

# From the Viewpoint of Development Economics

*Economists' Reasons for Poverty & Main Messages from the I2ID Book*

(For GSID I2ID-DE Part I Lectures)

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# 1. "Economic Development" in "Development"

## For "Poverty" Reduction.....

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# SUSTAINABLE DEVELOPMENT GOALS

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# Sustainable Development Goals (SDGs)

- ◆ Goal 1: End poverty in all its forms everywhere
- ◆ Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- ◆ Goal 3: Ensure healthy lives and promote well-being for all at all ages
- ◆ Goal 4: End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- ◆ Goal 5: Achieve gender equality and empower all women and girls
- ◆ Goal 6: Ensure availability and sustainable management of water and sanitation for all
- ◆ Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all

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## Sustainable Development Goals (SDGs)

- ◆ Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- ◆ Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- ◆ Goal 10: Reduce inequality within and among countries
- ◆ Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable
- ◆ Goal 12: Ensure sustainable consumption and production patterns
- ◆ Goal 13: Take urgent action to combat climate change and its impacts
- ◆ Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development

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## Sustainable Development Goals (SDGs)

- ◆ Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
- ◆ Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
- ◆ Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development

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### What is Poverty? ...End poverty in all its forms everywhere... (1) Initial Slave Port of Elmina, Ghana (West Africa)



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### What is Poverty? ...End poverty in all its forms everywhere... (2) Bhutan, a country of Gross National Happiness (S.Asia)



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What is **Poverty**? ...End poverty in all its forms everywhere...  
(3) India, a giant elephant that started to move (S.Asia)



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What is **Poverty**? ...End poverty in all its forms everywhere...  
(4) Thailand, known as land with smiles (South East Asia)



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What is **Poverty**? ...End poverty in all its forms everywhere...  
(5) Rising divide in Indonesia, the ASEAN leader who overcame the Asian Financial Crisis (S.E.Asia)



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What is **Poverty**? ...End poverty in all its forms everywhere...  
(5a) Cambodia, a country in rebuilding (S.E.Asia)



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What is **Poverty**? ...End poverty in all its forms everywhere...  
(5b) Cambodia, a country in rebuilding (S.E.Asia)

Dynamic Garment/Textile Industry with Foreign Direct Investments & Child Labor  
A girl who says 15 while she is actually 12 and in the 3<sup>rd</sup> year of factory work...

Photos: © Shigeru T. Otsubo 13

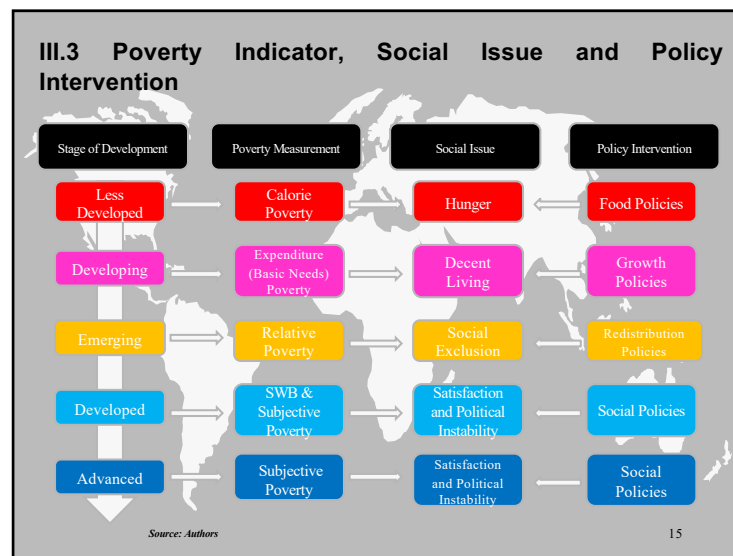
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## Major Shifts from MDGs to SDGs

- ◆ DGs for **all**, developed and developing, alike...
- ◆ Ever expanding notion of “Sustainability”  
**Sustainable Planet** and **Sustainable Society**
- ◆ Determination to interfere “Internal Affairs”  
Dealing with (Structural) **Inequality** in order to save structurally poor (domestic governance incl. institutions, laws/regulations, even embedded social values)
- ◆ Calls for Wider Participation & **Networking Brain Power**

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## VI. Multiple Poverty Indicators and Determinants of Multifaceted Poverty

Table 1. Cross Tabulation between Each Poverty Indicator

Poverty Measures		Caloric Poverty		Expenditure Poverty		Relative Poverty		SWB Poverty		Subjective Poverty	
		Non-Poor	Poor	Non-Poor	Poor	Non-Poor	Poor	Non-Poor	Poor	Non-Poor	Poor
Caloric Poverty	Non-Poor	60,678									
	Poor	96.89	1,947								
Expenditure Poverty	Non-Poor	52,638	928	53,566							
	Poor	84.05	1.48	85.53							
Relative Poverty	Non-Poor	45,089	875	43,831	2,133	45,964					
	Poor	72.00	1.40	69.99	3.41	73.40					
SWB Poverty	Non-Poor	40,759	1,263	36,532	5,490	32,264	9,758	42,022			
	Poor	65.08	2.02	58.33	8.77	51.52	15.58	67.10			
Subjective Poverty	Non-Poor	19,919	684	17,034	3,569	13,700	6,903	20,603			
	Poor	31.81	1.09	27.20	5.70	21.88	11.02	32.90			
	Non-Poor	35,369	935	33,666	2,638	29,492	6,812	26,439	9,865	36,304	
	Poor	56.48	1.49	53.76	4.21	47.09	10.88	42.22	15.75	57.97	
	Non-Poor	25,309	1,012	19,900	6,421	16,472	9,849	15,583	10,738	26,321	
	Poor	40.41	1.62	31.78	10.25	26.30	15.73	24.88	17.15	42.03	

Source: Authors' Calculation based on Susenas 2005.

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## What is Economic Growth?

In the development economics field, the term “**economic growth**” and “**economic development**” are distinctively used. Strictly speaking, economic growth is the growth of the size of the real economy in a country, which is measured by the gross domestic product (GDP). The growth rate is what we call the economic growth rate. However, when discussing its effect on **poverty reduction**, there are times that **increase in the average income per capita** (GDP divided by population) is considered economic growth. In this case, **the rate of per capita income increase** is observed.

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## What is Economic Development?

In economic development, “development” is perceived as a **process**. Economic development is defined as a concept that involves the following **structural changes** and **social transformation** that accompany economic growth.

- ◆ **Industrial transformation** (shift from an agriculture-dominant society to an industry-dominant society), and **economic structural changes** such as developments in economic/social infrastructure and institutions;
- ◆ **Social transformation** and the changes in lifestyles that accompany urbanization (labor migration from rural areas to cities);
- ◆ **Cultural transformation** such as the shift from family/relative/tribe-oriented organization/relationship to a more merit-based, contractual organization/ relationship;
- ◆ **Political transformation** including democratization and (legal) institution building for the establishment of property rights, contract enforcement, and so forth.

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## What is Economic Development?

When we see “development” as **outcomes**, it is considered that development has happened or has been made, only when human well-being has improved along with economic growth (income growth).

Dadley Seers (1969) discusses as follows:

The questions to ask about a country’s development are therefore: What has been happening to **poverty**? What has been happening to **unemployment**? What has been happening to **inequality**? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result “development” even if per capita income doubled. (P-G-I Triangle & Pro-Poor Growth)

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## P-G-I Triangle

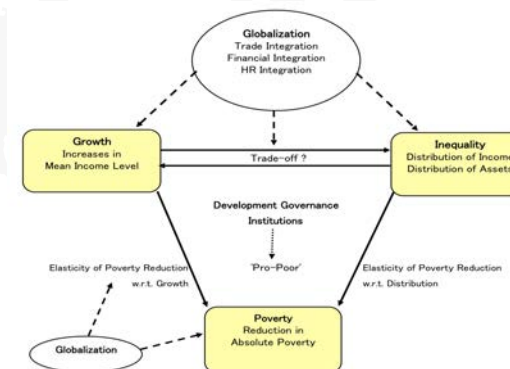
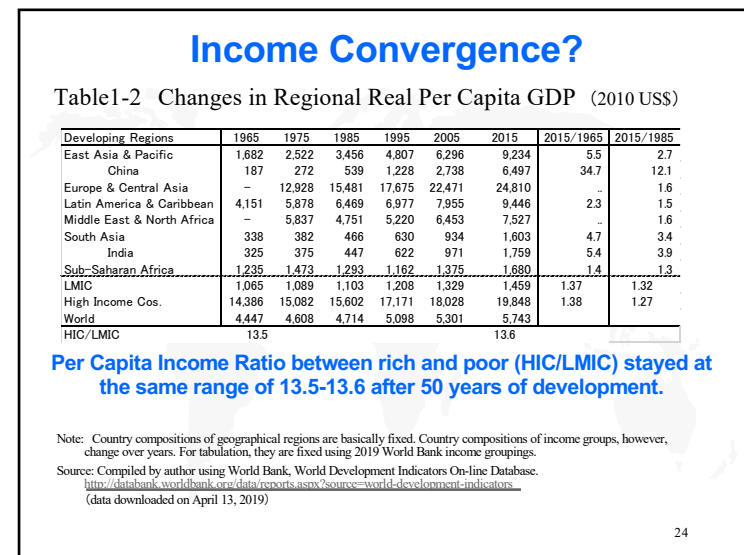
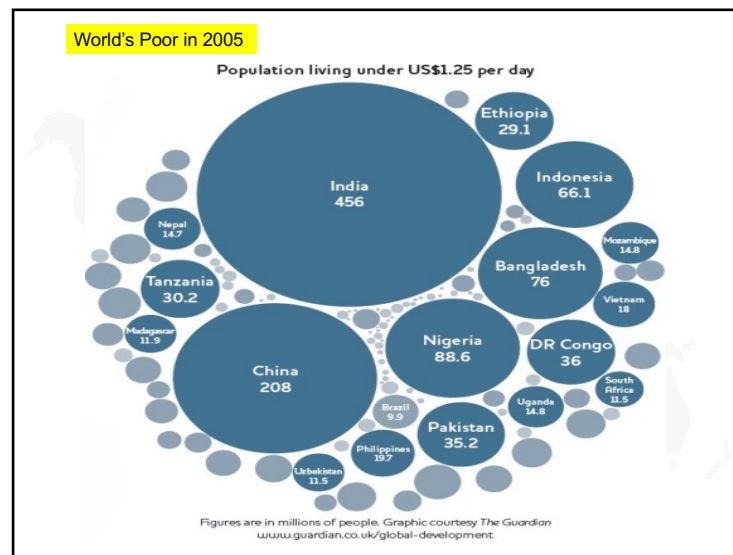
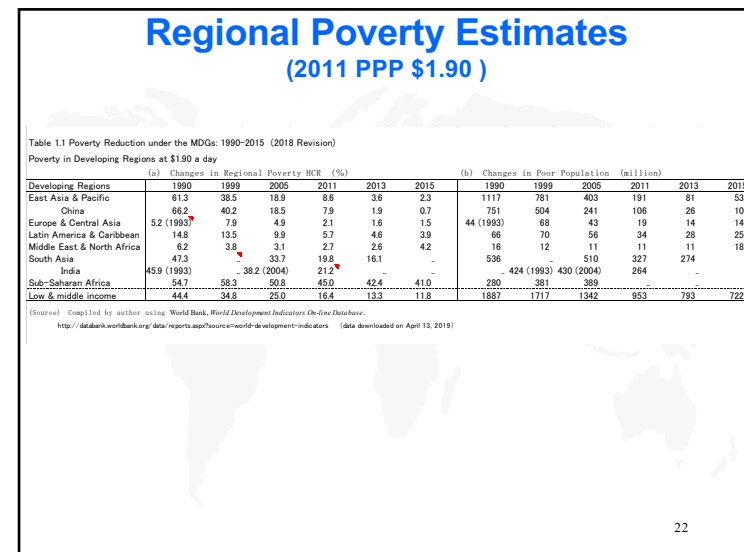
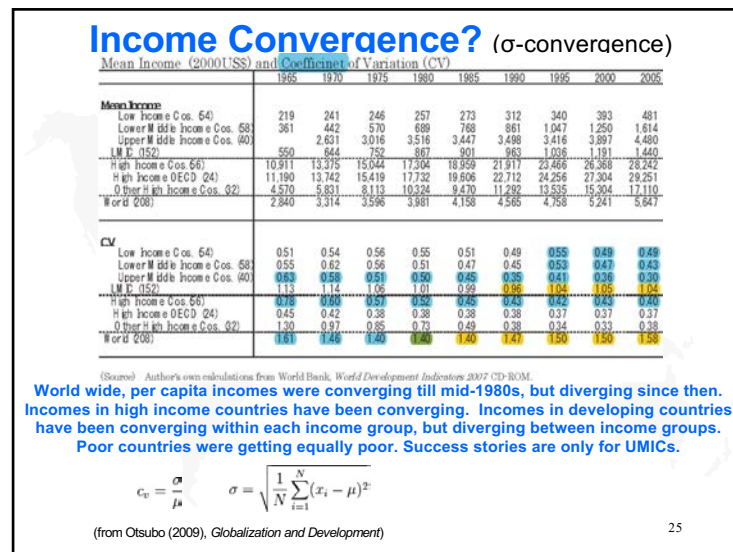


FIGURE 1.2 Poverty-Growth-Inequality Triangle under Globalization  
Source: Authors' construction.

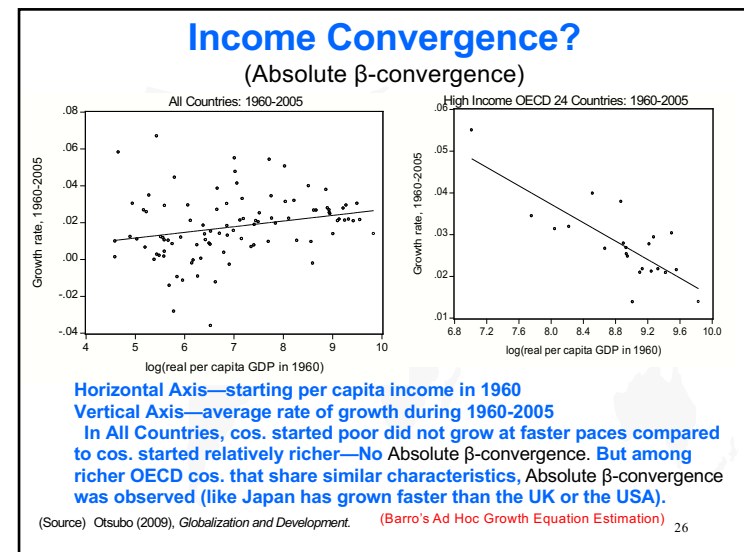
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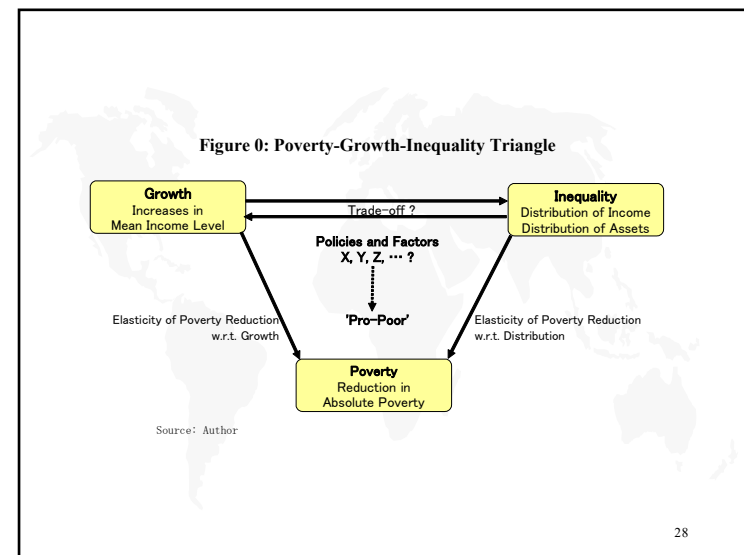
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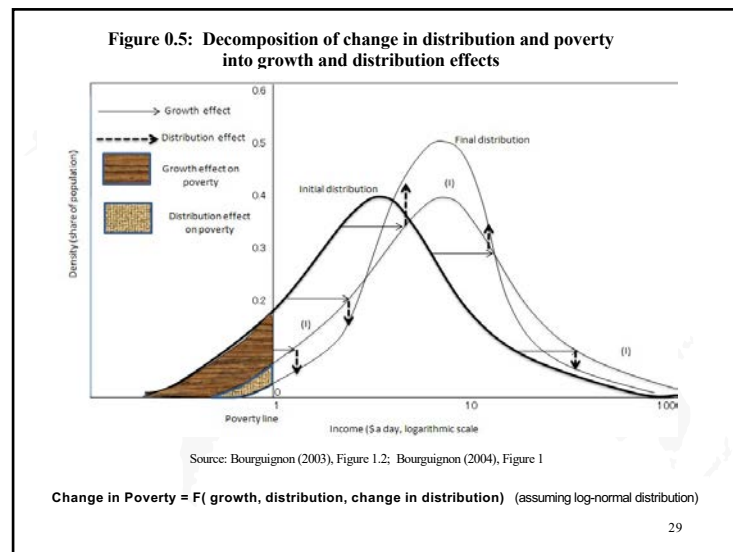
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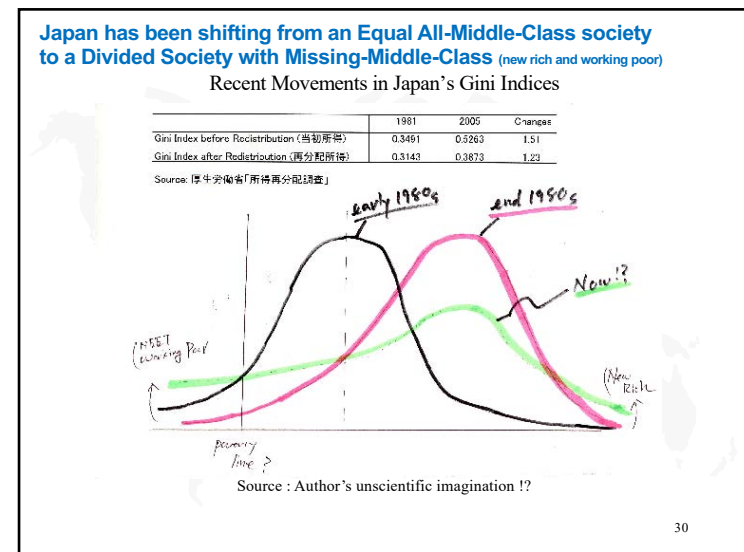
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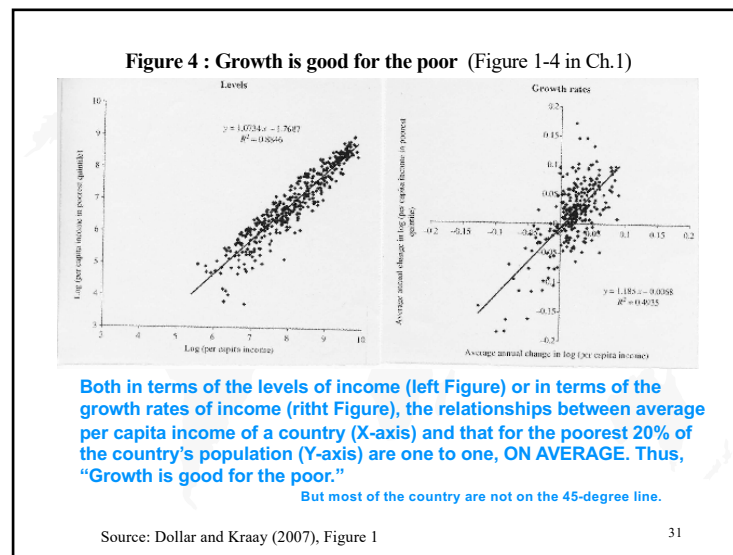
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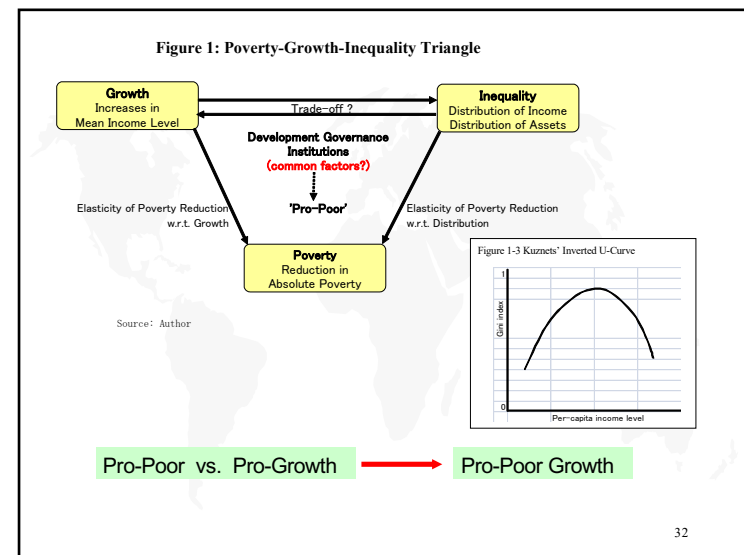
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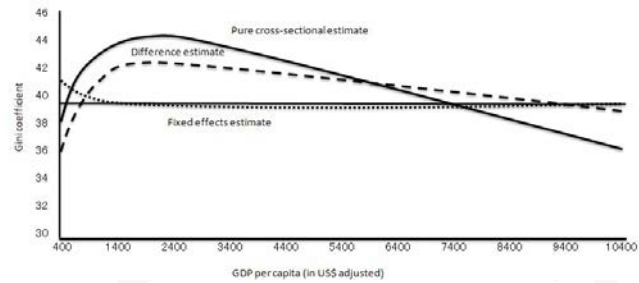
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Figure 3: Cross-country estimates of the Kuznets curve

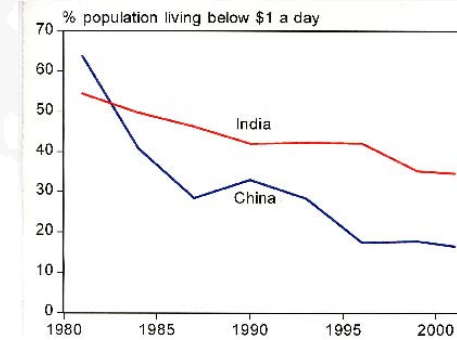


Source: Bourguignon 2004, Figure 5

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Figure 6 : Poverty incidence in China and India, 1981-2001

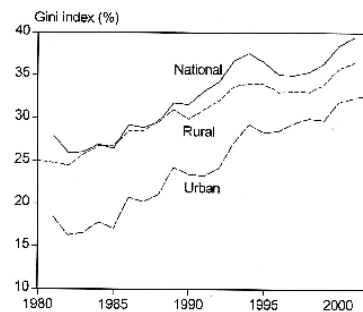


Source : Ravallion (2005), Figure 12

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Figure 9 : Income inequality in rural and urban areas and nationally (China)

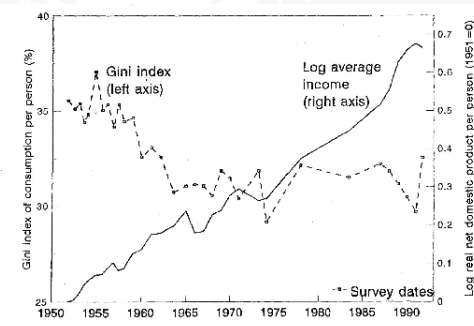


Source : Ravallion and Chen (2004), Figure 5

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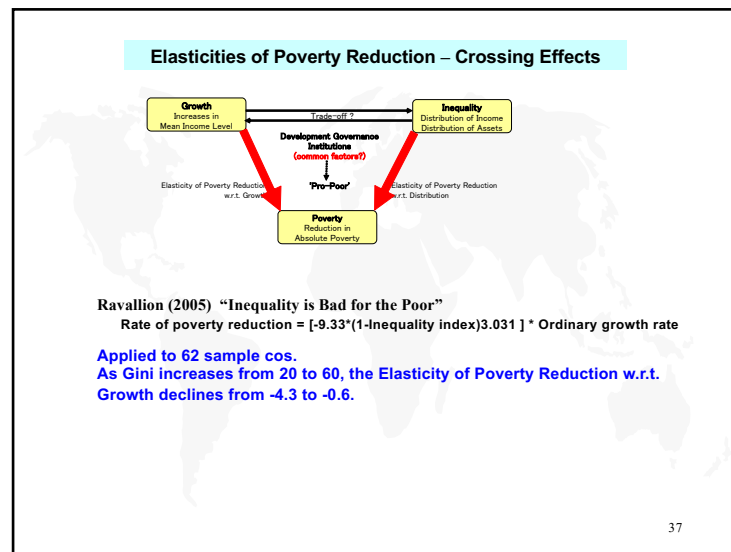
Figure 7 : Inequality and average income in India



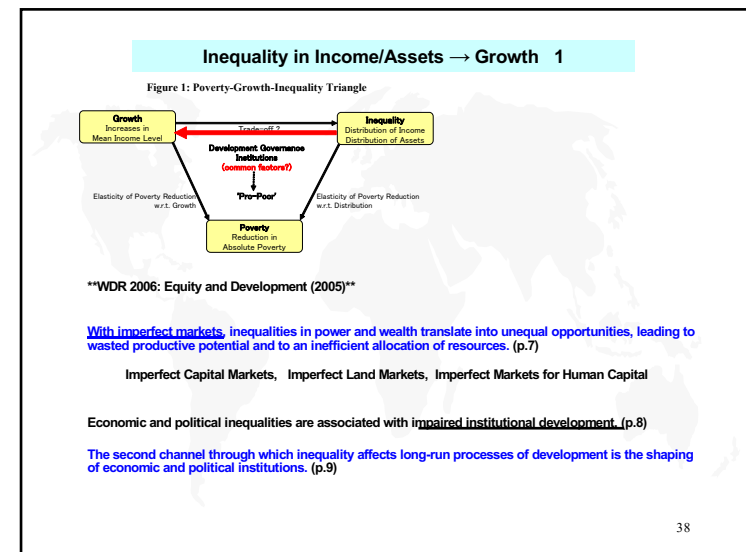
Source : Bruno, Ravallion, and Squire (1996), Figure 1

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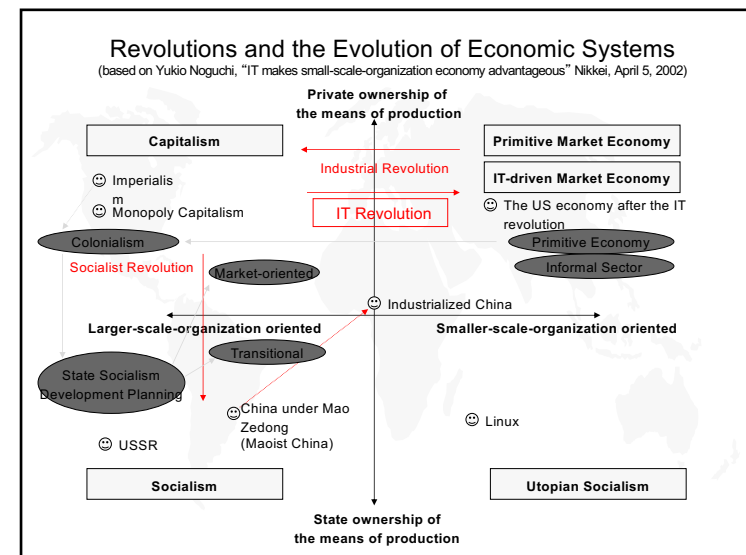
## 4. Evolution of Development Paradigms.....

### Economists' Reasons for Poverty

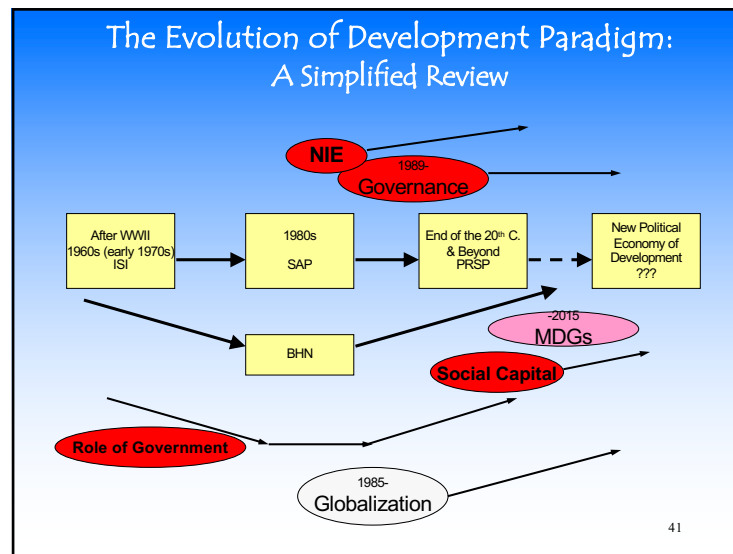
(Refer to the A3 Table Distributed)  
 In 2020, this Table is also downloadable from the designated cite.

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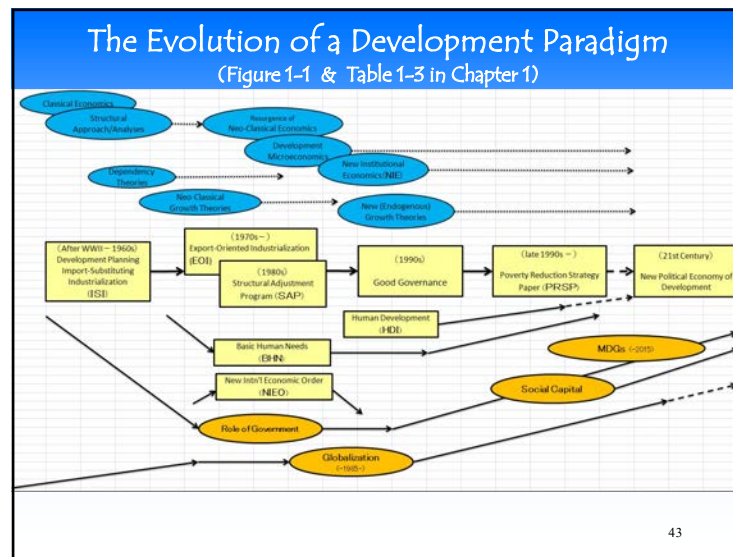
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TIME	1940s-1960s	1970s-1980s	1990s-2000s	2010s-Present
Global Political / Economic System	<b>Bretton Woods System (BWS)</b> at the end of WWII and after (1944-71) Advancement of Globalization 1) US NH BW representatives from the United Nations gathered to build post-war global economic system 2) maintain stable exchange rates among key currencies (IMF 1947-), and 3) avoid protectionism (GATT 1948-)	<b>1970s-1980s</b> 1) US NH BW representatives from the United Nations gathered to build post-war global economic system 2) maintain stable exchange rates among key currencies (IMF 1947-), and 3) avoid protectionism (GATT 1948-)	<b>1990s-2000s</b> 1) US NH BW representatives from the United Nations gathered to build post-war global economic system 2) maintain stable exchange rates among key currencies (IMF 1947-), and 3) avoid protectionism (GATT 1948-)	<b>2010s-Present</b> 1) US NH BW representatives from the United Nations gathered to build post-war global economic system 2) maintain stable exchange rates among key currencies (IMF 1947-), and 3) avoid protectionism (GATT 1948-)
Development Paradigm	<b>1st Generation</b> Development Planning and Import Substituting Industrialization (ISI) Lack of Human Capital Capital Fundamentalism Harrod-Domar growth model Structuralism Two-Sector models Dependency Theories (ISI) Prebisch-Singer hypothesis	<b>2nd Generation</b> Development Planning and Import Substituting Industrialization (ISI) Lack of Human Capital Capital Fundamentalism Harrod-Domar growth model Structuralism Two-Sector models Dependency Theories (ISI) Prebisch-Singer hypothesis	<b>3rd Generation</b> Development Planning and Import Substituting Industrialization (ISI) Lack of Human Capital Capital Fundamentalism Harrod-Domar growth model Structuralism Two-Sector models Dependency Theories (ISI) Prebisch-Singer hypothesis	<b>4th Generation</b> Development Planning and Import Substituting Industrialization (ISI) Lack of Human Capital Capital Fundamentalism Harrod-Domar growth model Structuralism Two-Sector models Dependency Theories (ISI) Prebisch-Singer hypothesis
Reason for Poverty	they are irrational	they are rational but Short of Capital	they are rational but Short of Capital	they are rational but Short of Capital

Source: Prof. Shigeru T. Otsu, IZID Book Chapter 1, Table 1-3

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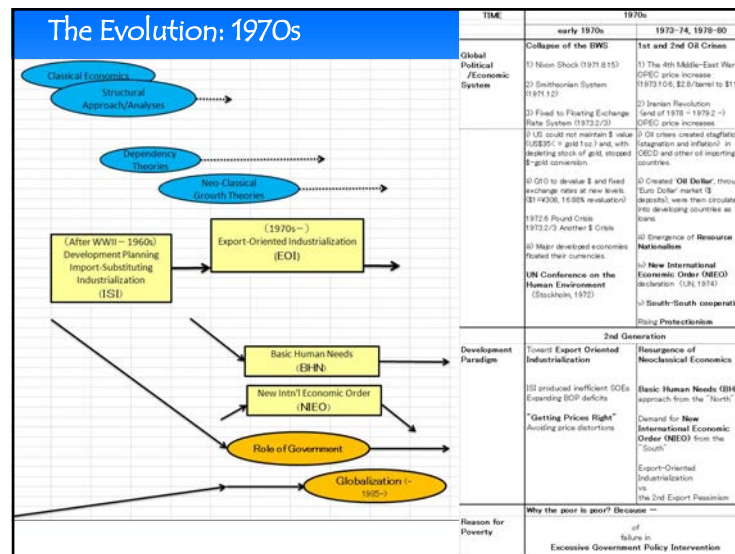
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## The Evolution: 1940s to 1960s

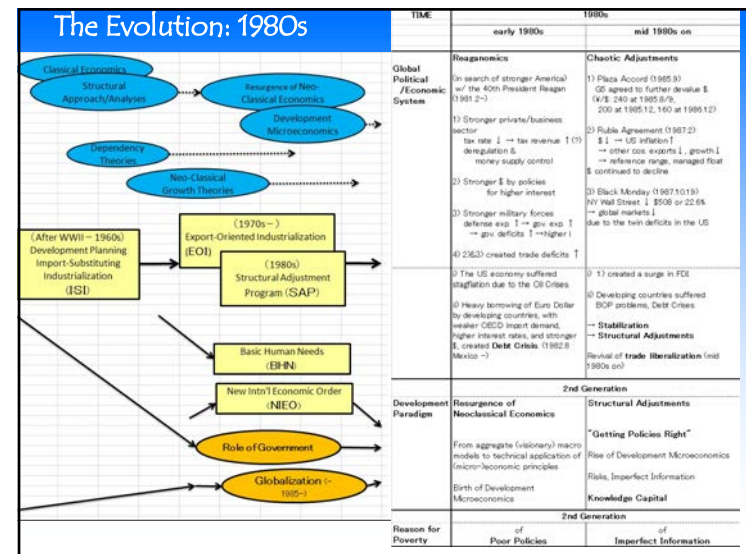
TIME	1940s-1960s
Global Political / Economic System	<b>Bretton Woods System (BWS)</b> at the end of WWII and after (1944-71) Advancement of Globalization at US NH BW representatives from the United Nations gathered to build post-war global economic system In order to avoid the beggar-thy-neighbor strategies that led to WWII, institutions were developed to: 1) finance reconstruction (IBRD 1945-) 2) maintain stable exchange rates among key currencies (IMF 1947-), and 3) avoid protectionism (GATT 1948-)
Development Paradigm	<b>1st Generation</b> Development Planning and Import Substituting Industrialization (ISI) Lack of Human Capital Capital Fundamentalism Harrod-Domar growth model Structuralism Two-Sector models Dependency Theories (ISI) Prebisch-Singer hypothesis
Reason for Poverty	they are irrational

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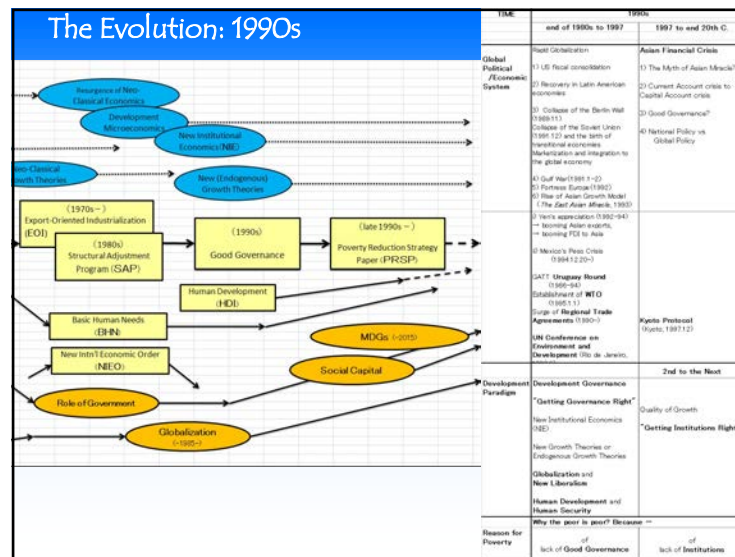
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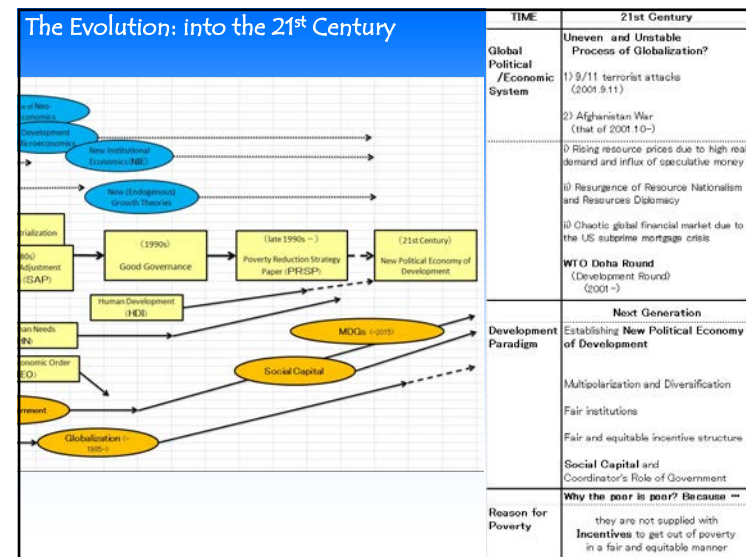
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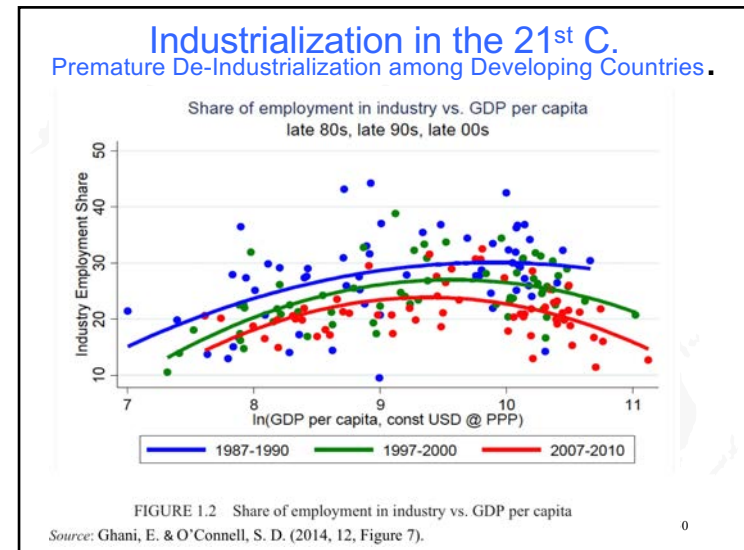
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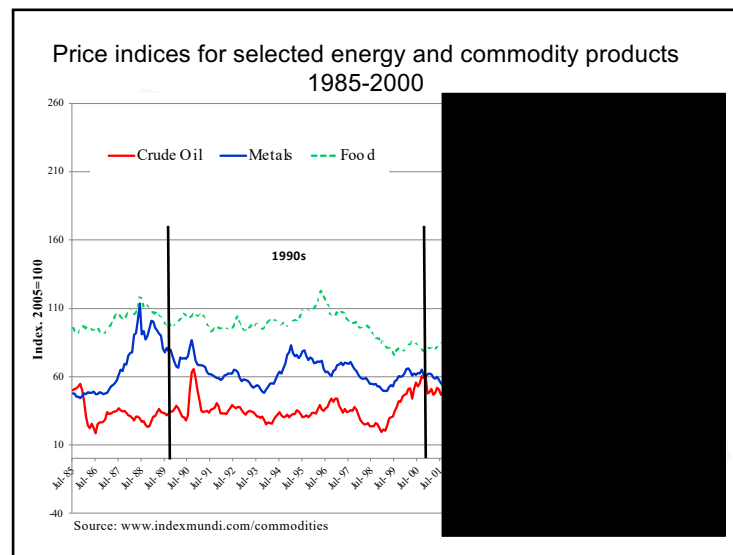


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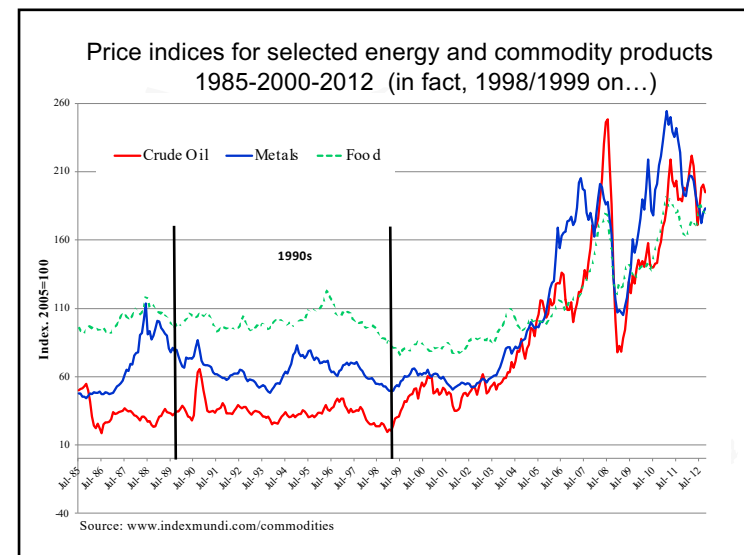


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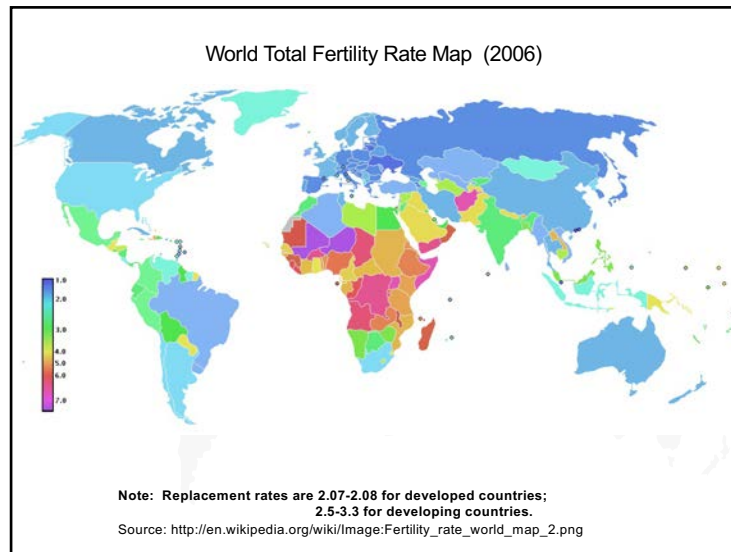


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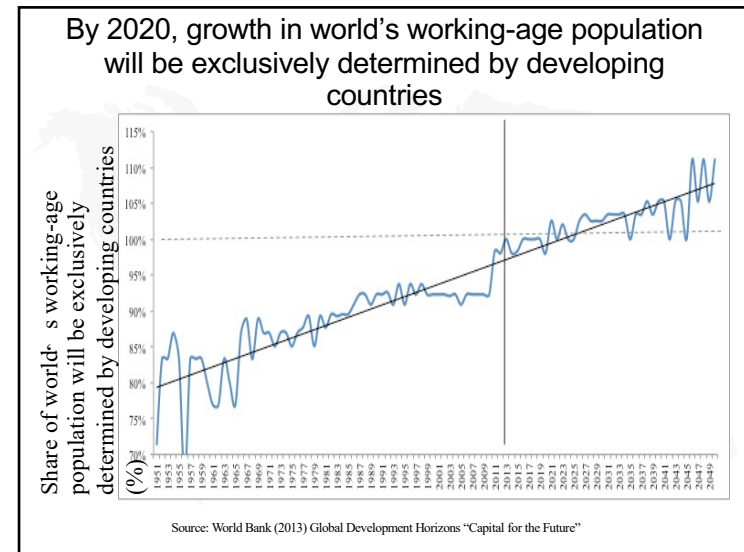


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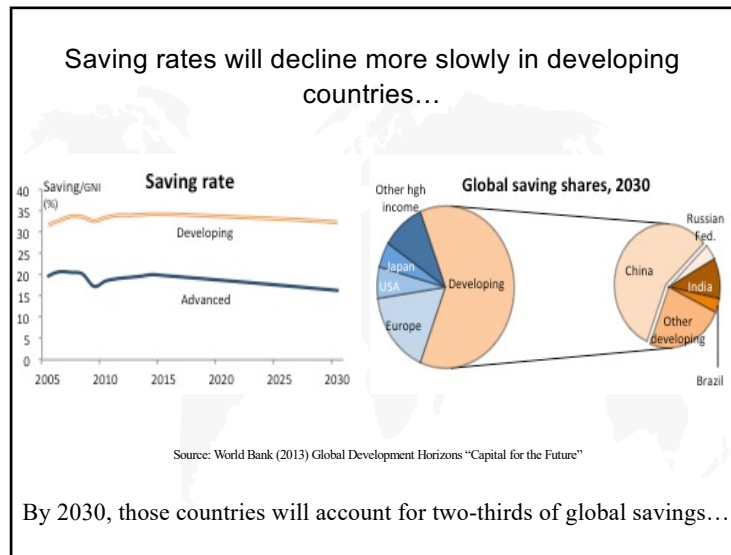




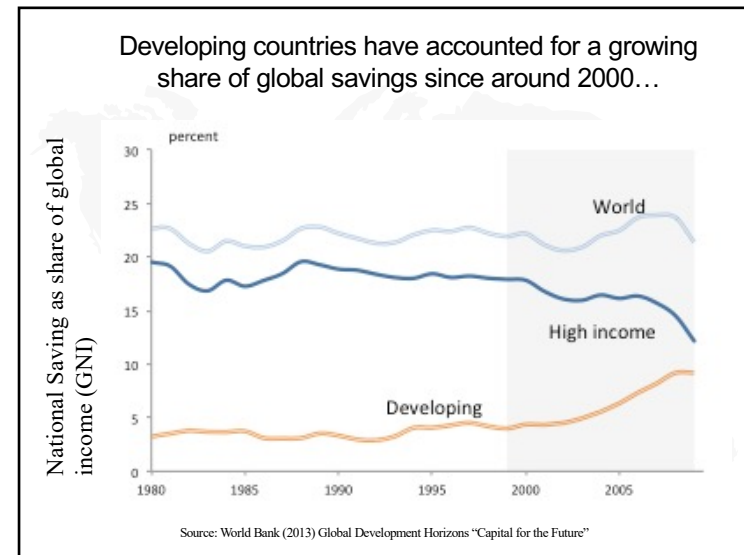
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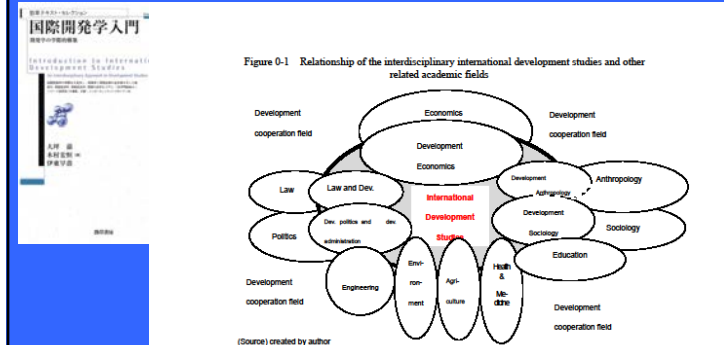
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## 6. Association with Other Subject Areas

(Human Capital incl. Education, Governance, Democracy, Human Development...)

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## Building 'Interdisciplinary' and 'Active' International Development Studies



Given issues/problems in the field:  
we are in need of Multidisciplinary Network Studies

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## Factors for Higher Income Growth & Catch-Up?

Explanatory Variables	Estimated Coefficients	Standard Error
<b>Conditional Income Convergence</b>		
(1) Initial level of income (in log)	-0.0254	0.0031
<b>Initial Human Capital</b>		
(2) Male secondary and higher years of schooling (of persons aged 25 and over)	0.0118	0.0025
(3) Life expectancy (in log)	0.0423	0.0137
(4) (1) X (2)	-0.0062	0.0017
<b>Population Pressure</b>		
(5) Fertility rate (in log)	-0.0161	0.0053
<b>Governance-Institutions</b>		
(6) Government consumption to GDP ratio (excl. spending on education and defense)	-0.136	0.026
(7) Rule of law index (subjective composite indicator)	0.0293	0.0054
(8) Democracy index (index of political rights)	0.090	0.027
(9) Democracy index squared	-0.088	0.024
(10) Inflation rate (economic governance/management)	-0.043	0.008
<b>Other Control Variables</b>		
(11) Terms of trade change (changes in export price/import price ratio)	0.137	0.030
$R^2$ (for each period)	.58 .52 .42	
No. of Observations (for each period)	80 87 84	

**Table 1-4**  
**Estimated Ad Hoc Growth Equation**  
(Human Capital, Governance, Institutions and Economic Growth)

**Note:** Dependent variables are the growth rates of real per capita GDP for 1965-75, 1975-85, and 1985-90. Estimation is carried out by three-stage least-squares (with different instrumental variables used for each period/equation).  $p$  value for joint significance of two democracy variables (items (8) and (9)) is 0.0006 (i.e. jointly significant). Dependent variables are classified by this author in order to facilitate readers' understanding of the estimated results.

**Source:** Barro (1997), Table 1.1, simplified and re-categorized by this author.

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If all Aid had gone into productive investment ....

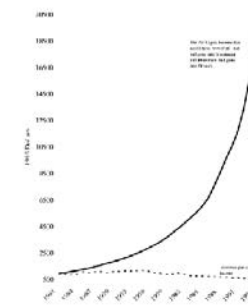


Fig. 1. The gap between the linear aid-investment-growth model and the actual outcome in Zambia.

Predictions by a financial gap model: Minimum standard Model (MSM), Revised MSM (QMSM) built on Two-Gap (resource gap) model and the Harrod-Domar growth model.

Source: Figure 1 in William Easterly, "The Ghost of Financing Gap: Testing the Growth Model of the International Financial Institutions," *Journal of Development Economics*, Vol. 60, No. 2 (December 1999)

Money alone is not enough!!

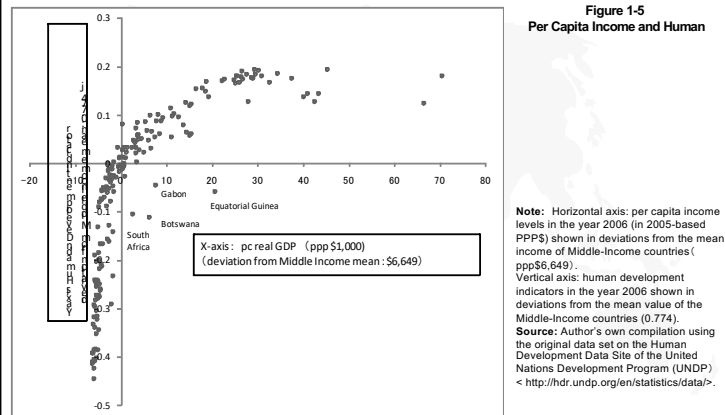
But if that Money was not available?

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## Economic Growth and Human Development



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## What is Development? 1

*Introduction to International Development Studies:  
An Interdisciplinary Approach*

co-editors: Prof. S. Otsubo, development economist  
Prof. H. Kimura, political scientist,  
Prof. S. Ito, development sociologist

In this book, we define 'development' as the reform of the whole structural system that produces material as well as non-material poverty.

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## What is Development? 2

When 'proper incentives to get out of poverty' so defined by a development economist are given to the 'structural poor', if they are equipped with 'capabilities' and 'adaptability' to respond, those who cannot easily benefit from 'trickle-down' may rise to their feet and overcome poverty by themselves.

The 'potential poor' who may easily fall into poverty given external economic/social/natural shocks are equipped with resilience supported by social capital including social safety nets, they may not have to fall into poverty repeatedly.

The poor have to be treated as active participants to development. For that end, people have to be 'empowered'.

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## What is Development? 3

The state of 'development' should be the situation where people are empowered and a country is full of empowered human beings.

'International development' should be the international cooperation/collaboration heading to this end.

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## Three Pillars of Poverty Reduction

Therefore, we set the three pillars of poverty reduction as follows:

1. Attainment of 'pro-poor' growth (the **growth engine** has to be running),
2. Adoption of **proper public policies**, incl. exercising **good governance** and building institutions, and
3. **Empowerment** of the 'structural poor' and the 'potential poor'.

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"Poverty never sleeps....."

Thank you .....

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