Economics of Growth & Development

By Mr Anthony Adeyanju
Does it matter where you live?

<table>
<thead>
<tr>
<th>Statistics</th>
<th>Burundi</th>
<th>Norway</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Per Capita</td>
<td>$600</td>
<td>$53,400</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>35%</td>
<td>3.3%</td>
</tr>
<tr>
<td>% of people below poverty line</td>
<td>68%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Infant mortality rate</td>
<td>60/1000</td>
<td>3.5/1000</td>
</tr>
<tr>
<td>Literacy rate</td>
<td>67%</td>
<td>100%</td>
</tr>
<tr>
<td>Life Expectancy</td>
<td>59 Yrs.</td>
<td>80 Yrs.</td>
</tr>
</tbody>
</table>
Historical Background

- Development economics is not a new concept
- It is as old as economics itself
- The development of nations has been at the heart of economic enquiry
- Great classical economists such as Adam Smith, Thomas Malthus, David Ricardo, John Stuart Mill and Karl Max were all interested in the progress of nations
- Adam Smith’s “An Inquiry into the Nature and Causes of the Wealth of Nations” is one such testimony.
- Adam Smith was interested in finding out why some nations are poor whilst others are wealthy
Historical Background Cont’d

• In the past 60 to 65 years, there has been a renewed interest in development economics
• Since the decolonization of developing countries, this interest has intensified
• The developing world has become more aware of their poverty and are increasingly calling for a “new international economic order”
• The globalization of the world economy has led to increased interest into the issues undermining the development poor countries
Economic Growth

- Increase in the real GDP of a country, which may not necessarily result in improved living standards

- Should we be concerned about economic growth?
Economic Development

• Traditional meaning: Increased per capita income. Economic growth targets of the 1950s and 1960s did not translate into higher living standards for the masses

• Economic growth is necessary but not sufficient for economic development

• Hence, a contemporary view to economic development: improvement in the wellbeing of the population (higher standard of living)
• Improved wellbeing include reduction in poverty levels, unemployment rate, equitable income distribution, increase in health outcomes, and improvement in education outcomes, etc.
In summary

Economic growth entails an increase in a country's total output of goods and services.

Economic development entails a higher standard of living.
Measuring Economic Development

• **GNI per capita:** This is the traditional measure. It is calculated as gross national income divided by the population.

• **Human Development Index (HDI)** is a holistic measure of development. It attempts to rank all countries on a scale of 0 to 1, where 0 is the lowest and 1 is the highest human development. The HDI is a composite index of literacy rate, life expectancy and real income per capita.
GNI Per Capita

• GNI consists of GDP plus net income (income earned by domestic residents abroad minus income earned by foreign residents)
Human Development Index

• Initiated in 1990 and undertaken by UNDP in its annual series of HDRs.

• HDI is based on 3 goals:
  – Longevity (Life expectancy)
  – Knowledge (Literacy rate)
  – Standard of living (Per Capita Income)

• HDI = $\frac{1}{3}\text{(Income index)} + \frac{1}{3}\text{(Life expectancy index)} + \frac{1}{3}\text{(education index)}$
Calculating the HDI: an example (Zambia)

<table>
<thead>
<tr>
<th>Life expectancy index</th>
<th>Education index</th>
<th>Income index</th>
<th>HDI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Literacy (2/3)</td>
<td>Enrolment (1/3)</td>
<td></td>
</tr>
<tr>
<td>85 years</td>
<td>100%</td>
<td>100%</td>
<td>1</td>
</tr>
<tr>
<td>41.4</td>
<td>78.1</td>
<td>0.68</td>
<td></td>
</tr>
<tr>
<td>25 years</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
</tr>
</tbody>
</table>

\[
\frac{0.27 + 0.68 + 0.34}{3} = 0.433
\]
Human Development Index

- Ranks 175 countries into 3 groups
  - Low human development = 0.00-0.499
  - Medium human development = 0.5-0.799
  - High human development = 0.80-1.00

<table>
<thead>
<tr>
<th>Country</th>
<th>HDI</th>
<th>GDP rank-HDI rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low HD: Tanzania</td>
<td>0.436</td>
<td>+21</td>
</tr>
<tr>
<td>Medium HD: Turkey</td>
<td>0.735</td>
<td>-21</td>
</tr>
<tr>
<td>High HD: Canada</td>
<td>0.936</td>
<td>+3</td>
</tr>
<tr>
<td>Date</td>
<td>HDI</td>
<td>HDI Ranking</td>
</tr>
<tr>
<td>------</td>
<td>-----</td>
<td>-------------</td>
</tr>
<tr>
<td>2013</td>
<td>0.624</td>
<td>127°</td>
</tr>
<tr>
<td>2012</td>
<td>0.620</td>
<td>127°</td>
</tr>
<tr>
<td>2011</td>
<td>0.616</td>
<td>128°</td>
</tr>
<tr>
<td>2010</td>
<td>0.610</td>
<td>129°</td>
</tr>
<tr>
<td>2008</td>
<td>0.598</td>
<td>121°</td>
</tr>
<tr>
<td>2005</td>
<td>0.570</td>
<td>121°</td>
</tr>
<tr>
<td>2000</td>
<td>0.556</td>
<td>108°</td>
</tr>
<tr>
<td>1990</td>
<td>0.577</td>
<td>85°</td>
</tr>
<tr>
<td>1980</td>
<td>0.550</td>
<td>64°</td>
</tr>
</tbody>
</table>
Which of the two is a better measure of development and why?
So, what is development?

• “Development is a multi dimensional process involving changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty.” (Todaro and Smith)
Common Characteristics of Developing Economies

Low incomes, Low Life Expectancy & Low Education

- Norway: 0.963
- Chad: 0.34
- World Average: 0.7

HDI
Common Characteristics of Developing Economies

High Population Growth

- Norway: 0.35
- Chad: 2.19
- World: 1.3
Common Characteristics of Developing Economies

Low Investment Spending as Percentage of GDP

- Norway: 20%
- Chad: 14%
- World: 23%
Common Characteristic Features of Developing Economies

• Low level of GNI per capita
• Larger income inequalities
• Widespread poverty
• Low levels of productivity
• Great dependence on agriculture with a backward industrial structure
• High proportion of consumption, expenditure and low savings rate
• High rates of population growth and dependency burdens
• High level of Unemployment and Underemployment
• Technological Backwardness
• Dualism
• Lower Participation in Foreign Trade
• Dependence
Other common characteristics of Developing Countries

• Low literacy & enrollment rates
• Low state tax collection
• Lack of transparency & accountability
• Poor governance
Classification of developed and developing countries

• The World Bank classifies countries into four groups based on their per capita income

• Four classification of countries
  i. Low-income countries (≤$1500)
  ii. Lower-middle income countries ($1501 – $4000)
  iii. Upper-middle income countries ($4001 - $18000)
  iv. High-income countries (≥$18001)

Which category is Namibia?
Figure 2.2 Income Per Capita in Selected Countries

• Low-income and middle income countries are sometimes referred to as developing countries or the Third World

• High income countries are referred to as developed countries or the First World.

• The term Second World to socialist or centrally directed countries
The end