



Jonathan Pincus  
Summer 2022

# WHAT IS DEVELOPMENT?

*Development Policy*

*FSPPM*








# WELCOME

*Classes, discussions,  
readings, assessment*






# THE COURSE IS DIVIDED INTO 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

# TEAMS AND THE *NOTION* PAGE

- You can find all course materials, including the reading 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.



## Development Policy 2022

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### Course Description

#### Overview

Development Policy is an economic development survey course that addresses critical policy choices facing government, businesses and communities. We cover topics largely through the lens of Vietnam's recent experience and that of other large Southeast Asian countries. While richer than they were 50 years ago, these countries have pursued different development trajectories, with contrasting results in terms of economic growth, living standards, and social and economic inequality. Understanding the causes of these divergent outcomes gives us a window on the role of policy and other factors affecting development.

The course emphasizes the careful use of evidence—data collection, quality, modeling and presentation. Formulating sound policies requires rigorous and unbiased use of evidence and a willingness to suspend judgement until the facts are known. This does not always—or even generally—mean sophisticated statistical techniques. Often a simple, well-constructed table of reliable indicators is more useful than a sophisticated econometric model, especially in policy circles and for the media and general public.

# Lectures and discussions

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



# TWO ASSESSED ASSIGNMENTS AND CLASS PARTICIPATION

- Assessment will take the form of a final exam and a final project.
  - Final Project: A policy memo of no more than 6 typed pages (double spaced) consisting of a policy memo to a minister of province head in favor of a change in policy. This is a group assignment. All topics should be approved by the instructor.
  - 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.
  - Class participation: Show us that you have read the required readings and have thought about them.
- Participation: **20%**
  - Final project: **50%**
  - Final Exam: **30%**



# THE FINAL PROJECT

- Student groups will submit a topic to the instructor by a due date 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 satisfactory policy note on “eliminating poverty” but you can write a policy on, for example, the poverty impact of a child benefit grant.
- It is almost a third of your grade so spend some time on it.





# MEASURING DEVELOPMENT

*How we use of data in  
development policy*



# 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
- $\text{GDP (expenditure)} = \text{Consumption} + \text{Investment} + \text{Govt spend} (- \text{tax}) + (\text{Net exports})$
- $\text{GDP (income)} = \text{Wages} + \text{Rents} + \text{Interest} + \text{Profits} + (\text{sales tax, depreciation and net foreign factor income})$

# ARE EXPENDITURE AND INCOME FLOWS A GOOD WAY TO MEASURE 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
- Is GDP per capita better (GDP/population)?
  - GDP per capita is a rough measure of average productivity per person
  - But it ignores inequality, and populations statistics are often poor quality
  - Equatorial Guinea has a high GDP per capita but nearly everyone is poor





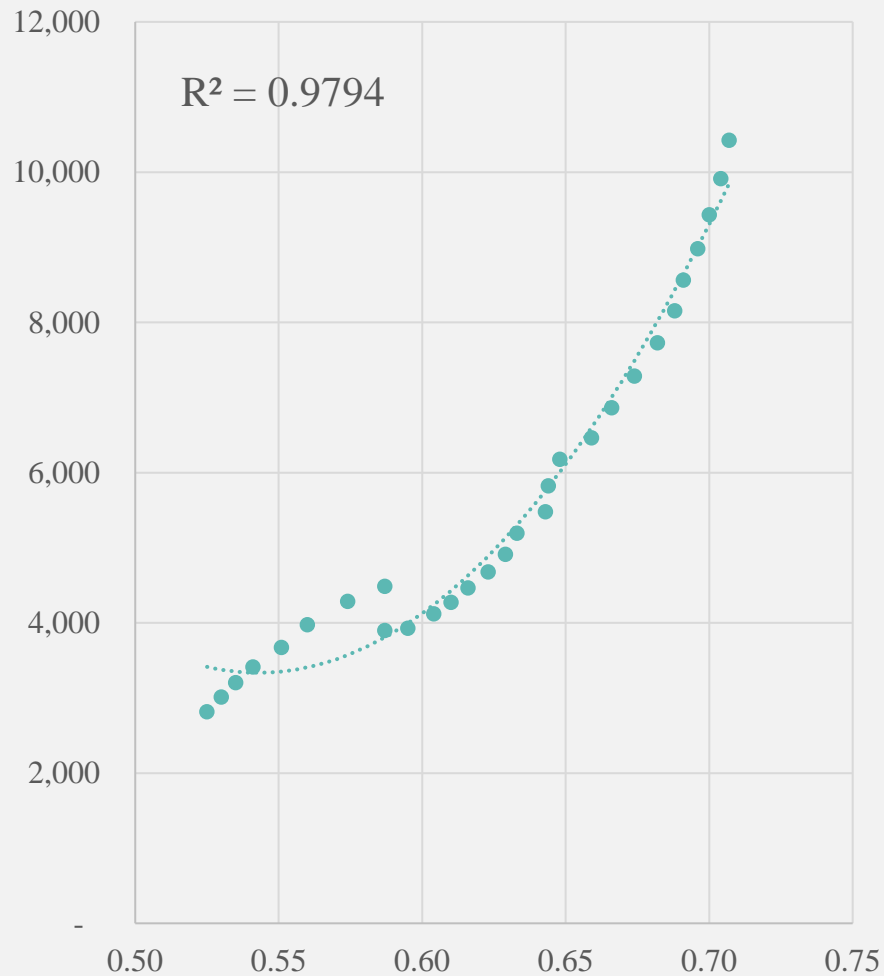
# ARE THERE BETTER WAYS TO MEASURE DEVELOPMENT THAN GDP?

- 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)

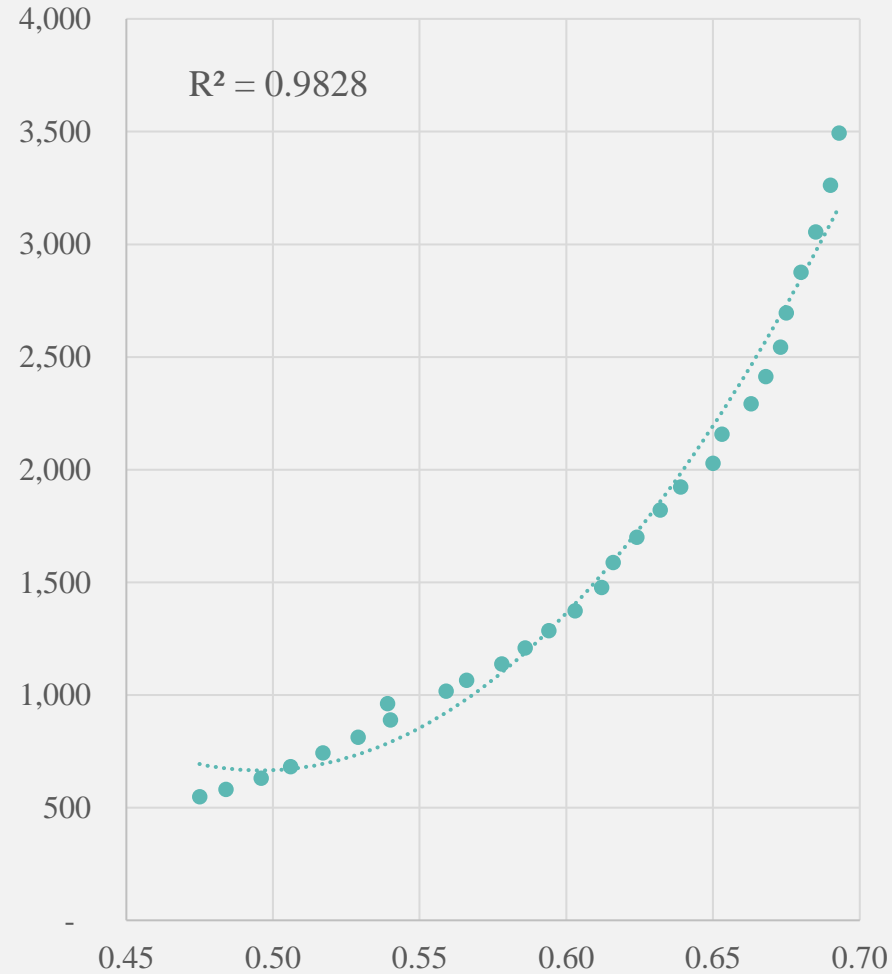


# GDP (constant, local currency, trillions) and UNDP Human Development Index

Indonesia



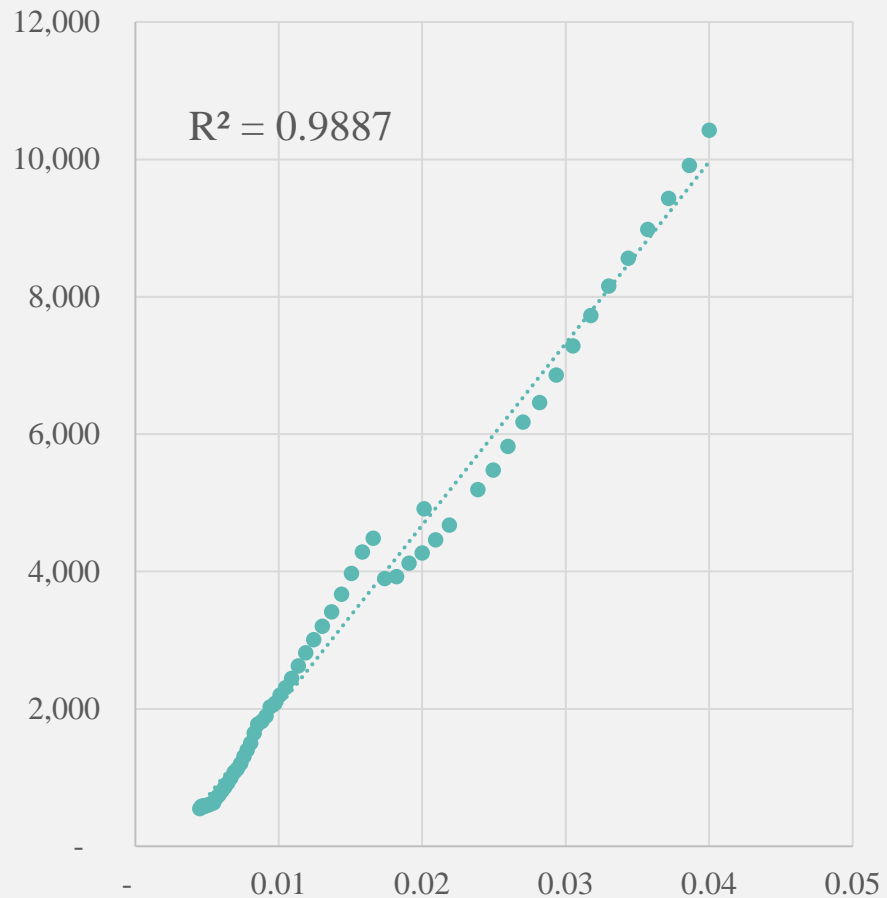
Vietnam



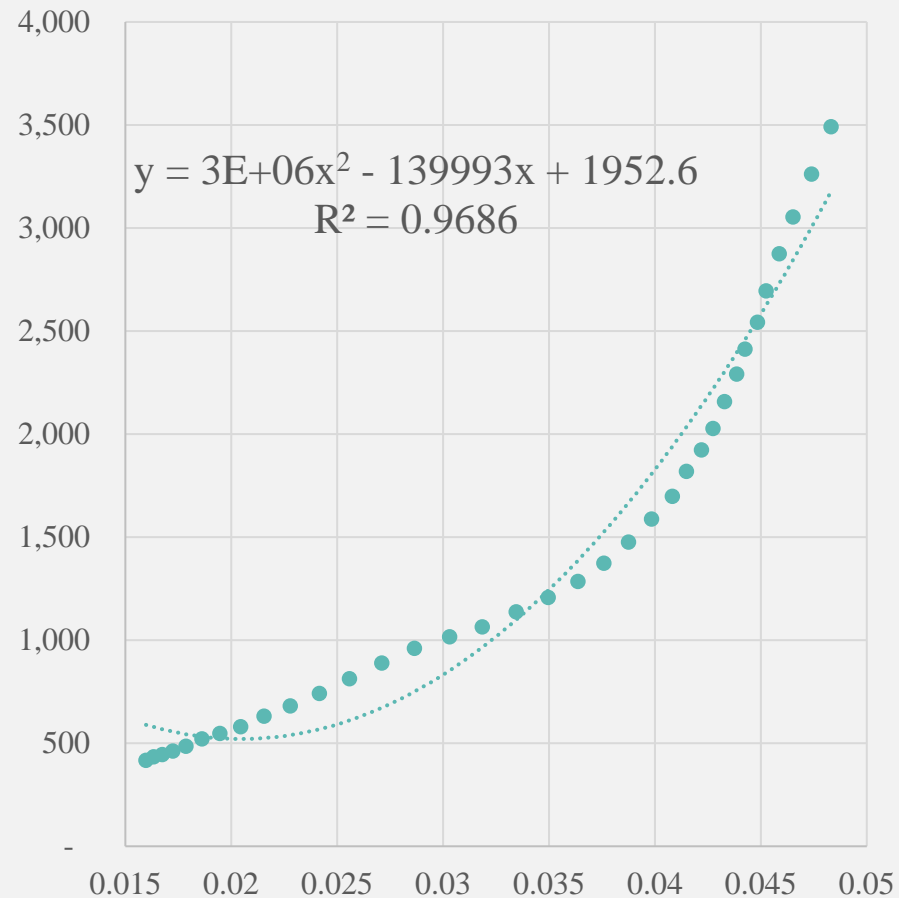


# GDP (constant, local currency, trillions) and Infant mortality rate, per 1,000 live birth (inverse)

Indonesia



Vietnam



# **RATHER THAN GET RID OF GDP WE SHOULD MEASURE IT BETTER**

- Include environmental and social services that are not sold on the market
- Consider depletion of natural assets the same way we treat depreciation of capital assets
- Measure the informal sector more carefully
- Harmonize with the UN System of National Accounts
- Regularly update base year of national accounts







# DEVELOPMENT POLICY

*An introduction*



# INDUSTRIALIZATION AND DEVELOPMENT

*The history of development thought has often consisted of a debate between proponents of industrialization and various strands of right wing (agrarianism) and left wing (post-colonialism) populism*

## Developmentalism

- Raising living standards depends on growth of labor productivity (output per person per day)
- Larger units of production and modern technologies are more productive
- Scope for increasing returns to scale are greater in industry than in agriculture or services
- Export growth is important to achieve increasing returns to scale and rising productivity

## Populism

- Small is beautiful: Small farms and businesses are better for the poor
- Cities are evil: Young people should be encouraged to live in rural areas where they can preserve national culture
- Industrialization leads to exploitation of workers and other social evils
- Manufacturing the developing world depends on cheap labor and the transfer of surplus to the advanced countries in the form of excess profits

# DEVELOPMENT OPTIMISM AND PESSIMISM

*The history of development thought has often consisted of a debate between proponents of industrialization and various strands of right wing (agrarianism) and left wing (post-colonialism) populism*

## Hirschman: 'A Bias for Hope'

- Development policies and projects have unintended and unpredictable *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?**