Jonathan Pincus
Summer 2021

WHAT IS DEVELOPMENT?

Development Policy

FSPPM

WELCOME

Classes, discussions, readings, assessment

THE COURSE IS DIVIDED INTO 15 TOPICS

What is development?	Manufacturing and economic growth
Structural and demographic change	Trade and growth
Agriculture and economic development	Institutions and development
Poverty and poverty alleviation	Technology and innovation
Within-country inequality	Financing development
Human development	Natural resources and the resource curse
The theory of economic growth	Climate change and sustainability
Convergence and global income inequality	

TEAMS AND THE *NOTION* PAGE

- You can find all of the course materials, including the reading on the MS Teams page.
- You will also be 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 if you find errors or missing links please let me know.

Add comment

Development Policy

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Course Description

Overview

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

The course emphasizes the use of evidence—data quality, modeling and presentation. Formulating sound policies requires careful and unbiased use of evidence and a willingness to suspend judgement until the facts are all in. This does not always—or even generally—mean sophisticated statistical techniques. Often a well-constructed table using reliable indicators is more convincing than a complicated econometric model, especially in policy circles and for the media and 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 given in the syllabus.
- 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 10 typed pages (double spaced) consisting of a policy memo to a minister of province head in favor of a change in policy. All topic 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 three 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: **30%**
- Final Exam: **50%**

THE FINAL PROJECT

- Students 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

The importance of careful use of data in development policy

GROSS DOMESTIC PRODUCT

- Most common mistake in macroeconomics: confusing stocks and flows
  - Stocks: assets and liabilities → Every liability has a matching asset (but every asset doesn't have a matching liability)
  - Flows: Income and spending → every income flow has a source and a recipient
  - The level of development is measured in income flows (and levels of output per person or productivity)
  - We often speak of wealthy countries but we should say productive countries
- GDP = Consumption + Investment + Govt spend (- tax) + (Net exports)
- GDP = Wages + Rents + Interest + Profits + (sales tax, depreciation and net foreign factor income)

WHAT'S WRONG WITH GDP?

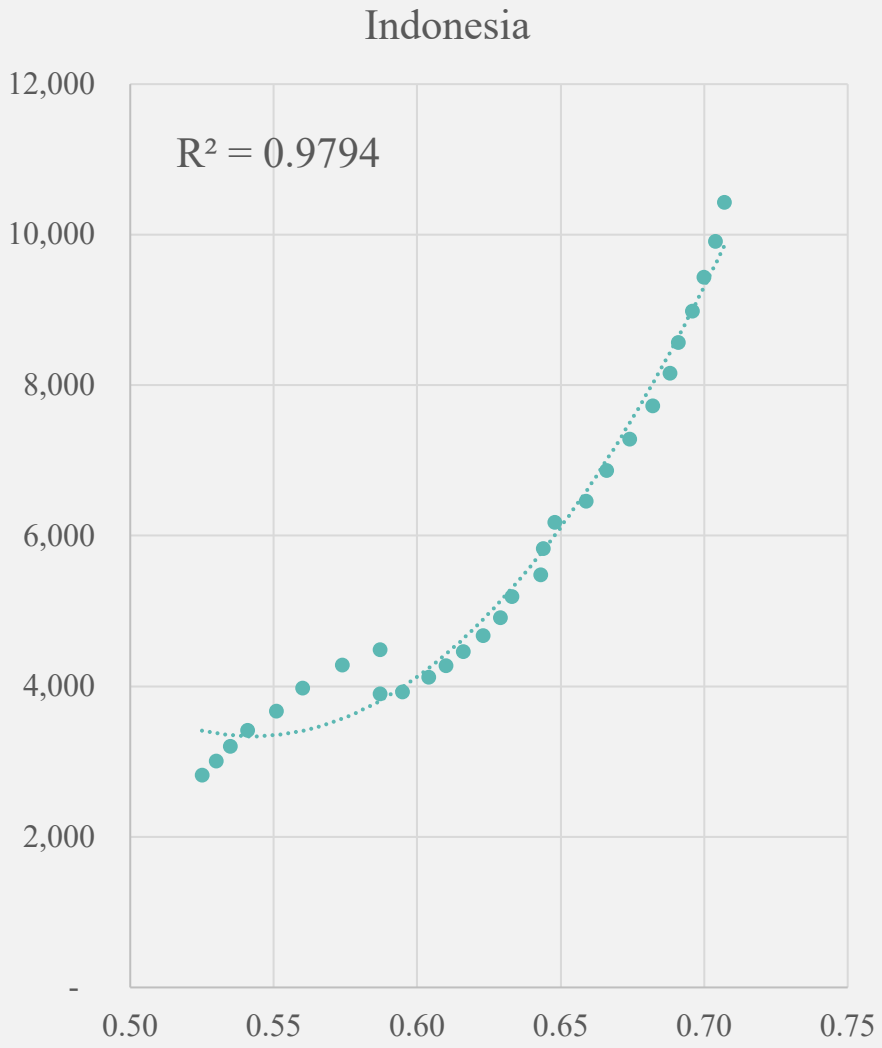
- GDP is a good measure of national output and how it is earned and spent
- But it also misses some important elements:
  - Degradation of environmental assets (stocks); natural resources mined and not available for future generations, fish stocks depleted
  - Flows not mediated by the market → for example, services (carbon capture) provided by forests; public parks
  - Labor not sold on the market (domestic and caring work) overwhelmingly performed by women
- Is GDP per capita better?
  - Take a bad number (GDP) and divide it by a worse number (population)
  - GDP per capita presents an average income that ignores inequality, so Equatorial Guinea has a high GDP per capita but nearly everyone is poor

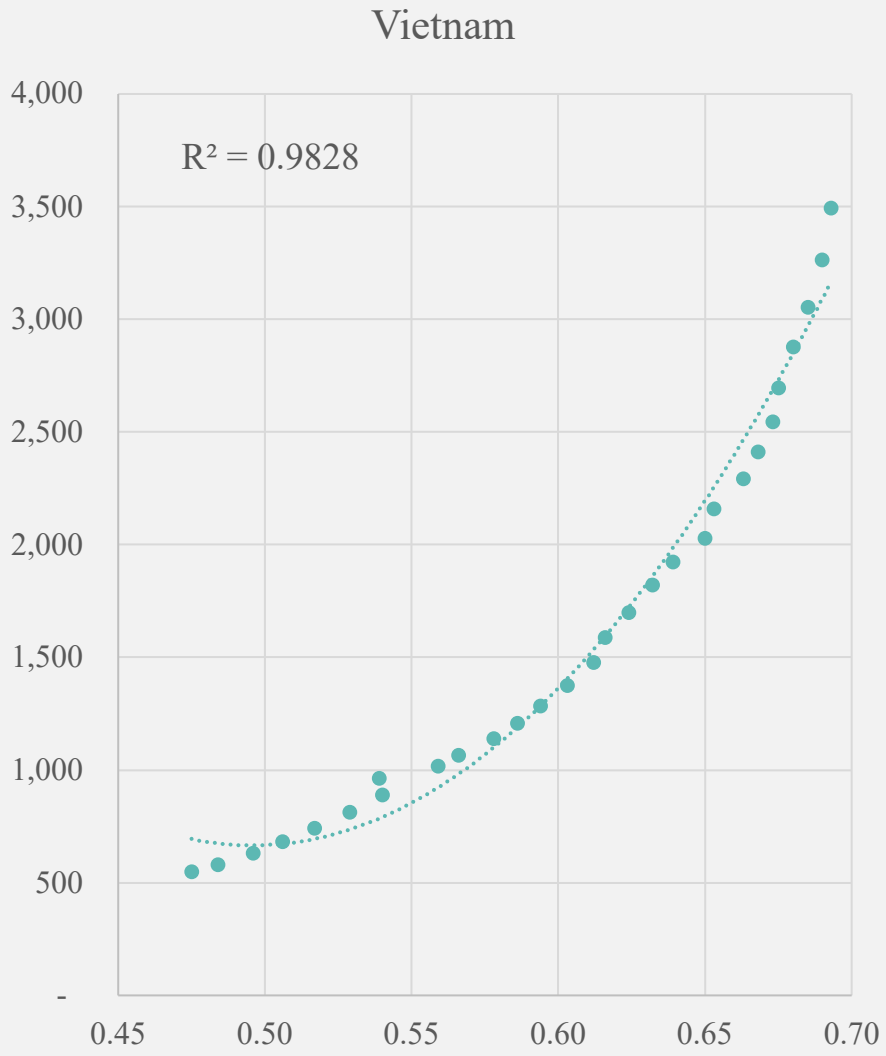
ARE THERE BETTER INDICATORS?

Is our favorite development indicator fatally flawed?

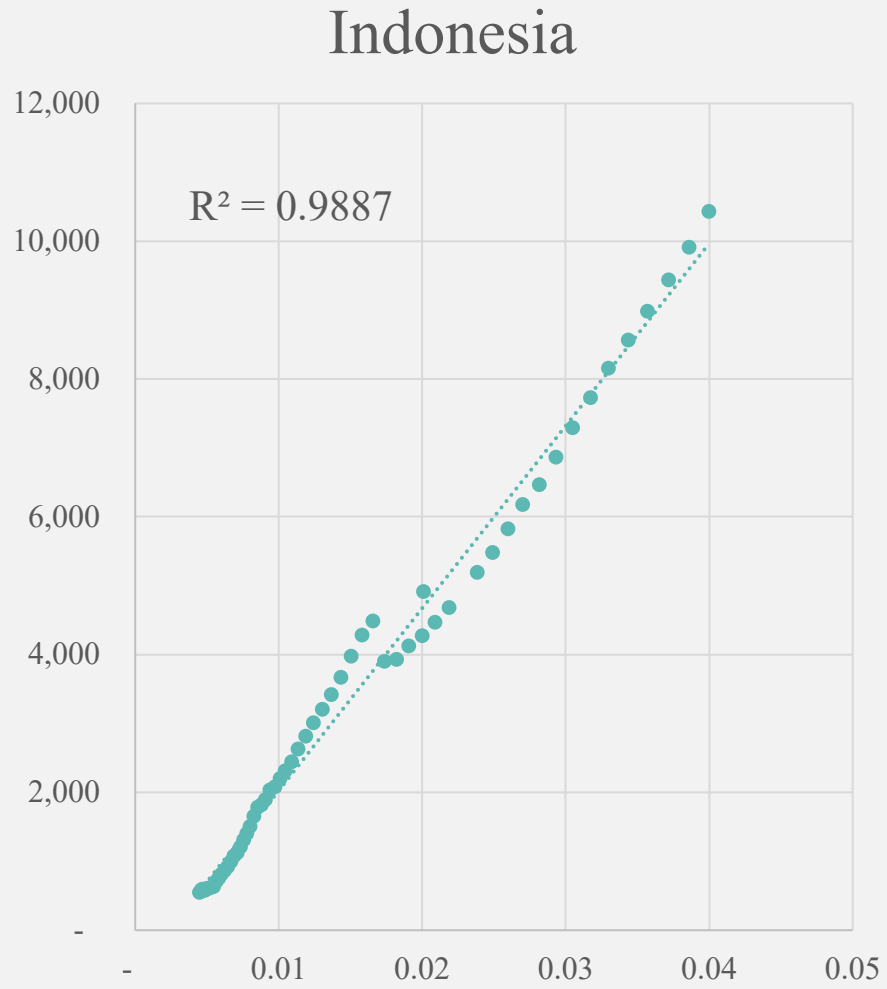
- From 1990 many attempts to find a better indicator
  - UNDP's Human Development Index (GDP + Education + Life Expectancy) → correlates extremely closely with GDP anyway
  - World Bank's $1.25 a day poverty line (then 1.90, 3,20 and 5.50) → figures that are not tied to any actual food prices or caloric 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)

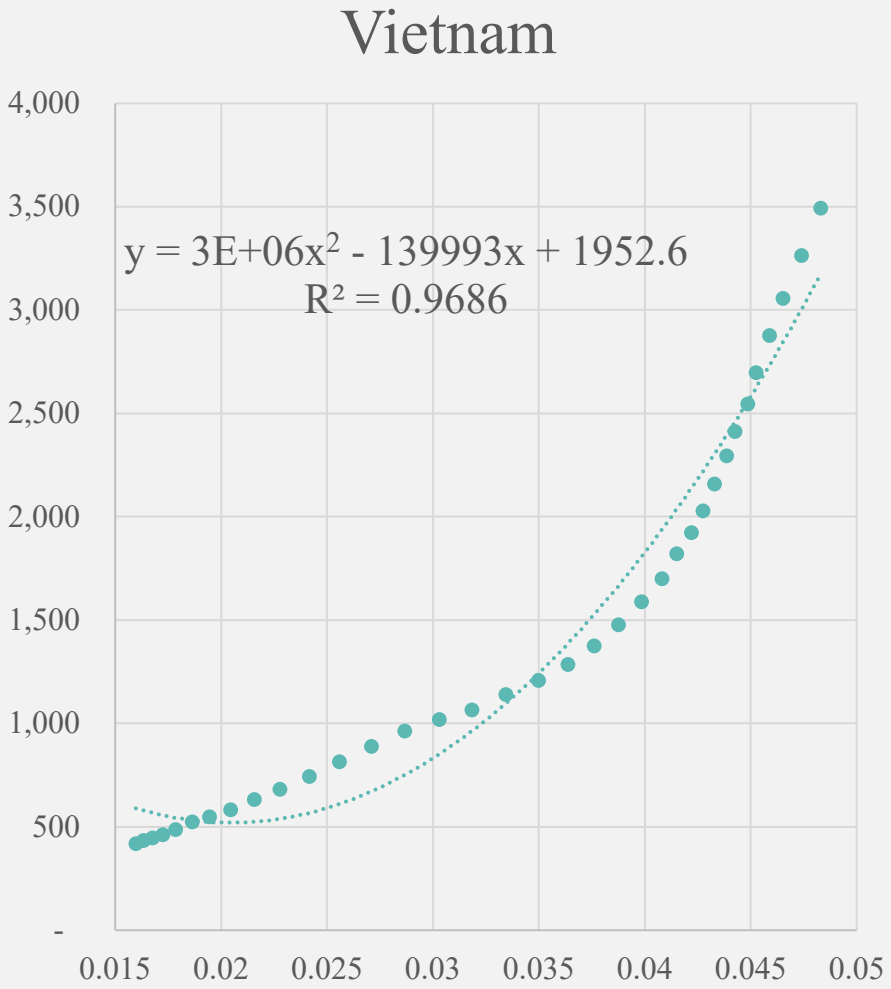
GDP (constant, local currency, trillions) and UNDP Human Development Index





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





RATHER THAN GET RID OF GDP WE SHOULD MEASURE IT BETTER

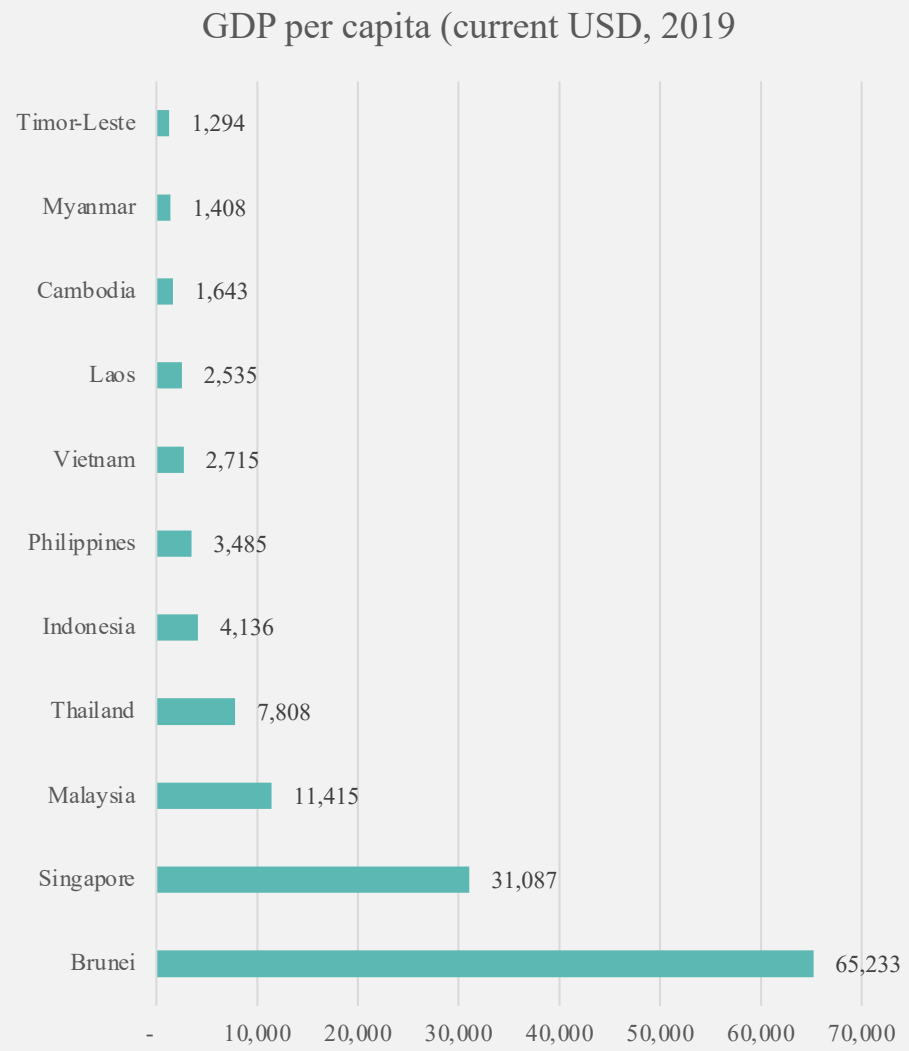
- Include environmental and social services that are not sold on the market
- Consider depletion of natural assets the same way we treat depreciation of capital assets
- Measure the informal sector more carefully
- Harmonize with the UN System of National Accounts
- Regularly update base year of national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

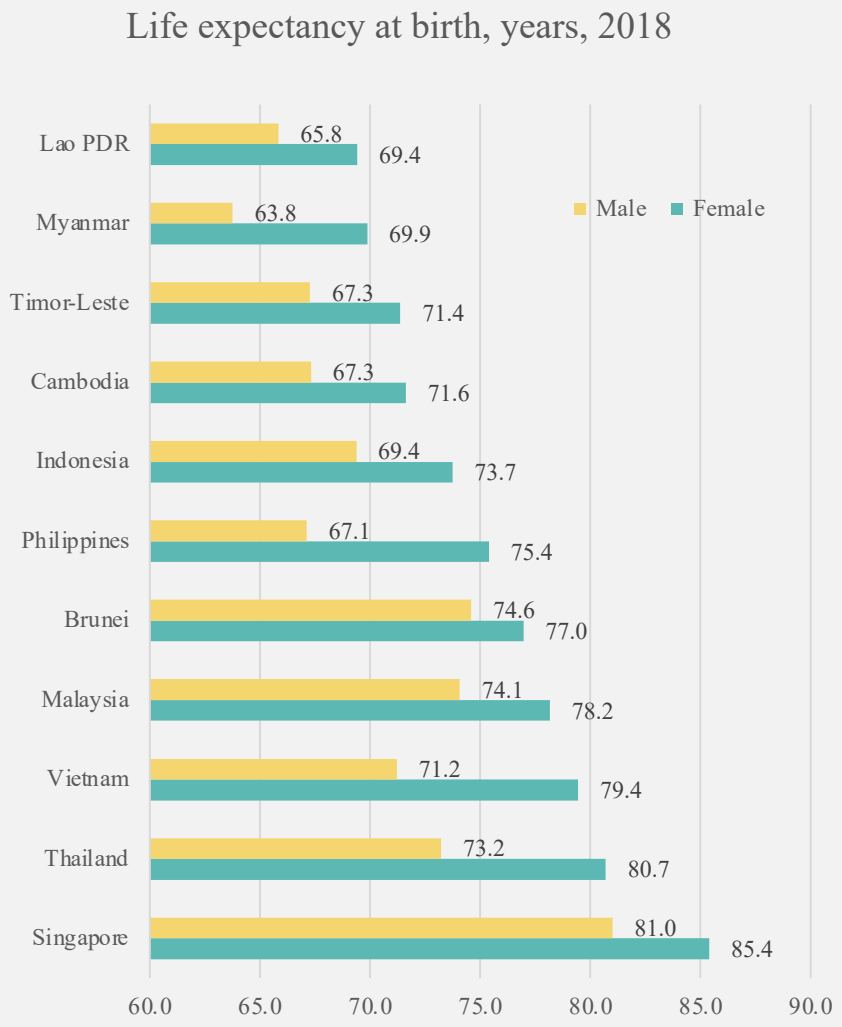
DEVELOPMENT IN SOUTHEAST ASIA

THEMES IN SOUTHEAST ASIAN DEVELOPMENT

- The transitions from labor scarcity and natural resource abundance to labor surplus and natural resource depletion
- Mass movements of populations (migrations internally and to and from overseas)
- The legacy of colonialism, exploitation and nationalist politics
- Diversity, ethnicity and national consolidations
- War, the Cold War and militarism
- Import substituting industrialization and the transition to export orientation
- The Green Revolution and rural transitions
- Financial globalization and the East Asia Financial Crisis
- Fragmented production and the rise of China as an economic superpower

A REGION OF TREMENDOUS DIVERSITY





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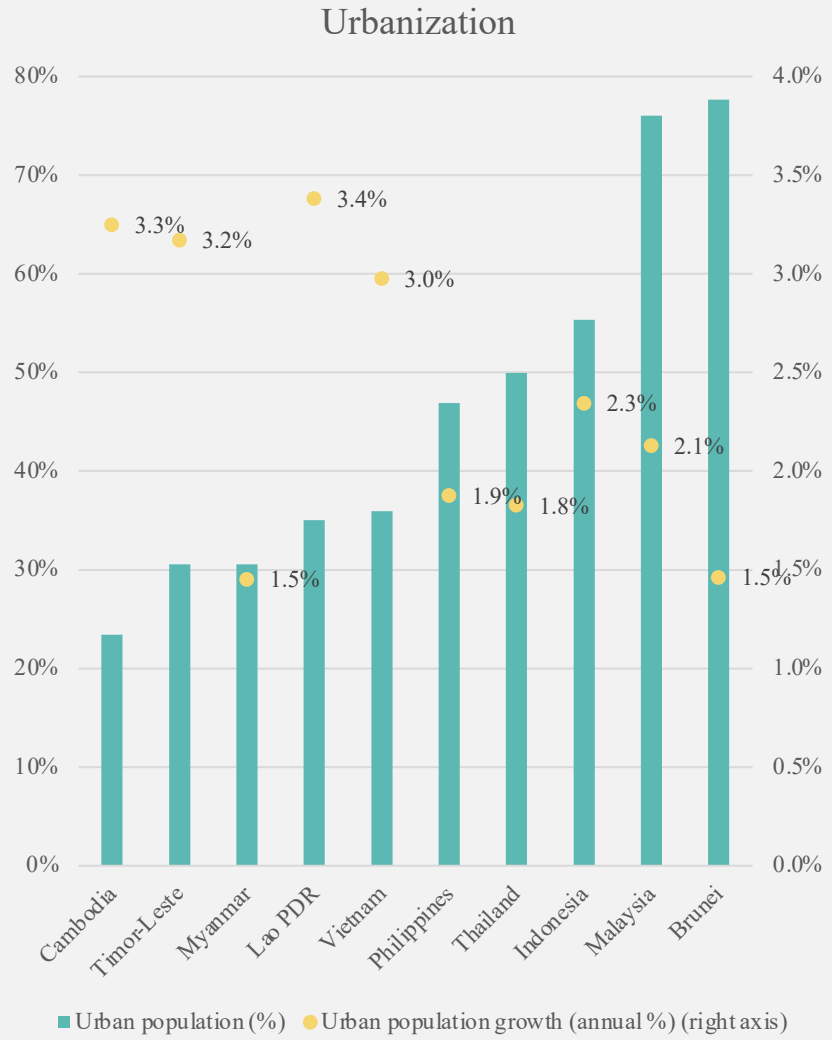

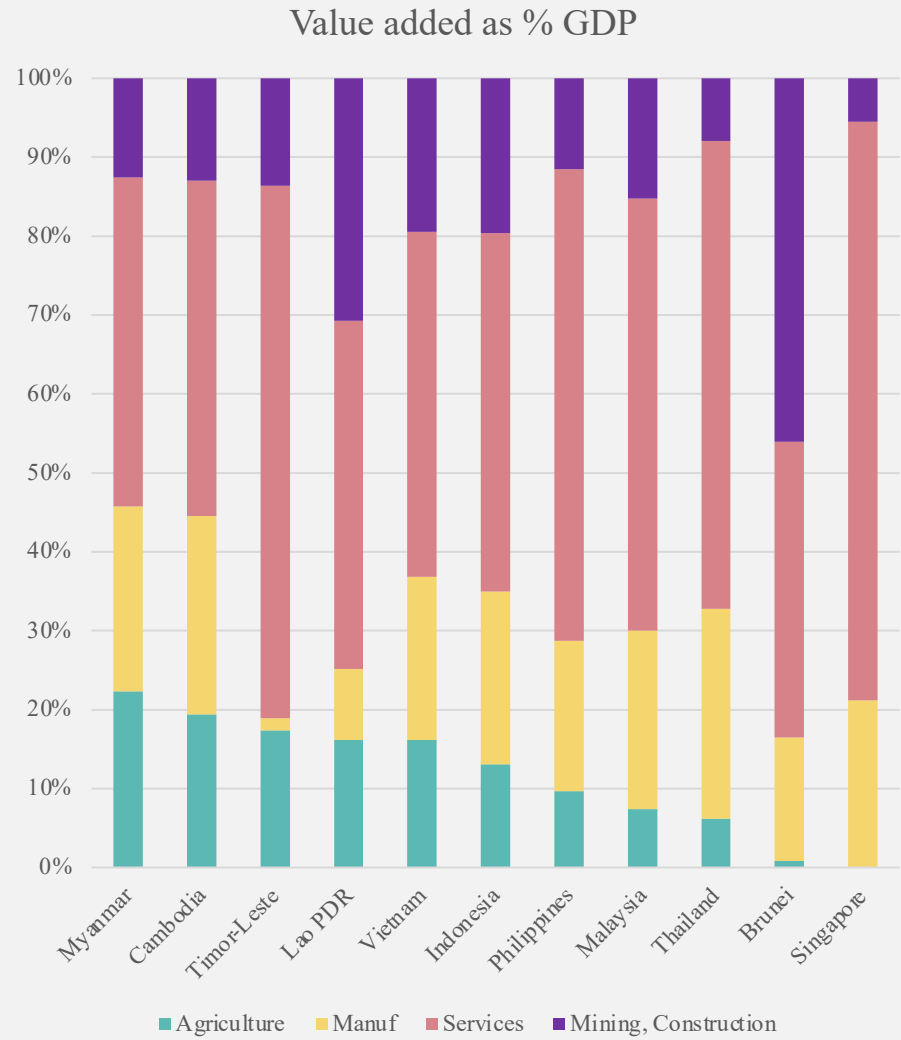

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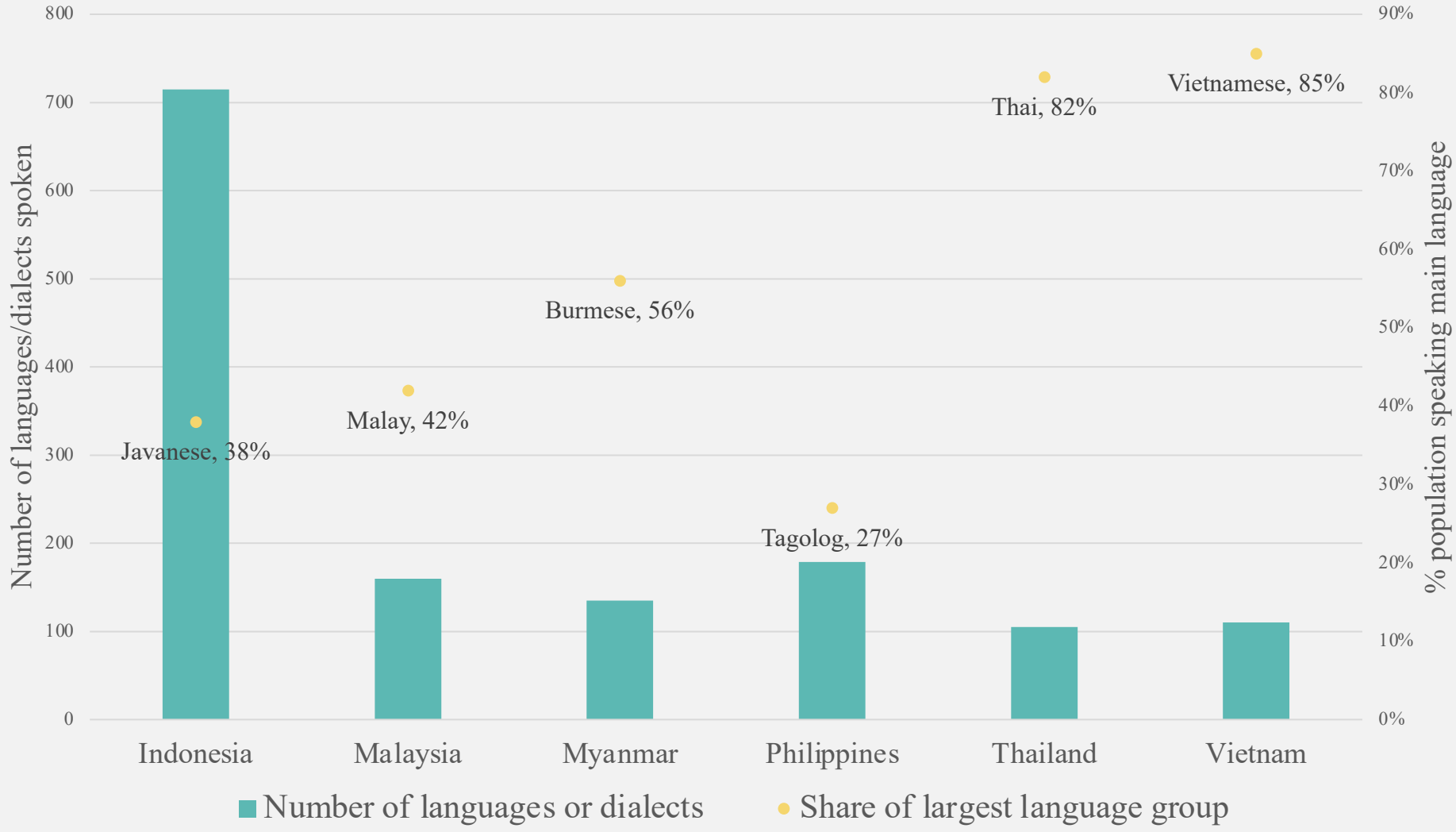

DEVELOPMENT POLICY

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

- Earnings are limited by labor productivity
- Development requires sustained increases in output per person per day
- This implies larger units of production and the application of technology to production
- Scope for increasing returns to scale are greater in industry than in agriculture or services
- Scope for technological change and specialization are greater in industry
- Income elasticity of demand for agricultural products is lower than for manufactures

Populism

- Small is beautiful: We should protect small farms and businesses or else they will be exploited by large firms
- Cities are evil: Real national culture is in the villages; we should force young people to live there
- Large industrial firms create fewer jobs per unit of investment, increasing inequality
- Manufacturing industry in the developing world depends on cheap labor and the transfer of surplus to the advanced countries in the form of excess profits

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'

- Policies and projects have unintended and unpredictable consequences; change comes from disturbing the established order
- Culture and institutions are a result of change not a cause or obstacle to it.
- The 'hiding hand,: Unexpected and unmeasured impact of development projects and programs.
- 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 a good indicator of development? What do we miss about the development process in Vietnam if we focus on GDP growth?**

- **Discuss the differences between developmentalism and populism. Is it possible to achieve prosperity on the basis of millions of small farms and small enterprises? Why or why not?**