What is Development?

Development Policy

Summer 2023

Welcome

- Classes
- Notion page
- Discussions
- Readings
- Videos
- Assessments

The course consists of 14 topics

1. What is development?	8. Global income inequality
2. Structural and demographic change	9. Manufacturing and economic growth
3. Agriculture and economic development	10. Trade and economic growth
4. Poverty and poverty alleviation	11. Institutions and development
5. Within-country inequality	12. Technology and innovation
6. Human development	13. Financing development
7. The theory of economic growth	14. Climate change and sustainability

The Notion page

❖ All course materials, including the readings are on the MS Teams page.

❖ You have also been invited to the *Notion* page for the course (let me know if you haven't received the invitation)

❖ You will need to sign up with Notion but it is free.

❖ The Notion page gives you another way to access the readings, some data and videos.

❖ You cannot edit the Notion page, but you can comment if you find errors or missing links or if you have any other questions.

❖ I have put free books on the page that you can download and share.

Development Policy 2023

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+ ⋮⋮ Course Description

Overview

Development Policy is an economic development survey course that explores policy choices facing governments, businesses and communities. The course cover topics through the lens of Vietnam's recent experience and that of other Southeast Asian countries. While all are richer than 50 years ago, results have varied owing to differences in initial conditions, policy choices and external

Videos on the Notion page

❖Videos related to each class are posted on the Notion page

❖You are not required to watch them, but you might find them interesting and helpful.

❖Feel free to suggest new videos—I can post them if they are directly related to the course.

What Explains GDP?

What is GDP? | CNBC Explains

CNBC EXPLAINS
WHAT IS GDP?

Watch on ▶ YouTube

Joseph Stiglitz: Measuring What Counts for Economic Development and Social Performance

Joseph Stiglitz - Measuring what counts for Economic and Social Per...

Lectures and classes

- We will meet twice each day for eight days.
- The first half of each session will consist of a short lecture.
- In the second half of class, students will lead the class discussion based on questions in the Notion page.
- Students will be assigned teams and classes to lead the discussions.
- All students will be expected to read the required readings BEFORE CLASS.

Assessment

- Assessment will take the form of class participation, a final exam and a project.

- Class participation: Attendance will be taken and we will keep track of student participation in class. Evidence that you have done the readings and understand the lectures earns points for participation

- Final Project: A policy memo of no more than 6 typed pages (double spaced) consisting of a policy memo to a minister or province head proposing a change in policy. This is a group assignment. All topics will be approved in advance.

- Final Examination: An open book exam in the last session of class. Students will be given a set of questions and will have to choose two questions to answer in essay form. You may write your answers in English or Vietnamese.

- Participation: **20%**
- Final project: **50%**
- Final Exam: **30%**

The final project

- Student groups will submit topics to the instructor by a due date to be announced in class. Once the topic has been approved you can start work.

- I will not read draft projects.

- The project will give you a chance to demonstrate your understanding of a development policy issue by writing a policy note for a (fictitious) minister or province head.

- The policy note will argue for a change in policy using evidence (existing situation), theory (supporting the change in policy) and examples of successful implementation.

- Try to keep the topic manageable. Its difficult to write a good policy note on "eliminating poverty" but you can write a policy note on the poverty impact of, for example, a child benefit grant.

- It is almost a third of your grade so spend some time on it.

Measuring development

- GDP
- Relationship between GDP and other measures of development
- What's wrong with GDP?

Gross Domestic Product → Stocks versus flows

- Stocks are assets and liabilities → Every liability has a matching asset (but every asset doesn't have a matching liability)
  - Your house is an asset; your mortgage is a liability
  - Your bank account is your asset, but it is your bank's liability
- Flows: Income and expenditure → every income flow has a source and a recipient
  - Your salary is an income flow, the source is your employer
  - Your salary is an expenditure for your employer, and you are the recipient
  - The level of development is measured in *income or expenditure flows* (and levels of output per person or productivity) not assets and liabilities

Two ways to measure GDP

- GDP (expenditure) = Consumption + Investment + Govt spend (- tax) + (Net exports)

- GDP (income) = Wages + Rents + Interest + Profits + (sales tax, depreciation and net foreign factor income)

Is GDP a good measure of development?

- GDP misses some important elements of development:
  - Degradation of environmental assets (stocks); natural resources mined and not available for future generations, fish stocks and forests depleted
  - Flows not mediated by the market → for example, services (carbon capture) provided by forests; public parks enjoyed by the public for free
  - Labor not sold on the market (domestic and caring work) performed mostly by women
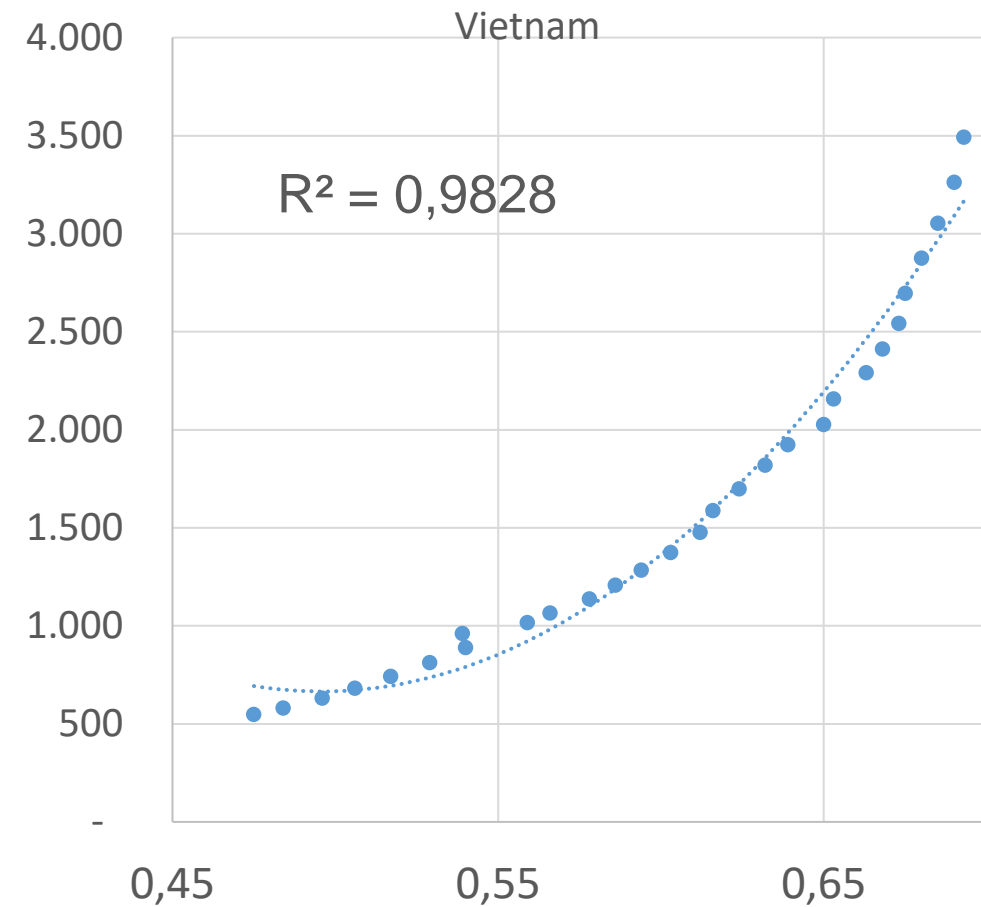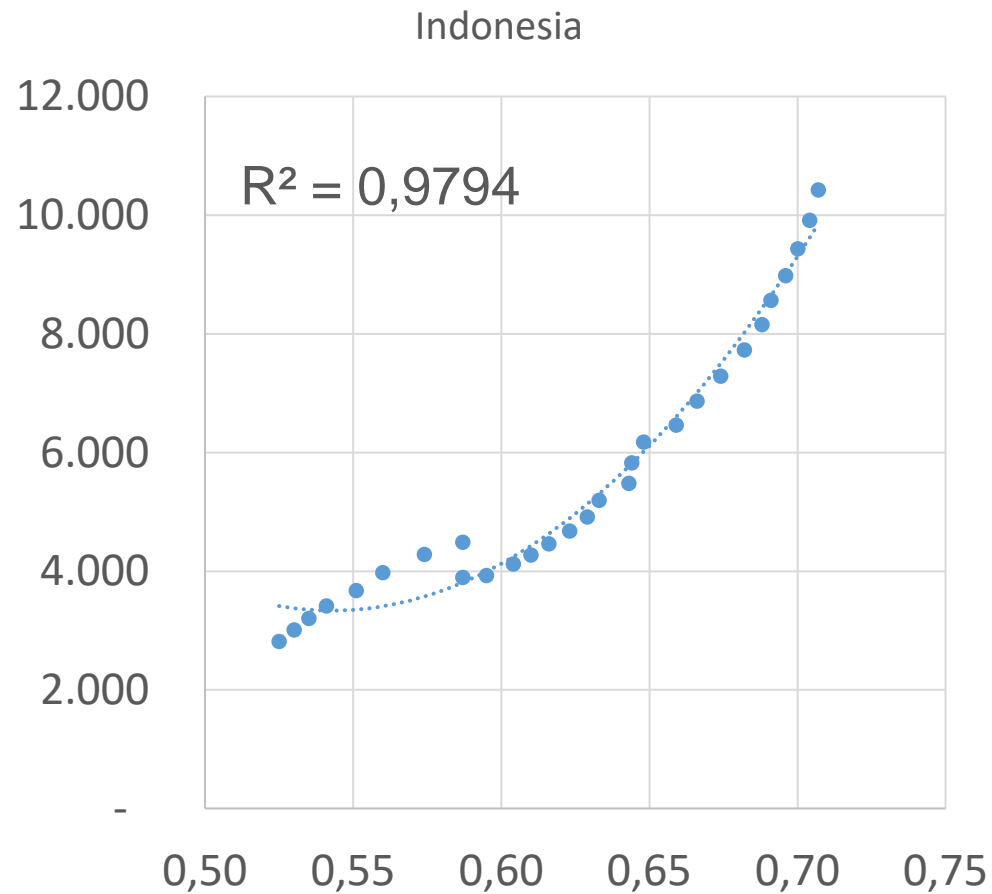
GDP per capita

- GDP per capita is a rough measure of average productivity per person.
- GDP per capita is an average, so it ignores inequality
- For example, Equatorial Guinea has a high GDP per capita but nearly everyone is poor
- Populations statistics are often poor quality or out of date.

Are there better ways to measure development?

- UNDP's Human Development Index (GDP + Education + Life Expectancy) → correlates extremely closely with GDP anyway

- World Bank's $1.25 a day poverty line (then 1.90, 3,20 and 5.50) → figures that are not tied to any actual food prices or caloric requirements in any actual developing country

- The Millennium Development Goals/Sustainable Development Goals

- The World Happiness Report (Finland is the happiest country in the world; Vietnam is in the middle at 79)
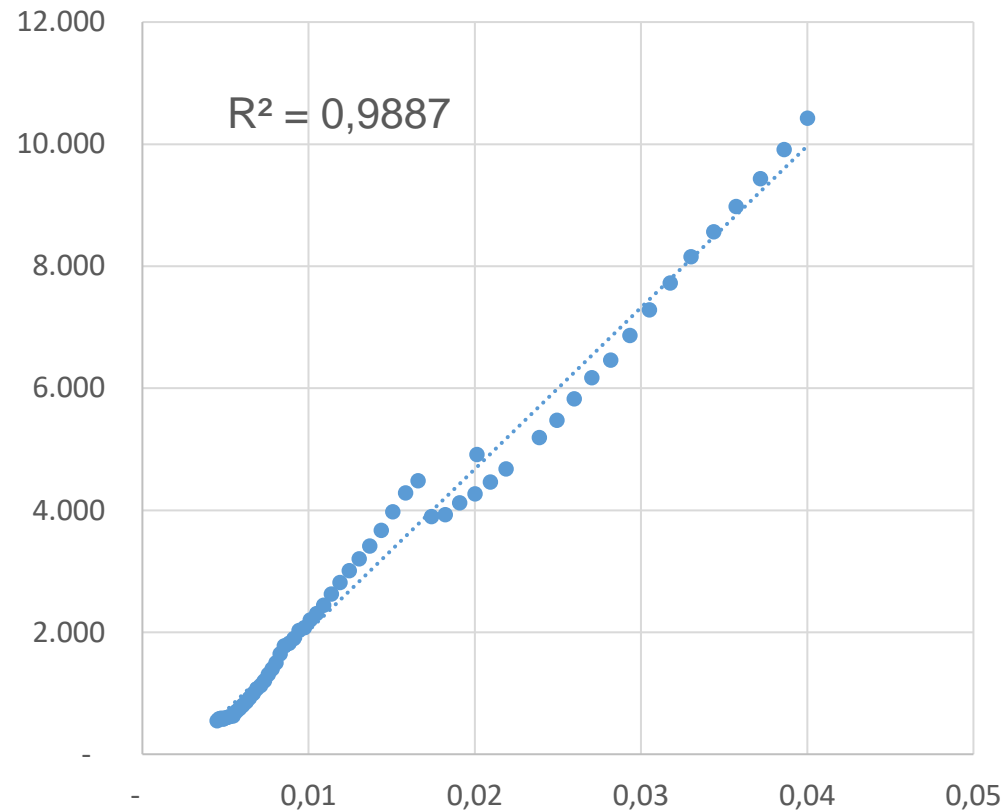
GDP (constant, local currency, trillions) and UNDP Human Development Index
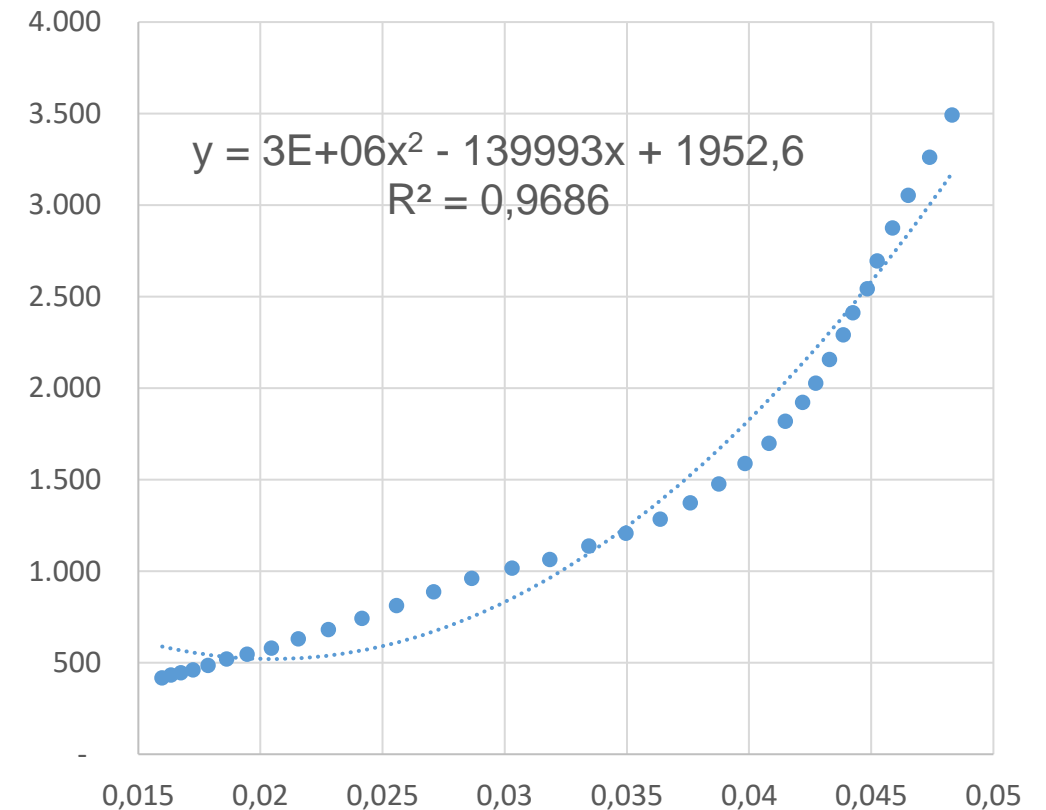
GDP (constant, local currency, trillions) and Infant mortality rate, per 1,000 live birth (inverse)

Indonesia

R² = 0,9887

Vietnam

y = 3E+06x² - 139993x + 1952,6
R² = 0,9686

Instead of getting rid of GDP, can we measure it better?

- Include environmental and social services that are not sold on the market
  - Incorporate depletion of stocks (natural resources) as negative income
  - Incorporate environmental degradation as negative income.
  - Incorporate caring services not mediated by the market
- Measure the informal sector more carefully
- Harmonize with the UN System of National Accounts
- Regularly update base year of national accounts

Theorizing development

- GDP
- Relationship between GDP and other measures of development
- What's wrong with GDP?

Development as industrialization

The history of development thought has often consisted of a debate between proponents of industrialization versus agrarian or post-colonial populists

Developmentalism	Populism
• Raising living standards depends on growth of labor productivity (output per person)	• Small is beautiful: Small farms and businesses are pro-poor
• Larger units of production and modern technologies are more productive	• Cities are evil: Genuine national culture resides in rural areas
• Scope for increasing returns to scale is greater in industry than in agriculture or services	• Industrialization involves exploitation of workers and environmental degradation
• Export growth helps achieve increasing returns to scale and rising productivity	• Manufacturing entails transfer of surplus (profits) to the advanced countries

Development optimism and pessimism

Some development theories engender optimism, others suggest that developing countries are locked in a negative trajectory.

Hirschman *A Bias for Hope*

- Development policies and projects have unintended *positive* consequences.

- Example: Investment in renewable energy in Eastern Germany attracts high tech investments (Intel, Tesla)

- Culture and institutions are a result of change not a cause or obstacle to it.

- Backward and forward linkages stimulate investment and innovation

- 'Possibilism' as an answer to development cynicism

Myrdal *Asian Drama*

- 'Cumulative causation': geography, history. culture and institutions work together in a self-reinforcing virtuous (rich country) or vicious (poor country) cycles.

- Acemoglu and Robinson: 'Inclusive institutions' create growth; 'extractive institutions' do not.

- Left-wing variant: Poor countries blocked by global capitalism.

- Right-wing variant: Poor countries held back by corruption and absence of entrepreneurship and work ethic.

Discussion questions

- **Is Gross Domestic Product (GDP) a good indicator of development? Why or why not? What do we miss about the development process in Vietnam if we focus on GDP?**

- **Are you a development optimist or pessimist? What are some of the factors that make you optimistic or pessimistic about Vietnam's economic development?**