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Development Economics: Theory, Empirical Research and Policy Analysis

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Chapter 1

Contemporary Development Efforts and the Role of Economic Analysis

More people than we can imagine live lives of deep deprivation, worlds apart from the prosperity enjoyed by typical residents of the United States, Europe and other high income countries. As of 2004, of the world's 6.4 billion people, 2.5 billion lived on less than the equivalent of \$2 per day, while nearly 1 billion lived on less than \$1 per day.¹ In some of the poorest countries, many people are living on the edge of bare subsistence, life expectancy is under 50 years, one baby in 10 dies before reaching one year of age, and less than half the children ever attend primary school.

Even larger numbers of the world's population, though living at a level above mere subsistence, nonetheless live with far less comfort, convenience, security and opportunity than is typical of life in high income countries. Five billion people live in the “developing” and “transition” economies of Africa, Asia, Latin America, Eastern Europe and the former Soviet Union. While average income per person is \$44,260 in the United States, it is \$8800 in Brazil, \$3300 in Vietnam, \$2250 in Uzbekistan, \$1630 in Nepal, and a mere \$720 in Malawi.² For the majority of people living in the less affluent countries, even when they have enough money to feed their families, their work is long and hard, transportation is difficult and time consuming, their belongings and entertainments are few, public services are poor and difficult to access, and their futures are rendered uncertain by high risks of illness, crop failure and other adverse shocks capable of throwing them into poverty.

Facts like these motivate interest in the subject of development, which encompasses the wide variety of ways in which the material, physical, and social circumstances of life for people in the developing and transition economies can become better, and the processes, policies, and programs that can help bring those improvements about. Recognizing the need for development – especially the pressing needs of the poorest people in the developing world – a broad array of governments, inter-governmental organizations, non-governmental organizations (NGOs), socially responsible enterprises, and even billionaires and rock stars, are now committing time and resources to reducing poverty and promoting development in the developing world.

¹ Chen and Ravallion (2004).

² 2006 estimates of “Gross National Income per capita 2006, Atlas method and PPP”, reported in World Development Indicators (Online), World Bank, 14 September 2007.

(<http://siteresources.worldbank.org/DATASTATISTICS/Resources/GNIPC.pdf>)

Unfortunately, the good will and resources of these many activists and organizations – though potentially useful – are not by themselves enough to end poverty or encourage rapid development. Decades of attempts to promote development have produced only mixed success. While many efforts have indeed made it possible for more children to attend school, for farmers to increase crop yields, for poor households to begin new businesses, and for families to avoid the ravages of disease, many other resources have been wasted. In some cases money intended for development has ended up in the pockets of corrupt bureaucrats. Perhaps more often, money for development has been invested in policies and programs that just don't work very well, or in programs whose initial burst of impact soon faded away as tractors fell idle for lack of spare parts, roads decayed for lack of maintenance, or cooperation broke down as fatigue and conflict set in.

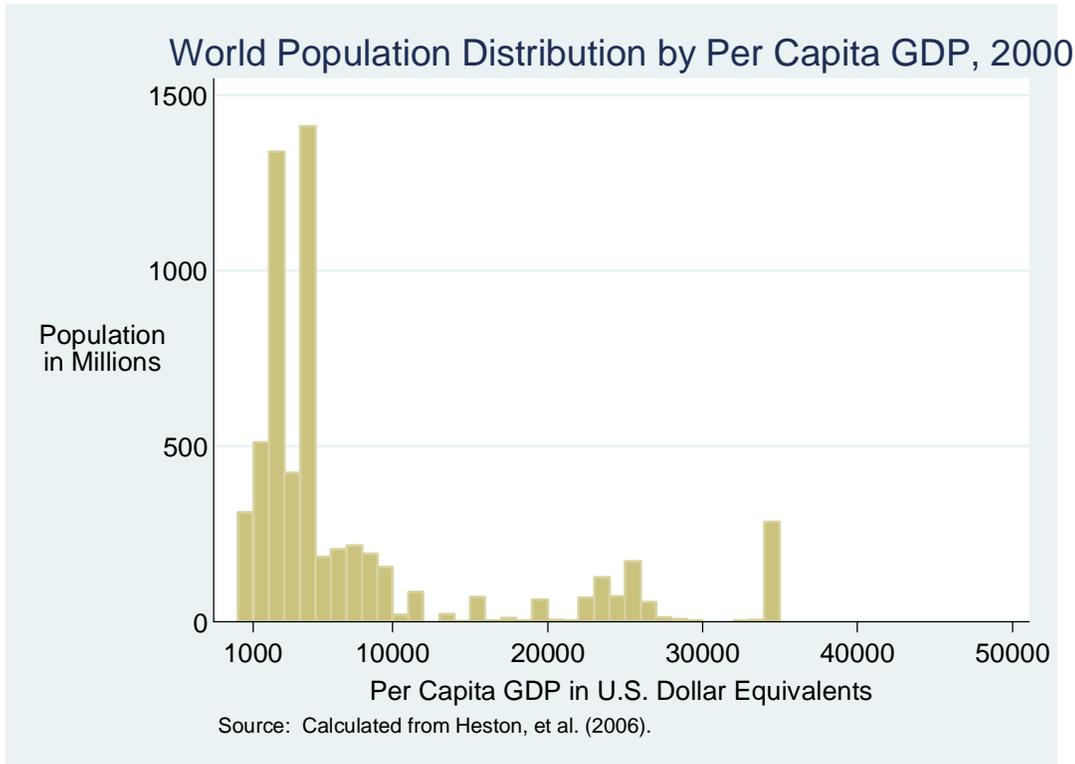
A first premise of this book is that significant, lasting and increasing success in development can be achieved only when good will and resources are directed to best use through analytical and evidence-based decision-making. A second premise is that the methods of economic analysis, adapted and applied to developing country contexts, are of great use in facilitating such high quality decision-making. The purpose of this textbook is to teach students to apply the tools of economic analysis in the study of development and policy, thereby equipping them for productive engagement with contemporary international development efforts, whether as practitioners, academics or concerned citizens of the world. This first chapter expands on the motivation, scope and purpose of the book.

Global Differences in Levels of Material Prosperity

Global differences in levels of material prosperity are vast, and living with little is far more common on this planet than living in plenty, as we can see in Figure 1.1. The horizontal axis measures countries' average income levels as of the year 2000 (as measured by **GDP per capita**, a measure of average annual income that we will define and examine more closely in Chapter 3), while the vertical axis measures the number of people living in countries with average income in the given ranges.³

Figure 1.1

³ For the purposes of comparing the goods and services that may be commanded on average within countries, the average income figures for all countries are converted into U.S. dollar equivalents using what are called *purchasing power parity exchange rates*. To calculate these exchange rates, which differ from official or black market exchange rates, researchers were sent to each country to find detailed baskets of identical goods, and to evaluate the price of those goods in local currencies. The purchasing power parity exchange rate between pesos and dollars, for example, is the ratio of the peso price of a particular basket of goods and services divided by the dollar price of the same basket. For more on this, see Kravis (1986).

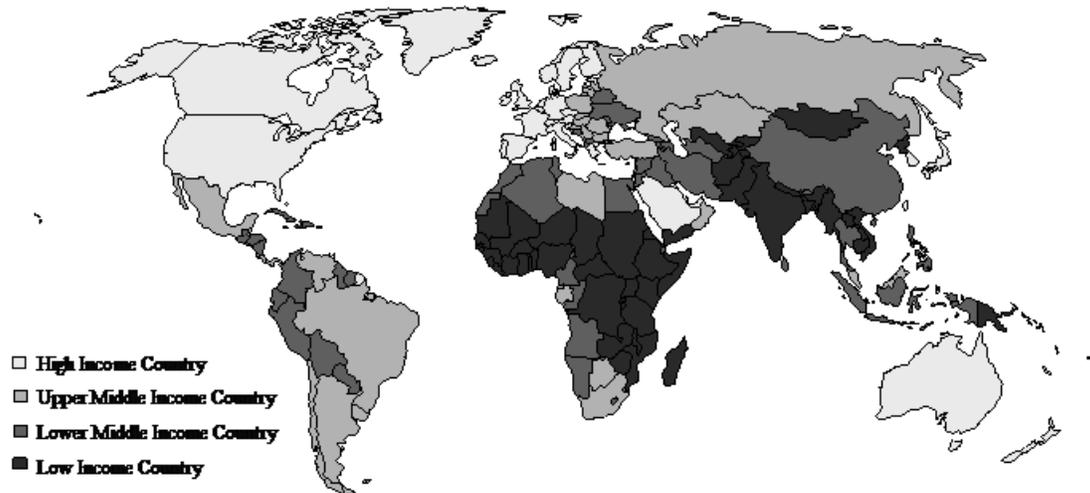


Of the 188 countries included in the calculations for this graph, the country registering the lowest average income (\$359) is the Democratic Republic of Congo (DRC). The highest average income is Luxembourg's \$48,213, which is 134 times higher than the DRC's! With such a small population in Luxembourg, and with no other countries exhibiting similar average incomes, the bar representing the world population living at the \$48,000 average income level is virtually invisible in the graph. The country with next highest average income (\$34,364) is the United States, whose large population contributes to a much larger bar in the chart. Notice, however, how small the population living at the \$34,000 level appears compared to the population living at just a small fraction of that level. While 4.7 percent of the world's people live in countries with average income greater than \$34,000, more than twice that many live in countries where average income is one thirtieth of that or less, and over 4 *billion* people (the combined heights of the first five bars in Figure 1.1) live in countries where average income is less than one sixth of the U.S. level. Six-fold differences in average income levels mean large differences in the availability of resources for meeting needs and generating well-being!

The map in Figure 1.2 gives geographic grounding to these differences in average annual income. The darkest shading in the graph represents countries classified as "Low Income Countries" with 2006 annual income per capita under \$905. Many of these countries are located in Sub-Saharan Africa. The next two shadings indicate countries classified as "Lower Middle Income Countries" and "Upper Middle Income Countries", with per capita incomes in the ranges \$906 to \$3595 and \$3596 to \$11,115. Countries at these levels are found throughout Africa, Latin America, and Asia. The lightest shading

indicates “High Income Countries,” with The lightest shading indicates “High Income Countries,” with per capita incomes of at least \$11,116.

Figure 1.2
Geographic Distribution of Low Average Incomes



Large Numbers of People Living in Deep Poverty

Information on average income, such as that employed in Figures 1.1 and 1.2, is useful and thought-provoking, but falls far short of fully describing material prosperity and deprivation, for at least two reasons. First, average income figures tell us how much income every person in a country would have *if* all the income were divided equally, but tells us nothing about how income actually is distributed. Two countries may have the same average income, but the prevalence of people living with very low incomes may be much greater in one of the countries, if income is distributed much more unequally there. Second, information on peoples’ incomes does not tell us everything we might wish to know about the quality of their life and their level of well-being. Two people may have the same income, but differ in their ability to obtain clean water or good education, or in the risk they face of suffering death or disability as the result of disease. Thus in seeking to understand the nature and spread of world prosperity and deprivation, we will find it useful to study statistics that look beyond averages, and beyond income, to the living conditions of individuals and households within countries. Tables 1.1 and 1.2 offer a few examples.

Table 1.1
Income Poverty Statistics by Region of the World

	Total Population of	Population Living on	Population Living on
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Region	Region (Millions)	Less than \$1 Per Day		Less than \$2 Per Day	
		Millions	Percent	Millions	Percent
World	6361.9	969.5	15.2	2547.9	40.0
OECD	928.1	0	0	0	0
All Low and Middle Income Countries	5358.4	969.5	18.1	2547.9	47.5
Eastern Europe and Central Asia	471.5	4.4	1.0	46.2	9.7
Middle East and North Africa	300.5	4.4	1.5	59.2	19.7
East Asia and the Pacific, excluding China	572.8	40.9	7.1	314.1	54.8
Latin America and the Caribbean	543.6	47.0	8.6	120.5	22.2
China	1296.2	128.3	9.9	452.2	34.9
South Asia	1446.6	446.1	30.8	1115.6	77.1
Sub-Saharan Africa	726.7	298.7	41.1	523.0	72.0

Source: World Development Indicators Database (Online), accessed July 2007. Estimates are for 2004. See also Chen, Shaohua, and Martin Ravallion. "Absolute Poverty Measures for the Developing World, 1981-2004." *Development Research Group, World Bank*. World Bank Policy Research Working Paper 4211, April 2007.

Table 1.1 presents commonly used measures of **income poverty**, by regions of the world. We will discuss poverty measures in more detail in Chapter 4. These income poverty measures identify people as "poor" if the per capita income within their households falls below a specified level. The second and third columns present the numbers of people, and fraction of the population, living on less than the equivalent of roughly \$1 (one U.S. dollar) per day (or just \$365 per year). The fourth and fifth columns report the numbers of people and fraction of the population living on less than \$2 per day. Though the \$2 per day reference income level is more generous than the \$1 per day level, it still identifies only people who would be considered very poor by developed country standards. Banerjee and Duflo (2007) point out, for example, that the official poverty criterion in the United States works out to around \$13 per person per day. These data reveal that world income poverty is broad and deep. Nearly half the population of the developing world – and nine times the population of the entire United States! – lives on less than \$2 per day. And of course vast numbers of people live with incomes only somewhat higher than the \$2 per day level, and would be considered poor by any developed country's standards. Pritchett (2006) suggests using the minimum threshold of

\$10 per day for identifying people who are not poor, and calculates that only 0.8 billion of the world’s people enjoy incomes above this level.⁴

The income poverty rate figures also illustrate great diversity across geographic regions in the breadth and depth of poverty. In the bottom segment of the table, the regions of the developing world are listed in the order of increasing fraction of the population living on less than \$1 per day. These fractions range from 1 percent in Eastern Europe and Central Asia to 41 percent in Sub-Saharan Africa. Fractions of the population living on less than \$2 range from 10 to 72 percent. Comparison of the \$1- and \$2-dollar-per-day poverty figures also reveal greater typical depth of poverty in Sub-Saharan Africa, where 57 percent of those with incomes under \$2 per day have incomes lower than the more severe threshold of \$1 per day. The comparable share is 40 percent in South Asia and under 10 percent in Eastern Europe and Central Asia and in the Middle East and North Africa

Table 1.2 complements the income-based measures of poverty with more **direct measures of deprivation**. For many of the world’s people, life is short, the death of children is commonplace, hunger is the norm, creating a better life for children through education is an insurmountable challenge, and even the most basic precautions against disease are lacking. In all these areas, Sub-Saharan Africa stands out as exhibiting the greatest levels of deprivation, with life expectancy below 50 years, nearly 1 in 10 babies dying before age 5, a third of the population malnourished, less than one third of children attending secondary school, half the population lacking access to “improved” drinking water (i.e. drinking water that comes from a source that is treated to render it healthy) and two-thirds lacking even the most basic sanitation facilities. Such poverty is not confined to Africa, however. Pockets of such poverty may be found within countries throughout the developing world.

Table 1.2
Living Standards Indicators by Region of the World

Region	Life Expectancy at Birth (Years)	Infant mortality rate (deaths per 1000 live births)	Prevalence of under-nourishment (percent of population)	Secondary School Gross Enrollment Rates		Percent of population with access to improved water source	Percent of population with access to improved sanitation
				Boys	Girls		
OECD	79.3	4.8	2.5	100.9	92.1	99.5	100.0
All Low and Middle Income Countries	65.4	55.9	16.0	63.1		80.1	51.6

⁴ In 2008 the World Bank suggest revising the threshold income level defining extreme poverty from \$1 per day to \$1.25 per day, for reasons described in Chen and Ravallion (2007). Naturally, such a revision increases estimated world poverty rates. The simple \$1 and \$2 per day thresholds remain popular in discussions of global poverty.

Eastern Europe and Central Asia	69.2	26.8	5.6	90.5		91.9	
Middle East and North Africa	69.4	43.4	6.9	76.6	69.8	89.5	76.2
East Asia and the Pacific, excluding China	68.0	34.3	12.7	67.1	66.7	65.7	65.7
Latin America and the Caribbean	72.5	26.1	9.6	82.4	89.1	91.0	77.2
China	71.8	23.0	12.0	72.5		77.0	44.0
South Asia	63.5	62.0	21.4	54.2	44.5	84.4	37.2
Sub-Saharan Africa	46.7	96.3	30.0	34.1	26.8	56.2	37.1

Source: World Development Indicators Database (Online), accessed July 2007. Estimates are for 2004, with the exception of Life Expectancy and Infant Mortality (which are for 2005).

Life in Poverty: Ethiopian Experience

Imagine living in rural Ethiopia, where the vast majority of the population lives on less than \$2 per day. You make your living by growing your own food on a small plot of land using only your own labor, the labor of your children and -- if you are fortunate -- a donkey or an ox. None of the adults in your village has ever been to school, and few of the children attend the nearest primary school, which lies several kilometers down a dusty, rutted track. You and your five children live in a one-room hut with a thatched roof and earth floor. You have no electricity, no running water, and your “bathroom” is the open field. You eat the same few foods at every meal -- when you have food. You depend on rain to make your crops grow, and you know that every few years you and your neighbors will be struck by drought. You will do what you can, but your children will go hungry. Some of them will die.

Is this a distorted picture of life in Ethiopia? Perhaps a few Ethiopians live like this, but do many? Unfortunately, Table 1.3 suggests that this picture is not far off for a great majority of Ethiopians. The figures in the table are calculations based on Ethiopia’s Welfare Monitoring Surveys of 2000 and 2004. The Ethiopian government, with assistance from international organizations, sent interviewers out to administer questionnaires to a large number of Ethiopian households, with the aim of describing living standards around the country. Desire to quantify current living standards, and then chart progress toward living standards improvement goals, has led many countries to undertake such data collection efforts over the last two decades.

Table 1.3

Ethiopian Living Standard Statistics

	Rural	Urban
Total number of households (millions)	11.3	2.1
Total number of individuals (millions)	55.6	9.1
Percent of households in country	86.0	14.0
Median:		
• Number of members	7	6
• Number of rooms	1	2
Percent of households with:		
• Female head of household	17.7	34.3
• Illiterate head of household	67.8	35.0
• Grass roof	66.2	6.0
• Corrugated iron roof	24.6	91.3
• Electric lighting	1.2	74.1
• Using collected firewood for fuel	80.5	19.1
• Using “field or forest” for toilet	77.3	19.3
• Using unprotected water source	77.2	9.3
Percent of households experiencing food shortage in last 12 months	35.2	16.4
Percent of households more than 5 kilometers from the nearest:		
• Primary school	30.0	1.1
• Secondary school	92.3	13.8
• Health center	69.0	5.6
• All weather road	62.5	1.6
Percent of children 7 to 14 years old who are registered to attend school	38.7	84.1
Source: Author’s calculations employing Ethiopia’s Welfare Monitoring Surveys of 2000 and 2004. All statistics refer to 2004 except those relating to shares of households living more than 5 km. from nearest schools, health center and all weather road, which refer to 2000. The samples are representative only of the non-nomadic population.		

According to Table 1.3, 85 percent of Ethiopians live in rural areas. The statistics in the first column, which pertain to rural Ethiopia, tell us, for example, that indeed 66.2 percent of households there live in homes with thatched roofs, and 77.3 percent use field or forest

as their toilet. The statistics in the second column suggest that life circumstances may be a bit better for the few Ethiopians who live in urban areas. Grass roofed huts are replaced by shanties with corrugated tin roofs, and access to improved water, electricity, schools and health centers is much more likely, though certainly not guaranteed. But life is still uncomfortable and hard.

While imaginative contemplation of facts like these can teach us quite a bit about life in poverty, it has some profound limitations. For people raised in the United States, Western Europe or other parts of the developed world, it is difficult for us to imagine fully what it is to live in a place like Ethiopia. It is difficult even if we have traveled to Ethiopia, and perhaps even lived for a time in poor villages, because our visits are temporary. We can only begin to imagine what it is like to have no hope of anything better.

For millions of Ethiopians no imagination is necessary. Poverty like this is the only life they know. Listen to what some of them have to say about what their life is like:⁵

“Living by scratching like a chicken.”

“Life has made us ill.”

“We are skinny.”

“We are above the dead and below the living.”

“We simply watch those who eat.”

“Difficulties have made us crazy.”

“From hand to mouth.”

“A life that is like being flogged.”

“Just a sip and no more drop is left.”

“If one is full, the other will not be full.”

“Always calf, never to be bull.”

“Development” as an Objective

The statistics and images of the preceding three sections raise pressing questions: Why are living standards so much lower in some countries than in others? What processes might lead to significant improvements in living standards for the world’s poor people, and how quickly are they likely to do so? What might be done to speed the rate of improvement? These are the big questions that motivate and guide the study of development.

But how do we define “development”, exactly? The term may be used to mean both an objective and a process. As an objective, development is the improvement in peoples’

⁵ In preparation for the World Development Report of 2000/01, the World Bank undertook participatory poverty studies around the world. In *Voices of the Poor: Crying Out for Change* (Narayan, et al., Oxford University Press, 2000), which summarizes the results of these studies, the authors provide the sentences listed in the text as examples of “phrases used by poor men and women in Ethiopia to express their state of ill-being.”

well-being that many developing country governments, international development organizations, and other development actors pursue with great passion. Articulating a precise definition of the development objective is surprisingly difficult and contentious, because the “improvement in peoples’ well-being” that we might hope development will bring is highly multidimensional. Development actors with diverse values and beliefs might differ in the priorities they place on improvements of different types. An umbrella definition of the development objective that captures the general concerns shared by most development actors, while leaving room for differences in their priorities and beliefs, is this: *sustained improvement in the well-being of a country’s many people, with special emphasis on improvements for the poor.*

This definition captures three dimensions of concern shared by most development actors. First, the ultimate aim in development is not to generate good statistics but to make life better for real people. Second, the hope in development is for improvements that are broadly shared by a country’s many, diverse people, especially the poor. Third, development involves sustained, on-going improvement, because even if well-being in the world’s poor countries were to improve at the highest rates ever achieved, the improvement would need to be sustained over many years to close the vast global gaps in living standards evident today.

The umbrella definition also allows, however, for diversity in development actors’ more specific definitions of their development objectives, along at least three dimensions. First, development actors may differ in exactly how they define and measure the well-being of an individual or household. For some, well-being and income are nearly synonymous. Other development actors place much less weight on income and more on other dimensions of life circumstances (such as access to health care, political freedom, sense of vulnerability to life-disrupting illness or job loss) when evaluating well-being. The text digs more deeply into these issues in Chapter 2.

The second dimension along which development actors’ objectives might differ pertains to how, exactly, they weigh the experiences of diverse people against each other when evaluating overall development success. Some development actors may value only improvements enjoyed by the poor, and may be willing to count improvements for the poor as success even when they come at great cost to the non-poor. Others may give more equal weight to changes experienced by the poor and non-poor, and may be much more reluctant to conclude that development policies have been successful when the benefits for some are balanced by comparable costs for others.

Third, development actors differ in the relative weights they place on immediate and longer-term improvements. Some development actors place great premium on meeting the immediate needs of today’s poor, even if the assistance given to the poor provides them only temporary help. Other development actors, while maintaining concern about today’s urgent needs, are more willing to postpone the enjoyment of improvements, if by doing so they can produce larger and longer-lasting improvements in the future.

Chapters 3 and 4 examine measures of aggregate socio-economic change (related to concepts of economic growth, poverty, inequality and vulnerability) that are useful in studying development progress. Differences in development actors' priorities and beliefs imply that they will differ in the weights they place on these various measures when defining their goals and evaluating success.

“Development” as a Socio-economic Process

As an objective, development is the widespread and sustained improvement in well-being that we might hope for and work toward. As a process, development is the web of economic and social change through which those widespread and sustained improvements in well-being come about. A key function of this text is to help readers build up an understanding of this process and of the socio-economic system within which this process takes place.

Central to the development process are **investments** in the accumulation of **assets**, where “assets” are broadly defined to include not only machines and business inventories, but roads, wells for safe drinking water, education, health, knowledge of new technological possibilities, social insurance institutions, and more. Creation of such assets expands the economy's capacity to provide people with the goods, services, security and opportunities from which they derive their well-being. Development proceeds most successfully when a healthy quantity and array of assets (of different types and in different geographic locations) are being created, when the assets themselves are of high quality and durability, and when they are distributed and deployed in ways that channel their benefits broadly throughout society.

If we are to understand what determines the quality, nature and quantity of assets that an economy creates, and the way those assets are deployed, we must recognize the role that diverse people throughout society play in shaping those outcomes, as they make choices about where to work, what crops to produce, what food to buy, how much money to save, whether to send their children to school, what investments to undertake, and more. We will see that the choices they make are shaped by the assets they already own or have access to, and by the conditions they face in markets and “non-market institutions”. We will conceive of “**markets**” in the standard way, as forums in which individuals seeking to buy and sell goods and services, and who are primarily motivated by self-interest, interact in a way that determines the prices at which sales and purchases take place. We will use the term “**non-market institutions**” to refer to forums for exchange that do not involve explicit buying and selling, and which may not be shaped solely by self-interest, but which nonetheless allow people to exchange goods, services, or information with one another, or allow people to cooperate in paying for and enjoying the fruits of collective efforts. Non-market institutions range from formal organizations with codified rules of operation to informal norms shaping acceptable or customary behavior. The opportunities and constraints people face in markets and non-market institutions are, in turn, determined through the interaction of many people. We must thus develop analytical tools for analyzing not only the decisions made by individuals, but also for analyzing the functioning of the markets and non-market institutions within which they interact.

We will see that even in the absence of intervention by governments or other development actors, many people will make choices that contribute to development progress. We will also learn, however, that some choices with the potential to advance development may be very difficult for private individuals to undertake in the absence of intervention. We will see the potential for well-designed interventions by governments and other development actors to help people achieve greater development success, as well as the potential for poorly designed interventions to reduce the speed or quality of the development process.

Part II of the text expands on the “big picture” of how asset creation, together with associated changes in markets and non-market institutions, might bring about broad-based and sustained improvements in well-being. Part III then builds up a more detailed set of tools for analyzing the many decisions that determine the speed and quality of development, and the functioning of the markets and non-market institutions within which those decisions are made.

Contemporary development actors

A large and diverse set of organizations around the world intervene in the socio-economic systems of developing countries, seeking to speed and enhance development progress by implementing policies, projects and programs of various sorts.

Perhaps the most visible development actors in the international press are **multilateral development organizations**, including affiliates of the World Bank and United Nations. The World Bank (www.worldbank.org), created in 1945, is a set of five international organizations, to which 185 countries belong and which operate together as a development bank. Initially created to support reconstruction in Europe, it is now devoted to promoting development in low and middle income countries with grants, loans, policy advice, technical assistance and knowledge sharing services. Central to the mandate of the United Nations (www.un.org), also created in 1945, is the promotion of higher living standards around the world. The pursuit of this objective, which constitutes 70 percent of its work, is carried out through many specialized agencies within the U.N. system, including the United Nations Development Program (UNDP), the UN Children’s Fund (UNICEF), the World Food Program (WFP), the UN Industrial Development Organization (UNIDO) and the UN Educational, Scientific and Cultural Organization (UNESCO), which have offices and field workers around the world.

Bilateral organizations manage the efforts of individual developed country governments as they participate in the development efforts of low- and middle-income countries. These institutions operate largely in direct partnership with developing country governments. For example, the U.S. Agency for International Development (USAID, www.usaid.gov), created in 1961, is a U.S. federal government agency that supports long-term growth and the achievement of U.S. foreign policy objectives in Sub-Saharan Africa, Asia and the Near East, Latin America and the Caribbean, and Europe and Eurasia. Its counterpart in the United Kingdom is the Department for International

Development (DFID, www.dfid.gov.uk) and in Sweden is the Swedish International Development Authority (SIDA, www.sida.org).

Though these multilateral and bilateral organizations undertake development efforts of tremendous geographic scope and with the highest profile in the media of rich countries, in any one developed country they are just a few of the many organizations pursuing development. Increasingly, diverse development actors are recognizing the importance of consulting with each other and coordinating their efforts, often under the direction of **country governments**. Government development efforts involve many ministries and departments, but a single government organ often shapes the overall development strategy. For example, the Kenyan Ministry of Planning and National Development (www.planning.go.ke) articulates its mission in this way: “to provide leadership in formulating, coordinating and implementing national policies for sustainable development,” placing great emphasis on poverty reduction programs.

Non-governmental organizations (NGOs) of many sorts are of great importance in day-to-day development efforts, and are becoming increasingly involved in debates about development strategies. Some **international non-governmental organizations** have geographic reach similar to that of the large multilateral organizations. For example, CARE (which stands for “Cooperative for Assistance and Relief Everywhere, Inc., www.careusa.org) “works with poor communities in 70 countries around the world to find lasting solutions to poverty.” CARE works directly with communities (rather than with their country governments), though, like many international NGOs, it is becoming increasingly involved in policy debate, support and advocacy. Alongside the large international non-governmental organizations work many smaller international non-governmental organizations, which may focus on development work in a single country, or on providing solutions to single problems (such as leprosy or low primary school enrollment) in just a few countries.

Other NGOs of great vitality and creativity are home grown in the developing countries themselves. Most of these **local NGOs** never reach the newspapers in the developed countries, though a few have drawn attention for their economic and social innovations and achievements. One such organization is the Self Employed Women’s Association (SEWA, www.sewa.org) in India. Established in 1972 as a trade union of self employed women, it now promotes full employment and self reliance among poor women not only through organizing campaigns, but also through cooperative banking, and the provision of health care, child care services and other services.

Development actors relate with one another through yet another wide array of institutions. Organizations working toward similar ends often form **alliances or umbrella organizations**, to coordinate efforts, share knowledge and partner in advocacy. For example, InterAction (www.interaction.org) is the largest alliance of U.S.-based international development and humanitarian organizations, and the British Overseas NGOs for Development (BOND, www.bond.org.uk) is the United Kingdom’s largest network of voluntary development organizations.

Recent years have seen increased commitment to poverty reduction and development by the owners of **for-profit corporations and enterprises** who wish to use some or all of their business activities or profits in “socially responsible” ways. These actors range from for-profit microfinance institutions that seek to help poor households by extending small loans to them, to manufacturing enterprises that take an interest in the health and education of their workers, to large and formal **foundations** funded by highly profitable businesses, such as the Bill and Melinda Gates Foundation (www.gatesfoundation.org).

Another set of for-profit poverty reduction and development actors are **development consulting firms**, such as Abt Associates (www.abtassociates.com) and Development Alternatives, Inc. (www.dai.com), who contract with multilateral, bilateral and government organizations to design, implement or evaluate their programs.

A final set of actors whose behind-the-scenes efforts seek to facilitate poverty reduction and development are a wide range of **academic researchers** at universities and other research institutions around the world. Through their teaching they equip development practitioners with ideas, knowledge and analytical tools. Through their research they enhance understanding of the constraints that shape the impacts of development policies and programs. Increasingly, academics, such as those associated with the Poverty Action Lab at MIT (www.povertyactionlab.org) are employing high quality research tools in careful evaluation of the impacts of real world programs, shedding new light on the relative merits of various poverty reduction and development approaches.

Within individual developing countries, increasing efforts are being made to bring together the broad range of development actors, together with other elements of civil society (such as religious organizations), to diagnose needs for poverty reduction and development, to debate development strategies, and to coordinate development efforts. A large number of prominent international development actors voiced support for such coordinating efforts in the 2005 Paris Declaration on Aid Effectiveness (<http://www.oecd.org/dataoecd/11/41/34428351.pdf>).

The Millennium Development Goals

Many actors have rallied around the United Nations’ **Millennium Development Goals** (see Table 1.4) as a galvanizing general statement of shared intentions. The goals emphasize a shared desire to improve the lives of the world’s most destitute along a variety of dimensions that are crucial for well-being. They also reflect a shared sense that success in development work must be judged by results rather than by the strength of good sentiments or the volume of the resources that go into development efforts, and that true success is more likely to be achieved when goals are clearly defined and actors are held accountable for success through efforts to measure their progress. Finally, the goals reflect a perceived need for more coordination among development actors within the countries in which they work.

Table 1.4
The Millennium Development Goals

GOALS	TARGETS TO BE ACHIEVED BETWEEN 2000 AND 2015
Eradicate extreme poverty and hunger	<ul style="list-style-type: none"> ○ Reduce by half the proportion of people living on less than a dollar a day ○ Reduce by half the proportion of people who suffer from hunger
Achieve universal primary education	<ul style="list-style-type: none"> ○ Ensure that all boys and girls complete a full course of primary schooling
Promote gender equality and empower women	<ul style="list-style-type: none"> ○ Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015
Reduce child mortality	<ul style="list-style-type: none"> ○ Reduce by two thirds the mortality rate among children under five
Improve maternal health	<ul style="list-style-type: none"> ○ Reduce by three quarters the maternal mortality ratio
Combat HIV/AIDS, malaria and other diseases	<ul style="list-style-type: none"> ○ Halt and begin to reverse the spread of HIV/AIDS ○ Halt and begin to reverse the incidence of malaria and other major diseases
Ensure environmental sustainability	<ul style="list-style-type: none"> ○ Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources ○ Reduce by half the proportion of people without sustainable access to safe drinking water ○ Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020
Develop a global partnership for development	<ul style="list-style-type: none"> ○ Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. Includes a commitment to good governance, development and poverty reduction—nationally and internationally ○ Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction ○ Address the special needs of landlocked and small island developing States ○ Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term ○ In cooperation with the developing countries, develop decent and productive work for youth ○ In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries ○ In cooperation with the private sector, make available the benefits of new technologies—especially information and communications technologies

Source: <http://www.un.org/millenniumgoals/>

The Millennium Development Goals (MDGs), and especially the call to cut in half the number of people living on less than \$1 per day, have provided the foundation for rallying calls among advocates of greater rich country contributions to poverty reduction and development in the rest of the world. They tie together economist Jeffrey Sachs's bestseller *The End of Poverty* (Sachs, 2005), rock star Bono's One Campaign (www.one.org), Bob Geldorf's Live 8 concerts (www.live8live.com), and former Prime Minister Tony Blair's efforts to focus the agenda of the 2005 Gleneagles G8 summit on debt relief for the world's poorest nations and a doubling of aid to Africa (www.g8.gov.uk).

The MDGs are not, however, beyond criticism as guides for international development efforts. Collier and Dercon (2006) point out several ways in which the focus on the MDGs might lead to important imbalances in development efforts. By emphasizing only the definition and measurement of development *goals*, the MDGs may draw resources away from efforts to understand the socio-economic *processes* through which the goals may ultimately be achieved. By focusing on the reduction of poverty as measured by current income and access to social services, the MDGs might lead development actors to place too much emphasis (by at least some peoples' reckoning) on efforts that deliver the most immediate improvements in well-being, and that deliver improvements in the most direct and obvious ways, to the neglect of policies and programs whose effects are slower and more indirect but are longer-lasting and may ultimately be of greater use for erasing vast global differences in living standards. For example, the MDGs may encourage excessive emphasis on programs that directly distribute cash to the poor over efforts to build infrastructure supporting new export activities that could increase the demands for many types of labor and effect long-lasting increases in the wages earned by poor and non-poor households alike.

By helping the reader to think broadly and critically about development objectives and the development process, this text aims to help readers perceive and avoid potential imbalances in the definition of development objectives and the design of development strategies.

Development policies, projects and programs

Development actors pursue their objectives through the design and implementation of policies. In this textbook we use the term “**policies**” to refer to the wide range of policies, projects and programs that development actors might undertake in their efforts to achieve development objectives. We will divide policies into three broad categories: policies of intervention in markets for goods and services, policies promoting asset creation, and policies providing safety nets.

Policies of intervention in markets for good and services (analyzed in Chapters A and B of the text) have the longest and most contentious histories in development, and must be implemented by country governments (with possible support by other development actors). These policies tax, subsidize or regulate transactions in specific markets, or, in the extreme case, get the government directly involved in these transactions as buyers or sellers. The government may, for example, impose a tax on rice exports or impose tariffs on imports of clothing. It may subsidize the sale of key inputs into the production of soybeans or semi-conductors. It may take over the marketing of wheat, requiring farmers to sell their wheat only to the government at a price the government sets, and requiring consumers to buy wheat only from the government shops at a government-set consumer prices.

A wide variety of development actors implement policies to promote asset creation (analyzed in Chapters C through G), in which the development actors either invest

directly in the creation of assets or encourage asset creation by others. The assets involved may be roads, machines, education, health, technological ideas, or other physical or human assets, and policies may encourage their creation in diverse ways. Governments or other development actors might build roads, engage in agricultural research, run schools or provide immunizations to children. They might instead pay private sector contractors to undertake such activities or create grant schemes through which they finance such activities by community groups. Development actors might also hope to enhance investment in business assets by private individuals by improving their access to credit, enhancing their ability to “save up” for investments, or improving their confidence in their future ability to reap returns on their investments.

Diverse development actors also engage in safety net policies (examined in Chapters H and I), which direct cash, goods or services to households in pressing need. The programs may aim to provide long-term assistance to people who are unable to benefit directly from improved income generating opportunities brought by development (because, for example, they live in households with few able-bodied workers) or short-term assistance to those who have been hit by shocks that leave them temporarily unable to enjoy income generating opportunities (perhaps because their crops have been hit by drought or disease, or because they have lost a job and must search for a new one). Increasingly they are designed to provide recipient households not only with extra income, but also with stronger incentives to engage in development-oriented behaviors, such as sending children to school or working on projects that create infrastructure.

The Pressing Need for Good Decision-Making

Engaging in development policies is costly. Development practitioners bring much good will and many resources into these efforts, but the resources remain profoundly limited in the face of vast needs (see Box 1.1). In addition to being scarce, the resources for development efforts are at great risk of being wasted. Resources may be diverted away from productive programs through corrupt practices. Resources may instead find their way into real programs, but may fail to improve anyone’s wellbeing. This would be the case, for example, when the recipients of small business development loans discover that they can’t sell their new products profitably, and find they must reduce consumption or sell off their meager assets to pay back loans. For dismaying but insightful litanies of development failures, see recent books by William Easterly (2001, 2006).

Box 1.1 Resources for Development Efforts

Fully quantifying all of the resources (i.e. food, concrete, time, talent, computers, etc.) committed to development work each year is an impossible task, but we may begin to understand the orders of magnitude involved by quantifying the money committed to this work by key actors. Even here, we will at best come up with very rough approximations, because there is no central repository for information of this sort, and there are no standards for identifying money spent on “development work,” as distinguished from the many other activities to which governments, philanthropic organizations and for-profit enterprises might devote money.

One of the highest profile sources of funds for development work is “foreign aid” from developed countries. The most comprehensive information regarding money spent by organizations outside the developing world on development efforts is collected by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD), and available at www.oecd.org/dac (see statistics). According to DAC statistics, in 2004 the 22 member countries of the DAC (which are by far the largest source of this funding) sent \$80 billion through official bilateral and multilateral channels. Philanthropic foundations and non-governmental organizations in these countries contributed another \$11 billion. Non-DAC countries (primarily in Eastern Europe and the Middle East) accounted for another \$4 billion. Altogether, this sums to \$95 billion in external funding for poverty reduction and development in the developing world.

While \$95 billion is certainly a large sum of money, it would have to be stretched very thin even to reach all of the 2.7 billion people living on less than \$2 per day around the world. If it could be distributed directly to these people without having to spend any of the resources on identifying the poor and administering the program (which we will discover in later chapters is a costly and difficult task), on-going funding at this level would increase their incomes by about 10 cents per day. An extra 10 cents might constitute a noticeable improvement for someone living on \$2 a day, but would certainly fall far short of raising living standards to levels considered acceptable in developed countries.

Given that much poverty reduction and development work seeks not merely to prop up incomes with on-going transfers but also to invest in activities that produce income increases lasting long after the money has been spent, it might be more appropriate to consider what would happen if the \$95 billion could be invested in assets whose returns are distributed to the 2.7 billion people living on less than \$2 per day. If the \$95 billion per year were invested in assets producing a 10 percent per year dividend forever, and if the dividends could be costlessly and evenly distributed to the poor, then each year of funding at this level would add about 1 cent per day to incomes on a permanent basis. Over several decades the cumulative effect might be to raise incomes by 30 cents per day. Though more substantial and more permanent than the effects associated with simply distributing the cash, such improvements are still rather small. Keeping in mind that finding good investments and distributing resources is far from costless, we must also remember that these rough calculations are overly optimistic. We must conclude that current foreign aid flows, while of great value, remain small in the face of great challenges.

Though foreign aid receives a great deal of attention in international discussions of development, it is far from being the only source of funds for this work. Developing country governments themselves raise revenues through taxation that may be put to work in a variety of activities, including poverty reduction and development efforts. In fact, a back-of-the-envelope calculation suggests that this is a substantially larger source of funding for development efforts than foreign aid. Using data on 60 developing countries for which the relevant information is available for 2003 in the *World Development Indicators Online* database, we find that government revenue (excluding grants) ranges from 8.8 to 53.5 percent as a percentage of Gross Domestic Product (a measure of national income, defined in more detail in Chapter 5), with a GDP-weighted average of approximately 17 percent. If we apply this 17 percent to the entire GDP of the low and middle income countries, we estimate that government revenue in the developing countries is on the order of \$1.2 trillion. Large fractions of this revenue are required for government activities that we might not wish to classify as developmental (including military expenditures and government subsidies that primarily benefit the wealthy). Indeed, the fact that high income countries collect an average of 26 percent of their higher GDPs in government revenue suggests that there are many things for governments to spend money on even outside of pressing poverty reduction and

development goals. Even if only one third of developing country government revenue is devoted to poverty reduction and development purposes, however, this provides another \$400 billion per year, several times the foreign aid figure. (Of course, the ability of governments to contribute resources for development efforts varies greatly from country to country.)

Casting the net more broadly, we might wish to include in our accounts some spending by private enterprises which, though pursuing profits, also attempt to direct their energies in socially responsible ways, by providing good jobs, cheaper goods and services or better technologies for low-income households. Even including these efforts, we are bound to discover that while the resources available for poverty reduction and development are sizeable enough to make a real difference, they are certainly not in surplus. Good stewardship over these scarce resources is vital.

On top of this, even when resources are used in ways that help some people, they may hurt others. Policies that raise corn prices help corn farmers but may hurt poor urban consumers who spend a large share of their incomes on corn. The construction of a new sewer system may pipe sewage away from homes in one poor community, but dump untreated waste into a river that provides the drinking water for other communities downstream. And even when programs produce benefits for intended beneficiaries in the short run, the benefits may soon disappear. Tractors have fallen idle for lack of spare parts, new irrigation systems have been sabotaged as a result of conflict over the distribution of water, and roads have crumbled for lack of maintenance.

Once we recognize that resources are limited, and that fully successful employment of the resources is not guaranteed, it becomes clear that development actors must exercise great care in putting the resources to good use. That is, success in poverty reduction requires that the good will and resources be combined with good decision-making regarding the ways in which the good will and resources are deployed.

The Elements of Good Decision-Making

Making a good decision regarding the use of development resources is an exercise in “**constrained optimization**”. This means that development actors must try to achieve as much as possible of their development objective by choosing from among many options for action, while respecting the many constraints they face. It stands to reason that they will do this the best if they articulate their objective carefully; identify options for action in a comprehensive, detailed and creative way; and develop a rich understanding of the constraints that limit their options and shape their ability to turn actions into desired results.

Articulating objectives in development requires identifying the many ways in which the development landscape might be improved (as discussed above and elaborated in Part II), and identifying the weights to place on improvements of diverse sorts when evaluating success or when comparing one set of improvements to another. In the context of constrained maximization, the development objective is not a goal that is either met or unmet in a dichotomous fashion. Rather, the development objective is a function of

multidimensional changes that defines which sets of changes are more desirable than others, and is an objective that can be achieved in varying degrees.⁶ The overview of development objectives in Part II is broad enough to encompass the concerns of diverse development actors.

Identifying options for action involves, first, constructing a comprehensive list of the policies, projects and programs that might be used in efforts to maximize achievement of the development objective. Part V provides a logically organized version of such a list. Practical identification of options also requires specificity in identifying the many details of design and implementation – details we will refer to as a “policy parameters” – that play crucial roles in shaping the character and size of policy impacts. Each chapter in Part V concentrates on a general approach to pursuing development objectives (e.g. targeted transfer programs, agricultural pricing policies, microfinance programs), but spells out the many parameter choices that shape more specific design and implementation options within the general approach, and discusses the ways in which these specific design choices can lead to differing impacts.

In addition to articulating objectives and identifying action options, good decision-making involves **understanding the constraints** within which development efforts take place. Some of the constraints are obvious. Development actors have only so much money and only so many people, implying that doing more of one thing generally means doing less of something else. Actors have only certain skills and information (at least in the short run), rendering some activities entirely infeasible. Legal rules may prohibit some actions, and require others to take specific forms. Donors may also place restrictions on how practitioners spend donated resources.

Many other constraints are much more subtle, but nonetheless play a critical role in shaping the ability to turn resources and programs into poverty reduction success. They have to do with the behavior of the socio-economic system into which they are intervening. For example, often people will benefit from a program only if they choose to participate in it. To fully understand the constraints faced by the designers of programs aimed at improving the school enrollment of children, for example, we must understand the way that parents decide whether to send their children to school. Additional constraints arise through policy-induced changes in the behavior of people directly affected by policies, which can lead to “spillover” effects on other people by changing the conditions in the markets and non-market institutions in which they all participate. For example, programs designed to increase the productivity and profitability of small farms by providing farmers with the opportunity to purchase improved seeds and fertilizer on credit at attractive terms might lead participating farmers to increase their demand for labor and their supply of crops, tending to increase wages and reduce the price of crops. Such changes may be good for landless workers, but will tend to scale

⁶ In mathematical terms, we could define the objective as a function that assigns a quantitative level of development success to every possible combination of socio-economic outcomes. The arguments of the function might include diverse measures of well-being, for diverse people (e.g. poor and rich) in both present and future. The specifics of the function – which measures are included as arguments, what relative weights are applied to diverse arguments – describe the development actor’s values and priorities.

back the effects on participating farmers, and may even leave non-participating farmers worse off. Policymakers must take such responses in markets (and in non-market institutions) into account when examining policy options.

The role of economic analysis

This textbook is shaped by the premise that careful study of the tools of economic analysis, adapted and applied to developing country contexts, is of great use in facilitating the good decision-making just described. The basic proposition underlying economic analysis is that we can gain important insights into the decisions people make, and into the workings of the markets and non-market institutions within which they interact, by assuming that people seek to make themselves as well off as possible given the constraints they face, and then working hard at understanding the nature of the constraints they face and the way they evaluate their well-being. Part III employs the economic approach in building up an analytical framework within which to understand what determines the behavior and well-being of the diverse people who live in developing countries, and of the socio-economic systems within which they function. It offers a coherent and broad picture of the socio-economic constraints that development actors must take into account when making good policy choices. Part IV then expounds a systematic approach to practical and comprehensive analysis of policy questions, which draws heavily on the economic framework of Part III. Part V then applies the approach of Part IV in the analysis of a wide range of policies.

The Roles of Theory, Evidence and Values in Weighing Tradeoffs

Once development actors articulate objectives, identify options and understand constraints, they will almost always find themselves facing important **tradeoffs**. Each available policy option brings a diverse set of impacts of differing types and sizes for different groups of people. Policy options that bring more development success along some dimensions and for some people tend to bring less success along other dimensions and for other people. For example, reducing the wage offered in a public employment program may reduce the per-person cost and reduce participation by the non-poor, freeing up resources to reach more of the poor or to improve the quality and durability of the infrastructure built by the workers. But reducing the wage may also cause some of the poor, for whom participation was only just barely attractive at the higher wage, to drop out, and will reduce the impact on poverty for any of the original participants who remain in the program.

Good decision-making seeks to employ logic and empirical evidence for understanding fully the nature and size of the tradeoffs involved in making one choice over another. **Theory** – and logic more generally – is useful for generating lists of potential consequences that might follow from a policy or event. For example, basic economic theory tells us that when the government increases the legal minimum wage, the incomes for some poor households (with minimum wage workers who keep their jobs) are likely to rise, while the incomes of other households are likely to fall (as employers decide to employ fewer workers at the higher wage, and some low-skilled workers lose their jobs).

But theory alone can never tell us which of the many potential impacts will be large or small. Only **empirical research** can tell us, for example, whether the number of minimum wage workers who keep their jobs when the minimum wage increases is likely to be large, whether the improvement in their living standards will be large, whether many of those minimum wage workers are in fact members of poor households, or how many (and which) households will suffer job loss. Only some appeal to empirical reality – whether through formal survey research, informal conversations or other methods – can help us assess the likely sizes of specific consequences.

Theory and empirical evidence together shed light on the **facts** regarding the likely benefits and costs of choosing one option rather than another, but must be brought together with **values** for reaching decisions. Because the various benefits and costs arising out of poverty reduction and development programs accrue to different people, at different times, and take different forms, it is impossible to draw a conclusion as to whether the benefits are “worth” the costs, without introducing values (which must be identified through careful articulation of the decision-maker’s development objective). For example, while facts might tell us (or give us good educated guesses about) the number of workers who would enjoy wage increases, and the number of workers who would lose their jobs, in response to an increase in the minimum wage, we must invoke values for weighing the job loss of one person against an increase in wages for another person. And even when faced with the same facts, we might draw different conclusions about desirability of increasing the minimum wage as a result of our differences in values.

Often faced with tradeoffs they must weigh judiciously, development actors must engage in decision-making that is both analytical and evidence-based. “**Analytical decision-making**” is shaped by understanding of the constrained optimization problem that development actors must solve (as described briefly above), breaks it down into its components, and uses theory to understand the full range of potential consequences that may follow from choices. “**Evidence-based decision-making**” understands the importance of bringing theoretical possibilities into contact with empirical reality, in efforts to assess the likely real world sizes of possible impacts.

This book equips readers for such analytical and evidence-based decision making. Whether in Part III’s development of a model of the socio-economic systems into which development actors intervene, or in the analysis of policies in Part V, the book teaches readers how to use economic theory as a guide for structured and comprehensive thinking about theoretical possibilities, highlights what information they might want to gather for empirical study, and reviews what is known about the empirical sizes of key behavioral relationships and policy impacts.

The book seeks to provide readers with skills for understanding the size and nature of tradeoffs, but does not seek to dictate the values by which those comparisons should be evaluated. That is, it provides skills for setting out a complete picture of the facts regarding costs and benefits along many dimensions, but does not dictate a method for comparing the diverse costs and benefits to one another. For example, it does not provide

methods for casting all benefits and costs in comparable dollar terms. It is a premise of this book that good discussion, debate and decision-making is facilitated by making clear distinctions between discussions of fact and discussions of value, and the focus of the book is on developing analytical tools for uncovering the facts.

Though the aim of this book is to help the reader uncover the facts without dictating values, the book cannot help but reflect the values of its author. As will become clear, these values include the belief that world poverty and inequality demand our attention, that special attention is due to the very poor (who often are left untouched even by development efforts that are quite successful in reaching “the poor” more generally), that the rich and powerful should be generous toward the poor and powerless, that generosity must be coupled with analytical and evidence-based decision-making, that good decision-making must be grounded in pragmatic, context-specific empirical analysis rather than abstract or ideological arguments regarding the merits of particular approaches, and that well-rounded development strategies must give weight both to meeting immediate, urgent needs and to expanding future capacity for fulfilling needs and wants through investment and growth.

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Questions for Review

1. Figure 1.1 is constructed using data on average income and population for 188 countries. Describe how this information is used to construct Figure 1.1. What facts do you take away from the figure regarding average incomes around the world?
2. Using Figure 1.2, discuss the geographic distribution of low average incomes.
3. What is meant by **income poverty**?
4. What more do you learn from Table 1.1 that is not evident in the average income data presented in Figure 1.1?
5. Give some examples of **direct measures of deprivation**.
6. Read slowly through every row in Table 1.3 and discuss what you learn about life in Ethiopia.
7. According to the text, "development" is both an "objective" pursued by development actors, and the "process" by which the improvements they seek are achieved. Discuss how development actors define the development objective they pursue. What do their definitions of the development objective share in common? How might they differ?
8. In broad terms, what is involved in the development process?
9. What is meant by **investment** and **assets**?
10. What is a market? What is meant by the term "**non-market institutions**"?
11. Describe the range of actors involved in contemporary development work.
12. What are the **Millennium Development Goals**?
13. How is the term "**policy**" defined in this text?
14. Look through Parts V, VI and VII in the Table of Contents of this text. What distinguishes the sets of policies addressed in each of these three parts from one another?
15. Why is "good decision-making" required in the use of development resources?
16. What are the elements of good decision-making?
17. What does it mean to say that policy decisions often require the weighing of **tradeoffs**, and what are the roles of **theory**, **empirical evidence** and **values** in weighing the tradeoffs?
18. What is meant by **analytical decision-making** and **evidence-based decision-making**?

Questions for Discussion

1. To fully define a development actor's *objective*, the actor must not only make a list of all the dimensions of present and future improvements they would like to bring about, but also the priorities they would assign to all of these dimensions when making difficult choices about how to allocate scarce resources to diverse, costly development efforts. When development actors sign on to the pursuit of the Millennium Development Goals, what do they indicate about the way they define the development objective and what do they leave undefined? What latitude remains for differences in development objectives among actors who affirm the importance of the Millennium Development Goals?

2. Read Sachs (2005). Describe Sachs' recommendations for how to "end poverty in our generation". How much money does he think is required? What does he mean by "ending poverty"? How certain do you think we can be that the volume of money he suggests will in fact be enough to end poverty in the next few years?
3. Read Easterly (2006). What picture does Easterly paint of the track record of the international development community in employing scarce resources for development purposes? What do you think of his suggestions regarding how to make better use of these resources?