

Poverty, Public Policy and Development (ECHI8007)

This course consists of a lecture a week in addition to the two lectures a week for the course Development, Poverty and Famine (ECHI2003). Thus those enrolling in **ECHI8007** will also be enrolled in ECHI2003.

The course outline for ECHI2003 is to be found at:

[http://teaching.fec.anu.edu.au/ECHI2003/?RCC=ECHI2013&RCT=Development,%20Poverty%20and%20Famine%20\(H\)](http://teaching.fec.anu.edu.au/ECHI2003/?RCC=ECHI2013&RCT=Development,%20Poverty%20and%20Famine%20(H))

Method of assessment: one two hour examination.

Course content:

The course will be based on a set of lecture notes entitled: **Moving Out of Poverty: Health and Economic Institutions and Economic Growth in Developing Countries.**

This course begins by asking the following sorts of questions: Why did poor countries in the latter half of the 20th century have such difficulty in raising their level of gross domestic product per capita (measured using purchasing power parity exchange rates) relative to that attained by rich countries throughout this period? Between 1960 and 2000 at best nine managed to do so in a sustained way out of some one hundred thirty countries (of which thirty countries were rich both in 1960 and in 2000). Given this situation, what course should less well off countries chart, through the implementation of effective broad public policy in the attempt to increase, at least, the level of their gross domestic product per capita relative to that for rich countries?

Variations of these questions have been posed by many and there is a considerable and recent literature that bears on the issues raised by these questions. Nobody, however, has followed the particular path of inquiry investigated in this course in the attempt to answer these questions – an investigation that attempts to identify the deep determinants that influence the level of economic development for the average or representative country at the end of the 20th century. An array of techniques of analysis is employed in this course in the attempt to arrive at robust conclusions. Consequently a range of results emerge – such as that a certain class of

poverty traps faces poor developing countries. The central results have important implications for the design of effective public policy in a poor develop country wishing to raise the level of its gross domestic production per capita relative to that for rich countries.

As for the list of broad analytical techniques employed, the first consists of collating quasi-controlled experimental evidence drawn from various historical case histories. The course will consider this evidence in some detail since it is argued that it probably provides the most reliable empirical results – certainly more reliable than that generated by the use of cross-country data sets. The detailed analysis of this evidence indicates that the level of health and the level of economic institutions probably are of considerable importance in determining the level of development for a low-health-low-institutions country. Second, insights derived from these quasi-controlled experiments suggest how to construct a general analytical framework that progresses on through to the appropriate modification of the Solow-Swan neoclassical economic growth model. This theoretical framework generates a number of reasonable conjectures or hypotheses that need to be tested – and preferably tested in various ways so that relevant results can be cross checked for any possible contradictions. Third, these insights begin to be test by again applying and arranging various pieces of evidence based on quasi-controlled experimental evidence. Four, evidence is also brought to bear to consider issues discussed in the recent literature concerning savings rates and demographic effects and how they may influence the rate of development of poor developing country at various stages of economic development. Fifth, if time permits attention will also turn to applying the econometric techniques, based on cross-country data sets, to test various relevant conjectures employ a comparatively general framework in order to make allowance for a range of competing theories concerned with identifying what factors influence the level of economic development for the representative country at the end of the 20th century. Various tests of robustness are also applied along the way. Sixth, a detailed attempt is made to identify the channels along which the levels of health and institutions respectively influence the level of economic development attained by a representative country at the end of the 20th century.

The various empirical results derived indicate that relevant and effective public policies should be applied in a particular sequence. It is also shown that designing economic policy based on empirical results for an ‘average’ country may well result in poorly designed policy. It is also argued that raising the level of health (up to some basic level) should precede attempts to increase *both* the level of health and the level of economic institutions up to their respective minimum levels. This policy prescription probably also has implications for how endowments should be distributed amongst, or be re-distributed between households in the countries concerned in the attempt to stimulate the pace of economic development in these countries.

There is no text book for this course. Detailed lecture notes will be provided throughout the course.