

Lecture 1

What is Development?

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*How do you understand development?
What is development?*

The Concept of Development: The Background

One of the earliest discussions of development economics:

Sir William Petty (1676):

"The French grow too fast"

Petty wanted to show that "the King's subjects are not in so bad a condition as discontented Men would make them". So he did a statistical analysis of:

- national income using both the "income method" and the "expenditure method";
- "the common safety";
- "each Man's particular Happiness".

Petty is considered as one of the founders of modern economics and development economics.

The Concept of Development: The Background

An integral part of the concept of **development** is the enhancement of living conditions.

- Standard economics has tended to move away from broad issues of poverty, misery and well-being.
 - ⇒ Development economists have felt it necessary to emphasize and justify their involvement with these problems.
 - ⇒ Development economists started insisting on separating development economics from the rest of economics.

BUT! Tools of standard economics can be used in development economics as well.

Labeling in Development

The modern concept of "**development**" is generally traced back to US President Harry Truman's 1949 Inaugural Address, when he spoke of "*underdeveloped areas*".

- The concept "underdeveloped areas" implies a universal measurement of development and that nations can be assessed against this standard.
 - Those that meet the standards are considered '*developed*'.
 - Those that do not meet the standards are considered '*underdeveloped*'.

Labeling in Development

- In his speech, Truman suggested several criteria for measuring development:
 - *Underdevelopment:*
 - Inadequate food;
 - Disease;
 - Primitive economic life;
 - Poverty.
 - *Development:*
 - Scientific advancement;
 - Industrial progress;
 - Skill and technical knowledge.

Labeling in Development

- Prior to Truman's use of the term, "underdeveloped areas" had been mentioned occasionally in international circles.
- The terms "**backward areas**" or "**economically backward areas**" were more commonly used.
 - The term 'backward' has faded out of use because it has come to be seen as derogatory and verging on supremacist.

Third World

a loose grouping of newly independent countries in the 1950s and 1960s which became associated with the 'non-aligned movement' (countries aligned to neither the USA nor the USSR in the Cold War) launched in 1955.

- Dated by the Cold War, and by a time period when there was a First World (the industrialized countries) and a Second World (the communist block).
- Gradually, the term took on connotations primarily related to poverty at the national level.

Fourth World

has been used in two quite distinct ways:

- 1 The poorest of the poor countries, often the 'failed states', which have experienced serious setbacks in human wellbeing and political governance, typically in connection with armed conflict.
Example: Somalia.
- 2 Internal colonization of Aboriginal peoples, whose status and citizenship rights vary considerably globally but who have frequently suffered dispossession and abrogation of political, economic, social, and cultural rights within countries where the dominant settler group has acted as a colonizer.

Labeling in Development

- 1 *For each of the following labels for developing countries, what critique can you suggest (connotation, etc.)? How do these labels sound to you?*

Common Labels for Developing Countries

- Developing countries.
- Low income countries.
- The South.
- Majority world.
- Post-colonial societies.
- Non-OECD countries.

Labeling in Development

Common Labels for Developing Countries and Critiques

- **Developing countries:** too counterfactual or optimistic a term for many countries.
- **Less developed countries:** too patronizing a term - strongly suggesting inferiority.
- **Low income countries:** too economically determinist.
- **The South:** not geographically perfect but the term used by both the 1980 Brandt Commission and the 1990 South Commission.
- **Majority world:** too general to say the countries account for 80% of the world's population.
- **Post-colonial societies:** too historically determinist - are countries that have had independence for several hundred years, still framed by that colonial experience.
- **Non-OECD countries:** those countries that are not members of the OECD, the body representing the interests of industrialized countries.

Labeling in Development

- A number of descriptions for groupings have emerged in the literature, most of which tend to differentiate between countries which are perceived to have experienced some form of '*good change*' (i.e. they are 'developing') and those which have not (i.e. they are 'least developed').
- These descriptions tend towards placing significance on economic elements of the groupings' characteristics.

Labeling in Development

Groupings Used by International Development Agencies

Countries with low income per capita

The World Bank groups countries by income based on Gross National Income per capita in 2005. Low income is below US\$875 per person. Lower middle income is US\$876 to US\$3,465. Upper middle income is US\$3,466 to US\$10,725 and High income is US\$10,726 or above, (World Bank, 2007: 285)

Countries with low 'human development'

The UNDP has low, middle and high human development countries based on education and health criteria as well as income in their Human Development Index (a composite measure of income, health and education).(UNDP, 2006)

Countries which are 'least developed'

UNCTAD has a 'Least Developed Countries' criteria (50 countries in 2006) based on 3 components - a) Gross National Income per cap. or US\$750-900 per cap. (3 yrs avg 2002-2004), b) indicators for human assets (nutrition, child mortality, school enrollment, adult literacy) and c) an economic vulnerability indicator and 'remoteness'. (UNCTAD, 2006: 25-32)

Labeling in Development

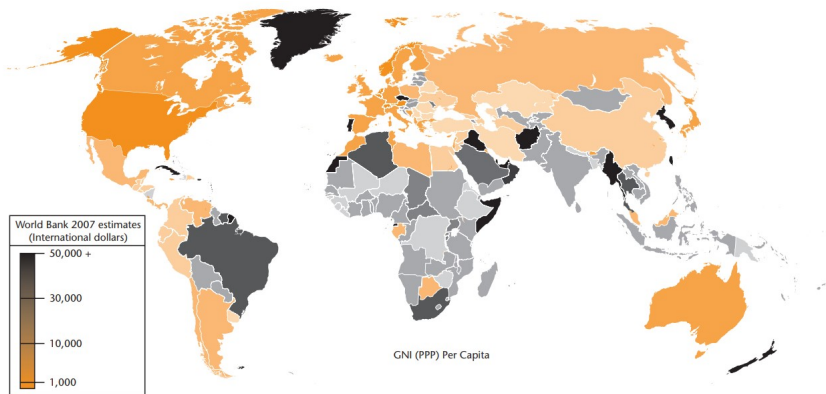


FIGURE I.1 Gross National Income Per Capita, 2007

Source: World Bank, accessed at: [en.wikipedia.org/wiki/List_of_countries_by_GNI_\(PPP\)_per_capita](https://en.wikipedia.org/wiki/List_of_countries_by_GNI_(PPP)_per_capita).

Labeling in Development

② *What do these acronyms stand for?*

Acronyms Relating to International Development

BRIC

BRICET

HIPC

LDC

LIC

LICUS

LLDC

LMC

MIC

NIC

UMC

Labeling in Development

Acronyms Relating to International Development

BRIC: Brazil, Russia, India and China

BRICET: Brazil, Russia, India, China, Eastern Europe and Turkey

HIPC: Heavily Indebted Poor Country

LDC: Less Developed Country

LIC: Low Income Country

LICUS: Low Income Country Under Stress

LLDC: Land-locked Developing Countries

LMC: Lower Middle Income Country

MIC: Middle Income Country

NIC: Newly Industrializing Country

UMC: Upper Middle Income Country

Newly Industrialized Countries

also referred to as "**emerging markets**". Fry and Martin (1991: 51) list four economic criteria:

- 1 manufactured goods contributing 30% of GDP;
- 2 manufactured goods as 50% of total exports;
- 3 a shift in employment from agriculture to industry;
- 4 per capita income of at least US\$2,000.

Transition Countries

countries of Eastern Europe, former members of the Soviet Union, and others in transition from a state planned economy to some form of market economy - such as China, Mongolia, Vietnam, Cambodia and Laos.

Indicators of "Development"

- Development indicators have evolved considerably since the 1960s.
- The search has involved 3 particular problems:
 - ① Non-existent, incomplete or unreliable data.
 - ② Mis-match between the economic series which are widely available (such as per capita income) and the concepts for which data is sought (such as development, welfare and poverty).
 - ③ Some of the concepts are inherently non-quantitative in nature.

Indicators of "Development"

Growth

- Development has most frequently been equated with growth of the economy over a prolonged period of time.
- This approach was most common during the 1950s and 1960s.
- GDP per capita figures are usually adjusted by purchasing power parities (PPPs), which take into account the different buying power of a dollar in different economies.
- However, growth rates in developing countries are very volatile and may be high one year and low the next.
- In contrast, developed countries generally have slower GDP growth rates, usually between 2 and 3.5%, but these rates are more stable over time.
- ③ *What are the limitations of using the growth rates of GDP as an indicator of development?*

Indicators of "Development"

Growth

Limitations:

- It is an estimate that depends on the quality of information collected by government statistical agencies.
- It fails to count the 'value' of non-market subsistence activities.
- GDP tells us relatively little about the extent of poverty.
- It is possible for countries to grow rapidly in GDP per capita but for only the richest segments of society to benefit.

Indicators of "Development"

Inequality

- The distribution of income (also known as income inequality) is a measure of how the wealth of a country is distributed amongst its population:
 - what share of that wealth is owned by the rich;
 - how much the poorest earn in comparison to the wealthiest.
- Income inequality can be measured in 2 ways:
 - 1 A comparison of the income earned by different strata of the population;
 - A standard comparison is between the earnings of the wealthiest 20% of the population and the poorest 40%.
 - 2 the Gini coefficient.
 - A number between 0 and 1 where the higher score means more inequality.

Indicators of "Development"

Poverty

The World Bank distinguishes between absolute and moderate poverty in much of its work.

- *Absolute poverty* refers to being below the minimum level of income required for physical survival.
 - The World Bank defines this level at US\$1.25 per day measured at 2005 PPP dollars.
- *Moderate poverty* is typically considered to be an income of US\$2 per day, a level at which basic needs are barely met but survival is not actually threatened.
- *But is development only about growth, inequality and poverty?*

Indicators of "Development"

Development

The idea that development involved much more than economic growth or an increase in income per capita began to gain ground in the late 1960s.

- Six conditions of development (Seers 1979):
 - ① Adequate income to cover the needs of basic survival;
 - ② Employment;
 - ③ Improvement in the distribution of income;
 - ④ Education, particularly literacy;
 - ⑤ Political participation;
 - ⑥ National autonomy (belonging to a politically and economically independent nation).
- Denis Goulet asserted that development should promote:
 - 'life-sustenance':
 - food, clothing, health, and shelter.
 - self-esteem:
 - dignity and identity of the individual.
 - freedom:
 - an expanded range of choice and freedom from 'servitudes'.

Indicators of "Development"

- The UNDP *Human Development Report* was established in 1990 thanks to the influential work of Amartya Sen, Mahbub ul Huq, Richard Jolly, Frances Stewart and Meghnad Desai at the UNDP.
- It provided a new framework known as "**Human Development**" or the "**Capabilities Approach**" and a related set of composite indicators led by the UNDP's Human Development Indices.
- The most widely used are
 - the Human Development Index (HDI);
 - the Gender Development Index (GDI);
 - the Human Poverty Index (HPI):
 - 1 HPI-1 for developing countries;
 - 2 HPI-2 for industrialized countries.

Indicators of "Development"

TABLE 1.1

GNP per capita and selected social indicators

Country	GNP per capita (US\$)	Life expectancy (years)	Adult literacy (%)	Infant mortality (per 1,000 live births)
<i>Modest GNP per capita with high human development</i>				
Sri Lanka	400	71	87	32
Jamaica	940	74	82	18
Costa Rica	1,610	75	93	18
<i>High GNP per capita with modest human development</i>				
Brazil	2,020	65	78	62
Oman	5,810	57	30	40
Saudi Arabia	6,200	64	55	70

Indicators of "Development"

People value their ability to do certain things and achieve certain types of beings:

- being well nourished;
- being free from avoidable morbidity;
- being able to move about as desired, and so on.

⇒ These "doings" and "beings" are called **functionings** of a person.

The well-being of a person can be seen as an evaluation of the functionings achieved by that person.

⇒ This approach is used in the literature on "the quality of life".

It is important to judge **development** in terms of *functionings achieved*, or *ends* rather than *means*.

How to relate the means to the ultimate end should become the central focus of development analysis and planning.

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