

## LECTURE 22: GROWTH AND DEVELOPMENT II

- I. A Quick Survey
- II. Economic levels
  - a. There's actually been a fair amount of progress over the past few decades, so much that we should stop thinking about "rich" vs "poor" countries. There are many countries that have lower incomes than the U.S. or Europe but these countries are markedly better off than they were a few decades ago.
  - b. Instead, development expert Hans Rosling encouraged us to think in terms of "levels" of development based on how much income per day the average person spends.
    - i. Level 1: Less than \$2/day (about 1 billion people are here)
    - ii. Level 2: \$2 to \$8/day (about 3 billion people are here)
    - iii. Level 3: \$8 to \$32/day (about 2 billion people are here)
    - iv. Level 4: Over \$32/day (about 1 billion people are here)
  - c. When people think of development, they often think in terms of level 1 vs level 4 but most people are in between and there's a big difference between level 1 and level 2.
    - i. The [World Bank](#) now organizes countries along these levels for those curious where a particular country lands.
  - d. An important theme is that two seemingly contradictory ideas about economic development are true.
    - i. *The world is getting richer.* Less than \$2/day used to be the rule in the 1960s. Now it is the exception. The vast majority of people live lives better than their parents or grandparents and it's wrong to discount that success.
    - ii. *The world is still "poor."* When plurality of people live in level 2, that's better than living in level 1 but there's still a lot of room for growth. Going from extreme poverty to just poverty is nice but it's still poverty. We want everyone to be in level 4. The question is: how?
- III. The Bad News: Necessary vs Sufficient
  - a. *Necessary*: required for something to happen
  - b. *Sufficient*: all that's needed for something to happen

- c. While convergence is definitely true, it's conditional on other necessary factors. While all these factors are needed, none of them in isolation is sufficient.

#### IV. Necessary conditions

- a. There's a lot of debate about what's needed to trigger convergence but here's a list suggested by the recipient of the 1998 Nobel Prize in Economics, Amartya Sen:

- i. *Political freedoms.* Countries need free and fair elections as well as government transparency. This also includes cultural aspects such as equal treatment and respect.
- ii. *Economic freedoms.* Citizens need freedom of opportunities which includes free access to credit (borrowing money).
- iii. *Quality of life freedoms.* Society needs a social safety net, included basic access to health care, shelter, and food. In order to act on the other two freedoms, people need to be free to live securely.

