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History

Most part -> very poor

Dist. of Y 2000 years ago -> almost equal -> everyone poor

Regional disparities started only by 19th century

Western Eur. and US etc. ↑ Africa ↓

still

world income was 755 USD (50% rise in 1800 years)

For 1800 years -> 0.02% rate of growth

Large disparities in income-> less than 200 years ago

Last 40 years

Real GDP (rich) -> 2.4%

Real GDP (poor) -> 1.8%

with

Sub Saharan income declining

Also agri to GDP (25% in poor, less than 5% in rich countries)

Rural areas (70% or more in poor, less than 10% in rich)

Productivity rise → Accumulation of manu. capital good → GDP rise → Savings rise → Edu and Health rise

Virtuous Cycle of development

Edu and Health rise → GDP rise

Edu and Health rise → TFR, CMR decline → Population decline

{ GDP rise, Population decline } → Savings rise → New ideas → Great inst. => TFP rise → Productivity rise

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Human capital

Health

life exp. -
(rich- 78; poor- 58)
CMR -
(rich- 7; poor- 120)

Education

literacy -
(rich- 95% ; poor- 58%

Hygiene

reduced morbidity (for rich)
=> reduced vulnerability to diseases & undernourishment

Physical capital

more manu. capital
=> better equipment
=> high std of living

Some reasons about why why rich are rich and poor are poor

Technology (Prod. of new ideas)

Prod of ideas not only for new ideas but cheaper ways for existing ones (R&D)

Social capital

better working institutions
=> TFP rise
=> growth rise

Demographics

Population growth

If not going down quickly, then rate at which capital assets increase must be high enough to maintain living std.
popln. growth (rich- 0.8%; poor- 2.4%

Net immigration and Age Dist.

TFR (rich- 1.8; poor- 3.8)

Values are as of 2005

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Measurement issues

To facilitate comparison each country's income is converted into a common currency (typically USD) and divided by that country's population to derive at the per capita national income. This conversion is called the exchange rate method

Some problems with measurement

Underreporting of income in developing countries

- tax collection system not efficient
- greater incentive to underreport
- Nat. a/c not comprehensive
- Proportion oif income for self- cons. very high

Prices of many goods not aptly reflected in exchange rates

- non-trade prices are not incorporated properly
- underestimate the real income of poorer countries

uses market prices to compare apples and oranges

Justification

- reflects people's preferences and relative scarcities
- Represents appropriate conversion scale to use

Objections

- not all markets are perfect comp.
- prices are not flexible always
- Distortions do occur
- Converts highly disparate goods into a common currency

Do not account for externalities

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Measurement issues

The accumulation of prod. capital assets is only a proximate cause of prosperity, the real cause is progressive institutions.
Institutions are arrangements that govern collective undertakings. It is an established, law, custom, usage, practice, organization or other element in a political or social life of people.
eg:- Laws- Env laws, Labor laws; Customs- Preferences for old, children women; Organization-Goivernments

The effectiveness depends on-> rules governing it
i.e. whether members obey it along with corruption and wastage present.

+ve

- Lubricates economic transactions => nat income rise

-ve

- Delays in rule enforcement
- Government ineffectiveness
- prod costs rise => nat income falls

PPP system (International Comparison Program

- ICP gathers data on price of 400-700 items in each of a set of benchmark countries; price of each item is then divided by its corresponding price in US. => relative price
- They are then classified into 150 categories (110 consumers + 35 investments + 5 government)
- Nat currency expenditure/ Relative price calculated for all 150 categories. i.e $\frac{p_{ij} \cdot q_{ij}}{p_{ij} \cdot p_{US}}$ where i- item and j- country.
- Each category, intl. relative price is obtained by aggregating the relative price of all category benchmark countries via a sepcialized weighted average of relative price of each item

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Historical experiences

Average PCY of top 5% = 29 times Average PCY of bottom 5% (60-85)

- Some miraculous growth seen in East Asian countries which escaped middle income trap (Korea, Taiwan, Singapore, Hong Kong, Thailand etc) @ annual rate of 5.35% (65-90). China grew @ 8.2% (80-93). World PCY was growing @ 1.9% (60-85)
- Latin America (debt crisis) and Sub Saharan Africa (unstable govt.+ infra breakdown + popln. growth) struggled.
- East Asian miracle due to gov intervention + equal dom. income distr. + intl. market entry
- Significant fraction of countries changed their positions relative to the US by an average of 1% or more per year (60-85). Also the changes were symmetric to both sides (upwards and downward trend) => 2 opposing facts

Hope
Probably there are no traps to ultimate success. => ultimate victory

Trepidation
It seems all too easy to rise and fall in the process => easy to win easy to loose

How to interpret Mobility Matrix

- high numbers in and around diagonal => low immobility
- Same number on every column => high mobility

Historically middle income countires showcased greater mobility

Income Dist in developing countries

PPP	Share of lowest 40 %	Share of top 20 %
0-3000	~ 20%	~ 50%
3000-9000	~ 10%	~ 60 %
9000+	~ 20%	~ 40%

<= highest inequality

Data as of 1995

HDI

By Mahbub Ul Haq (1990)

Dimensions	Long and healthy life	Knowledge	A Decent Standard of living
Indicators	Life expectancy at birth	Expected Years of schooling or mean years of schooling	GNI per capita (PPP$)
Dimensions Index	Life Expectancy index	Education Index	GNI index

Human Development Index(HDI)

$$(I_{health} \cdot I_{education} \cdot I_{income})^{1/3}$$

Indicator	Value
Life expectancy at birth (years)	79.93
Mean years of schooling	8.37
Expected years of schooling	13.50
Gross national income per capita (PPP 2011 $)	13,011.7

Note: Values are rounded.

$$\text{Health index} = \frac{79.93 - 20}{85 - 20} = 0.922$$

$$\text{Mean years of schooling index} = \frac{8.37 - 0}{15 - 0} = 0.558$$

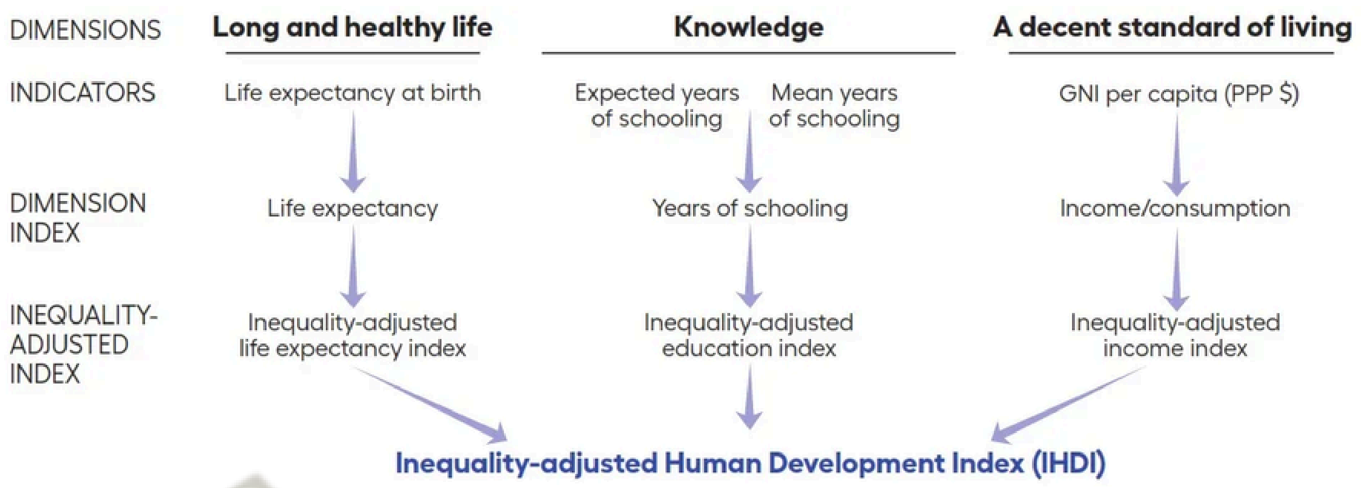
$$\text{Expected years of schooling index} = \frac{13.50}{18} = 0.750$$

$$\text{Education index} = \frac{0.558 + 0.750}{2} = 0.654$$

$$\text{Income index} = \frac{\ln(13{,}011.7) - \ln(100)}{\ln(75{,}000) - \ln(100)} = 0.735$$

$$\text{Human Development Index} = (0.922 \cdot 0.654 \cdot 0.735)^{1/3} = 0.763$$

Inequality adjusted HDI or IHDI



where each indicator I is adjusted for inequality and becomes $I^* = (1- A) . I$ where A is the adjustment made where $A = 1 - (g/u)$ g being geo. mean and u being arith. mean.

$$IHDI = (I^*_{health} \cdot I^*_{education} \cdot I^*_{income})^{1/3}$$

Gender Dev. Index (GDI)

GDI = Female HDI / Male HDI

Multidimensional Poverty Index (MPI)

The MPI uses the Alkire & Foster (2011) Method:

Formula: MPI = $M_0 = H \times A$

1) **Incidence** or the headcount ratio **(H)** ~ the percentage of people who are poor.

2) **Intensity of people's deprivation (A)** ~ the average share of dimensions (proportion of weighted deprivations) people suffer at the same time. It shows the *joint distribution* of their deprivations.

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Sen's capabilities approach

Economic growth cannot be treated as an end in itself. It is the questions of availability of commodities vs use of commodities as well as social standing.

Capabilities:- Freedom that a person has in terms of the choice of functioning, given his personal preferences and command over commodities.

3 core values of development

- Sustenance → Ability to meet ends
- Self Esteem → Self worth & Self respect
- Freedom from Servitude → Freedom to choose

3 objectives of development

- Increase in availability and importance of food, shelter health etc.
- improvement in level of living (jobs, education etc)
- expansion in the range of social choices

Development must be multidimensional i.e. with both quantitative and qualitative aspects

National Happiness

- ↑ Good governance
- ← Sustainable socioeconomic development
- → Cultural preservation
- ↓ Environmental conservation

Democracy Vs Authoritarianism: Lessons from India and China

Overall situation

China

- Homogeneous, less conflicts
- Leadership is more decisive and long term based
- Absence of inst. check and balances and rule based system
- Fragility in governance

India

- Heterogeneous, riddled with socio eco conflicts
- difficult to organize
- rising hinderances to long term reforms

Comparisons

China | India

MACRO ECONOMICS

China		India
Better owing to rural industrialization, mass poverty reduction and dev of physical and social infra.	Growth	not totally market oriented, not better than China
Better, recently small budget surplus as well	Fiscal Health	Poor, budget deficits high
shortage of skilled labor; SS of low skilled labor; even when rog of manu. wage rises, agro is crowded indicating labor productivity	Employment	Working age population on the rise (+ve); shortage of skilled labor; problem of absorption more acute in India
relatively better	Human Capital	Human capital SS chain broken

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HH savings may decline Why? cuz China is urbanizing and HH savings are lesser in urban HH wrt rural; HH as % of GDP is lower; Savings from enterprises and public sector higher

Savings

HH savings are higher; Savings from enterprises and public sector lower

TFP growth very high (movement from state to non state) => better for long run; Policy shift evident to tech and R&D

TFP

Not at all good wrt China

Inequality of outcome higher inequality of opportunities lower

Inequality

Same. Inequality of outcome higher inequality of opportunities lower

Weak

FINANCIAL SECTOR

Banking sector good with capital market reforms; Private corporate enterprises more robust and autonomous;

More env. damage; recently changed focus to env as well with counter measures active

ENVIRONMENT

less env damage; env movement is strong; counter measures not as high as China

Working age popln @ peak in 2010; Qty okay but quality good; women participation very high (~70% in urban); High M-F ratio

DEMOBGRAPHICS

working age popln to be @ peak by 2030s; Qty improved but quality less; female LFPR less than 25 %; lower M-F ratio as well.

Differences in policies/approach and its after effects

There is **ANTI REFORM POPULISM**. Severe edu inequality makes it harder for many to absorb shocks

In China the disruptions and hardships of restructuring under a more intense process of global integration makes reforms tolerable, with various **REFORMS WITH EXPEREIMENTATION** like egalitarian dist. of land cultivation right, min rural social safety net, rural industrialization, HH management systems etc.

Heterogeneity and Eco inequality => social and political conflict ridden. Even elites are fragmented and wont agree to short run sacrifices. Hence India have short run populist measures leading to high fiscal burden. Political reasons are also a factor for the same. In other words when interest groups are fragmented socioeconomically, policy objectives pulls in different directions=> policy implementation buffering. One positive aspect of fragmentation is that policy makers' decisions are not influenced on any one dominant group. Hence it is **REFORM BY STEALTH.** An example is SEZ which didn't go as planned

In China there has been **REFORM BOOMS** with orchestrated change in HH responsibility system, individual cultivation rights, dual track pricing, competition with new entry incentive but with no privatization, rural industrialization, social safety nets. These reforms though helped in a drastic impact of the economy came up with many issues with urban educated showing distrust owing to estate bubbles, shaky public banks, excess capacity industries etc. There was a rural urban disparity that led to mutual distrust but satisfaction from reforms > distrust created.

India characterized by **FRACTIONISM AND PLURALITY** had resistance and -protests in more organized manner and this helped in avoiding catastrophic mistakes and conflicts like the GLF and resulting cultural revolution that happened in China, hence greater healing powers owing to democratic pluralism

In China there has been **ANTI PLURALISM** with pragmatism and protests suppressed heavily, their history/geographical tradition holds no scope for pluralism with uniformity inherently desirable in having one great Chinese empire.

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Differences in policies and approach and its after effects

Democracies in general have more scope for popular movement against capitalist exercises and also offer better environment for exploring different aspects of say info and tech. owing to their **ACCEPTANCE CULTURE**

China is characterized by intensive **CENSORSHIP CULTURE** which seriously limits some forms of future innovation as censorships inhibits people's imagination and mind for innovation and exploration for new concepts and ideas.

Electoral policies also give rise to client consultant culture by which there is an implicit quid-pro-quo b/w voter support and dist. of benefits to specific groups with legislative power often relegated to second order of importance as with **CLIENTALISM AND POPULAR MIOBILISATION** it becomes no deliberative democracy but a cry for populist measures

China is characterized by **PREENING NATIONALISM AND BOSS CULTURE** which has replaced socialism and has become the social glue of the nation

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Democracies are run by people with them having the power to penalize the elected reps in case thing do not improve i.e. **PEOPLE POWER**

China is characterized by **STATE POWER** which makes it impossible for people to penalize the leaders even if things deteriorate.

Other points

INFORMATION ASSYMETRY	VS	INFORMATION DISSEMINATION
DILUTED DECENTRALIZATION	VS	PRO DECENTRALIZATION
CHECKS AND BALANCES	VS	SWIFT REFORM DECISIONS
GRADUAL TECNO-CHANGE	VS	PRO-TECHNOCRATIC
INEFFICIENT CORRPUTION	VS	EFFICIENT CORRPUTION