Introduction to the Economics of Development

2. What is the scale of inequality?

Luke Heath Milsom
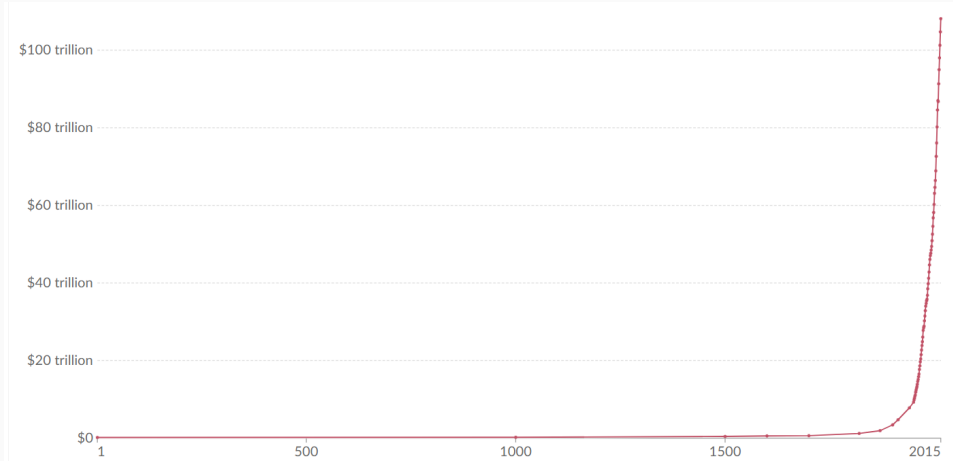AY 2024-25

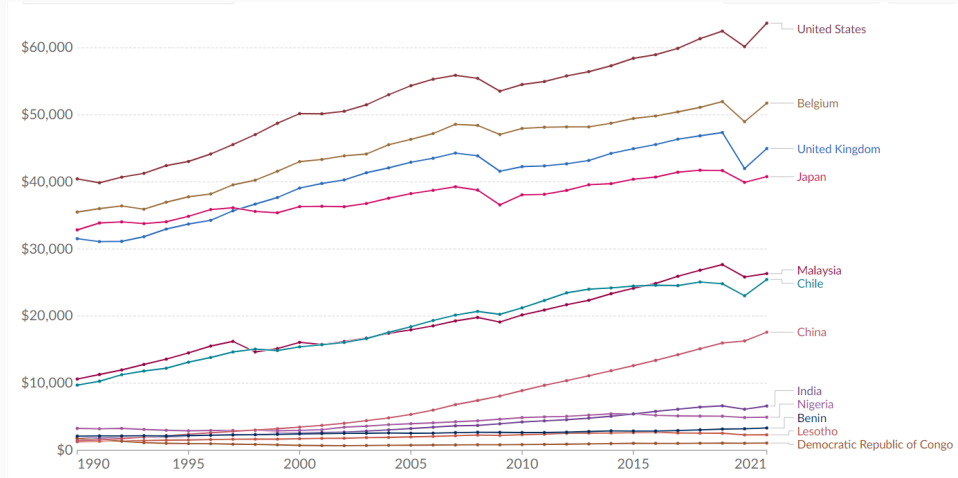luke_m@kuleuven.be

What is development economics?

Equality of Opportunity for everyone, everywhere.

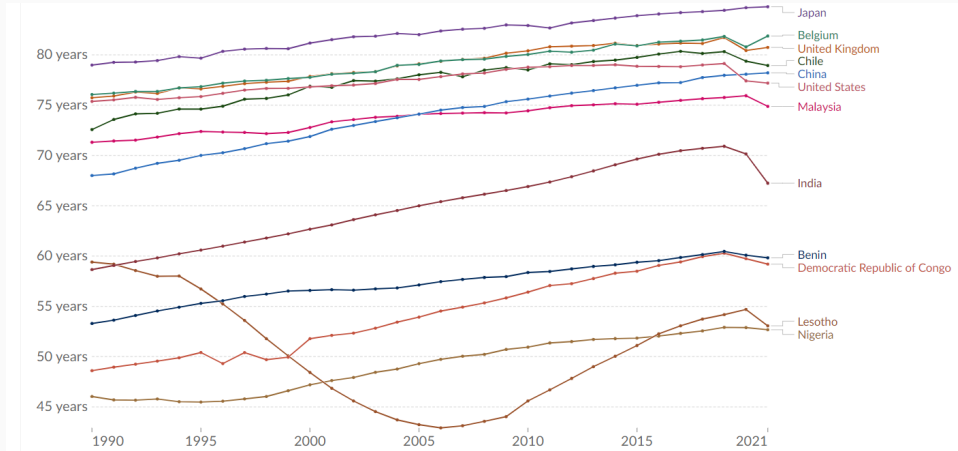# For most of human history almost everyone was extremely poor

Source: Our World in Data

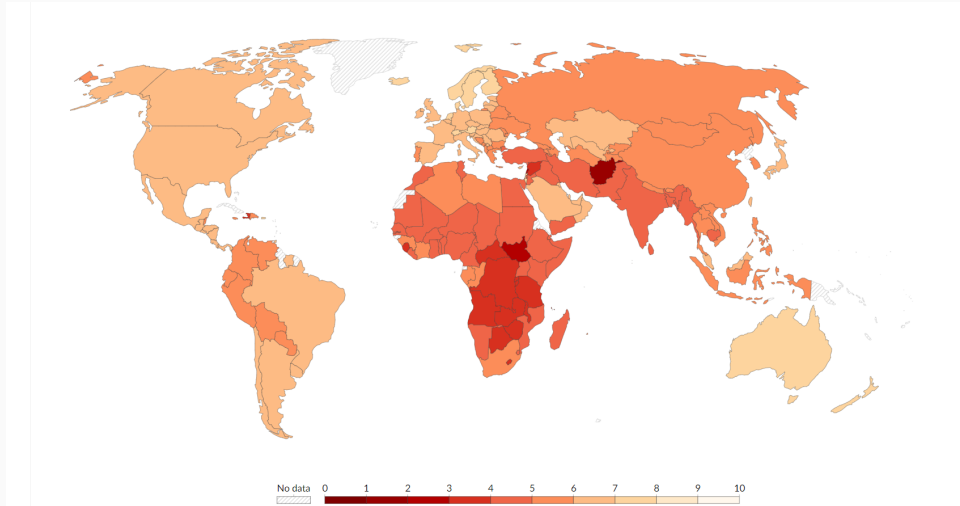# Today there are large differences in: GDP per capita

Source: Our World in Data

3

Today there are large differences in: Life expectancy

Source: Our World in Data

4

Today there are large differences in: Life satisfaction

Source: Our World in Data
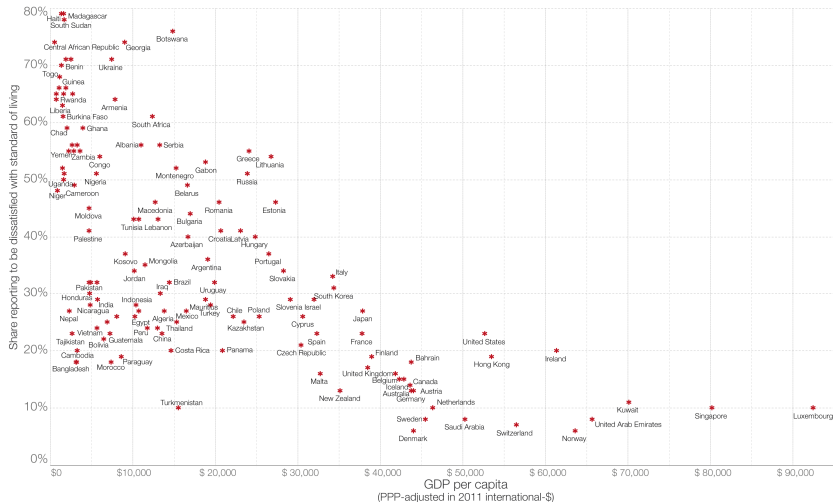
Money does buy you satisfaction

Dissatisfaction with standard of living vs GDP per capita

Shown on the y-axis is the share that answered 'dissatisfied' to the question "Are you satisfied or dissatisfied with your standard of living, all the things you can buy and do?".

There are also large differences within-country

GDP per capita of the administrative divisions in China (2021)
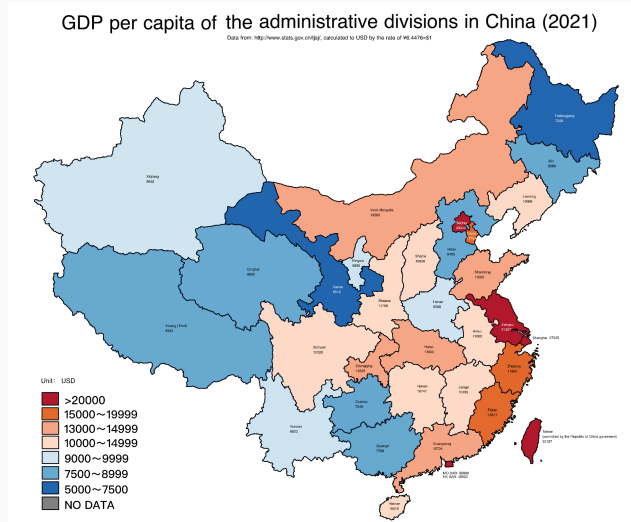
There are also differences within-country

Money
Average annual income per person in $

in thousand $
0-0.59
0.6-0.99
1-1.9
2-3.9
4-6.9
7-8+

Source: Nigeria Bureau of Statistics

Source: Nigeria Bureau of Statistics 2019

There are also differences within-country

Rank	Province	GDP per capita in EUR
-	Brussels	66,200
1	Antwerp	46,900
2	Walloon Brabant	46,500
3	Flemish Brabant	39,800
4	West Flanders	39,000
5	East Flanders	36,300
6	Limburg	32,300
7	Liège	28,000
8	Namur	26,300
9	Hainaut	24,600
10	Luxembourg	24,200

Source: Eurostat

Cross country differences aren't everything

- The richest areas of Nigeria are (significantly) richer than the poorest areas of China.

- The richest areas of China are richer than the poorest areas of Belgium.

Thing are getting better!

Since 2000...

- The proportion of the world living in extreme poverty has halved (UN).

- Life expectancy across the whole of Africa has increased by about 10 years (Human Mortality Database. Max Planck Institute for Demographic Research).

- Worldwide child mortality rates have almost halved (United Nations Inter-agency Group for Child Mortality Estimation (UN IGME)).

- GDP per-capita in Belgium has almost doubled, but almost all of that growth happened before 2008. (The World Bank).

Things are getting better!

World population living in extreme poverty, World, 1820 to 2015

Extreme poverty is defined as living on less than 1.90 international-$ per day.
International-$ are adjusted for price differences between countries and for price changes over time (inflation).

Our World in Data

Number of people not in extreme poverty

Number of people living in extreme poverty
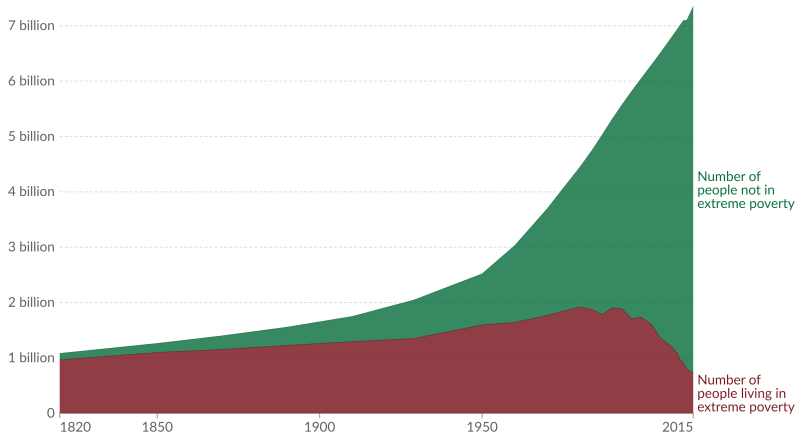
Data source: Ravallion (2016) updated with World Bank (2019)
Note: See this link for the strengths and limitations of this data and how historians arrive at these estimates.

OurWorldInData.org/poverty | CC BY

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Things are getting better!

Distribution of population between different poverty thresholds, China, 1981 to 2020

This data is adjusted for inflation and for differences in the cost of living between countries.

Our World in Data

above $10 a day

$6.85-$10 a day

$3.65-$6.85 a day

$2.15-$3.65 a day

$2.15 a day
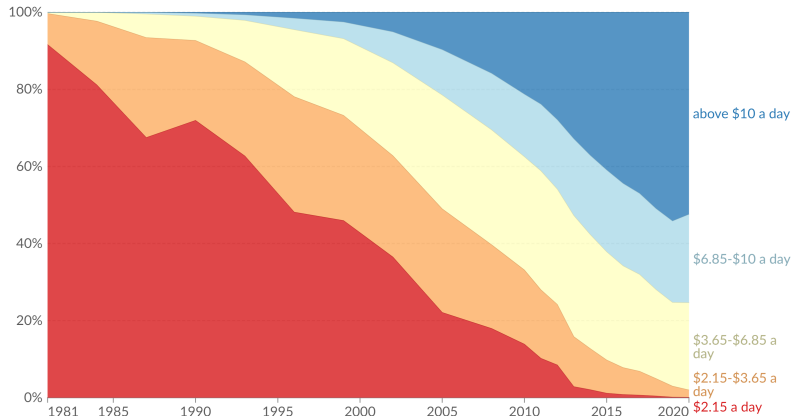
Data source: World Bank Poverty and Inequality Platform (2024)   OurWorldInData.org/poverty | CC BY
Note: This data is expressed in international-$¹ at 2017 prices. Depending on the country and year, it relates to income measured after taxes and benefits, or to consumption, per capita².

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The big question

How do we achieve growth and development in the future?

A natural place to look: Previous success stories.
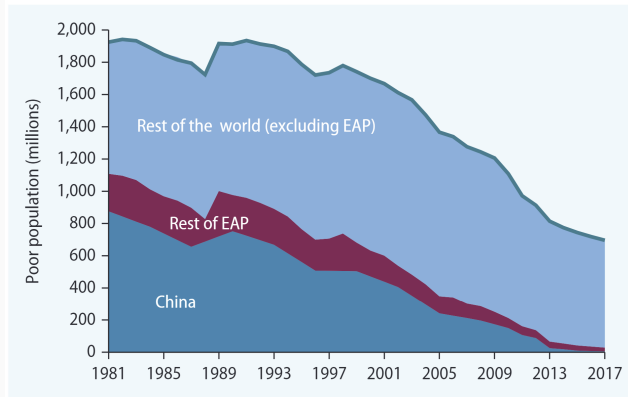
How did we do it before?

1. **China**

   - From 1982 to 2022 over 800 million people in China were lifted out of poverty.
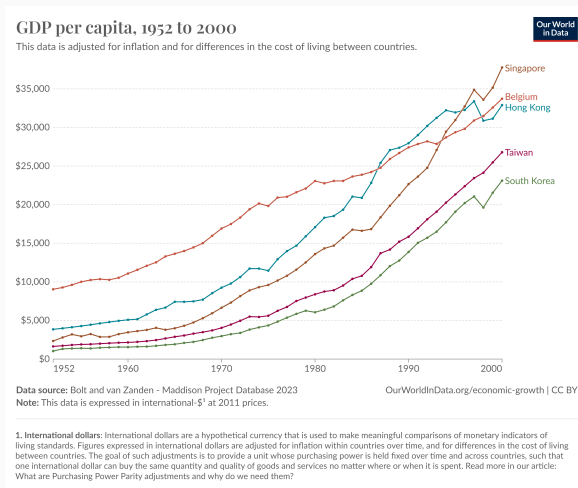   - Accounts for 75% of global poverty reduction over this period.

Sources: Lugo, Niu, and Yemtsov 2021, based on PovcalNet adapted from World Bank 2018.
Note: EAP = East Asia and Pacific.

How did we do it before?

2. **Asian growth miracle in the four "Asian Tigers".**

- GDP per capita in Singapore in 1970 = 6,650 in 2000 = 37,773 a 5.7x increase.

GDP per capita, 1952 to 2000
This data is adjusted for inflation and for differences in the cost of living between countries.

Data source: Bolt and van Zanden - Maddison Project Database 2023   OurWorldInData.org/economic-growth | CC BY
Note: This data is expressed in international-$¹ at 2011 prices.

1. International dollars: International dollars are a hypothetical currency that is used to make meaningful comparisons of monetary indicators of living standards. Figures expressed in international dollars are adjusted for inflation within countries over time, and for differences in the cost of living between countries. The goal of such adjustments is to provide a unit whose purchasing power is held fixed over time and across countries, such that one international dollar can buy the same quantity and quality of goods and services no matter where or when it is spent. Read more in our article: What are Purchasing Power Parity adjustments and why do we need them?
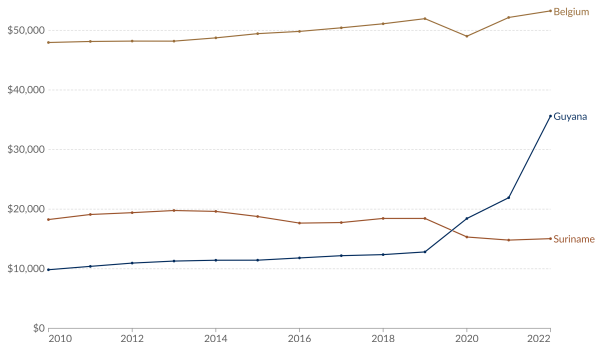
How did we do it before?

3. Guyana

GDP per capita

This data is adjusted for inflation and for differences in the cost of living between countries.

Belgium

$50,000

Guyana

$40,000

$30,000

$20,000

Suriname

$10,000

$0

2010   2012   2014   2016   2018   2020   2022

Data source: World Bank (2023)   OurWorldInData.org/economic-growth | CC BY
Note: This data is expressed in international-$[1] at 2017 prices.

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How?

1. Export-led growth?

2. Good institutions?

3. Cheap and accessible credit?

4. Rapid urbanisation?

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Or

1. Very low base — China had an 88% poverty rate in 1981.

2. Small countries are different?

3. Natural resources.