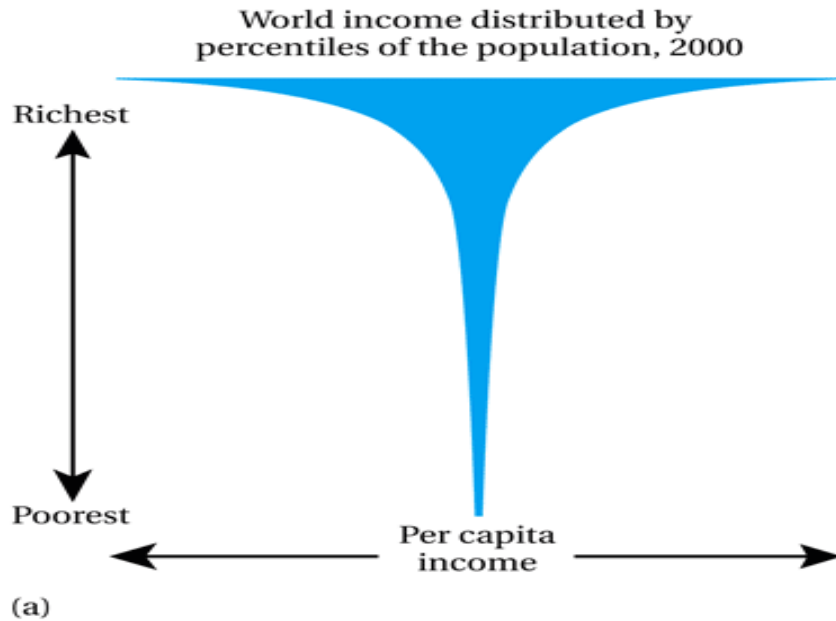


## 8. Develop a global partnership for development

- Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system; includes a commitment to good governance, development, and poverty reduction—both nationally and internationally
- Address the special needs of the least developed countries; includes tariff and quota free access for least developed countries' exports; enhanced program of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous official development assistance (ODA) for countries committed to poverty reduction
- Address the special needs of landlocked countries and small island developing states
- Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
- In cooperation with developing countries, develop and implement strategies for decent and productive work for youth
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
- In cooperation with the private sector, make available the benefits of new technologies, especially information and communications



# World Income Distribution



Part (a) shows world income distribution by percentile. The huge share controlled by the top percentiles gives the graph its “champagne glass shape.” Part (b) shows the regional shares of global income. For example, a large majority of people in the top 20% of the global income distribution live in the rich countries. Most of those in the bottom 60% live in sub-Saharan Africa and Asia. OECD is the Organization for Economic Cooperation and Development. CIS is the Commonwealth of Independent States.

Source: From *Human Development Report, 2005*, p. 37. Reprinted with permission from the United Nations Development Programme.

# Concepts for Review

- ✓ **Absolute Poverty**
- ✓ **Attitudes**
- ✓ **Capabilities**
- ✓ **Developing countries**
- ✓ **Development**
- ✓ **Development economics**
- ✓ **Freedom**
- ✓ **Globalization**
- ✓ **Gross domestic product**
- ✓ **Gross national income (GNI)**
- ✓ **Income per capita**
- ✓ **Institutions**
- ✓ **Less developed countries (LDCs)**
- ✓ **Millennium Development Goals (MDGs)**
- ✓ **More developed countries (MDCs)**
- ✓ **Political economy**
- ✓ **Self-esteem**
- ✓ **Social system**
- ✓ **Subsistence economy**
- ✓ **Sustenance**
- ✓ **Traditional economics**
- ✓ **Values**