Introducing Economic Development: A Global Perspective

Chapter 1

Econ 322 – The Global Economy: Trade and Development

University of Tennessee, Knoxville

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Overview

- **Two Faces of the Developing World**
  - **Persistent poverty**: rural hardship in Africa; overcrowded, unsanitary slums in South Asia and Latin America
  - **Rapid progress**: explosive growth in regions like coastal China



Paraisópolis favela, São Paulo.

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Futian district, Shenzhen, today.

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In this chapter

- **Introduction to Some of the World's Biggest Questions**
- **How Living Levels Differ Around the World**
- **How Countries Are Classified by Their Average Levels of Development**
- **Economics and Development Studies**
- **The Meaning of Development: Amartya Sen's "Capability" Approach**
- **Happiness and Development**
- **The Sustainable Development Goals: A Shared Development Mission**

1.1 Introduction to Some of the World's Biggest Questions

- **Fundamental Questions of Development Economics**
- Why are **some countries rich and others poor**?
- Why do **gaps in income, health, education, and freedoms** persist?
- Why is **productivity (output per worker)** vastly higher in some nations?
- Why do some workers have **secure jobs**, while others rely on the **informal sector**?
- Why are **population trends** diverging—rapid growth in some, decline in others?
- Why do **public services** vary so widely in **quality and integrity**?
- Why have some **formerly poor countries progressed**, while others have stalled?
- How have **child mortality and illness rates declined**, and what more can be done?

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Voices of the Poor: The Human Face of Poverty

- "She has **no food, no clothing**, and no progress in her family."— Poor woman, Uganda
- "We are like **garbage** that everyone wants to get rid of."— Blind woman, Moldova
- "The youth must **migrate** or join the army to escape hunger."— Ethiopia
- "These days of **hunger**, not even relatives help."— Zambia
- "We line up for hours to **get water**."— Malawi
- "It's not just low income — it's also **no medicine, food, or clothes**."— Brazil
- "Look at my house, the holes, my clothes — that is poverty."— Kenya

Four Stylized Living Standards Strata

Stratum	Income	Key Characteristics
1. Extreme Poverty	~$1.40/day	Rural subsistence; food insecurity; no electricity or sanitation; walk for unsafe water
2. Low Income	~$3.80/day	Informal jobs; improved stoves; outdoor tap; basic education; vulnerable to poverty
3. Lower-Middle Income	~$15/day	Urban; motorbike; piped water; some secondary schooling; mobile phones; modest comfort
4. High Income	~$75+/day	Formal jobs; modern homes; appliances; higher education; cars; internet; long life span

Note: The four individual/family strata approach is inspired by, and some details drawn from, Hans Rosling, *Factfulness* (2018).



Hans Rosling (1948–2017), whose "four levels" inspired these strata.

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"Typical" Conditions in the Poorest of the Strata (1/2)

- Close to one billion people live at the lowest stratum
- A majority of them live below the $1.90 per day extreme poverty line
- Often live in remote rural areas
- The majority of food is grown by the people who consume it
- Shelter and furnishings are often made by those who use them
- Few passable roads, particularly in the rainy season
- Younger children attend school irregularly; school may be difficult to access
- Many have never seen a high school
- No hospitals, no electricity connection
- No improved water supplies; water collected in reused commercial buckets from sources (such as a spring or stream) that are often contaminated; a kilometer or more walk from home

"Typical" Conditions in the Poorest of the Strata (2/2)

- Walk in battered flip-flop sandals (if not bare feet)
- Children may be malnourished, suffering from conditions including protein deficiency
- Food tends to be the same every meal, often lacking in vital nutrients.
- Food cooked over an open fire in your mud house
- Smoke escapes from a hole in the roof, likely causing breathing problems
- When it rains the roof may leak
- Floor may be just mats over mud, on which the family sleeps
- Parasites may gain entry to the house through the floor.

"Typical" Conditions in Second-lowest of the "Strata" (1/2)

- Close to 3 billion people live in second-lowest strata
- Typical person in this "strata" not officially classified as extremely poor
- (From perspective of a rich country seem very poor indeed)
- Typical family may live on about twice the $1.90 per person poverty line
- Almost as likely to live in an urban area (or peri-urban area)
- Employment probably informal, companies not registered, no worker protections
- Or, work in own small family enterprises
- Get around with well-used but functioning bicycles

"Typical" Conditions in Second-lowest of the "Strata" (2/2)

- Water from a tap, typically outdoors; may walk or bike 50+ meters to get there
- Water often still unsafe (without boiling or adding chlorine)
- Majority do not cook over open fires; use kerosene or other improved energy source
- Family usually has improved floor; often improved walls and roof
- But house still somewhat subject to the elements
- Sleep disrupted by seemingly constant noise
- Likely suffer from one or more components of multidimensional poverty –
- But for at least 80%, fewer deprivations than classified "multi-dimensionally poor" (explained in Chapter 5)

"Typical" family in the second-highest of the strata (1/2)

- More than two billion people in the second-highest stratum
- Could have $15 per person per day
- (More than three-quarters of people in the world lives on less than $15 a day)
- Family considered solidly middle income by global standards
- Such families typically live in urban areas
- Jobs still usually not very stable and often informal
- Cooking on manufactured burners using kerosene, or electric plates
- Have a television in their house

"Typical" family in the second-highest of the strata (2/2)

- Get around with a motorbike
- Children are likely to survive early childhood
- Probably attend some post-primary school, though often not complete it
- Most adults and many teenagers have a mobile phone (typically not a smartphone)
- Water is typically delivered through a tap to their house
- A majority lack what people in the highest of strata consider full indoor plumbing
- Their city likely exhibits high inequality; sharp contrasts in living conditions

"Typical" family in highest of the strata (1/2)

- Close to a billion people live in the highest stratum
- Most other people in the world would consider them rich
- They are some distance above the World Bank high-income line
- A family in this strata might live on $75 per person per day
- Many may feel their status is precarious, aware of the gulf between their life and the ultra-rich, but most still work in formal jobs, generally with some protections
- Live in a comfortable suburban house with a yard, or a large apartment
- Full indoor plumbing is taken for granted
- Many comfortable features, including often a separate bedroom for each child
- Central air conditioning, central heating, as prompted by the climate

"Typical" family in highest of the strata (2/2)

- House filled with consumer goods, including high-speed internet, smartphones, laptops, home entertainment centers...
- Array of appliances - stove, refrigerator, dishwasher, microwave
- Access to fresh food year-round, though they may eat fast food
- Children would probably be healthy, except for a growing incidence of obesity
- Children generally get good medical care if they need it
- Would expect to complete their secondary education
- Likely to gain at least some postsecondary education
- Choose from a variety of careers
- Can expect to live to an average age of close to 80 years

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World Bank Income Classification (2018)

Category	GNI per capita	Examples / Notes
Low-Income (LIC)	<$1,026	~10% of world population (~750M); mostly in Sub-Saharan Africa
Lower-Middle Income	$1,026–$3,895	Includes many former LICs like India; still large numbers of poor
Upper-Middle Income	$3,896–$12,055	Includes China, Brazil; growing rapidly
High-Income (HIC)	$12,056+	~16% of global population; includes U.S., Japan, Chile, Hungary, UK, etc.

Categories are based on GNI per capita and are updated annually by the World Bank; they let organizations compare living standards and design tailored aid and policy programs.



World Bank headquarters, Washington, D.C.

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Beyond Income: Trends and Limitations (1/2)

- **Shifting Global Landscape Since 1990**
- In 1990, over 50% of the world lived in low-income countries.
- Rapid income growth in:
  - China: became Lower-Middle Income (LMC) in 1999, Upper-Middle (UMC) in 2010
  - India: became LMC in 2007
- Many other countries have moved up to middle-income status since the 1990s.
- **Averages Can Mislead**
- Income inequality within countries is significant and varies widely.
- Well-being $\neq$ income alone

Beyond Income: Trends and Limitations (2/2)

- **UN Human Development Index (HDI)**
- Combines income, education, and health outcomes
- Regional HDI levels (2018):
  - OECD countries: Very High
  - East Asia, Latin America: High
  - South Asia, Arab States: Medium
  - Sub-Saharan Africa: Low
- Access to health and education is also uneven within countries

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Wider Scope of Study (1/2)

- **Multidisciplinary Nature of Development Economics**
- Goes beyond traditional economics; it's **empirical, model-based**, and **broadly interdisciplinary**.
- Includes elements from **political economy, institutional, behavioral, and experimental economics**, and draws from **history, politics, sociology, and psychology**.
- **Broader Topics and Challenges**
- Tackles **resource allocation**, but also **the institutional, social, and political mechanisms** behind development.
- Deals with **market imperfections, information limitations, structural transformation**, and the possibility of **multiple or unstable equilibria**.
- Recognizes **non-economic motives** (tribal, religious, or political) that influence decision-making in developing countries.

Wider Scope of Study (2/2)

- **Unique Focus on Transformation and Poverty Traps**
- Focused on large-scale structural change that benefits the entire population.
- Emphasizes poverty traps and strategies for breaking them.
- Typically supports a greater government role and coordinated economic planning, even though both states and markets may be weak in LICs and MICs.
- **Geographic and Conceptual Scope**
- Covers Asia, Africa, Latin America, the Middle East, and transition economies in Europe.
- Insights are also used to understand underdeveloped areas within high-income countries.
- **A Dynamic and Evolving Field**
- Constantly integrates new data and emerging theories.
- Balances theoretical tools with real-world complexities.
- Purpose: to improve human well-being worldwide.

The Central Role of Women

- **Women's Disadvantage and Responsibility**
- Women in developing countries are generally poorer, less educated, and have fewer freedoms.
- They often carry primary responsibility for children's health, nutrition, and education.
- **Economic and Social Influence**
- Women tend to allocate more resources to children's welfare than men do.
- They also play a key role in transmitting values across generations.
- **Development Imperative**
- Empowering women is crucial to breaking the intergenerational cycle of poverty.
- Investing in women leads to broader social and economic returns.

A Broader View of Development

- **Broader View of Development**
- Development is not just economic growth—it includes social structure changes, institutional reform, attitude shifts, and reducing inequality.
- **Amartya Sen's Vision**
- Development is about expanding human freedoms and capabilities, not just income.



Amartya Sen, Nobel laureate (1998). *Wikimedia Commons, Fronteiras do Pensamento, CC BY-SA 2.0*

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What Do We Mean by Development?

- **Traditional Economic Measures**
- Gross National Income (GNI)
- Income per capita
- Utility of that income?
- **The New Economic View of Development**
- Leads to improvement in wellbeing, more broadly understood
- **Amartya Sen's "Capabilities" Approach**
- Functioning as an achievement
- Capabilities as freedoms enjoyed in terms of functionings
- Development and happiness
- Well-being in terms of being well and having freedoms of choice
- "Beings and Doings"

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 physically secure
- 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 other examples would you suggest are important?

Details on Amartya Sen's Capability Approach 1

- Sen: "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."
- What matters fundamentally is not things a person has—or feelings these provide—but what a person is, or can be, and does, or can do
- That is, not just characteristics of commodities consumed as in the utility approach, but the uses a consumer can and does make of commodities
- Think beyond the availability of commodities and consider uses to address "functionings" - what a person does (or can do) with commodities of given characteristics they come to possess or control
- Valued functionings range from very basic - being adequately nourished to very complex - e.g., being able to take part in community life

Details on Amartya Sen's Capability Approach 2

- **Disparities between income and advantages are due to factors including:**
- Personal heterogeneities
- Environmental diversity
- Variations in social climate
- Intra-household distribution
- Differences in relational perspectives, such as minimal social expectations

Equal income does not imply equal capability: a person with a disability, in a cold or disease-prone climate, in an unsafe neighbourhood, or in a household that shares resources unequally needs more income to achieve the same functionings.

Details on Sen's Capability Approach 3

- Measuring individual well-being by levels of consumption of goods and services confuses the role of commodities by regarding them as ends in themselves rather than as means to an end
- For nutrition, the end is health and what one can do with good health, as well as personal enjoyment and social functioning
- Measuring well-being with utility is not a sufficient improvement over measuring consumption to capture the meaning of development
- A person's own valuation of what kind of life would be worthwhile is not necessarily the same as what gives pleasure to that person

Details on Sen's Capability Approach 4

- Consider functionings as resulting from choices, given capabilities
- "The functioning of a person is an achievement; it is what the person succeeds in doing with the commodities and characteristics at his or her command... bicycling has to be distinguished from possessing a bike... [and] from the happiness generated by [bicycling]...
- Or you can think of goods leading in part to functioning, and from there to "utility" (as happiness resulting from functioning)
- Sen suggests subjective well-being as a psychological state is a functioning—that could be pursued alongside functionings such as health and dignity

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Happiness and Human Well-Being

- Happiness is an important part of well-being and may expand one's capability to function.
- Amartya Sen's view:
  - Happiness can be a valued function but should not be the sole goal of development.
- Development is about more than economic growth—it's about freedoms, health, education, and dignity.

Happiness alone can mislead: people may feel content despite severe deprivation (adaptive preferences), or unhappy despite freedom and dignity. Sen treats happiness as one valued functioning among others such as being healthy, educated, and respected.

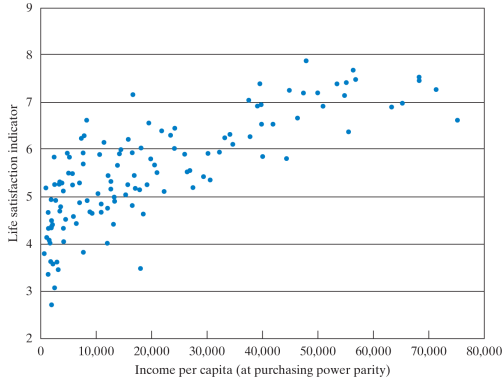
Factors That Affect Happiness (Richard Layard)

- **Income is just one component of happiness.**
- **Other major contributors:**
- Family relationships
- Work and employment
- Health
- Personal freedoms and values
- Community ties and social trust
- Democratic quality of government
- Religious or spiritual beliefs

Broader Perspectives on Happiness and Development

- **Bhutan's "Gross National Happiness" index:**
- Goes beyond GDP by including capabilities: health, education, and freedom.
- Inspired by Sen's framework.
- **2010 Stiglitz-Sen-Fitoussi Commission:**
- Subjective well-being includes:
- Cognitive life evaluations (life satisfaction)
- Emotions (joy, pride, anxiety, pain)
- Recommends separate measurement of each dimension.

Figure 1.1 Income and Happiness: Comparing Countries



Note: The data on the x-axis is drawn from the World Bank World Development Indicators. The y-axis uses the Cantril Self-Anchoring Striving Scale from the Gallup World Poll, asking respondents to imagine a ladder with steps from 0 (worst possible life for you) to 10 (best possible life for you) and answer. On which step of the ladder would you say you personally feel you stand at this time?

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From the MDGs (2000–2015) to the SDGs (2015–2030)

- **Millennium Development goals (MDGs): Eight goals adopted by the United Nations in 2000, a blueprint for the subsequent 15 years (to 2015)**
- 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

MDG Retrospective: Was the Glass Half Full or Half Empty?

- Shorthand: "Halving Poverty" (and Halving Hunger)
- Income poverty target reached – by official definition of fraction living under $1 a day equivalent (now adjusted to $1.90)
- Progress on hunger (fraction hungry fell from about 23% to 14%) but not halved – and nearly 900 million still hungry
- Under-5 Mortality dropped 41%: progress; but not nearly cut by two-thirds
- Maternal deaths about halved – but not cut by three-quarters
- Clean drinking water target met, and slum target met; sanitation goal not met
- Great progress against several diseases including TB and malaria
- Progress on enrollments, but universal goal not met - 57 million children still not in primary school – generally the poorest
- Development assistance is now probably falling in real terms

Criticisms of the Original MDG Framework (1/2)

- Not ambitious enough, it merely projects past rates of improvement
- Goals not prioritized; stove-piped: overlooks goal complementarity
- Setting a specific end date could discourage aid if the targets are not met
- The $1.25 a day poverty measure misses the intensity of poverty
- $1.25 (or $1.90 as purchasing-power adjusted) per day is too low a bar
- Lack of goals on reducing rich country agricultural subsidies, which harm low-income farmers in developing countries

Criticisms of the Original MDG Framework (2/2)

- Nothing on improving the legal and human rights of the poor
- No goals for slowing climate change, which is harming developing countries
- Nothing on expanding gender equity outside of/beyond education
- 15 years was too long to prod early action and accountability of leaders
- No goal on a global social safety net guaranteeing a minimum standard of living
- Did not seem to apply to developed countries except as aid donors
- For discussion: As you read about the Sustainable Development Goals (SDGs), to what extent were these MDGs' criticisms addressed?

Table 1.1 The 17 Sustainable Development Goals (1/4)

- Goal 1. End poverty in all its forms everywhere
- Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- Goal 3. Ensure healthy lives and promote well-being for all at all ages
- Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Goal 5. Achieve gender equality and empower all women and girls

Source: United Nations, Sustainable Development Goals (sustainabledevelopment.un.org)

Table 1.1 The 17 Sustainable Development Goals (2/4)

- Goal 6. Ensure availability and sustainable management of water and sanitation for all
- Goal 7. Ensure access for all to affordable, reliable, sustainable, modern energy
- Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Source: United Nations, Sustainable Development Goals (sustainabledevelopment.un.org)

Table 1.1 The 17 Sustainable Development Goals (3/4)

- Goal 10. Reduce inequality within and among countries
- Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable
- Goal 12. Ensure sustainable consumption and production patterns
- Goal 13. Take urgent action to combat climate change and its impacts

Source: United Nations, Sustainable Development Goals (sustainabledevelopment.un.org)

Table 1.1 The 17 Sustainable Development Goals (4/4)

- Goal 14. Conserve and sustainably use oceans, seas and marine resources for sustainable development
- Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
- Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
- Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development

Source: United Nations, Sustainable Development Goals (sustainabledevelopment.un.org)

Chapter summary

- Development economics asks why some countries are rich and others poor, and why gaps in income, health, education, and freedoms persist.
- Living standards span four stylized strata, from extreme poverty (about \$1.40/day) to high income (\$75+/day); the World Bank classifies countries by GNI per capita, but averages hide inequality and well-being is more than income.
- Sen's capability approach: development means expanding what people are able to be and do (functionings and freedoms), not just commodities or utility.
- Happiness is a valued functioning but not the sole goal of development.
- The MDGs (2000–2015) made real but uneven progress; the 17 SDGs (2015–2030) broaden the agenda to inequality, cities, climate, and institutions.

Concepts for Review

- Absolute Poverty
- Attitudes
- Capabilities
- Developing countries
- Development
- Development economics
- Freedom
- Functionings
- Globalization
- Gross domestic product
- Gross national income (GNI)
- Income per capita
- Institutions
- Less developed countries (LDCs)
- Millennium Development Goals (MDGs)
- More developed countries (MDCs)
- Political economy
- Self-esteem
- Social system
- Subsistence economy
- Sustenance
- Traditional economics
- Values