

Development Economics

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Development Lectures I

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Presentation of the Course I

This is a six weeks course that will take place in the first module of the second semester.

During the course we will analyse the main theoretical approaches to economic development and present the key empirical features of the development process in space and time. Looking at the historical experiences of both rich and poor countries we will evaluate the relevance of models to detect the root causes of economic (under)development.

General Premise

With 85 percent of the world's population living in developing countries, and half of humanity still in poverty, defeating underdevelopment, which can mean low and uncertain satisfaction of basic needs in material goods as well as health and education, political and economic inequality and inequity, lack of environmental sustainability—is one of today's most important world challenges.

Development economists and practitioners are increasingly aware there are no magic recipes: the world of underdevelopment is simply too vast and heterogeneous for universal formulas.

The “big ideas” about development instruments that prevailed in the 1960s and 70s, using the state to overcome market failures, and in the 1980s and 90s, using the market to avoid state failures, have proven to be too blunt and there is indeed a growing consensus that market, state, and civil society all have roles to play.

Using history, economic theory and statistical analyses of past experiences and current attempts Development economists try to identify effective instruments for development. Options include both bottom-up micro-level initiatives and large-scale national policy initiatives. Development thus requires both thinking small and improve the wellbeing of local communities through initiatives almost in everyone's reach, and thinking big and acting nationally and globally to promote growth potentially reaching out to millions of people. , through major technological and institutional innovations.

Presentation of the Course II

The aim of this course is to enable you to:

- Acquire knowledge and understanding of the characteristics of less-developed countries, and of the diversity amongst them
- Acquire knowledge and understanding of the economic problems facing developing countries
- Apply economic analysis to those problems and
- To formulate and evaluate possible policy responses.

Presentation of the Course III

Contents

We will explore some of the economic reasons that have led to the global inequality we observe today, and some of the steps that might be taken to relieve the situation. A unifying theme of this module is the role of markets and market failures in setting the pattern of past development, and the potential role of policy in the future.

Presentation of the Course III

Assessment methods

See posted file.

Recommended Texts

Michael Todaro and Stephen Smith, Economic Development, Pearson Higher Education 2020

Alain de Janvry and Elisabeth Sadoulet Development economics : theory and practice, Routledge 2015.

Introduction: Why study Development? I

Development can be seen. . . as a process of expanding the real freedoms that people enjoy.

—Amartya Sen, Nobel laureate in economics

Basic Questions:

- Why are some so rich and others so poor?
- Is wellbeing of the rich dependent on suffering of the poor?
- Why Standard of Living improved over time? Has it always been true? Will it remain true in the future?
- Why countries grow at a different rate (China vs many Sub-Saharan countries)?
- Is development consistent with environmental sustainability?
- What role will new technologies play in this process?

Introduction: Why study Development?II

Classical economists e.g. Smith, Malthus, Ricardo, Mill, Marx, were all concerned with the progress of nations. Neoclassical economists (Walras, Marshall) on the other hand show little interest in growth and development theory.

Development Economics started as a separate academic field after World War II and the end of colonial era, with poor countries increasingly aware of own backwardness.

At the same time an humanitarian interest in reducing poverty developed together with a growing recognition of interdependence of world economy.

Introduction: Why study Development?V

Some important concepts and research areas have been pioneered in

Development economics:

Low-level equilibrium trap

'Big push' theory

Dynamic externalities

Dualism

Theory of circular and cumulative causation

Models of population and growth

Models of rural-urban migration

Immiserising growth

Theory of missing markets

Rent-seeking behaviour

Introduction: What is Development Economics I

- It could be argued that since societies that are rich today are those that have grown in the last two hundred years, growth and development are essentially the same thing and should be studied together.
- However standard models of growth tend to emphasize **balanced growth** while institutional and structural features are exogenous. The models study the quantitative expansion of the production possibility frontier.

Introduction: What is Development Economics II

- The transition of whole economies from low-productivity into high-productivity economies encompasses several **qualitative** changes: a move out of agriculture and into manufacturing or services, urbanization, declining fertility rates, integration with global markets.
- In the less developed countries, combined market failures interact to produce poverty traps as stressed by early thinkers such as Hirschman, Nurkse and Rosenstein-Rodan. Development then consists in structural transformations which allow nations to move out of bad equilibria. Only once the structural changes have occurred standard growth models become relevant.

Introduction: What is Development Economics III

In studying the process of development political issues cannot often be taken aside- In fact social priorities may be unifying the nation, resolving ethnic or religious issues or conflicts rather than economic development per se. Very often concepts and notions from **Political Economy**, a discipline which focuses on how the economic and political elites gain and use their power are therefore relevant.

Introduction: What is Development Economics IV

- Today, “development economics” is mostly the kind of research initiated by people like Esther Duflo, Michael Kremer etc. Distinguishing features are: (1) Researchers are out collecting surveys or doing studies “in the field”. (2) the aim is identification of causal effects. Randomized control trials (RCTs) identify the causal effect of some $\{X\}$ (e.g. de-worming treatments) on some $\{Y\}$ (e.g. school attendance). (3) Studies tend to be a-theoretical. The RCTs are showing empirical effects of some kind of treatment on some kind of outcome.
- This research could be more properly defined “**poverty economics**”. Duflo and Banerjee’s 2011 book is actually called Poor Economics. The focus is on alleviating the conditions of extreme poverty in LDC: poor health, poor nutrition, and low education. These researchers have direct knowledge of the constraints facing poor people in developing countries, and are studying ways to alleviate those constraints.

Introduction: What is Development Economics V

- As stated above, economic development is about the transition of whole economies to high-productivity economies and the structural changes, that go with it. The RCTs and their like do not study the transition. “What will make a group of people better off today?” is a different question from “What will make this economy develop?”.
- Running RCTs to establish the best way to distribute a cheap remedy is incredibly valuable research.
- Since much of current development economics doesn't address the broader questions of what drives development in the long-run, the field of growth economics has adopted this set of questions as part of its own research agenda.
- This doesn't make the growth/macro-development approach better or worse than poverty economics. The two fields are just looking at different questions.

Introduction: Moral Values in Development Economics

Ethical values are central features of the economic discipline in general and of development economics in particular. Goals such as political economic and social equality, the elimination of poverty, universal education, rule of law and due process, etc. all derive from subjective value judgments about what is good. Other beliefs are possible e.g. the preservation of ancient costumes and traditions etc. It is important to understand Economics cannot be value-free in the same sense as, say, logic.

Social scientists often make the mistake of confusing their values with universal values.

Introduction: What is the Aim of Development I

Development has traditionally meant sustained rates of growth of income per capita. Development strategies have therefore usually focused on rapid industrialization, often at the expense of agriculture and rural development. The idea was that growth would “trickle down” to everyone. Problems of poverty, discrimination, unemployment, and income distribution were of secondary importance to “getting the growth job done.”

Introduction: What is the Aim of Development II

However in the seventies economic development came to be redefined directly in terms of the reduction or elimination of poverty, inequality, and unemployment.

In fact many developing countries experienced relatively high rates of growth of per capita income during the 1960s and 1970s (and in the following decades) but little or no improvement or even an actual decline in employment, equality, and median real incomes. By the way, inequality is today a huge problem in developed countries as well. In the US per capita income has increased 70% since the seventies, but the median wage only 1/10 of that (e.g Piketty 2014: Capital in the 21st century).

Introduction: What is the Aim of Development III

The American development theorist Denis Goulet distinguished three core components of development: life sustenance, self-esteem and freedom.

Life sustenance is provision of basic needs: housing; food; clothing; education; health

Self esteem is feeling of self respect and independence

Freedom means freedom to choose, so people can determine own destiny.

Development expands range of human choices open to individuals and society

Introduction: What is the Aim of Development IV

In the same vein, Amartya Sen argues in **Development as Freedom**:
"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"

The idea is not to maximize the availability of commodities, as in most economic models, but to increase **functionings**: "functionings may vary from elementary ones, such as being adequately nourished and being free from avoidable disease, to very complex activities or personal states, such as being able to take part in the life of the community and having self-respect."

Introduction: What is the Aim of Development V

In his 2009 book **The Idea of Justice** Sen suggests that subjective well-being is a kind of functioning—that could be pursued alongside other functionings such as health and dignity.

Sen then defines **capabilities** as “the freedom that a person has in terms of the choice of functionings, given his personal features (conversion of characteristics into functionings) and his command over commodities.”

Sen’s perspective helps explain why development economists place so much emphasis on health and education and more recently on social inclusion and empowerment.

Countries with high levels of income but poor health and education standards experience “growth without development.”

Introduction: Happiness and Development

- As Sen argued, “Utility in the sense of happiness may well be included in the list of some important functionings relevant to a person’s well-being.”
- In recent years, economists have explored the empirical relationship across countries and over time between subjectively reported satisfaction and happiness and income (and many other drivers from being married and cohabiting with children to age, gender etc.).
- One of the findings is that SWB increases with a country’s average income but only up to a certain average income ie the level at which most citizens have usually escaped extreme poverty and a majority are usually relatively well nourished, healthy, and educated. The richer inside each country are happier though: this is known as the Easterlin paradox. This implies that above a certain SL relative income not absolute income counts and calls into question the centrality of economic growth as an objective for high-income countries.
- However for the DC happiness data strongly reaffirm the importance

Introduction: Millennium Development Goals I

In September 2000, the United Nations adopted eight Millennium Development Goals (MDGs), to be achieved by 2015. The MDGs are the strongest statement yet of the international commitment to ending global poverty. They acknowledge the multidimensional nature of development and poverty alleviation.

The eight goals were ambitious and were assigned specific targets deemed achievable by 2015.

Introduction: Millennium Development Goals II

- Goal 1: Eradicate extreme poverty and hunger
- Goal 2: Achieve universal primary education
- Goal 3: Promote gender equality and empower women
- Goal 4: Reduce child mortality rates
- Goal 5: Improve maternal health
- Goal 6: Combat HIV/AIDS, malaria, and other diseases
- Goal 7: Ensure environmental sustainability
- Goal 8: Develop a global partnership for development

Introduction: Millennium Development Goals III

Criticisms:

Many! These include:

- 1) a certain arbitrariness for the goals and targets.
- 2) a lack of specific objectives and indicators for within-country equality.
- 3) a lack of legitimacy through failure to include the voices of the recipient countries.
- 4) huge measurement Issues (eg in health or education)

IV

Progress towards reaching the goals has been uneven across countries. Brazil achieved many of the goals, while others, such as Benin, are not on track to realize any. The major successful countries include China and India.

Introduction: Sustainable Development Goals I

The MDG have been succeeded by 17 Sustainable Development Goals (SDGs) with 169 targets to be reached by 2030.

Ban Ki-moon, the United Nations Secretary-General from 2007 to 2016, has stated that: "We don't have plan B because there is no planet B."

This thought has guided the development of the new Goals.

- The new Goals are universal and apply to all countries, whereas the MDGs were intended for developing countries only.

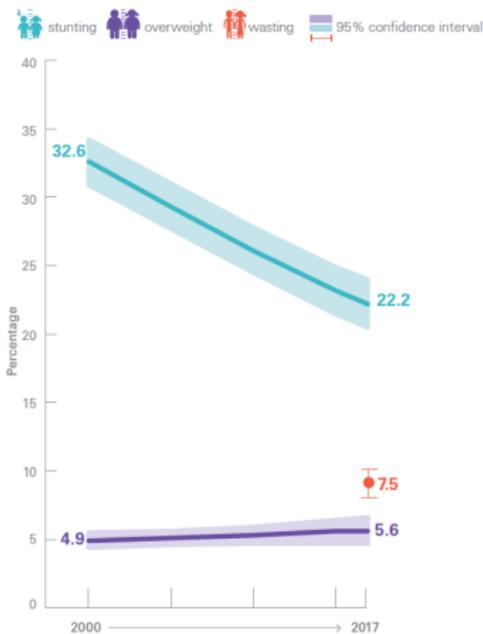
- The new Goals give climate change center stage

The 17 goals follow:

Introduction: Sustainable Development Goals II

- 1) No Poverty: More than 1 in 5 people live on less than the target figure of US\$1.25 per day.
- 2) Zero Hunger: End hunger, achieve food security and improved nutrition and promote sustainable agriculture. Agriculture is the single largest employer in the world, 40% of the global population.
- 3) Good Health and Well-Being The number of children dying under age 5 is extremely high: 5.3 million children under age five died in 2018. 56% deaths in the WHO African Region in 2015 were due to communicable, maternal, perinatal or nutritional conditions.

Some Facts I



Percentage of stunted, overweight and wasted children under 5, global, 2000–2017

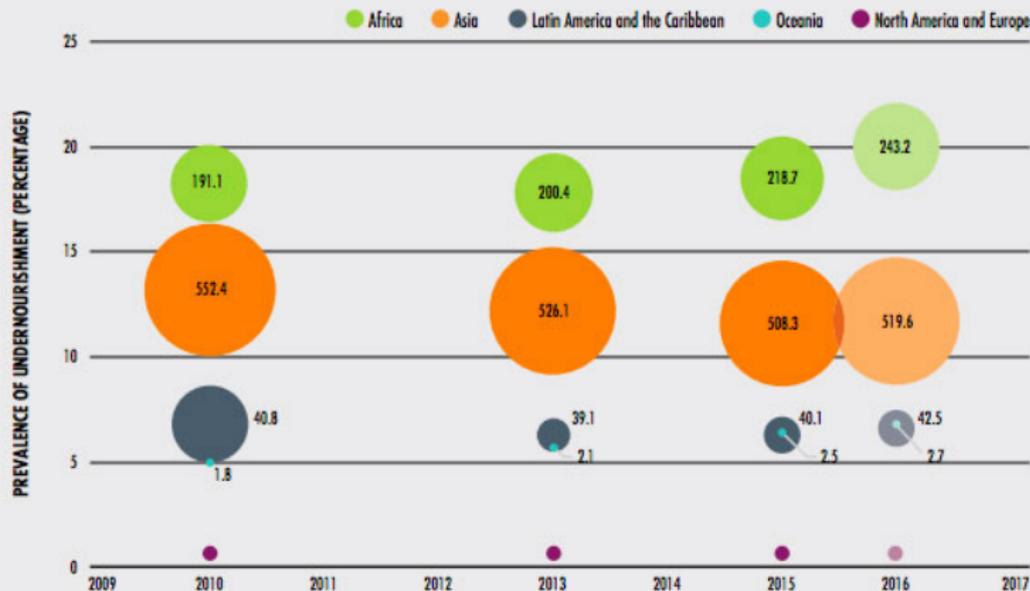


Number (millions) of stunted, overweight and wasted children under 5, global, 2000–2017

Figure: UNICEF/WHO/ WB, Levels and Trends in Child Malnutrition, 2018.

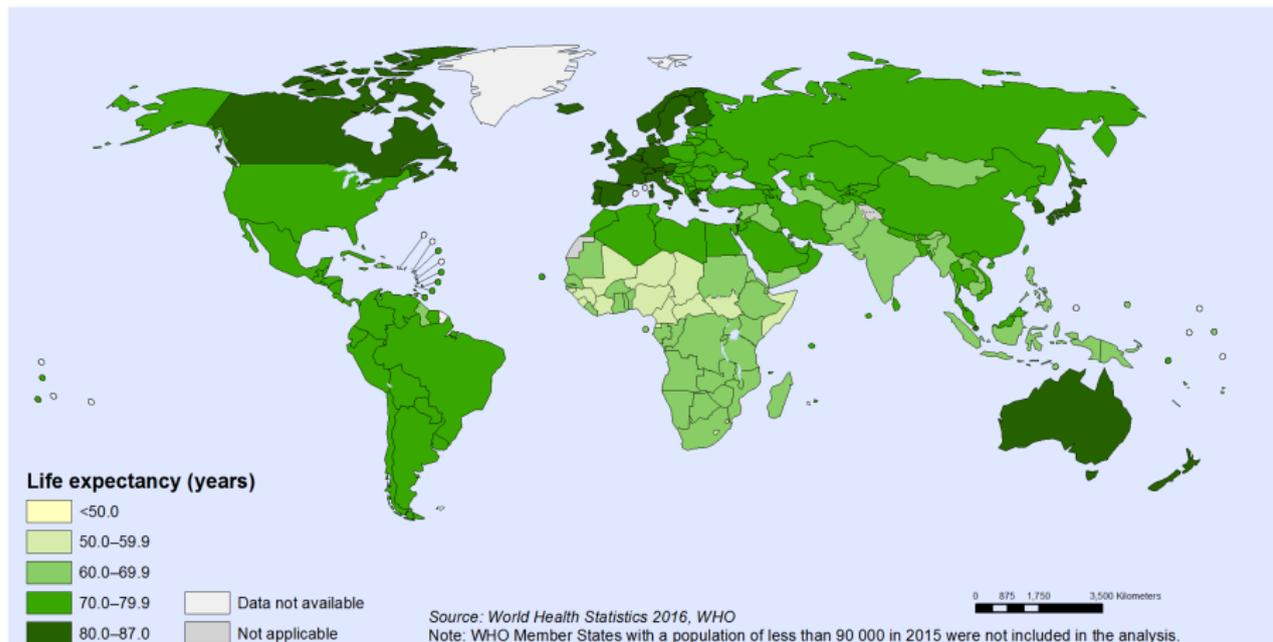
Some Facts II

FIGURE 2
THE PREVALENCE OF UNDERNOURISHMENT IS HIGHEST IN AFRICA;
THE ABSOLUTE NUMBER OF UNDERNOURISHED PEOPLE IS LARGEST IN ASIA



Some Facts III

Life expectancy at birth Both sexes, 2016



Introduction: Sustainable Development Goals III

4) Quality education Major progress has been made in access to education at the primary school level. Target 1 of Goal 4 is to ensure that, by 2030, all girls and boys complete primary and secondary education.

5) Gender Equality. 143 countries guaranteed gender equality in their Constitutions as of 2014, but 52 did not.

<https://databank.worldbank.org/reports.aspx?source=2&Topic=4#>

Introduction: Sustainable Development Goals IV

6) Clean water and sanitation. Worldwide, 6 out of 10 people lack safely managed sanitation services and 3 out of 10 lack safely managed water services.

7) Affordable and clean energy.

8) Decent work and economic growth. Attaining at least 7% gross domestic product (GDP) growth annually in the least developed countries.

Introduction: Sustainable Development Goals V

9) Industry, innovation and infrastructure

Manufacturing is a major source of employment. In 2016, the least developed countries had less "manufacturing value added per capita". The figure for Europe and North America amounted to US\$4,621, compared to about \$100 in the least developed countries. The manufacturing of high tech products contributes 80% to total manufacturing output in industrialized economies and barely 10% in the least developed countries.

Reduce the cost of exporting goods from least developed countries.

"Duty-free treatment" has expanded. As of 2015, 65% of products coming from the least developed countries were duty-free, as compared to 41% in 2005.

The target of 3% was established as the cost international migrant workers would pay to send money home (known as remittances). Post offices and money transfer companies charge 6% of the amount remitted, commercial banks charge 11%. Prepaid cards and mobile money companies charge 2-4% but those services were not widely available as of 2017 in typical

Introduction: Sustainable Development Goals VI

10) Reduce income inequality within and among countries.

11) Sustainable cities and communities: the target for 2030 is to ensure access to safe and affordable housing. The indicator for this target is the proportion of urban population living in slums. Between 2000 and 2014, the proportion fell from 39% to 30%. However, the absolute number of people living in slums increased.

Introduction: Sustainable Development Goals XII

12) Responsible consumption and production: Using eco-friendly production methods, reducing the amount of waste and increase national recycling rates. Companies should adopt sustainable practices and publish sustainability reports.

13) Climate Action "Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy".

14) Life below water "Conserve and sustainably use the oceans, seas and marine resources for sustainable development."

15) Life on land "Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss"

Introduction: Sustainable Development Goals XIII

16) Peace, justice and strong institutions

Reducing violent crime, sex trafficking, forced labor and child abuse are clear global goals. By 2017, the UN could report progress on detecting victims of trafficking. In 2004, 84% of victims were females and by 2014 71%. Sexual exploitation numbers have declined but forced labor has increased.

One target is the end to sex trafficking, forced labor and all forms of violence against children. However, monitoring is difficult. For instance, 84% of countries have no or insufficient data on violent punishment of children: nearly 8 in 10 children aged 1-14 are subjected to regular violent discipline (regardless of income). More than a quarter of children under 5 were unregistered worldwide as of 2015.

Introduction: Sustainable Development Goals XIV

17) Partnerships for the goals

"Strengthen the means of implementation and revitalize the global partnership for sustainable development".

Increasing international cooperation is seen as vital to achieving each of the 16 previous goals. Goal 17 is included to assure that countries and organizations cooperate instead of compete. Developing multi-stakeholder partnerships to share knowledge, expertise, technology and financial support is seen as critical to overall success of the SDGs. Public-private partnerships that involve civil societies are specifically mentioned.

Nice words but the pandemic has shown the limits of any international action to solve problems:

The World Health Organization has repeatedly condemned rich countries for buying up the global supply of COVID-19 vaccines and only leaving doses that are set to expire for poorer countries.

Two important books you may choose to focus your presentation on:

Amartya Sen: *The Idea of Justice* (2009)

Daron Acemoglu, James Robinson *The Narrow Corridor* (2019).

Some Important International Organizations

Food and Agriculture Organization of the United Nations (FAO)
International Labour Organization (ILO)
International Monetary Fund (IMF)
Organization for Economic Cooperation and Development (OECD)
United Nations Conference on Trade and Development (UNCTAD)
United Nations Industrial Development Organization (UNIDO)
United Nations Statistics Division (UNSD)
World Bank (WB)
World Health Organization (WHO)
World Trade Organization (WTO)

Data Bases:

A useful site is:

https://www.economicsnetwork.ac.uk/data_sets#B._International_sites_for

It contains a list of websites for data bases as well as descriptions of each.