

Development Economics

Slides 2

Debraj Ray, NYU

Looking Within Countries

■ Inter-country inequality compounded within countries:

■ 0–4,000 PPP (2000):

Country	GDP pc (c. 2000)	Share bot. 40%	Share top 20%
Malawi	546	13	56
Uganda	765	16	50
Tanzania	866	19	42
Bangladesh	893	22	40
Senegal	1,492	17	48
Pakistan	1,898	21	42
Nicaragua	2,157	12	55
Sri Lanka	3,106	17	48
Bolivia	3,402	7	63
Guatemala	3,350	11	59

Looking Within Countries

■ Inter-country inequality compounded within countries:

■ 4,000–13,000 PPP (2000):

Country	GDP pc (c. 2000)	Share bot. 40%	Share top 20%
El Salvador	5,183	10	55
Peru	5,444	11	57
Costa Rica	5,520	13	50
Thailand	5,568	11	59
Panama	5,840	8	60
Colombia	6,617	9	61
Brazil	7,911	7	65
Costa Rica	8,113	13	51
Venezuela	9,924	12	52
Mexico	12,095	12	56

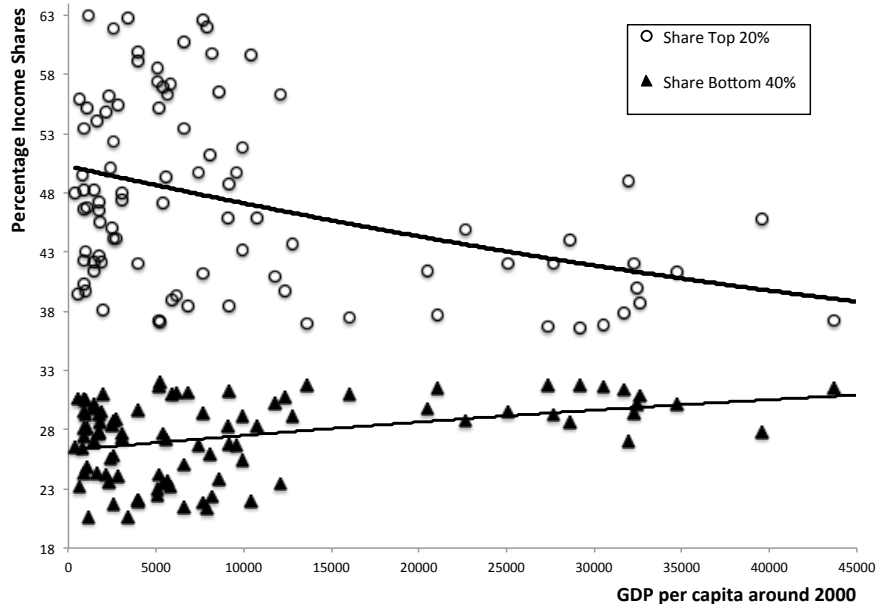
Looking Within Countries

■ Inter-country inequality compounded within countries:

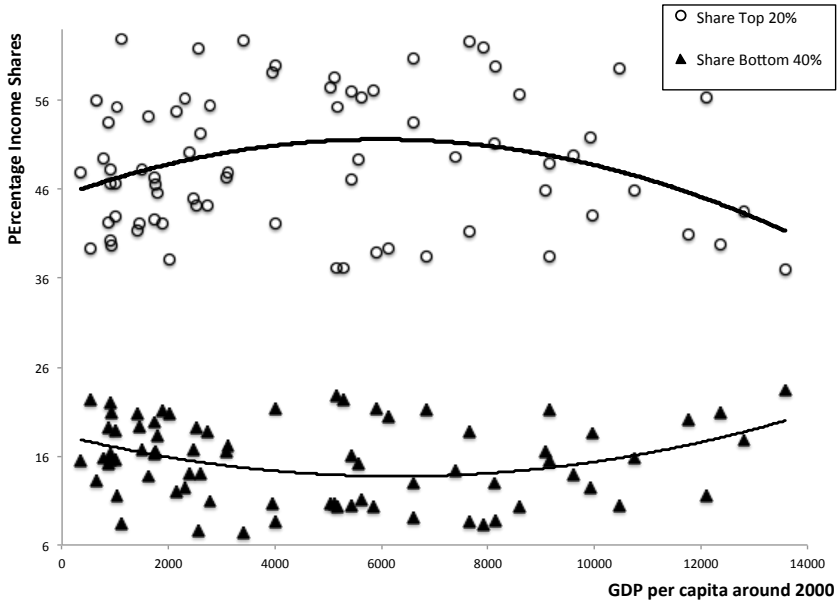
■ 13,000+ PPP (2000):

Country	GDP pc (c. 2000)	Share bot. 40%	Share top 20%
Korea	16,015	21	37
Spain	25,129	19	42
UK	28,575	18	44
Sweden	29,126	23	37
Switzerland	34,713	20	41
USA	39,578	16	46
Norway	43,642	24	37

■ Inequality and per-capita income: the whole range



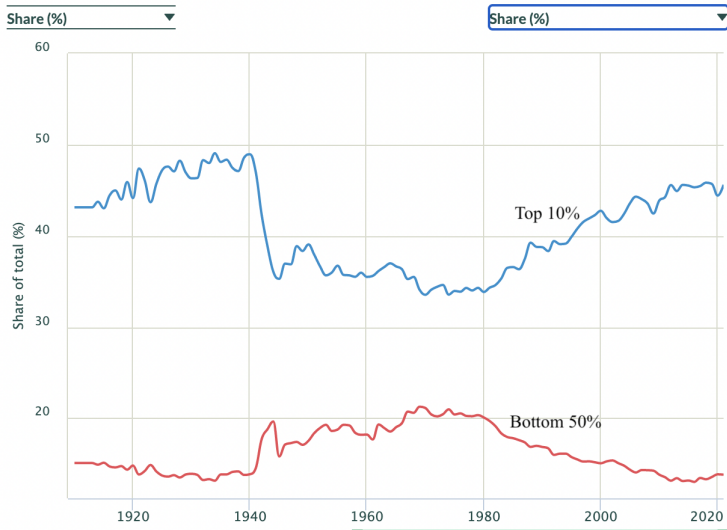
■ Inequality and per-capita income: up to \$14,000, an inverted-U?



Uneven and Compensating Changes

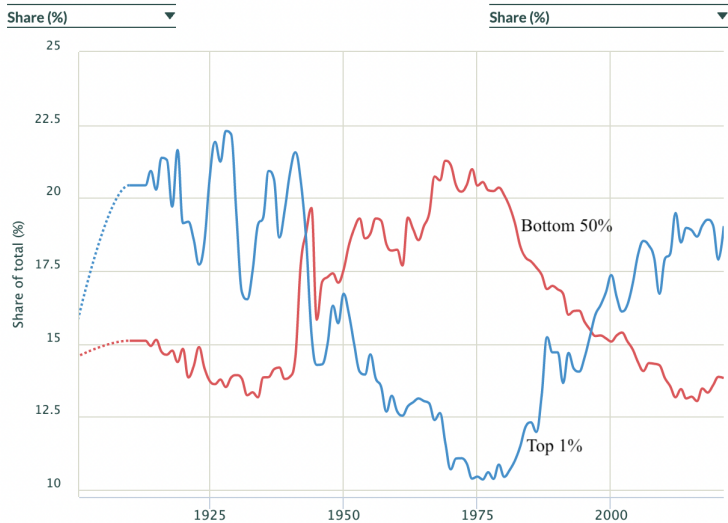
- Uneven growth, perhaps from a few sectors
- Then other sectors catch up, or people migrate
- Tends to generate an inverted-U, but no inevitability to it.
- Note: our diagram was on the cross-section.
- In fact, we can argue that we have rising inequality in many countries.

Income inequality, USA, 1908-2021



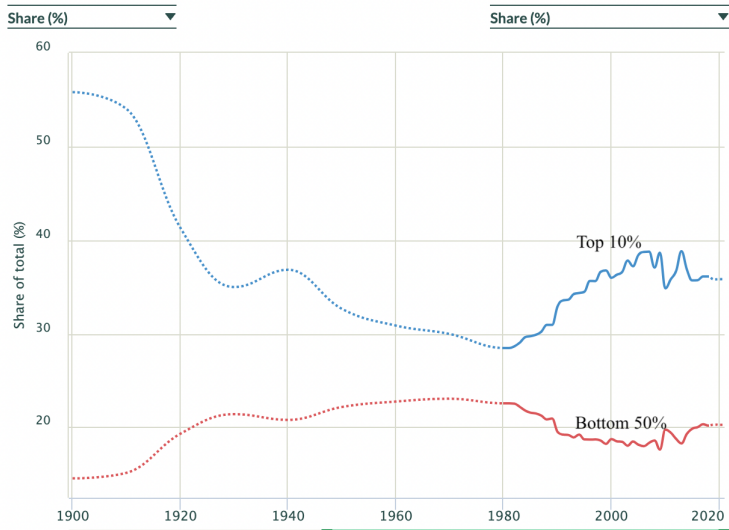
Source: World Inequality Database

Income inequality, USA, 1901-2021



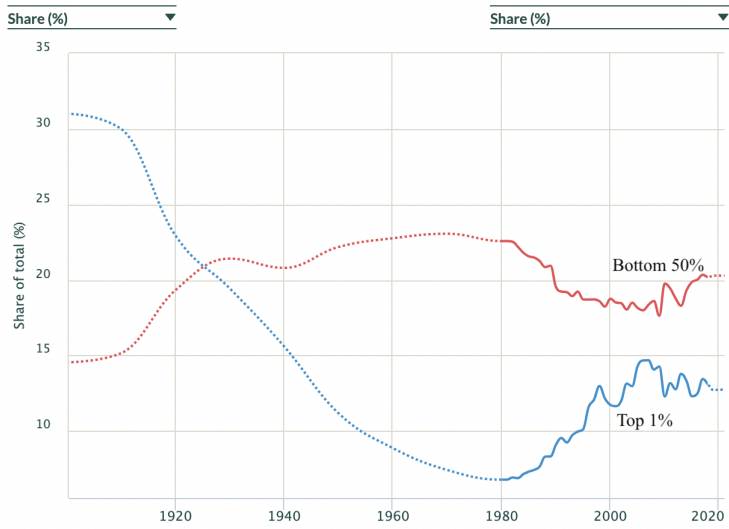
Source: World Inequality Database

Income inequality, United Kingdom, 1900-2021



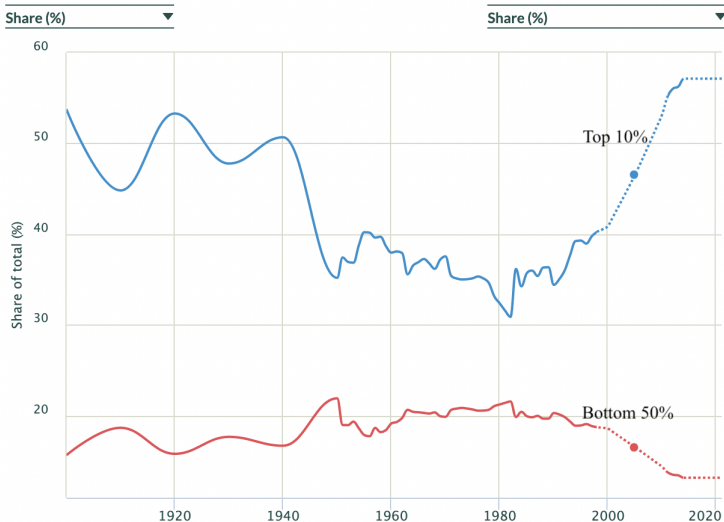
Source: World Inequality Database

Income inequality, United Kingdom, 1901-2021



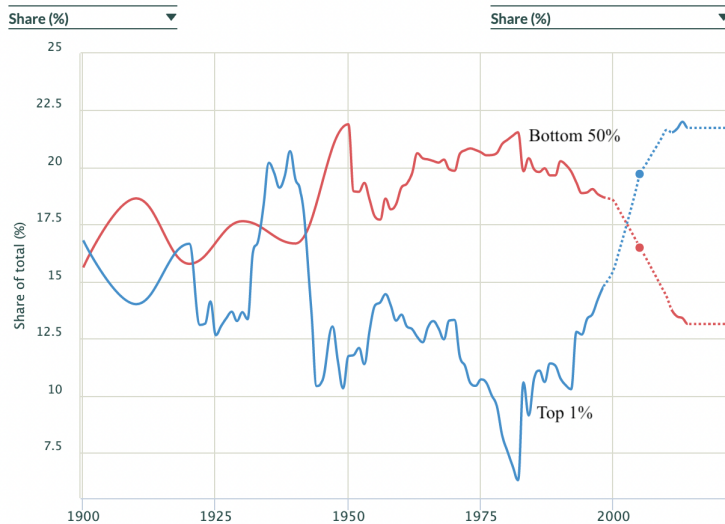
Source: World Inequality Database

Income inequality, India, 1901-2021



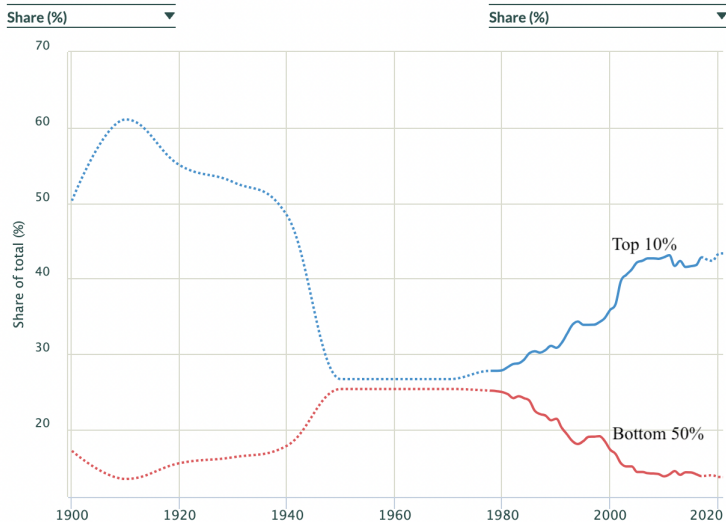
Source: World Inequality Database

Income inequality, India, 1900-2021



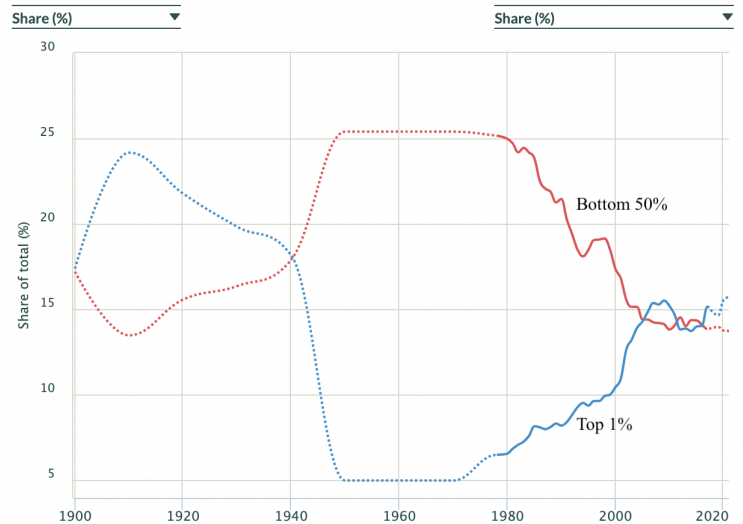
Source: World Inequality Database

Income inequality, China, 1900-2021



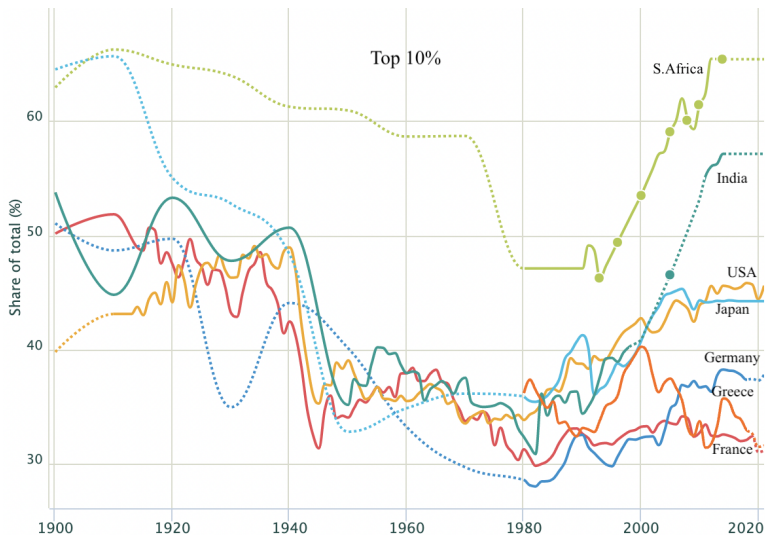
Source: World Inequality Database

Income inequality, China, 1900-2021



Source: World Inequality Database

Top 10% Income Share, Selected Countries, 1900-2021



Source: World Inequality Database

Human Development

- Excessive reliance on GNP per capita can be dangerous.

Country	1993 income	Share bot. 40%	Share top 20%
Sri Lanka	2,990	22	39
Guatemala	3,350	8	63

Country	Life exp	IMR	% Safe water	% Adult literacy
Sri Lanka	72	18	60	89
Guatemala	65	48	62	54

- Distribution clearly matters, but isn't everything: e.g., [Pakistan](#):

GDPpc	Share Bot. 40%	Life exp	IMR	% Adult literacy
1,898	21	62	91	36

Human Development Index

- From the **Human Development Report**, since 1990.
- **Three components** to the index:
 - Life expectancy at birth.
 - Education, combine mean/expected years of schooling.
 - logarithm of GNI per capita.
- Create dimension indices for each:

$$I_{\text{dim}} = \frac{x - \text{minimum}}{\text{maximum} - \text{minimum}}$$

- e.g., max life expectancy is 83.2 and minimum is 20.

Human Development Index

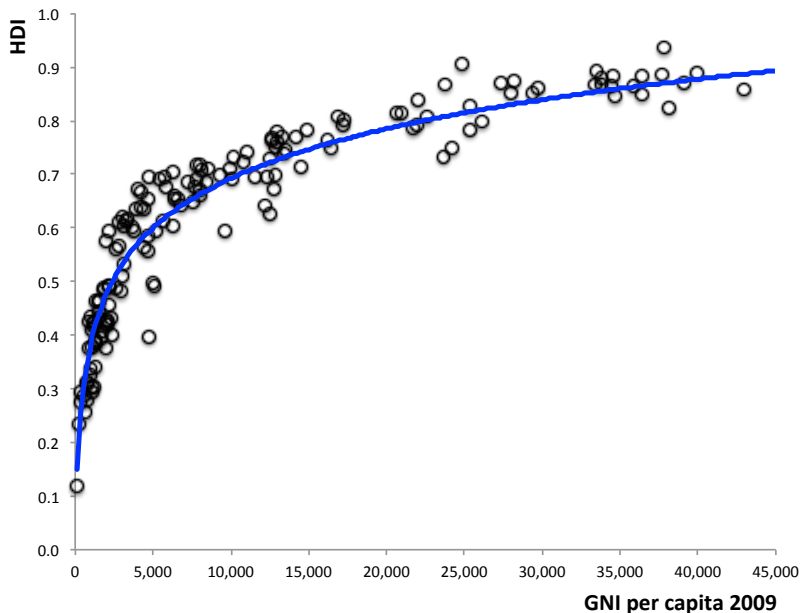
■ HDI, contd.

- HDI a geometric mean of the three:

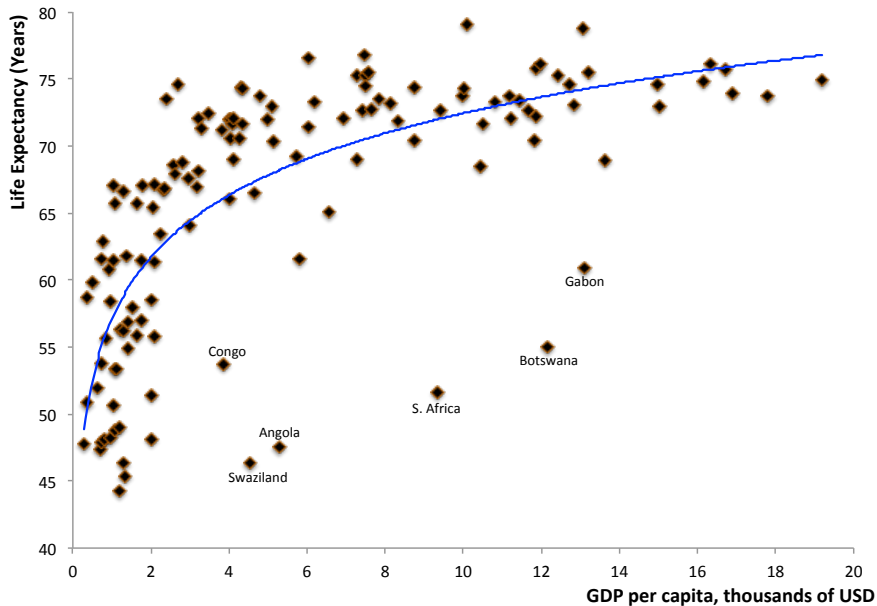
$$\text{HDI} = I_{\text{Life}}^{1/3} I_{\text{Educ}}^{1/3} I_{\text{Income}}^{1/3}.$$

- Variations allowing for measured inequality in each dimension.
- No getting away from an implicit weighting scheme.
- One way (of many) to combine development indicators.
- 2010: Sri Lanka rank differential +10 (HDI vs GNI).
- 2010: Pakistan -4, Guatemala -13.

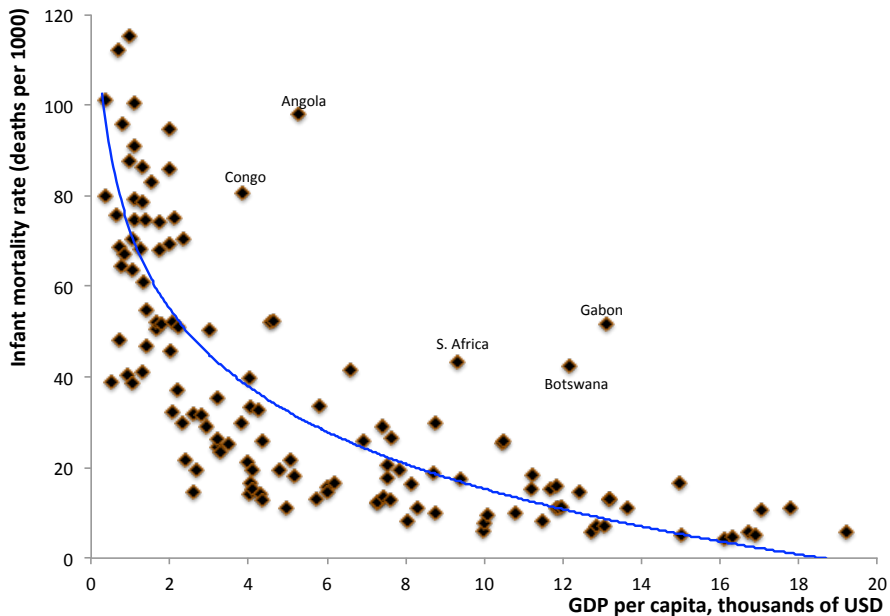
■ Still, a high correlation between HDI and GNI per capita:



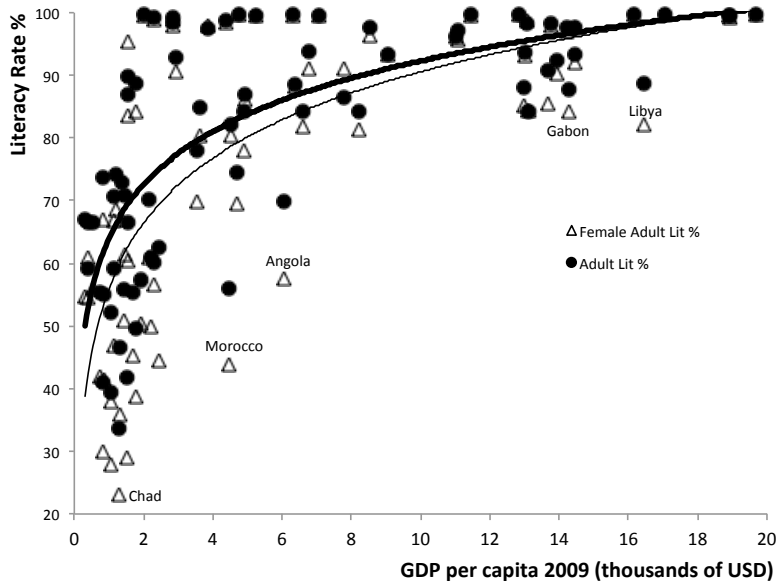
■ And the same is true of individual indicators:



■ And the same is true of individual indicators:



■ And the same is true of individual indicators:



Aspirations and Uneven Growth

- The lives of others on display (and on an accelerating treadmill):
 - Aspirations and frustrations are socially generated.
 - Unclear if this exposure leads to betterment or to despair.

The Indian General Elections of 2014

“[The previous term is one] in which growth accelerated, Indians started saving and investing more, foreign investment came rushing in, [and] poverty declined sharply ... [But] growth can also unleash powerful aspirations as well as frustrations, and political parties who can tap into these emotions reap the benefits.”

Ghatak-Ghosh-Kotwal, Economic and Political Weekly, April 19, 2014.

“[P]eople with dramatically raised but mostly unfulfillable aspirations have become vulnerable to demagogues promising national regeneration. It is this tiger of unfocused fury ... that Modi has sought to ride from Gujarat to New Delhi.

Mishra, The Guardian, May 16, 2014.

The Indian General Elections of 2014

“[The previous term is one] in which growth accelerated, Indians started saving and investing more, foreign investment came rushing in, [and] poverty declined sharply ... [But] growth can also unleash powerful aspirations as well as frustrations, and political parties who can tap into these emotions reap the benefits.”

Ghatak-Ghosh-Kotwal, Economic and Political Weekly, April 19, 2014.

“[P]eople with dramatically raised but mostly unfulfillable aspirations have become vulnerable to demagogues promising national regeneration. It is this tiger of unfocused fury ... that Modi has sought to ride from Gujarat to New Delhi.

Mishra, The Guardian, May 16, 2014.

■ “The French found their position all the more intolerable as it became better.”

de Tocqueville, 1856

Hirschman's Tunnel

