



THE CONCEPT OF DEVELOPMENT





Listen to some of the voices of the poor about the experience of poverty

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

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.*
—**Mbwadzulu Village (Mangochi), Malawi**
- *[Poverty is] . . . low salaries and lack of jobs. And it's also not having medicine, food, and clothes.* --**Discussion group, Brazil**
- *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**
- **A universal theme reflected in these seven quotes is that poverty is more than lack of income – it is inherently multidimensional, as is economic development.**

Economics and Development Studies

– The Nature of Development Economics

- Greater scope than **traditional neoclassical economics** and political economy.

Traditional economics 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.



- **Development economics**

In addition to being concerned with the efficient allocation of existing scarce (or idle) productive resources and with their sustained growth over time, it must also deal with the economic, social, political, and institutional mechanisms, both public and private, necessary to bring about rapid (at least by historical standards) and large-scale improvements in levels of living for the peoples of Africa, Asia, Latin America, and the formerly socialist transition economies.

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,**
- **Disequilibrium situations often prevail (prices do not equate supply and demand).**

In many cases, economic calculations are dominated by political and social priorities such as unifying the nation, replacing foreign advisers with local decision makers, resolving tribal or ethnic conflicts, or preserving religious and cultural traditions. At the individual level, family, clan, religious, or tribal considerations may take precedence over private, self-interested utility or profit-maximizing calculations.



Why Study Development Economics? Some Critical Questions

1. What is the real meaning of development?
2. What can be learned from the historical record of economic progress in the now developed world? Are the initial conditions similar or different for contemporary developing countries from what the developed countries faced on the eve of their industrialization?
3. What are economic institutions, and how do they shape problems of underdevelopment and prospects for successful development?
4. How can the extremes between rich and poor be so very great?
5. How can improvements in the role and status of women have an especially beneficial impact on development prospects?
6. What are the causes of extreme poverty, and what policies have been most effective for improving the lives of the poorest of the poor?
7. Is rapid population growth threatening the economic progress of developing nations?
8. Do large families make economic sense in an environment of widespread poverty and financial insecurity?
9. Why is there so much unemployment and underemployment in the developing world, especially in the cities, and why do people continue to migrate to the cities from rural areas even when their chances of finding a conventional job are very slim?
10. Wealthier societies are also healthier ones because they have more resources for improving nutrition and health care. What is the impact of poor public health on the prospects for development, and what is needed to address these problems? (


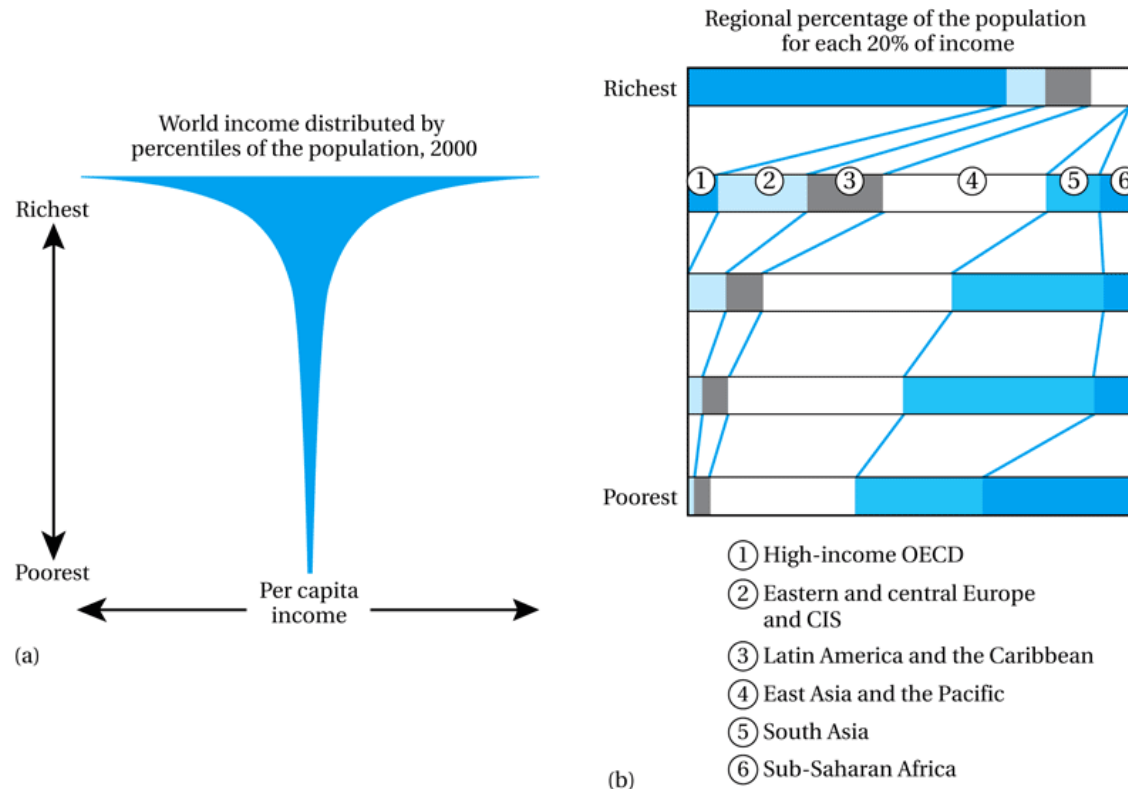
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11. Do educational systems in developing countries really promote economic development, or are they simply a mechanism to enable certain select groups or classes of people to maintain positions of wealth, power, and influence?
 12. As more than half the people in developing countries still reside in rural areas, how can agricultural and rural development best be promoted? Are higher agricultural prices sufficient to stimulate food production, or are rural institutional changes (land redistribution, roads, transport, education, credit, etc.) also needed?
 13. What do we mean by “environmentally sustainable development”? Are there serious economic costs of pursuing sustainable development as opposed to simple output growth, and who bears the major responsibility for global environmental damage—the rich North or the poor South?

Figure 1.1 World Income Distribution



Part (a) shows world income distribution by percentile. The huge share controlled by the top percentiles gives the graph its “champagne glass shape.” Part (b) shows the regional shares of global income. For example, a large majority of people in the top 20% of the global income distribution live in the rich countries. Most of those in the bottom 60% live in sub-Saharan Africa and Asia. OECD is the Organization for Economic Cooperation and Development. CIS is the Commonwealth of Independent States.


Source: From *Human Development Report, 2005*, p. 37. Reprinted with permission from the United Nations Development Programme.

1.3 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 "Capability" Approach**
 - Functionings 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":

Distinction between development and growth

- The close link between economic development and economic growth is simultaneously a matter of importance as well as a source of considerable confusion.

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- The process of economic development cannot abstract from expanding the supply of food, clothing, housing, medical services, educational facilities, etc. and from transforming the productive structure of the economy, and these important and crucial changes are undoubtedly matters of economic growth.

- Even though an expansion of GNP, *given other things, should enhance the living conditions of people*, and will typically expand the life expectancy figures of that country, there are many other variables that also influence the living conditions, and the concept of development cannot ignore the role of these other variables.


1. Economic growth is concerned only with GNP per head, it leaves out the question of the *distribution of that GNP among the population.*

It is, of course, possible for a country to have an expansion of GNP per head, while its distribution becomes more unequal, possibly even the poorest groups going down absolutely in terms of their own real incomes.

Table 1.1
GNP and life expectancy

	GNP per head, 1984 (U.S. Dollars)	Life expectancy at at birth, 1984 (years)
China	310	69
Sri Lanka	360	70
Brazil	1,720	64
Mexico	2,040	66
South Africa	2,340	54

Source: World Bank (1986).




2. The GNP captures only those means of well-being that happen to be transacted in the market, and this leaves out benefits and costs that do not have a price-tag attached to them.

3. The valuation of commodities in the GNP will reflect the *biases that the markets may have*.

Even for a given economy, the relative importance that is attached to one commodity compared with another may be distorted vis-à-vis what might be achieved under perfectly competitive conditions if the market operations happen to be institutionally "imperfect", or if equilibrium outcomes do not prevail.

There are important problems in dealing with different relative prices in different parts of the world. This can make quite a substantial quantitative difference.



4. The real income enjoyed by a person in a given year reflects at best the extent of well-being enjoyed by that person at that period of time. However, in assessing what kind of a life the person has succeeded in living, we have to take a more *integral view of that person's life.*

- Even if GNP did everything it is expected to do (and there are very strong reasons for doubting this possibility), even then the information provided by GNP must remain fundamentally inadequate for the concept of development.
- GNP is, in fact, a measure of the amount of the *means of well-being that people have, and it does not tell us what the people involved are succeeding in getting out of these means, given their ends.*

- Ultimately, the assessment of development achieved cannot be a matter only of quantification of the *means of that achievement*. The concept of development has to take note of the actual achievements themselves. The assessment of development has to go well beyond GNP information, *even when the other difficulties* referred to earlier (such as distributional variation, presence of externalities and non-marketabilities, imperfect price mechanisms, etc.) were somehow overcome.



Sen's Capability Approach

Characteristics, functionings, and living

- Amartya Sen's capability approach is a framework for the evaluation of individual welfare, and as such can provide the theoretical basis for inequality, poverty, and policy analyses. The capability approach assesses people's welfare in terms of their *functionings and capabilities, which are denned as an individual's actual and potential activities and states of being respectively.*

- When he started to develop the approach in the early 1980s, Sen found that while the GNP per capita of Brazil and Mexico are more than seven times the GNP per capita of India, China and Sri Lanka, functionings performance in terms of life expectancy, infant mortality and child death rates were most favourable in Sri Lanka, better in China compared to India, and in Mexico compared to Brazil.

- The core concepts are **functionings** and **capabilities**. Sen defines a functioning as an achievement of a person, i.e. what he or she manages to do or be. Functionings comprise an individual's activities and states of being, for example, being in good health, being well-sheltered, moving about freely, or being educated.

- Capability is a derived notion and reflects the various functionings he or she can *potentially achieve, and involves the person's freedom* to choose between different ways of living.

Amartya Sen's "Capability" Approach

- "Capability to function" is what really matters for status as a poor or nonpoor person.
- Sen argues that poverty cannot be properly measured by income or even by utility as conventionally understood; *what matters fundamentally is not the things a person has*—or the feelings these provide—but *what a person is, or can be, and does, or can do.*
- No just the characteristics of commodities consumed, as in the utility approach, but what use the consumer can and does make of commodities.
- **Example:** a book is of little value to an illiterate person


we need to think beyond the availability of commodities and consider their use.

Thus looking at real income levels or even the levels of consumption of specific commodities cannot suffice as a measure of well-being.


- **Functionings**: various things a person may value **doing** or **being**.
- **Capabilities** : the freedom that a person has in terms of the choice of functionings, given his personal features (conversion of characteristics into functionings) and his command over commodities.

- People value their ability to do certain things and to achieve certain types of beings (such as being well nourished, being free from avoidable morbidity, being able to move about as desired, and so on). These "doings" and "beings" may be generically called "functionings" of a person.
- The well-being of a person can be seen as an evaluation of the functionings achieved by that person.

- The functioning achievements are, of course, causally related to commodity possession and use, and thus the constituent elements of the GNP do enter the *determination of functioning achievements*.
- The functionings achieved by a person relate to the characteristics of the commodities used. On the other hand, no index of characteristics as such could possibly serve as an indicator of the achievements of a person, since the conversion of characteristics into functionings can and does vary from person to person

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- Characteristics of commodities are impersonal in a way that functionings cannot be, since the latter are features of *persons*, whereas the former are features of *commodities*.

- The achievement of functionings depends not only on the commodities owned by the person in question, but also on the availability of public goods, and the possibility of using private goods freely provided by the state.
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- What is being pointed out here is the importance of judging development in terms of *functionings achieved*, and of seeing in that light the availability and use of the *means to those* functionings (in the form of possession of commodities, availability of public goods, and so on).

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- Food provides nutritious capacity, which is converted into 'being well-nourished', depending on physical circumstances such as the metabolic rate and presence of parasites. The individual's capability includes then the freedom to either be well-nourished, to fast for religious reasons or to go on hunger strike for another's sake.

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**

For a formal description of this approach, we introduce some notation, following Sen ([122]:7-10).

$$\mathbf{x} \in X$$

is a vector of commodities and X is the set of all possible commodity vectors.

$$\mathbf{c} = c(\mathbf{x})$$

is a vector of characteristics of commodities, where

$$c$$

is a function that maps commodities into the characteristics space as in Gorman [58] and Lancaster [80].

$$\mathbf{b} = f(c(\mathbf{x} | \mathbf{z}_i, \mathbf{z}_e, \mathbf{z}_s))$$

is a vector of activities and states of being (functionings) where

$$f \in F$$

is a conversion function that maps characteristics of commodities into the space of functionings, F is the set of all possible conversion functions and

$$\mathbf{z}_i, \mathbf{z}_s, \mathbf{z}_e$$

are conversion factors at the individual (i), social (s) and environmental (e) level, which determine the rate of conversion from characteristics to functionings.

$$Q$$

is the capability set comprising all potential functionings an individual can achieve.

- The evaluation of an individual's welfare involves the analysis of her *capability set*, Q_i , which is defined over the different potential functionings b of individual i

$$Q_i(X_i) = \{\mathbf{b}_i | \mathbf{b}_i = f_i(c(\mathbf{x}_i) | \mathbf{z}_i, \mathbf{z}_e, \mathbf{z}_s) \quad \forall f_i \in F_i \text{ and } \forall \mathbf{x}_i \in X_i\}.$$

- The functionings achievement of an individual depends on the employed commodities, X_j and the conversion factors, z . These conversion factors can be distinguished in personal factors z_i (such as sex, physical disabilities, intelligence), social factors z_s (*such as population density, but also legal regulations*) and environmental factors z_e (e.g. climate, proximity of rivers, level of environmental pollution).
- They can also be interpreted as non-monetary constraints of the individual. *Q_i is the set of all possible b_j , given the resource constraint X_i .*


- The vector of commodities $x \gg$ is akin to the demand for goods in the standard model. Note that Sen explicitly includes non-market goods and services, such as infrastructure and access to safe water in this vector. Similarly, resources X_i correspond to the standard budget constraint, but also include the availability of non-market goods and services.

- The space of functionings b is the space of states of being and activities, while the space of capabilities Q is *the space of potential functionings*.

- The functionings space is related to the goods and characteristics space through the personal conversion function f_i . The capability space is related to the functioning space in that it comprises all functionings an individual can potentially achieve.
- It is thus the individual's choice set, and could be interpreted as an augmented budget set, which also takes account of non-market goods and services, and non-monetary constraints.

Two examples

- A bicycle (commodity x) *provides* transport (characteristic c); and depending on an individual's physical ability and the state of the roads (conversion factors z), she can cycle or not (capability Q).



Human “well-being” means **being well**, in the basic sense of being healthy, well nourished, well clothed, literate, and long-lived and more broadly, being able to take part in the life of the community, being mobile, and having freedom of choice in what one can become and can do.

Happiness is part of human well-being, and greater happiness may in itself expand an individual’s capability to function.

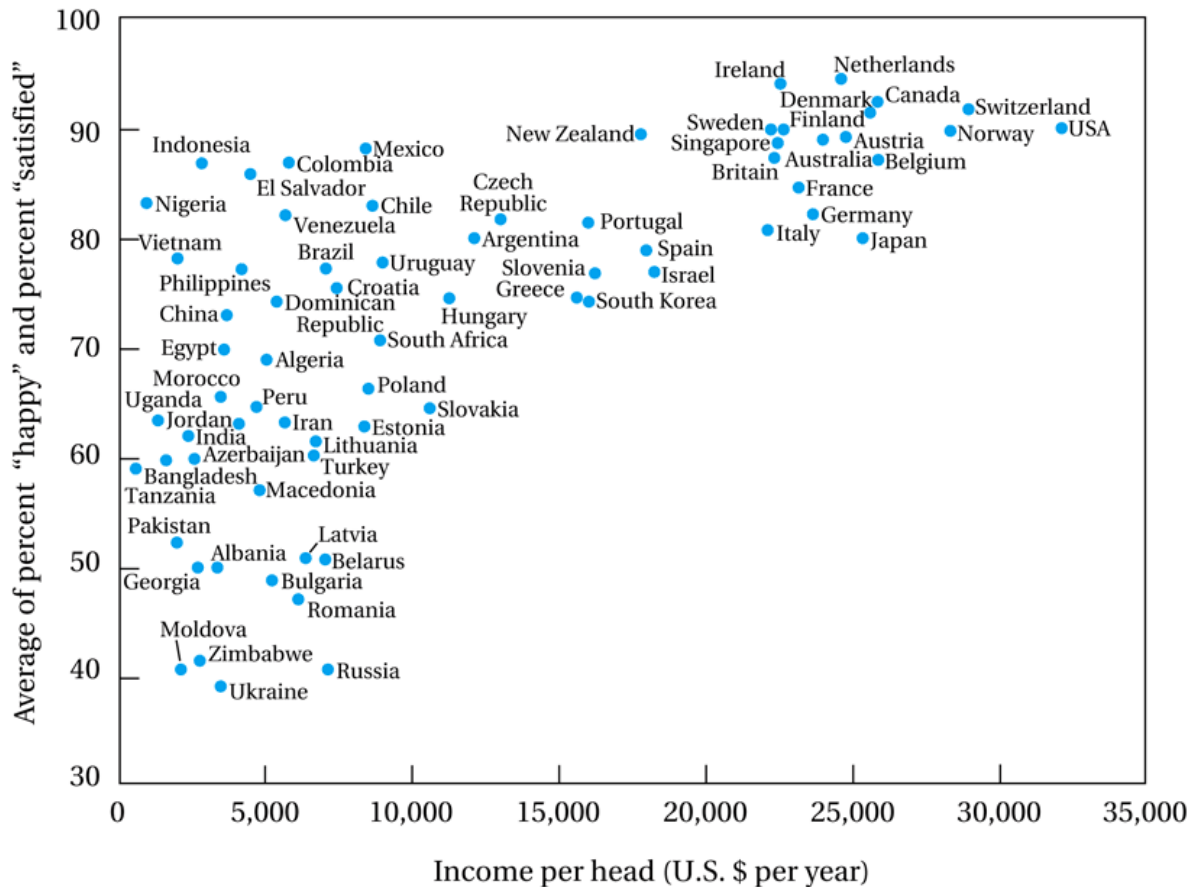


Relationship between **subjectively reported satisfaction and happiness and factors such as **income**.**

The average level of happiness or satisfaction increases with a country's average income.

Four times the percentage of people report that they are **not happy** or satisfied in **Tanzania, Bangladesh, India,** and **Azerbaijan** as in the **United States** and **Sweden**.

Figure 1.2 Income and Happiness: Comparing Countries




Source: From *Happiness: Lessons from a New Science* by Richard Layard, copyright © 2005 by Richard Layard. Used by permission of The Penguin Press, a division of Penguin Group (USA) Inc. and United Agents Ltd. (www.unitedagents.co.uk) on behalf of the author.



Five sources of disparity between (measured) real incomes and actual advantages

- 1. Personal heterogeneities**: those connected with disability, illness, age, or gender.
- 2. Environmental diversities**: heating and clothing requirements in the cold, infectious diseases in the tropics, or the impact of pollution.
- 3. Variations in social climate**: the prevalence of crime and violence, and “social capital”.



4. Distribution within the family: Economic statistics measure incomes received in a family cause it is the basic unit of shared consumption, but family resources may be distributed unevenly, as when girls get less medical attention or education than boys do.

5. Differences in relational perspectives: the commodity requirements of established patterns of behavior may vary between communities, depending on conventions and customs.

In a richer society, the ability to partake in community life would be extremely difficult without certain commodities, such as a telephone, a television, or an automobile; it is difficult to function socially in Singapore or South Korea without an e-mail address.



THE THREE OBJECTIVES OF DEVELOPMENT

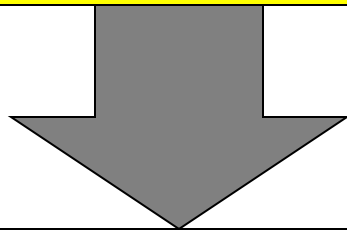
1.3 What Do We Mean by Development? (cont'd)

- **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. Sustenance: The Ability to Meet Basic Needs:

All people have certain basic needs without which life would be impossible. These life-sustaining basic human needs include food, shelter, health, and protection.

Rising per capita incomes
The elimination of absolute poverty
Greater employment opportunities
Lessening income inequalities



The *necessary* but not the *sufficient* conditions
for development

2. Self-Esteem: To Be a Person:

- A sense of worth and self-respect, of not being used as a tool by others for their own ends. All peoples and societies seek some basic form of self-esteem, although they may call it authenticity, identity, dignity, respect, honor, or recognition.
- The nature and form of this self-esteem may vary from society to society and from culture to culture.

3. Freedom from Servitude: To Be Able to Choose:

- The sense of emancipation from alienating material conditions of life and from social servitude to nature, other people, misery, oppressive institutions, and dogmatic beliefs, especially that poverty is predestination.
- Freedom involves an expanded range of choices for societies and their members together with a minimization of external constraints in the pursuit of some social goal we call development.


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

WHAT ARE THE MILLENNIUM DEVELOPMENT GOALS

- ✓ *most broadly supported, comprehensive and specific development goals the world has ever agreed upon*
- ✓ *eight time-bound goals provide concrete, numerical benchmarks for tackling extreme poverty in its many dimensions:*

income poverty, hunger, maternal and child mortality, disease, inadequate shelter, gender inequality, environmental degradation and the Global Partnership for Development.



Adopted by world leaders in the year 2000 and set to be achieved by 2015, the MDGs are both global and local, tailored by each country to suit specific development needs. They provide a framework for the entire international community to work together towards a common end making sure that human development reaches everyone, everywhere. If these goals are achieved, world poverty will be cut by half, tens of millions of lives will be saved, and billions more people will have the opportunity to benefit from the global economy.



Goal 1: Eradicate extreme poverty and hunger



Goal 2: Achieve universal primary education



Goal 3: Promote gender equality and empower women



Goal 4: Reduce child mortality



Goal 5: Improve maternal health



Goal 6: Combat HIV/AIDS, malaria and other diseases



Goal 7: Ensure environmental sustainability



Goal 8: Develop a Global Partnership for Development



Goal 1: Eradicate extreme poverty and hunger

Target 1a: Reduce by half the proportion of people living on less than a dollar a day

- 1.1 Proportion of population below \$1 (PPP) per day
- 1.2 Poverty gap ratio
- 1.3 Share of poorest quintile in national consumption

Target 1b: Achieve full and productive employment and decent work for all, including women and young people

- 1.4 Growth rate of GDP per person employed
- 1.5 Employment-to-population ratio
- 1.6 Proportion of employed people living below \$1 (PPP) per day
- 1.7 Proportion of own-account and contributing family workers in total employment

Target 1c: Reduce by half the proportion of people who suffer from hunger

- 1.8 Prevalence of underweight children under-five years of age



Goal 2: Achieve universal primary education

Target 2a: Ensure that all boys and girls complete a full course of primary schooling

2.1 Net enrolment ratio in primary education

2.2 Proportion of pupils starting grade 1 who reach last grade of primary

2.3 Literacy rate of 15-24 year-olds, women and men

Goal 3: Promote gender equality and empower women

Target 3a: Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015

3.1 Ratios of girls to boys in primary, secondary and tertiary education

3.2 Share of women in wage employment in the non-agricultural sector

3.3 Proportion of seats held by women in national parliament

Goal 4: Reduce child mortality

Target 4a: Reduce by two thirds the mortality rate among children under five

4.1 Under-five mortality rate

4.2 Infant mortality rate

4.3 Proportion of 1 year-old children immunised against measles

Goal 5: Improve maternal health

Target 5a: Reduce by three quarters the maternal mortality ratio

5.1 Maternal mortality ratio

5.2 Proportion of births attended by skilled health personnel

Target 5b: Achieve, by 2015, universal access to reproductive health

5.3 Contraceptive prevalence rate

5.4 Adolescent birth rate

5.5 Antenatal care coverage (at least one visit and at least four visits)

5.6 Unmet need for family planning

Goal 6: Combat HIV/AIDS, malaria and other diseases

Target 6a: Halt and begin to reverse the spread of HIV/AIDS

- 6.1 HIV prevalence among population aged 15-24 years
- 6.2 Condom use at last high-risk sex
- 6.3 Proportion of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS
- 6.4 Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years

Target 6b: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it

- 6.5 Proportion of population with advanced HIV infection with access to antiretroviral drugs

Target 6c: Halt and begin to reverse the incidence of malaria and other major diseases

- 6.6 Incidence and death rates associated with malaria
- 6.7 Proportion of children under 5 sleeping under insecticide-treated bednets
- 6.8 Proportion of children under 5 with fever who are treated with appropriate anti-malarial drugs
- 6.9 Incidence, prevalence and death rates associated with tuberculosis
- 6.10 Proportion of tuberculosis cases detected and cured under directly observed treatment short

Goal 7: Ensure environmental sustainability

Target 7a: Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources

Target 7b: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss

Target 7a and 7b Indicators:

- 7.1 Proportion of land area covered by forest
- 7.2 CO2 emissions, total, per capita and per \$1 GDP (PPP)
- 7.3 Consumption of ozone-depleting substances
- 7.4 Proportion of fish stocks within safe biological limits
- 7.5 Proportion of total water resources used
- 7.6 Proportion of terrestrial and marine areas protected
- 7.7 Proportion of species threatened with extinction

Target 7c: Reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation

- 7.8 Proportion of population using an improved drinking water source
- 7.9 Proportion of population using an improved sanitation facility

Target 7d: Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020

- 7.10 Proportion of urban population living in slums

Goal 8: A global partnership for development

Target 8a: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system

Includes a commitment to good governance, development and poverty reduction; both nationally and internationally

Target 8b: Address the special needs of the least developed countries

Includes tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction

Target 8c: Address the special needs of landlocked developing countries and small island developing States through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly

Target 8d: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.

1.5 Conclusions

- The importance of Development Economics
- Inclusion of non-economic variables in designing development strategies
- Achieving the Millennium Development Goals
- “...One future-or none at all”

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



Concepts for Review (cont'd)

- Self-esteem
- Social system
- Subsistence economy
- Sustenance
- Traditional economics
- Values