Economic Development: Concepts and Measurement

Dilip Mookherjee

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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 slum dwellers

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?

Schooling

[Scatter plot showing the relationship between schooling and per capita income.]
How Does Per Capita Income Relate to Human Development? (contd.)

![Life Expectancy Graph]

- Life Expectancy
- Income

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

The figure shows a scatter plot with per capita income on the x-axis and HDI (Human Development Index) on the y-axis. The data points suggest a positive correlation between per capita income and HDI.
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

<table>
<thead>
<tr>
<th>Continent</th>
<th>PPP</th>
<th>XR</th>
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</thead>
<tbody>
<tr>
<td>Africa</td>
<td>4044</td>
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### 2011 ICP (US$), PCI Across Countries

<table>
<thead>
<tr>
<th>Country</th>
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<tbody>
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<td>USA</td>
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<td>Botswana</td>
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<td>Benin</td>
<td>1766</td>
<td>801</td>
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<tr>
<td>Niger</td>
<td>852</td>
<td>399</td>
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</table>
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

<table>
<thead>
<tr>
<th>Year</th>
<th>World PCI (1990 USD PPP)</th>
<th>Within-Country Inequality</th>
<th>Across-Country Inequality</th>
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<tbody>
<tr>
<td>1820</td>
<td>659</td>
<td>.46</td>
<td>.06</td>
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<td>1870</td>
<td>890</td>
<td>.48</td>
<td>.19</td>
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<td>.50</td>
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<td>1992</td>
<td>4912</td>
<td>.34</td>
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‘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?**