ECONOMICS, INSTITUTIONS, AND DEVELOPMENT: A GLOBAL PERSPECTIVE
How the other half live

As people throughout the world awake-each morning to face a new day, they do so under very different circumstances. Some live in comfortable homes with many rooms. They have more than enough to eat, are well clothed and healthy, and have a reasonable degree of financial security. Others, and these constitute more than three-fourths of the earth's 5.5 billion people, are much less fortunate. They may have little or no shelter and an inadequate food supply. Their health is poor, they cannot read or write, they are unemployed, and their prospects for a better life are bleak or uncertain at best. An examination of these global differences in living standards is revealing.
The Nature of Development Economics

Traditional Economics is concerned primarily with the efficient, least-cost allocation of scarce productive resources and with the optimal growth of these resources over time so as to produce an ever-expanding range of goods and services. By traditional economics we simply mean the classical and neoclassical economics taught in mostly American and British introductory textbooks.

Political Economy is concerned with the relationship between politics and economics, with a special emphasis on the role of power in economic decision making.

Development economics has an even greater scope. In addition to being concerned with the efficient allocation of existing scarce (or idle) productive resources and with their sustained growth over time, it must also deal with the economic, social, political, and institutional mechanisms, both public and private, necessary to bring about rapid (at least by historical standards) and large-scale improvements in levels of living for the masses of poverty-stricken, malnourished, and illiterate peoples of Africa, Asia, and Latin America.
Why Study Development Economics? Some Critical Questions

The Important Role of Values in Development Economics.

Economics is a social science. It is concerned with human beings and the social systems by which they organize their activities to satisfy **basic material needs** (e.g., food, shelter, clothing) and **nonmaterial wants** (e.g., education, knowledge, spiritual fulfillment). Because they are social scientists, economists face the somewhat unusual situation in which the objects of their studies—human beings in the ordinary business of life—and their own activities are rooted in the same social context.
Economics as Social Systems: The Need to Go Beyond Simple Economics

- Economics and economic systems, especially in the Third World, must be viewed in a broader perspective than that postulated by traditional economics. They must be analyzed within the context of the overall social system of a country and, indeed, within an international, global context as well.

- By social system, we mean the interdependent relationships between so-called economic and non-economic factors.

- The latter include attitudes toward life, work, and authority; public and private bureaucratic and administrative structures; patterns of kinship and religion; cultural traditions; systems of land tenure; the authority and integrity of government agencies; the degree of popular participation in development decisions and activities; and the flexibility or rigidity of economic and social classes.
What Do We Mean by Development?

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

- Traditional Economics Measures
- The New Economics View of Development
- Sen’s “Capabilities” Approach
- Development and Happiness
Three Core Values of Development

- **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 the means of overcoming the helplessness and misery arising from a lack of food, shelter, health, and protection.

- **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, identity, dignity, respect, honor, or recognition.
Three Core Values of Development

- **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, ignorance, other people, misery, institutions, and dogmatic beliefs. Freedom involves an expanded range of *choices* for societies and their members together with a minimization of external constraints in the pursuit of some social goal we call development.
The Three Objectives of Development

- To increase availability and widen the distribution of basic life-sustaining
- To raise level of living
- To expand the range of economics and social choice
Millennium Development Goals and Targets for 2015

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development
Terima kasih
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Development has traditionally meant the capacity of a national economy, whose initial economic has been more or less static for a long time, to generate and sustain annual increase in its **gross national income** (GNI) at rates of 5% to 7% or more.

A common alternative economic index of development has been the use of rates of growth of income per capita to take into account the ability of a nation to expand its output at a rate faster than the growth rate of its population.

Economic development in the past has also been typically seen in terms of the planned alteration of the structure of production and employment so that agriculture's share of both declines and that of the manufacturing and service industries increases.

Next Question (HOMEWORK), What is differences between GNI, GNP, and GDP? Can you explain the differences???
Development strategies have therefore usually focused on rapid industrialization, often at the expense of agriculture and rural development.

Finally, these principal economic measures of development have often been supplemented by casual reference to noneconomic social indicators: gains in literacy, schooling, health conditions and services, and provision of housing.
The New Economics View of Development

- The experience of the 1950s and 1960s, when many Third World nations did realize 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 economists and policymakers now clamored for the "dethronement of GNP" and the elevation of direct attacks on widespread 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.

- In a 1987 book, Edgar Owens advanced a similar argument: Development has been treated by economists as if it were nothing more than an exercise in applied economics, unrelated to political ideas, forms of government, and the role of people in society.
Amartya Sen, The 1998 Nobel laureate in economics, argued that “Capability to Function” is what really matters for status as a poor or non poor person.

Economic growth can not be sensibly treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedom of we enjoy.

Sen argued that poverty can be properly measured by income or by utility as conventionally understood.

to make any sense of the concept of human well being in general and poverty in particular, we need to think beyond the availability of commodities and consider their use: to to address what Sen calls Functionings.
Sen’s “Capabilities” Approach

- The Concept of “Functionings” reflects the various things a person may value doing or being. The valued functionings may vary elementary ones, such as being adequately nourished and being free from avoidable disease, to very complex activities or personal states.

- Then, Sen define Capabilities as “the freedom that a person has in term of the choice of functionings, given his personal features (conversion of characteristics into functionings) and his command over commodities.”
Development and Happiness

- Happiness is part of human well being and greater happiness may in itself expand and individual’s capability function.

- Sen Argued, “utility in the sense of happiness may well be included in the list of some important functionings relevant to a person’s well being.”

- In happiness: Lesson from a New Science, Richard Layard identifies seven factors that surveys show effect average national happiness: family relationships, financial situation, work, community and friends, health, person freedom, and personal values.
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