



Development Economics

Poverty, Growth, Institutions, and Evidence

Chaouat Economics Lab — Intro Series

What Is Development?

Development extends far beyond income measures. It encompasses the full spectrum of human capabilities and opportunities that enable people to live meaningful, productive lives.



Income & Consumption

Material resources and purchasing power



Health

Life expectancy, disease burden, and well-being



Education

Skills, literacy, and meaningful learning outcomes



Security & Dignity

Safety, rights, voice, and participation

Key Insight: Development means expanding *capabilities*—what people can actually do and become, not just what they have.



METRICS & MEASUREMENT

Measuring Development

Useful Indicators, Imperfect Tools

Income & Poverty

- GDP per capita (PPP-adjusted)
- Growth rates over time
- Poverty rates below threshold lines
- Inequality measures (Gini, top income shares)

Human Outcomes

- Life expectancy and infant mortality
- School enrollment **and** learning outcomes
- Access to basic services
- Health and nutrition indicators

Critical Rule: Measurement is inherently imperfect. Always ask what's included, what's missing, and how data was collected. One number rarely captures the full story of a society.

Growth Compounds

Small Differences Create Massive Long-Run Gaps

The power of compound growth means that seemingly modest differences in annual growth rates produce dramatic divergences in living standards over time. Understanding the drivers of productivity growth is essential.



Productivity

Output per worker—the ultimate driver of prosperity and wage growth

Physical Capital

Machines, infrastructure, and tools that amplify human effort

Human Capital

Skills, health, and cognitive abilities of the workforce

Institutions

Rules, enforcement, and incentive structures that shape behavior

Development is fundamentally multi-causal. Capital only matters when used productively, human capital depends on quality health and education systems, and institutions shape whether investments are safe and productive.

Why Poverty Can Persist

Understanding Poverty Traps

Poverty often becomes self-reinforcing through interconnected constraints that make escape difficult without coordinated intervention. These feedback loops create what economists call **poverty traps**.



- ❑ **Policy Implication:** When constraints interact and reinforce each other, small tweaks may be insufficient. Escaping traps often requires coordinated interventions at scale.

Diagnose Before Prescribing

Identifying Binding Constraints

Effective development strategy begins with a fundamental question: **What is the binding constraint right now?** Prioritization is essential when resources are scarce and problems are interconnected.

1

Credit & Finance

Access to capital for investment and entrepreneurship

2

Infrastructure

Reliable electricity, transportation networks, and connectivity

3

Human Capital

Health systems and quality education that build skills

4

Market Access

Trade costs, logistics, and connections to buyers

5

Institutions

Governance quality, rule of law, and security

Training programs may fail if electricity is unreliable. Road improvements may fail if insecurity blocks commerce. Strong development practice requires diagnosis plus deep local context—not copy-paste solutions.

Human Capital as Productivity Policy

Human capital—the combination of skills, health, and cognitive development—is not just a social good. It's a core productivity and economic growth strategy with measurable returns.

Key Pathways to Productivity

01

Early Nutrition

Brain development in early childhood determines lifelong learning capacity and cognitive function

02

Health Access

Reduced disease burden means fewer lost workdays and sustained productivity

03

Quality Education

Focus on actual learning outcomes drives productivity gains and innovation capacity



 **Critical Lesson:** Focus on **learning**, not just attendance. Years of schooling can rise without meaningful learning if quality is weak.

Health is fundamentally a productivity issue, not only a moral imperative. Many interventions are complementary—school meals plus quality materials plus strong teaching all reinforce each other.

Institutions and State Capacity

The Rules of the Game

Institutions shape the fundamental incentives that determine whether societies invest, innovate, and prosper. They are the "rules of the game" that structure economic and social interaction.

Key Institutional Functions

- Protect property rights and enforce contracts reliably
- Reduce corruption, predation, and rent-seeking
- Enable competition and new firm entry
- Deliver basic public services effectively

State Capacity Dimensions

Tax Collection

Revenue for public goods

Enforcement

Credible rule application

Implementation

Competent execution

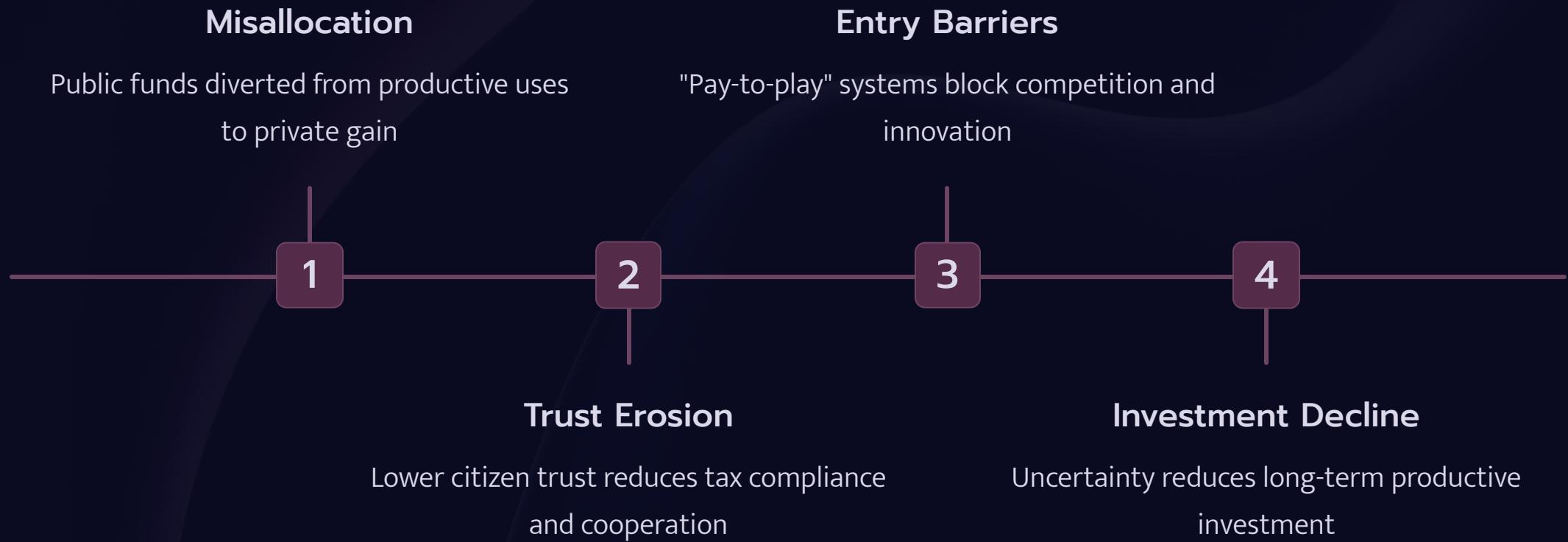
Even optimal policies fail without implementation capacity.
Investment depends on predictable rules and credible enforcement.
Institutions include both formal laws and informal norms—credibility matters as much as design.



Governance and Corruption

Incentives Matter

Corruption is fundamentally an incentive problem, not merely a moral failing. Understanding the structural conditions that enable corruption is essential for designing effective anti-corruption strategies.



What Tends to Help

Transparency & Auditing

Public disclosure of budgets, contracts, and performance data

Simplified Rules

Fewer discretion points reduce opportunities for extraction

Digital Systems

E-procurement and digital payments create audit trails

Credible Enforcement

Accountability mechanisms with real consequences

- Corruption can be petty or grand—both reduce productivity. Anti-corruption succeeds when systems reduce opportunities and political incentives align. Laws without enforcement become merely symbolic.

Evidence: What Works, and How We Know

Rigorous evaluation requires answering two fundamental questions that determine whether we can learn from interventions and apply those lessons elsewhere.

1. Causality

Did the program **cause** the observed change? (Requires a counterfactual)

2. Generalization

Will it work **elsewhere**? (External validity and context)

Research Methods

Randomized Controlled Trials (RCTs)

Random assignment creates comparable groups, enabling strong causal inference. The gold standard when feasible and ethical.

Quasi-Experimental Methods

Natural variation, threshold rules, difference-in-differences, and other techniques approximate experimental conditions using real-world data.

Selection Bias

Non-random participation distorts comparisons

Spillovers

Treatment affects control groups

Attrition

Non-random dropout changes samples

Measurement Error

Inaccurate data obscures true effects

- Lab Activity:** Design a one-page evaluation plan. Pick an intervention (tutoring, tools, cash transfers, or school meals). Define your target population, outcome metrics, comparison group, implementation timeline, and key threats to validity. Consider both internal validity (did it work here?) and external validity (will it generalize?).

Best practice: Test rigorously, adapt based on evidence, scale carefully with monitoring, and iterate continuously. "Worked here" is the beginning of learning, not the end.