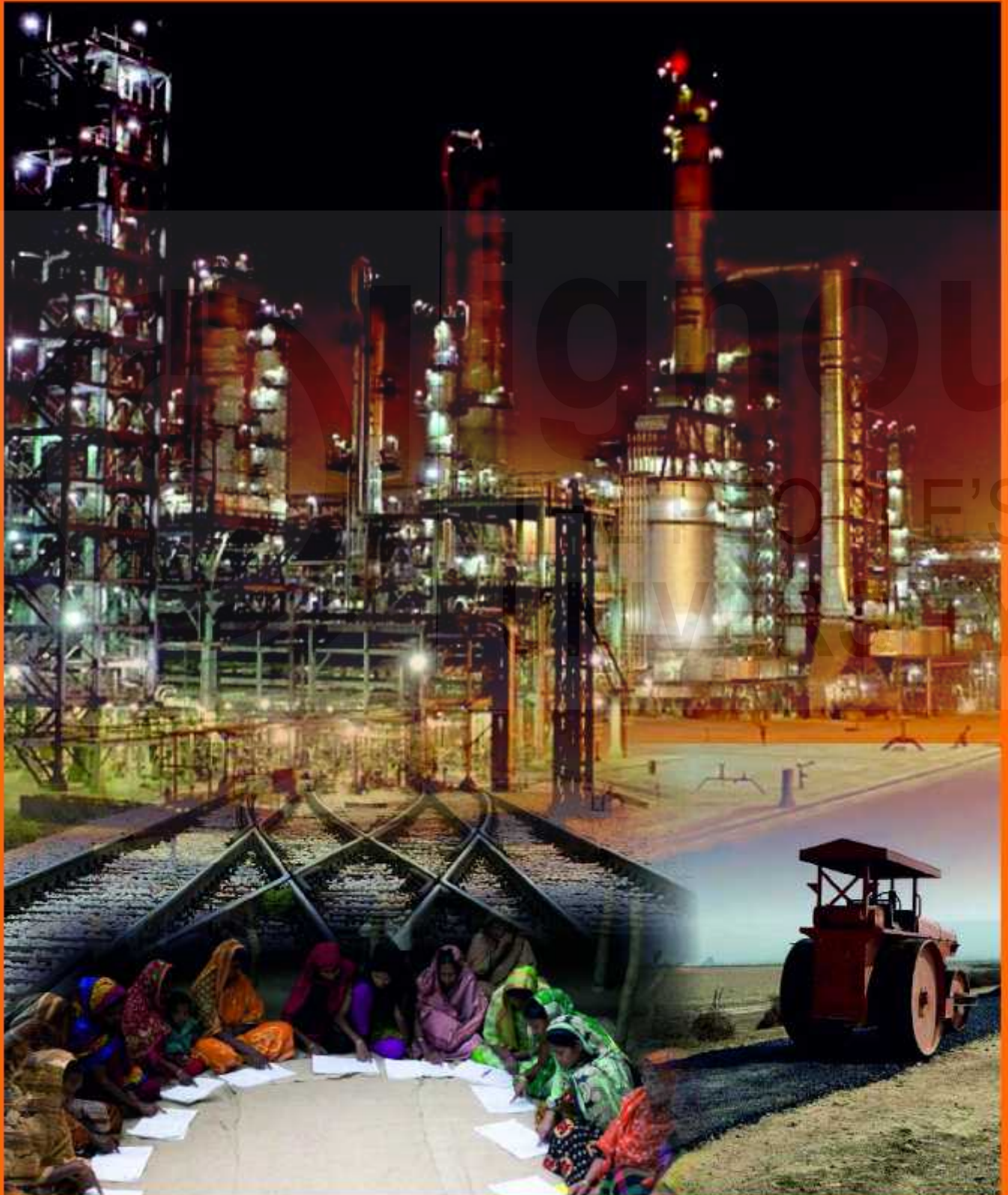




DEVELOPMENT ECONOMICS - I



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Unit 11	Theories of Regulation	
Unit 12	Government Failure and Corruption	

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COURSE INTRODUCTION

Welcome to this elective course titled ‘**Development Economics-I**. In the next semester you will have a chance to study a companion course titled’ **Development Economics-II**. Together, the two courses will give you a comprehensive understanding of the economics of development. The present course is about economic development, the economics of development, and about the role that development economics plays in enhancing our understanding of the process of economic development.

This course consists of four Blocks. The **first Block**, entitled Concepts, Indicators and Measurement, has two units. This block sets the ball rolling by defining concepts of growth and development, discussing the indicators of development and also explaining how the various indicators of development are measured. This Block also discusses presents some international comparisons.

The **second Block** discusses about various growth models. Since it deals with growth models, there is of necessity certain amount of abstraction, and also, a bit of mathematics has been used of necessity. You will learn about a few canonical growth models, and also be presented with a discussion about the determinants of economic growth.

Block 3 of the course is on inequality and poverty. High levels of inequality and the prevalence of poverty are two important features that we observe in almost all developing nations, and block 3 has a thorough discussion on these topics. You will get an idea about measures of poverty, about poverty traps, about different measures of inequality and the relation between economic inequality and development.

Finally, **Block 4** takes up for discussion certain topics that might appear to be non-economic in nature. However, the block underscores the point that development is multidimensional. It is multidimensional not only in conceptualization and measurement; it is also multidimensional in the sense that many non-economic factors impinge upon and influence the level and trajectory of economic development. Keeping this in mind, the unit discusses the role of institutions in development, and about how democracy impacts and influences economic development. Does democracy lead to development, or vice versa, or is it a two-way relationship? What type of configuration and arrangement of institutions is visible in democracies. The Block also discusses important topics involving overall governance like economic regulation and different perspectives on, and theories regarding, regulation. The block takes up for discussion very important topics of government failure, and corruption. The block, in discussing government failures, also talks of types of market failure, and the role of government in tackling the problem of market failure, and what general role the State plays in development. Various types of corruption are listed; causes of corruption are described, and remedies discussed.

Overall this course with twelve units spread over four blocks, ought to give you a wide-ranging and deep discussion about several topics in development economics, and also prepare you for further topics that will be presented and discussed in the subsequent course on development economics that you will study in the next semester.

**BLOCK 1 CONCEPTS INDICATORS AND
MEASUREMENT**

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BLOCK 1 INTRODUCTION

The first Block of this course discusses economic growth and development. It aims to explain the meaning of economic growth and how it is measured. The block also discusses in detail the concept of development—both economic and social. Furthermore, it takes up for discussion some international comparisons across countries. The title of this Block is **Growth and Development**.

The Block has two units, titled **Concepts, Indicators and Measurement** and **International Comparisons**. The first Unit is about the concepts of economic growth and development, their indicators, and the way in which economic growth and development are usually measured. The second unit describes the story of economic growth and economic development of certain countries. This is done with a view to comparing the experiences of these countries so as to attempt to search for reasons why certain countries are successful in developing more, and usually, faster.



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UNIT 1 CONCEPTS INDICATORS AND MEASUREMENT*

Concept Indicators and
Measurement

Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Economic Growth: Concept and Measurement
 - 1.2.1 Concept of Economic Growth
 - 1.2.2 Total Output and Output Per Capita
 - 1.2.3 Comparison across Space and Time
- 1.3 Economic Development and its Indicators
- 1.4 Characteristics of Developing Nations
 - 1.4.1 Low Per Capita Income
 - 1.4.2 Low Manufacturing Base
 - 1.4.3 Other Features
- 1.5 Development and Welfare
- 1.6 The Millennium Development Goals and the Sustainable Development Goal
 - 1.6.1 The Millennium Development Goals
 - 1.6.2 The Sustainable Development Goals
- 1.7 Let Us Sum Up
- 1.8 Answers to Check Your Progress Exercises

1.0 OBJECTIVES

The aim of this unit is to acquaint you with the concepts, indicators and measurement of economic growth and development. After studying this unit, you should be able to:

- Explain what economic growth means
- Discuss how economic growth is measured
- Explain the meaning of economic development
- Discuss how development differs from economic growth; and
- Analyse the relationship among the concepts of development and wellbeing

1.1 INTRODUCTION

This first unit begins your study of the economics of development. You have studied microeconomics and macroeconomics courses that have equipped you with concepts and techniques that will help you to understand and gain insights from a study of economic growth and development. Traditionally, from the time of Adam Smith, economics was a study of economic growth and development of

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nations. The title of Adam Smith's most well-known book, published in 1776 was *An Inquiry into the Nature and Causes of Wealth of Nations*. Even Karl Marx contended that his aim was to "study the laws of motion of society". It was with the rise of neoclassical Marginalist School that economists shifted their attention to the study of resource allocation and production, consumption and exchange at a point of time. Economics focussed on static analysis.

After World War II ended, and European countries had to be rebuilt and put back on the growth path, economic growth again became a field of study in Economics. At the same time many formerly colonised economies became independent. There was a need to understand these economies to suggest ways and policies for economic development. The study of economic growth also became subsumed to a large extent within Macroeconomics, while the study of economic development of the developing nations came to be called Development Economics or the Economics of Development. Growth Theory also emerged as a field of study.

This unit aims to begin your acquaintance with the concepts of Development Economics. The unit discusses the meaning of economic development and how it differs from growth; what the components of economic development are; what the relation of development with welfare is; what are the indicators of development, and so on. The unit begins by explaining the concept of growth and how growth is measured. It explains how income levels can be compared across time, and of different countries. Next, the unit takes up for discussion the main topic of this unit, that is, the meaning of economic development. In doing so, it explains the characteristics of developing countries, and what it is that makes them known as 'developing' rather than 'developed' nation. The unit stresses that basically, economic development is a much wider concept than economic growth, that it is multidimensional, and that it is ultimately about the people of a country or region. The unit finally talks about the relation between development and wellbeing.

1.2 ECONOMIC GROWTH: CONCEPT AND MEASUREMENT

Any discussion about economic development has to begin with economic growth. In this section we look at the concept of economic growth and how it is measured.

1.2.1 Concept of Economic Growth

Economic growth can be defined as **"an increase in real terms of the output of goods and services that is sustained over a long period of time, measured in terms of value added."** The term *economic growth* refers to increases over time in a country's real output of goods and services. Output is generally measured by

gross or net domestic product (GDP or NDP), though other measures can also be employed. Two points, as follows, need be noted in this definition:

- Economic growth is essentially a dynamic concept and refers to a **continuous increase in output**. The word ‘dynamic’ here denotes a process taking place over time. This is contrasted with ‘static’ which does not so much mean ‘unchanging’ as ‘at a point in time’. Forces that generate growth generate a positive rate of change from a lower to a higher level of output may be welcome but that is not growth.
- We ought strictly to distinguish between **output** and **output capacity**. Most theories of growth, in so far as they with increases in labour forces or the accumulation of capital, implicitly deal with changes in output capacity, whereas actual changes in output over time are also influenced by the ability of an economy to utilise accumulated capacity.
- Process of economic growth is essentially a dynamic concept and refers to a continuous expansion in level of output, i.e. it refers to forces that generate a positive rate of change over time and not the forces that lead to discrete (or one shot) change from a lower to higher level of output which are temporary and short lived.

The concept of the growth rate is very important and you thoroughly need to understand it.

Let x be an economic variable. Let x_0 be the initial value x_1 be the subsequent value. The proportional change in going from x_0 to x_1 is simply

$$x_1 - x_0 = \Delta x / x_0$$

The percentage change in going from x_0 to x_1 is simply 100 times the proportionate change:

$$\% \Delta x = 100 (\Delta x / x_0)$$

If we assume a constant rate of growth, the formula used for calculating the growth rate for more than one year is as follows:

1.2.2 Total Output and Output Per Capita

The term ‘output’ is ambiguous, in that it can mean either **total** output or output **per capita**. An increase in total output is ‘extensive growth’ (when population and production increase at about the same pace). When one thinks of growth in the context of an increase in standards of living or of the welfare of a population, one naturally thinks of output per head of population. However, an increase in total output over time may also be an extremely significant phenomenon, where, for example, economies of scale are important. The term output expansion, however, is subject to ambiguity in the sense that does it mean growth in total output or growth in output per capita. An increase in the former is referred to as

‘extensive’ growth whereas an increase in the latter is called the ‘intensive’ growth. The latter one is important in the context of increase in the standards of living of the population of the country whereas the former is extremely significant when one wants to examine the aggregative phenomenon such as economies of scale etc.

1.2.3 Comparisons across Space and Time

Another measurement issue we need to consider is how to compare *levels* of GDP per capita across countries. The problem arises because each nation measures national income in its own currency. Economic growth rates can be computed in a nation’s own currency, but if we want to understand better what is required to transform a nation from low to high income, it is useful to compare nations at different income levels. To do so requires converting GDP per capita into a common currency. The shortcut to accomplishing this goal is to use the market exchange rate between one currency, usually U.S. dollars, and each national currency. One problem with converting per capita income levels from one currency to another is that exchange rates, particularly those of developing countries, can be distorted. Trade restrictions or direct government intervention in setting the exchange rate make it possible for an official exchange rate to be substantially different from a rate determined by a competitive market for foreign exchange.

But even the widespread existence of competitively determined market exchange rates would not eliminate the problem. A significant part of national income is made up of what are called **nontraded goods and services**—that is, goods that do not and often cannot enter into international trade. Generally speaking, whereas the prices of traded goods tend to be similar across countries (because, in the absence of tariffs and other trade barriers, international trade could exploit any price differences), the prices of nontraded goods can differ widely from one country to the next. This is because the markets for nontraded goods are spatially separated and the underlying supply and demand curves can intersect in different places, yielding different prices.

Exchange rates are determined largely by the flow of traded goods and international capital and generally do not reflect the relative prices of nontraded goods. As a result, GDP converted to U.S. dollars by market exchange rates gives misleading comparisons of income levels if the ratio of prices of nontraded goods to prices of traded goods is different in the countries being compared. The way around this problem is to pick a set of prices for all goods and service prevailing in one country and to use that set of prices to value the goods and services of all countries being compared. In effect, one is calculating a purchasing power parity (PPP) exchange rate.

To compare income across time, the choice of an appropriate price deflator has to be thought of. There are also issues of constructing an adequate index number to compare the current year income with the income in a suitably chosen base year.

1.3 ECONOMIC DEVELOPMENT AND ITS INDICATORS

Economic growth is a necessary but not sufficient condition for improving the living standards of large numbers of people in countries with low levels of GDP per capita. It is necessary because, if there is no growth, individuals can become better off only through transfers of income and assets from others. In a poor country, even if a small segment of the population is very rich, the potential for this kind of redistribution is severely limited. Economic growth, by contrast, has the potential for all people to become much better off without anyone becoming worse off. Economic growth has led to widespread improvements in living standards in Botswana, Chile, Estonia, Korea, and many other countries. The modern economists, however, question this identity between 'economic growth' and 'economic development'; development is not the same as growth. Suppose, by analogy, we were interested in the difference between 'growth' and 'development' in human beings. Growth involves change in overall aggregates such as height or weight, while development includes changes in functional capacity, of ability to adapt to changing circumstances. Growth is an engine, not an end in itself. The end is development.

The traditional concept of viewing economic development as synonymous with economic growth was based on what came to be known as the '**trickle-down strategy**', which implies that the effects of rising incomes and output would ultimately trickle down to the poor so that they would benefit poor as well as the rich. The modern economists reject this view and stress the need for strategies designed to meet the needs of the poor directly. Hence, economic development has come to be redefined in terms of the reduction or elimination of poverty, inequality, and unemployment within the context of a growing economy. "Redistribution from growth" has become an accepted paradigm. Prof. Dudley Seers poses the basic question about the meaning of development very clearly when he states:

The questions to ask about a country's development are therefore: what has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels then beyond doubt this has been a period of development for the country. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result "development" even if per capita income doubled.

Economic development, in its essence, must represent the whole gamut of change by which an entire social system, tuned to the diverse basic needs and desires of individuals and social systems within that system, move away from a condition

of life widely perceived as unsatisfactory towards a situation of life regarded as materially and spiritually “better”.

If economic growth does not guarantee improvement in living standards, then GDP per capita may not be a meaningful measure of economic development. In addition to problems associated with how income is spent and distributed, any definition of economic development must include more than income levels. Income, after all, is only a means to an end, not an end itself. If economic growth and economic development are not the same thing, how should we define economic development? Amartya Sen, economist, philosopher, and Nobel laureate, argues that the goal of development is to expand the *capabilities* of people to live the lives they choose to lead. Income is one factor in determining such capabilities and outcomes, but it is not the only one. To be capable of leading a life of one's own choice requires what Sen calls “elementary functionings,” such as escaping high morbidity and mortality, being adequately nourished, and having at least a basic education. Also required are more complex functionings, such as achieving self-respect and being able to take part in the life of the community. Income is but one of the many factors that enhance such individual capabilities.

In view of the above considerations economic development is now being defined “*as the process of increasing the degree of utilisation and improving the productivity of the available resources of a country which leads to an increase in the economic welfare of the community by stimulating the growth of national income*”.

It follows from this definition that the progress of development has to be assessed by reference to two separate indicators, namely, (i) the indices of ‘production’ or GDP, and (ii) the indices of ‘economic welfare’ of the community. The former covers what may be called the ‘growth’ aspects of development.

So defined, the concept of economic development emphasises the achievement of the following **three objectives**:

- To increase the availability and widen the distribution of basic life sustaining goods such as food, shelter and protection. This, however, would be possible with a fast increase in real per capita income.
- To raise standards of living including, in addition to higher incomes, the provisions of more goods, better education and greater attention to cultural and humanistic values, all of which will serve not only to enhance material well-being but also to generate individual and national self-esteem.
- To expand the range of economic and social choice to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states, but also to the forces of ignorance and human misery. Economic development is to be assessed ultimately by the enhancement of the ‘positive freedom’.

In view of the above three objectives, the **quality of life** is regarded as an important index of development. It is contended that such quality is not adequately reflected in the index of per capita income growth. Several factors are involved in the measurement of such 'quality'; some of these factors are non-monetary, while others can be measured in money terms. There is a need to set up a synthetic index of these different factors to measure economic development and quality of life.

. We may note the following as important changes:

- **Constituents of GDP Change:** More generally, in terms of percentage shares, saving rates increase as income grows, government revenues (and expenditure) increase, food consumption drops and non-food consumption increases, out of services – and, of course, also industry – increases, while agriculture falls.
- **Employment Changes:** Employment changes reflect the shift in output and changes in productivity. Labour in the primary sector of the economy does not fall as rapidly as its share in output, the reverse is true for employment in industry where increase in labour productivity is more easily secured.
- **Shift in the Composition of Exports:** As development proceeds, exports will account for a larger proportion of income and there will have been a marked shift in the composition of exports, so that the value of export of manufactures rises relative to that of primary products. Imports will also have risen and earnings and payments will be roughly balanced.
- **Rate of Increase in Population:** As incomes increase, the rate of increase in population may be expected to fall, as the birth rate declines along with a fall in the death rate. The population would still be increasing, but gradually the rate of growth will tend to peter out.

Distribution of income: Income would at first become more unequally distributed and then this trend would be reversed. You will read more about this and on what is called the Kuznets 'inverted U curve' in Block 3 in the unit on inequality

Economic development is a broad term that does not have a single, unique definition.

- **Life sustaining goods and services:** To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health and protection.
- **Higher incomes:** To raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem

- **Freedom to make economic and social choices:** To expand the range of choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery.

Dudley Sears has defined development as “the reduction and elimination of poverty, inequality and unemployment within a growing economy”.

The Nobel Economist [Amartya Sen](#) in his 1998 Nobel address, identified four broad factors, beyond mere poverty, that affect how well income can be converted into “the capability to live a minimally acceptable life”:

- *Personal heterogeneities*: including age, proneness to illness, and extent of disabilities.
- *Environmental diversities*: shelter, clothing, and fuel, for example, required by climatic conditions.
- *Variations in social climate*: such as the impact of crime, civil unrest, and violence.
- *Differences in relative deprivation*: for example, the extent to which being impoverished reduces one’s capability to take part in the life of the greater community.

According to Sen, economic development requires alleviating the sources of “capability deprivation” that prevent people from having the freedom to live the lives they desire.

In his book *Development as Freedom*, Sen sees development as being concerned with improving the freedoms and capabilities of the disadvantaged, thereby enhancing the overall quality of life. Sen pursues the idea that development provides an opportunity to people to free themselves from the suffering caused by

- Early mortality
- Persecution
- Starvation
- Illiteracy

Development should be about increasing **political freedom, cultural and social freedom** and not just about raising incomes.

There can be several indicators to consider when taking a broad look at the process of economic development, such as:

- Risk of extreme poverty - % of the population living on less than \$1.25 per day (PPP)
- The percentage of adult male and female labour in agriculture, % of arable land that is cultivated

- Combined primary and secondary school enrolment figures and other indicators of progress in building human capital. Access to clean water / improved sanitation facilities (% of population with access)
- Energy consumption per capita
- Depth of hunger, kilocalories per day per capita
- Prevalence of HIV, average life expectancy at birth, years of healthy life expectancy, child mortality
- Access to mobile cellular phones per thousand of the population
- Percentage of the population living in extreme poverty
- Dependence on foreign aid / levels of external debt
- Percentage of households with a bank account
- Unemployment rates and vulnerable employment rates
- High-technology exports (% of manufactured exports)
- The Human Development Index
- The multi-dimensional poverty index

In block 3 of this course, and in course BECC 114, you will be introduced to the Human Development Index

Check Your Progress 1

1) What is the definition of Economic Growth?

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2) Distinguish between economic growth and economic development.

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3) What type of structural changes take place in an economy as it develops?

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1.4 CHARACTERISTICS OF DEVELOPING NATIONS

We have seen what development means. We have also seen how it is different from economic growth. Now, there are certain nations that are known as developed nations, and certain nations that are called developing. What is the difference between developed and developing nations. To say that developed nations have a higher level of development begs the question, what does that mean? What do we understand by a “higher level of development? Although these questions shall be answered in greater detail in the next unit, in this unit we look at certain characteristics that are evident in most of the developing nations. In the next unit, we shall see there are finer sub-classifications among the developing nations. For now, let us discuss some of the common characteristics that most developing nations display.

1.4.1 Low Per Capita Income

Most of the developing nations have a lower per capita income than developed nations. Some developing nations may have a high gross domestic product level but the income per head tends to be low. one of the most commonly acceptable criteria of underdevelopment is the *low per capita real income* of underdeveloped countries as compared with the developed countries. Added to this is low level of physical capital and low capital to worker ratio. Developing nations also tend to low productivity and sometimes lower levels of technology. Moreover, developing nations show high levels of poverty, low indices of human development, very high inequality of income as well as assets, and unemployment—structural, cyclical and disguised.

1.4.2 Low Manufacturing Base

One of the characteristics that we see about developing nations is that much of the gross domestic product is accounted for by agriculture and sometimes, services too, but the manufacturing sector is not so developed. Industries are not widespread and diversified. Much of production and employment is in the unorganized sector. Much of it stems from low capital and low investment. Savings are often low too because of low income. Low savings lead to low investment, which further leads to lower income. This has sometimes been called the vicious cycle of poverty, if the income and capital accumulation range was really low. High rates of industrial growth has been a characteristic feature of those countries that have moved to a higher development level or even moved from being a developing towards becoming a developed nation.

1.4.3 Other Features

Several developing nations have displayed some other features that are common to many of these countries. Often population rates of growth and fertility levels in these countries are high. This creates pressure on the resources and output of the country. Secondly level of urbanization is low, and a large proportion of the

people resides in rural areas. In production, there is often an economic dualistic structure with a low-wage low productivity rural and agricultural sector and a smaller more productive higher-wage manufacturing sector, often located in urban and semi-urban areas. Often there is migration from low-wage rural areas to urban areas because of rural-urban wage gap. Often those migrants who cannot be absorbed in the manufacturing areas end up in the urban informal sector.

Other features in developing countries are that exports are in many cases low, and most of the existing exports are of primary products. Moreover some developing nations have for a long time depended on foreign aid.. There have also been cases of some nations getting caught in international debt trap.

Some other characteristics are that developing nations have non-diversified financial sectors with still a large presence of informal money and capital markets. There is financial repression and finance and credit do not flow to requisite areas and to those who require. There are financial constraints on growth.

Developing nations also often show low levels of attainment as far as social sector is concerned. Education, even literacy and primary level enrollment, as well as health levels are low, in some case basic and minimum needs are not met. Clean drinking water and sanitation is not universal, infrastructure like good roads electricity, good systems of telecommunication too are not widespread. Often developing nations have governments providing poor governance, other institutions are not well developed, and levels of social capital is low too. You will read about all these in greater detail in later units of this course and in the course Development Economic –II (BECC 114).

1.5 DEVELOPMENT AND WELLBEING

We have defined economic development as the sum total of economic growth (a quantitative aspect) and economic welfare (a qualitative aspect). We have presented above a few important indicators of economic growth. Now, let us shift our attention to the indicators of economic welfare.

GNP as an Indicator of Economic Welfare

GNP estimates are more commonly employed as an indicator of economic welfare. An increased output of goods and services, it is believed, implies an increased availability of goods and services for consumption. Thus, enabling a wider choice and a better standard of living; these are the hallmarks of economic development.

However, this simple positive relationship between increase in GDP and increase in economic welfare is subject to certain qualifications. Among these, the following are noteworthy:

1) Changes in the Size of GDP and Economic Welfare

- i) If the GDP increases but the population of the country increases in a greater proportion, the total economic welfare will decline. As a result of increased population, the per capita income will decline, which means lesser purchasing power than before, lower standard of living, and consequently, lower economic welfare.
- ii) While analysing the relationship between the size of GDP and economic welfare, the behaviour of the price movements must be thoroughly studied. GDP calculated at current prices is always deceptive and increase in its size will not promote economic welfare. Estimates of real GDP (i.e., GDP calculated at fixed base prices) can provide a better measure.
- iii) GDP consists of those goods and services which are transacted in the market and fetch money value. We know that a part of the total produce is kept by the producers for self-consumption. Now, suppose that this retained produce (which is not part of GDP) is offered for sale in the market, it will definitely fetch money value and as a result GDP will also increase. In fact, the total output is same, but since it has now come to the monetary sector, it becomes a part of the GDP and hence increases its value. Such an increase in GDP will not increase the economic welfare.
- iv) In case increase in the size of GDP is the result of prolonged working hours, increased employment of children in production, unhealthy and polluted atmosphere inside the factory premises, such an increase in GDP will not promote economic welfare.

2) Changes in the Composition of GDP and Economic Welfare

Composition of GDP refers to the kinds of goods and services produced in an economy. Changes in the composition of GDP may sometimes increase economic welfare and may at other times decrease it. Let us consider the following cases:

- i) If the total production has increased on account of more production of capital goods, it will not increase economic welfare. No doubt the money value of the total output has increased, but the volume of consumer goods, on which depends the real economic welfare, has not increased. It is only when the proportion of consumer goods increases in the total output the GDP can promote economic welfare.
- ii) If the GDP has increased on account of larger production of war-goods, the resultant increase will not increase economic welfare. This may no doubt head to increased fighting capacity of the country but it will do no good to economic welfare.

3) Changes in the Distribution of GDP and Economic Welfare

Concept Indicators and Measurement

If the GDP increases and yet if it is not fairly distributed or it is concentrated in a few hands, it will not promote economic welfare. It is so because as the rich people get richer the additional money income does not provide them the same marginal utility as the preceding unit of money income. In other words, the law of diminishing marginal utility also applies to the additional money income so that the economic welfare instead of increasing will diminish.

When the distribution of GDP changes in favour of the poor, they start getting more commodities and services than before, as a result the economic welfare increases. Any transfer of income from the rich to the poor, generally, promotes economic welfare. In fact, there is a unique relationship between one's economic welfare and that part of his income which he spends on consumption and consequently smaller is his economic welfare compared to this total income. The poor people who spend a major proportion of their total income on consumption, as a matter of fact, will get more utility from the transferred income as compared to the rich people.

Transfer of income from the rich to the poor, however, does not increase economic welfare always, especially if additional income in the hands of the poor gets frittered away on such things as simply reduce his welfare.

Per Capita Income as an Index of Economic Welfare

Ordinarily speaking, per capita income is considered as an indicator of the standard of living in a country; any improvement in it is taken as a proxy for improvement in the standard of living. That may be so, but there are certain limitations beyond which we cannot rely on this single average.

One, per capita income is a simple average which is derived by dividing the income of all the nationals of a country. It shows only the size of slice from the national cake that should go to each individual. It cannot tell us anything about the actual distribution. In other words, per capita income estimates are silent about the distribution of income. To that extent, per capita income estimates may not be very useful, especially if there is a highly skewed income distribution in an economy favouring the rich.

Two, per capita income estimates are also silent about the composition of output – the nature of goods and services produced in the economy.

Three, standard of living is also affected by the type of expenditure incurred by the government authorities. If the government meets the collective wants of education, public health, public transportation, safe drinking water, etc., the people may enjoy a higher standard of living, even with modest per capita income.

Four, for the purpose of international comparison, per capita income estimates are framed in a common monetary denominator, usually the American Dollar.

This common denominator cannot take account of purchasing power differences in different countries.

In some units in other chapters you will be acquainted with some other indicators of welfare. In this unit we present a discussion on the Millennium Development Goals and Sustainable Development Goals, in the following section.

1.6 THE MILLENNIUM DEVELOPMENT GOALS AND THE SUSTAINABLE DEVELOPMENT GOALS

1.6.1 The Millennium Development Goals

It is difficult to measure development as it is such a wide-ranging and multi-faceted concept. There has been a lack of a commonly agreed-upon definition. However, there have been several attempts to measure development and develop policy measures to foster development based on the ideas about the concept of development put forward. One such measure was the adoption of the Millennium Development Goals. Even without a commonly agreed-on definition, policy makers need specific targets, so as to realize policy objectives. One such set of targets is known as the **millennium development goals (MDGs)**. The Millennium Declaration and Millennium Development Goals (MDGs) saw the convergence of development agenda of United Nations Development Programme (UNDP); United Nations Environment Programme (UNEP); World health organization (WHO); United Nations Children's Fund (UNICEF); United Nations Educational, Scientific and Cultural Organization (UNESCO); and other development agencies.

In September 2000, 189 nations adopted the “United Nations Millennium Declaration,” a broad-reaching document that states a commitment “to making the right to development a reality for everyone and to freeing the entire human race from want.” The declaration specifies a set of eight goals consistent with this commitment:

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.

To realise these goals, there were 21 targets (that correspond to 60 indicators) that were sought to be reached by 2015.

1.6.2 The Sustainable Development Goals

The world as a whole, and India too, made considerable progress in meeting targets. And yet some gaps remained.

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared roadmap for peace and prosperity for people and the planet, now and into the future. At its core are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. The SDGs include 17 goals and 169 targets. The 17 goals are to be achieved by 2030. The 17 goals are:

1. End poverty in all its forms;
2. End hunger , improve nutrition and achieve food security;
3. Ensure healthy lives and well-being;
4. Ensure equitable and quality education for all and promote lifelong learning;
5. Achieve gender equality and empower women and girls;
6. Ensure availability and sustainable management of clean water and sanitation for all ;
7. Ensure access to affordable, reliable, sustainable and clean energy for all;
8. Promote sustained , inclusive and sustainable economic growth, full and productive employment and decent work for all;
9. Build resilient infrastructure, promote sustainable Industry, and promote innovation,;
10. Reduce inequality within and among countries;
11. Make cities and human settlements inclusive, safe, resilient and sustainable;
12. Ensure responsible consumption and production patterns;
13. Take urgent action to combat climate change and its impacts;
14. Conserve and sustainably use seas, oceans and marine resources;
15. Promote , protect and restore sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss.
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; and
17. Strengthen the means of implementation and revitalise global partnership for sustainable development.

In 2000, the MDGs set the agenda for development activities and consisted of eight targets aimed at combatting poverty. While the MDGs set the target and there were quite a few achievements, they were faced with many criticisms. These

criticisms mainly included around their legitimacy and how the goals and targets were chosen and set, their narrowness and under emphasis of certain aspects of development, including human rights, gender and the environment, and how the progress was reported and measured.

When the MDGs period was reaching an end, it was agreed by all countries to reform and propose a more widespread, inclusive and reflective set of development goals. The SDGs emerged as an attempt to represent the challenges that countries face in the next 15 years and beyond, and is an attempt to address the root cause of many of them.

The 17 SDGs were identified through widespread consultation over three years on contrast to the MDGs. This process took into account the views of all parties, including national governments, civil society, multilateral development institutions and individuals.

How are the SDGs different from MDGs?

While the MDGs mainly applied to developing countries, the SDGs are universally applicable. That is they apply to all countries, no matter their current development status.

Meeting SDGs require that they are implemented in an integrated manner and is based on the recognition that there is no trade-off between economic, social and environmental development. Indeed each of these aspects is mutually reinforcing and one cannot be achieved without the other, or failure in one area could lead to failure in others. This is in contrast to the MDGs which primarily focussed on the social aspects of development.

By their nature, the SDGs are a set of broad goals and targets, this is so each country can decide on the most realistic and practical way to implement policies, programmes or projects to move towards meeting the SDGs. They build off the MDGs, but offer more ambitious goals.

Check Your Progress 2

1. Evaluate the usefulness of (i) GDP, and (ii) per capita GDP as measures of economic development and of welfare.

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2. Discuss some characteristics of developing nations.

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3. What are the Millennium Development goals? How many goals are there in the Sustainable Development goals? List any seven

**Concept Indicators and
Measurement**

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1.7 LET US SUM UP

This unit dealt with the basic of economics of development as well as the concepts of economic growth and development. It began with explaining what growth means: enlargement, expansion. Economic growth is typically seen as growth in gross domestic product. The unit explained the measurement of growth and also discussed the relative merits of considering growth in GDP as growth versus growth per-capita GDP. The unit explained how growth is measured, and how to compare income levels across countries and over time .

The unit went on to discuss in detail the concept of economic development, and how it differs from economic growth. The unit explained that economic development is a much broader concept than economic growth, although economic growth is the foundation of economic development. However, though economic growth is a fundamental concept of economic development, the latter is characterized also by an overall structural transformation of economy. Examples of such structural change includes decline of the share of agriculture in GDP and the rise of that of the service sector; increasing urbanization, change in the composition of the work-force, and so on.

Subsequently, the unit discussed in detail the characteristics and features of a developing economy. We saw low per-capita income, a large agriculture, low urbanization were some of the characteristics.

After this the unit discussed elaborately the concept and meaning of economic development in all its aspects and dimensions. Finally the unit presented a discussion the Millennium Development Goals and Sustainable Development Goals.

1.8 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1. See section 1.2
2. See section 1.2
3. See section 1.3

Check Your Progress 2

1. See section 1.5
2. See section 1.4
3. See subsection 1.6.2

UNIT 2 INTERNATIONAL COMPARISONS*

Structure

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Development Gap
- 2.3 The Divide between Developed and Developing Nations
- 2.4 Historical Patterns of Development
- 2.5 Some Case Studies
- 2.6 Let Us Sum Up
- 2.7 Answers to Check Your Progress Exercises

2.0 OBJECTIVES

After going through this unit, you will be able to:

- Explain the nature of development gap between developed and developing nations;
- Discuss the reasons for the emergence of the difference in the levels of development between the developed and developing nations;
- Describe the historical patterns of development in different parts of the world; and
- Present some case studies regarding different development experiences of countries.

2.1 INTRODUCTION

When we study economic development we find some crucial questions confront us regarding different countries and regions. Why are living conditions **r so** drastically different for people in different countries and different regions of the world? We find some countries poor and others rich. Why is it so? Why are there such disparities in income and wealth? t Also there are huge difference in the levels of health, nutrition, education, liberty, choice, women's rights? Why do workers in some countries have secure jobs in the formal sector, with regular pay, while in other countries such jobs are extremely there is scarcity of such jobs, and most workers are in informal sector with fluctuating and insecure wages? Why are populations growing at a fast pace in certain countries, while on the verge of being stagnant or even reducing in others? Why are public services so inefficient, insufficient, and corrupt in some countries and so effective in others? Why have some formerly poor countries made so much progress, and other s so comparatively little?

This unit takes up a discussion of issues regarding the difference, the gap between the standard of living of the developing and developed nations.

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It explores the reasons for such gaps. We also have to see whether there are historical reasons for such gaps emerging.

In the next section we see the meaning of the development gap, conceptually and theoretically. Subsequently we see various ways the developing nations are classified. After looking at World Bank's and United Nations' classifications, the following unit takes a look at the basic historical patterns of development in order to see when and how in history the gap, the divergence between developed and developing nations emerged. Finally the unit provides some case studies in order to illustrate the development experiences of certain countries, how certain countries developed to a great extent over time, and how some others fell back and sometimes had a reversal of fortune.

2.2 DEVELOPMENT GAP

In its basic sense, development gap refers to the gap in per capita income between the richer developed countries and poorer, developing ones. Since living standards in all countries tend to rise absolutely over time, it obviously refers to the *comparative* position of poor countries, but is the comparative position being measured taking absolute or relative differences in *per capita* income? How should the 'development gap' be assessed? Unfortunately there is no easy answer to this question, yet the answer given has a profound bearing on the growth of *per capita* income that poor countries must achieve either to prevent a deterioration of their present comparative position or for an improvement to be registered. Relative differences will narrow as long as the *per capita* income growth rate of the developing countries exceeds that of the developed countries; and this excess of growth is a precondition for absolute differences to narrow and disappear in the long run. In the short run, however, a narrowing of relative differences may go hand in hand with a widening absolute difference, given a wide absolute gap to start with, and thus the rate of growth necessary to keep the absolute *per capita* income gap from widening is likely to be substantially greater than that required to keep the relative gap the same. But suppose the relative gap does narrow, and the absolute gap widens, are the poor countries comparatively better or worse off? In comparing rich and poor countries it is not difficult to argue that even if a relative *per capita* income gap is narrowed, the comparative position of the poor may have worsened because the absolute gap has widened.

To get an idea of the gap that exists between developed nations and developing nations, consider a hypothetical, constructed example of the gap between the incomes of two hypothetical nations. Suppose there are two countries, A and B. Country A is the advanced nation and country B is the backward nation (no value-judgement attaches to the term 'backward'; it only denotes that country B is the poorer country). Suppose in 2021, the per capita income of country A was \$ 1000 in purchasing power-parity terms, and that of country B was \$ 100 in the same terms. So we find that the gap in per capita income of the two nations is \$ 1000 - \$ 100 = \$900. It is a big gap. Now suppose that in the year 2021-2022, the per-capita incomes of the two nations grow at 2 %.

The per capita income of country A in 2022 becomes \$ 1020 (because 2 % of \$ 1000 is \$ 20 and so its per capita income becomes \$ 1000 + \$ 20 = \$1020). On the other hand, the per capita income of country B in 2020 becomes \$ 102 (because 2 % of \$ 100 is \$ 2 and so its per capita income becomes \$ 100 + \$ 2 = \$ 102).

Let us see what happens to the gap in the per capita income of the two countries. In 2022 the gap is \$ 1020 - \$ 102 = \$ 918. So we find that compared to 2021 the gap has actually increased when both countries grew at the same rate. (the gap increased from \$ 900 to \$ 918). In fact, the poor country has to grow at 20 % over 2021-2022 for its per-capita income to rise to \$ 120, so as to keep the gap in per capita income between the rich and poor countries at \$ 900—the same as before (\$1020 – \$ 120 = \$ 900. So we see that in order to merely prevent the gap in per-capita income from increasing, the poor country in this example has to grow 10 times as fast as the developed country. As another example, Take for illustration the case of the average person in the poor country living on the equivalent of \$200 per annum compared with the average person in the rich country living on approximately \$10 000. Suppose the income of the average person in the poor country rises by 20 per cent and the income of the average person in the rich country rises by 10 per cent. The average person in the poor country is now relatively better off, but is he not comparatively worse off? The increased command over goods and services of the average person in the rich country (i.e. 10 per cent of \$10 000) far exceeds that of the the average person in the poor country (i.e. 20 per cent of \$200)

where P is the principal sum. In our context, P can be taken as the initial per capita income, S the final one, r the rate of growth and t the time period (number of years) over which growth is considered

2.3 THE DIVIDE BETWEEN THE DEVELOPED AND DEVELOPING NATIONS

A developing country is often defined by its economic output. There has been a lot of debate as to where to draw the line between a developed country and a developing one, which can be seen by the lack of one single meaning for the term.

The developing countries have been labeled with many different terms. A term much used from the mid 1940s to the 1980s, especially in international forums, was the **third world**. Perhaps the best way to define it is by elimination. Remove the industrialized economies of western Europe, North America, and the Pacific (the First world,) and the industrialized, formerly centrally planned economies of eastern Europe (the Second World), and the remaining countries

constitute the third world. This terminology is used much less frequently today, mainly because almost all of the former Second World has transformed its political and economic systems. The geographic configuration of the Third World has led to a parallel distinction of the

North (first and second worlds) versus the **South**, which is still used occasionally. The more popular classifications used today implicitly put all

countries on a continuum based on their degree of development. Therefore, we speak of the distinctions between developed and underdeveloped countries, more and less developed ones, or—to recognize continuing change—**developed countries** and **developing countries**. The United Nations employs a classification scheme that refers to the poorest nations as the **least-developed countries**. Some Asian, eastern European, and Latin American economies, whose industrial output is growing rapidly, are sometimes referred to as **emerging economies**. Richer countries are frequently called **industrialized countries**, because of the close association between industrialization and development. The highest-income countries are sometimes called post-industrial countries or service-based economies because services (finance, research and development, medical services, etc.), not manufacturing, account for the largest and most rapidly growing share of their economies.

The United Nations uses certain rules for distinguishing between developed and developing countries. However, the World Bank has stopped using these terms in favor of others, such as "low-income" or "lower-middle-income" economies, based on gross national income (GNI) per person. The International Monetary Fund (IMF) definition is based on per-person income, export diversification, and the degree of union with the global financial system. (IMF) definition is based on per-person income, export diversification, and the degree of union with the global financial system. The IMF published a research report on the topic of development classification in 2011. It outlined its methods for classifying a country's level of development.

Countries that are deemed more developed are referred to as developed countries, while those that are less developed are known as less economically developed countries (LEDCs)

The World Bank has historically classified every economy as low, middle, or high income. It now further specifies countries as having low-, lower-middle-, upper-middle-, or high-income economies. The World Bank uses GNI per capita, in current U.S. dollars converted by the Atlas method of a three-year moving average of exchange rates, as the basis for this classification. It views GNI as a broad measure and the single best indicator of economic capacity and progress. The World Bank used to refer to low-income and middle-income economies as developing economies; in 2016, it chose to drop the term from its vocabulary, citing a lack of specificity. Instead, the World Bank now refers to countries by their region, income, and lending status.

The World Bank assigns the world's economies to four income groups—low, lower-middle, upper-middle, and high-income countries. The classifications are updated each year on July 1 and are based on GNI(Gross national Income) per capita in current US dollars (using the exchange rates) of the previous year. According to the World Bank, sustainable growth and development in MICs have positive spillovers to the rest of the world. Examples are poverty reduction, international financial stability, and global cross-border issues, including climate

change, sustainable energy development, food and water security, and international trade.

MICs have a combined population of five billion, or over 70% of the world's seven billion people, hosting 73% of the world's economically disadvantaged. Representing about one-third of global GDP, MICs are a major engine of global economic growth.

The classifications change for two reasons:

1. In each country, factors such as economic growth, inflation, exchange rates, and population growth influence GNI per capita. Revisions to national accounts methods and data can also have an influence in specific cases. To keep the income classification thresholds fixed in real terms, they are adjusted annually for inflation. The Special Drawing Rights (SDR) deflator is used, which is a weighted average of the GDP deflators of China, Japan, the United Kingdom, the United States, and the Euro Area.
2. To keep the income classification thresholds fixed in real terms, they are adjusted annually for inflation. The Special Drawing Rights (SDR) deflator is used, which is a weighted average of the GDP deflators of China, Japan, the United Kingdom, the United States, and the Euro Area.
3. To keep the income classification thresholds fixed in real terms, they are adjusted annually for inflation. The Special Drawing Rights (SDR) deflator is used, which is a weighted average of the GDP deflators of China, Japan, the United Kingdom, the United States, and the Euro Area.

Group	July 1, 2021 (new)
Low income	
Lower-middle income	1,046 – 4,095
Upper-middle income	4,096 -12,695
High income	> 12,695

Sometimes countries move to a different group if their Gross National Income changes. For instance, Indonesia and Iran moved from Upper-Middle Income Group to Lower-Middle Income Group in 2020 from 2019, and Romania had also slipped from Higher Income to Upper-Middle Income Group in the same period.

Sometimes the World Bank classification leads to the discovery of surprising, even startling, facts. If we consider the situation about a decade back, in 2010, and see the classification on the above-mentioned lines (of course, the actual income-threshold at each level was slightly different, due to current exchange-rate and purchasing-power-parity requirements), we find that out of 216 countries

of the world considered for classification, 35 countries were low-income countries, 57 countries were lower-middle-income countries, 54 countries were in the upper-middle-income category, and 70 countries were high-income countries. Thus the largest number of countries were in the high-income category! However, if we consider population, the population of the low-income countries was 12 % of world population; the population of the lower-middle-income countries was 36 % of world population; so was the population of the upper-middle-income countries; while the population of high-income countries was 16 % of the world population. Thus, while most of the countries in the world were high-income, most of the population lived in middle-income countries.

In unit 1, we brought out the difference between economic growth and economic development. We saw development is much more than economic growth. Development involves a structural transformation of the economy, and there are many more indicators of development. Economic growth is a necessary condition for development but it is certainly not a sufficient one. Here, in this unit, in the above discussion about the difference between developed and developing nation you may be getting the idea that a lot of emphasis is being laid on income of nations (for instance, the World Bank classification). So what happens if the Gross National Income (same as the Gross National Product, or GDP, as you have read in macroeconomics courses) of a nation were to change dramatically? Consider the case of Equatorial Guinea, a small nation on the West coast of Africa. It has a population of less than a million people. The discovery and development of oil deposits and reserves off its coast led to a dramatic rise in its per-capita GDP. In 1990 its per-capita income was \$330. By 2009 it had shot up to \$ 12, 420. In the decade 2000-2009 it was the fastest growing economy in the world, reaching average growth rates of 25 per cent, exceeding growth rates of China. With this kind of growth rates, in about a decade, Equatorial Guinea moved from being a low-income country to a high-income one.

Notice we are talking of *growth rates*. Did it mean that Equatorial Guinea became a developed nation from a developing one. The answer is no, because in terms of other indicators this country did not progress that dramatically. It reached the same income level as that of Hungary, but this is where the similarity between the two nations ends. Life expectancy in Equatorial Guinea is about 50 years, while in Hungary it is 74 years. About 90 percent of school-aged Hungarian children are enrolled in primary school; for Equatorial Guinea it is about 50 percent. Despite Equatorial Guinea's sudden high level of per capita income there has been little transformation in the low levels of education and poor health care of most Equatorial Guineans. Nor has there been much change in their economic activity. Rapid economic growth has not brought economic development to most of the population of Equatorial Guinea. But again, this case is the exception rather than the rule. In most cases, increases in per capita incomes and economic development have moved together. Thus we see that although levels of per-capita incomes are very important for determining whether a country is developed or developing, we should consider many other features,

characteristics and indicators. What proportion of the population is rural? How big is the share of agriculture in GDP? What is the composition of international trade, particularly exports? How is the country doing in terms of social indicators like health indicators, education, poverty, unemployment, inequality. How are manufacturing and services placed. In all these aspects there is a big difference and gap on the whole between developed and developing nations.

Modern economic growth, the term used by Nobel laureate Simon Kuznets, refers to the current economic epoch as contrasted with, say, the epoch of merchant capitalism or the epoch of feudalism. The epoch of modern economic growth still is evolving, so all its features are not yet clear, but the key element has been the application of science to problems of economic production, which in turn has led to industrialization, urbanization, and even explosive growth in population. Finally, it should always be kept in mind that, although economic development and modern economic growth involve much more than a rise in per capita income or product, no sustained development can occur without economic growth.

Check Your Progress 1

1. What do you mean by development gap?

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2. Describe the World Bank classification of various countries of the world in terms of economic levels. In what way does it differ from the classification of the United Nations?

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2.4 HISTORICAL PATTERNS OF DEVELOPMENT

We study this section by considering at the findings of economic historian Angus Maddison, who estimated income levels and corresponding rates of economic growth for the world economy as far back as the year 1 B.C.E. Such an exercise requires a lot of conjecture, especially the further back in time one goes. To perform the analysis, Maddison compiled estimates of population, GDP, and a price index for determining PPP.

According to Maddison's calculations, average world income in 1000 was virtually the same as it had been 1,000 years earlier. In other words, growth

in per capita income between 1 B.C.E. and 1000 was effectively zero. The next 820 years (from 1000 to 1820) were barely any better, with world income per capita growing, on average, by just 0.05 percent per year. (Note: This is not a growth rate of 5 percent; it is a growth rate of 0.05 percent.) During those 820 years, world GDP grew by only slightly more than the growth in world population. After eight centuries, world per capita income had increased by only 50 percent. To place this in some perspective, China today is one of the world's fastest-growing economies. With more than 1 billion people (about four times the entire world's population in 1000), economic growth in China averaged about 9.5 percent over the past decade, raising Chinese per capita incomes by 50 percent, not in 820 years but in just under 5 years!

Maddison's estimates indicate considerable uniformity in per capita incomes throughout the first millennium. The little bit of economic growth that did take place over the next 800 years was centered in western Europe and in what Maddison calls the western "offshoots" (Australia, Canada, New Zealand, and the United States). By 1820, these regions already had a decided advantage over the rest of the world. For example, whereas China and India may have been slightly ahead of the western European countries in 1000, average per capita incomes in western Europe and in their offshoots were already double those of China and India by 1820.

Maddison's research suggests that rapid economic growth as we know it really began around 1820. He estimates that over the subsequent 190 years, the average growth in world income increased to 1.3 percent per year. Note that the difference between annual growth of 0.05 percent and 1.3 percent is huge. With the world economy growing at 0.05 percent per year, it would take more than 1,400 years for average income to double. With annual growth of 1.3 percent, average income doubles in just 55 years. The world had changed from no growth at all during the first millennium, to slow growth for most of the second millennium, to a situation in which, in the past two centuries, average real income began to double in less than every three generations. Several features of these data are notable. First, economic growth rates clearly accelerated around the world since the early 1800s and especially after 1880. Second, and perhaps most striking, the richest countries recorded the fastest growth rates and the poorest countries recorded the slowest growth rates, at least until 1950. Per capita income in the Western offshoots grew by about 1.6 percent per year between 1820 and 1950, while in Asia it grew by only 0.16 percent. As a result, the ratio of the average incomes in the richest regions to those in the poorest regions grew from about 2:1 in 1820 to about 13:1 in 1950.

Between 1950 and 2008, the patterns of economic growth changed, at least in several regions. The gap between the Western offshoots and western Europe, which had been widening through 1950, narrowed significantly. The poorest region in 1950 (Asia) recorded the fastest subsequent growth rate (3.6

percent), thereby beginning to close the income gap with the richer regions of the world. By contrast, Latin America's growth stagnated during the 1980s and 1990s, and eastern Europe's collapsed after the fall of the Berlin Wall in 1989. Both regions resumed economic growth during the 2000s.

In Africa, as elsewhere, average growth rates accelerated after 1820 and did so again after 1950, in the period associated with the end of the colonial era. But as in Latin America, economic growth in Africa faded after 1980, continued to stagnate in the 1990s, and rebounded only recently. As a result, the income gap between the world's richest regions (the Western offshoots) and the poorest in 2000 (Africa) reached 19:1. According to Maddison's work, this is the largest gap in income between rich and poor regions the world has ever known. Because of resurgence in economic growth in Africa during the 2000s, this gap has narrowed but still remains huge by historical standards.

Maddison's broad sweep of world economic history indicates how differential rates of economic growth, especially over the past two centuries, have produced the divergence in income levels that characterizes the world's economy today.

2.5 SOME CASE STUDIES

In this section we begin by looking at some countries that were at the same level of development at one point of time, and then their levels started to diverge. We try to arrive at some explanation for this moving apart of the countries. As we have mentioned earlier, unit 7 in block 2 will also cover some determinants of growth. After reading that unit, you should think back about applying the insights you will get from that unit back to the content of the present unit.

A large number of less-developed countries have experienced growth in income over the past four decades and many have enjoyed substantial growth. There are many examples of countries that have had an income growth exceeding 2 percent a year over the past four decades. At 2 percent annual growth, average income doubles in 35 years; at 4 percent, it doubles in 18 years. In most of these countries, manufacturing grew more rapidly than the gross domestic product and thus moved these economies through the inevitable structural change that reduces the share of income produced and labour employed in agriculture. Many other countries experienced slower (albeit positive) growth and development, with incomes growing 1 or 2 percent per year. In still others, incomes stagnated or declined.

The most rapidly growing economies have been in Asia and include China, India, Indonesia, Korea, Malaysia, and Thailand. But several non-Asian countries also are among the fast growers, such as Botswana, Chile, Estonia, and Mauritius. Since 1970, Botswana, a landlocked country in southern Africa, has been one of the fastest-growing economies in the world and one that has used its increased income to improve the lives of its citizens. Botswana's experience challenges the

stereotype that all African countries have been stuck with little growth and development. At the same time, several

Asian countries have grown slowly or not at all, including Myanmar (Burma), North Korea, and Papua New Guinea. Below, we mention the facts related to some individual countries. They do not pertain to the latest time period, or even the same period, in the case of every country.

Malaysia, which previously had been known mainly for the export of rubber, tin, and palm oil, became one of the world's largest exporters of electronic components and other labor-intensive manufactured goods. Partly because of these exports, Malaysia emerged as one of the fastest growing economies in the world and a leading development success story. The income of the average Malay more than *quadrupled* in real terms between 1970 and 2010, infant mortality fell from 41 to 6 infants per thousand, and life expectancy rose from 61 to 75 years. Adult literacy jumped from 58 to 92 percent and the ratio of girls to boys enrolled in school increased from 83 to 103 percent.

Ethiopia Per capita incomes in 2004 were at about the same levels as in 1981. In the intervening years, incomes at times increased and at other times declined, but overall, economic stagnation characterized the nation. Since 2004, however, economic growth has been faster and more consistent, averaging 6.6 percent per year. This is much faster than at any time over the past three decades. Despite the global recession of 2008–09, Ethiopia's economy continues to grow rapidly, although it is hard to know if this will be sustained.

Looking at other indicators of living standards, infant mortality rates fell from an estimated 136 per thousand in 1970 to 67 per thousand in 2009, reflecting the potential for health outcomes to improve even when income does not. Life expectancy, at 56 years, is 13 years more than in 1970 but still well below the levels in Malaysia and other more affluent economies. Adult literacy is less than one out of three, but this will improve in the future. Four out of every five of Ethiopia's children of school age are now enrolled in primary school—double the level of a decade ago. The economy is changing too, albeit slowly. In 1970, 61 percent of national output was derived from agriculture; today this figure is 51 percent.

Bangladesh has an impressive track record of growth and poverty reduction. It has been among the fastest growing economies in the world over the past decade, supported by a demographic dividend, strong ready-made garment (RMG) exports, and stable macroeconomic conditions. Continued recovery in exports and consumption will help growth rates pick up to 6.4 percent in fiscal year 2021-22.

Bangladesh tells the world a remarkable story of poverty reduction and development. From being one of the poorest nations at birth in 1971 with per capita GDP tenth lowest in the world, Bangladesh reached lower-middle-income

status in 2015. It is on track to graduate from the UN's Least Developed Countries (LDC) list in 2026. Poverty declined from 43.5 percent in 1991 to 14.3 percent in 2016, based on the international poverty line of \$1.90 a day (using 2011 Purchasing Power Parity exchange rate). Moreover, human development outcomes improved along many dimensions.

In 2021, Bangladesh's Cabinet Secretary told reporters that GDP per capita had grown by 9% over the past year, rising to \$2,227. Pakistan's per capita income, meanwhile, is \$1,543. In 1971, Pakistan was 70% richer than Bangladesh; today, Bangladesh is 45% richer than Pakistan.

Bangladesh's growth rests on three pillars: exports, social progress and fiscal prudence. Between 2011 and 2019, Bangladesh's exports grew at 8.6% every year, compared to the world average of 0.4%. The success is largely due to the country's relentless focus on products, such as garments, in which it possesses a comparative advantage. Moreover, the share of Bangladeshi women in the labour force has consistently grown. Also, Bangladesh has maintained a public debt-to-GDP ratio of between 30% to 40 %.

Check Your Progress 2

1. Describe the performance of the world economy between the eleventh and nineteenth century as elucidated by Angus Maddison. Since when did the world economy grow?

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2. Briefly bring out the contours of development of any particular developing country of your choice, giving reasons for its success.

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2.6 LET US SUM UP

In this unit we looked at the developed and developing world in a comparative perspective. The aim was to look at the notion of economic development, and centre the discussion around the comparison between developed and developing countries. The central question was what are the characteristics that differentiate developed nations from developing nations? To this end, the unit began by explaining the concept and significance of the development gap, with the help of

a simple example. The discussion brought home the fact that the developing nations have to grow very fast in order to not increase the gap or fall behind. Next, the unit looked at the divide between the developed and developing nations. The insight that we got was that the divide is not merely in terms of income levels, but also in terms of several economic and social indicators of development. Merely by raising rates of growth, a country can go from being in the category of low-income nations to high-income nations, but it will not necessarily become a developed nation. Following this, the unit took a look at broad contours of development of the world economy, based on studies by Angus Maddison and presented some broad historical patterns of development. Finally, the unit mentioned the case of some developing nations that have performed admirably in the post World War II period, and some in recent times.

2.7 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1. See section 2.2
2. See section 2.3

Check Your Progress 2

1. See section 2.4
2. See section 2.5