

Economic Development: Overview

Lecture 1

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What's development?

- Economic development entails far-reaching changes in the structure of economies, technologies, societies, and political systems.
- Development economics is the study of economies that do not fit many of the basic assumptions underpinning economic analysis in high-income countries
 - These basic assumptions are well-functioning markets, perfect information, and low transaction costs.
- *When these assumptions break down, so do the most basic welfare and policy conclusions of economics*
 - *Hence, we need new tools.*

Ref: J. Edward Taylor

Measurement of economic development

How do we evaluate the degree of “development”?

- levels and rates of growth of per capital income?
- distribution of income?
- Non-monetary aspects, i.e. human development?

Country	Per capita income (1993 PPP)	Income share of poorest 40%	Income share of richest 20%
Sri Lanka	2,990	22	39
Guatemala	3,350	8	63

Country	Life expectancy (years)	Infant mortality rate (per 1000)	Access to safe water (% of pop.)	Adult literacy rate (%)
Sri Lanka	72	18	60	89
Guatemala	65	48	62	54

Measurement of economic development

- Per capita gross national product = per-head value of final goods and services produced by the people of a country
- <https://blogs.worldbank.org/opendata/new-country-classifications-income-level-2017-2018>
- Middle-income countries have significantly higher inequality. Using GNP per capita as an overall development indicator might be dangerous.
- Human Development Index (HDI)
 - Long and healthy life: Life expectancy at birth (reflecting infant and child mortality)
 - Knowledge: a weighted average of adult literacy (2/3) and enrollment rates in primary, secondary and tertiary education (1/3)
 - A decent standard of living: Adjusted per capita income (less weight is given to higher incomes after \$5000 PPP)

Is the HDI Enough to Measure a Country's Level of Development?

- According to the UNDP, the answer is:
- “Not at all.”
- “The concept of human development is much broader than what can be captured in the HDI, or any other composite indices...”
- “The HDI and the other composite indices can only offer a broad proxy on some of the key the issues of human development...”
- “A fuller picture of a country's level of human development requires analysis of other human development indicators and information.”

Measurement of economic development

- How much 'explanatory power' per capita income has over development indicators?
 - life expectancy at birth
 - infant mortality rate
 - adult literacy rate
- *Note: correlation between the two variables only says about the direction of relationship not the direction of causation !*
- The relationship between per capita income and the other indicators is strong, but far from perfect as we see no smooth curves b/w variables. Why?
 - the distribution of per capita income
 - social and cultural attitudes, government policy
 - the operation of various markets and institutions

Life expectancy and per capita income

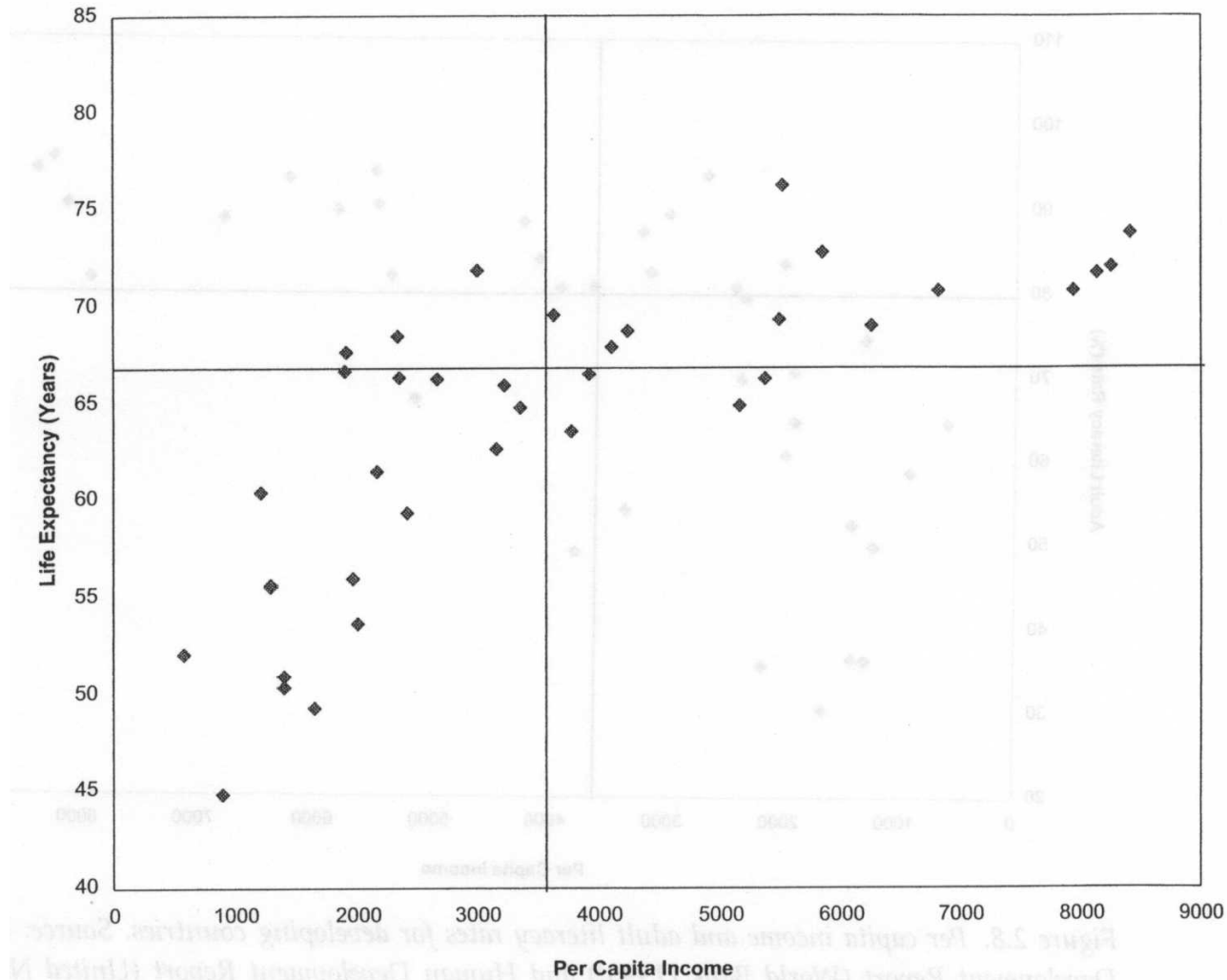


Figure 2.7. Per capita income and life expectancy for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

Adult literacy rates and per capita income

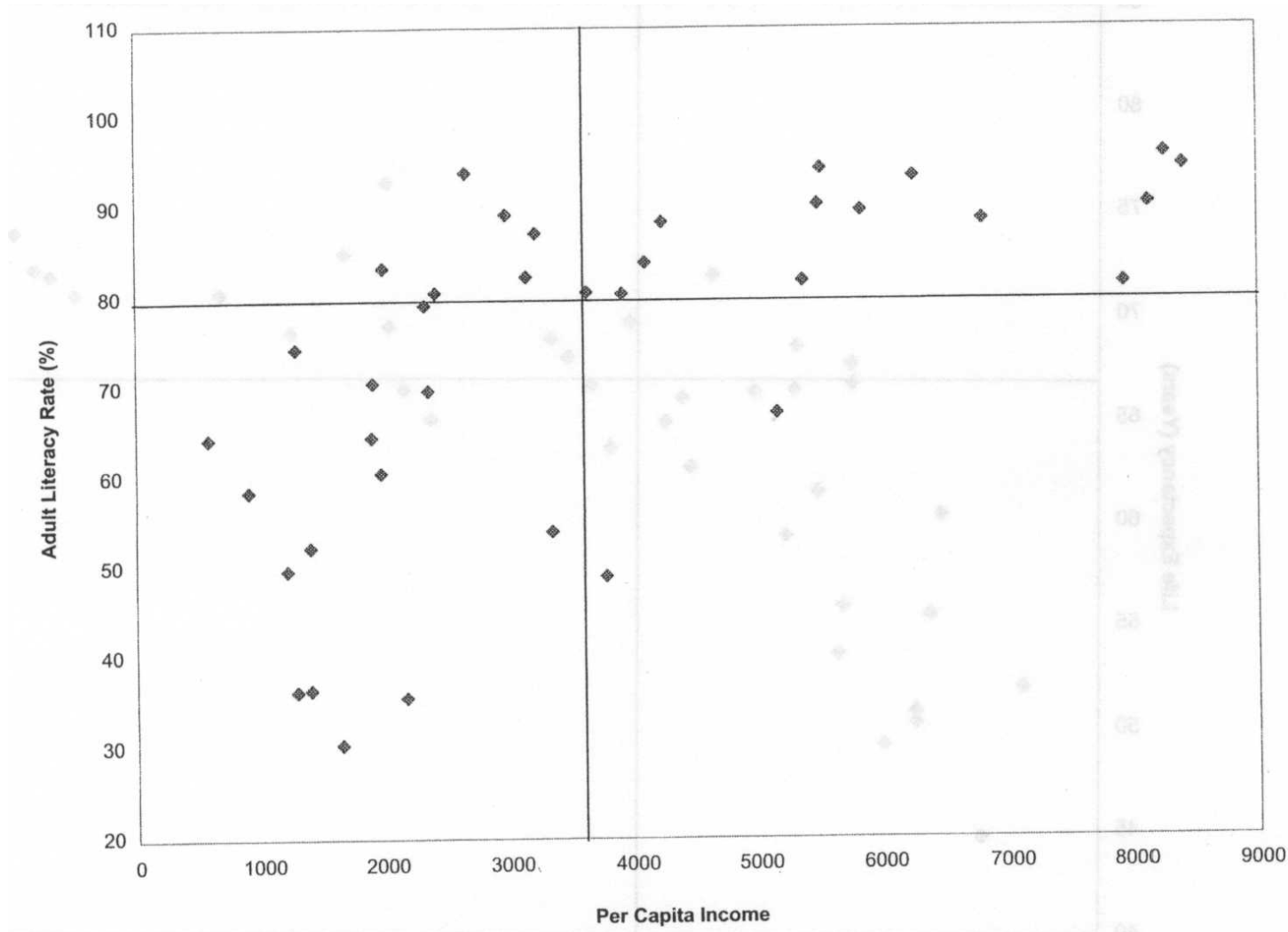


Figure 2.8. Per capita income and adult literacy rates for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

Infant mortality rates and per capita income

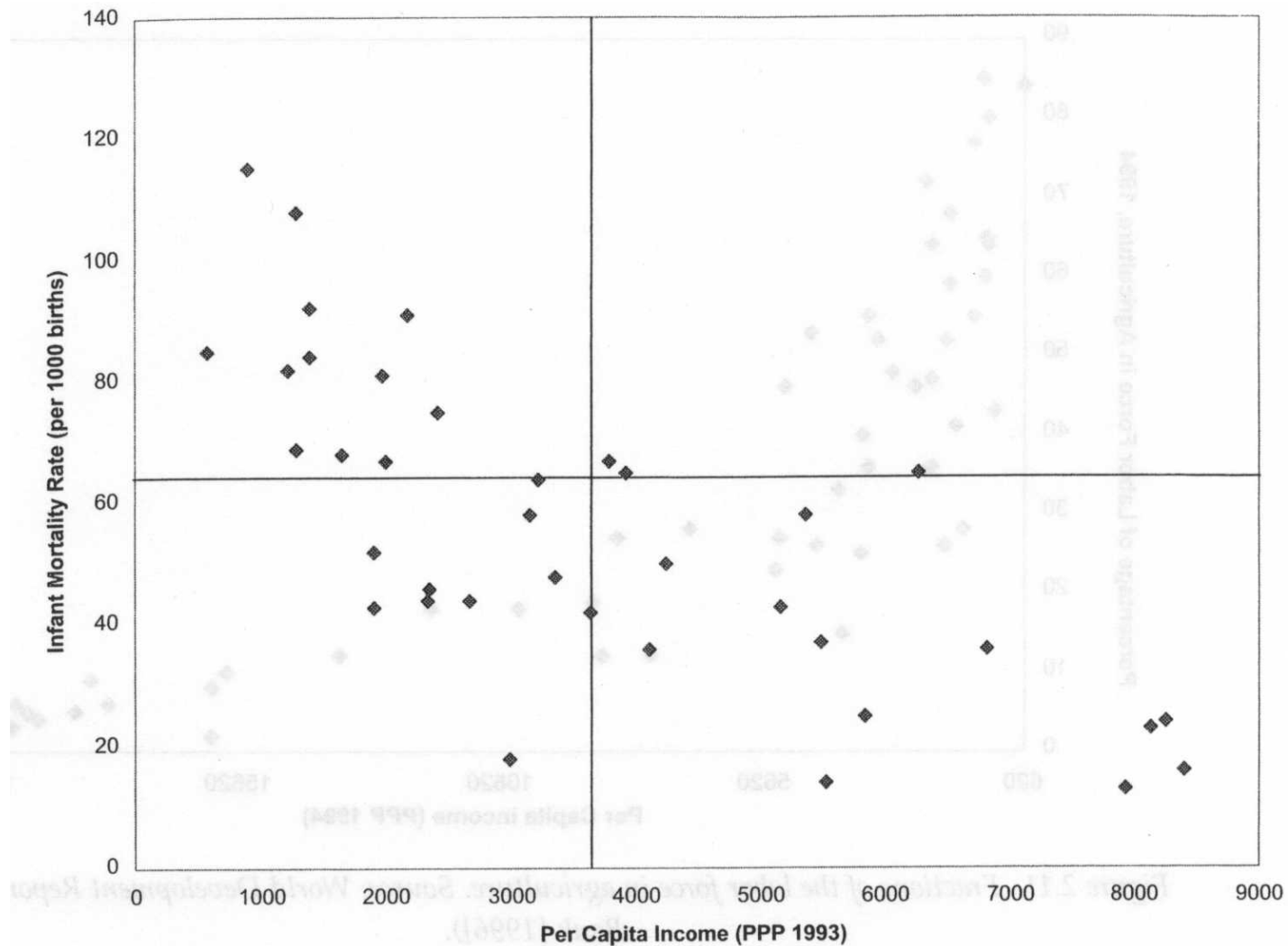


Figure 2.9. Per capita income and infant mortality rates for developing countries. Source: World Development Report (World Bank [1995]) and Human Development Report (United Nations Development Programme [1995]).

Structural characteristics of developing countries

- Demographic characteristics
 - As development proceeds, death rates plummet downward. Birth rates often remain high before go downward. At the beginning of development process, this leads to high population growth
 - Why not good for high population growth (high birth rates)?
 - help income to grow? what if we don't have enough endowment?
 - population is heavily weighted with children >> consequences?
 - Population growth rates tend to decline with increased per capita income

Structural characteristics of developing countries

- Occupational and production structure
 - Agricultural activity is still the main fraction (more people in agricultural sector)
 - Low productivity, low value fraction in GDP
- Rapid rural-urban migration
 - Rates of rural-urban migration are very high
 - ‘Push’ from agriculture vs. ‘pull’ of urban sector
 - Large fraction of nonrural labor force is engaged in a nebulous activity called ‘services’
 - These services activities are informal, waiting positions or fall back options for laborers lacking an industrial job.

Fractions of the labor force in agriculture and per capita income

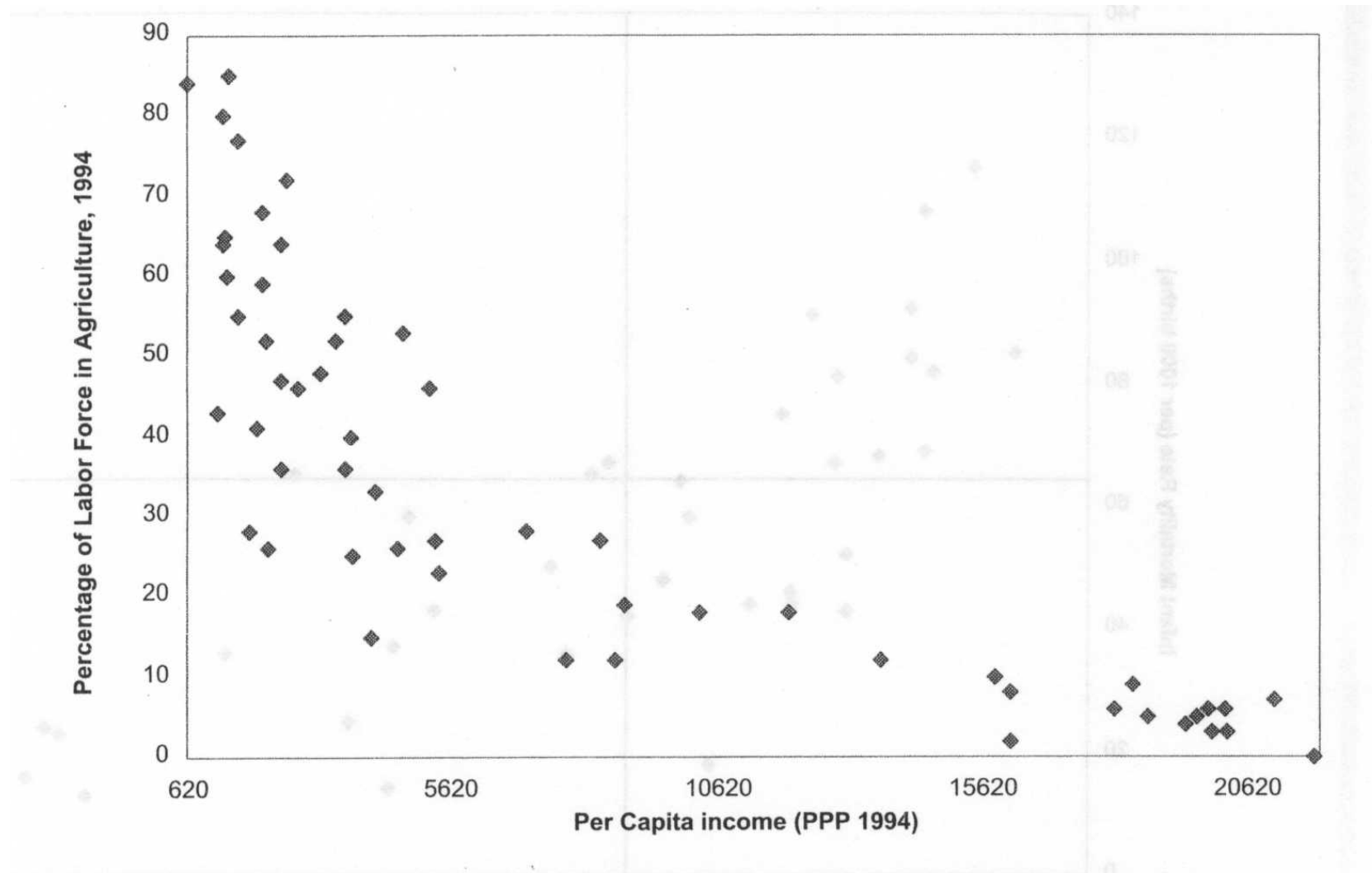


Figure 2.11. Fractions of the labor force in agriculture. Source: World Development Report (World Bank [1996]).

Nonagricultural labor in services and per capita income

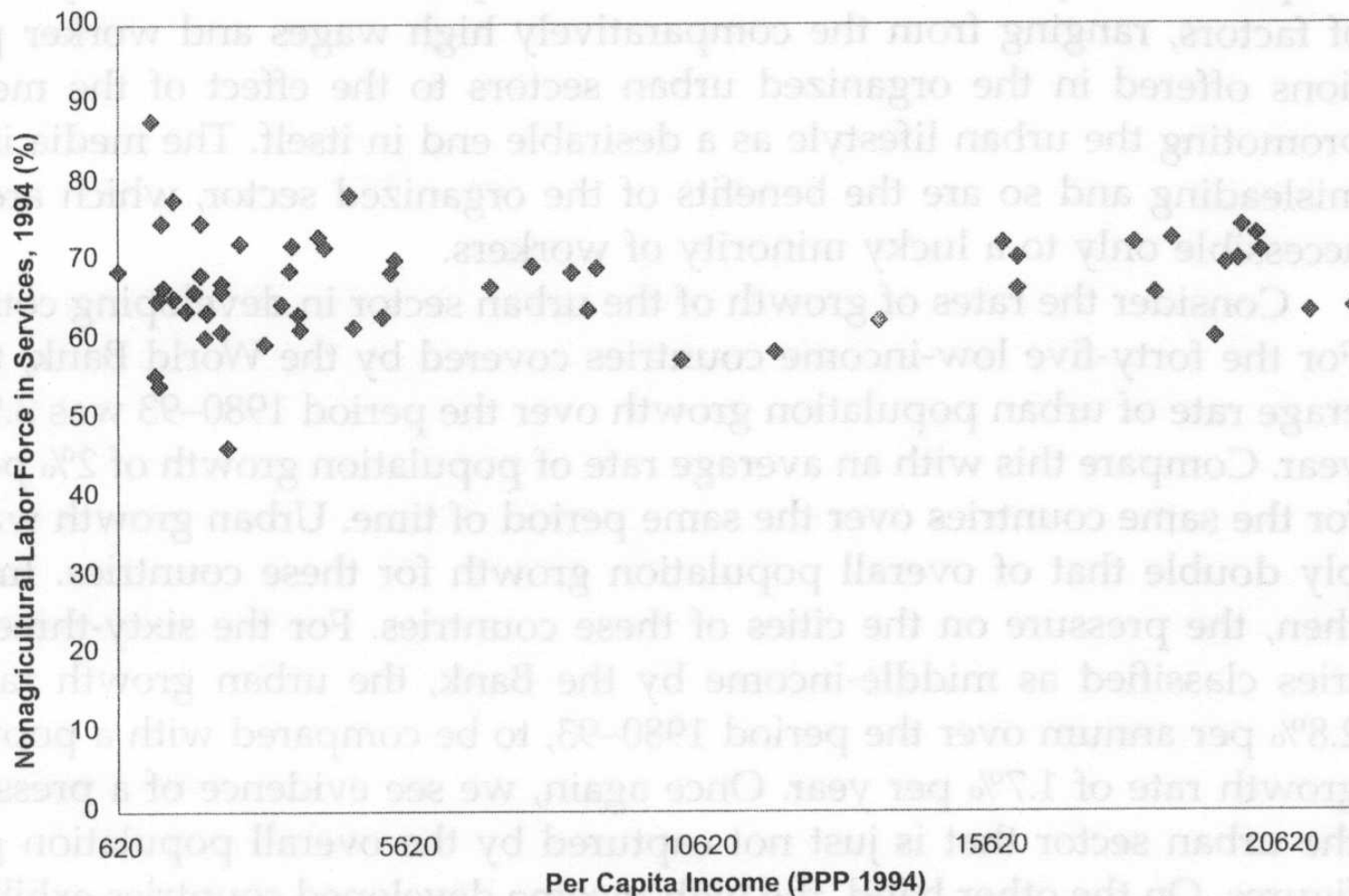


Figure 2.12. Nonagricultural labor in services. Source: World Development Report (World Bank [1996]).

- <http://data.worldbank.org/>
- <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>
- <http://data.uis.unesco.org/Index.aspx>
- <http://datatopics.worldbank.org/gender/home>
- <http://blogs.worldbank.org/opendata/should-we-continue-use-term-developing-world>