

CONTEMPORARY MODELS OF DEVELOPMENT AND UNDERDEVELOPMENT

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UNDERDEVELOPMENT AS A COORDINATION FAILURE

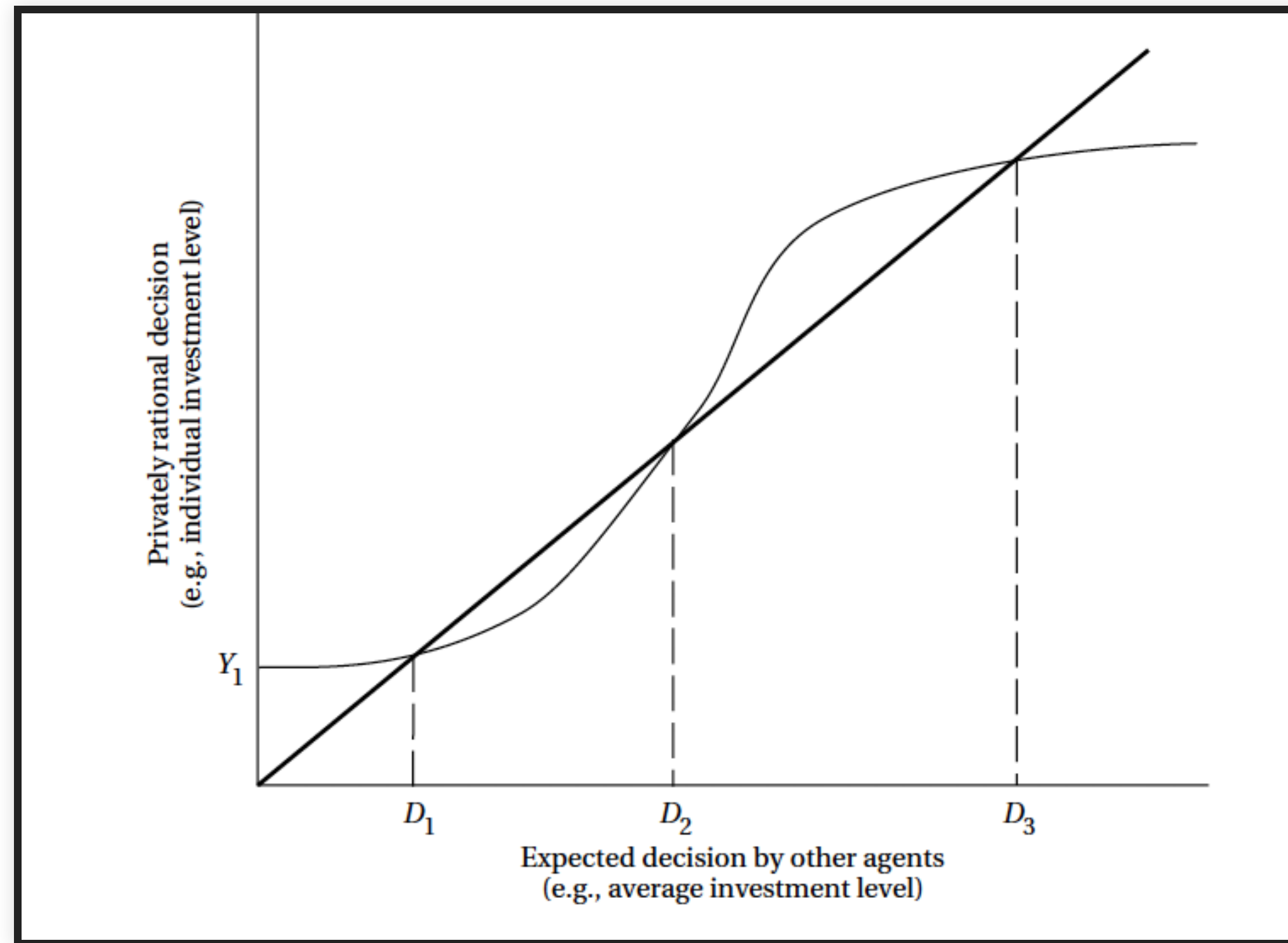
These theories often highlight the problem that several things must work well enough, at the same time, to get sustainable development under way.

MIDDLE-INCOME TRAP

Condition in which an economy begins development to reach middle-income status but is chronically unable to progress to high-income status.

UNDERDEVELOPMENT TRAP

A poverty trap at the regional or national level in which underdevelopment tends to perpetuate itself over time

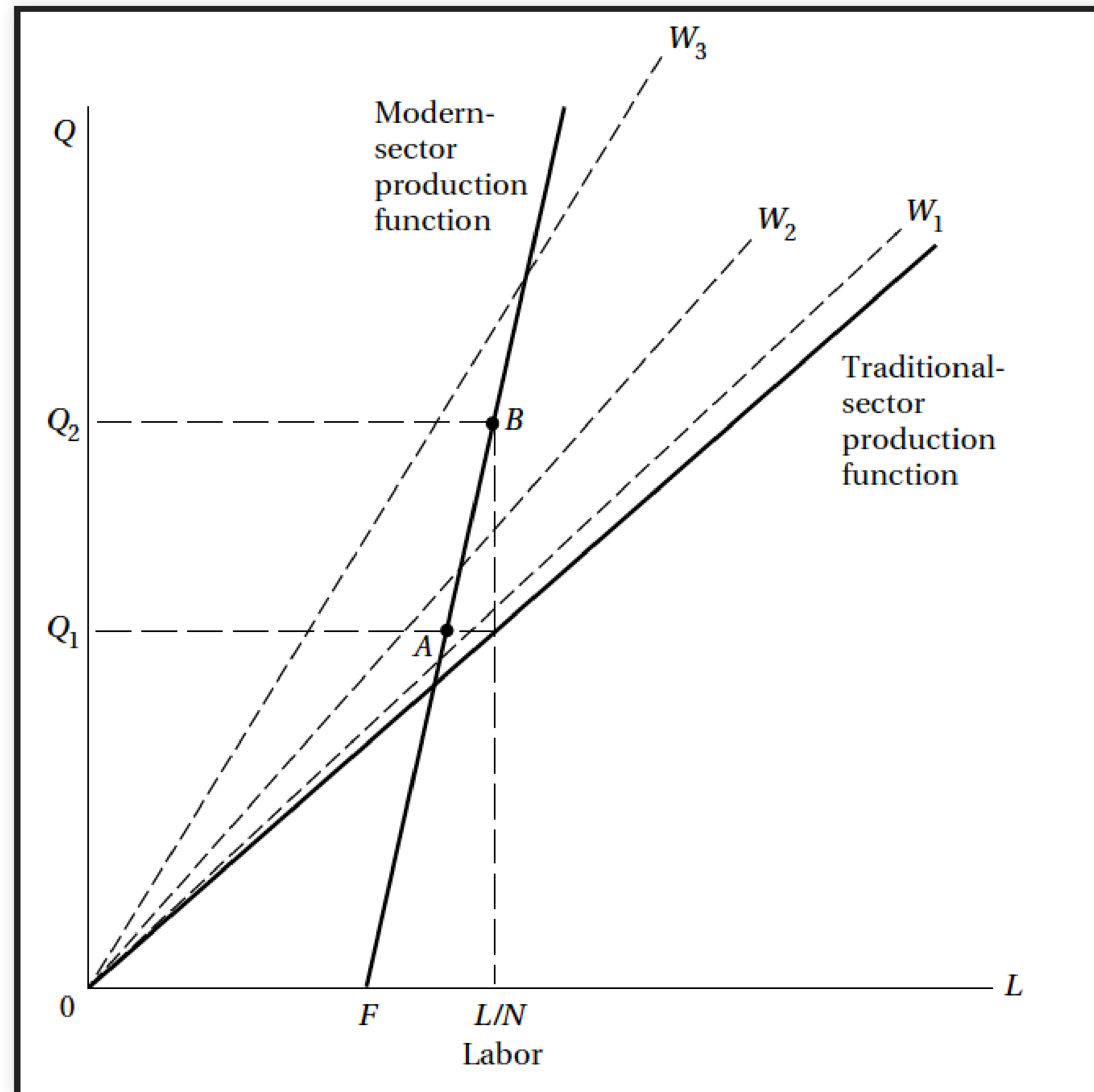


So we can get out of any of those equilibria?

THE BIG PUSH

Paul Rosenstein-Rodan (Krugman - 1995)

Coordination failure problems work against successful industrialization, a counterweight to the push for development.



When the big push is necessary

- Intertemporal Effects - (invest today)
- Urbanization effects
- Infrastructure effects
- Training effect

**THIS IS THE MAIN RATIONAL BEHIND
INTERNATIONAL AID!**

- Behavior and norms
- Linkages
- Inequality (poverty trap)

O-RING THEORY

- n tasks
- q skills ($0 < q < 1$)
- O-ring Production function

$$BF = (q_i q_j) = q_i q_j$$

- Positive assortive matching: $q_H^2 + q_L^2 > 2q_H q_L$

EXAMPLE

- Six workers
 - Three $q=0.4$
 - Three $q=0.8$
- What happen if the skill increases?

If a firm can increase quality in percentage terms at constant marginal cost or even a not too quickly rising cost, there is a virtuous circle in that the more you upgrade overall, the more value you obtain by doing so

ECONOMIC DEVELOPMENT AS SELF-DISCOVERY

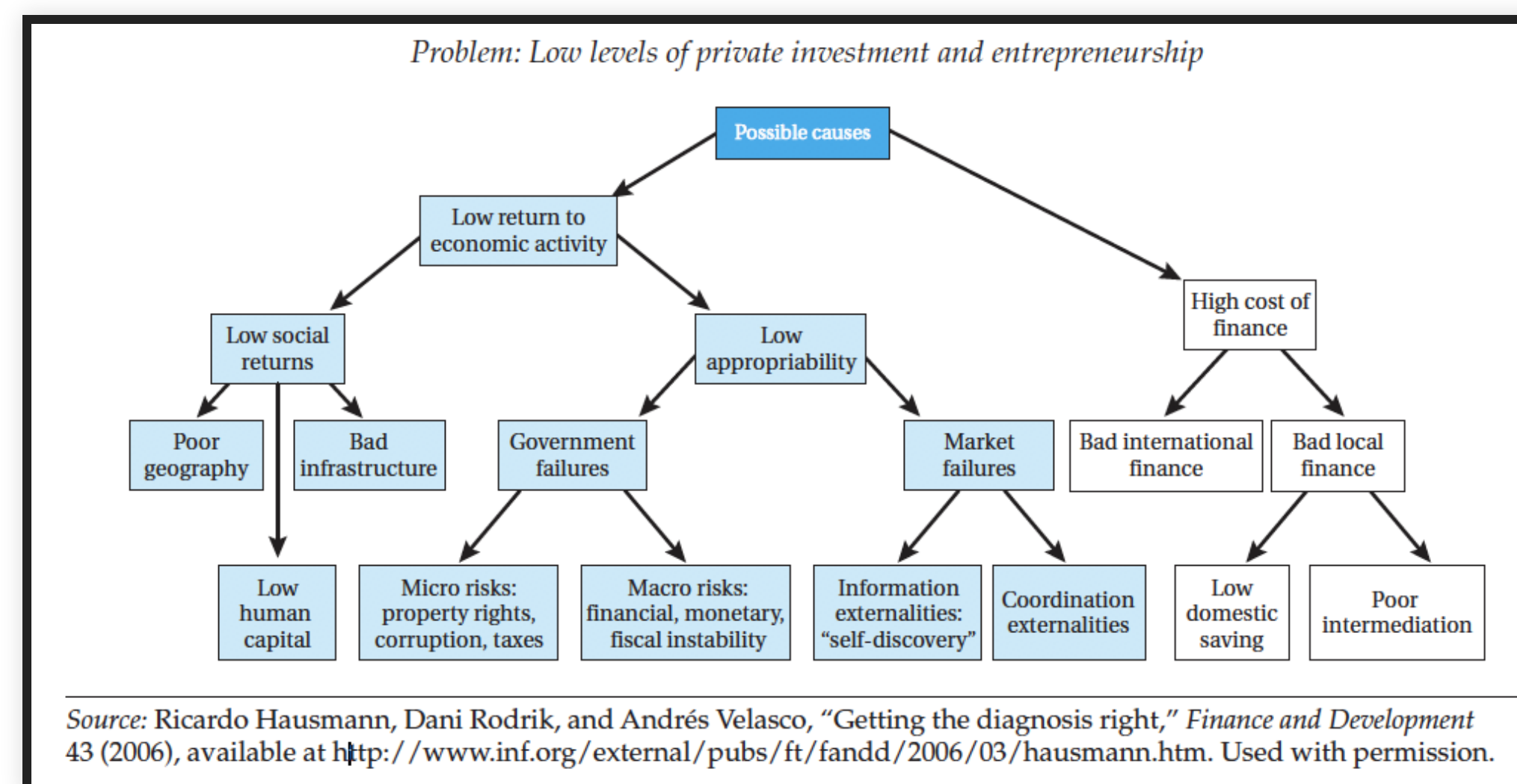
(Hausmann and Dani Rodrik)

individuals must discover their own comparative advantage
in labor markets!

advantage—too much time carrying on with business as usual and too little time devoted to “self-discovery.”

- uncertainty about what products a country can produce efficiently;
- local adaptation of imported technology so that it cannot be used productively “off the shelf”,









THE HAUSMANN- RODRIK-VELASCO GROWTH DIAGNOSTICS FRAMEWORK



DEVELOPMENT ECONOMICS

Let's summarize the main driving force of Growth

TABLE 1.1 Millennium Development Goals and Targets for 2015

Goals		Targets
 1. Eradicate extreme poverty and hunger		<ul style="list-style-type: none"> • Reduce by half the proportion of people living on less than \$1 a day • Reduce by half the proportion of people who suffer from hunger
 2. Achieve universal primary education		<ul style="list-style-type: none"> • Ensure that all boys and girls complete a full course of primary schooling
 3. Promote gender equality and empower women		<ul style="list-style-type: none"> • Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015
 4. Reduce child mortality		<ul style="list-style-type: none"> • Reduce by two-thirds the mortality rate among children under 5
 5. Improve maternal health		<ul style="list-style-type: none"> • Reduce by three-quarters the maternal mortality ratio
 6. Combat HIV/AIDS, malaria, and other diseases		<ul style="list-style-type: none"> • Halt and begin to reverse the spread of HIV/AIDS • Halt and begin to reverse the incidence of malaria and other major diseases
 7. Ensure environmental sustainability		<ul style="list-style-type: none"> • Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources • Reduce by half the proportion of people without sustainable access to safe drinking water • Achieve significant improvement in lives of at least 100 million slum dwellers by 2020
 8. Develop a global partnership for development		<ul style="list-style-type: none"> • Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system; includes a commitment to good governance, development, and poverty reduction—both nationally and internationally • Address the special needs of the least developed countries; includes tariff and quota free access for least developed countries' exports; enhanced program of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous official development assistance (ODA) for countries committed to poverty reduction • Address the special needs of landlocked countries and small island developing states • Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term • In cooperation with developing countries, develop and implement strategies for decent and productive work for youth • In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries • In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

Source: From "Millennium Development Goals" (accessed via www.undp.org). Reprinted with permission from the United Nations Development Programme.

How can economists could contribute to this?

FINAL HOMEWORK

Country Debate

Alternative and Introduction to Romer