Economic development

Measuring living standards with real GDP per head and the Human Development Index, absolute and relative poverty and the policies to reduce it, population growth and structure, and why countries differ in economic development.

Economic development is the **improvement in people's standard of living and wellbeing** in a country, not just a rise in output. This chapter looks at how it is **measured**, **poverty**, **population** and why countries are at **different stages**.

5.1 Living standards

Indicators

Indicator	What it is
Real GDP per head	**real GDP ÷ population**: the average output (and so average income) per person, adjusted for inflation
Human Development Index (HDI)	a combined measure of **three components**: **income** (GNI per head), **education** (mean and expected years of schooling), and **health** (life expectancy at birth); scored from 0 to 1

Real GDP per head = real GDP ÷ population. For example, a real GDP of $500 billion and a population of 50 million gives $10,000 per head.

	Advantages	Disadvantages
Real GDP per head	**simple**, available for most countries, easy to compare over time and between countries	an **average**: hides **inequality**; ignores **non-market output** (unpaid work, the informal economy), **leisure**, **pollution**, **health and education**, and what is produced (weapons versus food)
HDI	includes **health and education**, not just income; easy to compare	still an **average**; ignores **inequality**, **environment**, **freedom and safety**; weights the three parts equally

Comparing living standards and income distribution

Reasons for differences between countries: income levels, **natural resources**, **education and health** systems, **productivity**, **technology**, **investment**, **political stability and corruption**, **trade**, **history**

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(colonialism), **climate**, **population growth**.

Within countries: **differences in income** (between regions, urban and rural, men and women, rich and poor), **unequal access** to education, healthcare and jobs, **tax and benefit policy**, **ownership of land and capital**.

5.2 Poverty

	Meaning
Absolute poverty	being **unable to afford basic necessities** (food, clean water, shelter, clothing); the World Bank sets an **international poverty line** of a few dollars a day, and countries set their own
Relative poverty	having **much less than the average** in the same country (for example below 60% of median income), so people cannot take part in normal activities

Causes

- **Unemployment**: no earned income.
- **Low wages**: a job but not enough to live on.
- **Illness**: cannot work and medical costs.
- **Age**: the **elderly** (no pension) and **children** in poor families.
- **Environmental factors**: droughts, floods, poor soil and natural disasters destroy livelihoods.
- Also: **lack of education and skills**, large families, **discrimination**, conflict, **debt**.

Policies to alleviate poverty and redistribute income

Policy	How it helps
Promoting economic growth	more jobs and incomes ("trickle down")
Improved education	raises skills and so wages and employment
Improved healthcare	healthier people can work; reduces medical costs
More generous state benefits	gives direct income support to the unemployed, sick and old
Progressive taxation	takes more from the rich to fund spending for the poor
National minimum wage	raises the pay of the lowest paid

Evaluation: growth may **not reach the poor**; benefits **cost** the government and may **reduce incentives**; a minimum wage may cause **unemployment**; progressive taxes may reduce incentives to work and invest.

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Often **a mix** of policies is needed.

5.3 Population

Factors that affect population growth

Term	Meaning
Birth rate	**number of births per 1,000** people per year
Death rate	**number of deaths per 1,000** people per year
Net migration	**immigration** (people coming **into** a country) **minus emigration** (people leaving)

Population change = (births – deaths) + net migration. Natural increase = birth rate – death rate.

Variations between countries:

	Why
Birth rates	**higher** in poorer countries: many children needed to work or to look after parents, **high infant mortality** (families have more to be safe), **less access to contraception and education for women**, cultural and religious attitudes. **Lower** in richer countries: women are educated and work, the cost of children is high, contraception, state pensions, later marriage
Death rates	**higher** in poor countries because of **poor healthcare, sanitation and nutrition**, disease and conflict; **lower** in richer countries, but may rise with an **ageing** population
Net migration	people move because of **push factors** (poverty, unemployment, war) and **pull factors** (jobs, higher wages, safety, family)

Size and structure of population

- **Optimum population**: the population size at which **output per head is highest** (resources are used best). **Overpopulation**: too many people for the resources (lower living standards). **Underpopulation**: too few people to use resources fully.
- **Effects of population growth**: a **bigger labour force** and market, but more **pressure on resources, housing, schools and healthcare**, and may **lower GDP per head** if growth is faster than output.
- **Effects of population decline**: **labour shortages**, a smaller market, but less pressure on resources.

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- **Age and gender distribution**: a **young population** has many dependants (children), costs for schools, but a growing future workforce; an **ageing population** has more **retired people** to support (pensions and healthcare), fewer workers and higher taxes. An **imbalance between men and women** (for example because of migration or discrimination) affects the labour force and families.

5.4 Differences in economic development between countries

Reasons countries differ, with causes and consequences:

Difference	Cause and consequence
Income	richer countries have higher output per head, so more resources for education, health and investment, a "virtuous circle"; low-income countries find it harder to escape poverty (a "vicious circle")
Productivity	low productivity means low output and wages (poor skills, little capital)
Population growth	very fast growth can mean more mouths to feed and fewer resources per head
Size of primary, secondary and tertiary sectors	developing countries are usually dependent on the **primary sector** (low value, price swings); developed countries have a large **tertiary** sector (higher value-added)
Saving and investment	low incomes mean little saving, so little investment, so little growth
Education	a more educated labour force is more productive and attracts investment
Healthcare	healthier workers are more productive; poor health lowers life expectancy and output
Natural resources	can help development (oil, minerals) but may be **mismanaged**, or lead to dependence on one export

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Explain two reasons why living standards are lower in country X than in country Y. Country X has lower productivity: workers have fewer skills and less capital, so output and incomes per head are low. Country X also invests less in education and healthcare because its government and households have little income to spend, so life expectancy and schooling are lower, which reduces its HDI. These can reinforce each other, trapping X in low development.

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