

# DED 502- Economic Development - *Problems and policies – Part 1*

Indrajith Aponso

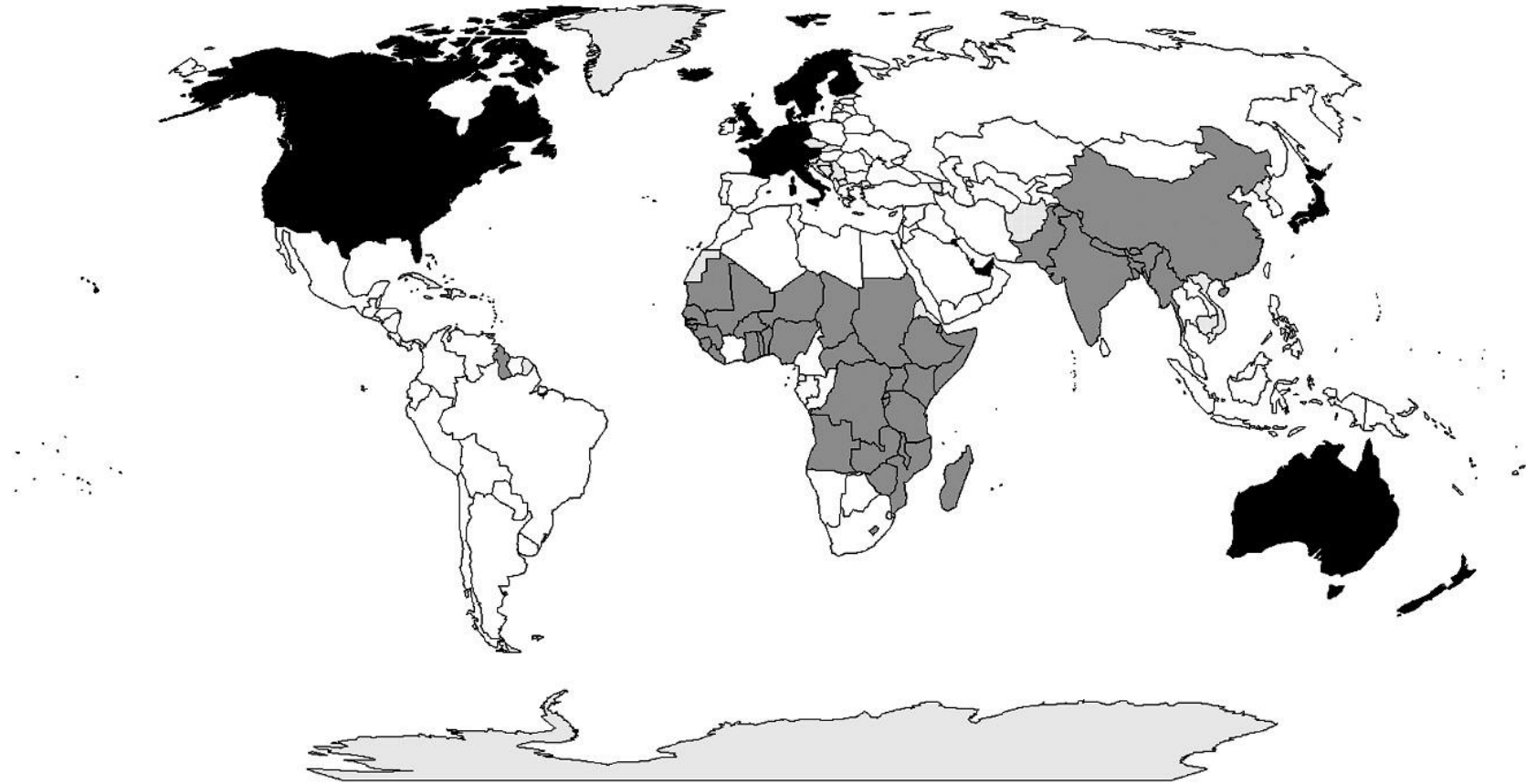
Department of Economics

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# Economies as Social Systems

- Economics is important
- Non-economic variables are also important
- Values, attitudes, and institutions must be understood

# Figure 1.1 The Rich and the Poor



# Defining the Developing World

- The UN's System
- World Bank's System
- The UNDP's Human Development Index
- The OECD's system

**TABLE 2.1** Classification of economies by region and income, 2001

East Asia and the Pacific		Pohrnd	UlvC	Middle East and	LMC
American Samoa	UMC	Romania	LMC	North Africa	UMC
Cambodia	LIC	Russian Federation	LlvC	Algeria	
China	LMC	Slovak Republic	C	Bahrain	
			UlvC		
Fiji	T.MC	Tajikistan	r.rc	Ojhnuti	T.MC
Imlunesia	LIC	Turkey	UMC	Egypt , Arab Rep.	LMC
Kiribati	LMC	l.lrkmenistan	LMC	Iran , Islamic H.ep.	LMC
Korea, Dem. Rep.	LIC	Ukraine	UC	Iraq	LMC
Korea, Rep.	UMC	Uzbekistan	UC	Jordan	LMC
J.:io POR	r.rc	Yugoslavia, Fed. Rep.	T.lvfC	T.eban on	UMC
Malaysia	UMC			Libya	UMC
Marshall Islands	LMC	Latin America and the		Morocco	LMC
Micronesia,		Caribbean		Oman	UMC
Fed. Sls.	LMC	Antigu a and Barbuda	lJlvfC	Saudi Arabia	lJMC.
Mongoli a	LIC	Argentina	UMC	Syrian Arab Republic	LMC
Myanmar	UC	llelize	LMC	Tunisia	LMC
Palau	UMC	Boli ia	LMC	West Bank and Gaza	LMC
Papua New Guinea	LMC	Brazil	UMC	Yemen .Rep.	LIC
Philippines	LMC	Chile	UMC		
Samoa	LMC	Colombia	LMC	South Asia	
Solomon Islands	LIC	Costa Rica	UMC	Afghanistan	LIC
Thailand	LMC	Cuba	LMC	Bangladesh	LIC
Tonga	T.MC	Dom inica	UlvfC	Ilh l l tan	J.JC
Vanuatu	LMC	Dominican Republic	LlvCC	In<lia	LIC
Vietnam	UC	Ecu ador	LMC	Maldi ves	LMC
		El Salvador	LMC	Nepal	LIC
Europe and C.entral Asia		Grenada	m/rc:	Pakistan	UC:
Albartia	LMC	Guatenrnla	LMC	Sri Lanka	LMC
Yrmenia	UC	Guyana	LMC		
Azerbaijan	LC	Haiti	LC	Sub-Saharan Africa	
Bclams	LMC	Honduras	LlvC	Angola	LIC
Bnsnia and		Jamaica	U/rC	Benin	UC.
IJerzegovina	LMC	Mexico	UMC	Botswana	UMC
Uulgaria	LMC	Nicaragua	LLC	Uurkina raso	UC
Croatia	UMC	Panam a	UlvC	Burundi	LIC
Czech Republic	UMC	Paraguay	LlvC	Cameroon	LIC
Estonia	UMC	Peru	LlvfC	Cape Verde	LMC
Georgia	LIC	Puerto Rico	UMC	Central African	
Hungary	UMC	St. Kitts and levis	UlvC	Republic	LIC
Isle of Man	lJMC.	St. Lucia	lJMC:	C:had	TJc.
Ka:l.akhslan	T.MC	St. Vincent and the		Comoros	T.T
				C	
Kyrgyz Republic	LIC	Grenadines	LMC	Congo, Dem. Rep.	LIC
Latvia	LMC	Suriname	LlvC	Congo, Rep.	LIC
Lithuania	LMC	Trinidad and Tobago	UMC	Cote d'Ivoire	LIC
Macedonia, FYR	T.MC.	Uruguay	lJMC	Equatorial Guinea	(continued)
Moldova	LIC	Venezuela, RB	UMC	Eritrea	LMC

**TABLE 2.1** (continued)  
)

Ethiopia	LIC	Uganda	LIC	Hahamas, The
Gabon	UMC	Zambia	LTC	Barbados
Gambia, The	LIC	Zimbabwe	U C	Bermuda
Ghana	LIC	<b>High income OECD</b>		Brunei
Guinea	LIC	Australia		Cayman Islands
Guinea-Hissau	LIC	Austria		Channel Islands
Kenya	LIC	Belgium		Cyprus
Lesotho	TTC	Canada		Faeroe Islands
Liberia	LIC	Denmark		French Polynesia
Madagascar	LIC	Finland		Greenland
Malawi	LIC	France		Guam
Mali	LIC	Germany		Hong Kong, China
M, mri tania	TTC	Greece		Trael
Mauritius	UMC	Iceland		Kuwait
Mayotte	UMC	Ireland		Liechtenstein
Mozambique	LIC	Italy		Macao, China
Namibia	LMC	Japan		Malta
Niger	LIC	Luxembourg		Monaco
Nigeria	LIC	Netherlands		Netherlan ds Antilles
Rwanda	LIC	New Zealand		New Caledonia
Sao Tome and		Norway		Northern Mariana Islands
Principe	LIC	Portugal		Qatar
Senegal	LTC	Spain		San Marino
Seychelles	UMC	Sweden		Singapore
Sierra Leone	LIC	Switzerland		Slovenia
Somalia	LIC	United Kingdom		Taiwan, China
South Africa	UMC	United States		United Arab Emirates
Sudan	LIC	<b>Other high income</b>		Virgin Islands (U.S.)
Swaziland	TMC	Andorra		
Tan zania	LIC	Aruba		
Togo	LIC			

This table classifies all World Bank member economies, and all other economies with populations of more than 30,000. Economies are divided among income groups according to 2000 GNI per capita, calculated using the World Bank Atlas mt!lhud. The groups are: low irn;ume (LIC), \$755 or less; lower-middle irn;umc (L\IIC), \$756--2,995; upper-middle income (UMC), \$2,996-9,265; and high income, 59,266 or more.

Source: World Bank *World Development Report* 2002. (New York: Oxford University Press, 2002), p. 241. Reprinted with permission.

# The Structural Diversity of Developing Economies

- Size and income level
- Historical background
- Physical and human resources
- Ethnic and religious composition
- Relative importance of public and private sectors
- Industrial structure

# Development issues –Dept of Economics

- Development and people
- Traditional treatment of development
- World rich and poor
- New meaning of development
- Measuring Development
- Millennium development goals (MDGs)



# ■ Development Focus

- Comparison and contrast development and growth
- economic institutions
- Extreme income gaps
- Sources of economic
- What constraint growth and development
- Making the process inclusive –gender
- prevalence of poverty, extreme poverty
- Rise in population and changing demography
- Education for growth and development
- Rural economies –prevalence and preservation
- Environment and sustainable development
- Too much government
- Private enterprise a panacea for income growth
- Trade for growth , trade diversification
- Picking winners
- Globalization
- Reversal of global integration
- Growing foreign debt
- Domestic policy- fiscal and monetary



## BOX 1.1 The Experience of

### Poverty: Voices of the Poor

*When one is poor, she has no say in public, she feels inferior. She has no food, so there is famine in her house; no clothing, and no progress in her family.*

**—A poor woman from Uganda**

*For a poor person, everything is terrible – illness, humiliation, shame. We are cripples; we are afraid of everything; we depend on everyone. No one needs us. We are like garbage that everyone wants to get rid of.*

**—A blind woman from Tiraspol, Moldova**

*[Poverty is] . . . low salaries and lack of jobs. And it's also not having medicine, food, and clothes.*

**—Participant in a discussion group in Brazil**

*Life in the area is so precarious that the youth and every able person have to migrate to the towns or join the army at the war front in order to escape the hazards of hunger escalating over here.*

**—Participant in a discussion group in rural Ethiopia**

*When food was in abundance, relatives used to share it. These days of hunger, however, not even relatives would help you by giving you some food.*

**—Young man in Nichimishi, Zambia**

*We have to line up for hours before it is our turn to draw water.*

**—Participant in a discussion group from Mbwadzulu Village (Mangochi), Malawi**

*Don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at the utensils and the clothes I am wearing. Look at everything and write what you see. What you see is poverty.*

**—Poor man in Kenya**

# Subsistence economy to development

- **Subsistence economy** An economy in which production is mainly for personal consumption and the standard of living yields little more than basic necessities of life, food, shelter, and clothing. There are few passable roads, few schools, and no hospitals, electric wires, or water supplies. Much of Africa, Latin America and South Asia are in this state, especially the rural communities. In the 21<sup>st</sup> century, this aspect is less visible.
- **Development** The process of improving the quality of all human lives and capabilities by raising people's levels of living, self-esteem, and freedom. Development goes beyond markets which proposes efficient production and rational behavior as the principles. Markets fail to see income gaps, distribution, poverty, malnutrition, gender inequality, even such issues as child labour.

# Traditional economics – neoclassical approach

- ❑ **Neoclassical tradition** is concerned primarily with the efficient, least-cost allocation of scarce productive resources and with the optimal growth of these resources over time so as to produce an ever-expanding range of goods and services.
- ❑ Traditional neoclassical economics deals with an advanced capitalist world of perfect markets; consumer sovereignty; automatic price adjustments; decisions made on the basis of marginal, private-profit, and utility calculations; and equilibrium outcomes in all product and resource markets.
- ❑ It assumes economic “rationality” and a purely materialistic, individualistic, self-interested orientation toward economic decision making

# Alternatives to neoclassical principles

- **Political economy** is an recognition an attempt to merge economic analysis with practical politics—to view economic activity in its political context.
- goes beyond traditional economics to study
- the social and institutional processes through which certain groups of economic and political elites influence the allocation of scarce productive resources
- Political economy is therefore concerned with the relationship between politics and economics, with a special emphasis on the role of power in economic decision making
- However, this alone was not sufficient as the institution could merge with the market. Eg. Sri Lanka until the 1940s.

# Development Economics

- **Development economics** has a broader scope that includes growth, distribution and alleviation of chronic shortcomings of the market
- Its concerned with the efficient allocation of existing productive resources and with their sustained growth over time,
- it also deals with the *economic, social, political, and institutional* mechanisms, both public and private, necessary to bring about *rapid* (at least by historical standards)
- *And improvements* in levels of living for the peoples of Africa, Asia, Latin America, and the formerly socialist transition economies. Unlike the **more developed countries (MDCs)**, in the **less developed countries**, most commodity and resource markets are highly imperfect, consumers and producers have limited information, major structural changes are taking place in both the society and the economy

# Salient aspects for development economics

- Argues that the political economy, must be concerned with the economic, cultural, and political requirements for effecting rapid structural and institutional transformations of entire societies in a manner that will most efficiently bring the fruits of economic progress to the broadest segments of their populations.
- Consequently, a larger government role and some degree of coordinated economic decision making directed toward transforming the economy are usually viewed as essential components of development economics.
- Yet, an indispensable challenge has been that the fact that both governments and markets typically function less well in the developing world

# Key challenges

- The meaning of *development*; the historical record of economic progress in the now developed world, widening income gaps, extreme poverty; malnutrition
- Economic institutions, and how do they shape problems of under-development and prospects for successful development?
- Concepts of development, and their compatibility ; constraints to faster growth, the sources of national and international economic growth;
- unemployment and underemployment in the developing world, issue of urban migration
- the impact of poor public health, education on the prospects for development
- Environmental sustainable development



# Existing macroeconomic challenges

- Corruption and misallocation of resources
- Tradable and non-tradable goods
- Public debt
- Budget deficits
- Widened current account deficits
- Primary exports and falling TOT

# Economies as Social Systems:

## The Need to Go Beyond Simple Economics

- Social Systems

- *Interdependent relationships between economic and non-economic factors*

- Success or failure of development policy

- *Importance of taking account of institutional and structural variables along with more traditional economic variables*

## As Denis Goulet has forcefully portrayed

- ❑ The phenomenon of development or the existence of a chronic state of underdevelopment is not merely a question of economics or even one of quantitative measurement of incomes, employment, and inequality.
- ❑ Underdevelopment is a real fact of life for more than 3 billion people in the world —  
*a state of mind as much as a state of national poverty*

# Dudley Seers posed the basic question about the meaning of development :

The questions to ask about a country's development are therefore:

- ☐ What has been happening to poverty?
- ☐ What has been happening to unemployment?
- ☐ What has been happening to inequality?
- ☐ If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned.
- ☐ If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result “development” even if per capita income doubled.

# What Do We Mean by Development?

## ■ Traditional Economic Measures

- *Gross National Income (GNI)*
- *Income per capita*

## ■ The New Economic View of Development

- *Leads to improvement in wellbeing, more broadly understood*

## ■ Amartya Sen's "Capability" Approach

- *Functioning as an achievement*
- *Capabilities as freedoms enjoyed in terms of functioning*
- *Development and happiness*
- *Well being in terms of being well and having freedoms of choice*
- *"Beings and Doings":*

# Amartya Sen's “Capability” Approach

The view that income and wealth are not ends in themselves but instruments for other purposes goes back at least as far as Aristotle.

Amartya Sen, the 1998 Nobel laureate in economics, argues that the “capability to function” is what really matters for status as a poor or non-poor person.

As Sen put it, “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.”

# Some Key “Capabilities”

- Some Important “Beings” and “Doings” in Capability to Function:
  - *Being able to live long*
  - *Being well-nourished*
  - *Being healthy*
  - *Being literate*
  - *Being well-clothed*
  - *Being mobile*
  - *Being able to take part in the life of the community*
  - *Being happy – as a state of being - may be valued as a functioning*

# What Do We Mean by Development? (cont'd)

## ■ Three Core Values of Development

- *Sustenance: The Ability to Meet Basic Needs*
- *Self-Esteem: To Be a Person*
- *Freedom from Servitude: To Be Able to Choose*



## 1.3 What Do We Mean by Development? (cont'd)

### ■ The Central Role of Women

- *To make the biggest impact on development, societies must empower and invest in women*








### ■ The Three Objectives of Development

- *Increase availability of life-sustaining goods*
- *Raise levels of living*
- *Expand range of economic and social choices*

## 1.4 The Millennium Development Goals

- Millennium Development goals (MDGs)
  - *Eight goals adopted by the United Nations in 2000*
    - Eradicate extreme poverty and hunger
    - Achieve universal primary education
    - Promote gender equality and empower women
    - Reduce child mortality
    - Improve maternal health
    - Combat HIV/AIDS, malaria, and other diseases
    - Ensure environmental sustainability
    - Develop a global partnership for development

# Table 1.1 Millennium Development Goals and Targets for 2015

Goals	Targets
 <p>1. Eradicate extreme poverty and hunger</p>	<ul style="list-style-type: none"> <li>• Reduce by half the proportion of people living on less than \$1 a day</li> <li>• Reduce by half the proportion of people who suffer from hunger</li> </ul>
 <p>2. Achieve universal primary education</p>	<ul style="list-style-type: none"> <li>• Ensure that all boys and girls complete a full course of primary schooling</li> </ul>
 <p>3. Promote gender equality and empower women</p>	<ul style="list-style-type: none"> <li>• Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015</li> </ul>
 <p>4. Reduce child mortality</p>	<ul style="list-style-type: none"> <li>• Reduce by two-thirds the mortality rate among children under 5</li> </ul>
 <p>5. Improve maternal health</p>	<ul style="list-style-type: none"> <li>• Reduce by three-quarters the maternal mortality ratio</li> </ul>
 <p>6. Combat HIV/AIDS, malaria, and other diseases</p>	<ul style="list-style-type: none"> <li>• Halt and begin to reverse the spread of HIV/AIDS</li> <li>• Halt and begin to reverse the incidence of malaria and other major diseases</li> </ul>
 <p>7. Ensure environmental sustainability</p>	<ul style="list-style-type: none"> <li>• Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources</li> <li>• Reduce by half the proportion of people without sustainable access to safe drinking water</li> <li>• Achieve significant improvement in lives of at least 100 million slum dwellers by 2020</li> </ul>

# Table 1.1 Millennium Development Goals and Targets for 2015 (cont'd)

Goals	Targets
 8. Develop a global partnership for development	<ul style="list-style-type: none"><li>• 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</li><li>• 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</li><li>• Address the special needs of landlocked countries and small island developing states</li><li>• Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</li><li>• In cooperation with developing countries, develop and implement strategies for decent and productive work for youth</li><li>• In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries</li><li>• In cooperation with the private sector, make available the benefits of new technologies, especially information and communications</li></ul>

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

# Sustainable development

- growth that relies on running down the natural environment is contrasted with sustainable development, which preserves the ecology on which future income and people's health vitally depend upon
- *“Sustainable Development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”*



# Pillars of Sustainable Development

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- Economic Development – poverty eradication
- Social Development – active participation of women; education; good governance
- Environmental Protection – prevent environmental degradation and patterns of unsustainable Dev.

At the local, national, regional, and global levels

# Changing Unsustainable Patterns of Consumption and Production

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- *Cleaner production technologies*
- *Developing cleaner, more efficient energy technologies*
- *Maintain urban air quality and health, and reduce greenhouse gas emissions*
- *Sound management of chemicals throughout the life cycle, and of hazardous wastes*



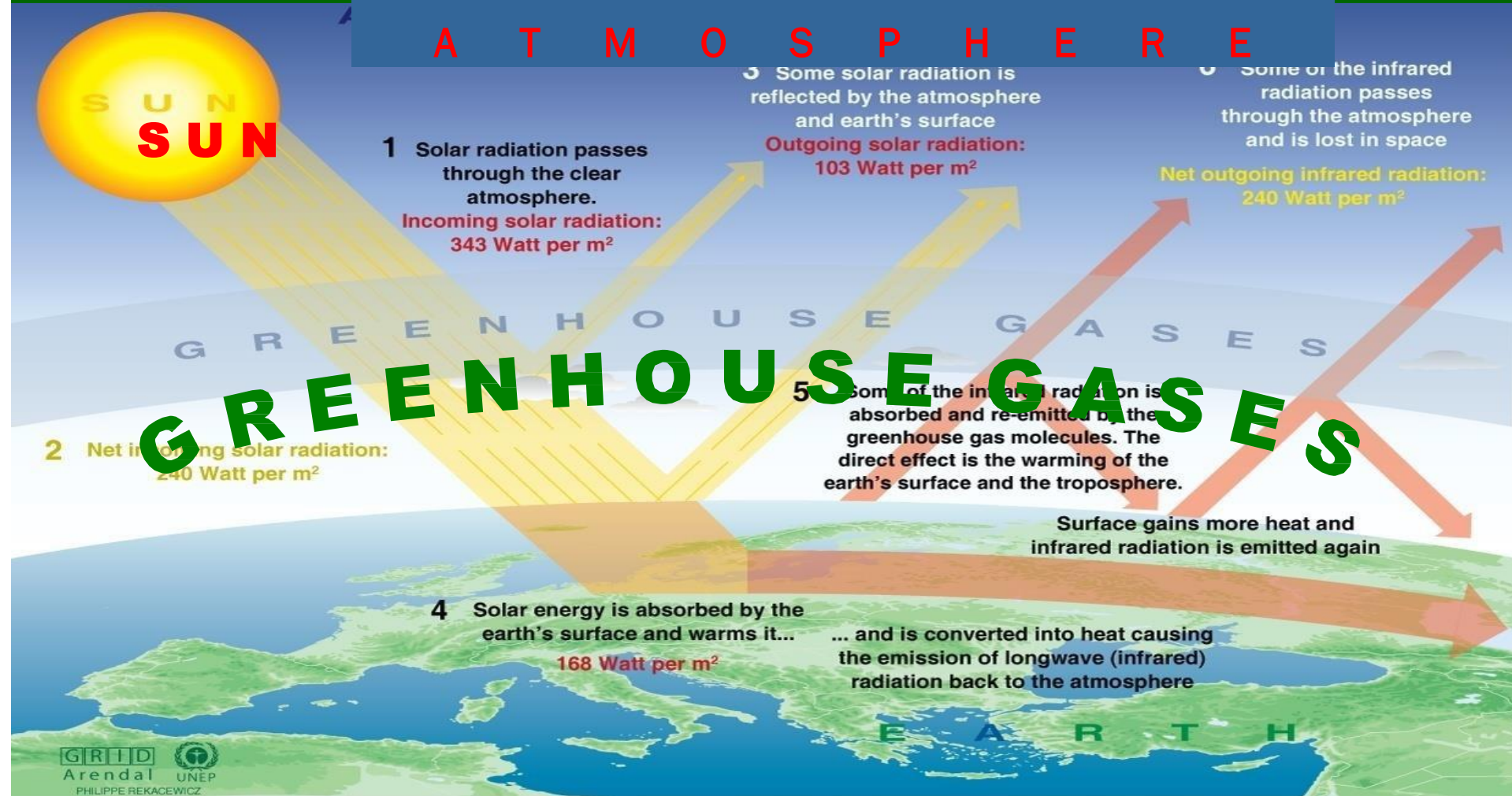
# Issues of Sustainable Development

□ How can we all live well and live within the means of one planet?

❖ This is the question of the 21st century. If we do not design ways to live within the means of one planet, sustainability will remain elusive



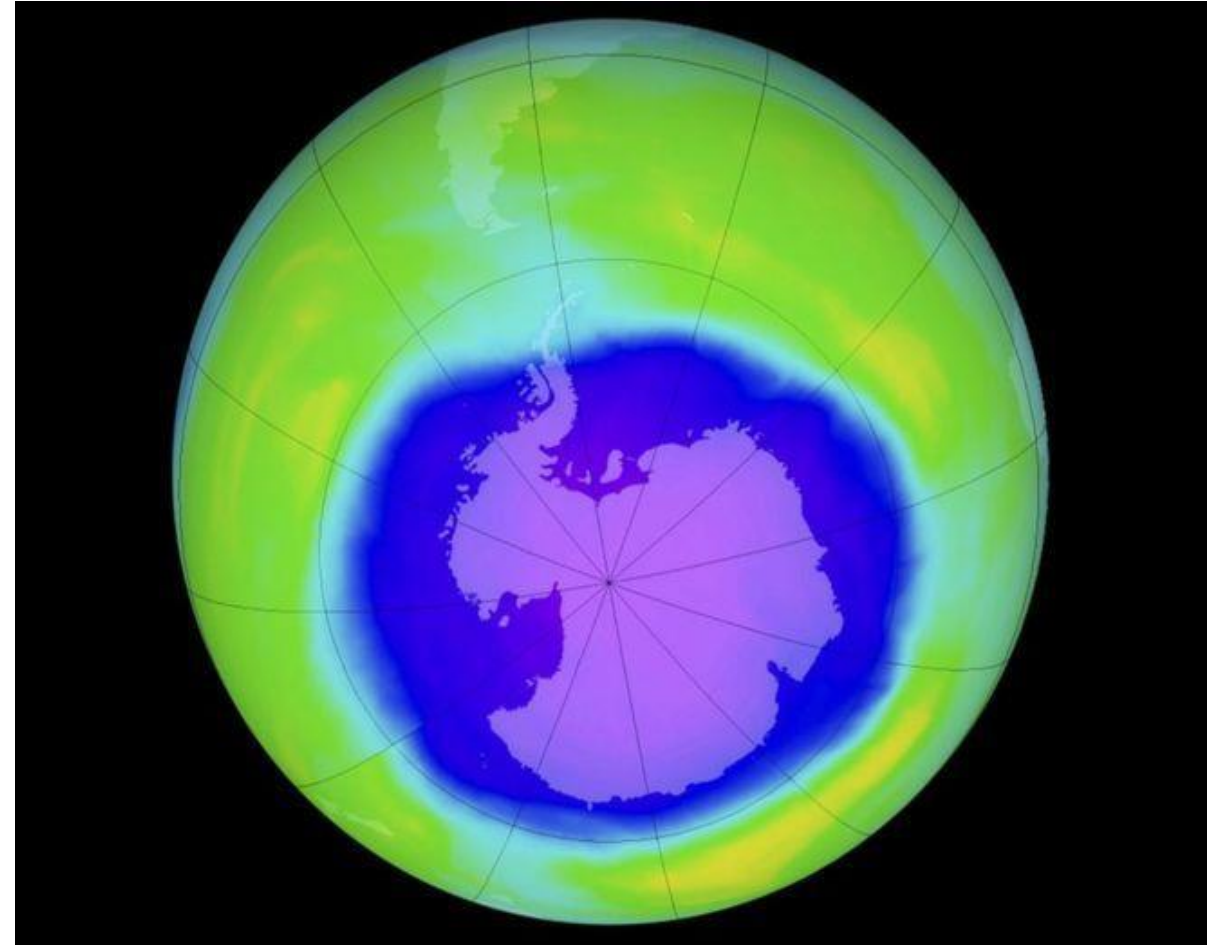
# The Greenhouse Effect



Sources: Okanagan university college in Canada, Department of geography, University of Oxford, school of geography; United States Environmental Protection Agency (EPA), Washington; Climate change 1995, The science of climate change, contribution of working group 1 to the second assessment report of the intergovernmental panel on climate change, UNEP and WMO, Cambridge university press, 1996.

# 'Healing' detected in Antarctic ozone hole

- British scientists first noticed a dramatic thinning of ozone in the stratosphere some 10 km above Antarctica in the mid 1980s.
- The natural production and destruction of ozone in the stratosphere balances itself out over long time, meaning that historically there has been a constant level to protect the Earth by blocking out harmful ultraviolet radiation from the Sun.
- Its absence increases the chances of skin cancer, cataract damage, and harm to humans, animals and plants.
- The scientists said that in September 2015 the hole was around 4 million sq km smaller than it was in the year 2000 - an area roughly the size of India.
- The gains have been credited to the long term phasing out of ozone-destroying chemicals.





# LOCUSTS IN KENY



# FIRES IN AUSTRALIA





# FAMINE IN AFRICA



# Sri Lanka's development

- Discussion of development issues:
- POLICY DIRECTION – CURRENT REGIME

## PRESIDENTS POLICY STATEMENT – EXCERPTS :

- ❑ Our target is to make Sri Lanka a developed country.  
THE people- Centric economic policy INTRODUCED through the “Vistas of Prosperity and Splendour” manifesto aims to ensure :

- \* economic stability for all citizens,
- \* provide equal opportunities to all who seek to improve themselves,
- \* to establish a clean and efficient state sector that is committed to public service, AND
- \* to protect and empower local entrepreneurs.

□ In order to successfully establish a people-centric economy it is important that every official from the highest to the lowest level of government becomes aware of our vision and aims.

\*That will enable them to perform their duties more productively.

\*We must also implement a special programme to combat corruption and fraud.

\*Legal action must be taken promptly against all who engage in corrupt practices, irrespective of their status.

\*Today, most countries have employed technology as a means of enhancing the efficiency of the state sector.

\*Through this, it will also be possible to provide equal opportunities for all.

\*As such, we will pay special attention to increasing the use of technology in government institutions.