

MICHAEL P. TODARO
STEPHEN C. SMITH

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MICHAEL P. TODARO

New York University

STEPHEN C. SMITH

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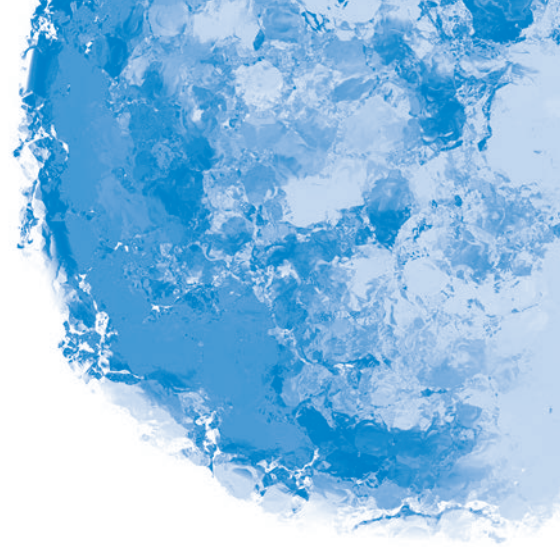
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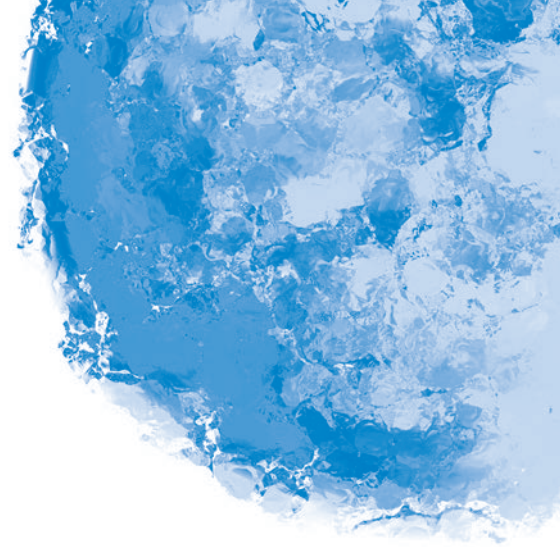
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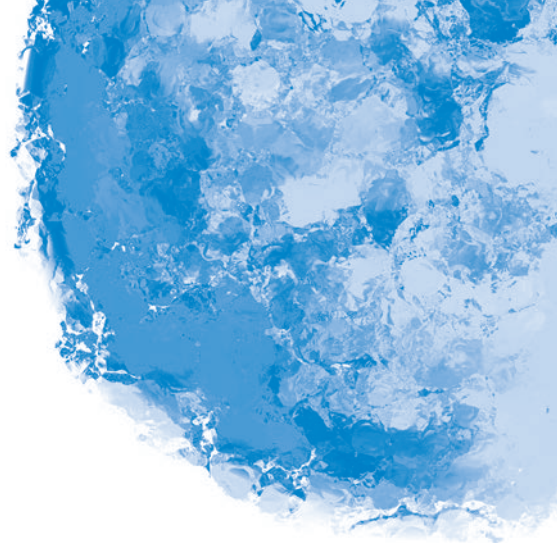
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Case Studies

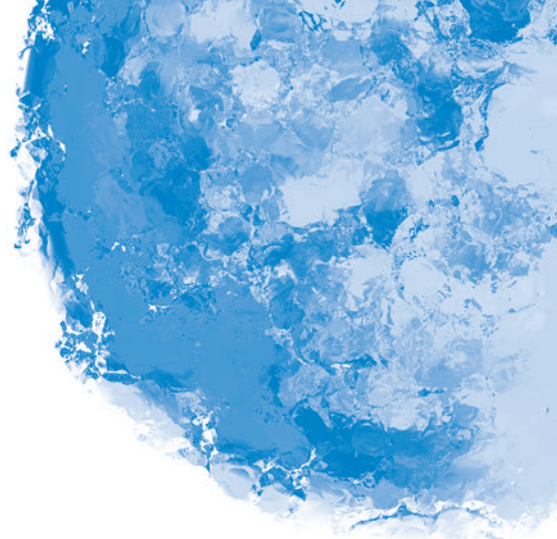
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Preface

Economic Development, Thirteenth Edition, presents the latest thinking in economic development with the clear and comprehensive approach that has been so well received in both the developed and developing worlds.

The pace and scope of economic development continues its rapid, uneven, and sometimes unexpected evolution. This text explains the unprecedented progress that has been made in many parts of the developing world but fully confronts the enormous problems and challenges that remain to be addressed in the years ahead. The text shows the wide diversity across the developing world in their extent of economic development and other characteristics; and the differing positions in the global economy that are held by developing countries.

The field of economic development is versatile and has much to contribute regarding these differing scenarios. Thus, the text also underlines common features that are exhibited by a majority of developing nations, using the insights of the study of economic development. The still relatively small number of countries that have essentially completed the transformation to become developed economies, such as South Korea and Singapore, are also examined as potential models for other developing countries to follow. Both theory and empirical analysis in development economics have made major strides, and the Thirteenth Edition brings these ideas and findings to students.

Development economics provides critical insights into how we got to where we are, how great progress has been made in recent years, and why many development problems remain so difficult to solve. The principles of development economics are also key to the design of successful economic development policy and programs as we look ahead. At the same time, international development is an interdisciplinary subject, in which approaches and insights from anthropology, finance, geography, health sciences, political science, psychology, and sociology have had significant influence on the subject, and are considered throughout the text. Some approaches that began as explicit critiques and alternatives to what were then limits to development economics have become central to its study. For example, behavioural economics and experimental research now play central roles in the field.

Legitimate controversies are actively debated in development economics, and so the text presents contending theories and interpretations of evidence, with three goals. The first goal is to ensure that students understand real conditions and institutions across the developing world. The second is to help students develop analytic skills while broadening their perspectives of the wide scope

of the field. The third is to provide students with the resources to draw independent conclusions as they confront development problems, their sometimes ambiguous evidence, and real-life development policy choices—ultimately, to play an informed role in the struggle for economic development and ending extreme poverty.

Approach and Organisation of the Text

The text's guiding approaches are the following:

1. To adopt a problem- and policy-oriented approach, because a central objective of the development economics course is to foster a student's ability to understand contemporary economic challenges of developing countries and to reach independent and informed judgements and policy conclusions about their possible resolution.
2. To teach economic development within the context of problems and potential solutions. These include challenges of absolute poverty, extreme inequalities, coordination failures, credit constraints, rapid population growth, impacts of very rapid urbanisation, persistent public health challenges, environmental degradation (from both domestic and climate change sources), rural stagnation, vulnerability to debt burdens and financial crises, recurrent challenges in international trade and instability, low tax revenues, inadequacies of financial markets, civil conflict, and twin challenges of government failure and market failure. When formal models are presented they are used to elucidate real-world development problems.
3. To use the best available data from Africa, Asia, Latin America, and developing Europe and the Middle East, and appropriate theoretical tools both to illuminate common developing-country problems, and to highlight the wide range of development levels and differing challenges across groups of countries.
4. To take a wide-angle view of developing countries, not only as independent nation states, but also in their growing relationships with one another, as well as in their interactions with rich nations in a globalising economy.
5. To consider development in both domestic and international contexts, stressing the increasing interdependence of the world economy in areas such as food, energy, natural resources, technology, information, and financial flows.
6. To provide at least a basic familiarity with research methods. The problem of identifying causality is introduced by way of presenting examples of important research that also serve to build on major themes. There is no assumption that students have taken econometrics or, for that matter, basic regression analysis, but the findings boxes and other material in the text serve as a perfect entrée for instructors with students with sufficient background to examine techniques introduced intuitively, including randomised controlled trials, use of instrumental variables, regression discontinuity design, differencing, and time series methods. These are all introduced in ways in which instructors may ignore the underlying econometric analysis, or build on it in supplemental course components.

7. To treat the problems of development from an institutional and structural as well as a market perspective, with appropriate modifications of received general economic principles, theories, and policies. It thus attempts to combine relevant theory with realistic institutional analyses. Enormous strides have been made in the study of these aspects of economic development in recent years, which is reflected in this thirteenth edition.
8. To consider the economic, social, and institutional problems of underdevelopment as closely interrelated and requiring coordinated approaches to their solution at the local, national, and international levels.
9. To cover some topics that are not found in other texts on economic development but that are important from our broader perspective, as part of the text's commitment to its comprehensive approach. These unique features include growth diagnostics, industrialisation strategy, innovative policies for poverty reduction, the capability approach to well-being, the central role of women, child labour, the crucial role of health, new thinking on the role of cities, the economic character and comparative advantage of non-governmental organisations in economic development, emerging issues in environment and development, financial crises, violent conflict, and microfinance.
10. The in-depth case studies and comparative case studies appearing at the end of each chapter remain features unique to this text. Each chapter's case study reflects and illustrates specific issues analysed in that chapter in the context of national development or specific policies. At the same time, there are common threads: the quality of institutions is considered in most of the country cases, as are indicators of poverty, inequality, and human development.
11. Boxes are used in a consistent way for two purposes. Findings boxes report on specific research findings; they serve as a vehicle to introduce students to research methods in development economics, as well as to show the connection between individual studies and the broader picture of economic development. Policy boxes describe major actors in development policy, including the World Bank and the IMF, and present less formal but essential approaches to policy analysis, covering topics ranging from growth diagnostics to family planning.
12. To provide balanced coverage of differing and even explicitly opposed perspectives wherever evidence, interpretations, and analytical frameworks are in contention.

Audience and Suggested Ways to Use the Text in Courses with Different Emphases

- **Flexibility.** This text provides an introduction to development economics and international development. It is designed for use in courses in economics and other social sciences that focus on the economies of Africa, Asia, and Latin America, as well as developing Europe and the Middle East. It is written for students who have had some basic training in economics

and for those with little formal economics background beyond principles (first micro- and macroeconomics courses). Essential concepts of economics that are relevant to understanding development problems are highlighted in boldface and explained at appropriate points throughout the text, with glossary terms defined in the margins and also collected together at the end of the book in a detailed glossary.

- Thus, the text should be of special value in undergraduate development courses that attract students from a variety of disciplines. It provides in-depth coverage of new institutional economic analysis and describes features of developing economies that cannot be taken for granted with a majority of students.
- Yet the material is sufficiently broad in scope and rigorous in coverage to satisfy any undergraduate and some graduate economics requirements in the field of development. For example, foundational models and empirical methods are introduced in several chapters and in about a dozen findings boxes. This text has been widely used, in courses taking both relatively qualitative and more quantitative approaches to the study of economic development and emphasising a variety of themes, including human development.
- The text features a 15-chapter structure, convenient for use in a comprehensive course and corresponding well to a 15-week semester but with enough breadth to easily form the basis for a two-semester sequence.
- The chapters are now further subdivided, making it easier to use the text in targeted ways. To give one example, some instructors have paired the sections on informal finance and microfinance (15.3) with Chapter 5 on poverty. Similarly, some have paired civil conflict (14.5) with poverty. With further subdivisions of sections, additional selections and orderings are possible.
- **Courses with a qualitative focus.** For qualitatively oriented courses, with an institutional focus and using fewer economic models, one or more chapters or subsections may be omitted, while placing primary emphasis on Chapters 1, 2, 5, 6, 8, and 9, plus parts of Chapters 7 and 10, and other selected sections, according to topics covered. The text is structured so that the limited number of graphical models found in those chapters may be omitted without losing the thread, while the intuition behind the models is explained in detail.
- **Courses with a more analytic and methods focus.** These courses would focus more on the growth and development theories in Chapter 3 (including appendices such as 3.3 on endogenous growth) and Chapter 4, and highlight and develop some of the core models of the text, including poverty and inequality measurement and analysis in Chapter 5, microeconomics of fertility and relationships between population growth and economic growth in Chapter 6, migration models in Chapter 7, human capital theory, including the child labour model and empirics in Chapter 8, sharecropping models in Chapter 9, environmental economics models in Chapter 10, tools such as

net present benefit analysis in Chapters 8 and 11; and multisector models along with political economy analysis in Chapter 11, and trade models in Chapter 12.

- **Courses that also have an empirical methods focus.** Regarding empirical methods, these courses would expand on material introduced in some of the findings boxes and subsections into more detailed treatments of methods topics, including randomised controlled trials (Boxes 4.2, 8.4, 8.5, 8.6, 8.9, 11.3, 12.2, and 15.2, Case Study 8), use of instrumental variables (Box 2.3 and Section 2.7), regression discontinuity (Boxes 2.2, 2.4), differencing (Box 9.2), and time series methods (Box 12.1). The introduction of several of the studies provides an excellent jumping-off point to using supplementary materials for examining methods in detail.
- **Courses emphasizing human development and poverty alleviation.** The thirteenth edition can be used for a course with a human development focus. This would typically include the sections on Amartya Sen's capabilities approach, the new section on the Sustainable Development Goals and the history of the MDGs in Chapter 1; a close and in-depth examination of the section on societal conflict in Chapter 14, the discussion of informal financial arrangements including ROSCAs, microfinance institutions in Chapter 15; and a close and in-depth examination of Chapters 2 and 5. Sections on population policy in Chapter 6; diseases of poverty and problems of illiteracy, low schooling, and child labour in Chapter 8; problems facing people in traditional agriculture in Chapter 9; relationships between poverty and environmental degradation in Chapter 10; and roles of nongovernmental organisations (NGOs) in Chapter 11; the section on societal conflict in Chapter 14; and discussion of informal financial arrangements including ROSCAs, microfinance institutions in Chapter 15, as be likely highlights of this course.
- **Courses emphasising macro and international topics.** International and macro aspects of economic development could emphasise Sections 2.6 and 2.7 on convergence, and long-run growth and sources of comparative development; Chapter 3 on theories of growth (including the three detailed appendixes to that chapter); Chapter 4 on growth and multiple-equilibrium models; and Chapters 12 to 15 on international trade, international finance, debt and financial crises, direct foreign investment, aid, central banking, and domestic finance. The text also covers other aspects of the international context for development, including the in-depth cases on the 1980s debt crisis and the 2000s financial crisis in Chapter 13; implications of the rapid pace of globalisation and the rise of China (Chapter 12 and case studies of China (Chapter 4), India (Chapter 5), and Brazil (Chapter 13); the continuing struggle for more progress in sub-Saharan Africa, and controversies over debt relief and foreign aid (Chapter 14).
- **Broad two-semester course using supplemental readings.** Many of the chapters contain enough material for several class sessions, when their topics are covered in an in-depth manner, making the text also suitable for a year-long course or high-credit option. The endnotes and sources offer many starting points for such extensions.

Summary of Key Material New or Expanded for This Edition

In addition to a thorough updating and reporting the most recently available data, the Thirteenth Edition includes significant new material, including:

- A new presentation of the Sustainable Development Goals, which also provides a brief history of the MDGs, and progress and challenges in implementation (Section 1.7).
- How levels of living differ around the world, with an exploration of the household level—as distinct from country averages, inspired by the late Hans Rosling (Section 1.2).
- Newly added graphs and statistics on the great divergence in incomes over 250 years, and new evidence of a recent shift toward (re-)convergence (Section 2.5).
- Expanded section on growth diagnostics, including new material on growth diagnostics in practice, with an example of “inclusive” growth diagnostics applied to Bangladesh (Section 4.7 and Box 4.4).
- New material on how insights from behavioural economics and findings using experimental behavioural economics methods have been used to better understand and address poverty, physical health, and mental health problems (Section 5.8.6 and Box 8.9).
- A new section on labour that features material on characteristics of inclusive development in addition to the subsection on the functional distribution of income (Section 5.7).
- A new section discussing policy for still-developing middle-income countries facing population declines (Section 6.6.4).
- A new section on agricultural extension that also serves to introduce the case study on extension for women farmers in Kenya and Uganda (Section 9.2.3 and Case Study 9)
- An expanded section on adaptation to climate change, which also considers the extent to which adaptation and resilience assistance differs from conventional development assistance (Section 10.2.3 and Box 10.4).
- The section on the new firm-level international trade approach features experimental findings on the effects of exporting on firm performance (Section 12.6.2 and Box 12.2).
- A restructuring of the presentation of much of Chapter 13 on debt and financial crises as case studies of major events that draw out more general principles (Sections 13.4 and 13.5).
- The introduction of ROSCAs as a potentially beneficial financial arrangement is set out in a short subsection (Section 15.3.2).
- Case studies and findings boxes are described in the next section.

In-Depth End of Chapter Case Studies

There is a strong focus on in-depth case studies, with new end of chapter cases and major updates of existing studies. A majority of them are comparative case studies.

The end of chapter Case Studies has been one of the most popular features of the text. These cases apply the general findings in development economics as discussed in the chapter to interpreting experiences in specific countries, and in some cases specific programs. The cases address important country topics and development experiences.

Three in-depth cases look at the economic development successes and challenges of a single major developing country: China, India, and Brazil.

Single-Country Case Studies The Case Study on China (Chapter 4, pages 202–214) has been substantially expanded in scope to provide a comprehensive view of the major argued sources of success and serious challenges going forward advanced in the scholarly literature. There is an entirely new full length case study of economic development in India (Chapter 5, pages 272–279), that offers a similarly comprehensive examination of major sources of success and challenges going forward. The case study of Brazil (Chapter 13, pages 737–744) has been extensively revised and updated and now provides, among other things, consideration of the potential for middle-income traps and elements for escaping them. In addition, there is one specialized single-country case study, on the Progres-Oportunidades-Prospera program in Mexico, which has been updated for this edition.

Comparative cases The country comparative cases have received strong interest and active in-class use. This feature is now expanded further, so that there are 11 comparative studies (at the ends of Chapters 1, 2, 3, 6, 7, 9, 10, 11, 12, 14, and 15).

Nine major end of chapter cases assess successes and challenges in overall national economic development experiences in two countries selected for the relevance of addressing them in comparative perspective and in the context of the chapter.

There is a new comparative case study on Burundi and Rwanda (Chapter 6, pages 332–336), which has particular emphasis on demography, as well as institutions. The updated Pakistan and Bangladesh comparative study now follows the first chapter (Chapter 1, pages 24–30); and the updated Ghana and Côte d'Ivoire case now follows the second chapter (Chapter 2, pages 84–91). The Chapter 3 case is South Korea and Argentina (pages 140–143). The Dominican Republic and Haiti – two countries on one island – are examined in comparative perspective with a special emphasis on environment and development (Chapter 10, pages 548–552). What had been separate case studies of South Korea and Taiwan are integrated into one comparative case, allowing ready examination of differences as well as similarities between these two pioneering experiences; this new comparative case appears at the end of Chapter 12 (pages 676–688). The 3-way comparative study of Costa Rica, Guatemala, and Honduras, new to the previous edition, is updated and found at the end of Chapter 14 (pages 785–791).

The textbook concludes on an optimistic note, with a new comparative case study of Mauritius and Botswana, two of Africa's most remarkable success stories, examining how they are managing to overcome successive challenges that stymied other countries (Chapter 15, pages 836–844).

Sector Cases Two comparative cases focus on specific sectors. The first sector case examines agricultural extension, which is newly comparative, addressing Uganda as well as Kenya (Chapter 9, pages 489–495). The other sector case is a comparison within one country, Bangladesh, that brings together and synthesizes the roles of two differently structured and focused major NGOs that have made important innovations and have been widely influential, BRAC and Grameen (Chapter 11, pages 599–608).

Finally, note that the case on the one-child policy in China is now found in streamlined form in Box 6.3. A brief summary of the case study of family planning policy in India is now found in a section of the new Chapter 5 case study on economic development of India.

Supplementary Materials

The Thirteenth Edition comes with PowerPoint slides for each chapter, which have been fully updated for this edition.

The text is further supplemented with an Instructor's Manual by Chris Marme of Augustana College. It has been thoroughly revised and updated to reflect changes to the Thirteenth Edition. Both the PowerPoint slides and the Instructor's Manual can also be downloaded from the Instructor's Resource Center at go.pearson.com/uk/he/resources.

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1

Introducing Economic Development: A Global Perspective

Two pictures of the developing world compete in the media for the public's attention. The first is misery in places such as rural Africa or unsanitary and overcrowded urban slums in South Asia. The second is extraordinary dynamism in places such as coastal China. Both pictures convey important parts of the great development drama. Living conditions are improving significantly in most, though not all, parts of the globe—if sometimes all too slowly and unevenly. The cumulative effect is that economic development has been giving rise to unprecedented global transformations. In this book we gain perspective on how much is yet to be achieved, and will appreciate how we have already come so far in reducing human misery—indeed, that is where many lessons are to be found on how to continue the progress of recent decades.

1.1 Introduction to Some of the World's Biggest Questions

The study of economic development raises some of the world's biggest questions. Why do living conditions differ so drastically for people across different countries and regions, with some so poor and others so rich? Why are there such disparities not only in income and wealth, but also in health, nutrition, education, freedom of choice, women's autonomy, environmental quality, access to markets, security, and political voice? Why is output per worker many times higher in some countries than others? Why do workers in some countries have fairly secure, formal jobs with regular, predictable pay, while in other countries such jobs are extremely scarce and most work in informal settings with fluctuating and insecure earnings? Why are populations growing rapidly in some countries, while on the verge of shrinking 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 others so comparatively little? How have child illness and death rates fallen so much in the world, and what can be done in places where they remain far higher than average? How can we measure the impacts that government policies and nongovernmental organisation (NGO) programmes make in improving the well-being of the poor and vulnerable; and what lessons have we learned? And how did such great divergences across countries come about? How does history matter?

These are among the fundamental questions of development economics. As Nobel Laureate Robert Lucas said of questions about disparities in income growth, “once one starts to think about them, it is hard to think about anything else.”¹

This text examines what lies behind the headline numbers, to appreciate the historical sweep of **development** patterns, presenting the necessary analytic tools and the most recent and reliable data—on challenges ranging from extreme poverty to international finance. This text examines key challenges faced by the spectrum of developing economies, from the least-developed countries to upper-middle-income nations striving to reach fully developed status. But, to begin, while significant progress in public health has occurred in almost all countries, even today the living standards of hundreds of millions of the world’s poorest people have benefited little, if at all, from the rising global prosperity.

Development The process of improving the quality of all human lives and capabilities by raising people’s levels of living, self-esteem, and freedom.

Living standards strata Stylized sets of material living conditions; the 4-strata schema was created by Hans Rosling

Subsistence economy An economy in which production is mainly for personal consumption and the standard of living yields little more than basic necessities of life—food, shelter, and clothing.

1.2 How Living Levels Differ Around the World

Average living conditions differ drastically, depending largely on where a person was born. We examine the evidence in detail throughout this text. Often, countries as a whole are divided into four groups based on their average levels of income or other standards of well-being, introduced in the following section. But first, to get a sense of the scope and individual meaning of these differences, consider brief vignettes of four “stylised strata” of **living standards** around the world.²

At the “bottom,” more than one billion people live in extreme income poverty, or suffer acute multidimensional deprivations in areas such as nutrition, health, and primary education, or both. The World Bank estimated in 2017 that 768.5 million—nearly three-quarters-of-a-billion people—subsist below the extreme poverty income line of \$1.90 per day adjusted for purchasing power (so it is actually like living on this amount in the United States).³ A typical person living in such extreme income poverty subsists on about \$1.40 per day.⁴ Taking account of whether a family has multiple simultaneous deprivations in health, nutrition, basic education, type of cooking fuel, sanitation, drinking water, housing materials, and a few very basic goods, in 2018 the United Nations estimated in its ‘Multidimensional Poverty Index’ that nearly 1.3 billion people live with acute deprivations.

One of the poorest communities may live in a remote rural area in the eastern part of Africa, where many clusters of small houses contain groups of extended families. A majority of the food is grown by the people who consume it; and shelter and furnishings are often made by those who use it—theirs is nearly a **subsistence economy**. There are few passable roads, particularly in the rainy season. The younger children attend school irregularly and, all too often, when they do get to school, the teacher is absent from the classroom. Some children of primary-school age are still not even enrolled. Primary schools may be very difficult to access, and many children have never seen a high school, let alone thought of attending one. There are no hospitals, electric wires, or improved water supplies. Water is collected in reused commercial buckets from a source

such as a spring or stream that is often contaminated; they walk to it in battered flip-flop sandals (if not bare feet) can be a kilometre or more, and it may take additional time waiting your turn. The children may be malnourished, suffering from conditions including *kwashiorkor* (protein deficiency). Food is cooked over an open fire in each mud house, the smoke escaping from a hole in the roof, and likely causing breathing problems. The food tends to be the same every meal, often lacking in protein and other vital nutrients. The floor may be rough mats over mud, on which the family sleeps. Parasites may gain entry to the house through the floor. When it rains, the roof may leak. It is a stark and difficult existence. In western Africa the geography, culture, and languages are different, but many of the conditions of poverty are strikingly similar. Such dire poverty can also still be found in areas of South Asia and elsewhere. More than three quarters of the extreme poor live in rural areas.

A typical person in the second-lowest of the “strata” is not officially classified as extremely poor, though from the perspective of an average person in a rich country they would be viewed as very poor indeed. In fact, a typical family in this stratum may live on about twice that line, \$3.80 per day per person. Close to 3 billion people may be thought of as living in this stratum. They are almost as likely to live in an urban area (or nearby lower-income peri-urban area) as in a rural area.⁵ However, their employment is probably informal, in companies not registered and without worker protections, or in their own small family enterprises. They get around with well-used but functioning bicycles. A majority of them no longer cook over open fires, but may use kerosene or some other improved energy source at least much of the time. They get their water from a tap, though it is typically outdoors and may be a considerable walk from their house; and in many cases the water is still unsafe without boiling and adding chlorine. The family usually has an improved floor, and often improved walls and roof, but the house is still somewhat subject to the elements. Their sleep is disrupted by seemingly constant noise. People in this strata likely suffer from one or more components of multidimensional poverty, though for at least 80% of them the number of their deprivations are not enough for them to be officially classified by the UN as “multidimensionally poor” (Chapter 5). Some of the “voices of the poor” are reported in Box 1.1.

A typical family in the second-highest of the strata may live on about \$15 per person per day. (More than three-quarters of the world lives on less than \$15 a day; this family is considered solidly middle income by global standards.) More than two billion people may be thought of as living in this strata. Such families typically live in urban areas. But their jobs are usually not very stable and are often informal. They cook on manufactured burners using kerosene if not electricity. They have a television in their house. They get around with a motorbike. The children are likely to survive early childhood. They probably attend some post-primary school, though they are unlikely to complete it. Most adults and many teenagers have a mobile phone, though there may be no smartphones. Their water is typically delivered through a tap to their house, though a majority do not have what people in the rich strata would consider full indoor plumbing. Their city is likely to exhibit very high inequality, with sharp contrasts in living conditions from one section of this sprawling metropolis to another. In a Latin American city, there would be a modern stretch of tall buildings and wide,


BOX 1.1 Development Policy: The Experience of Poverty: Voices of the Poor

When one is poor, she has no say in public, she feels inferior. She has no food, so there is famine in her house; no clothing, and no progress in her family.

—A poor woman from Uganda

For a poor person, everything is terrible—illness, humiliation, shame. We are cripples; we are afraid of everything; we depend on everyone. No one needs us. We are like garbage that everyone wants to get rid of.

—A blind woman from Tiraspol, Moldova

Life in the area is so precarious that the youth and every able person have to migrate to the towns or join the army at the war front in order to escape the hazards of hunger escalating over here.

—Participant in a discussion group in rural Ethiopia

When food was in abundance, relatives used to share it. These days of hunger, however, not even relatives would help you by giving you some food.

—Young man in Nichimishi, Zambia

We have to line up for hours before it is our turn to draw water.

—Participant in a discussion group from Mbwadzulu Village (Mangochi), Malawi

[Poverty is] . . . low salaries and lack of jobs. And it's also not having medicine, food, and clothes.

—Participant in a discussion group in Brazil

Don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at the utensils and the clothes I am wearing. Look at everything and write what you see. What you see is poverty.

—Poor man in Kenya

tree-lined boulevards perhaps along the edge of a well-maintained beach; just a few hundred meters back and up the side of a steep hill, squalid slum dwellings are pressed together. There, a slum-dwelling family struggles to keep food on the table. Most employment opportunities are precarious. Government assistance has recently helped this family keep the children in school longer. But lessons learned on the streets, where violent drug gangs hold sway, seem to be making a deeper impression. In sharp contrast, a wealthy family lives in a multi-room complex in a modern building. Their children attend university, perhaps in North America, and they enjoy annual vacations abroad, luxury automobiles, and designer clothing, and may give little thought to the struggling, deprived family cramped tightly into a small self-built dwelling, perhaps living on a hill that they can see from their seafront building.

Finally, close to a billion people live on the highest stratum, which most other people in the world consider rich. Most are certainly not millionaires, let alone ultra-rich; but they live very comfortably. A family in this stratum living in North America, Western Europe, or Japan might live on an income of perhaps \$75 per person per day. They work in formal jobs, generally with at least some protections. They may have a comfortable suburban house that has a small yard with a garden, and two cars. The dwelling would have many comfortable features, including often a separate bedroom for each child. They enjoy central air conditioning and/or central heating, as prompted by the climate. Full indoor plumbing is taken for granted. The house would be filled with numerous consumer goods, including high-speed internet connections to go with their smartphones, laptops, and home entertainment centres, along with an array of appliances

including stoves, refrigerators, dishwashers, and microwaves. They have access to fresh food year round (though they may eat fast foods instead). Both children would probably be healthy—except for a growing incidence of obesity and the problems it brings—and generally get good medical care if they need it. They would be attending school, where most would expect to complete their secondary education and, more likely than not, gain at least some post-secondary education; choose from a variety of careers to which they might be attracted; and live to an average age of close to 80 years. Many may feel their status is precarious, and are aware of the gulf between their life and that of the very rich; but most still work in formal jobs, generally with some protections. Although their lives would have ups and downs, and living standards do not always rise across generations, they face very little danger of falling below their stratum.

Many times, people born on one of these strata spend their lives on it, albeit typically making some progress within that general level. People at the lowest or second-lowest strata probably have some awareness of what life is like on the higher strata, from TV at the village centre if not at home, and wistfully think of attaining it, but it is generally viewed as out of reach.

Sometimes, truly transformative progress is highly visible and takes form in the course of a single person's life. Many of the clearest examples of this are found in China. Imagine a couple born in an obscure *zhuang* (rural area) in populous central Sichuan Province. They grew up in the 1960s, going to school for six years and becoming rice farmers like their parents. The rice grew well, but memories of famine were still sharp in their commune, where life was also hard during the Cultural Revolution. Their one daughter, let's call her Xiaoling, went to school for ten years. Much of the rice they and their commune grew went to the state at a price that never seemed high enough. After reforms in 1980, farmers were given rights to keep and sell more of their rice. Seeing the opportunity, they grew enough to meet government quotas and sold more of it. Many neighbours also raised vegetables to sell in a booming city 100 kilometres up the river and other towns. Living standards improved, though then their incomes stagnated for some years. But they heard about peasants moving first to cities in the south and recently to closer cities—making more money by becoming factory workers. When their daughter was 17, farmers from the village where the mother grew up were evicted from their land because it was close to lakes created by an immense dam project. Some were resettled, but others went to Shenzhen, Guangzhou, or Chongqing. Xiaoling talked with her family, saying she too wanted to move there for a while to earn more money. She found a city that had already grown to several million people, quickly finding a factory job. She lived in a dormitory, and conditions were often harsh, but she could send some money home and save toward a better life. She watched the city grow at double digits, becoming one of the developing world's new megacities, adding territories and people to reach over 15 million people. After a few years, Xiaoling opened a humble business, selling cosmetics and costume jewellery to the thousands of women from the countryside arriving every day. She has had five proposals of marriage, with parents of single men near where she grew up offering gifts, even an enormous house. She knows that many people still live in deep poverty and finds inequality in the city startling. For now she plans to stay, where she sees opportunities for her growing business and a life she never imagined having in her village.⁶

Box 1.2 illustrates some typical differences across the four strata of living conditions.⁷


BOX 1.2 Development Policy: Comparing Living Conditions Commonly Found Across Four Strata
Lowest Stratum: Extreme Poverty

- *Cooking:* Open fire, smoke exits through hole in the roof
- *Food and nutrition:* Food insecure, majority of food grown by family; often malnourished and among the 800 million people classified as hungry
- *Clothing:* Used, worn, may be inadequate; flip-flops or in many cases still bare feet
- *Education:* Majority now able to attend primary school, but may not complete it
- *Housing:* Self-constructed, natural or found materials, often mud; thatch roof, dirt floors with mats
- *Furnishings:* Any pallet or bed, table, chair, or shelf is self-constructed; no electricity
- *Water:* hand-carried in buckets from public, often unsanitary sources
- *Sanitation:* Pit latrine or open defecation
- *Transportation:* On foot

Second-Lowest Stratum

- *Cooking:* Basic, but typically use kerosene or some other improved energy source
- *Food and nutrition:* May be food insecure or vulnerable to falling into food insecurity
- *Clothing:* Inexpensive, often used clothing, not well fitting, perhaps inadequate for the weather; worn shoes and rubber-soled shoes
- *Education:* Children finish primary school; on average attend a couple years longer
- *Housing:* Partly and perhaps fully self-constructed; improved floor, corrugated tin roof
- *Furnishings:* Basic tables and seating; fans if electricity; power connection may be illegal and improvised
- *Water:* From a tap, typically outdoors and perhaps a 50-metre-plus walk; needs self-treating with chlorine or boiling
- *Sanitation:* Latrine
- *Transportation:* Bicycle

Second-Highest Stratum

- *Cooking:* Manufactured burners with improved fuel if not electric plates
- *Food and nutrition:* Usually food secure; but many vulnerable to fall into food insecurity
- *Clothing:* Inexpensive, though new when purchased, and worn or less-expensive shoes and sneakers; expensive clothes as social expectations rise
- *Education:* Children finish primary school; some finish secondary school
- *Housing:* Modest but better constructed, if not comfortable
- *Furnishings:* Electricity, purchased tables, chairs, beds; fans or even a room AC, space heater, a television
- *Water:* Piped directly to house site; may need treating
- *Sanitation:* Toilets, but many lack what the top stratum considers full indoor plumbing
- *Transportation:* Motor bike

Highest (“Rich”) Stratum

- *Cooking:* Modern appliances including modern range, microwave, dishwasher
- *Food and nutrition:* Rich and diverse diet, though obesity may bring other health risks
- *Clothing:* Well-fitting, perhaps designer clothing; multiple, relatively new, comfortable dress and sports shoes
- *Education:* Children complete high school; on average attend at least one year of post-secondary education
- *Housing:* Modern, manufactured, professionally constructed
- *Furnishings:* House filled with consumer goods and durables, wifi, home entertainment centres
- *Water:* Safe water at taps throughout the house
- *Sanitation:* Hygienic, modern bathroom plumbing
- *Transportation:* A car per each adult; or in high density each person is assured reliable transportation alternatives

1.3 How Countries Are Classified by Their Average Levels of Development: A First Look

Countries are often classified by levels of income and human development, as we examine in detail in the next chapter. They are also grouped by levels of poverty, quality of governance, and many other dimensions, as we will see later in the text. We introduce these comparisons with differences in countries' average incomes—the most common way to do so (though income is usually an inadequate measure of well-being).

The World Bank classifies countries according to four ranges of average national income: Low, Lower-Middle, Upper-Middle, and High. There has been strong income growth in average incomes in a majority of low- and middle-income countries over the last several decades, and many low-income countries have been reclassified as middle-income countries. But, once again, a typical country may have people living at very different income levels, or living standards strata.

Of the world population of about 7.7 billion people in 2018, about 16% live in high-income countries (HICs). These countries have **Gross national income (GNI)** per capita of at least \$12,056. This is less than would be thought of as “upper income” in many HICs such as Japan, the United Kingdom, and the United States, with average incomes several times this level. Some countries included on the World Bank HIC list had average income that was only barely enough to reach the HIC threshold, such as Chile, Equatorial Guinea, and Hungary. But the average person in an HIC lives very well by global standards.⁸

After unprecedented growth in China, India, and Indonesia—each formerly a **Low-Income Country (LIC)**—more than 60% of the world's people now live in “middle-income countries.” To be classified as **upper-middle income (UMCs)** in 2018, a country needed GNI per capita between \$3,896–\$12,055. **Lower-middle income countries (LMCs)** have annual per capita GNI between \$996–\$3,895.⁹

About three-quarters-of-a-billion people—roughly 10% of the world's population—live in LICs, with GNI per capita below \$1,026. A majority of these countries are located in sub-Saharan Africa, where population is growing fastest. Keep in mind that many people who live in a LIC are not poor; many who live in a LMC are poor; and some who live in a LIC have incomes more typical of those in UMCs.

The United Nation's designation of “least-developed countries” is similar to LICs; for inclusion, a country has to meet criteria of low education and health, and high economic vulnerability, as well as low income. Just over a billion people live in these 49 countries. Conditions in some of them, such as Afghanistan, Congo, Somalia, South Sudan, and Yemen, are bleak. But in most countries in this group, great progress has been made, as life expectancy, school enrolments, and average incomes have risen substantially.

At the opposite end are the highest-income developed countries that are members of the Organization for Economic Cooperation and Development (OECD), primarily in West Europe and North America, plus Australia, New Zealand, Japan, and South Korea.

Gross national income (GNI)

The total domestic and foreign output claimed by residents of a country, consisting of gross domestic product (GDP) plus factor incomes earned by foreign residents, minus income earned in the domestic economy by nonresidents.

Low-Income Country (LIC)

In the World Bank classification, countries with a GNI per capita of less than \$996 in 2018.

Upper-middle income countries (UMCs)

In the World Bank classification, countries with a GNI per capita between \$3,896 and \$12,055 in 2018.

Lower-middle income countries (LMCs)

In the World Bank classification, countries with a GNI per capita incomes between \$996 and \$3,895 in 2018.

As recently as 1990, over half of the global population lived in low-income countries. The biggest factor in this sharp improvement is rapid income growth in China, which became a LMC in 1999, and India, which did so in 2007. China passed the next threshold to join the UMC group in 2010. Several other countries have also joined the middle-income country groups since the 1990s.¹⁰

Averages tell only part of the story. For example, each country has significant income inequality, though some are far more starkly unequal than others. We cover income inequality in depth in Chapter 5.

Recognizing that well-being cannot be measured by income alone, the United Nations Development Programme (UNDP) classifies countries taking account of their health and education attainments in addition to income, in its Human Development Index (HDI). We review how the HDI is calculated in the next chapter. For now, we note that average levels of human development have also been rising strongly in recent years, though the UNDP's 2018 update found the average HDI in sub-Saharan Africa is low, in South Asia and Arab States Medium, and in Latin American and East Asia high, and the average OECD HDI level is rated very high. Access to health and education is also highly unequal in many countries, as we examine in Chapter 8.

A major theme of this text is understanding why incomes have grown so rapidly in some of the countries that, until only a few decades ago, were among the poorest in the world, including China. A closely related theme is why other countries have grown very slowly, and continue to have high rates of extreme poverty and deprivation. You will see there is great variation across even neighbouring countries. We explore strategies for how countries can do better—whether they are performing above or below the average.

The rankings of countries in these income and human development classifications differ, sometimes to a substantial degree, as we will see in the next chapter.

1.4 Economics and Development Studies

1.4.1 Wider Scope of Study

Development economics

The study of how economies are transformed from stagnation to growth and from low-income to high-income status, and overcome problems of extreme poverty.

The scope of **development economics** and the work that development economists do is much broader than the name might suggest. Theory plays an essential role, but development economics is largely an empirical research discipline. It also uses formal models of topics ranging from decision making within households to problems of economy-wide transformation; models provide insights into findings, clarifications of the logic of arguments about development processes and policies, and new hypotheses to be confronted with ever-growing available data, often collected by development economists.

Development economics incorporates research in political economy and institutional, behavioural and experimental economics; it overlaps and links with other subfields including labour, public, urban, agricultural, environmental, and international economics. And it draws extensively from other

social science disciplines including history, political science, psychology, and sociology.

In addition to traditional topics in economics such as the efficient allocation and growth of productive resources, development economics must also address the economic, social, political, and institutional mechanisms, both public and private, necessary to bring about rapid (at least by historical standards) and large-scale improvements in levels of living. This can be particularly challenging in many low- and also middle-income countries, when commodity and resource markets are typically highly imperfect, consumers and producers have limited information, major structural changes are taking place in both the society and the economy, the potential for multiple equilibria rather than a single equilibrium is more common, and disequilibrium situations often prevail (prices do not equate to supply and demand). In many cases, economic calculations are influenced by political and social priorities, such as unifying the nation, replacing foreign advisers with local decision makers, resolving tribal or ethnic conflicts, or preserving religious and cultural traditions. At the individual level, family, clan, religious, or tribal considerations may matter at least as much as private, self-interested utility or profit-maximising calculations.

Thus, development economics, to a greater extent than traditional neoclassical economics or political economy, must be concerned with the economic, cultural, and political requirements for effecting rapid structural and institutional transformations of entire societies in a manner that brings the fruits of economic progress to all their populations. It includes research on mechanisms that can keep families, regions, and even entire nations in poverty traps, in which past poverty causes future poverty, and on the most effective strategies for breaking out of these traps. Consequently, a larger government role and some degree of coordinated economic decision making directed toward transforming the economy are usually viewed as essential components of development economics. Yet this must somehow be achieved despite the fact that both governments and markets typically function less well in low- and middle-income countries than in **high-income countries (HICs)**. In recent years, activities of NGOs, both national and international, have grown rapidly and are receiving increasing attention (see Chapter 11).

Geographic scope The geographic scope of development studies is generally considered to be most of Asia; sub-Saharan Africa, the Middle East and North Africa; Latin America and the Caribbean; and often the formerly Communist transition economies of East and Southeast Europe. Many insights from development economics have been applied also to “lagging” areas of high-income countries, including indigenous peoples’ territories and other relatively deprived communities. Indeed, economic development is an ongoing, dynamic process.¹¹

A dynamic field Because of the many differences in the severity of problems facing countries, and the complexity of the development process, development economics must be eclectic, attempting to combine relevant concepts and theories from traditional economic analysis with new models and broader

High-income countries (HICs) In the World Bank classification, countries with a GNI per capita above \$12,055 in 2018.