

Economic Development: Concepts and Measurement

Dilip Mookherjee

Ec320 Lecture 1, Boston University

Sept 2014

Economic Development: What Does It Mean?

- **High living standards** (per capita income)
- Is this sufficient?
- What about Haiti in 1600? South Africa in 1990?
- So we also need **low poverty and inequality**

What Else?

- What about Kuwait with a pci of \$85K and 7.2 average years of schooling? Or Saudi Arabia which had over 20% of the population illiterate in 2000?
- Amartya Sen: development as freedom: development of human capabilities?
- Add requirement of **high standards of education and health**
- United Nations *Human Development Index (HDI)*: based on p.c.i., average life expectancy, years of schooling, and infant mortality rate
- UN MDG also stresses: Gender empowerment

What Else?

- Low crime; lack of insecurity
- Quality of environment: natural resources, sustainability
- Human Rights: civil liberties, absence of discrimination or corruption, democracy

UN Millennium Development Goals for 2015

1. Reduce extreme poverty and hunger by a half
2. Universal primary education
3. Eliminate gender disparity in education
4. Reduce child mortality by $\frac{2}{3}$
5. Reduce maternal mortality by $\frac{3}{4}$
6. Combat HIV/AIDS, malaria and other diseases

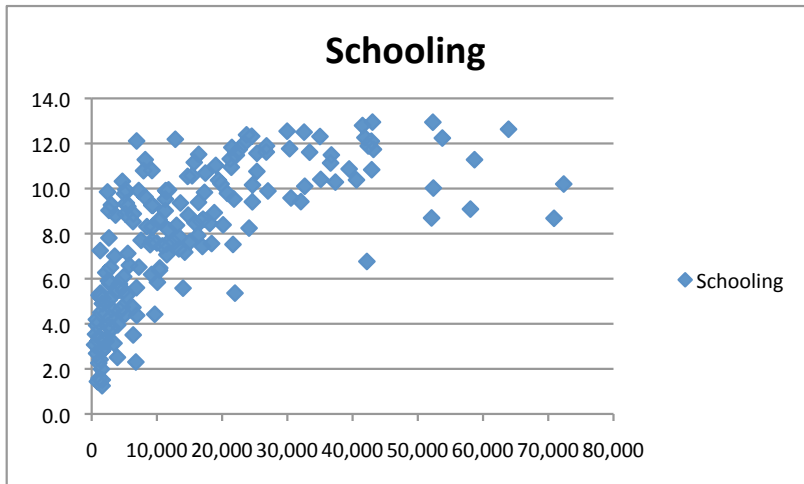
UN Millennium Development Goals for 2015, continued

7. Environmental sustainability:
 - sustainable development policies
 - reduce biodiversity loss
 - halve proportion lacking access to safe drinking water and sanitation
 - improve lives of slumdwellers
8. Global partnership for development:
 - nondiscriminatory financial and trading system
 - special needs of LDCs
 - debt relief for LDCs...

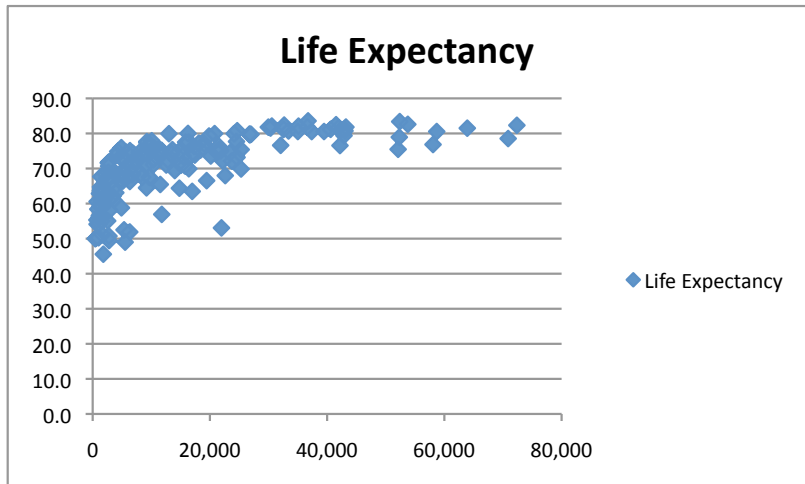
Too Many Goals?

- Lose focus?
- Confusing ends and means?
- Connections between achievement of different goals?

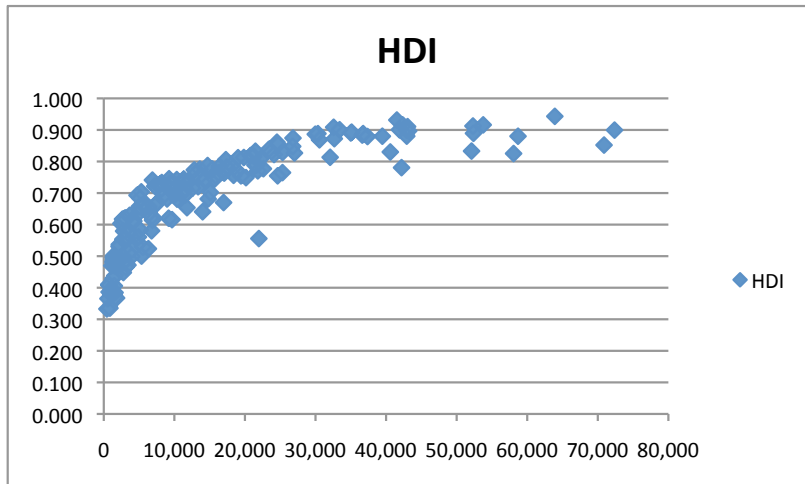
How Does Per Capita Income Relate to Human Development?



How Does Per Capita Income Relate to Human Development? (contd.)



How Does Per Capita Income Relate to Human Development? (contd.)



Primary Focus on Per Capita Income?

- The Lucas argument (opening quote in Ch 2 of text)
- The Streeten counter-argument (also opening of Ch 2):
 - relationship is loose
 - direction of causality?

How Much Does P.C.I. Vary Across Countries?

- To answer this, need to have measures of p.c.i. that are comparable across countries
- How to compare? Using official exchange rates? McDonalds exchange rate?
- Variations in prices of nontraded goods and services across countries
- Need for PPP corrections
- International Comparisons Project (1990 World Penn Tables, 2011ICP)

2011 ICP (US\$), PCI Across Continents

	PPP	XR
Africa	4044	1838
Asia	7621	3527
Latin America	12443	9366
Gulf	17449	8403
CIS	17716	9870
Europe-OECD	33675	34067

2011 ICP (US\$), PCI Across Countries

	PPP	XR
USA	49782	49782
Luxembourg	88670	111689
Germany	40990	44365
Singapore	72296	51242
China	10057	5456
India	4735	1533
Botswana	13409	7381
Benin	1766	801
Niger	852	399

LPCI Comparisons: Orders of Magnitude

- Across Continents: 8 : 1 between Euro-OECD and Africa
- Across Countries: 100 : 1 between Luxembourg and Niger
- These wide inter-country disparities are a relatively recent phenomenon

Evolution of PCI Disparities Since 1820

	1820	1870	1910	1950	1992
World PCI (1990 USD PPP)	659	890	1460	2146	4912
Within-Country Inequality	.46	.48	.50	.32	.34
Across-Country Inequality	.06	.19	.30	.48	.51

'The' Question of Economic Development

- This motivates the first question in development economics:
- **What explains the differences in PCI across countries?**
- Since they were all similar around 1800, what happened in the last 200 years?
- Now-developed countries must have grown faster
- *So what explains differences in growth rates across countries?*