



DEVELOPMENT CONCEPTS

Lecture 1-1
EE365 S/2021

Outline

- What do we mean by development?

- Traditional view
- New view

[Reading: Todaro & Smith Ch. 1]

- **Classic Theories of Economic Development**

- (1) The linear-stages-of-growth model
- (2) Theories and patterns of structural change
- (3) The international-dependence revolution
- (4) The neoclassical, free-market counterrevolution.

[Reading: Todaro & Smith Ch. 3]

What Do We Mean by Development?

In broader, *development*: The process of improving the quality of all human lives and capabilities by raising people's levels of living, self-esteem, and freedom.

In strictly economic terms, *development* has traditionally meant achieving sustained rates of growth of income per capita to enable a nation to expand its output at a rate faster than the growth rate of its population

- Usually in real term, to measure how much of real goods and services is available to the average citizen for consumption and investment

What Do We Mean by Development?

- **Economic development “Traditional Measure”**
 - Typically seen in terms of the planned alteration of the structure of production and employment
 - Development strategies have therefore usually focused on rapid industrialization, often at the expense of agriculture and rural development.
 - Rapid gains in overall and per capita GNI growth would “trickle down” to the masses in the form of jobs and other economic opportunities
 - Create the necessary conditions for the wider distribution of the economic and social benefits of growth
 - Problems of poverty, discrimination, unemployment, and income distribution were of secondary importance to “getting the growth job done.”

What Do We Mean by Development?

■ New Economic View of Development

- In 1960s, many developing nations did reach their economic growth targets but the levels of living of the masses of people remained for the most part unchanged, signaled that something was wrong.
- During the 1970s, economic development came to be redefined in terms of the reduction or elimination of poverty, inequality, and unemployment within the context of a growing economy.
 - “Redistribution from growth”
- Development must therefore be 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.

What Do We Mean by Development?

■ Amartya Sen's "Capability" Approach

- Income and wealth are not ends in themselves but instruments for other purposes.
- The "capability to function" is what really matters for status as a poor or nonpoor person
- "Economic growth cannot be sensibly treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy."
- Sen calls **functionings**, that is, what a person does (or can do) with the commodities of given characteristics that they come to possess or control. **Freedom of choice**, or control of one's own life, is itself a central aspect of most understandings of well-being.

What Do We Mean by Development?

- Five sources of disparity between (measured) real incomes and actual advantages
 - **Personal heterogeneities:** disability, illness, age, or gender
 - **Environmental diversities:** heating and clothing requirements in the cold, infectious diseases in the tropics, or the impact of pollution
 - **Variations in social climate:** the prevalence of crime and violence, and “social capital”
 - **Distribution within the family:** economic statistics usually measure incomes received in a family because it is the basic unit of shared consumption, but family resources may be distributed unevenly, as when girls get less education than boys do
 - **Differences in relational perspectives:** being relatively poor in a rich community can prevent a person from achieving some elementary functionings

What Do We Mean by Development?

- Real income is essential, but to convert the characteristics of commodities into functionings, in most important cases, surely requires health and education as well as income.
- Role of health and education
 - nutritional advantages
 - greater personal energy: ability to appreciate the richness of human life that comes with a broad and deep education
- People living in poverty are often deprived of capabilities to make substantive choices and to take valuable actions

Three Core Values of Development

Sustenance: The ability to meet basic needs

- The basic goods and services, such as food, clothing, and shelter, that are necessary to sustain an average human being at the bare minimum level of living.

Self-esteem: To be a person

- The feeling of worthiness that a society enjoys when its social, political, and economic systems and institutions promote human values such as respect, dignity, integrity, and self-determination.

Freedom from servitude: To be able to choose

- A situation in which a society has at its disposal a variety of alternatives from which to satisfy its wants and individuals enjoy real choices according to their preferences

“development as freedom”

Three Objectives of Development

- For the society to secure the means for obtaining a better life through some combination of social, economic, and institutional processes, development in all societies must have 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, in addition to higher incomes, including the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to 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 not only in relation to other people and nation-states but also to the forces of ignorance and human misery*

From MDGs to SDGs



THE GLOBAL GOALS
For Sustainable Development

10 important features that developing countries tend to have in common

- Lower levels of living and productivity
- Lower levels of human capital
- Higher levels of inequality and absolute poverty
- Higher population growth rates
- Greater social fractionalization
- Larger rural populations but rapid rural-to-urban migration
- Lower levels of industrialization
- Adverse geography
- Under developed financial and other markets
- Lingering colonial impacts such as poor institutions and often external dependence.

Classic Theories of Economic Development

- (1) The linear-stages-of-growth model
- (2) Theories and patterns of structural change
- (3) The international-dependence revolution
- (4) The neoclassical, free-market counterrevolution.

1. Development as Growth and the Linear-Stages Theories

- **Stages-of-growth model of development:** A theory of economic development, associated with the American economic historian Walt W. Rostow, according to which a country passes through sequential stages in achieving development
 - Five categories: the traditional society, the pre-conditions for take-off into self-sustaining growth, the take-off, the drive to maturity, and the age of high mass consumption
- **Harrod-Domar growth model:** A functional economic relationship in which the growth rate of gross domestic product (g) depends directly on the national net savings rate (s) and inversely on the national capital-output ratio (c).
- The most fundamental strategies of economic growth is simply to increase the proportion of national income saved.

2. Structural Change Models

- **Structural-change theory** focuses on the mechanism by which underdeveloped economies transform their domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a more modern, more urbanized, and more industrially diverse manufacturing and service economy
- **Structural transformation:** The process of transforming an economy in such a way that the contribution to national income by the manufacturing sector eventually surpasses the contribution by the agricultural sector. More generally, a major alteration in the industrial composition of any economy.
- **Lewis two-sector model:** A theory of development in which surplus labor from the traditional agricultural sector is transferred to the modern industrial sector, the growth of which absorbs the surplus labor, promotes industrialization, and stimulates sustained development.

2. Structural Change Models

- In addition to the accumulation of capital, both physical and human, a set of interrelated changes in the economic structure of a country are required for the transition from a traditional economic system to a modern one.
- These structural changes involve virtually all economic functions, including
 - transformation of production
 - changes in the composition of consumer demand, international trade, and resource use
 - changes in socioeconomic factors such as urbanization and the growth and distribution of a country's population
- The correct mix of economic policies will generate beneficial patterns of self-sustaining growth.
- Although there is a decline of the share and the labor force in agriculture over time, we should not neglect agricultural sector which is the source of income for many people.

3. International-dependence revolution

- International-dependence models view developing countries as beset by institutional, political, and economic rigidities, both domestic and international, and caught up in a **dependence** and **dominance** relationship with rich countries.
- **Dependence:** The reliance of developing countries on developed country economic policies to stimulate their own economic growth. Dependence can also mean that the developing countries adopt developed country education systems, technology, economic and political systems, attitudes, consumption patterns, dress, etc.
- **Dominance:** In international affairs, a situation in which the developed countries have much greater power than the less developed countries in decisions affecting important international economic issues, such as the prices of agricultural commodities and raw materials in world markets.

3. International-dependence revolution

- **Neocolonial dependence model:** A model whose main proposition is that **underdevelopment exists** in developing countries because of continuing exploitative economic, political, and cultural policies of former colonial rulers toward less developed countries.
- **Underdevelopment:** An economic situation characterized by persistent low levels of living in conjunction with absolute poverty, low income per capita, low rates of economic growth, low consumption levels, poor health services, high death rates, high birth rates, dependence on foreign economies, and limited freedom to choose among activities that satisfy human wants.
- Certain groups in the developing countries (including landlords, entrepreneurs, military rulers, merchants, salaried public officials, and trade union leaders) who enjoy high incomes, social status, and political power constitute a small elite ruling class whose principal interest, knowingly or not, is in the perpetuation of the international capitalist system of inequality and conformity in which they are rewarded.

3. International-dependence revolution

- **False-paradigm model:** The proposition that developing countries have failed to develop because their development strategies (usually given to them by Western economists) have been based on an incorrect model of development, one that, for example, overstressed capital accumulation or market liberalization without giving due consideration to needed social and institutional change.
- As a result, proponents argue that desirable institutional and structural reforms, such as the highly unequal ownership of land and other property rights and the very unequal access to credit, are neglected or given only cursory attention.
- **Dualism:** The coexistence of two situations or phenomena (one desirable and the other not) that are mutually exclusive to different groups of society—for example, extreme poverty and affluence, modern and traditional economic sectors, growth and stagnation, and higher education among a few amid large-scale illiteracy.

4. Neoclassical, free-market counterrevolution

- Underdevelopment results from poor resource allocation due to incorrect pricing policies and too much state intervention by overly active developing-nation governments.
- By permitting competitive **free markets** to flourish, privatizing state-owned enterprises, promoting free trade and export expansion, welcoming investors from developed countries, and eliminating the plethora of government regulations and price distortions in factor, product, and financial markets, both economic efficiency and economic growth will be stimulated.
- The developing world is underdeveloped not because of the predatory activities of the developed world and the international agencies that it controls but rather because of the heavy hand of the state and the corruption, inefficiency, and lack of economic incentives that permeate the economies of developing nations

4. Neoclassical, free-market counterrevolution

- They point both to the success of economies like South Korea, Taiwan, and Singapore as “free market” examples (although, as we shall see later, these Asian Tigers are far from the laissez-faire neoconservative prototype) and to the failures of the public-interventionist economies of Africa and Latin America
- Three component approaches: the free-market approach, the public-choice (or “new political economy”) approach, and the “market-friendly” approach
- **Free-market:** an unregulated market performs better than one with government regulation
- **Public-choice theory (new political economy approach)**
The theory that self-interest guides all individual behavior and that governments are inefficient and corrupt because people use government to pursue their own agendas.

4. Neoclassical, free-market counterrevolution

- **Market-friendly approach:** The notion historically promulgated by the World Bank that successful development policy requires governments to create an environment in which markets can operate efficiently and to intervene only selectively in the economy in areas where the market is inefficient.
- This market-friendly approach accept the notion that **market failures** are more widespread in developing countries in areas such as investment coordination and environmental outcomes. Missing and incomplete information, externalities in skill creation and learning, and economies of scale in production are also endemic to markets in developing countries.
- The recognition of these market failures gives rise to newer schools of development theory