

LECTURE 1

INTRODUCTION TO DEVELOPMENT ECONOMICS: MAIN ISSUES, STYLIZED FACTS AND CONTROVERSIES

- A. Development Economics: Normative vs Positive Issues
- B. Growth vs Equity
- C. Growth as an Objective or Instrument?
- D. Per Capita Income Growth as Objective
- E. Income (re)Distribution as Objective
- F. Global Income Convergence as Objective
- G. Economic Poverty Alleviation as Objective
- H. Social Development as Objective
- I. Economic Growth as an Instrument and Changing
Normative Paradigms over Time

Suggested readings: see last slide

[1.1] Scope and objectives with lecture 1

In this introductory class we will discuss how one can conceive of development (**normative**) and how to accomplish it (**positive**)

* We will set the stage for further lectures by:

- Introduce various **measurements** of income distribution and poverty and other variables
- Confront a lot of **statistical data** and stylised facts about the state of the world and how it has evolved over time

* All the data to be presented may be a bit too much and even boring to some. My experience is, however, that many students have rather shallow knowledge of the state of the world.

* There is, of course, no requirement that you should memorise detailed numbers presented here, but the main magnitudes and trends should be a help for understanding the subsequent more analytical lectures.

* If our business is to change the world for the better, we have to know what we start from and how to characterise and measure the state of it.

* At the end of the lecture, I will summarise what I consider to be the main lessons to recall

[1.2.A] Distinction between Normative and Positive Objectives

The basic *positive* questions that development economics aim at answering:

- 1) *What explains the very low standard of living of most people in the world?—however measured* (see [1.3])
- 2) *What can be done to raise the standard of living of the poorest in the world?*

The *normative* objectives for development can be different:

- 1) **Growth of aggregate material consumption as measured by GDP per capita**
- 2) **Reduction of income inequality *within* countries**
- 3) **Reduction of *world* income disparities**
- 4) **Reduction of *absolute* economic poverty in countries**
- 5) **Improvements in *social and health* welfare conditions**
- 6) **Strengthen *democracy* and *human rights***

[1.2.B] THE MILLENNIUM GOALS (MDG)

In 2000, the UN Millennium Declaration was adopted by all International organisations and by most governments in rich as well as poor countries. The following normative objectives for development over the 1990 (benchmark year) to 2015 period were agreed upon:

- 1/ Halve the proportion of people living in poverty (income less than \$1 per day) and who suffer from hunger;**
- 2/ Achieve universal primary education;**
- 3/ Promote gender equality and women empowerment;**
- 4/ Reduce by 2/3 the under-five mortality rate (U5MR);**
- 5/ Reduce by 3/4 the maternal mortality ratio;**
- 6/ Reverse the incidence of HIV/Aids, malaria and other diseases;**
- 7/ Ensure environment sustainability;**
- 8/ Develop a global partnership for development.**

..

Plus some 150 detailed “targets!

It is notable that no goal for economic growth and increased per capita income in poor countries was listed.

It is also notable that these normative goals were not matched by any positive analysis on how these objectives should be reached. Can all these goals and targets be realised without substantial economic growth?

[1.3] Table 1.1. Selected Indicators of Quality of Life, , by Income Groups and Major Geographical Region, 2003

Message: Economic and Other Misery go hand in hand!

Groups of Countries	Indicators					
	GDP/c (US\$ PPP)	Child under-nutrit. (%)	U5MR (%o)	LEB (year)	Fem. literacy (%)	Health expenditure/capita (\$)

By income						
Low	2,200	(40)	124	58	50	21
Middle	6,100	(15)	36	70	86	116
High	30,000	..	6	79	100	2,736
Regional						
East Asia	5,100	14	39	71	86	44
E.Europe & C.As	7,900	(8)	24	70	99	108
Latin America	7,400	16	32	72	89	262
M.East & N.Af	5,700	20	61	67	53	171
South Asia	2,900	44	91	63	47	21
S-S Africa	1,900	39	179	46	53	29
World	8,200	29	80	67	..	482

Sources: *Human Development Report 2005*, Tables 1, 10 and 27; *World Development Indicators 2003*, tab 2.14; Svedberg 2006, tab 1.

[1.4] GROWTH VS. EQUITY—A NORMATIVE Q

Historically, the main controversy has been between those who see **growth** as the main objective for development and those who emphasise **equality**

Main arguments for emphasising growth:

- 1) **Actual distribution is “fair”**
 - 2) **Distribution is a normative, non-scientific problem**
 - 3) **Negative trade-off between high growth and even income distribution**
 - 4) **Redistribution of incomes and/or assets non-feasible**
 - 5) **Economic growth is the main *instrument* for poverty reduction and social welfare improvements**
-

Main arguments for emphasising distribution and poverty alleviation

- 1) **Preferences for the now living generation**
- 2) **Redistribution and/or absolute poverty reduction enhance growth**
- 3) **Reduction of global and intra-country inequality necessary for stifling conflicts and illegal migration, etc.**

[1.5] Growth: a necessary instrument for other objectives? Many findings, as we will see later, suggest that this is the case

- * Normally, economic growth does not lead to a more *uneven* distribution of incomes within countries. Growth is hence beneficial also for the poorest population groups. India and China exceptions!
- * Growth is necessary for *absolute poverty alleviation* since present per-capita real incomes in the poorest countries (about 600-1,000 \$US) are too low to reduce poverty irrespective of how these incomes are distributed.
- * Growth is also necessary for improving standards in the education, health and nutrition sectors—both as a means to *supply* these services and for providing the incomes needed for people to *demand* them.

- * Some further argue that economic growth is sufficient for poverty alleviation and social welfare improvements.

All these propositions are testable, which we will return to in a later lecture (8).

Enormous inter-country variation in income levels and in growth rates.

This is what we have to explain, irrespective of whether growth should be considered (i) the objective or (ii) as an instrument for other objectives!

[1.6] Economic growth is a relatively recent phenomenon.

According to Maddison (2001, 2003) and several others who have tried to gauge long-term trends in economic growth and population growth, there was practically no growth in per capita income in the world before 1820 (about 0.04% per year 1500-1820). And the meagre growth took place exclusively in Western Europe and in the USA. Also population growth was low (some 0.3% per annum) due to both high death and birth rates (lecture 5).

For most countries in the world, notable increases in per-capita income is a rather recent phenomena, i.e. since the 1950s

[Figure 1.1]

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Comments to Figure 1.1.

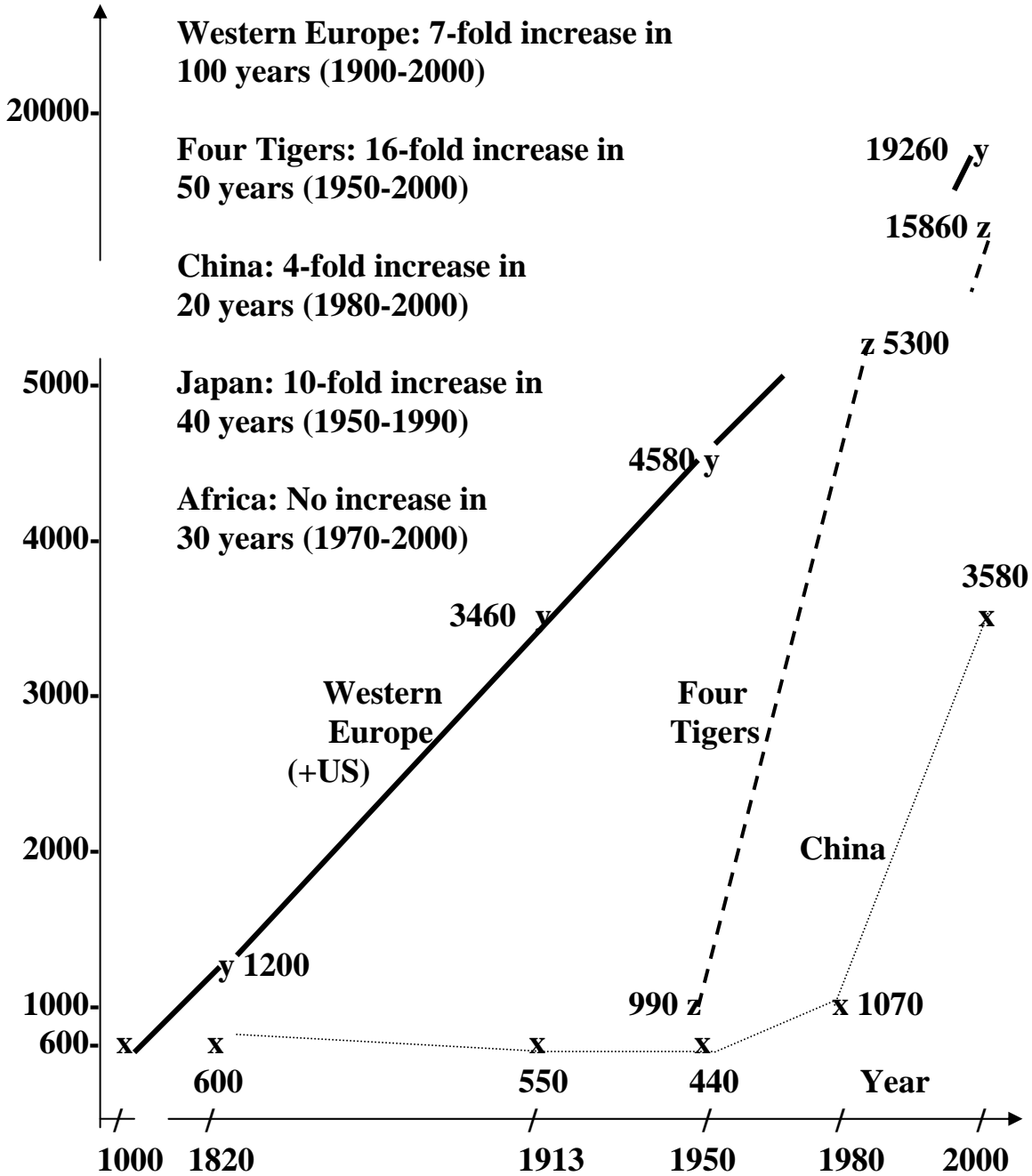
- * The experiences of the four “tiger economies” in South-east Asia and more recently China, prove that it is feasible for initially poor countries to grow exceptionally!**
- * Note that in 1820, when growth started to pick up in Europe and its “Offshoots” in America and in the Pacific (Australia and N.Z.), per-capita income in these countries were only 3 times higher than in the poorest countries. Eight centuries to double income in now rich world**
- * Today, the ratios are much higher (19) and increasing (to be qualified in lecture 6)**

[Figure 1.2]

[1.7] GROWTH AS OBJECTIVE- STYLISTED FACTS 1

Figure 1.1: Increase in Per-capita GDP in Western Europe, The 4 Tiger Economies and China over the long term (1000-2000)

**Per-capita GDP
(1990 int. \$)**

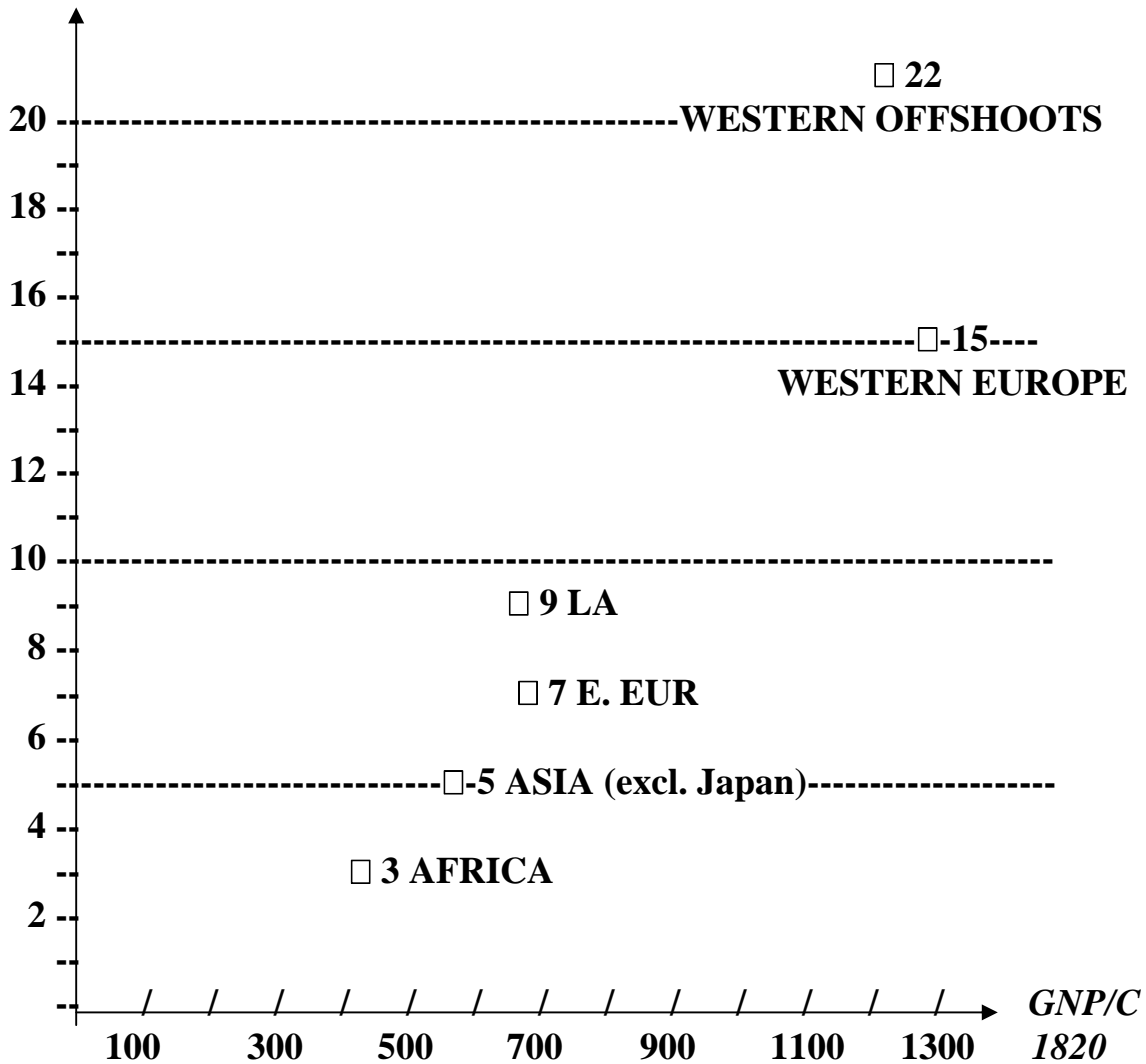


Source: Maddison 2001, tables 5.c (p184), 8-3 (p249), A4-c (p224)

[1.8] GROWTH AS OBJECTIVE- STYLISTED FACTS 2

Figure 1.2. Ratio of GNP per capita 1998/1820 and initial income level, by major geographical regions (international dollars in 1990 prices)

*Cumulative increase in GNI/C
(Ratio of GNI/C 1998 over 1820)*



Source: Data from Maddison 2001, Table 3-1B (p 126)

To note: In 1820, the ratio of GNP/C between the richest and the poorest regions was about 3. In 1998 this ratio had grown to 19 according to Maddison's estimates

[1.9] GROWTH AS THE OBJECTIVE: STYLISTED FACTS 3

—GROWTH REVERSALS

Growth is not an irreversible process. History is full of examples when economic growth has been followed by economic decline for long periods

1) Roman Empire (500 BC-600 AC)

2) China (1400-1980)

3) Africa (1970-2000)

4) Oil-producing countries (1980-2001) [1.10 below]

5) Argentina, Uruguay and a few other South American countries (1913-1960) [1.12 below]

6) Ex-soviet republics in Central Asia (1990-2000) [1.13 below]

7) Japan (1990-2004)

[1.10] GROWTH AS THE OBJECTIVE: STYLISTED FACTS 4

The economic rise and fall of the oil-producing countries, especially Saudi Arabia, the world's largest oil exporter with some one-third of all proven oil reserves

Ranking of top 10 income countries 1982	GNP/C FX dollars 1982	Annual growth of GDP/C 1960-1982	Annual growth of GDP/C 1980-2001	GNI/C FX dollars 2001
United Arab Emir.	23 770	-0.7	-4.6	10 300
Kuwait	19 870	-0.1	0.4	18 270
Switzerland	17 010	1.9	0.9	38 330
SAUDI ARABIA	16 000	7.5	-3.2	8 460
Norway	14 280	3.4	2.7	35 630
Sweden	14 040	2.4	2.0	25 400
USA	13 160	2.2	2.4	34 280
Denmark	12 470	2.5	1.9	30 600
Germany	12 460	3.1	1.7	23 560
France	11 680	3.7	1.3	22 730

Sources: World Development Report 1984, Table 1 and WDI 2003, tables 2.1 and 4.1.

Notes: a) The income data reported are in US dollars, converted at the exchange rate since no PPP adjusted income data for 1982 are available. b) The World bank data in the above table are inconsistent in the sense that multiplying the GDP/C numbers for 1982 with the cumulative per capita growth 1982-2001 yields numbers for GNI/C in 2001 that deviates significantly from the figures reported in last column . We will return to data problems in lecture 4.

[1.11] GROWTH AS THE OBJECTIVE: STYLISTED FACTS 5

Reasons for the negative growth in Saudi Arabia and many other countries with abundant exports of valuable minerals?

(Also see Yousef 2004 and Kuran 2004; Economist, Jan 7, 2006)

A recent non-technical attempt to explain why growth has been negative or minuscule in many of the oil-exporting Arab countries in the 1980-2000 period, was made in the Arab Human Development Report 2002 (by a team of Arab economists) sponsored by the UNDP.

Main conclusions:

- 1) Remain “rentier” economies without growth in the non-oil sectors**
- 2) Authoritarian rules without private property rights**
- 3) Investment in mainly infrastructure and public consumption with very low returns**
- 4) Education standards very low and labour productivity as well, and also declining over time**
- 5) Discrimination of women (half the potential work force)**
- 6) No incentives for R&D and scientific and technical research (practically no publications in international scientific journals)**
- 7) As a consequence, only very small and stagnant enterprises; No big private investments outside the oil sector**
- 8) Economic and political freedoms (index) is lower than in any other regions in the world**

Reason *not* mentioned: The Dutch disease—the overvaluation of the exchange rate caused by huge oil exports—that stifle exports of other products (come back to in lecture 7xx)

[1.12] GROWTH AS THE OBJECTIVE: STYLISTED FACTS 6

Table 1.x: Relative decline in per-capita GDP in South American countries – Stylised Facts

Country/ region	Gross Domestic Product per capita (1990 international \$)^{c)}				
	1870	1913	1930	1950	2001
Argentina	1,310	3,800	4,080	4,990	8,140
Chile	-	2,650	3,140	3,820	10,000
Uruguay	2,180	3,310	4,300	4,660	8,510
Latin America^{b)}	-	1,600	1,910	2,700	6,390
Western Europe^{a)}	2,120	3,690	4,290	5,020	20,020
USA	2,450	5,200	6,210	9,560	27,950

a) Average of 12 largest countries; b) Average of 8 largest countries; c) Rounded numbers

Source: Maddison 2003, tables 1c, 2c and 4c. Also see Rodrik and Wacziarg (200%).

[1.13] Growth as the development objective—Stylised Facts 7

Table 1.4. Growth Disasters 1990-2000: former Soviet Union Republics in Central Asia—”Transition Economies”, transition from poor to ultra-poor?

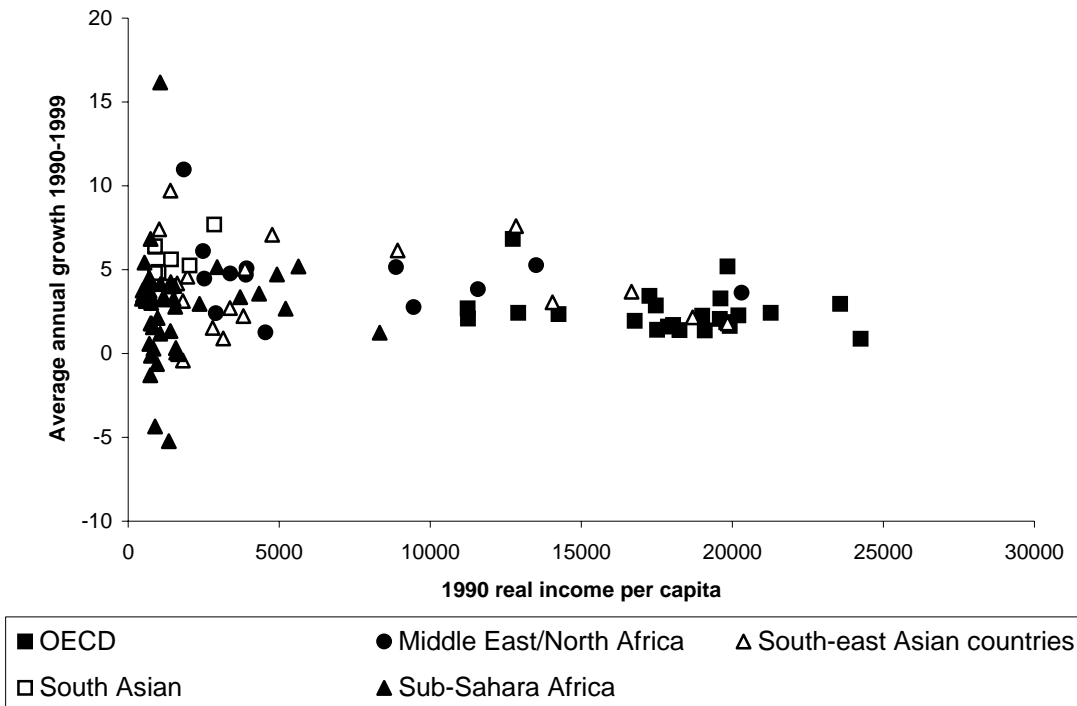
Country	Annual per-capita GDP growth rate 1990-2000	Accumulated fall in GDP per capita 1990-2000	GDP per capita year 2000 (US\$)
Moldavia	-11.3	≈ 2/3	2,360
Ukraine	-10.4	≈ 2/3	3,140
Georgia	-10.3	≈ 2/3	3,600
Tajikistan	-11.6	≈ 2/3	980
Azerbaijan	-10.2	≈ 2/3	2,320
Kyrgyz Rep.	-8.2	≈ 1/2	2,220
Russia	-6.0	≈ 1/2	6,340
Kazakstan	-6.5	≈ 1/2	4,400
Belarus	-4.4	≈ 1/3	6,520
Turkmenistan	-6.4	≈ 1/2	3,100
Armenia	-3.9	≈ 1/3	2,210
Sub-S. Africa	-0.2	≈ 1/1	1,790
India	4.3	+ 1/2	2,150

Source: World Development Report 2000/01, Tables 1,3 and 11.

N.B. Big bang transitions from planned to market economy without proper institutions and laws! Many of these countries have had positive growth per capita in the 2000-2004 period.

[1.14] Growth as the development objective—Stylised Facts 8

Figure 1.1. Association between annual per-capita income growth and income level in the 1990s



Source: World Development Indicators 2001, World Bank

[1.15] Income (re)distribution within countries as the second development objective—Stylized Facts 1

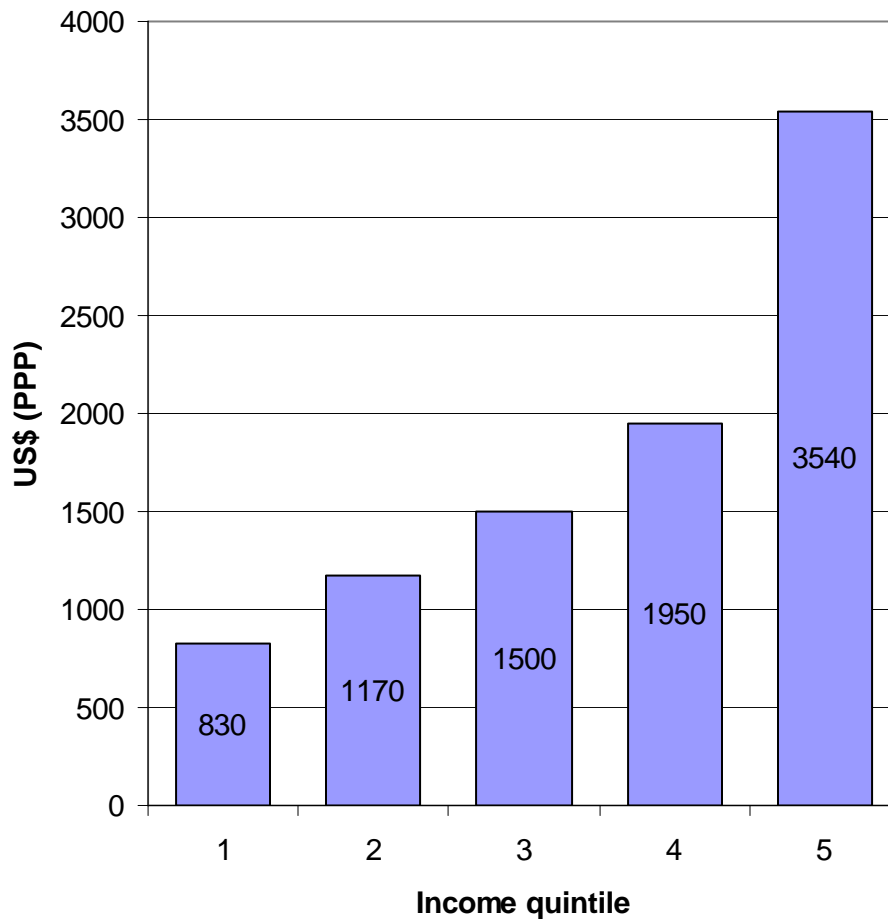
Table 1.5. Income distribution within selected countries

Country	GNP per capita (ppp)	Share total income of rich and poor 10 per cent of population		Ratio rich/poor	
		Rich 10%	Poor 10%		
	1999	(1)	(2)	(3)	(2)/(3)
Most uneven					
Cent African Rep	1,130	47.7	0.7	68	
Brazil	6,320	47.6	0.9	53	
Colombia	5,710	46.1	1.1	42	
South Africa	8,320	45.9	1.1	42	
Relatively even					
China	3,290	30.4	2.4	13	
India	2,150	33.5	3.5	19	
Bangladesh	1,480	28.6	3.9	7	
Tanzania	480	30.1	2.8	11	
Developed countries					
USA	30,600	30.5	1.8	17	
UK	20,880	27.3	2.6	11	
Japan	24,040	21.7	4.8	5	
Sweden	20,820	20.1	3.7	5	

Source: *World Development Report 2000/01*, Tables 1 and 5.

[1.16] Income (re)distribution as the second development objective—Stylized Facts 2

Figure 1.2. Income per capita in India by Income Quintile, 2000 (US\$ PPP)



N.B. Each income quintile is made up by about 200 million people.

[1.17] Development objective 3: Reducing Global income disparities. What does it take?

Important to make a distinction between relative income growth rate and absolute income growth

$$y^* = dY/Y \quad (\text{income growth rate})$$

$$dY = y^* Y \quad (\text{absolute income growth})$$

Example:

Country	y^*	Y_1	dY	Y_2
India	0.06	2,150	130	2,280
USA	0.02	30,600	610	31,210
Relative income ratio		0.070		0.073
Absolute Income Gap		28,450		28,930

Three different measures of change in distribution:

- 1) Relative growth rates (India is growing faster; is catching up with conventional terminology)
- 2) Relative income ratios (India is catching up)
- 3) Absolute income gap (India is falling behind)

[1.18] Reducing absolute income disparities. What it takes

Table 1.6. Simulated Future GNP per capita in India and the USA under Different Assumptions on *Future* Annual Growth Rates

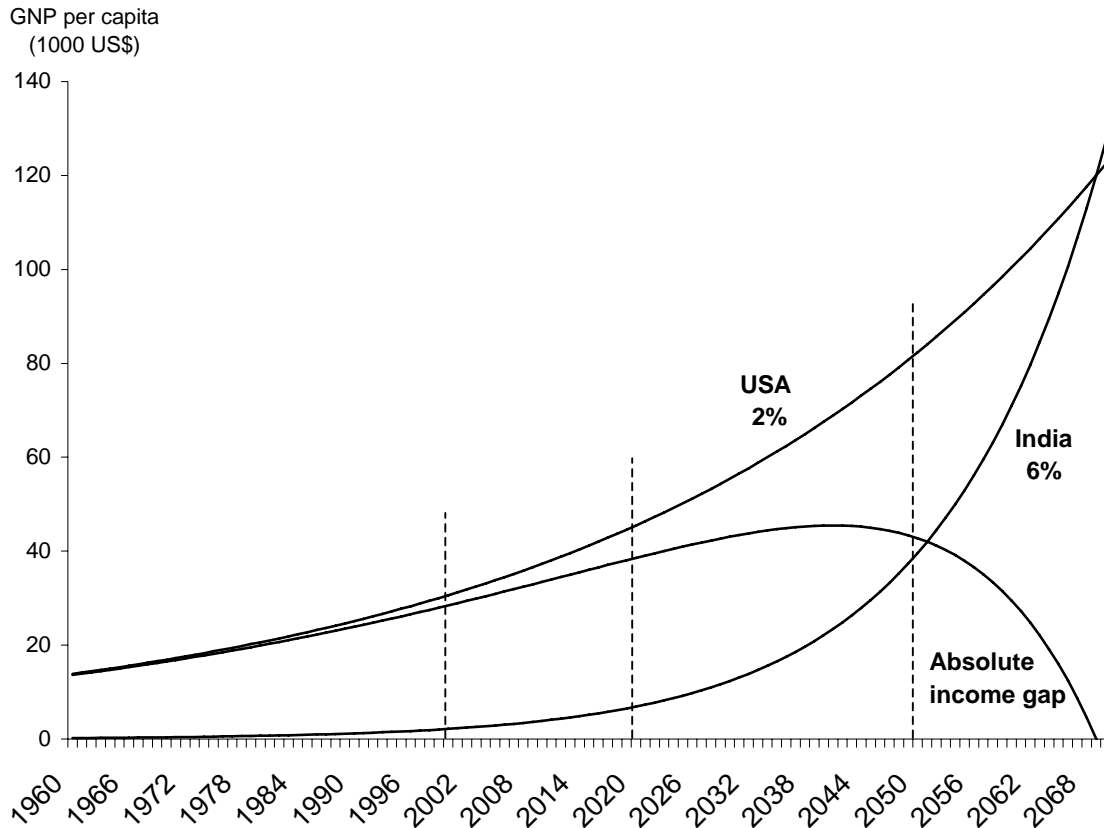
	GNP per capita year ^a in 2000 (1)	Assumed Annual Rate of Growth (% per year) (2)	Simulated GNP ^a per capita in	
			2020 (3)	2050 (4)
USA	30,600	2	45,470	82,380
Scenario 1: High growth in India (as accomplished in recent years)				
India	2,150	6	6,900	39,600
<i>Income Level Ratio</i>				
India/USA (%)	7		15	48
<i>Absolute Income Gap</i>				
USA - India	28,450		38,570	42,780
Scenario 2: Historical growth in India (1949-1990)				
India	2,150	3	3,880	9,430
<i>Income Level Ratio</i>				
India/USA (%)	7		9	12
<i>Absolute Income Gap</i>				
USA - India	28,450		41,590	72,950

Sources: Svedberg (2004); *World Development Report* 2000/01 for GNP per capita in 2000

a) Real Income Per-Capita in 2000 Prices in US \$, PPP adjusted

[1.19] Reducing absolute income disparities between “rich” and “poor” countries. What it takes

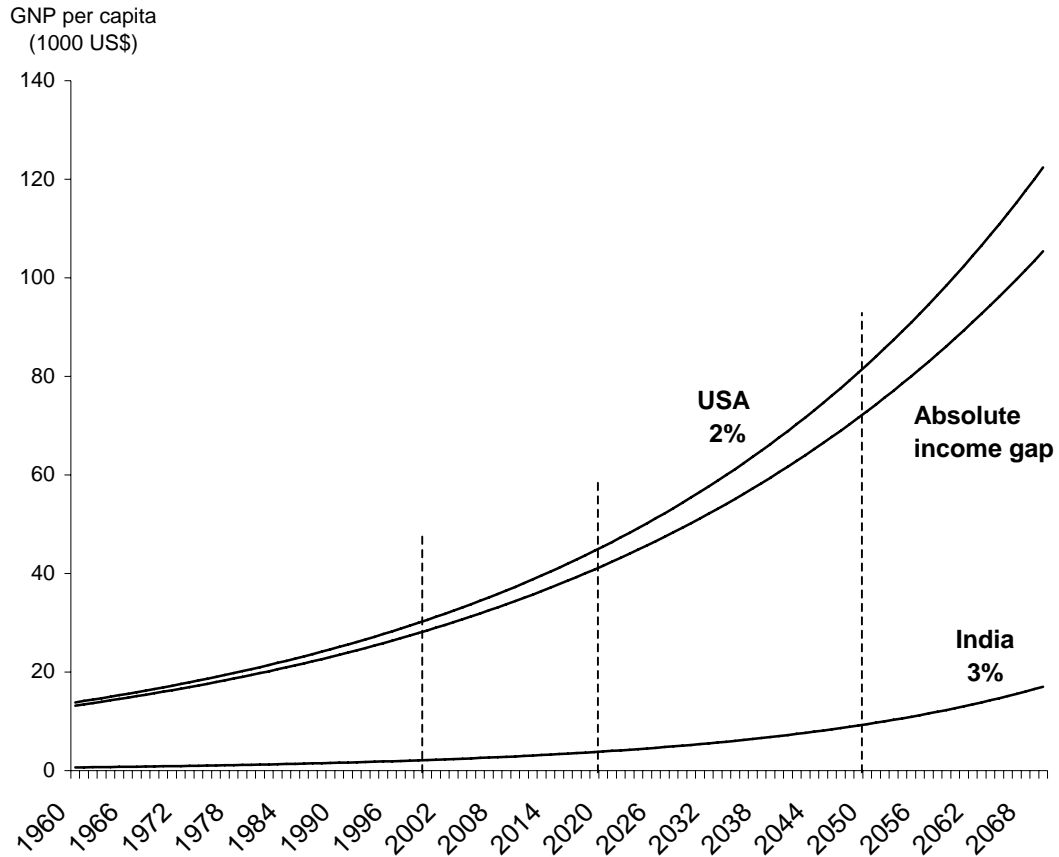
Figure 1.5: Projections of Future GNP per capita in India and USA: Scenario 1



Note that China started with roughly the same income level in 1980 as India and has since had a growth rate of between 8 and 10 per cent annually on average!

[1.20] Reducing absolute income disparities between “rich” and “poor” countries. What it takes

Figure 1.6: Projections of Future GNP per capita in India and USA: Scenario 2



[1.21] Fig 1.7. Reduction of absolute income disparities between “rich” and “poor” countries. It *has* happened!

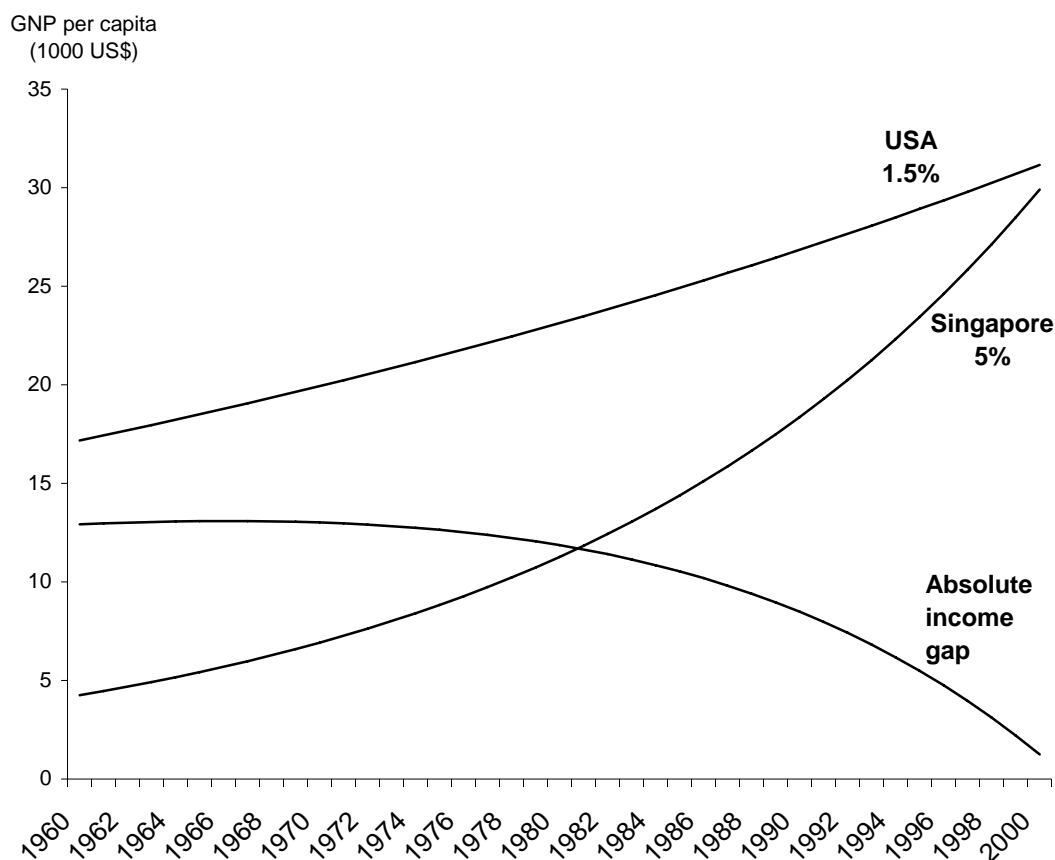


Table 1.7(a). Growth of GNP per capita and Income Levels in the USA and Singapore, 1960-2000

Country	GNP per capita 2000 (US\$) ^a	Growth of per capita GNP 1960- 2000 (%)	GNP per capita 1960 (US\$) ^a
	(1)	(2)	(3)
USA	31,157	1.5	17,176
Singapore	29,910	5.0	4,249
Relative Income Ratio Singapore/USA (%)	96		25
Absolute Income Gap USA-Singapore	1,247		12,927

Source: (1) World Development Indicators 2001, World Bank
a) PPP-adjusted GNP per capita in 1995 values

[1.22] Fig 1.8. Reduction of absolute income disparities between “rich” and “poor” countries. It *has* happened!

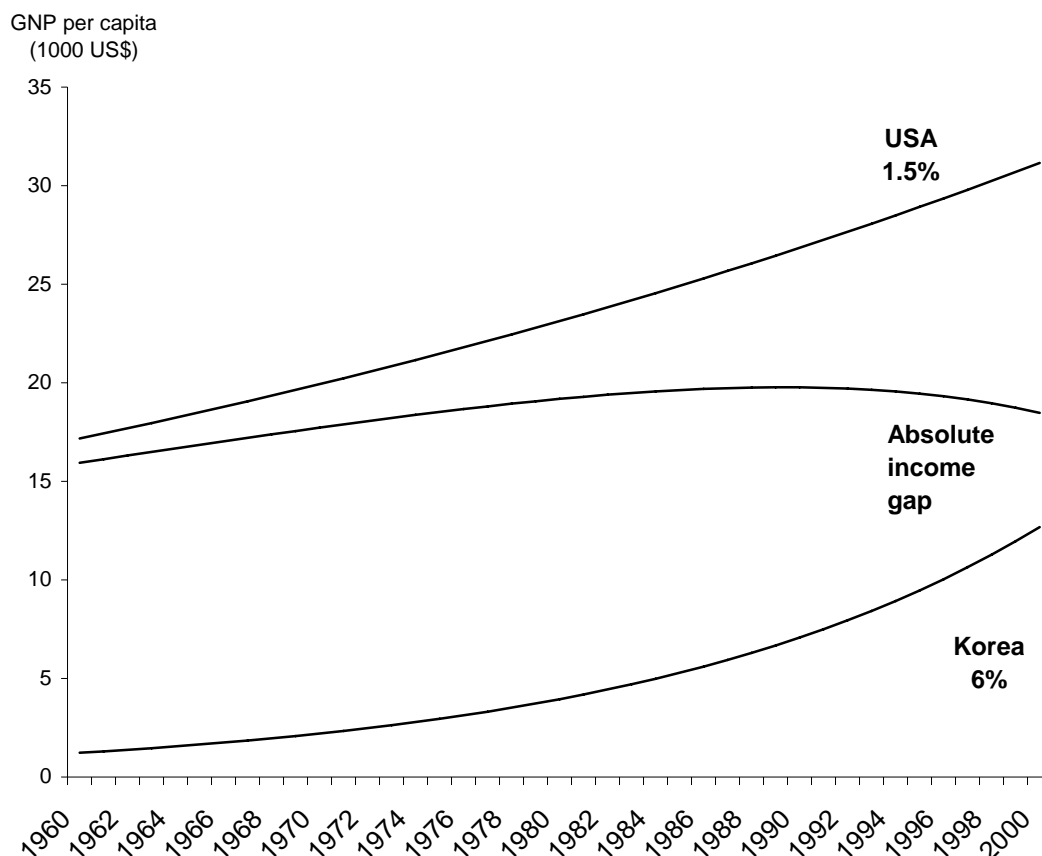


Table 1.7(b). Growth of GNP per capita and Income Levels in the USA and Korea, 1960-2000

Country	GNP per capita 2000 (US\$) ^a	Growth of per capita GNP 1960- 2000 (%)	GNP per capita 1960 (US\$) ^a
	(1)	(2)	(3)
USA	31,157	1.5	17,176
Korea	12,675	6.0	1,232 ^b
Relative Income Ratio Korea/USA (%)	41		7
Absolute Income Gap USA-Korea	18,482		15,944

Sources: (1) World Development Indicators 2001, World Bank; (2) UNCTAD 1999; (3) Temple 1999
a) PPP-adjusted GNP per capita in 1995 values; b) In 1960, Korea had a GDP/c equivalent to that in the average Sub-Saharan country (see Maddison 2003).

**[1.23] Development objective 4: Reduction of absolute poverty
—the first Millennium Development Goal.**

Table 1.8: Incidence of **absolute poverty** as estimated by the World Bank and others: People living on less than 1 US\$ per day

Region	Per cent of population in absolute poverty (<\$1/day)		Absolute numbers of people in absolute poverty (mill.)	
	1987	2001	1987	2001
East Asia (exclusive China)	28 27	15 11	426 118	271 59
E. Europe & C. Asia	0	4	2	17
Latin America & Car	11	10	45	50
M. East & N. Africa	3	2	7	7
South Asia	45	31	473	431
Sub-Saharan Africa	47	46	219	313
Total (exclusive China)	28 28	21 23	1,171 863	1,089 877
Total (Sala-i-Martin)	10 ^{a)}	7 ^{a)}	400	300
Total (Balla)	20 ^{b)}	11 ^{b)}	831	559

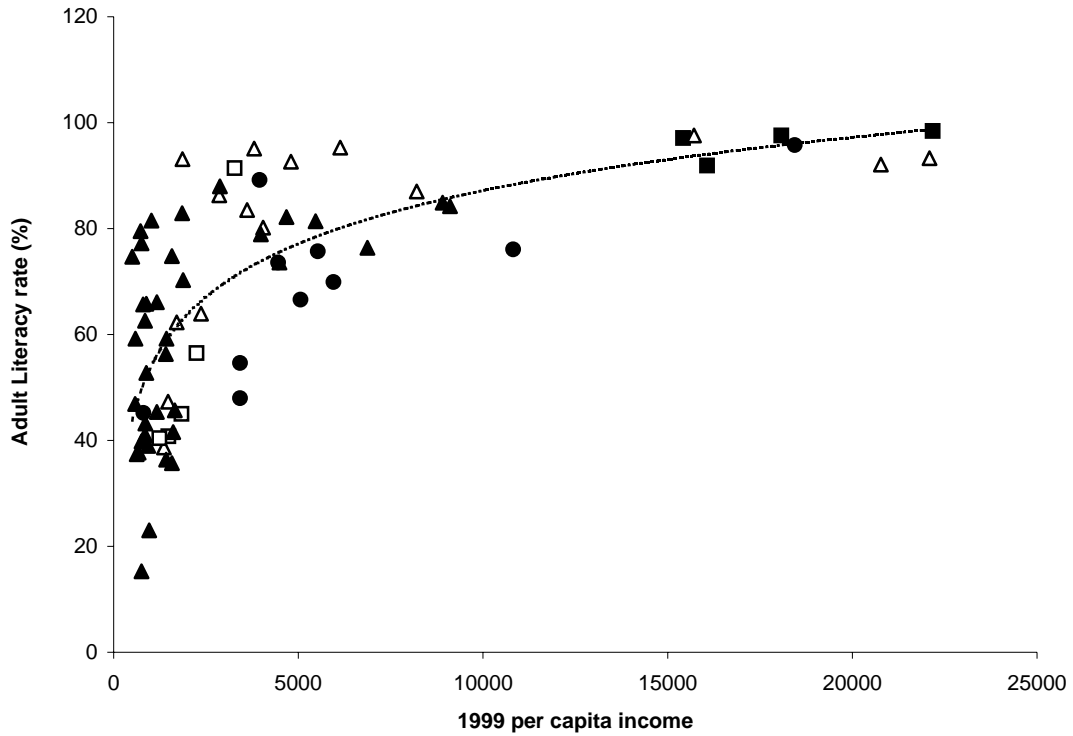
a) 1988 and 1998; b) 1990 and 2000.

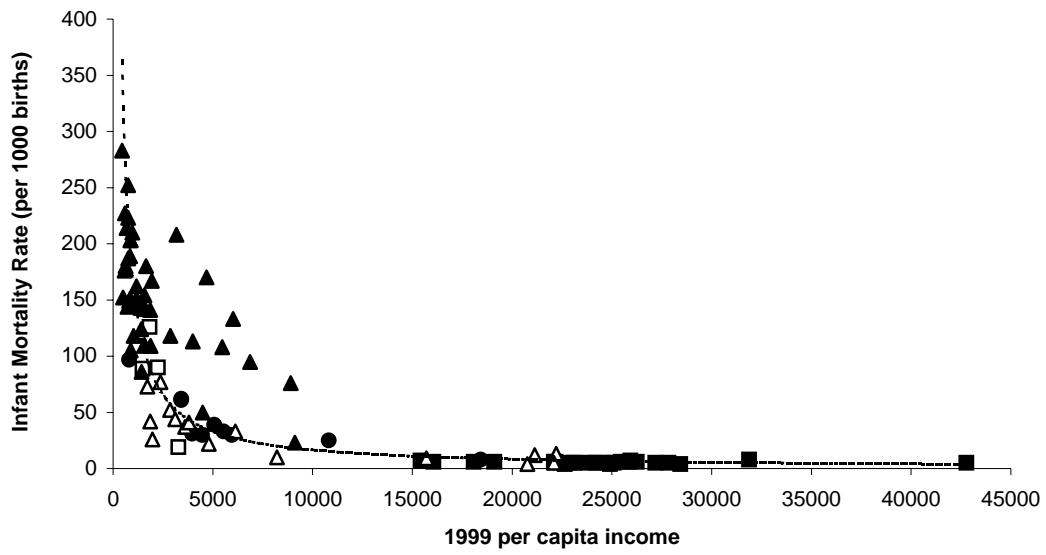
Sources: Chen and Ravallion 2004, table 3 and 4; Sala-i-Martin 2002, figures 5 and 6; Balla 2002, table 9.1.

Differences to be explained in lecture 8.

[1.24] Development objective 5: Improving quality of life - stylised facts

Figure 1.9. The association between selected indicators of social quality of life and per-capita income level, 1999





- OECD
- Middle East/North Africa
- △ South-east Asian countries
- South Asian
- ▲ Sub-Sahara Africa

Source: World Development Indicators 2001, World Bank

[1.25] SUMMARY OF LECTURE 1

Lots of data have been presented. Of course no requirement that you should memorise the details, but try to remember the main orders of magnitudes and broad changes:

- 1) Economic growth per capita (and also population growth) is a relatively recent phenomena in the world, starting around 1820. Short period considering that humans have been around for at least 200 000 years. (1/1000 of the time!)
- 2) Per-capita growth was first confined to Europe and its offshoots in America and the Pacific
- 3) Most “developing countries” had practically no economic growth per capita before the 1950s and some still do not (mainly in Sub-Saharan Africa)
- 4) Continued growth in countries that have experienced growth is by no means guaranteed; many examples of reversals (Central Asia, Middle East)

[1.26] SUMMARY OF LECTURE 1 (con'd)

5) Most indicators of social and medical **deprivations** go hand in hand with per-capita income levels. We will return to the question of what causes what (causality)

6) The **distribution** of income within countries varies a lot from country to country. Come back to why!

7) The **absolute** income gaps between the richest countries and the majority of the developing countries is getting wider over time (while the relative distribution, as we will see, has stabilised)

[1.27] Literature

Mandatory readings:

Fisher, S. (2003), "Globalisation and Its Challenges", *American Economic Review* 92(2): 1-30. (read mainly pp. 1-10)

Svedberg, P. (2004), "World Income Distribution: Which Way?", *Journal of Development Studies* 40(5): 1-32.

It is also recommended that you make yourself familiar with standard statistical reference reports, such as the World Bank's World Development Report/Indicators. Take a look also at Maddison's books.

Cited work:

Balla, S. (2002), *Imagine There is No Country*, Institute for International Economics, Washington DC.

Chen, S. and M. Ravallion (2004), "How have the World's Poorest Fared since the Early 1980s", *World Bank Research Observer* 19(2): 141-69.

Economist, The (2006), "A Long Walk: A Survey of Saudi Arabia", Jan 7th.

Kuran, T. (2004), "Why the Middle East is Economically Underdeveloped: Historical Mechanisms of Institutional Stagnation", *Journal of Economic Perspectives* 18(3): 71-90.

Maddison, A. (2001), *The World Economy: A Millennial Perspective*, Paris: OECD.

Maddison, A (2003), *The World Economy: Historical Statistics*, Paris: OECD.

Rodrik, D. and Wacziarg, R. (2005), "Do Democratic Transitions Produce Bad Economic Outcomes?", *American Economic Review* 95(2): 50-55.

Sala-i-Martin, X. (2002), "The Disturbing 'Rise' of Global Income Inequality", NBER WP 8904 (www.nber.org).

Svedberg, P. (2006), "Declining Child Malnutrition: A Reassessment", *International Journal of Epidemiology* 35(5): 1336-46.

Yousef, T.M. (2004), Development, Growth and Policy Reform in the Middle East and North Africa since 1950, *Journal of Economic Perspectives* 18(3): 91-116.

Further suggested readings:

Diamond, J. (1997), *Guns, Germs and Steel*, New York: W.W. Norton & Co.

Diamond, J. (2005), *Collapse – How Societies Choose to Fail and Succeed*, Viking.

Easterly, W. (2002), *The Elusive Quest for Growth*, Cambridge: MIT Press.

Fogel, R. W. (1999), "Catching up with the Economy", *American Economic Review*
89(1): 1-21.

Johnson, D.G. (2000), "Population, Food and Knowledge", *American Economic Review*
90(1):1-14.

Landes, D. (1998), *The Wealth and Poverty of Nations*, New York: W.W. Norton & Co.