**Development economics** is a branch of economics which deals with economic aspects of the development process in low-income countries. Its focus is not only on methods of promoting economic development, economic growth and structural change but also on improving the potential for the mass of the population, for example, through health and education and workplace conditions, whether through public or private channels.[1]

Development economics involves the creation of theories and methods that aid in the determination of policies and practices and can be implemented at either the domestic or international level.[2] This may involve restructuring market incentives or using mathematical methods like inter-temporal optimization for project analysis, or it may involve a mixture of quantitative and qualitative methods.[3]

Unlike in many other fields of economics, approaches in development economics may incorporate social and political factors to devise particular plans.[4] Also unlike many other fields of economics, there is "no consensus" on what students should know.[5] Different approaches may consider the factors that contribute to economic convergence or non-convergence across households, regions, and countries.[6]

**heories of development economics**

**Mercantilism**

Main article: Mercantilism

The earliest Western theory of development economics was mercantilism, which developed in the 17th century, paralleling the rise of the nation state. Earlier theories had given little attention to development. For example, Scholasticism the dominant school of thought during medieval feudalism, emphasized reconciliation with Christian theology and ethics, rather than development. The 16th- and 17th-century School of Salamanca, credited as the earliest modern school of economics, likewise did not address development specifically.

Major European nations in the 17th and 18th century all adopted mercantilist ideals to varying degrees, the influence only ebbing with the 18th-century development ofphysiocrats in France and classical economics in Britain. Mercantilism held that a nation's prosperity depended on its supply of capital, represented by bullion (gold, silver, and trade value) held by the state. It emphasised the maintenance of a high positive trade balance (maximising exports and minimising imports) as a means of accumulating this bullion. To achieve a positive trade balance, protectionist measures such as tariffs and subsidies to home industries were advocated. Mercantilist development theory also advocatedcolonialism.

Theorists most associated with mercantilism include Philipp Wilhelm von Hornick, who in his *Austria Over All, If She Only Will* of 1684 gave the only comprehensive statement of mercantilist theory, emphasizing production and an export-led economy.[7] In France, mercantilist policy is most associated with 17th-century finance minister Jean-Baptiste Colbert, whose policies proved influential in later American development.

Mercantilist ideas continue in the theories of economic nationalism and neomercantilism.

## Economic nationalism

Alexander Hamilton, credited as Father of the National System.

Main article: Economic nationalism

Following mercantilism was the related theory of economic nationalism, promulgated in the 19th century related to the development and industrialization of the United States and Germany, notably in the policies of the American System in America and the Zollverein (customs union) in Germany. A significant difference from mercantilism was the de-emphasis on colonies, in favor of a focus on domestic production.

The names most associated with 19th-century economic nationalism are the American Alexander Hamilton, the German-American Friedrich List, and the American Henry Clay. Hamilton's 1791 *Report on Manufactures,*his magnum opus, is the founding text of the American System, and drew from the mercantilist economies of Britain under Elizabeth I and France under Colbert. List's 1841 *Das Nationale System der PolitischenÖkonomie* (translated into English as The National System of Political Economy), which emphasized stages of growth, proved influential in the US and Germany, and nationalist policies were pursued by politician Henry Clay, and later by Abraham Lincoln, under the influence of economist Henry Charles Carey.

Forms of economic nationalism and neomercantilism have also been key in Japan's development in the 19th and 20th centuries, and the more recent development of the Four Asian Tigers (Hong Kong, South Korea, Taiwan, and Singapore), and, most significantly,

## Post-WWII theories

See also: Industrial development and RagnarNurkse's Balanced Growth Theory

The origins of modern development economics are often traced to the need for, and likely problems with the industrialization of eastern Europe in the aftermath of World War II.[8] The key authors are Paul Rosenstein-Rodan,[9] Kurt Mandelbaum,[10] RagnarNurkse,[11] and Sir Hans Wolfgang Singer. Only after the war did economists turn their concerns towards Asia, Africa and Latin America. At the heart of these studies, by authors such as Simon Kuznets and W. Arthur Lewis[12] was an analysis of not only economic growth but also structural transformation.[13]

## Linear-stages-of-growth model

An early theory of development economics, the linear-stages-of-growth model was first formulated in the 1950s by W. W. Rostow in *The Stages of Growth: A Non-Communist Manifesto,* following work of Marx and List. This theory modifies Marx's stages theory of development and focuses on the accelerated accumulation of capital, through the utilization of both domestic and international savings as a means of spurring investment, as the primary means of promoting economic growth and, thus, development.[4] The linear-stages-of-growth model posits that there are a series of five consecutive stages of development which all countries must go through during the process of development. These stages are "the traditional society, the pre-conditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption"[14] Simple versions of the Harrod–Domar model provide a mathematical illustration of the argument that improved capital investment leads to greater economic growth.[4]

Such theories have been criticized for not recognizing that, while necessary, capital accumulation is not a sufficient condition for development. That is to say that this early and simplistic theory failed to account for political, social and institutional obstacles to development. Furthermore, this theory was developed in the early years of the Cold War and was largely derived from the successes of the Marshall Plan. This has led to the major criticism that the theory assumes that the conditions found in developing countries are the same as those found in post-WWII Europe.[4

### Structural-change theory

Structural-change theory deals with policies focused on changing the economic structures of developing countries from being composed primarily of subsistence agricultural practices to being a "more modern, more urbanized, and more industrially diverse manufacturing and service economy." There are two major forms of structural-change theory; W. Lewis' *two-sector surplus model*, which views agrarian societies as consisting of large amounts of surplus labor which can be utilized to spur the development of an urbanized industrial sector, and Hollis Chenery's *patterns of development* approach, which holds that different countries become wealthy via different trajectories. The *pattern* that a particular country will follow, in this framework, depends on its size and resources, and potentially other factors including its current income level and comparative advantages relative to other nations.[15][16] Empirical analysis in this framework studies the "sequential process through which the economic, industrial and institutional structure of an underdeveloped economy is transformed over time to permit new industries to replace traditional agriculture as the engine of economic growth." [4]

Structural-change approaches to development economics have faced criticism for their emphasis on urban development at the expense of rural development which can lead to a substantial rise in inequality between internal regions of a country. The two-sector surplus model, which was developed in the 1950s, has been further criticized for its underlying assumption that predominantly agrarian societies suffer from a surplus of labor. Actual empirical studies have shown that such labor surpluses are only seasonal and drawing such labor to urban areas can result in a collapse of the agricultural sector. The patterns of development approach has been criticized for lacking a theoretical framework.[4][*citation needed*]

### International dependence theory

International dependence theories gained prominence in the 1970s as a reaction to the failure of earlier theories to lead to widespread successes in international development. Unlike earlier theories, international dependence theories have their origins in developing countries and view obstacles to development as being primarily external in nature, rather than internal. These theories view developing countries as being economically and politically dependent on more powerful, developed countries which have an interest in maintaining their dominant position. There are three different, major formulations of international dependence theory: neocolonial dependence theory, the false-paradigm model, and the dualistic-dependence model. The first formulation of international dependence theory, neocolonial dependence theory, has its origins in Marxism and views the failure of many developing nations to undergo successful development as being the result of the historical development of the international capitalist system.[4]

### Neoclassical theory

First gaining prominence with the rise of several conservative governments in the developed world during the 1980s, neoclassical theories represent a radical shift away from International Dependence Theories. Neoclassical theories argue that governments should not intervene in the economy; in other words, these theories are claiming that an unobstructed free market is the best means of inducing rapid and successful development. Competitivefree markets unrestrained by excessive government regulation are seen as being able to naturally ensure that the allocation of resources occurs with the greatest efficiency possible and the economic growth is raised and stabilized.[4][*citation needed*]

It is important to note that there are several different approaches within the realm of neoclassical theory, each with subtle, but important, differences in their views regarding the extent to which the market should be left unregulated. These different takes on neoclassical theory are the *free market approach*, *public-choice theory*, and the *market-friendly approach*. Of the three, both the free-market approach and public-choice theory contend that the market should be totally free, meaning that any intervention by the government is necessarily bad. Public-choice theory is arguably the more radical of the two with its view, closely associated withlibertarianism, that governments themselves are rarely good and therefore should be as minimal as possible.[4]

Academic economists have given varied policy advice to governments of developing countries. See for example, Economy of Chile (Arnold Harberger), Economic history of Taiwan (Sho-ChiehTsiang). Anne Kruegernoted in 1996 that success and failure of policy recommendations worldwide had not consistently been incorporated into prevailing academic writings on trade and development.[4]

The market-friendly approach, unlike the other two, is a more recent development and is often associated with the World Bank. This approach still advocates free markets but recognizes that there are many imperfections in the markets of many developing nations and thus argues that some government intervention is an effective means of fixing such imperfections [4]

### Topics of research

Development economics also includes topics such as Third world debt, and the functions of such organisations as the International Monetary Fund and World Bank. In fact, the majority of development economists are employed by, do consulting with, or receive funding from institutions like the IMF and the World Bank.[17] Many such economists are interested in ways of promoting stable and sustainable growth in poor countries and areas, by promoting domestic self-reliance and education in some of the lowest income countries in the world. Where economic issues merge with social and political ones, it is referred to as development studies.

## Growth indicator controversy

Per capita Gross Domestic Product (GDP per head) is used by many developmental economists as an approximation of general national well-being. However, these measures are criticized as not measuring economic growth well enough, especially in countries where there is much economic activity that is not part of measured financial transactions (such as housekeeping and self-homebuilding), or where funding is not available for accurate measurements to be made publicly available for other economists to use in their studies (including private and institutional fraud, in some countries).

Even though per-capita GDP as measured can make economic well-being appear smaller than it really is in some developing countries, the discrepancy could be still bigger in a developed country where people may perform outside of financial transactions an even higher-value service than housekeeping or homebuilding as gifts or in their own households, such as counseling, lifestyle coaching, a more valuable home décor service, and time management. Even free choice can be considered to add value to lifestyles without necessarily increasing the financial transaction amounts.

More recent theories of Human Development have begun to see beyond purely financial measures of development, for example with measures such as medical care available, education, equality, and political freedom. One measure used is the Genuine Progress Indicator, which relates strongly to theories of distributive justice. Actual knowledge about what creates growth is largely unproven; however recent advances in econometrics and more accurate measurements in many countries is creating new knowledge by compensating for the effects of variables to determine probable causes out of merely correlational statistics.

## Recent developments

The most prominent contemporary development economist is perhaps the Nobel laureate, Amartya Sen.

Recent theories revolve around questions about what variables or inputs correlate or affect economic growth the most: elementary, secondary, or higher education, government policy stability, tariffs and subsidies, fair court systems, available infrastructure, availability of medical care, prenatal care and clean water, ease of entry and exit into trade, and equality of income distribution (for example, as indicated by the Gini coefficient), and how to advise governments about macroeconomic policies, which include all policies that affect the economy. Education enables countries to adapt the latest technology and creates an environment for new innovations.

The cause of limited growth and divergence in economic growth lies in the high rate of acceleration of technological change by a small number of developed countries. These countries' acceleration of technology was due to increased incentive structures for mass education which in turn created a framework for the population to create and adapt new innovations and methods. Furthermore, the content of their education was composed of secular schooling that resulted in higher productivity levels and modern economic growth.

Researchers at the Overseas Development Institute also highlight the importance of using economic growth to improve the human condition, raising people out of poverty and achieving the Millennium Development Goals.[18] Despite research showing almost no relation between growth and the achievement of the goals 2 to 7 and statistics showing that during periods of growth poverty levels in some cases have actually risen (e.g. Uganda grew by 2.5% annually between 2000–2003, yet poverty levels rose by 3.8%), researchers at the ODI suggest growth is necessary, but that it must be equitable.[18] This concept of inclusive growth is shared even by key world leaders such as Secretary General Ban Ki-Moon, who emphasises that:

"Sustained and equitable growth based on dynamic structural economic change is necessary for making substantial progress in reducing poverty. It also enables faster progress towards the other Millennium Development Goals. While economic growth is necessary, it is not sufficient for progress on reducing poverty."[18]

Researchers at the ODI thus emphasise the need to ensure social protection is extended to allow universal access and that active policy measures are introduced to encourage the private sector to create new jobs as the economy grows (as opposed to jobless growth) and seek to employ people from disadvantaged groups.[18]