Development News – 11th November 2016.

Back to Basics

Economic development is a broader concept than economic growth. Development reflects social and economic progress and requires economic growth. Growth is a vital and necessary condition for development, but it is not a sufficient condition as it cannot guarantee development.

One of the most compelling definitions of development is that proposed by Amartya Sen. According to Sen, development is about creating freedom for people and removing obstacles to greater freedom. Greater freedom enables people to choose their own destiny. Obstacles to freedom, and hence to development, include poverty, lack of economic opportunities, corruption, poor governance, lack of education and lack of health.

The world population

By 2011, the world population had grown to 7,000 million (7bn) According to the Population Reference Bureau it took just 12 years for the global population to increase from 6 to 7bn. Of this number, only 15% will achieve a standard of living of at least 50% of that achieved in the USA. According to the World Bank (2005), over 20% of the world's population live on less than $1 a day. In fact, the majority subsist at a standard of living similar to or lower than that typically achieved 10,000 years ago.

During the next 50 years the world population is predicted to grow to 9,000 million, and at this rate, the proportion of those impoverished is likely to increase.

Indicators of development

The extent to which a country has developed may be assessed by considering a range of narrow and broad indicators, including per capita income, life expectancy, education, and the extent of poverty.

The Human Development Index (HDI)

The HDI was introduced in 1990 as part of the United Nations Development Programme (UNDP) to provide a means of measuring economic development in three broad areas - per capita income, health and education. The HDI tracks changes in the level of development of countries over time.

Each year, the UNDP produces a development report, which provides an update of changes during the year, along with a report on a special theme, such as global warming and development, and migration and development.

The introduction of the index was an explicit acceptance that development is a considerably broader concept than growth, and should include a range of social and economic factors.

The HDI has two main features:

A scale from 0 (no development) to 1 (complete development).

An index, which is based on three equally weighted components:

1. Longevity, measured by life expectancy at birth
2. Knowledge, measured by adult literacy and number of years children are enrolled at school
3. Standard of living, measured by real GDP per capita at purchasing power parity

What the figures mean:

- An index of 0 – 0.49 means *low development* - for example, Nigeria was 0.42 in 2010.
- An index of 0.5 – 0.69 means *medium development* – for example, Indonesia was 0.6. 3.
- An index of 0.7 to 0.79 means *high development* – for example, Romania was 0.76. 4.
- Above 0.8 means very *high development* – Finland was 0.87 in 2010.

The HDI is a very useful means of comparing the level of development of countries. GDP per capita alone is clearly too narrow an indicator of economic development and fails to indicate other aspects of development, such as enrolment in school and longevity. Hence, the HDI is a broader and more encompassing indicator of development than GDP, though GDP still provides one third of the index.

Life expectancy

A variety of factors may contribute to differences in life expectancy, including:

1. The stability of food supplies
2. War
3. The incidence of disease and natural disasters

According to World Bank figures, life expectancy at birth in developing countries over the past 40 years has increased by 20 years. However, these increases we're not evenly distributed. Indeed, in many countries in sub-Saharan Africa, life expectancy is falling due to the AIDS epidemic.

Adult literacy

The percentage of those aged 15 and above who are able to read and write a simple statement on their everyday life.

More extensive definitions of literacy include those based on the International Adult Literacy Survey. This survey tests the ability to understand text, interpret documents and perform basic arithmetic.

GDP per capita

GDP per capita is the commonest indicator of material standards of living, and hence is included in the index of development. GDP per capita. It is found by measuring Gross Domestic Product in a year, and dividing it by the population.

Evaluation of the HDI

Despite the widespread use of the HDI there are a number of criticisms that can be made, including:

1. The HDI index is for a single country, and as such does not distinguish between different rates of development within a country, such as between urban and traditional rural communities.

2. Critics argue that the equal weighting between the three main components is rather arbitrary.

3. Development is largely about freedom, but the index does not directly measures this. For example, access to the internet might be regarded by many as a freedom which improves the quality of people's lives.

4. As with the narrow measure of living standards, GDP per capita, there is no indication of the distribution of income.

5. In addition, the HDI excludes many aspects of economic and social life that could be regarded as contributing to or constraining development, such as crime, corruption, poverty, deprivation, and negative externalities.

6. GDP is calculated in terms of purchasing power parity, and the value can change.

A fundamental issue facing the global economy is the widening poverty gap between the developed and less developed world, and the widening distribution of income within

Income and wealth

Impoverishment has several causes, including low of income as a result of unemployment, under-employment, or low wage employment. It may also be caused by a failure of government to provide a welfare safety-net in the event of the above.

Types of income

The opportunities to earn an income in a less developed economy are limited in comparison with developed ones.

The types of income that can be received are:

Earned income

Income can be earned from selling labour, including wages, which are the largest source of income, and salaries and commission, which represent a very small fraction of income in comparison with more developed economies.

Unearned income

Some income is unearned, such as rents from land ownership and interest from lending money. These sources of income are less available in developing economies.

Wealth in developing countries

In developing countries, wealth is commonly derived directly from land and natural resources and includes the land itself and livestock. Physical property and financial assets represent a relatively small proportion of wealth in a developing country.

Equity and inequality

Equity means *fairness* or *evenness*, and achieving it is considered an economic objective. Despite the general recognition of the desirability of fairness, it is often regarded as too *normative* a concept because it is difficult to define and measure. For most economists, equity relates to how fairly income and opportunity are distributed between different groups in a given society.

The opposite of equity is inequality, and this can arise in two main ways:

Inequality of outcome

Inequality of outcome from economic transactions occurs when some individuals gain much more than others do from an economic transaction. For example, individuals who sell their labour to a single buyer, a monopsonist, may receive a much lower wage than those who sell their labour to a firm in a highly competitive market. Inequality of income is an important type of inequality of outcome.

Inequality of opportunity

Inequality of opportunity occurs when individuals are denied access to institutions or employment, which limits their ability to benefit from living in a market economy. For example, children from poor homes may be denied access to high quality education, which limits their ability to achieve high levels of income in the future.

Does inequality serve a purpose?

Market economies rely on the price mechanism to allocate resources. This means that resources, including labour, are allocated prices that reflect demand and supply. Changes in demand and supply affect prices, which create incentives and provide signals to factor owners. For example, rising wages act as an incentive to labour to become more employable, and provide a reward for those that do. Therefore, inequality acts as an incentive to improve, and specialise in those goods and services that command the highest reward.

However, critics of unregulated market economies raise doubts about the need for such vast differences in income that exist and that considerably smaller differences will still create a sufficient incentive to reward effort and ability.

Measuring inequality

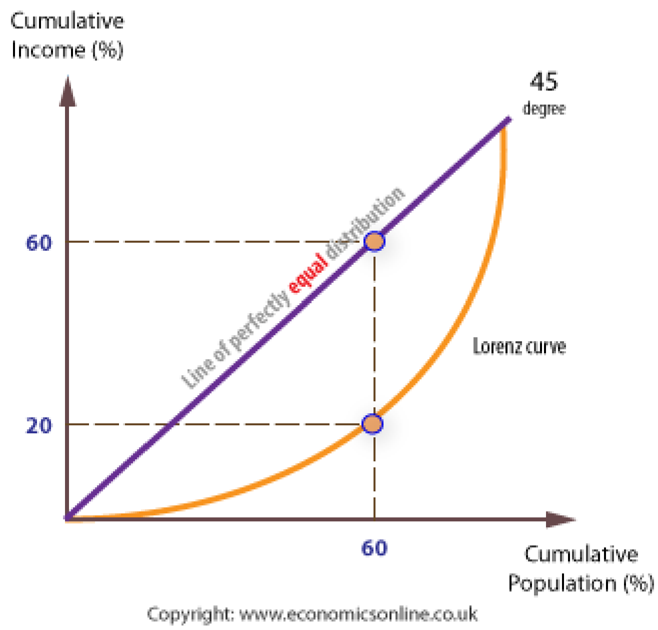
Inequality can be quantified by looking at the distribution of income or wealth. The distribution of wealth is likely to be much greater than income because wealth is built up over many decades, and for some families, over centuries.

The distribution of income is relatively easy to measure - valuing wealth is more difficult. This is because wealth is often hidden from view, and because it changes its value over time.

The Lorenz Curve

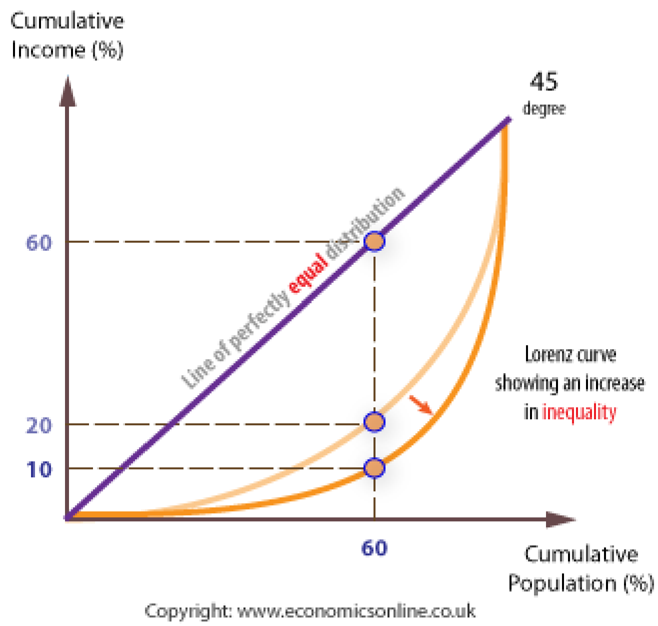
A Lorenz curve shows the % of income earned by a given % of the population. A *perfect* income distribution would be one where each % of the population receives the same % of income. Perfect equality is, for example, where 60% of the population gain 60% of national income. In the above Lorenz curve, 60% of the population gain only 20% of the income; hence, the curve diverges from the line of perfect equality of income.

A ‘perfect’ income distribution would be one where each % received the same % of income.



Showing greater inequality

The further away the Lorenz curve is from the 45^0 line, the less equal the distribution of income. In the example, the curve for country Y is further away from the line of equal distribution than the curve country X, implying a wider distribution of income.



As can be seen, for country Y, only 15% of income is received by 60% of the population, compared with 20% for country X.

The Gini coefficient and index

The Gini coefficient, or index, named after the Italian statistician, *Corrado Gini*, is a mathematical devise to compare income distributions over time and between economies.

The Gini index can be used in conjunction with the Lorenz curve. It is calculated by comparing the area under the Lorenz curve and the area from the 45^0 line to the right hand and bottom axis. The co-efficient ranges from 0 to 1, the closer to one the greater the inequality.

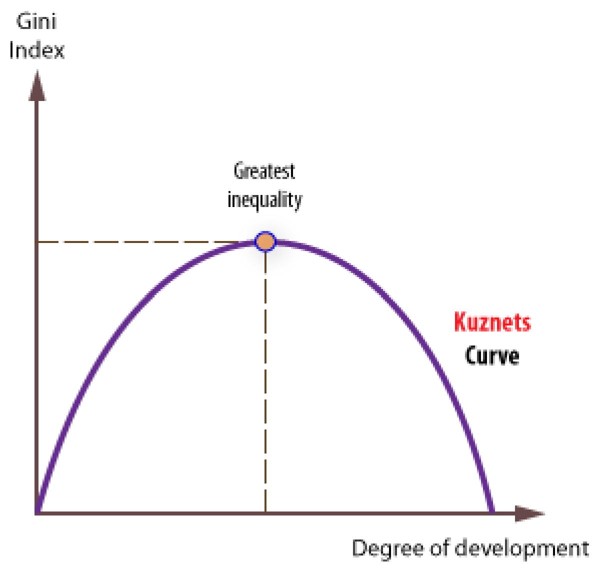
The Gini Index is the Gini coefficient, expressed as a percentage. The closer to 1 (or 100%), the greater the degree of inequality.

How does development affect inequality?

According to the *Kuznets Hypothesis*, after Nobel winning economist Simon Kuznets, the relationship between inequality and development can be illustrated as an inverse 'U' – the Kuznets curve.

The Kuznets curve

The greatest inequality can be observed as countries 'take-off' in their development, leading to considerable wealth creation for the few, who quickly gain from development relative to others.



At low levels of development in a *pre take-off* phase, the majority of the population will work on the land and be relatively poor, with only a small gap between rich and poor. As the economy takes-off, some individuals will gain considerably, relative to others, as in the case of Russia's super rich followed by Russia's growing middle class. These groups will exploit their advantage and open up a considerable gap between themselves and the poorest groups.

Eventually, as the economy develops, more resources are exploited and allocated to the poorest groups. This re-distribution is achieved through progressive taxes and welfare payments, and job creation.

News

Green Transport

Greater investment in greener, more efficient and sustainable transport can save trillions of dollars and help achieve the global sustainability goals, according to a United Nations report launched today that provides 10 recommendations on how resources can be redirected to the transport sector.

“Transport can build prosperity in the broadest sense, enhancing the quality of life for all while protecting the environment and fighting climate change,” said Martin Lundstedt, Chief Executive Officer of Volvo and co-chair of the High-Level Advisory Group on Sustainable Transport ,which authored the report that was launched today at UN Headquarters in New York.

“We need bold innovation and a true partnership among governments, civil society and the private sector,” he added.

Finding that global, national and local transport systems are hobbled by inefficiencies and a lack of sustainable investments, the report, Mobilizing Sustainable Transport for Development, provides 10 recommendations on how governments, businesses and civil society should re-direct resources in the transport sector to advance sustainable development.

“Sustainable transport is crucial for the improvement in the quality of life of people both in cities and rural settings, at a national and international level,” stated Carolina Tohá, Mayor of Santiago, Chile and the other co-chair of the Group.

The report found that a transformational change to sustainable transport can be realised through annual investments of around $2 trillion, similar to the current 'business as usual' spending of $1.4 trillion to $2.1 trillion.

Investments in sustainable transport, the experts found, could lead to fuel savings and lower operational costs, decreased congestion and reduced air pollution. Additionally, it is estimated that efforts to promote sustainable transport can deliver savings of up to $70 trillion by 2050.

A move to sustainable freight and passenger transport that includes integrated port terminals, well-planned airports and harmonized standards and regulations for efficient border crossings, could produce a global gross domestic product (GDP) increase by $2.6 trillion.

In the report's foreword, Secretary-General Ban Ki-moon noted that sustainable transport is essential to overall achievement of the Sustainable Development Goals (SDGs) as well as to efforts to fight climate change, reduce air pollution and improve road safety: “Sustainable transport supports inclusive growth, job creation, poverty reduction, access to markets, the empowerment of women, and the well-being of persons with disabilities and other vulnerable groups.”
Focusing on important issues such as road safety, traffic congestion and climate impacts, the expert panel's 10 specific recommendations include the establishment of monitoring and evaluation frameworks, the promotion of sustainable transport technologies and the increase of international development funding. The report calls for robust engagement by all stakeholders to ensure all members of society have access to jobs, markets, education and health care, through sustainable transport.

At present, the transport sector is responsible for some 23 per cent of energy-related greenhouse gas emissions, and 3.5 million premature deaths result from outdoor air pollution annually, mostly in low and middle income countries. About 10 to 15 per cent of food is lost during processing, transport and storage given a lack of modern facilities, trucks, access to refrigeration, and poor roads.

Nearly one billion people worldwide still lack adequate access to road networks, which increases isolation and marginalization and deepens social inequities. Over 1.2 million people are killed annually in road traffic accidents, causing, in addition to human loss and suffering, billions of dollars of associated costs which amount, in some countries, to 1-3 per cent of GDP.

“Sustainable Transport enables people to access better services, jobs, opportunities and family connections,” said Ms. Tohá. “It is also a space where people spend a significant amount of time every day, and therefore it needs to consider safety issues as well as conditions of dignity for users.”

“Leaving no-one behind in the context of sustainable transport means that in the coming decades we are able to build transport systems that are inclusive, integrated, gender-sensitive and that have people's needs at their core,” she stressed.

John

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