

Development Economics

Slides 6–8 Summary

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- Main perspective: development rarely balanced across sectors;
- It generates unevenness, as labor reallocates across sectors.

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- Much of the analysis works for any two sectors:
 - agriculture to manufacturing, manufacturing to services, human computation to the IT and digital era, white-collar employment to the rise of AI-based alternatives, manual labor to robotics ...
 - we called them **archaic** (a) and **modern** (m).

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 - From an **agrarian to an industrial economy**.

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 - **Minimum supply of basic goods for work subsistence** needed.
 - Of crucial importance in the closed economy.
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 - **Minimum supply of basic goods for work subsistence** needed.
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 - Relatedly, **non-homothetic preferences** play a special role and impart specific directionality to the transformation.
 - **Dysfunctional structural transformations**: too few employment opportunities in the modern sector might lead to an informal sector based on services.

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- We discussed **different frameworks** circling these central issues.
- **Lewis model:** “economic development with unlimited supplies of labor.”
- Sustained move of labor from archaic to modern sector.
- Ongoing m -sector capital accumulation provides the fuel for those moves.
- Under this view, industrial development can proceed without impediment as long as savings rates and modern capital accumulation are high, at least until the surplus-labor phase comes to an end.

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- This presumption is discarded in the **Kuznets model**:
 - skill sets are different across the two sectors
 - even in the surplus labor phase, the modern wage initially jumps up
 - The resulting wage differential dies out slowly as individuals acquire human capital.

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- This presumption is discarded in the **Kuznets model**:
 - skill sets are different across the two sectors
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 - The resulting wage differential dies out slowly as individuals acquire human capital.
- **Uneven and compensatory phases.**

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- **Second**, the Lewis model de-emphasizes work subsistence — basic needs for productive employment — over and above survival subsistence.
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- The **Kalecki-Rao constraint**.
- Particularly salient in a closed economy.
- The constraint illustrates **a fundamental tension**:
 - Industrialists like low food prices because that ensures a low wage bill.
 - But that disincentivizes agriculture and can strangle industrial development in the longer run.
 - Associated policy questions.

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- **Harris-Todaro model**
- Migration choices form a “lottery equilibrium.”

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- **Harris-Todaro model**
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- **Policies:**
 - Paradox of job creation
 - Migration restrictions
 - Wage subsidies
 - Combinations