Concepts of Development

Economic disparities are usually believed to be due to different levels of development, but in reality development is more complex and cannot be reduced to simple categories (e.g., core-semi-periphery-periphery). Some countries are, in fact developing, whereas many are caught in a seemingly never-ending cycle of impoverishment. Keys to development include relative location, access to raw materials and abundant labor, or cheap and abundant energy. However, one of the major keys remains effective transportation and communication systems supported by an organized and smooth functioning infrastructure.

Foundations for Development

As you should know by now, the **core** refers to regions with concentrations of employment, capital, and economic control. Cores develop when industries take advantage of agglomeration economies to reduce costs. Industries attract new investment to the core through:

- 1) **Backward linkages** (supplying firms with components and services).
- 2) **Forward linkages** (helping firms find uses and destinations for their products).
- 3) **Ancillary industries** (firms providing services for other corporations are attracted to a core when a critical threshold of economic activity is reached).

These attractions produce an upward spiral of economic growth, which is in part due to the impact of *in-migrants* (migrant workers within a state) and immigrants. These young, ambitious, and eager-to-work people create new markets for consumer goods. Furthermore, profits are reinvested into in innovative enterprises or research (**venture capital**), which further improves the comparative advantage of the core relative to other areas (e.g., improved accessibility would cut production costs).

Measures of Development

The global economic picture is characterized by enormous gaps between rich and poor countries, but the geography of economic well being also reveals regional disparities within countries at all levels of development. There are even areas within the industrialized countries themselves where change is slow in coming. For example, parts of the rural South in the United States still experience significant poverty and remain comparatively remote from the effects of national economic growth.

One measure of the development of a country is **GDP**, or **gross domestic product**. GDP only counts goods and services that pass through markets. Production that is not bought or sold does not generally get counted. Since countries vary widely in size, comparative studies usually focus on GDP **per capita** (total GDP divided by population). When one looks at the per capita GDP of various countries, one finds some countries that have per capita GDPs of only one or two hundred dollars. This statistic may mean that the inhabitants of such countries

are truly impoverished, or it may mean that most transactions are not market transactions. Another problem with GDP that has fascinated economists involves the size of the "**informal economy**," the economic activity unreported to the government because those engaged in it are attempting to avoid taxes. Work "under the table", the drug trade, or black markets are not formally calculated, regulated, or taxed, so they are not counted in GDP.

GNP, or **gross national product**, is a measure of the total value of the officially recorded goods and services produced by the citizens and corporations of a country in a given year. It includes goods and services produced both inside and outside the country's territory (and therefore broader than gross domestic product which encompasses only things produced within a country). **GNI**, or **gross national income**, is the sum of value added by all production plus any product taxes (less subsidies) not included in the income outside a country's territory. It is similar to GNP, except that in measuring the GNP one does not deduct the indirect business taxes (e.g., sales taxes).

Although interesting and telling, one of the many shortcomings of GNI (or GDP or GNP) is that it tells us little of the average citizen's material standard of living, or the distribution of wealth. The per capita GNI of Kuwait, for instance, is quite high compared to the world average . However, large amounts of wealth are derived from oil, and the wealth is certainly not evenly distributed. Very few people (usually the leaders, top businessmen, and their families) actually benefit from the revenues collected through the sale of oil (as well as other valuable resources or services). In sum, GNI may tell us the mean (the average), but not the mode (the most common income level).

Finally, GNI does not reflect any **negative spinoffs**, such as resource depletion or environmental pollution. It may even record these negativities as a plus. For example, cigarette sales would augment GNP, and if they cause sickness and hospitalization – that would boost GNP even further. Jails, extra security, or pollution cleanup would all augment GNI.

To establish a more balanced measure, GNI is often calculated with **purchasing power parity**, a technique used to determine the relative value of currencies, estimating the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent to (or on par with) each currency's purchasing power. It asks how much money would be needed to purchase the same goods and services in two countries (and more), and uses that to calculate an implicit foreign exchange rate. Because market exchange rates are based on short-term factors and are subject to substantial distortions, comparisons based on exchange rates, even when averaged over a period of time such as a year, yield unreliable and misleading results. GNI PPP conversions allow cross-country comparisons of economic totals on the basis of physical levels of output, free of price and exchange rate distortions.

This is controversial because of the difficulties of finding comparable baskets of goods (e.g., bread, gasoline, etc.) to compare purchasing power across countries. A popular and informal way of measuring the purchasing power parity between two currencies is the Big Mac Index, which compares the relative price of Big Macs.

THE BIG MAC INDEX

How many burgers you get for \$50 USD?



Still another measure of economic development in the

Human Development Index (HDI) published by the United Nations since 1993. The HDI measures the average achievements in a three country in basic dimensions of human development: 1) a long and healthy life, as measured by life expectancy at birth; 2) Knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary, and tertiary gross enrolment ratio (with onethird weight); and 3) a decent standard of living, as



measured by gross domestic product (GDP) per capita at purchasing power parity (PPP) in USD (\$). HDI is considered by many to be an excellent tool for measuring development, since both economic and social indicators are covered.

One thing to remember is that despite the differences we may see in developed countries as opposed to developing countries, all lie along a development continuum. In poorer less industrialized countries, there are **islands of development**. These are places where clusters of industries have emerged and rapid urban growth is taking place, producing local conditions that differ sharply from those prevailing in surrounding areas. Since no perfect measure of relative health, wealth, and education exists, alternative measures of economic development are often used. These include:

- 1) Occupational Structure of the Labor Force the percentage of workers employed in various sectors of the economy.
- Productivity per Worker the sum of production over the course of a year, divided by the total number of persons in the labor force.
- 3) *Consumption of Energy per Person* the greater use of electricity and power correlates with higher levels of development. This measure must also be viewed in the context of climate.
- Transportation and Communications Facilities per Person uses a per capita index for road, railway, airline, telephone, radio, television, internet, and so forth – also reflects infrastructure.
- 5) *Consumption of Manufactured Metals per Person* development can be measured by the quantity of steel, copper, , and other metals utilized each year.
- 6) *Dependency Ratio* a measure of the number of dependents, young and old, that each 100 employed must support. Many developed countries have a high dependency ratio due to the longer life spans.
- 7) *Social Indicator Rates* literacy rates, infant mortality, life expectancy, caloric intake, amount of savings,...