From the Viewpoint of Development Economics

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

(From MDGs to SDGs)

(For GSID I2ID-DE Part I Lectures)

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1. "Economic Development"
   in "Development"

   For "Poverty" Reduction…..

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

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

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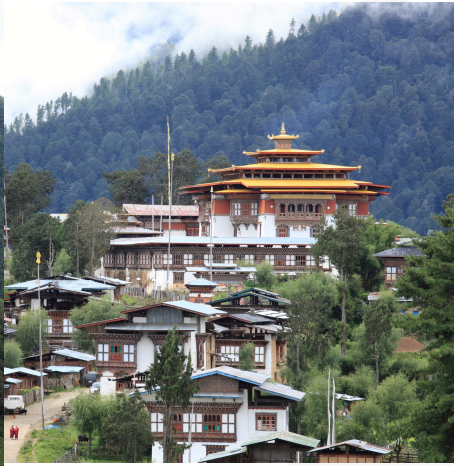

Photo: © Lisa Kristine
Source:TED (Jan. 2012)

Elmina, the port for slave trade (17thC-)

Poor micro farmers & (illegal) mining slavery labor that continues even today in a free country…

Photos: © Shigeru T. Otsubo

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

GNH for everyone?

Poverty for "Road People",
an esnic minority…

Photos:
© Shigeru T. Otsubo

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

Dynamic Economy & "Poverty"

Gender Inequality & "Poverty"
Development as Freedom from …

Photos: © Shigeru T. Otsubo

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

A story that I cannot share photographs…

Progressing Social Inclusion in the North

Girls from poor rural villages and mountain tribes, saved from Child Prostitution or Slavery Labor try to socially rehabilitate themselves back into society at Welfare Schools.

Escaping from "poverty" also means Freedom from Deprivation

Poor Noth-East Region
Government-coordinated investment by a paper factory
Employment or Environment（a girl suffering from asthma）

Photos: © Shigeru T. Otsubo   10

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

Dynamic Indonesia has regained the leadership in ASEAN

INDONESIA'S RISING DIVIDE

Rising divide in a country where National Unity is the first agenda…

Photos: © Shigeru T. Otsubo

World Bank, March 2016

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

"Killing Fields" that destroyed country's Social Capital and Institutions &
            A girl in a floating village who cannot get on shore for 2 years…

Conflicts are No.1 enemy in building Inclusive Societies…

Photos: © Shigeru T. Otsubo

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

That, shipped to rich countries, is garments or labor (including child labor)?

Dynamic Garment/Textile Industry with Foreign Direct Investments & Child Labor
   A girl who says 15 while she is actually 12 and in the 3rd year of factory work...
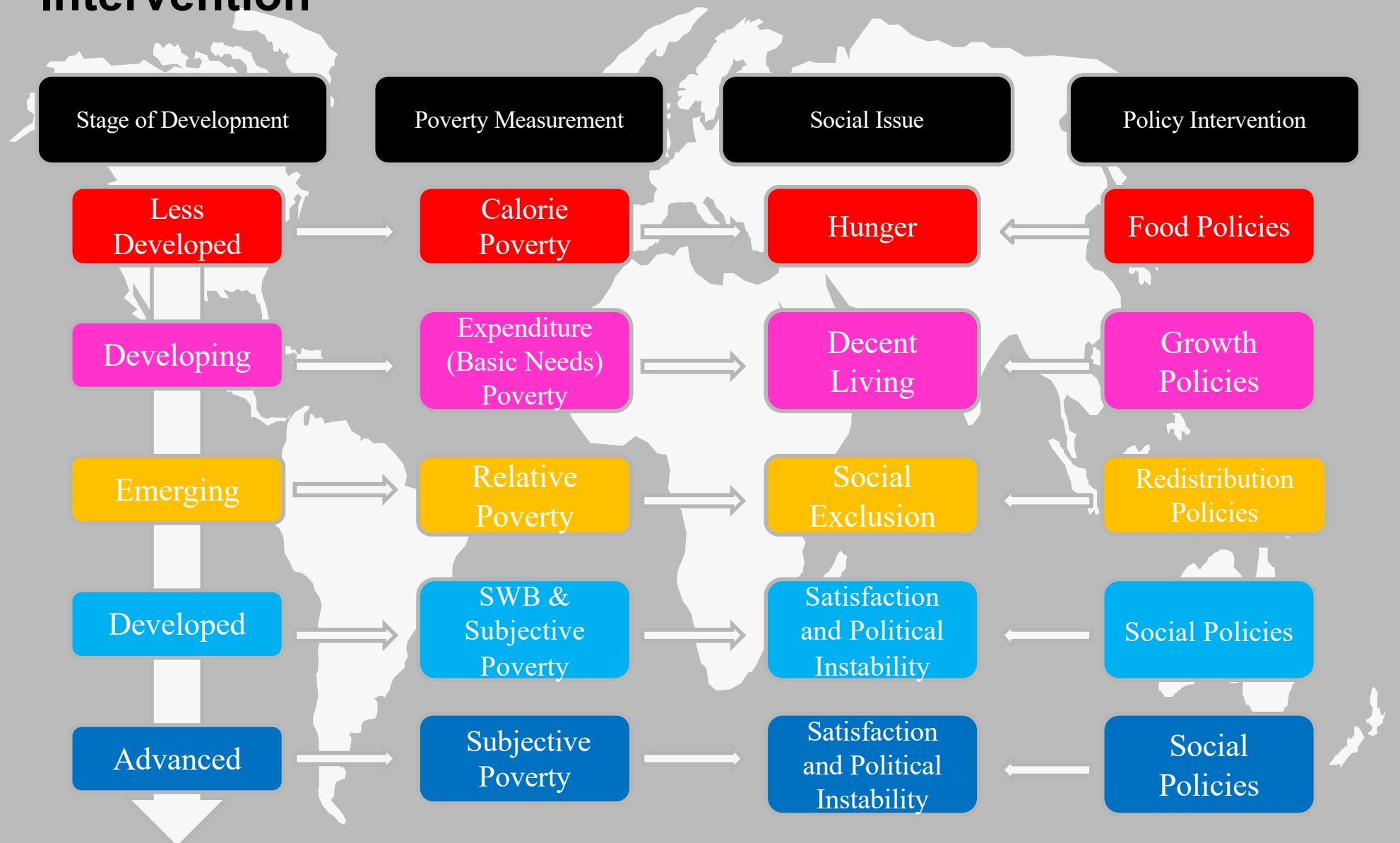
Photos: © Shigeru T. Otsubo   13

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

III.3 Poverty Indicator, Social Issue and Policy Intervention

Stage of Development	Poverty Measurement	Social Issue	Policy Intervention
Less Developed	Calorie Poverty	Hunger	Food Policies
Developing	Expenditure (Basic Needs) Poverty	Decent Living	Growth Policies
Emerging	Relative Poverty	Social Exclusion	Redistribution Policies
Developed	SWB & Subjective Poverty	Satisfaction and Political Instability	Social Policies
Advanced	Subjective Poverty	Satisfaction and Political Instability	Social Policies

Source: Authors

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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.

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)
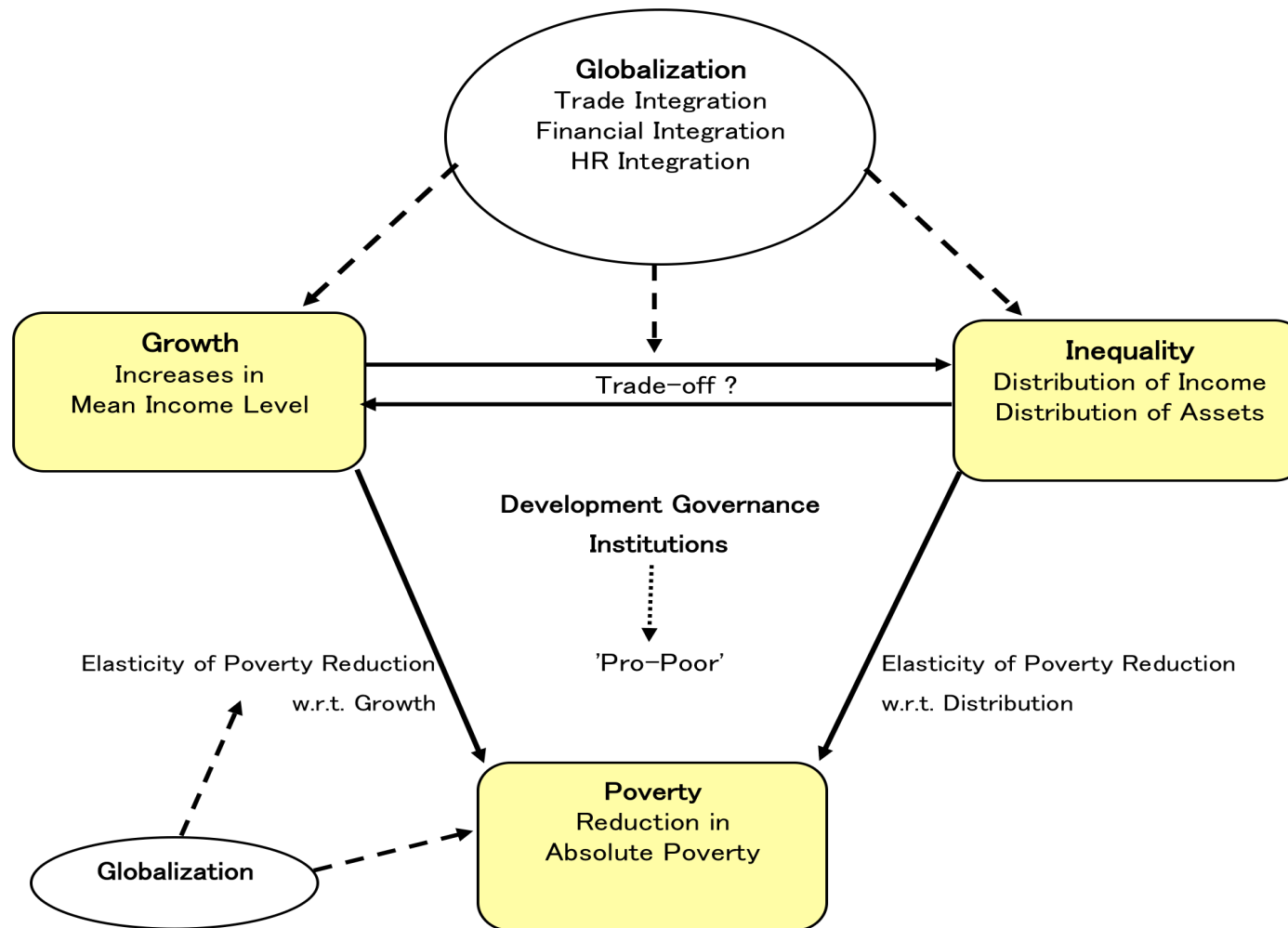
P-G-I Triangle

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

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2. The State of the World

Economic Growth
   (Changes in per capita Income)
   (Changes in Income Disparity)

Regional Poverty Estimates
(2011 PPP $1.90)

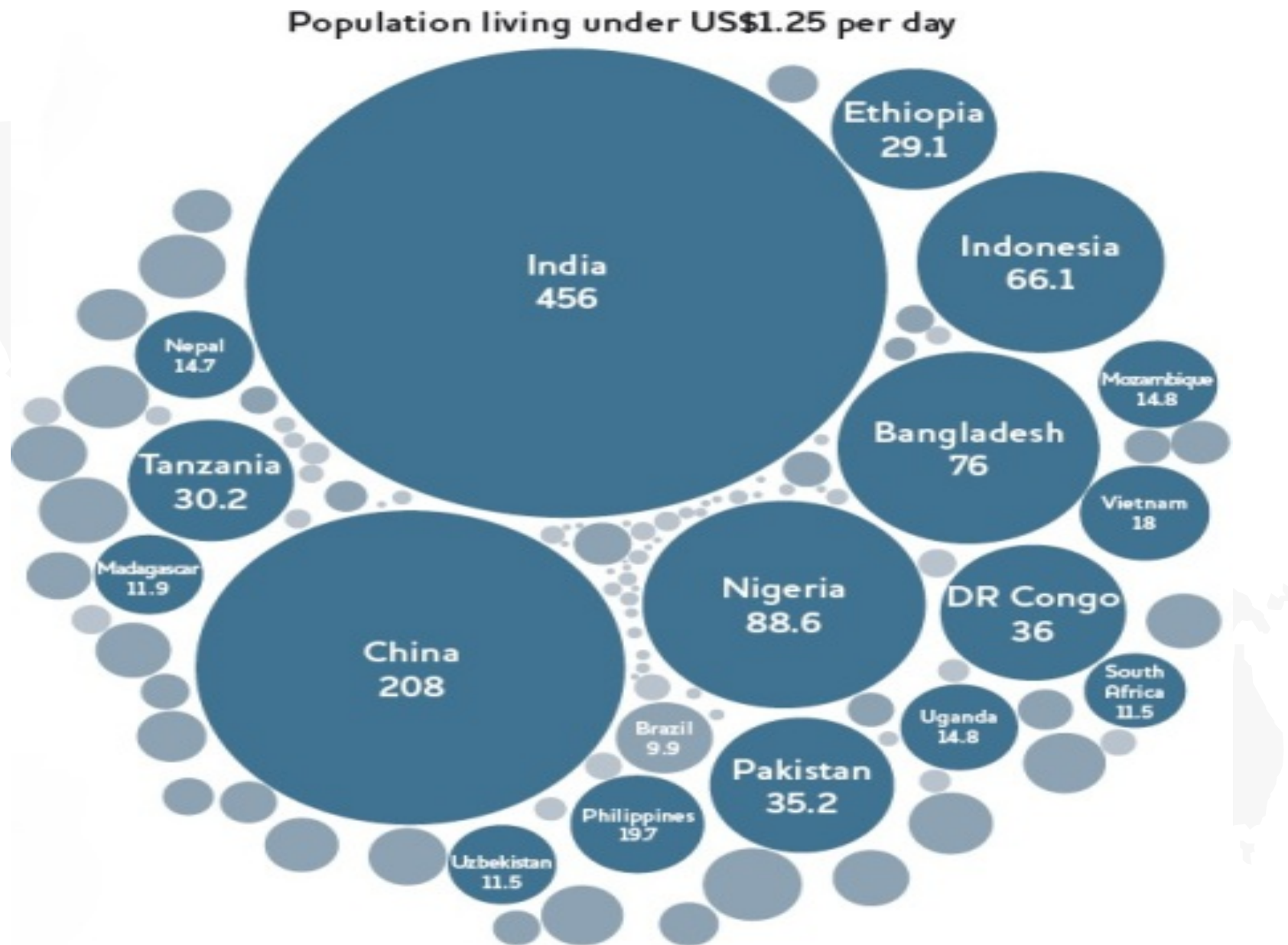Table 1.1 Poverty Reduction under the MDGs: 1990-2015 （2018 Revision)

Poverty in Developing Regions at $1.90 a day

Developing Regions	(a) Changes in Regional Poverty HCR （%)						(b) Changes in Poor Population （million)					
	1990	1999	2005	2011	2013	2015	1990	1999	2005	2011	2013	2015
East Asia & Pacific	61.3	38.5	18.9	8.6	3.6	2.3	1117	781	403	191	81	53
China	66.2	40.2	18.5	7.9	1.9	0.7	751	504	241	106	26	10
Europe & Central Asia	5.2 (1993)	7.9	4.9	2.1	1.6	1.5	44 (1993)	68	43	19	14	14
Latin America & Caribbean	14.8	13.5	9.9	5.7	4.6	3.9	66	70	56	34	28	25
Middle East & North Africa	6.2	3.8	3.1	2.7	2.6	4.2	16	12	11	11	11	18
South Asia	47.3	..	33.7	19.8	16.1	..	536	..	510	327	274	..
India	45.9 (1993)	..	38.2 (2004)	21.2	..	..	..	424 (1993)	430 (2004)	264	..	..
Sub-Saharan Africa	54.7	58.3	50.8	45.0	42.4	41.0	280	381	389	..	..	..
Low & middle income	44.4	34.8	25.0	16.4	13.3	11.8	1887	1717	1342	953	793	722

(Source) Compiled by author using World Bank, *World Development Indicators On-line Database*.

http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators （data downloaded on April 13, 2019)

Population living under US$1.25 per day

India 456

Ethiopia 29.1

Indonesia 66.1

Nepal 14.7

Mozambique 14.8

Bangladesh 76

Tanzania 30.2

Vietnam 18

Madagascar 11.9

China 208

Nigeria 88.6

DR Congo 36

South Africa 11.5

Brazil 9.9

Uganda 14.8

Pakistan 35.2

Philippines 19.7

Uzbekistan 11.5

Figures are in millions of people. Graphic courtesy *The Guardian*
www.guardian.co.uk/global-development

Income Convergence?

Table1-2 Changes in Regional Real Per Capita GDP （2010 US$）

Developing Regions	1965	1975	1985	1995	2005	2015	2015/1965	2015/1985
East Asia & Pacific	1,682	2,522	3,456	4,807	6,296	9,234	5.5	2.7
China	187	272	539	1,228	2,738	6,497	34.7	12.1
Europe & Central Asia	–	12,928	15,481	17,675	22,471	24,810	..	1.6
Latin America & Caribbean	4,151	5,878	6,469	6,977	7,955	9,446	2.3	1.5
Middle East & North Africa	–	5,837	4,751	5,220	6,453	7,527	..	1.6
South Asia	338	382	466	630	934	1,603	4.7	3.4
India	325	375	447	622	971	1,759	5.4	3.9
Sub-Saharan Africa	1,235	1,473	1,293	1,162	1,375	1,680	1.4	1.3
LMIC	1,065	1,089	1,103	1,208	1,329	1,459	1.37	1.32
High Income Cos.	14,386	15,082	15,602	17,171	18,028	19,848	1.38	1.27
World	4,447	4,608	4,714	5,098	5,301	5,743		
HIC/LMIC	13.5					13.6		

Per Capita Income Ratio between rich and poor (HIC/LMIC) stayed at the same range of 13.5-13.6 after 50 years of development.

Note: Country compositions of geographical regions are basically fixed. Country compositions of income groups, however, change over years. For tabulation, they are fixed using 2019 World Bank income groupings.

Source: Compiled by author using World Bank, World Development Indicators On-line Database.
http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators
（data downloaded on April 13, 2019）

Income Convergence? (σ-convergence)

Mean Income (2000US$) and Coefficinet of Variation (CV)

	1965	1970	1975	1980	1985	1990	1995	2000	2005
Mean Income									
Low Income Cos. (54)	219	241	246	257	273	312	340	393	481
Lower Middle Income Cos. (58)	361	442	570	689	768	861	1,047	1,250	1,614
Upper Middle Income Cos. (40)		2,631	3,016	3,516	3,447	3,498	3,416	3,897	4,480
LMIC (152)	550	644	752	867	901	963	1,036	1,191	1,440
High Income Cos. (56)	10,911	13,375	15,044	17,304	18,959	21,917	23,466	26,368	28,242
High Income OECD (24)	11,190	13,742	15,419	17,732	19,606	22,712	24,256	27,304	29,251
Other High Income Cos. (32)	4,570	5,831	8,113	10,324	9,470	11,292	13,535	15,304	17,110
World (208)	2,840	3,314	3,596	3,981	4,158	4,565	4,758	5,241	5,647
CV									
Low Income Cos. (54)	0.51	0.54	0.56	0.55	0.51	0.49	0.55	0.49	0.49
Lower Middle Income Cos. (58)	0.55	0.62	0.56	0.51	0.47	0.45	0.53	0.47	0.43
Upper Middle Income Cos. (40)	0.63	0.58	0.51	0.50	0.45	0.35	0.41	0.36	0.30
LMIC (152)	1.13	1.14	1.06	1.01	0.99	0.96	1.04	1.05	1.04
High Income Cos. (56)	0.78	0.60	0.57	0.52	0.45	0.43	0.42	0.43	0.40
High Income OECD (24)	0.45	0.42	0.38	0.38	0.38	0.38	0.37	0.37	0.37
Other High Income Cos. (32)	1.30	0.97	0.85	0.73	0.49	0.38	0.34	0.33	0.38
World (208)	1.61	1.46	1.40	1.40	1.40	1.47	1.50	1.50	1.58

(Source) Author's own calculations from World Bank, *World Development Indicators 2007* CD-ROM.

World wide, per capita incomes were converging till mid-1980s, but diverging since then. Incomes in high income countries have been converging. Incomes in developing countries have been converging within each income group, but diverging between income groups. Poor countries were getting equally poor. Success stories are only for UMICs.

$$c_v = \frac{\sigma}{\mu} \qquad \sigma = \sqrt{\frac{1}{N}\sum_{i=1}^{N}(x_i - \mu)^2}.$$

(from Otsubo (2009), *Globalization and Development*)

Income Convergence?

(Absolute β-convergence)

All Countries: 1960-2005

High Income OECD 24 Countries: 1960-2005
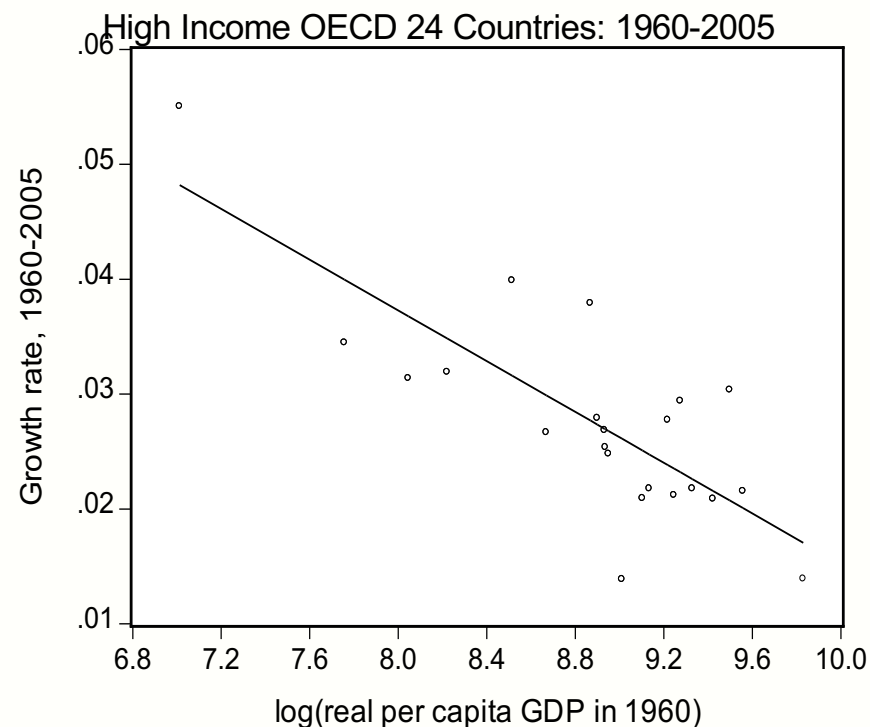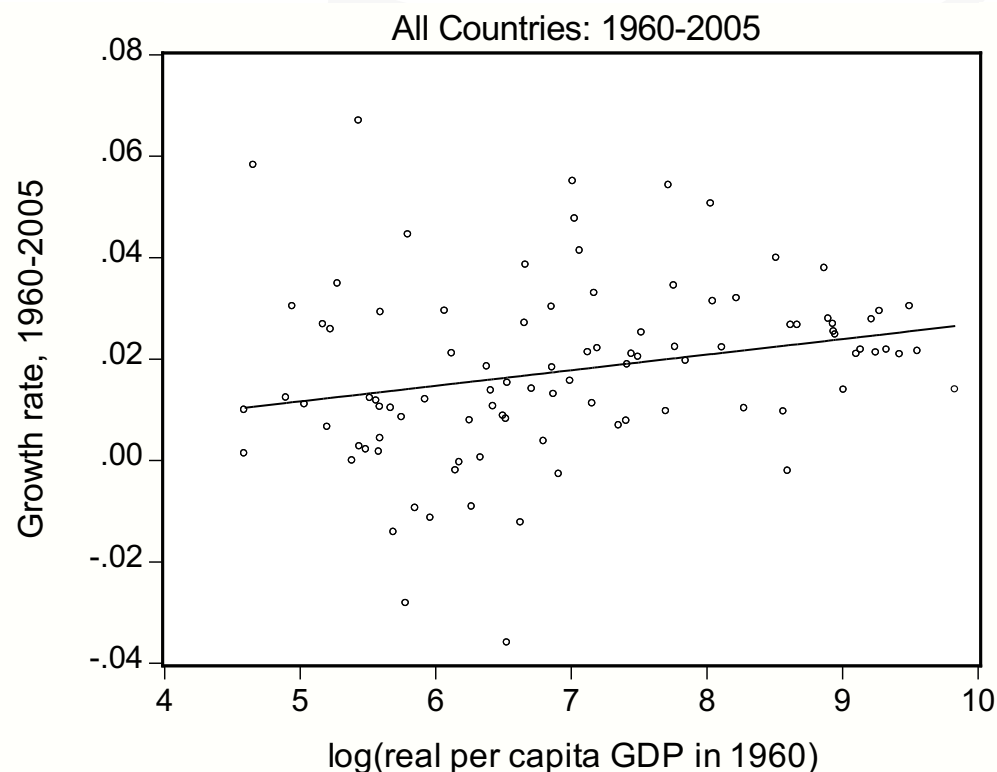
Horizontal Axis—starting per capita income in 1960
Vertical Axis—average rate of growth during 1960-2005
  In All Countries, cos. started poor did not grow at faster paces compared to cos. started relatively richer—No Absolute β-convergence. **But among richer OECD cos. that share similar characteristics,** Absolute β-convergence **was observed (like Japan has grown faster than the UK or the USA).**

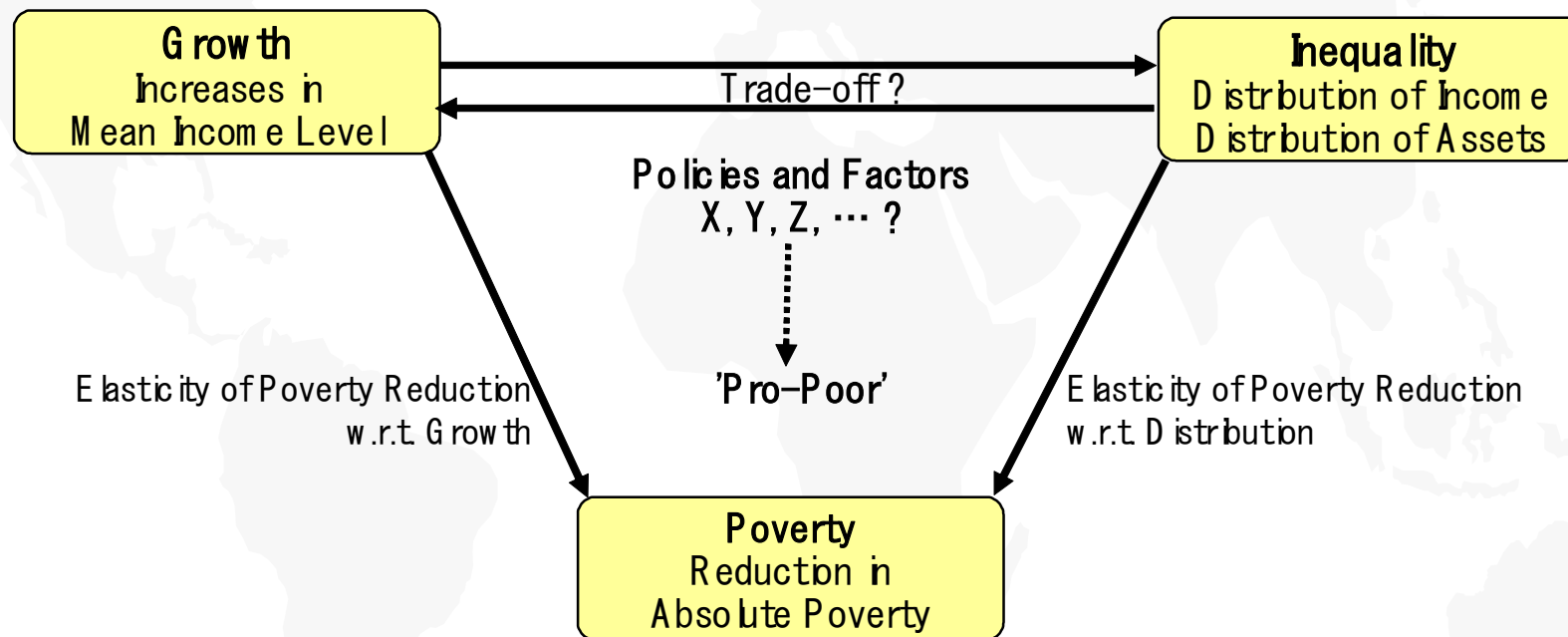(Source) Otsubo (2009), *Globalization and Development.*   (Barro's Ad Hoc Growth Equation Estimation)

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3. Poverty-Growth-Inequality Triangle

Figure 0: Poverty-Growth-Inequality Triangle

Growth
Increases in
Mean Income Level

Inequality
Distribution of Income
Distribution of Assets

Trade-off?

Policies and Factors
X, Y, Z, … ?

'Pro-Poor'

Elasticity of Poverty Reduction
w.r.t Growth

Elasticity of Poverty Reduction
w.r.t Distribution

Poverty
Reduction in
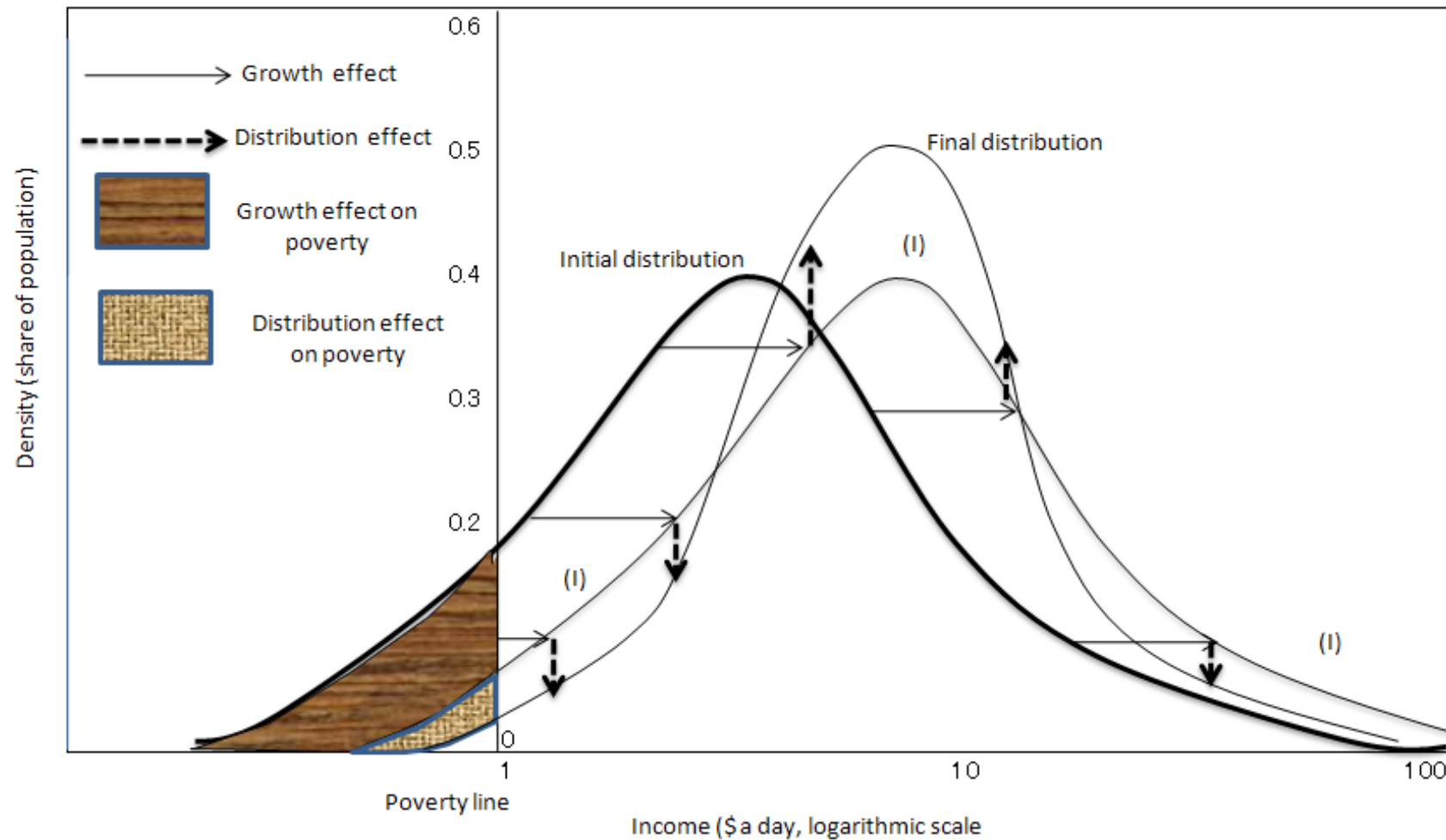Absolute Poverty

Source: Author

Figure 0.5: Decomposition of change in distribution and poverty into growth and distribution effects

Source: Bourguignon (2003), Figure 1.2; Bourguignon (2004), Figure 1

Change in Poverty = F(growth, distribution, change in distribution)   (assuming log-normal distribution)

Japan has been shifting from an Equal All-Middle-Class society to a Divided Society with Missing-Middle-Class (new rich and working poor)

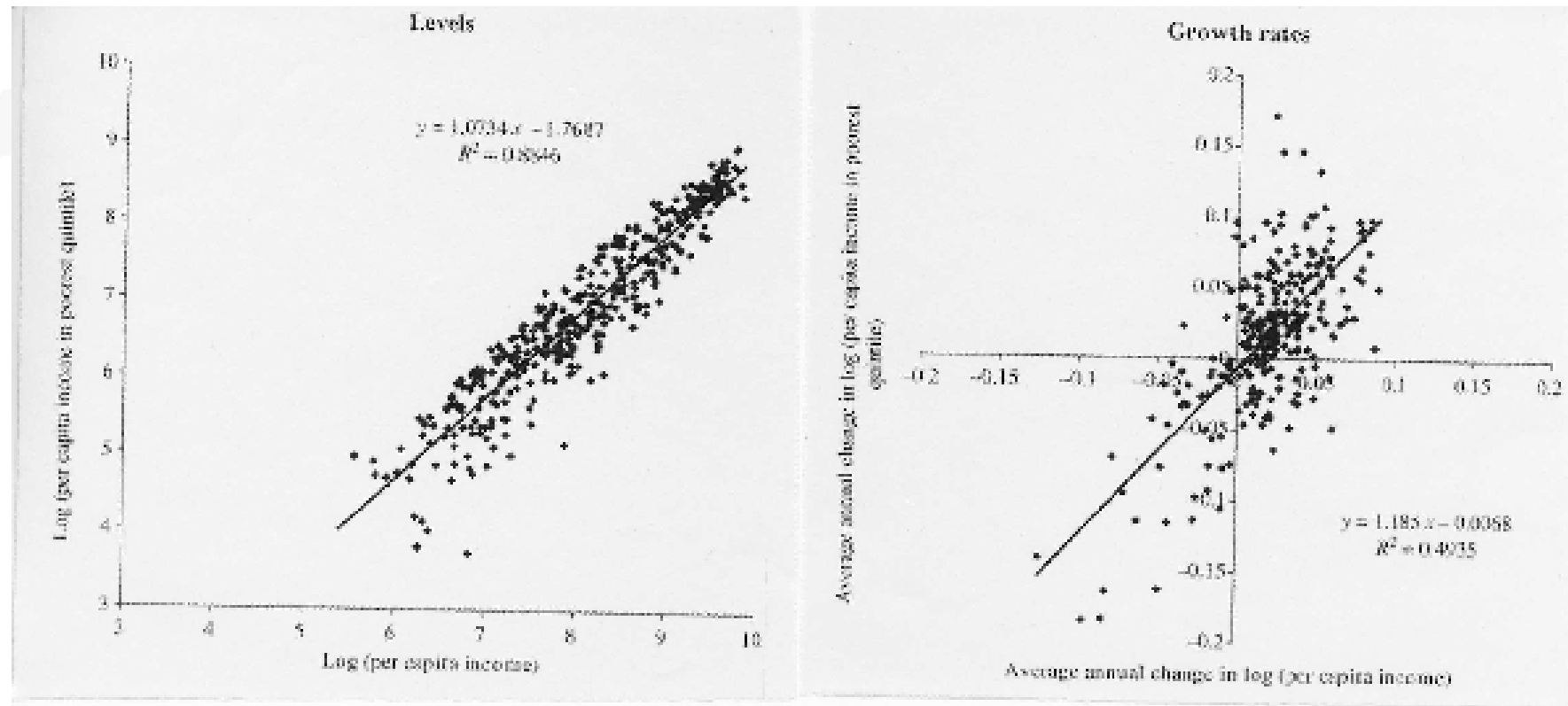## Recent Movements in Japan's Gini Indices

	1981	2005	Changes
Gini Index before Redistribution (当初所得)	0.3491	0.5263	1.51
Gini Index after Redistribution (再分配所得)	0.3143	0.3873	1.23

Source: 厚生労働省「所得再分配調査」
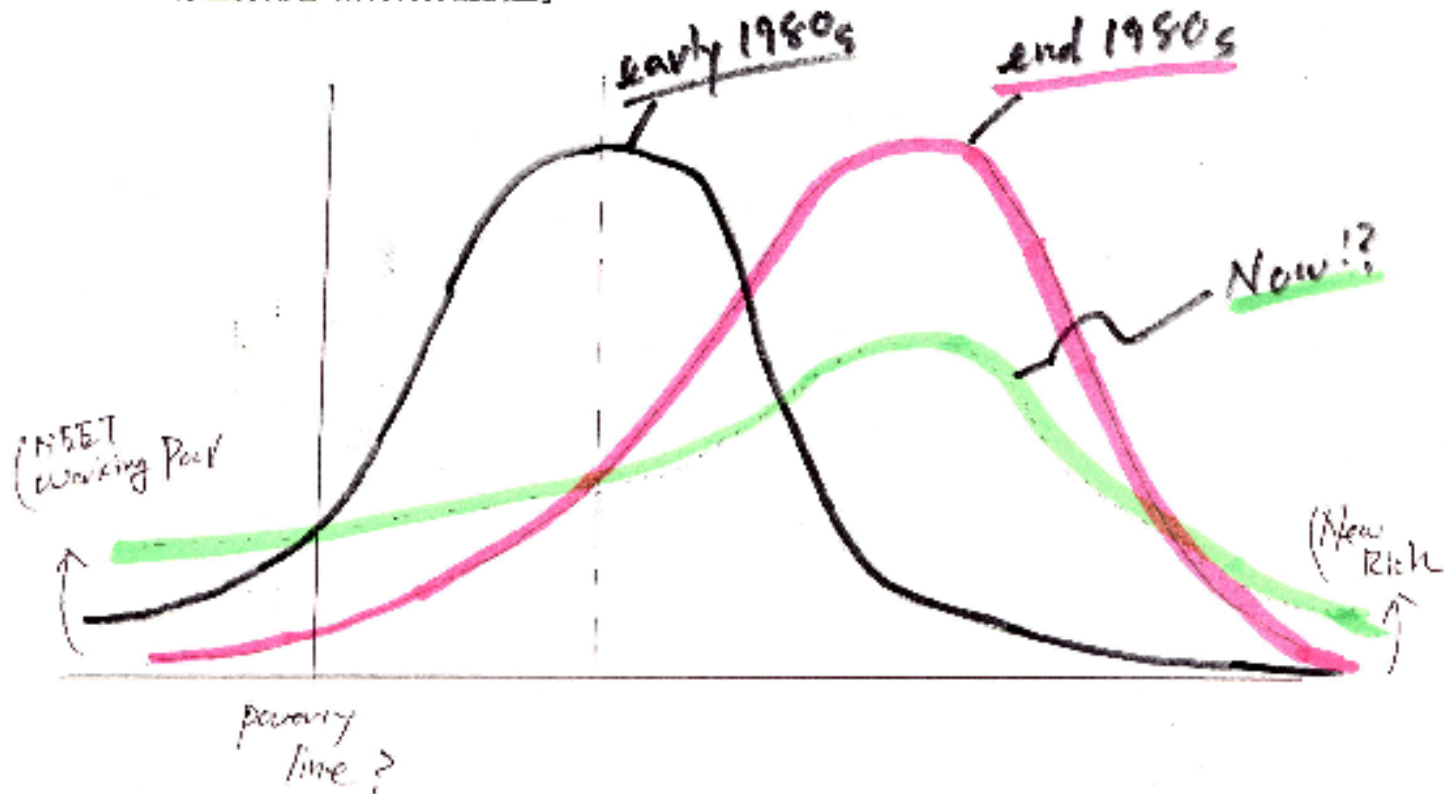
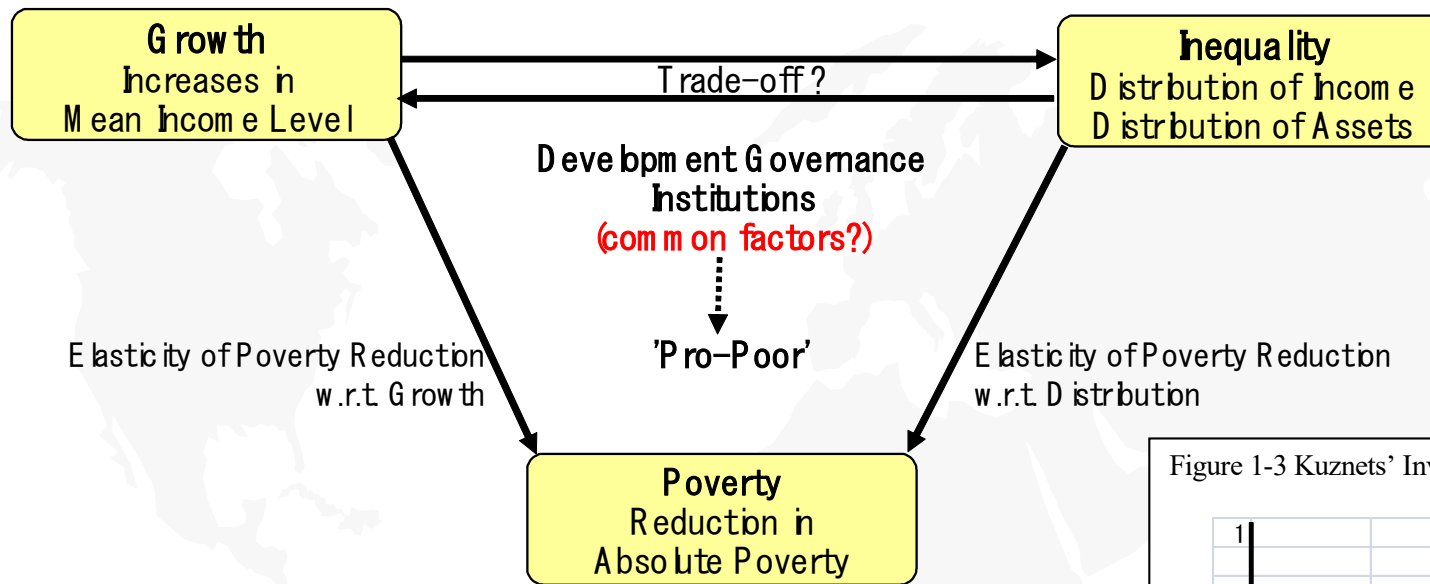Source : Author's unscientific imagination !?

Figure 4 : Growth is good for the poor (Figure 1-4 in Ch.1)

Both in terms of the levels of income (left Figure) or in terms of the growth rates of income (ritht Figure), the relationships between average per capita income of a country (X-axis) and that for the poorest 20% of the country's population (Y-axis) are one to one, ON AVERAGE. Thus, "Growth is good for the poor."
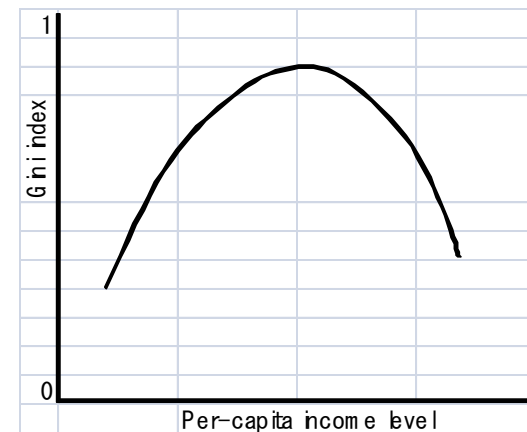
But most of the country are not on the 45-degree line.

Source: Dollar and Kraay (2007), Figure 1

Figure 1: Poverty-Growth-Inequality Triangle

Growth
Increases in
Mean Income Level

Trade-off?

Inequality
Distribution of Income
Distribution of Assets

Development Governance
Institutions
(common factors?)

'Pro-Poor'

Elasticity of Poverty Reduction
w.r.t. Growth

Elasticity of Poverty Reduction
w.r.t. Distribution

Poverty
Reduction in
Absolute Poverty

Source: Author

Figure 1-3 Kuznets' Inverted U-Curve
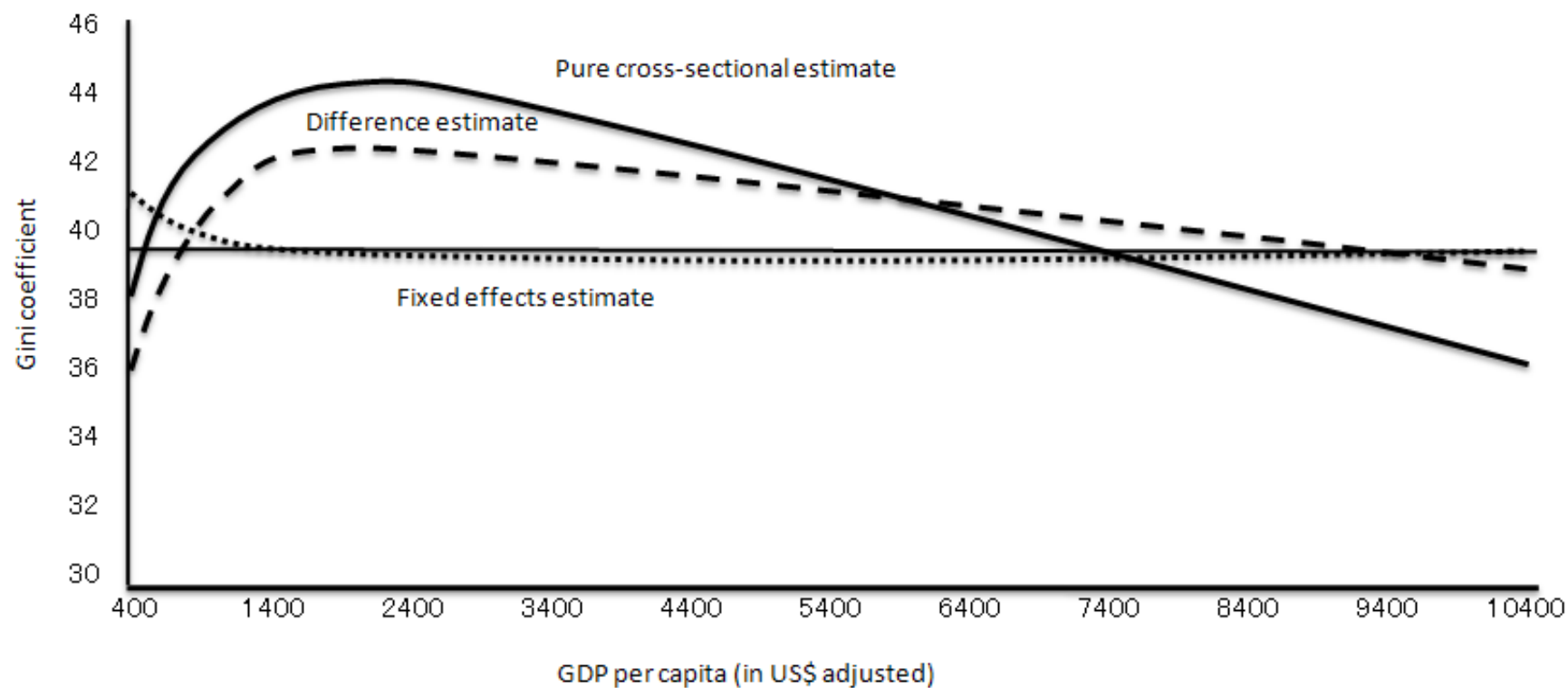
Gini index

Per-capita income level
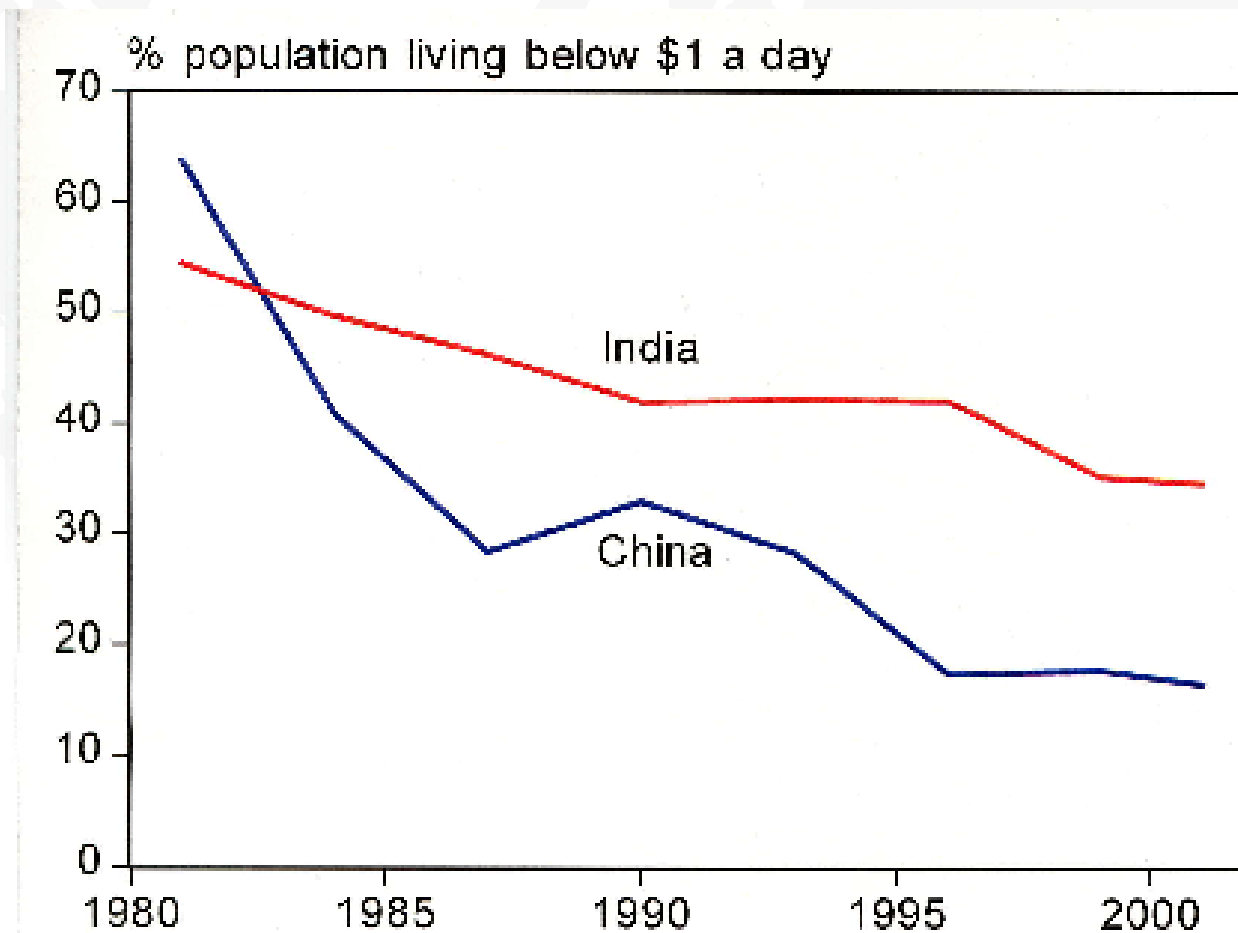
Pro-Poor vs. Pro-Growth ⟶ Pro-Poor Growth

Figure 3: Cross-country estimates of the Kuznets curve
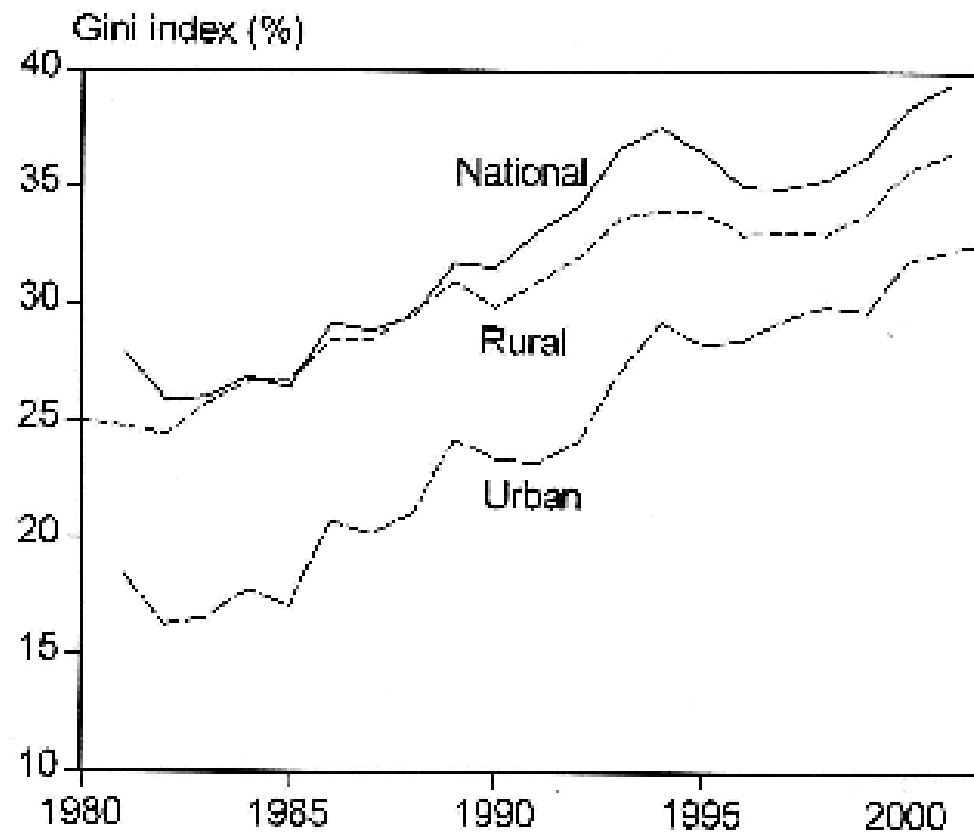

Source: Bourguignon 2004, Figure 5

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

Source : Ravallion (2005), Figure 12

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

Source : Ravallion and Chen (2004), Figure 5

Figure 7 : Inequality and average income in India
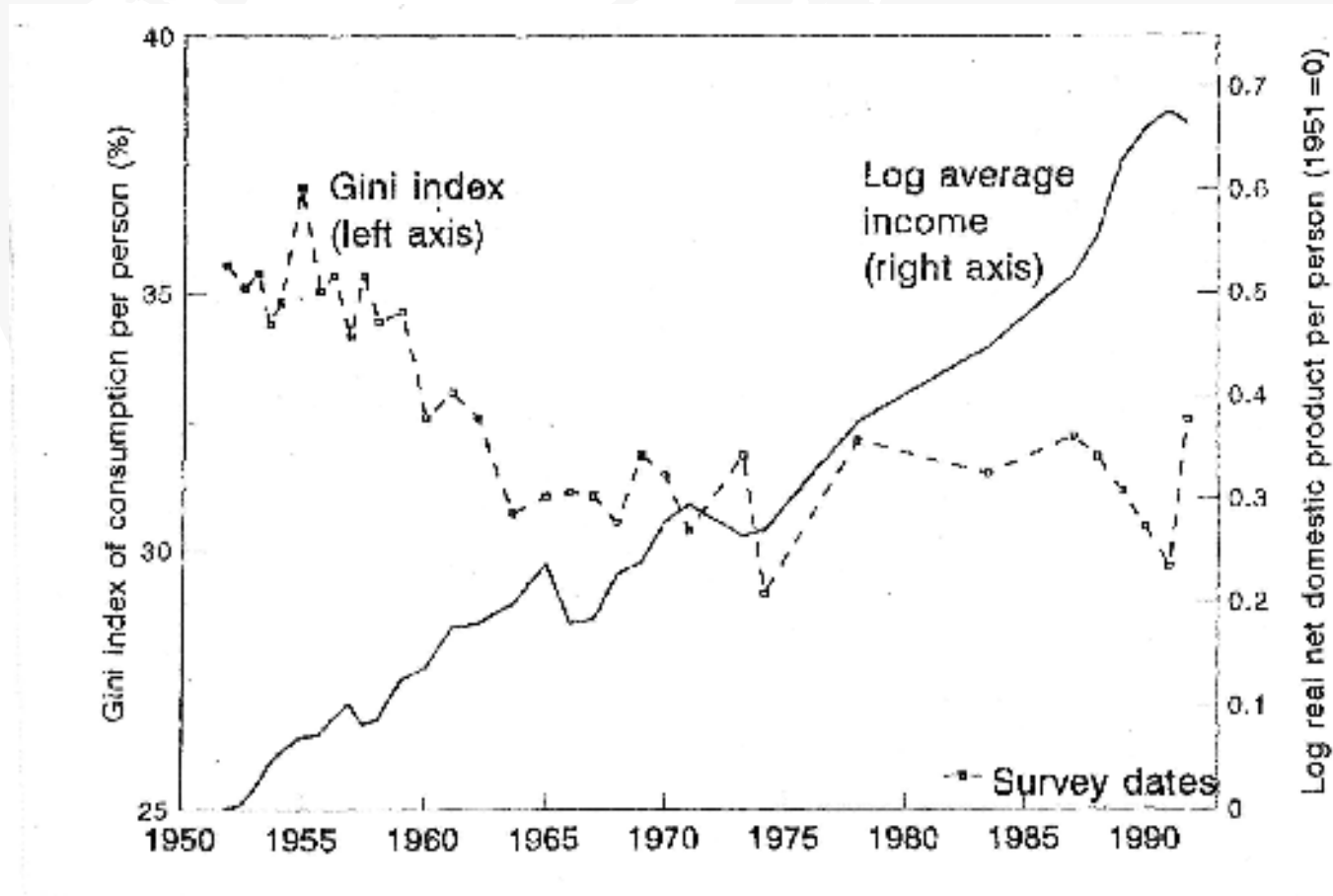
Source : Bruno, Ravallion, and Squire (1996), Figure 1

Elasticities of Poverty Reduction – Crossing Effects
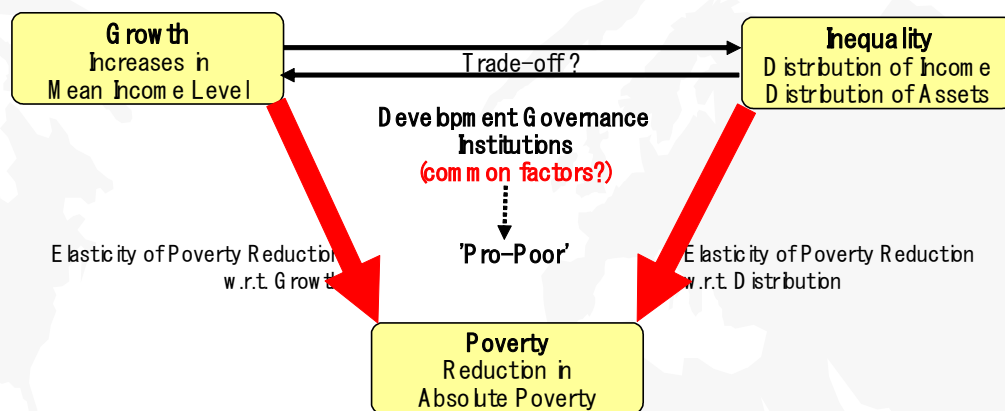
Ravallion (2005) "Inequality is Bad for the Poor"
   Rate of poverty reduction = [-9.33*(1-Inequality index)3.031] * Ordinary growth rate

Applied to 62 sample cos.
As Gini increases from 20 to 60, the Elasticity of Poverty Reduction w.r.t.
Growth declines from -4.3 to -0.6.

Inequality in Income/Assets → Growth   1

Figure 1: Poverty-Growth-Inequality Triangle
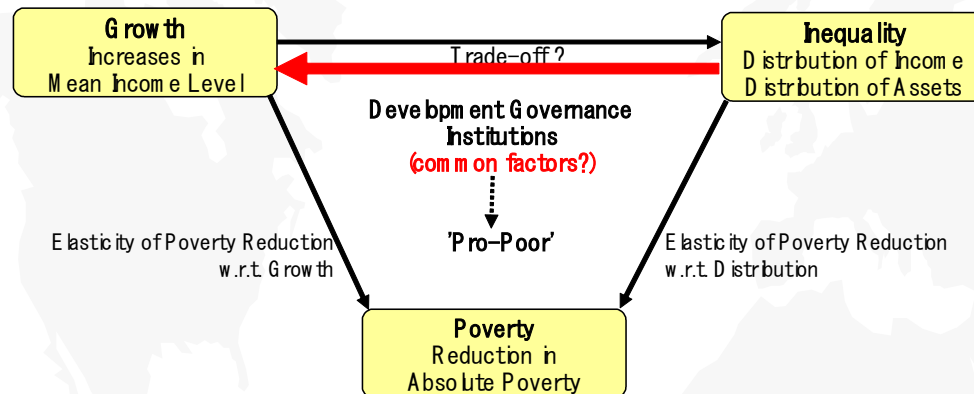
WDR 2006: Equity and Development (2005)

With imperfect markets, inequalities in power and wealth translate into unequal opportunities, leading to wasted productive potential and to an inefficient allocation of resources. (p.7)

Imperfect Capital Markets,   Imperfect Land Markets, Imperfect Markets for Human Capital

Economic and political inequalities are associated with impaired institutional development. (p.8)

The second channel through which inequality affects long-run processes of development is the shaping of economic and political institutions. (p.9)

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.

Revolutions and the Evolution of Economic Systems

(based on Yukio Noguchi, "IT makes small-scale-organization economy advantageous" Nikkei, April 5, 2002)

Private ownership of the means of production

Capitalism

Primitive Market Economy

Industrial Revolution

IT-driven Market Economy

☺ Imperialism

☺ Monopoly Capitalism

IT Revolution

☺ The US economy after the IT revolution

Colonialism

Primitive Economy

Socialist Revolution

Informal Sector

Market-oriented

☺ Industrialized China

Larger-scale-organization oriented

Smaller-scale-organization oriented

Transitional

State Socialism
Development Planning

☺ China under Mao Zedong (Maoist China)

☺ Linux

☺ USSR

Socialism

Utopian Socialism

State ownership of the means of production

The Evolution of Development Paradigm: A Simplified Review

NIE

1989-
Governance

| After WWII 1960s (early 1970s) ISI | → | 1980s SAP | → | End of the 20th C. & Beyond PRSP | ⇢ | New Political Economy of Development ??? |

BHN

-2015
MDGs

Social Capital

Role of Government

1985-
Globalization

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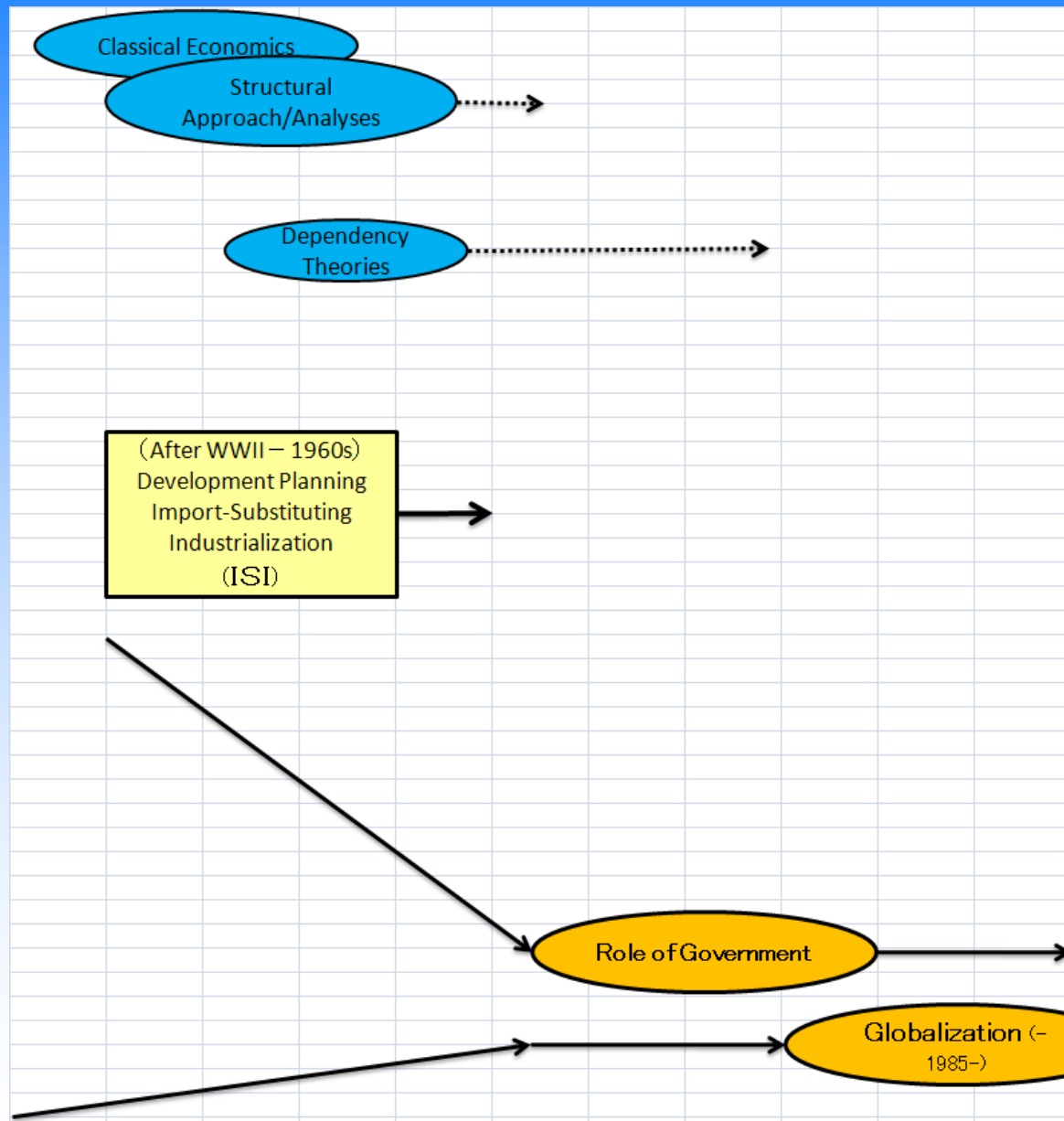| TIME	1940s–1960s	1970s		1980s		1990s		21st Century
	at the end of WWII and after (1944.7–)	early 1970s	1973-74, 1978-80	early 1980s		end of 1980s to 1997	1997 to end 20th C.	
Global Political /Economic System	Breton Woods System (BWS) AND **Advancement of Globalization** at US NH BW representatives from the united nations gathered to build post-war global economic system The 3rd Middle East War (1967.6)	**Collapse of the BWS** 1) Nixon Shock (1971.8.15) 2) Smithsonian System (1971.12) 3) Fixed to Floating Exchange Rate System (1973.2/3)	**1st and 2nd Oil Crises** 1) The 4th Middle-East War OPEC price increase (1973.10.6: $2.8/barrel to $11) 2) Iranian Revolution (end of 1978 – 1979.2 –) OPEC price increases (1979.6: $14.55/barrel to $23.5) (1980; more than $30)	**Reaganomics** (in search of stronger America) w/ the 40th President Reagan (1981.2–) 1) Stronger private/business sector tax rate ↓ → tax revenue ↑ (?) deregulation & money supply control 2) Stronger $ by policies for higher interest 3) Stronger military forces defense exp. ↑ → gov. exp. ↑ → gov. deficits ↑→higher i 4) 2)&3) created trade deficits ↑	**Chaotic Adjustments** 1) Plaza Accord (1985.9) G5 agreed to further devalue $. ¥/$: 240 at 1985.8/9, 200 at 1985.12, 160 at 1986.12) 2) Ruble Agreement (1987.2) $↓ → US inflation↑ → other cos. exports↓, growth↓ → reference range, managed float $ continued to decline. 3) Black Monday (1987.10.19) NY Wall Street ↓ $508 or 22.6% → global markets↓ due to the twin deficits in the US	Rapid Globalization 1) US fiscal consolidation 2) Recovery in Latin American economies 3) Collapse of the Berlin Wall (1989.11). Collapse of the Soviet Union (1991.12) and the birth of transitional economies Marketization and integration to the global economy 4) Gulf War (1991.1–2) 5) Fortress Europe (1992) 6) Rise of Asian Growth Model (*The East Asian Miracle*, 1993) 7) Oslo Accords (1993.9)	**Asian Financial Crisis** 1) The Myth of Asian Miracle? 2) Current Account crisis to Capital Account crisis. 3) Good Governance? 4) National Policy vs. Global Policy	**Uneven and Unstable Process of Globalization?** 1) 9/11 terrorist attacks (2001.9.11) 2) Afghanistan War (that of 2001.10–) 3) Iraq War (that of 2003.3–) 4) **Global Financial Crisis** (2007–) Toward a new Multi-Polar System?
	In order to avoid the beggar-thy-neighbor strategies that led to W.W.II, institutions were developed to 1) finance reconstruction (BRD 1945–) 2) maintain stable exchange rates among key currencies (IMF 1947–), and 3) avoid protectionism (GATT 1948–). Japan: IMF & WB, 1952– GATT, 1955– OECD, 1964–	i) US could not maintain $ value (US$35< = gold 1oz.) and, with depleting stock of gold, stopped $–gold conversion. ii) G10 to devalue $ and fixed exchange rates at new levels. ($1=¥308, 16.88% revaluation) 1972.6 Pound Crisis 1973.2/3 Another $ Crisis iii) Major developed economies floated their currencies. **UN Conference on the Human Environment** (Stockholm, 1972)	i) Oil crises created stagflation (stagnation and inflation) in OECD and other oil importing countries. ii) Created 'Oil Dollar', through 'Euro Dollar' market ($ deposits), were then circulated into developing countries as loans. iii) Emergence of **Resource Nationalism** iv) **New International Economic Order (NIEO)** declaration (UN, 1974) v) **South-South cooperation**	i) The US economy suffered stagflation due to the Oil Crises. ii) Heavy borrowing of Euro Dollar by developing countries, with weaker OECD import demand, higher interest rates, and stronger $, created **Debt Crisis** (1982.8 Mexico –)	i) 1) created a surge in FDI ii) Developing countries suffered BOP problems, Debt Crises. → **Stabilization** → **Structural Adjustments** Revival of **trade liberalization** (mid 1980s on)	i) Yen's appreciation (1992–94) → booming Asian exports, → booming FDI to Asia ii) Mexico's Peso Crisis (1994.12.20–) GATT **Uruguay Round** (1986–94) Establishment of **WTO** (1995.1.1) Surge of **Regional Trade Agreements** (1990–) **UN Conference on Environment and Development** (Rio de Janeiro, 1992.6)	**Kyoto Protocol** (Kyoto: 1997.12)	i) Rising resource prices due to high real demand and influx of speculative money ii) Resurgence of Resource Nationalism and Resources Diplomacy iii) Chaotic global financial market due to the US subprime mortgage crisis **WTO Doha Round** (Development Round) (2001–)
	1st Generation			2nd Generation			2nd to the Next	Next Generation
Development Paradigm	**Development Planning** and **Import Substituting Industrialization (ISI)** Lack of markets, private sector Pervasive market failure **Capital Fundamentalism** Harrod=Domar growth model Structuralism Two-Sector models Dependency Theories (ISI) Prebisch=Singer hypothesis	**Agricultural Modernization** lack of **Human Capital** Solow Growth Accounting/ Growth Model (with exogenous technology)	Toward **Export Oriented Industrialization** ISI produced inefficient SOEs. Expanding BOP deficits **"Getting Prices Right"** Avoiding price distortions	**Resurgence of Neoclassical Economics** **Basic Human Needs (BHN)** approach from the "North" Demand for **New International Economic Order (NIEO)** from the "South" Export-Oriented Industrialization vs. the 2nd Export Pessimism	**Resurgence of Neoclassical Economics** From aggregate (visionary) macro models to technical application of (micro-)economic principles Birth of Development Microeconomics	**Structural Adjustments** **"Getting Policies Right"** Rise of Development Microeconomics Risks, Imperfect Information **Knowledge Capital**	**Development Governance** **"Getting Governance Right"** New Institutional Economics (NIE) New Growth Theories or Endogenous Growth Theories **Globalization** and **New Liberalism** **Human Development** and **Human Security**	Quality of Growth **"Getting Institutions Right"**	Establishing **New Political Economy of Development** Multipolarization and Diversification Fair institutions Fair and equitable incentive structure **Social Capital** and Coordinator's Role of Government
	Farmers/people/the poor in developing countries are poor because XXXXX.							
Reason for Poverty	they are **irrational**	they are rational but **Short of Capital**	of failure in **Excessive Government Policy Intervention**	of **Poor Policies**	of **Imperfect Information**	of lack of **Good Governance**	of lack of **Institutions**	they are not supplied with **Incentives** to get out of poverty in a fair and equitable manner

Source: Prof. Shigeru T. Otsubo, I2ID Book Chapter 1; Table 1-3

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The Evolution of a Development Paradigm
(Figure 1-1 & Table 1-3 in Chapter 1)

Classical Economics

Structural Approach/Analyses

Resurgence of Neo-Classical Economics

Development Microeconomics

New Institutional Economics (NIE)

Dependency Theories

Neo-Classical Growth Theories

New (Endogenous) Growth Theories

（After WWII － 1960s)
Development Planning
Import-Substituting Industrialization
(ISI)

（1970s－）
Export-Oriented Industrialization
(EOI)

（1980s)
Structural Adjustment Program (SAP)

（1990s)
Good Governance

（late 1990s －）
Poverty Reduction Strategy Paper (PRSP)

（21st Century)
New Political Economy of Development

Human Development
(HDI)

Basic Human Needs
（BHN)

MDGs （－2015)

New Intn'l Economic Order
（NIEO)

Social Capital

Role of Government

Globalization
（－1985－)

The Evolution: 1940s to 1960s

Classical Economics

Structural Approach/Analyses

Dependency Theories

(After WWII − 1960s)
Development Planning
Import-Substituting
Industrialization
(ISI)

Role of Government

Globalization (−1985−)
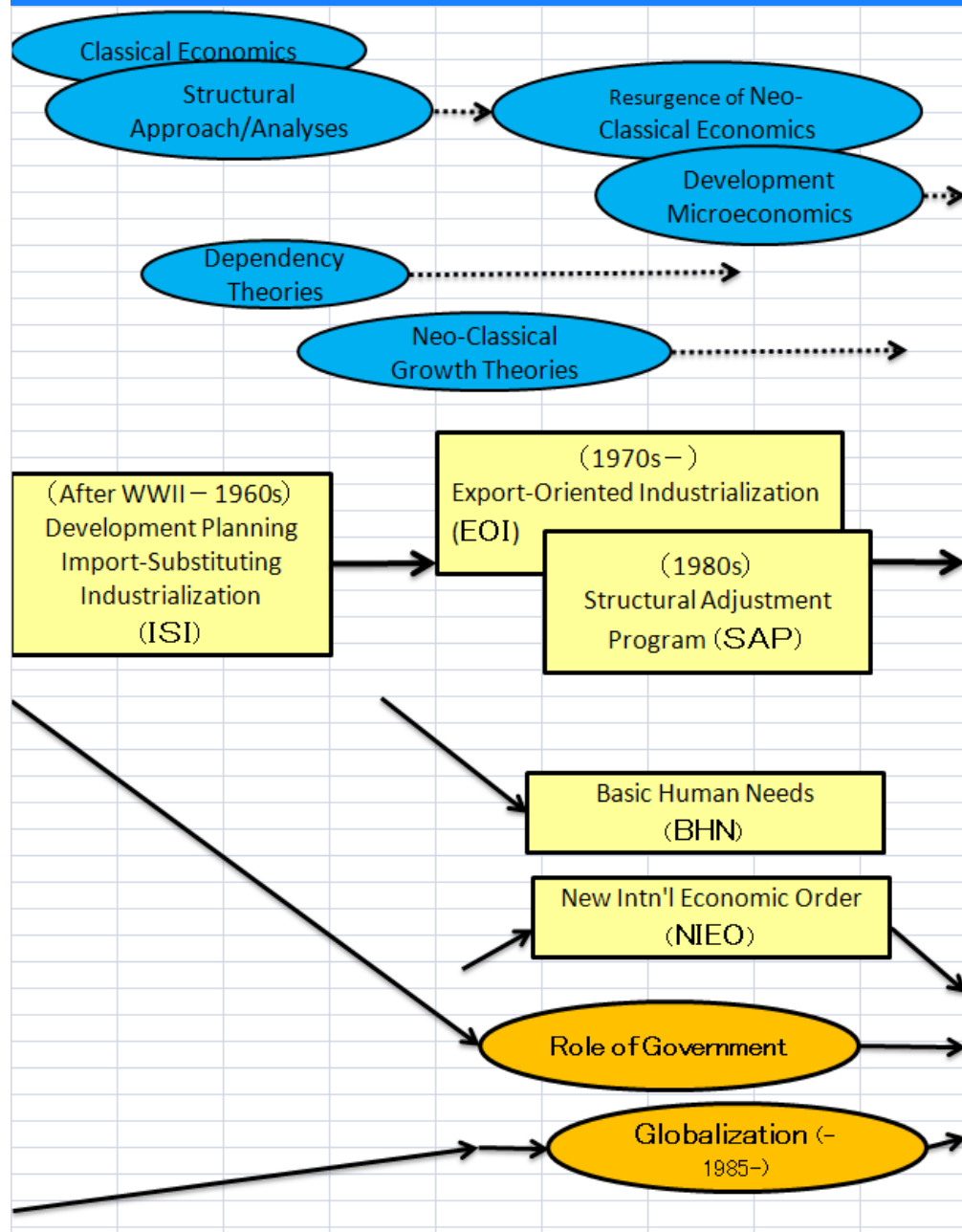
TIME	1940s–1960s	
	at the end of WWII and after (1944.7−)	
Global Political /Economic System	**Breton Woods System (BWS)** and **Advancement of Globalization** at US NH BW representatives from the United Nations gathered to build post-war global economic system	
	In order to avoid the beggar-thy-neighbor strategies that led to W.W.II, 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−).	
	1st Generation	
Development Paradigm	**Development Planning** and **Import Substituting Industrialization (ISI)** Lack of markets, private sector Pervasive market failure **Capital Fundamentalism** Harrod=Domar growth model Structuralism Two-Sector models Dependency Theories (ISI) Prebisch=Singer hypothesis	**Agricultural Modernization** lack of **Human Capital** Solow Growth Accounting/ Growth Model (with exogenous technology)
	Why the poor is poor? Because ⋯	
Reason for Poverty	they are **irrational**	they are rational but **Short of Capital**

The Evolution: 1970s

Left diagram (flow)

- Classical Economics
- Structural Approach/Analyses →
- Dependency Theories →
- Neo-Classical Growth Theories →

（After WWII − 1960s）
Development Planning
Import-Substituting Industrialization
（ISI）
→
（1970s−）
Export-Oriented Industrialization
（EOI）
→

- Basic Human Needs （BHN） →
- New Intn'l Economic Order （NIEO） →
- Role of Government →
- Globalization （− 1985−）

Table

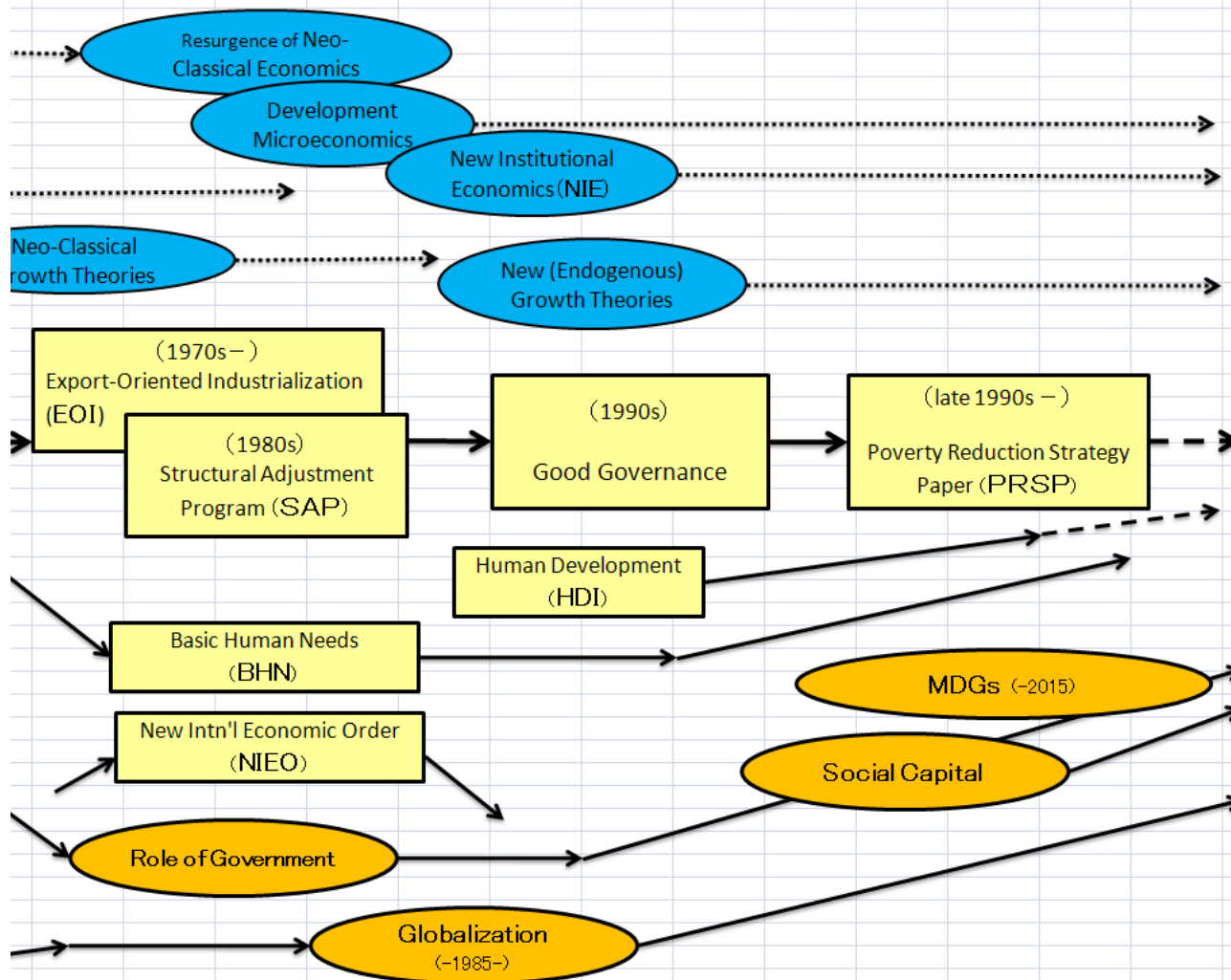| TIME	1970s	
	early 1970s	1973−74, 1978−80
Global Political /Economic System	Collapse of the BWS 1) Nixon Shock (1971.8.15) 2) Smithsonian System (1971.12) 3) Fixed to Floating Exchange Rate System (1973.2/3)	1st and 2nd Oil Crises 1) The 4th Middle−East War OPEC price increase (1973.10.6; $2.8/barrel to $11) 2) Iranian Revolution (end of 1978 − 1979.2 −) OPEC price increases
	i) US could not maintain $ value (US$35< = gold 1oz.) and, with depleting stock of gold, stopped $−gold conversion. ii) G10 to devalue $ and fixed exchange rates at new levels. ($1=¥308, 16.88% revaluation) 1972.6 Pound Crisis 1973.2/3 Another $ Crisis iii) Major developed economies floated their currencies. **UN Conference on the Human Environment** (Stockholm, 1972)	i) Oil crises created stagflation (stagnation and inflation) in OECD and other oil importing countries. ii) Created '**Oil Dollar**', through 'Euro Dollar' market ($ deposits), were then circulated into developing countries as loans. iii) Emergence of **Resource Nationalism** iv) **New International Economic Order (NIEO)** declaration (UN, 1974) v) **South−South cooperation** Rising **Protectionism**
	2nd Generation	
Development Paradigm	Toward **Export Oriented Industrialization** ISI produced inefficient SOEs. Expanding BOP deficits "**Getting Prices Right**" Avoiding price distortions	Resurgence of **Neoclassical Economics** **Basic Human Needs (BHN)** approach from the "North" Demand for **New International Economic Order (NIEO)** from the "South" Export−Oriented Industrialization vs. the 2nd Export Pessimism
Reason for Poverty	Why the poor is poor? Because ⋯	
	of failure in **Excessive Government Policy Intervention**	

The Evolution: 1980s

Diagram (left side)

- Classical Economics
- Structural Approach/Analyses → Resurgence of Neo-Classical Economics
- Development Microeconomics
- Dependency Theories
- Neo-Classical Growth Theories

- (After WWII − 1960s) Development Planning Import-Substituting Industrialization (ISI) → (1970s−) Export-Oriented Industrialization (EOI) → (1980s) Structural Adjustment Program (SAP)

- Basic Human Needs (BHN)
- New Intn'l Economic Order (NIEO)
- Role of Government
- Globalization (− 1985−)

Table (right side)

TIME	1980s	
	early 1980s	mid 1980s on

Global Political /Economic System	**Reaganomics**
	
	(in search of stronger America) w/ the 40th President Reagan (1981.2−)
	
	1) Stronger private/business sector
	  tax rate ↓ → tax revenue ↑ (?)
	  deregulation & money supply control
	
	2) Stronger $ by policies for higher interest
	
	3) Stronger military forces
	  defense exp. ↑ → gov. exp. ↑
	  → gov. deficits ↑ → higher i
	
	4) 2)&3) created trade deficits ↑
		Chaotic Adjustments
		
		1) Plaza Accord (1985.9)
		  G5 agreed to further devalue $.
		  (¥/$: 240 at 1985.8/9,
		   200 at 1985.12, 160 at 1986.12)
		
		2) Ruble Agreement (1987.2)
		  $↓ → US inflation↑
		  → other cos. exports↓, growth↓
		  → reference range, managed float
		$ continued to decline.
		
		3) Black Monday (1987.10.19)
		NY Wall Street ↓ $508 or 22.6%
		→ global markets↓
		due to the twin deficits in the US

	i) The US economy suffered stagflation due to the Oil Crises. ii) Heavy borrowing of Euro Dollar by developing countries, with weaker OECD import demand, higher interest rates, and stronger $, created **Debt Crisis**. (1982.8 Mexico −)	i) 1) created a surge in FDI. ii) Developing countries suffered BOP problems, Debt Crises. → **Stabilization** → **Structural Adjustments** Revival of **trade liberalization** (mid 1980s on)
Development Paradigm	2nd Generation	
	Resurgence of Neoclassical Economics From aggregate (visionary) macro models to technical application of (micro−)economic principles Birth of Development Microeconomics	**Structural Adjustments** "Getting Policies Right" Rise of Development Microeconomics Risks, Imperfect Information Knowledge Capital
Reason for Poverty	2nd Generation	
	of **Poor Policies**	of **Imperfect Information**

The Evolution: 1990s

Resurgence of Neo-Classical Economics

Development Microeconomics

New Institutional Economics (NIE)

Neo-Classical Growth Theories

New (Endogenous) Growth Theories

（1970s－）
Export-Oriented Industrialization (EOI)

（1980s）
Structural Adjustment Program (SAP)

（1990s）
Good Governance

（late 1990s －）
Poverty Reduction Strategy Paper (PRSP)

Human Development (HDI)

Basic Human Needs (BHN)

New Intn'l Economic Order (NIEO)

MDGs （-2015）

Social Capital

Role of Government

Globalization
（-1985-）

TIME	1990s	
	end of 1980s to 1997	1997 to end 20th C.
Global Political /Economic System	Rapid Globalization 1) US fiscal consolidation 2) Recovery in Latin American economies 3) Collapse of the Berlin Wall (1989.11). Collapse of the Soviet Union (1991.12) and the birth of transitional economies Marketization and integration to the global economy 4) Gulf War (1991.1-2) 5) Fortress Europe (1992) 6) Rise of Asian Growth Model (*The East Asian Miracle*, 1993)	**Asian Financial Crisis** 1) The Myth of Asian Miracle? 2) Current Account crisis to Capital Account crisis. 3) Good Governance? 4) National Policy vs. Global Policy
	i) Yen's appreciation (1992-94) → booming Asian exports, → booming FDI to Asia ii) Mexico's Peso Crisis (1994.12.20-) GATT **Uruguay Round** (1986-94) Establishment of **WTO** (1995.1.1) Surge of **Regional Trade Agreements** (1990-) **UN Conference on Environment and Development** (Rio de Janeiro,	**Kyoto Protocol** (Kyoto; 1997.12)
		2nd to the Next
Development Paradigm	Development Governance "Getting Governance Right" New Institutional Economics (NIE) New Growth Theories or Endogenous Growth Theories Globalization and New Liberalism Human Development and Human Security	Quality of Growth "Getting Institutions Right"
	Why the poor is poor? Because ⋯	
Reason for Poverty	of lack of **Good Governance**	of lack of **Institutions**

The Evolution: into the 21st Century

Diagram (left side):

- ...ce of Neo-Economics
- Development Microeconomics
- New Institutional Economics (NIE)
- New (Endogenous) Growth Theories
- ...strialization
- ...980s) ...Adjustment ...n (SAP)
- (1990s) Good Governance
- (late 1990s −) Poverty Reduction Strategy Paper (PRSP)
- (21st Century) New Political Economy of Development
- Human Development (HDI)
- ...man Needs ...HN)
- ...conomic Order ...IEO)
- ...ernment
- MDGs (−2015)
- Social Capital
- Globalization (− 1985−)

Table (right side):

TIME	21st Century
Global Political /Economic System	**Uneven and Unstable Process of Globalization?** 1) 9/11 terrorist attacks （2001.9.11） 2) Afghanistan War （that of 2001.10−） i) Rising resource prices due to high real demand and influx of speculative money ii) Resurgence of Resource Nationalism and Resources Diplomacy ii) Chaotic global financial market due to the US subprime mortgage crisis **WTO Doha Round** （Development Round） （2001 −）
	Next Generation
Development Paradigm	Establishing **New Political Economy of Development** Multipolarization and Diversification Fair institutions Fair and equitable incentive structure **Social Capital** and Coordinator's Role of Government
	Why the poor is poor? Because …
Reason for Poverty	they are not supplied with **Incentives** to get out of poverty in a fair and equitable manner

5. Issues of Major Concern …

Industrialization in the 21st C.
Premature De-Industrialization among Developing Countries.

Share of employment in industry vs. GDP per capita
late 80s, late 90s, late 00s

| 1987-1990 | 1997-2000 | 2007-2010 |
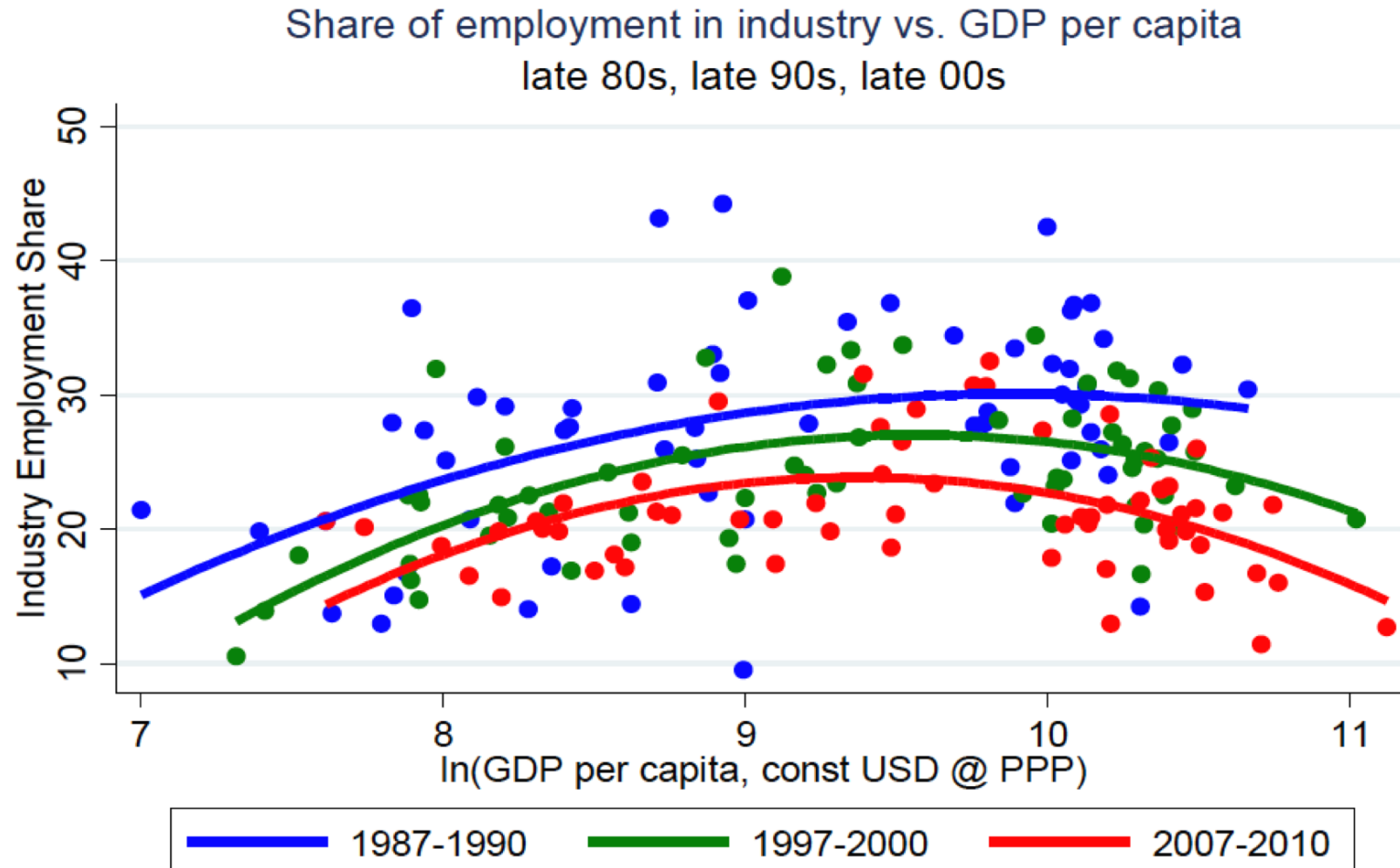
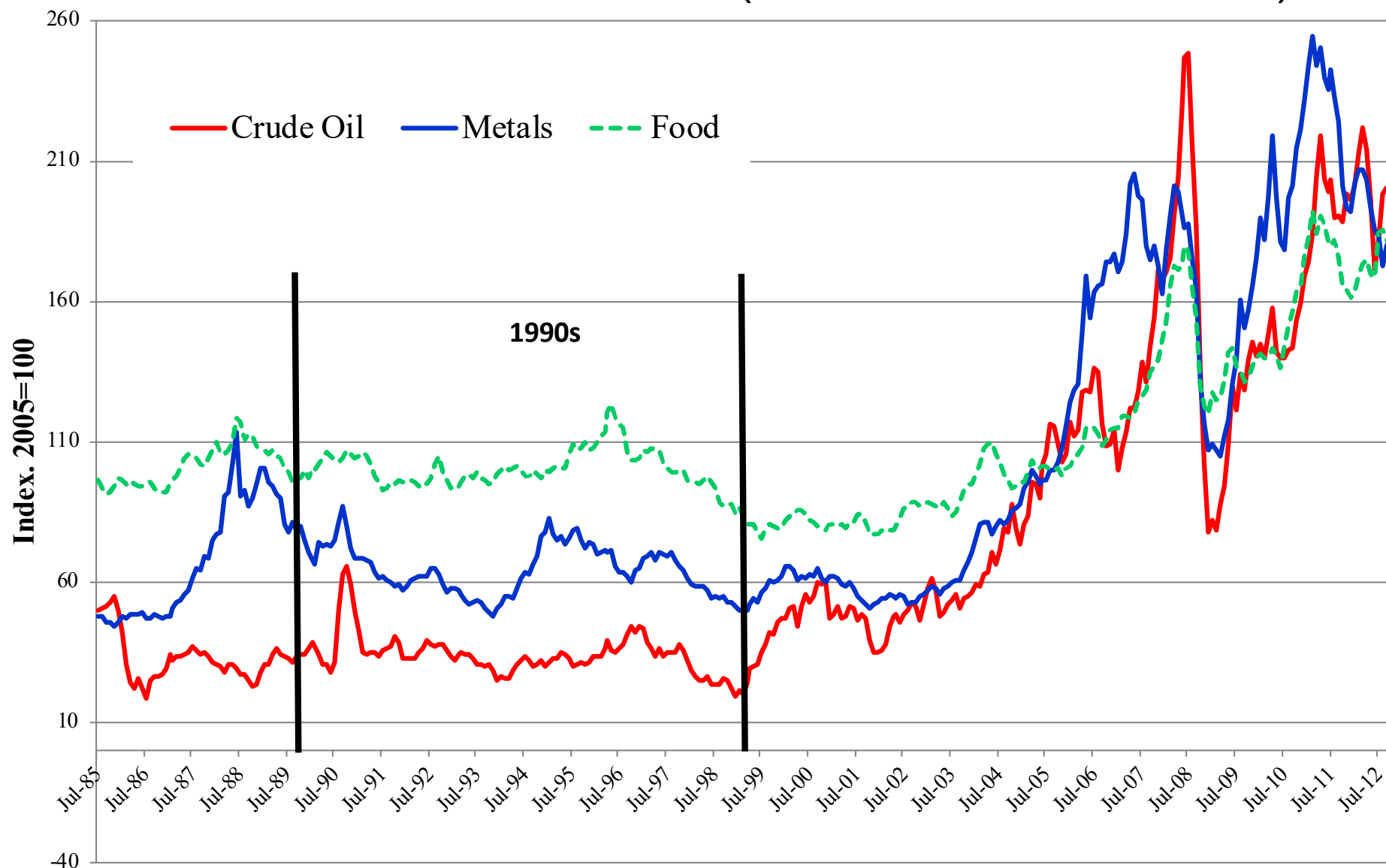FIGURE 1.2   Share of employment in industry vs. GDP per capita

Source: Ghani, E. & O'Connell, S. D. (2014, 12, Figure 7).

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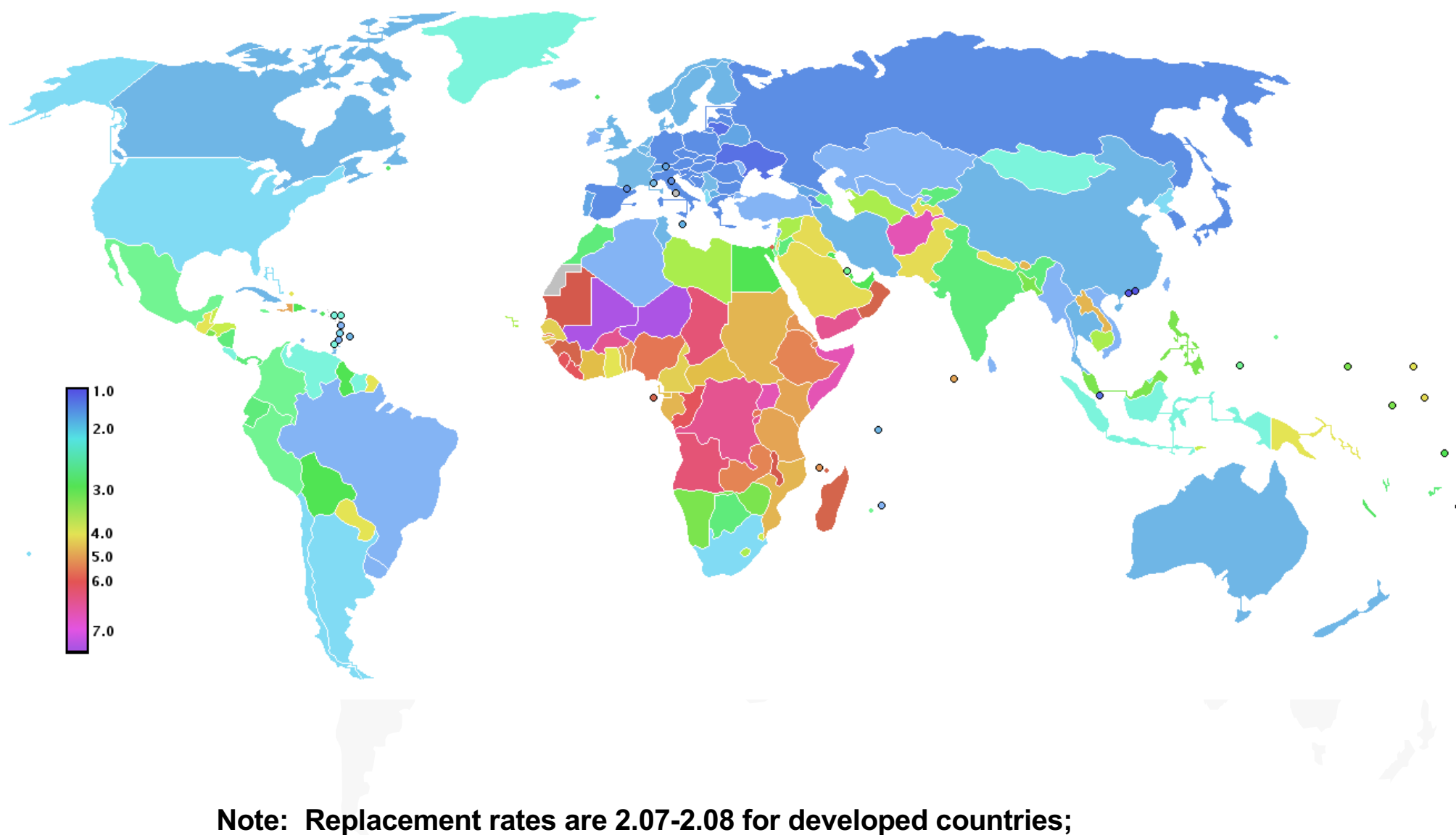Price indices for selected energy and commodity products
1985-2000
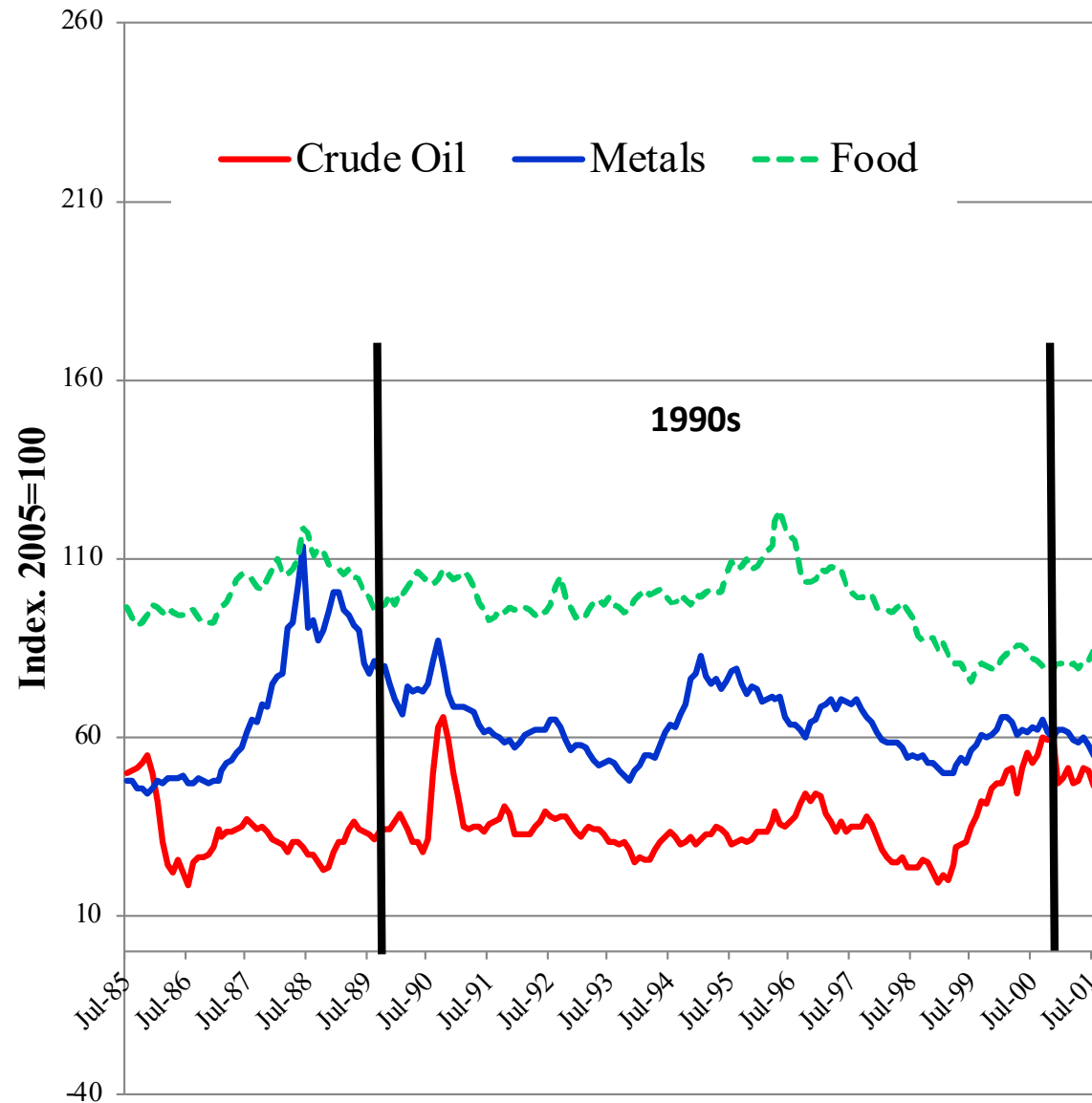
Source: www.indexmundi.com/commodities

Price indices for selected energy and commodity products 1985-2000-2012 (in fact, 1998/1999 on…)

Source: www.indexmundi.com/commodities

World Total Fertility Rate Map (2006)

Note: Replacement rates are 2.07-2.08 for developed countries;
2.5-3.3 for developing countries.
Source: http://en.wikipedia.org/wiki/Image:Fertility_rate_world_map_2.png

By 2020, growth in world's working-age population will be exclusively determined by developing countries
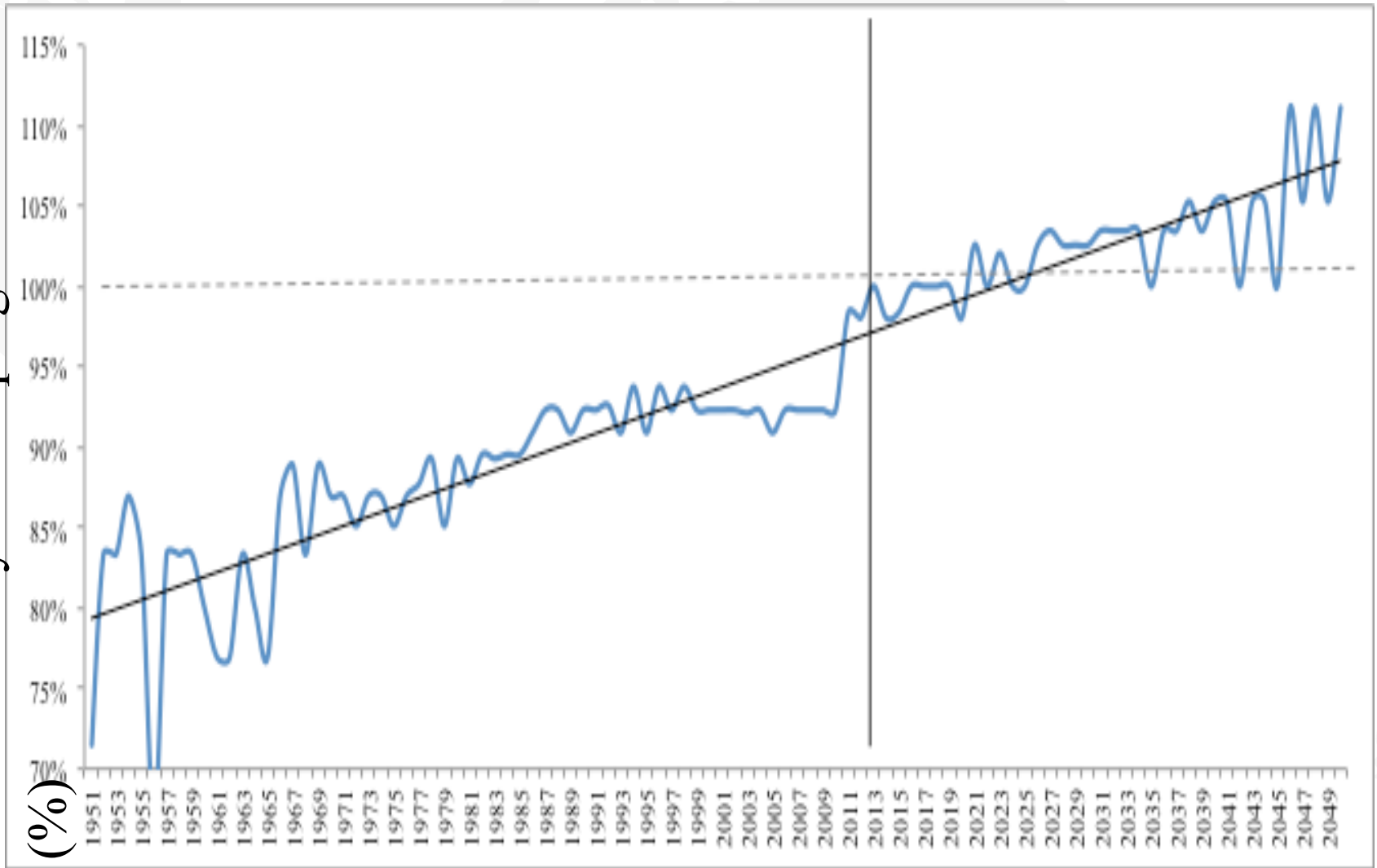
Source: World Bank (2013) Global Development Horizons "Capital for the Future"

Saving rates will decline more slowly in developing countries…
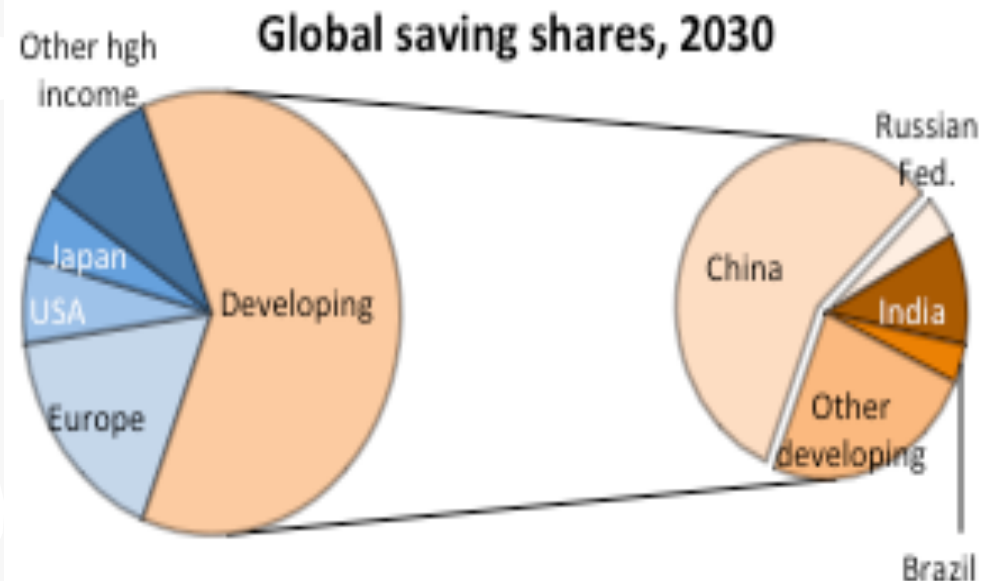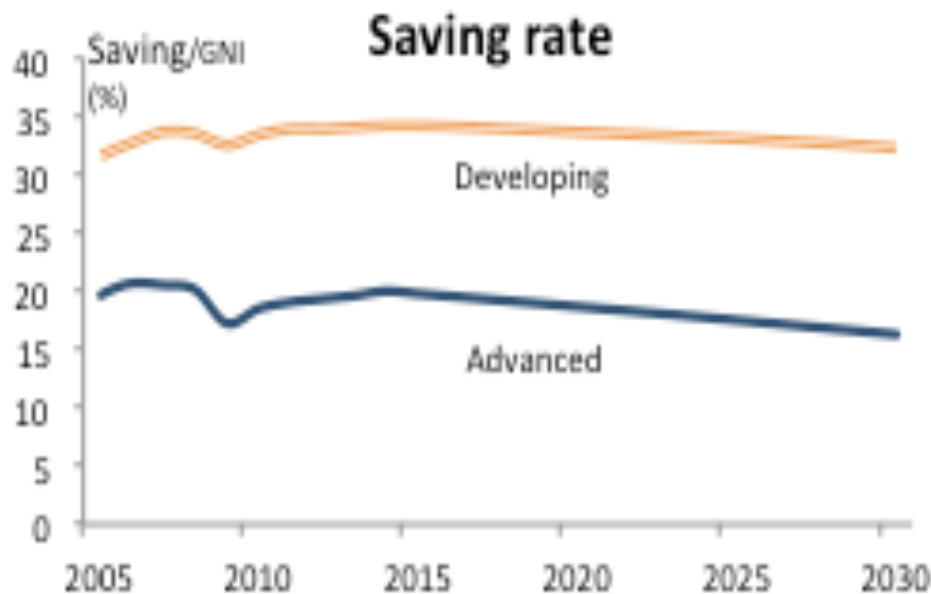
Source: World Bank (2013) Global Development Horizons "Capital for the Future"

By 2030, those countries will account for two-thirds of global savings…

Developing countries have accounted for a growing share of global savings since around 2000…

National Saving as share of global income (GNI)
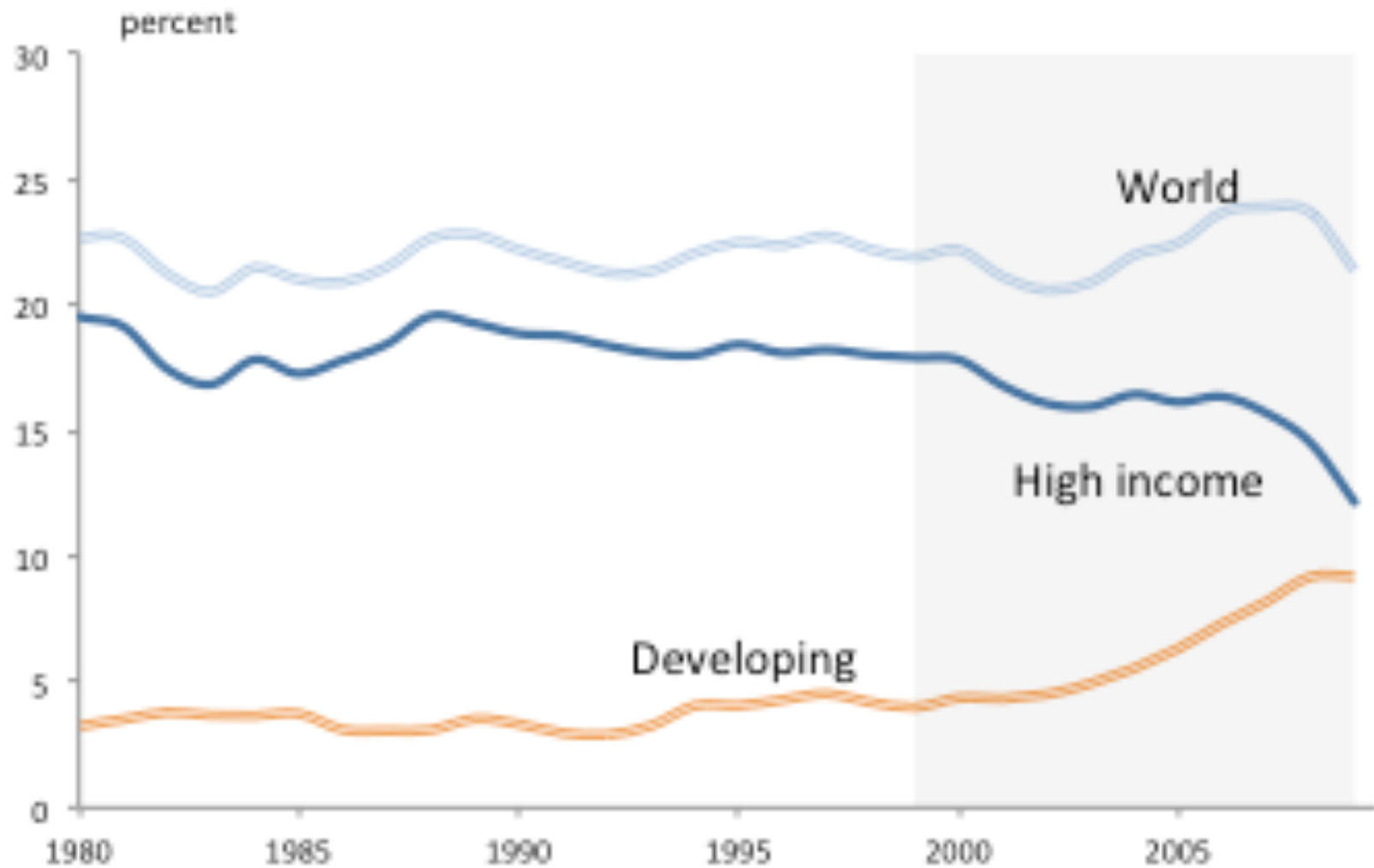
percent

- 30
- 25 — World
- 20 — High income
- 15
- 10
- 5 — Developing
- 0

1980 1985 1990 1995 2000 2005
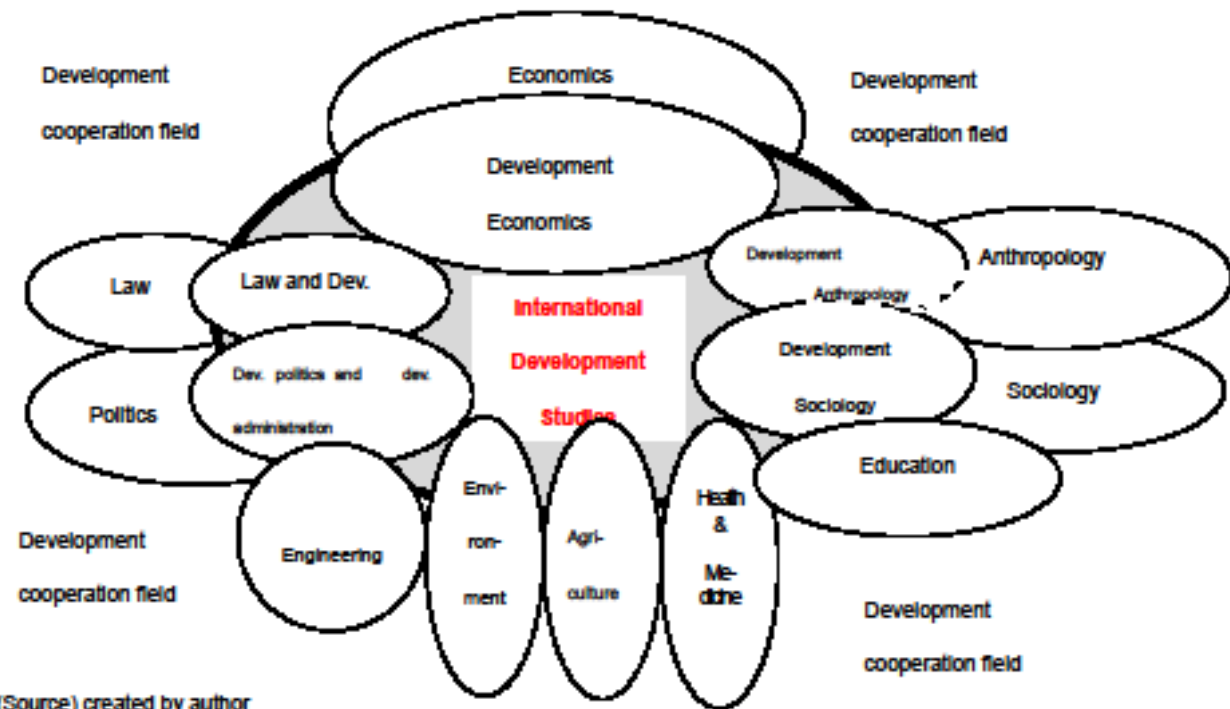
6. Association with Other Subject Areas

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

Building 'Interdisciplinary' and 'Active' International Development Studies

Figure 0-1   Relationship of the interdisciplinary international development studies and other related academic fields

(Source) created by author

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

Factors for Higher Income Growth & Catch-Up?

Dependent Variable	Period-Average Growth Rate of Mean Real Per-Capita Income	
Explanatory Variables		
	Estimated Coefficients	Standard Error
Conditional Income Convergence		
(1) Initial level of income (in log)	−0.0254	0.0031
Initial Human Capital		
(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
Population Pressure		
(5) Fertility rate (in log)	−0.0161	0.0053
Governance · Institutions		
(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
Other Control Variables		
(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.

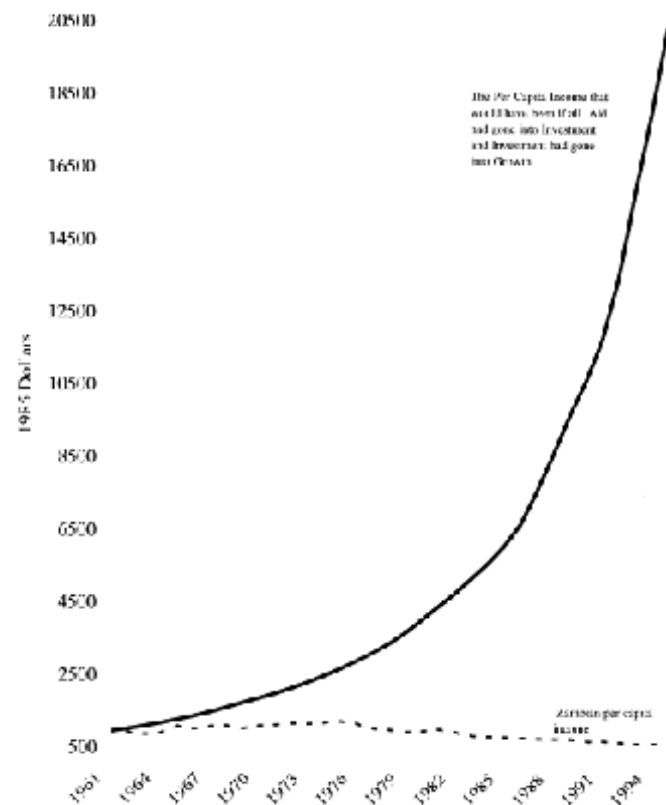**If all Aid had gone into productive investment ....**

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 (RMSM) 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

Figure 1-5
Per Capita Income and Human

X-axis ： pc real GDP （ppp $1,000)
　　　（deviation from Middle Income mean：$6,649）
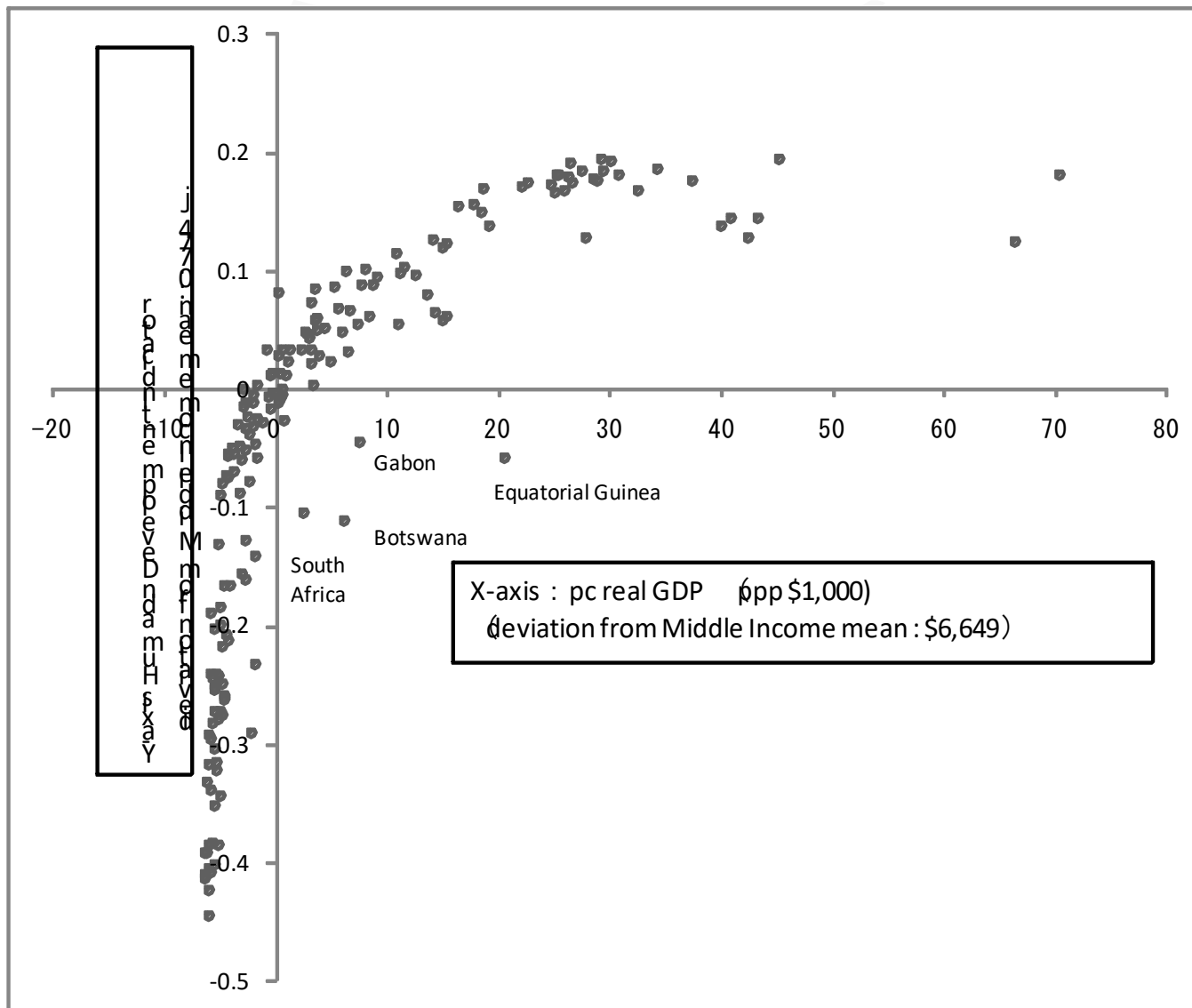
Note: Horizontal axis: per capita income levels in the year 2006 (in 2005-based PPP$) shown in deviations from the mean income of Middle-Income countries（ppp$6,649）.
Vertical axis: human development indicators in the year 2006 shown in deviations from the mean value of the Middle-Income countries (0.774).
Source: Author's own compilation using the original data set on the Human Development Data Site of the United Nations Development Program (UNDP）< http://hdr.undp.org/en/statistics/data/>.

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.

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'.

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.

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'.

"Poverty never sleeps…..

Thank you …...