

The Expanding Context of Development Economics

25-27 November 2015
Bela Bela, Limpopo

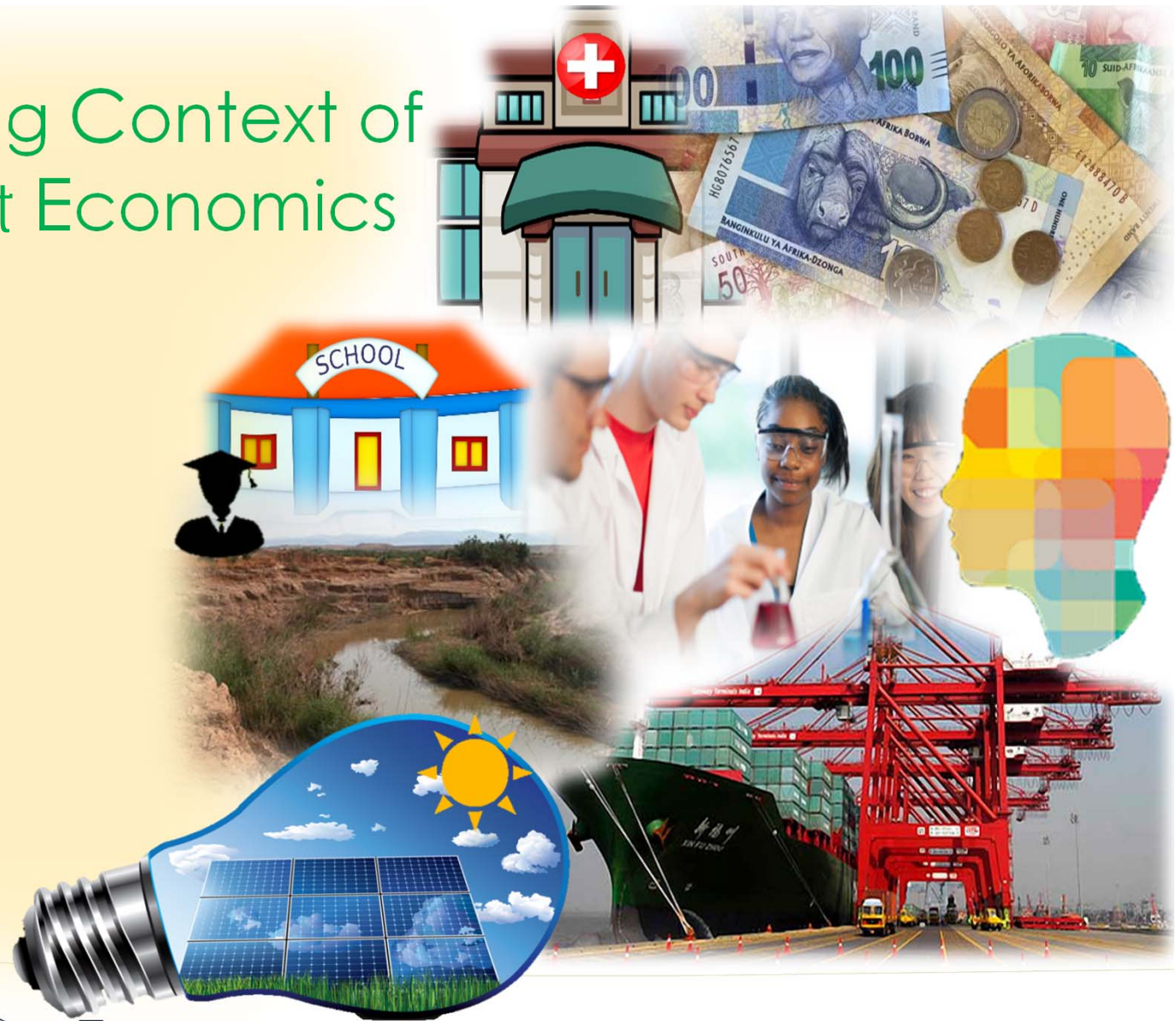


Table of Contents



- 1 Introduction
- 2 Four Phases in Economic Development Thinking
- 3 Anticipated New Developments
- 4 Conclusion

Introduction

- 🌐 Consider the evolution in thinking about development economics conceptually and anticipate further advances
- 🌐 Four phases are broadly distinguished, starting with initial emphasis on factors of production from 1950 onwards - essentially concerned with economic growth
- 🌐 Followed by emphasis on basic needs – qualitative concept of development; also sustainable development (environment)
- 🌐 Institutional context was new area of emphasis during third phase.
- 🌐 Behavioural economics is creating a platform for fourth phase - cognitive and social influences on behaviour are considered.
- 🌐 The phases are complimentary rather than substitutory.



The First Phase: Factors Of Production

- Concept of economic growth has deep origins - traced to the labour specialisation writings of Adam Smith – 1780's.
- Sharp focus since WW2 - coincided with the breaking of colonial ties drawing attention to newly independent countries
- Models emerged to explain that factors of production generated growth
- Harro-Domar – essentially capital accumulation, but rigid
- Rosenstein Rodan - **big push theory** - underdeveloped countries require large amounts of investments to develop from states of backwardness.
- Rostow **stages of growth** model conceptualised as process from traditional society, to emphasis on manufacturing and ultimately to diversification and increased consumer expenditure
- Arthur Lewis **dual sector model** reallocated surplus labour from a stagnant agricultural to an emerging modern capitalist sector causing dualism to atrophy and the economy to become fully commercialized



The First Phase: Factors Of Production

- 🌐 Solow Model: $g = f(k, l) + a$ (TFP)
- 🌐 Model application was somewhat mechanistic – applied to all countries – findings generally that capital accumulation contributes <50% to g in developed countries- more in developing countries. East Asia CA>60%; Africa TFP<0 (1970-2000)
- 🌐 Solow residual contains many influences that could not be disentangled:
 - Institutional efficiency, changes in trade policies, quality of investments or reduced corruption
 - Residual is also an error term
 - Abramovitz: Residual is a measure of our ignorance about the growth process
- 🌐 Factors of production remain important building blocks in subsequent phases.



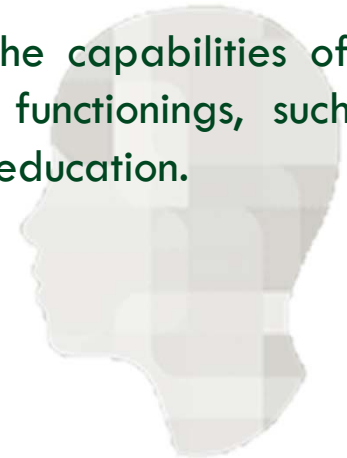
Regional Classification

-  A geographical classification emerged with seven major regions. Growth indicators reflect distinct patterns within this framework.
 - East Asia and the Pacific
 - Eastern Europe and Central Asia
 - Latin America and the Caribbean
 - Middle East and North Africa
 - South Asia
 - Sub-Saharan Africa, and
 - High-Income Countries.



The Second Phase: Development Is For People

- New area of focus in 1970s - development as a reflection of the quality of life
- Growth was a necessary, but not sufficient condition for development. Evidence of the trickle down effects was difficult to find in some regions
- Poverty reduction became a priority, also realisation that economic development was not only a function of external assistance
- Streeten: 'development is not about index numbers of national income – it is about people and for people. It must therefore begin by identifying human needs.
- Objective of development is to raise the level of living of the masses of the people and to provide them with the opportunity to develop their potential
- Amartya Sen added that the goal of development is to expand the capabilities of people to live the lives that they choose to lead, requiring elementary functionings, such as escaping high morbidity and mortality, adequate nourishment, and education.
- Sen and others reacted to the narrow earlier focus on growth alone.



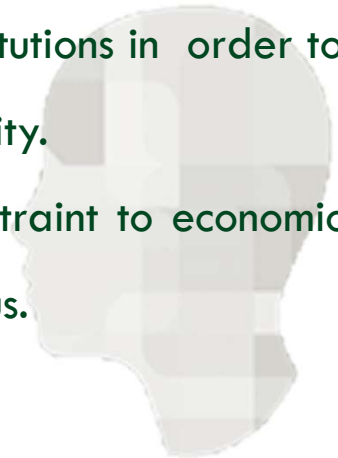
The Second Phase: Development Is For People

- From this emerged the Human Development Index published since 1990 – correlated with income, but country level exceptions
- Millennium Development Goals are also broadly conceived within the philosophy of people development. The eight primary goals relate to poverty, education, gender equality, health, environmental sustainability and global partnerships for development.
- Regional differentials are evident with respect to progress made in achieving the MDGs, with Western and Central Asia having regressed on some of the indicators
- Second phase also characterised by the focus on environmental sustainability – sensitive about non-renewables, bio-diversity and pollutants – concerns intensified in subsequent phases



The Third Phase: Institutional Considerations

- The role of governance and institutions received considerable attention since 1990. Douglas North – Institutions structure economic and social interactions - intentions
- Institutions impact on development via investment climate and risk, security of property rights, transparency, regulations, rule of law, public policies and the efficiency of utilities at all levels of government
- Acemoglu and Robinson: nations fail economically because of extractive institutions
Zimbabwe and Sierra Leone identified. Local elites create economic institutions in order to enrich themselves and perpetuate their power at the expense of majority.
- Weak institutions with high levels of incompetence also a severe constraint to economic growth and development, even if intensity of rent seeking is less obvious.



The Fourth & Current Phase: Increasingly Interdisciplinary

Important elements of the fourth phase, commencing approximately in 2010, include:

Behavioural economics

- Perception of and reaction to reality is subjective to each individual. Perceptions are influenced by thinking errors, such as stereotyping and lead to responses, such as mistrust, that can have negative implications for economic growth and development.
Adaptation and discontent

2015 World Development Report

- Central theme is that understanding of the processes of the human mind and how history and context shape thinking (the influence of society) can improve the design and implementation of development policies and interventions that target human choice and actions.

Angus Deaton, Nobel Prize winner for Economics in 2015

- Deaton's focus on household surveys helped transform development economics from a theoretical field and aggregate data to empirical field with detailed individual data. Most people in the world have gained in terms of health and well-being from GDP growth over the last few decades, but many groups that have missed out



Other Themes

Several other themes in all phases, include:

-  Demographics
 -  Population growth, urbanisation, migration

-  International Trade and Economic Geography

-  Development Finance

-  Applied research on culture-distance



Anticipated New Elements



Individual Motivation and Locus of Control

- Unique attitudes of entrepreneurs
- Accountability, participation and ownership are also essential attitudes for development



Impact of Climate Change

- Increasing focus on water – not only resources but also efficient use
- Sanitation neglected in the past



Anticipated New Elements



Digital Revolution

- World of work is changing – exponential increases in digital content
- Risk of increasing unemployability



Mass Migration

- Waves of migration from NA and ME to Europe
- Re-introducing economic development challenges in Europe



Need for Ideological Objectivity and Objective Communication

- Stubborn manifestations of poverty will require teamwork and leadership



Conclusion

- 🌐 Concept of economic growth and development has broadened and footprint of development has expanded
- 🌐 Stubborn pockets of poverty persist
- 🌐 Future approaches are likely to be more localised geographically
- 🌐 Also more context-specific and more multi-disciplinary – water-intentions-leadership
- 🌐 Policy-makers and practioners need to nuance their interventions according to the expanded concepts of economic development; and the specific context; and also be aware of their own biases

