DEVELOPMENT ECONOMICS (ECO 323)
LECTURE NOTE

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Introduction

TOPIC 1. MEANING AND MEASUREMENT OF ECONOMIC DEVELOPMENT

The term development may mean different things to difference people, it is important that we have some working definition or care perspective on its meaning. Without such a perspective and some agreed measurement criteria, we would be unable to determine which country was actually developing and which was not.

(1) **The Economic measures or perspective:** The terms development has traditionally mean achieving sustained rates of growth of income per capital to enable a nation to expand its output at a rate faster than the growth rate of its population levels and rates of growth of “real” per capital gross national income (GNI). (Monetary growth of GIN per capita minus the rate of inflation) are then used to measure the overall economic well-being of a population-low much of real goods and services is available to the average citizen for consumption and investment.

Economic development can also be defined in terms of the planned alteration of the structure of production and employment so that agriculture share of both declines and that of the manufacturing and service industries development strategies have therefore usually focused on rapid industrialization, often at the expense of agriculture and development.

(2) The New Economic view of Development: The experience of the 1950s and 1960s, when many development nation did reach their economic growth targets but the levels of living of the masses of people remained for the most part unchanged, signaled that something was very wrong with this narrow definition of development. An increasing number of economics and policymakers clamored for more direct attacks on wide-spread absolute poverty, increasingly inequitable income distributions, and rising unemployment. In short, during the 1970s, economic development came to be redefined in terms of the reduction or elimination of poverty, inequality, and unemployment within the context of a growing economy. “Redistribution from growth” became a common slogan. Dudley Sears posed the basic question about the meaning of development succinctly when he asserted. The questions to ask about a country’s development are therefore: 1. What has been happening to poverty? 2. What has been happening to unemployment? 3. 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.

Finally, development must therefore see as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the redistribution of inequality, and the eradication of poverty.

THREE CORE VALUES OF DEVELOPMENT.

The appropriate answer for developing nations today is not necessarily the same as it would have been in previous decades. But at least three basic components or core value serve as a conceptual basic and practical guideline for understanding the inner meaning of development. These core values ares-:
1. **Sustenance: The ability to meet basic needs.** All people have certain basic needs without which life would be impossible. These life-sustaining basic human needs include food, shelter, health, and protection. When any of these is absent, or in critically short supply, a condition of "absolute underdevelopment" exists. A basic function of all economic activity, therefore, is to provide as many people as possible with means of overcoming the helplessness and misery arising from a lack of food, shelter, health, and protection.

2. **Self-Esteem: To be a person:** A second universal component of the good life is self-esteem- a sense of worth and self-respect, of not being used as a tool by others for their own ends. All peoples and societies seek some basic form of self-esteem, although they may call it authenticity identify, dignity, respect, honor, or recognition.

3. **Freedom from servitude: To be able to choose:** A third and final universal value that we suggest should constitute the meaning of development is the concept of human freedom. Freedom here is to be understood in the sense of emancipation from alienating material conditions of life and from social servitude to nature, other people, misery, oppressive institutions, and dogmatic beliefs, especially that poverty is predestination.

The Three Objectives of Development

We may conclude that development is both a physical reality and a state of mind in which society has, through some combination of social, economic, and institutional processes, secured the means for obtaining a better life. Whatever the specific components of this better life, development in all societies must have at least the following three objectives listed below.

1. To increase the availability and distribution of basic life-sustaining goods such as food, shelter,

health and protection.

2. To raise levels of living.

3. To expand the range of economic and social choices available to individuals and nations.

INDEXS FOR MEASURING ECONOMIC DEVELOPMENT

Economic Development can be measured by certain indexes:

1. Real Gross National Product (GNP)

2. Real per capital income

3. The ratio of agriculture to industry.

4. Literacy rate.

5. Life Expectancy.

- 6. Per capita food production.
- 7. Output worker ratio.

TOPIC2. CLASSICAL THEORY OF DEVELOPMENT

1. Classical theory of development

2. The critical evaluation of the Classical theory of Development.

CLASSICAL THEORY OF DEVELOPMENT

The classical economists were those economists that lived during the 18^{th} and 19^{th} century. They include Adam Smith, Rev Malthus, John Mill, David Ricardo and Alfred Marshall. The classicalists were very much concerned with the conditions for economic progress. According to them, the development of capitalist economics was a race between "technological progress and population growth" They believe that technological progress would be in lead for sometimes but would end in a dead heat or stagnation.

The classical theory can be briefly explained as follows:

1. Laizzes-faire policy:
2. 2. Capital accumulation: The key to progress:
3. 3. Profits, the incentive to investment:
4. 4. Tendency of profits to decline:
5. 5. Stationary state:

In broad terms, the classical theory of economic development had been explained by the aid of a production function written below:

Y= f(L), K, N, (T)…………….(1)
T= f(I)……………………….(2)
I- dy = I(λ)……………………(3)
λ = λ (T, L)………………....(4)
L = L (W)……………………(5)
W= W(I)……………………..(6)

Y= λ + W………………..….. (7)

Generally, the capitalist postulated that the end result of constant development is stagnation. This stagnation resulted from the natural tendency of profits to fall and the consequent chocking off of capital accumulation. When this happens, capital accumulation ceases, population becomes constant and the stationary state is set in.

TOPIC 3. ROWSTOW STAGE THEORY.
1. Introduction
2. The five stages of Economic Growth
3. Critical Appraisal of Rows tow's Growth theory.

Introduction

W.W Rowstow is a stage theorist of economic growth. He looked at the stage of economic growth through the capitalism framework. He distinguishes five of economic growth:

1. The traditional society
2. The pre-conditions for take off
3. The take off
4. The drive to maturity and
5. The stage of high mass consumption.

CRITICAL APPRAISAL OF ROWSTOW'S GROWTH THEORY:

Rowstow's growth theory is the widely circulated and highly commented piece of economic literature. Nevertheless, it has been severally criticized, and its authenticity defeated for several reasons.

1. Traditional society not essential for development:
2. Overlapping in the stages:
3. countries need not follow the same path to development:
4. take-off stage criticized:
5. The stage of drive to maturity is misleading:

TOPIC 5: MODERN THEORIES OF DEVELOPMENT

1. The vicious circle of poverty.
2. The Dualistic Economy.
3. Harrod-Domar theories
4. Balance and unbalanced growth
5. Schumpeterian theories.
6. The Vicious circle of poverty
7. Critical Appraisal of the theory of vicious circle of poverty

TOPIC 4: MARXIAN THEORY OF DEVELOPMENT

THE MARXIAN MODEL.

The Marxian analysis is the greatest and the most penetrating examination of the process of capitalist development. His basic prediction of the process of capitalism is that the system will grow and collapse not because of the sociological reasons. His models of capitalists development is as stated below :

$Y = f(L, K, N, T)$……………………………...(1)

$T = T(I)$…………………………………..…(2)

$I = I(\lambda)$……………………………………..…..(3)

$\lambda = Y\text{-}V/V+K = \lambda / V+k$……………………(4)

$W = W(I)$……………………………………..(5)

$L = f(I)/K$……………………………………..(6)

$C= C(W)$………………………………………(7)

$\lambda = \lambda(T, C)$…………………………………..(8)

$Y= \lambda + W$……………………………………..(9)

$Y =C+I$………………………………………..(10)

$K = U, K$……………………………..……..(11)

The model is quite similar to that of classicalist in that the same production function has been used.

2. Materialistic interpretation of history of development.
3. The motivating forces of capitalist development.
4. The alternative path of planned economic development.
5. Capitalist Crisis.6. An appraisal of Marxian theory.
7. Other side of the coins.

HARROD-DOMAR MODEL

Harrod -Domar model describes the economic mechanism by which more investment leads to more growth. For a country to develop and grow, it must divert part of its resources from current consumption needs and invest them in capital formation. Diversion of resources from current consumption is called saving. While saving is not the only determinant of growth. The model shows mathematically that growth is directly related to savings and indirectly related to capital output ratio. We can construct the following simple model of economic growth as:

$S= S, Y$……………………………………………..(1)

i.e. Saving (s) is some proportion(s) of national Income(Y)

$I =\wedge K$……………………………………………….(2)

i.e. Investment (I) is defined as the change in capital stock (k)

$G= \Delta Y/Y$……………………………………………(3)

i.e growth is defined as change in national income ΔY divided by the value of the national income. But since the total stock (k), bears a direct relationship, total national income, or output Y as expressed by the capital/output ratio K, then it follows that

$k/y = c$

or

$\Delta k/ \Delta y=c$

$\Delta k/ \Delta y=c$………………………………………………(4)

Or finally, $\Delta k=c \Delta y$…………………………………………(5)

Finally, since total national savings S must equal to total investment I, we can write this equation as:

$S=I$……………………………………………………(6)

But from equation (1) above, we know that S=S,Y and from equation (2) and (5), we know that $I= \Delta K=C \Delta Y$.

It therefore follows that we can write the "Identity" of saving equating investment shows by equation (6) as

$S= S.Y = C \Delta Y= \Delta K=I$…………………………………... (7)

Or simply as

$S,Y =C \Delta Y$…………………………………………………..(8)

Now by dividing both sides of equation (3b) first by Y and then by K we obtain the following expression.

$G= \Delta Y/Y =S/C$…………………………………... (9)

Note that the left hand side of equation (9), $\Delta Y/Y$, represents the rate of change or rate of growth of GNP (i.e it is the percentage change in GNP).

Equation 9, which is a simplified version of the famous-Harrod-Dommar equation in the theory of economic growth states simply that the rate of growth of GNP ($\frac{\Delta Y}{Y}$) is determined jointly by the national savings ratio S and the national capital/ output ratio, K. More specifically, it says that the growth rate of national income will be directly or positively related to savings ratio (i.e the more n economy is able to save and invest out of given GNP, the greater will be the growth of that (GNP) and inversely or negatively related to the economy's capital /output ratio (i.e the higher is K, the lower will be the rate of GNP growth). The economic logic of equation 9 is very simple. In order to grow, economies must save and invest a certain proportion of their GNP. The more they can save and therefore, invest, the faster they can grow. But the actual rate at which they can grow for any level of saving and investment depends on how productive that investment is.

Topic 5: SHUMPETERIAN THEORY OF DEVELOPMENT

In his influential book titled "the theory of economic development" Joseph Shumpeter explains development in terms of entrepreneurship and innovation. According to him, economic backwardness in many countries may quite legitimately be traced back to relative shortage of inventors and innovators.

According to him, innovation can take place in many of four different ways.

1. Introduction of new goods or a new quality of a new source of supply.
2. Discovery of new method pf production
3. The opening of new market and
4. The location of new source of supply.

Each of these contains the seeds for increased productivity within the economy and offers a possible expansion path to growth and development.

The practical examples of the different types of innovation Schumpeter mentioned are listed below:

1. New type of goods:
2. New quality of goods:
3. New method of productions:
4. New markets:
5. New source of supply:

THE ROLES OF INNOVATION IN DEVELOPMENT

1. Schumpeter explain that innovation do cause economic growth without involving in due expenditures of capital or interlocking investment plans.
2. Innovation if occurs will reduce the need for skilled labour thereby freeing a scare resource for use in other parts of the economy.
3. Innovation in one area may also indirectly provide external peculiarly or a reduction in the cost of producing it.

TEXT

1.Economic Development: By Michael P. Todaro and Stephen C. Smith.

2. Development Economics, Theories and Application: By Bakare A.S

3. Growth and Development: By A.P. Thiriwal.

4. Theory of Economic Growth: By Lewis, W. Arthure.