

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)

Prof. Shigeru T. OTSUBO
GSID, Nagoya University
April 2020

1 

1

1. "Economic Development" in "Development"

For "Poverty" Reduction.....

2 

2



SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

3

3

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

4

4

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

5

5

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

6

6

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

7

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 ethnic minority...

Photos: © Shigeru T. Otsubo

8

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

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

Photos: © Shigeru T. Otsubo

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)

Dynamic Indonesia has regained the leadership in ASEAN

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

Photos: © Shigeru T. Otsubo

World Bank, March 2016

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)



13

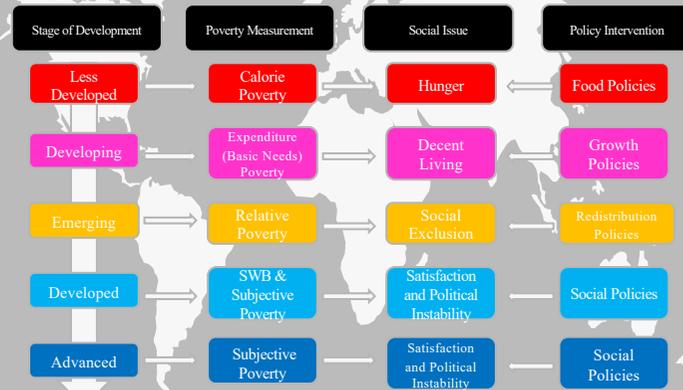
Major Shifts from MDGs to SDGs

- ◆ 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**

14

14

III.3 Poverty Indicator, Social Issue and Policy Intervention



15

15

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.

16

16

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.

17

17

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)

18

18

P-G-I Triangle

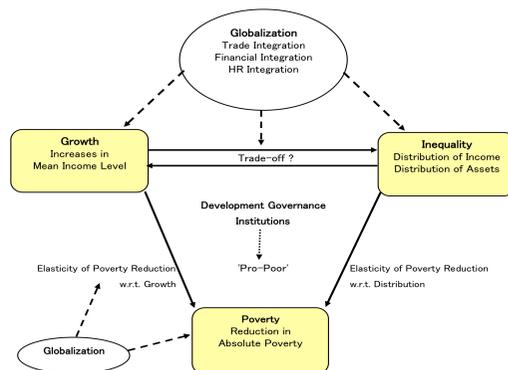


FIGURE 1.2 Poverty-Growth-Inequality Triangle under Globalization
Source: Authors' construction.

19

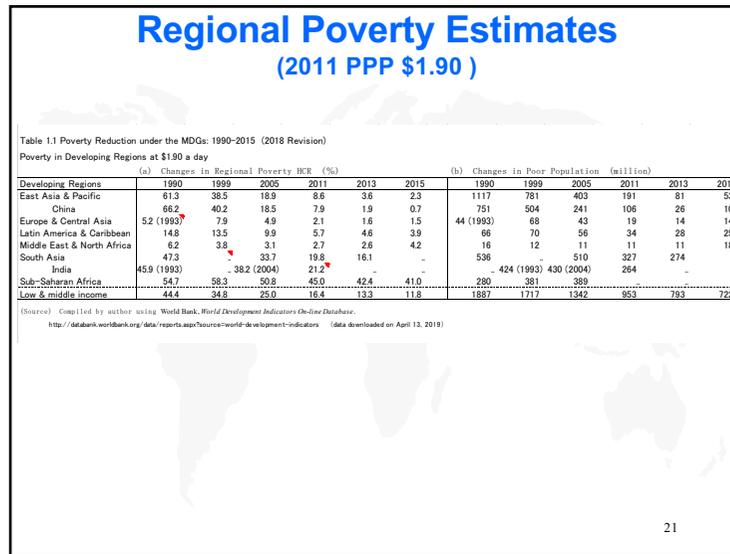
19

2. The State of the World

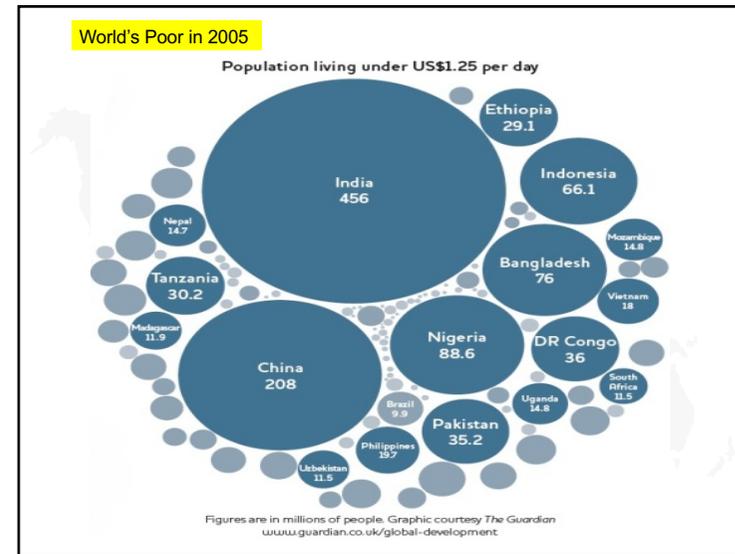
Economic Growth
(Changes in per capita Income)
(Changes in Income Disparity)

20

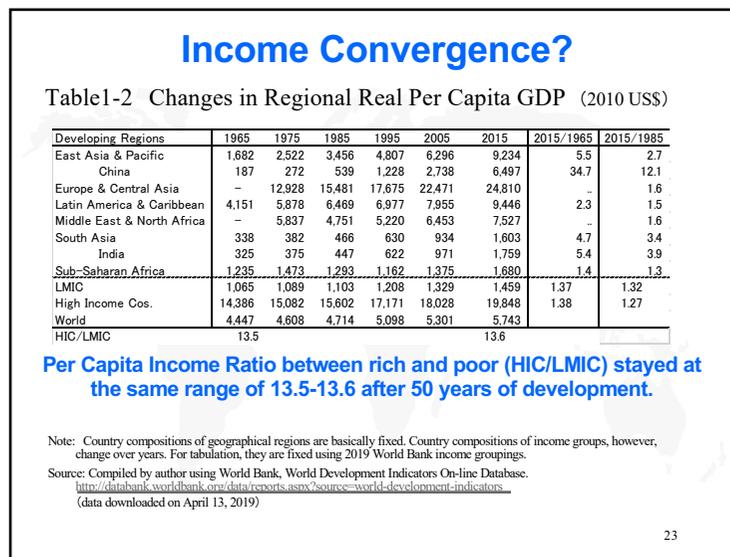
20



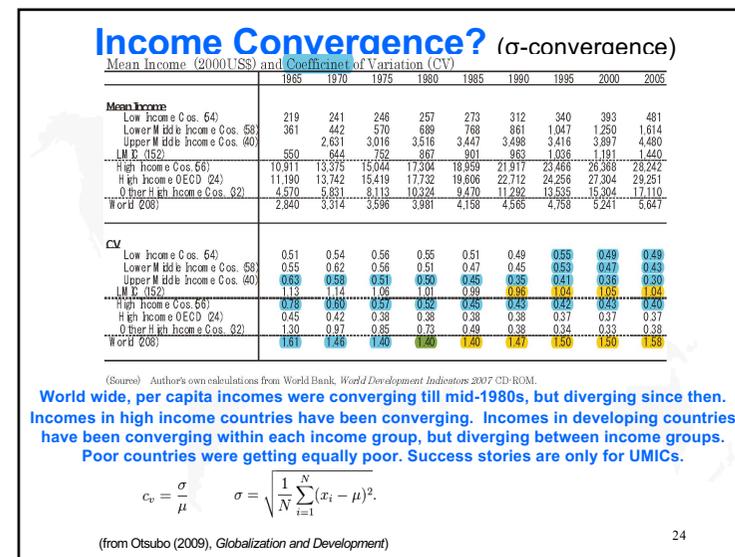
21



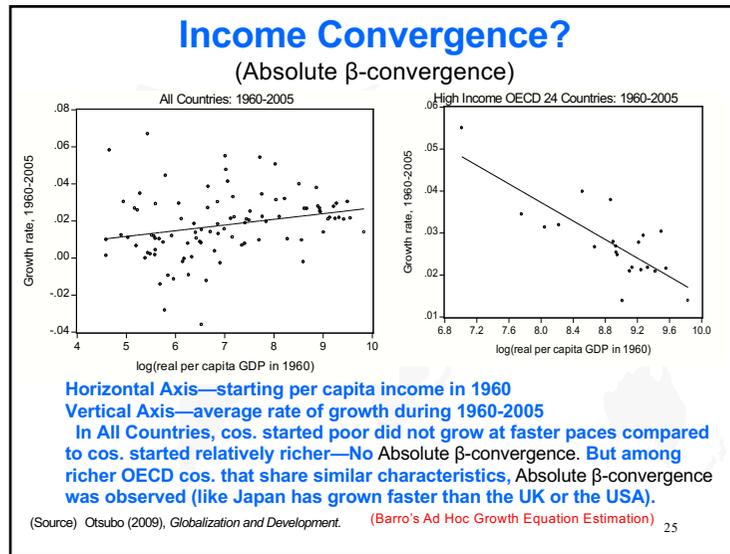
22



23



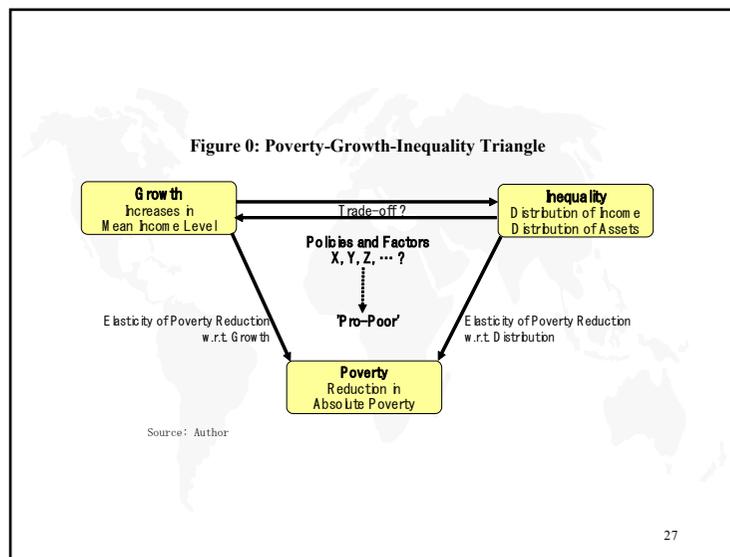
24



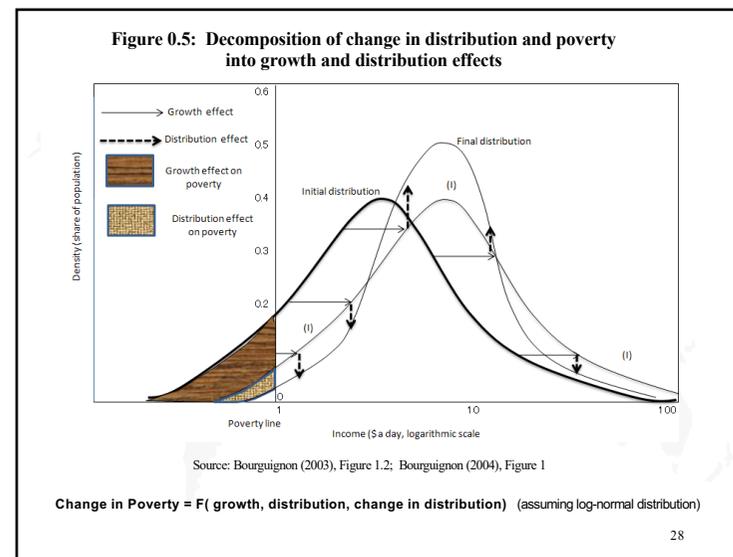
25



26



27



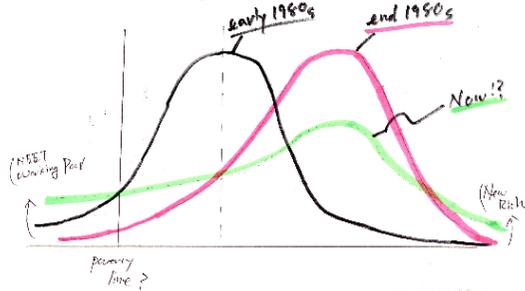
28

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

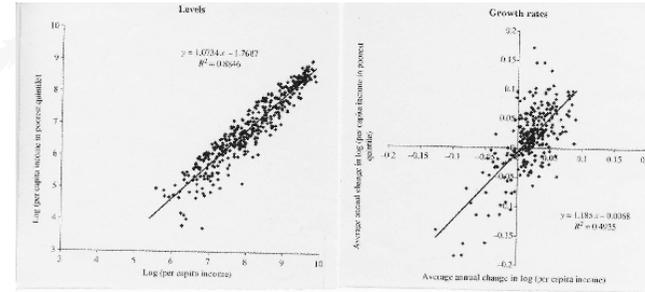
	1981	2005	Change
Gini Index before Redistribution (当初所得)	0.3491	0.5263	1.51
Gini Index after Redistribution (再分配前後)	0.3143	0.3873	1.23

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)

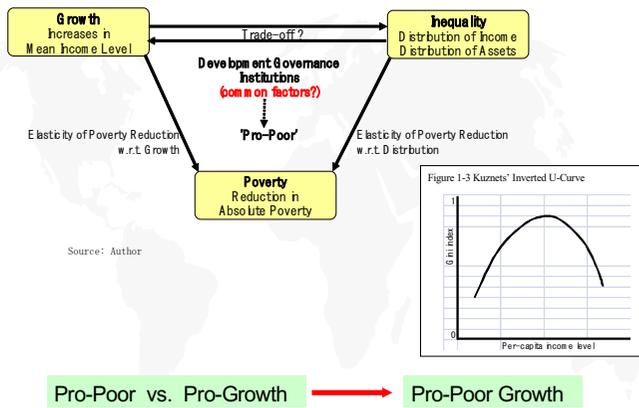


Both in terms of the levels of income (left Figure) or in terms of the growth rates of income (right Figure), the relationships between average per capita income of a country (X-axis) and that for the poorest 20% of the country's population (Y-axis) are one to one, ON AVERAGE. Thus, "Growth is good for the poor."

But most of the country are not on the 45-degree line.

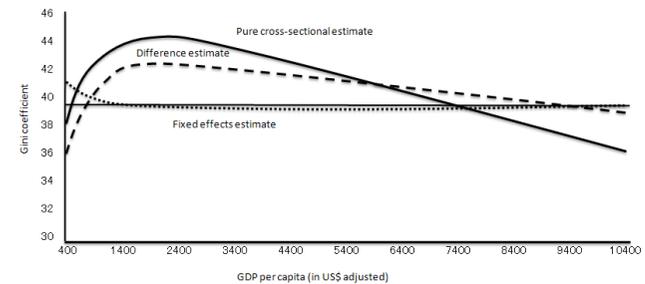
Source: Dollar and Kraay (2007), Figure 1

Figure 1: Poverty-Growth-Inequality Triangle

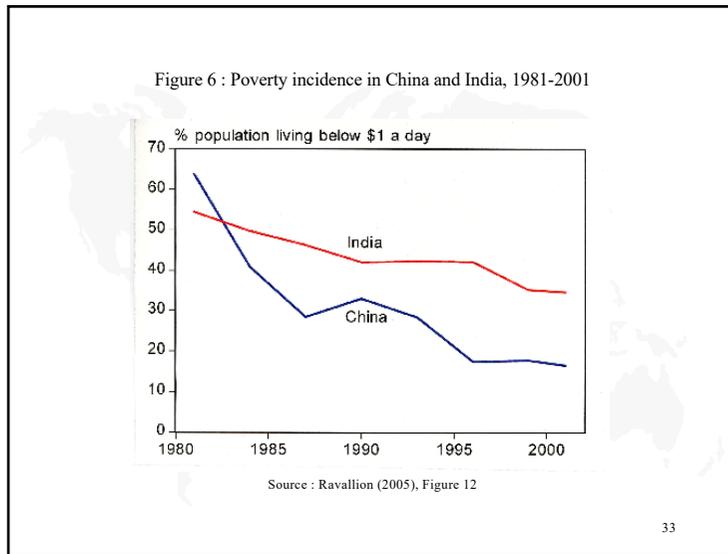


Source: Author

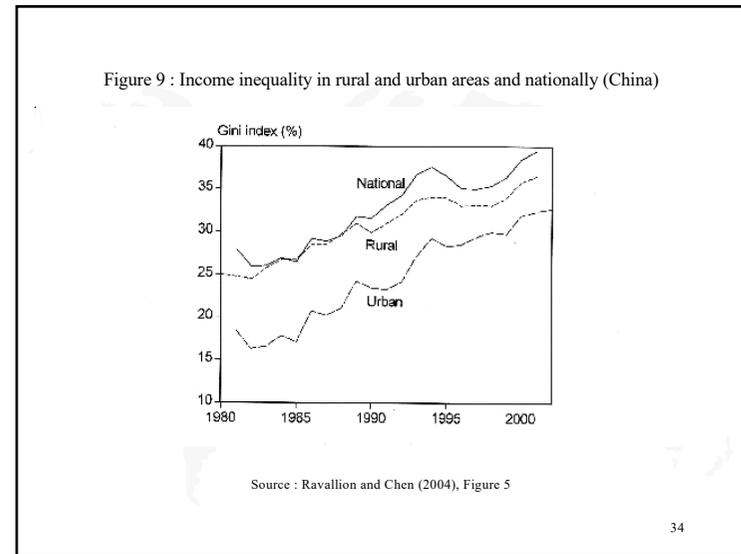
Figure 3: Cross-country estimates of the Kuznets curve



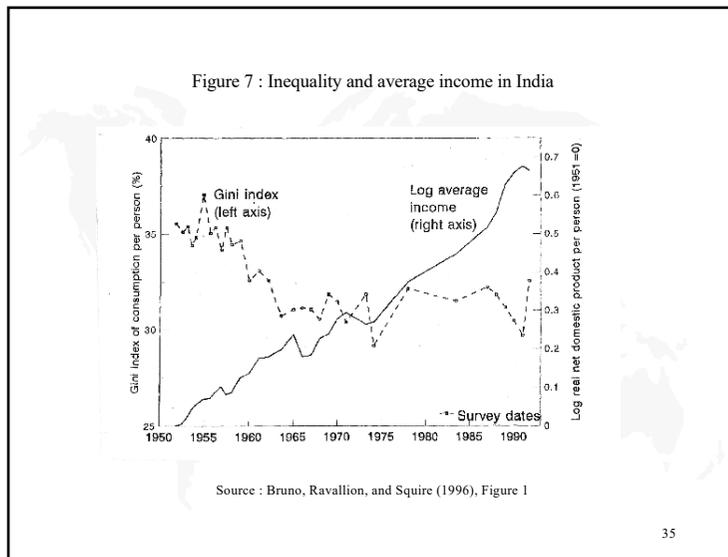
Source: Bourguignon 2004, Figure 5



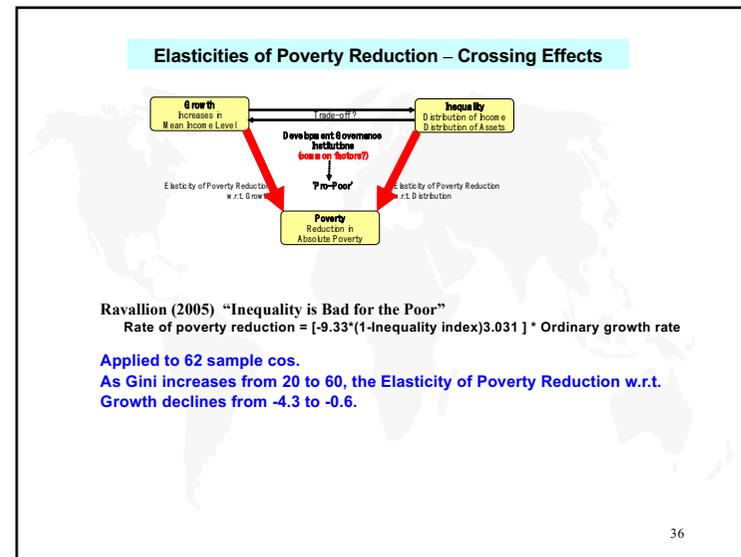
33



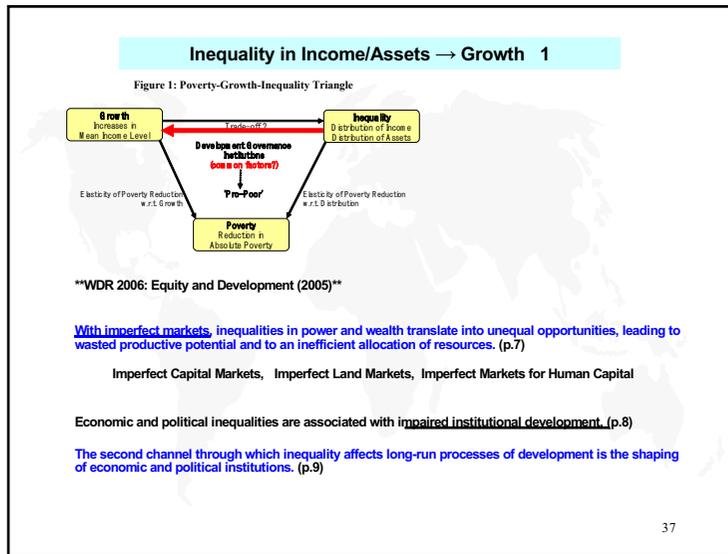
34



35



36



37

4. Evolution of Development Paradigms.....

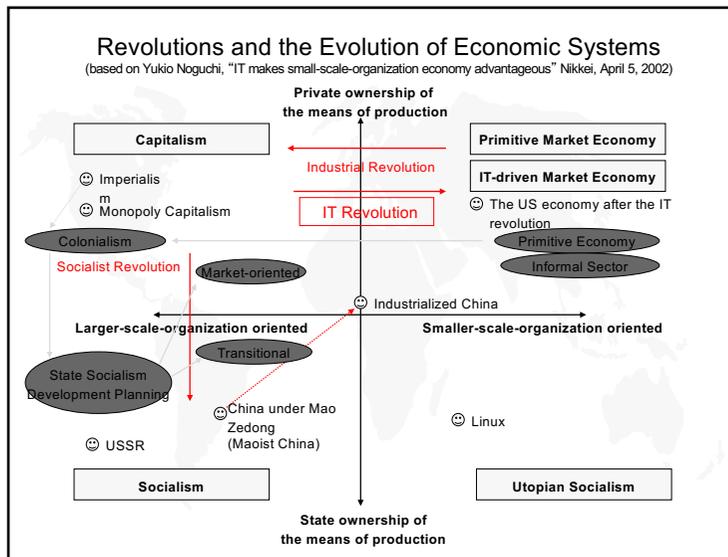
Economists' Reasons for Poverty

(Refer to the A3 Table Distributed)

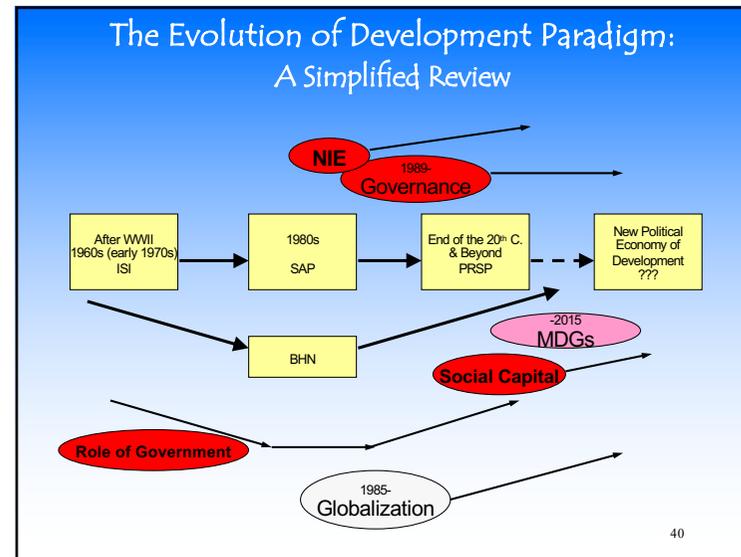
In 2020, this Table is also downloadable from the designated cite.

38

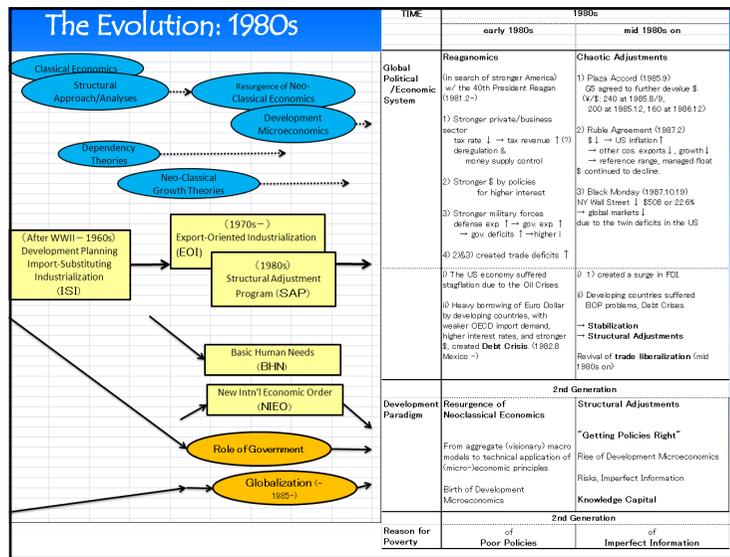
38



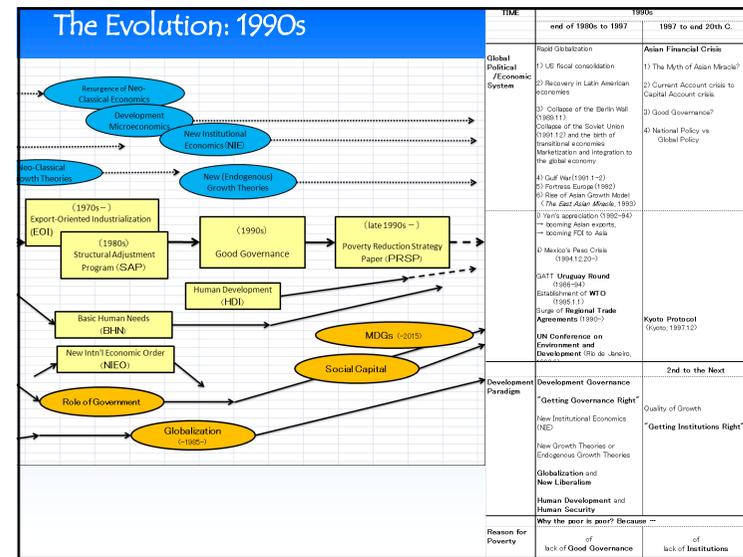
39



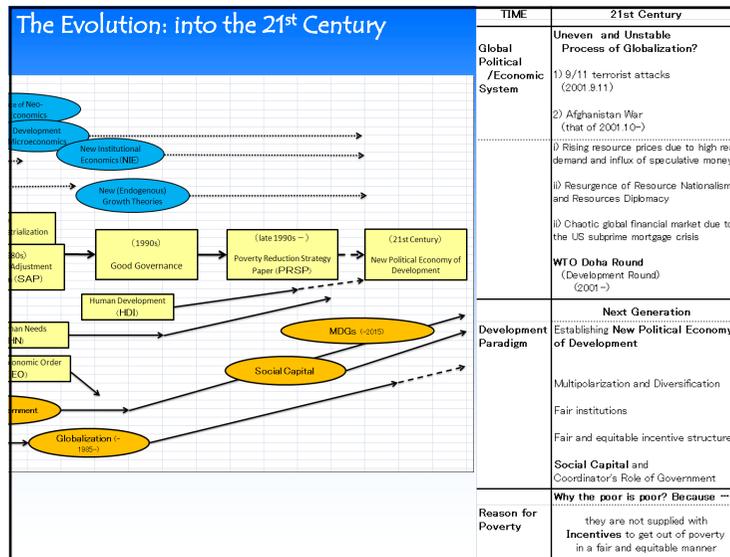
40



45



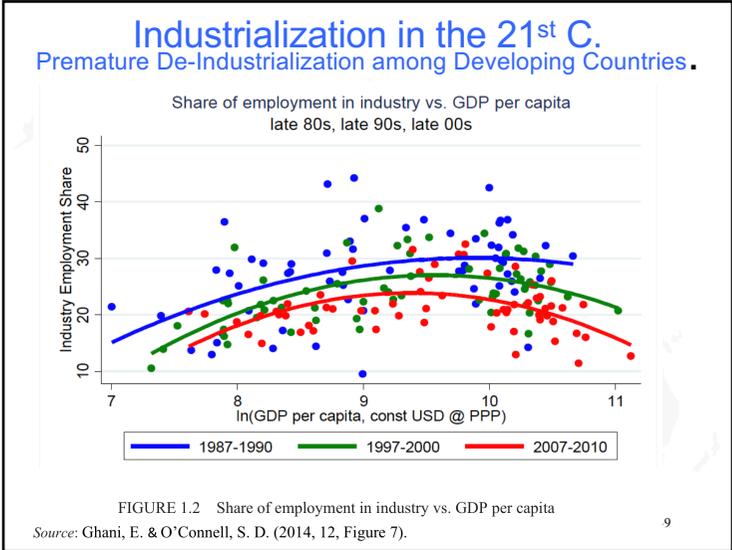
46



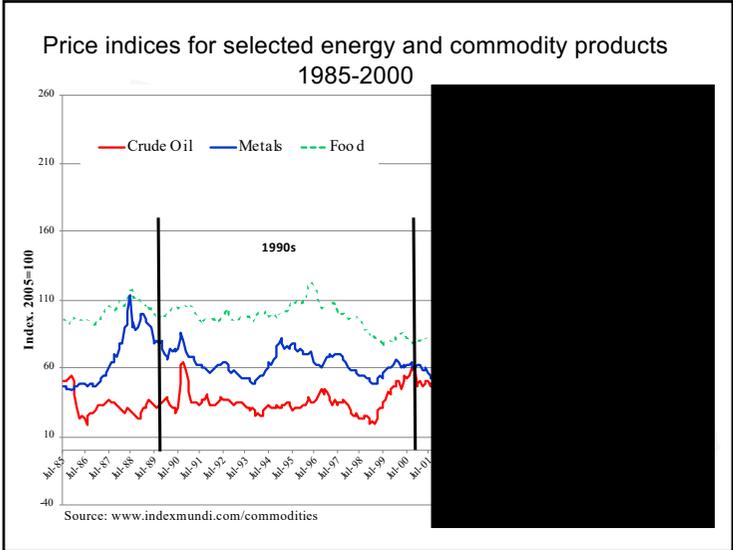
47



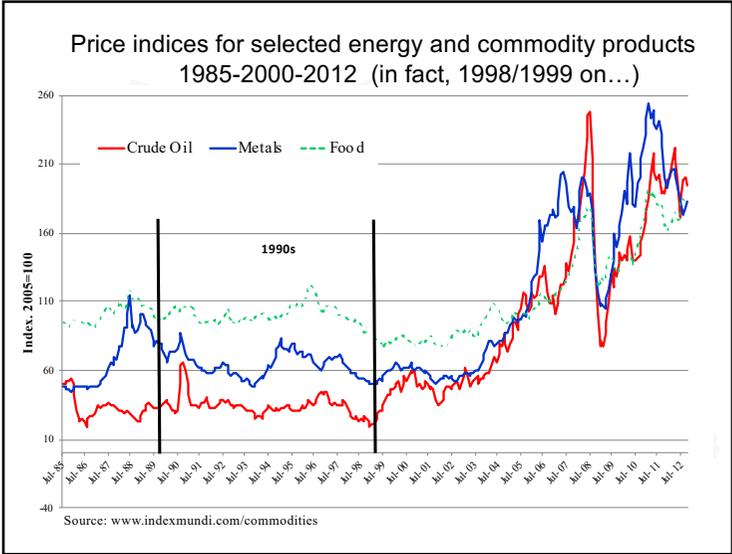
48



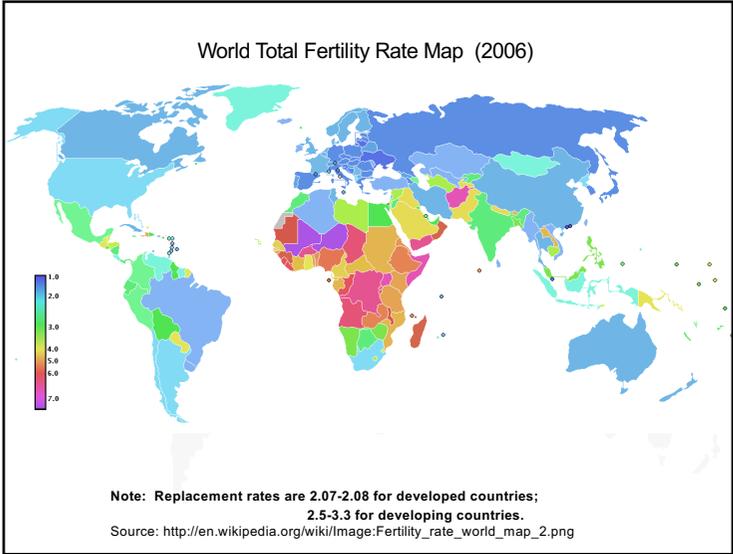
49



50

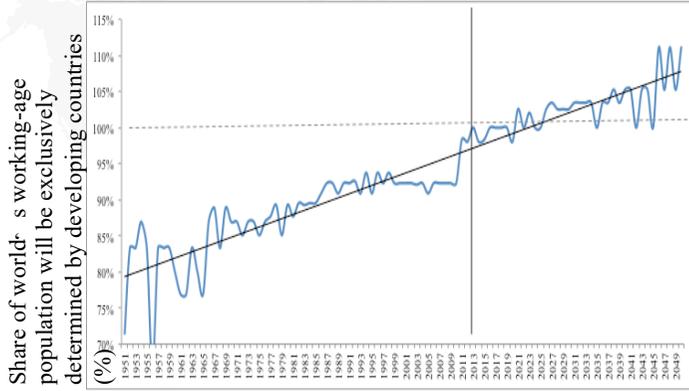


51



52

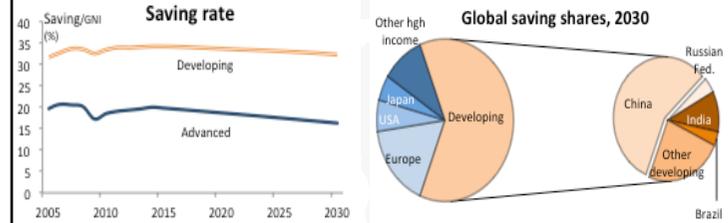
By 2020, growth in world's working-age population will be exclusively determined by developing countries



Source: World Bank (2013) Global Development Horizons "Capital for the Future"

53

Saving rates will decline more slowly in developing countries...

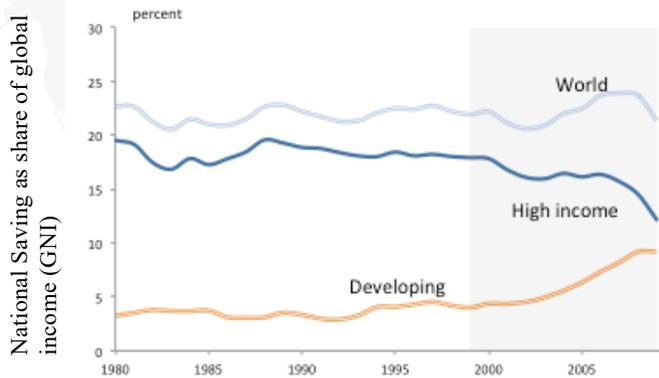


Source: World Bank (2013) Global Development Horizons "Capital for the Future"

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

54

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



Source: World Bank (2013) Global Development Horizons "Capital for the Future"

55

6. Association with Other Subject Areas

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

56

56

Building 'Interdisciplinary' and 'Active' International Development Studies

国際開発学入門
国際開発学入門

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**

57

Factors for Higher Income Growth & Catch-Up?

Explanatory Variables	Period-Average Growth Rate of Mean Real Per-Capita Income	
	Estimated Coefficients	Standard Error
Conditional Income Convergence		
(1) ln Real level of income (ln lbg)	-0.0254	0.0031
Human Capital		
(2) Male secondary and higher years of schooling (of persons aged 25 and over)	0.0118	0.0025
(3) Life expectancy (ln lbg)	0.0423	0.0137
(4) (1) X (2)	-0.0062	0.0017
Population Pressure		
(5) Fertility rate (ln lbg)	-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 (economically governance/management)	-0.043	0.008
Other Control Variables		
(11) Terms of trade change (changes in export price/import price rate)	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.

58

Fig. 1. The gap between the linear aid-investment-growth model and the actual income 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?

59

Economic Growth and Human Development

X-axis: pc real GDP (PPP \$1,000)
Y-axis: deviation from Middle Income mean: \$6,649

Figure 1-5
Per Capita Income and Human

Note: Horizontal axis: per capita income levels in the year 2006 (in 2005-based PPPs) 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/>.

60

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.

61

61

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'.

62

62

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.

63

63

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'.

64

64



65