

Chapter 1

Measuring Economic Development

Economic activities are unevenly distributed around the world.

KEYWORDS

- › developed world
- › developing world
- › gross national product (GNP)
- › gross domestic product (GDP)
- › Sub-Saharan Africa
- › informal economy
- › Human Development Index (HDI)
- › life expectancy
- › primary healthcare
- › gross national income (GNI)
- › remittances

LEARNING OBJECTIVES

By the end of this chapter, you should be able to understand:

- › That wealth is unevenly distributed across the globe
- › That we can measure the average income of people in different countries using GNP figures
- › That the Human Development Index gives a broader picture of the quality of life of people in different countries than GNP figures.

Introduction

You are already familiar with the terms **developed world** (the North) and **developing world** (the South). Most of the world's wealth is concentrated in the North, where less than one-sixth of the world's population lives. In the North, most people work in services such as education, healthcare, tourism and transport.

How do we measure economic development?

The level of economic development in each country can be measured in the following ways:

- › Gross national product (GNP) per person in each country
- › The Human Development Index (HDI).

What is GNP?

Gross national product (GNP) is the total value of goods and services that a country produces in a given year. GNP includes income from investments abroad. GNP per person is that amount of wealth divided by the population.

Gross domestic product (GDP) is sometimes used in examination questions instead of GNP.

GEOFACT

GNP and GDP figures are expressed in US dollars.

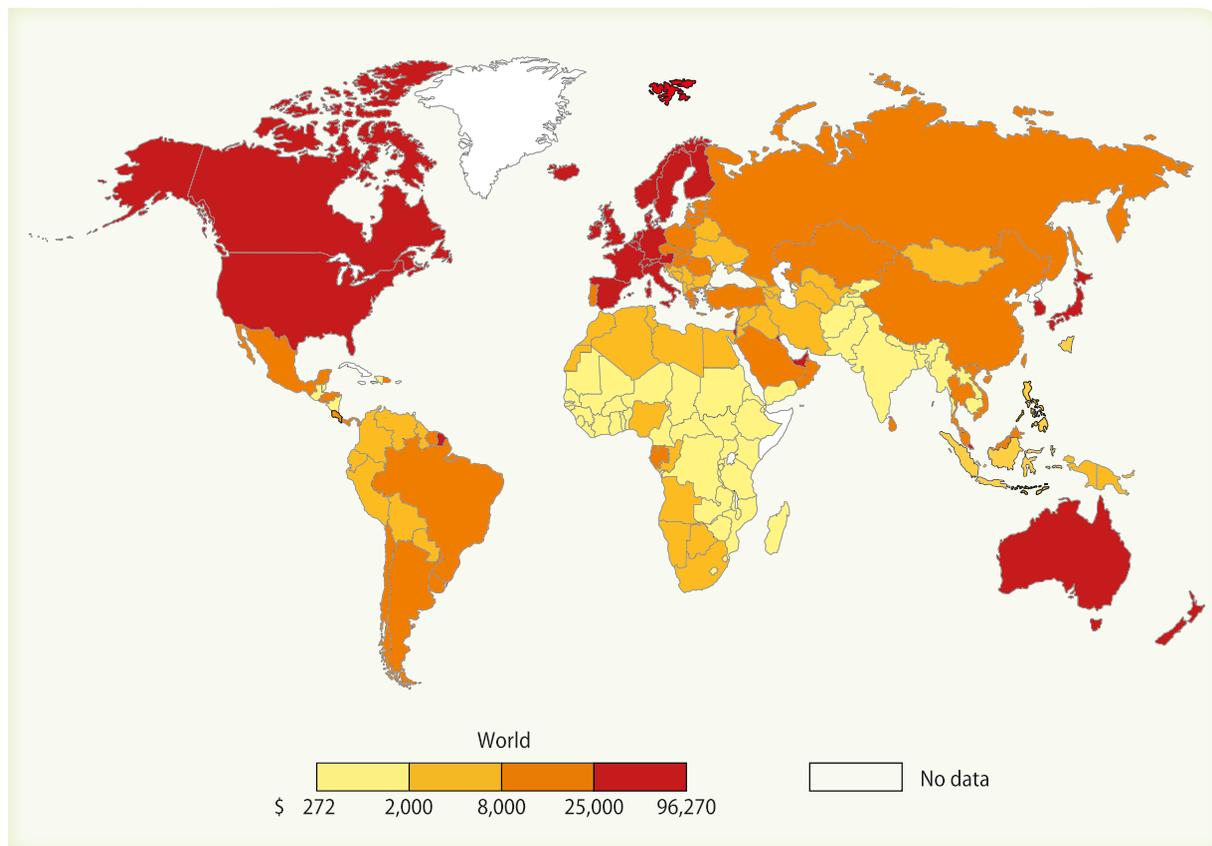


Figure 1.1 GNP per person by country in US\$

ACTIVITY

Skills

Examine Figure 1.1.

- (i) Name the poorest continent. Explain your answer.
- (ii) Name two of the poorest countries in Asia.
- (iii) Which continent has the greatest number of wealthy countries?
- (iv) In which category of GNP per person do we find the following?
 - › USA
 - › China
 - › India

GEOFACT

China was the sixth largest economy in the world in the year 2000. Today it is in second place and its GNP may equal or surpass that of the USA in the coming years.

Strengths and weaknesses of GNP figures

Strengths

- › Maps and tables showing the relative size of each country's GNP tell us that the largest economies in the world are the USA, China, Japan and Germany, in that order. It is clear that Brazil is easily the largest economy in South America.
- › We can see where the world's poorest countries in terms of GNP are located. A GNP map shows us that **Sub-Saharan Africa** is the poorest region in the world and that some countries in South Asia also have very little gross national income.
- › We can also conclude from GNP figures that people in countries with a high GNP per person generally have higher standards of living than people in countries with a low GNP per person. This is because most people can afford education, healthcare and a good quality of life.

Weaknesses

- › Collecting GNP data is a huge job for organisations such as the World Bank. GNP figures can be inaccurate, especially in developing countries, where it is very hard to collect information.
- › GNP figures do not include a country's shadow or **informal economy**. This can be as high as 60% in very poor countries.
- › The greatest weakness is that GNP figures contain no information on income inequality in a country. This is because GNP per person is an average figure. For example, even though the GNP per person in Ireland is high, it gives no indication of homelessness in Irish cities or the level of unemployment.

DEFINITION

The informal economy: Work that is done for cash and is not included in national accounts or for taxation purposes.

The Human Development Index

The **Human Development Index (HDI)** has been published annually by the United Nations since 1990. The HDI gives a broader picture of people's quality of life than GNP figures alone. This is because the rankings are based on three basic factors:

- › **Life expectancy** at birth
- › Education levels
- › Income per person adjusted to the local cost of living.

How is the HDI scored?

Each country scores between 0 and 1.0. A score of 0.9 or more is very high and indicates a very good quality of life. On the other hand, a score of 0.5 or less is given to countries where many people live shorter lives, large numbers of children do not attend school and people generally are very poor.

GEOFACTS

- › Norway took the top spot in the HDI for the fourteenth straight year in the 2016 HDI report.
- › In 2016, the EU, with 7.3% of the world's people, had 23% of the world's wealth.
- › According to Oxfam, in January 2017 the eight wealthiest people in the world had as much wealth as the poorest 50% of the entire global population.

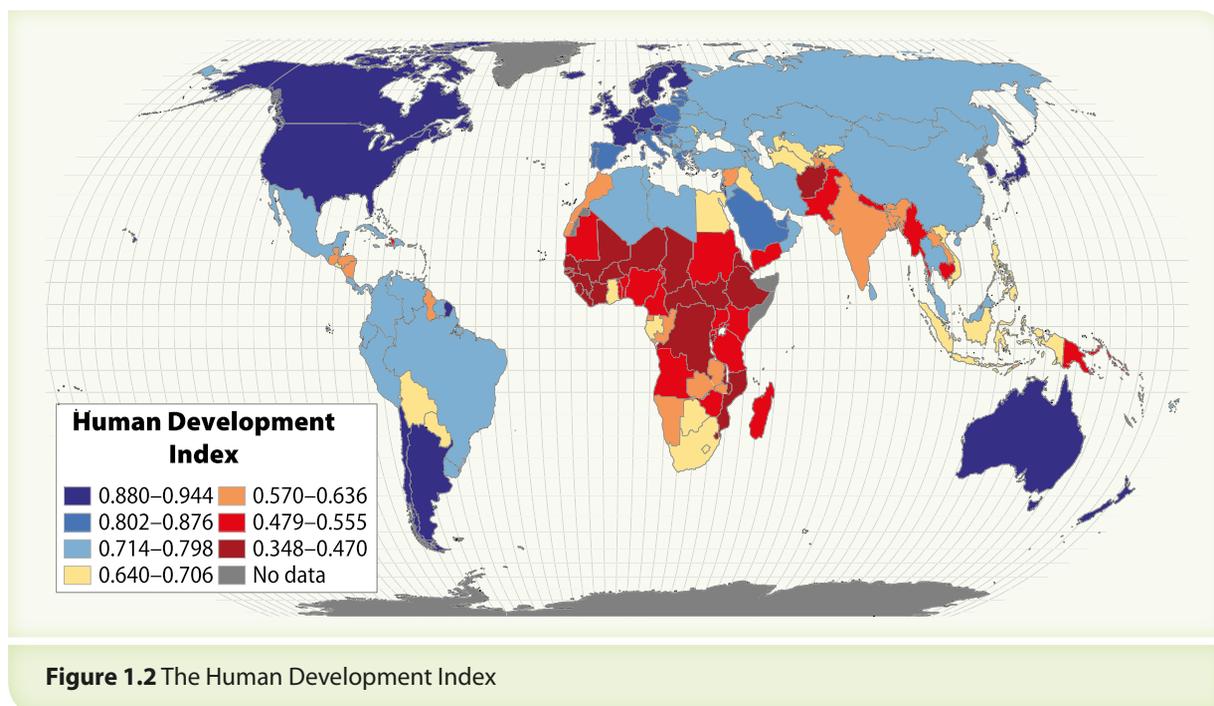


Figure 1.2 The Human Development Index

Countries with high HDI scores

Why do the top-ranked countries score so well on the HDI?

- › They have vigorous democracies with a politically engaged public. Political corruption is low or non-existent.
- › A free and open media helps to maintain high democratic standards.
- › Governments in these countries are generally composed of able and committed people who have the interests of their countries at heart.
- › Governments make plans for economic development over time.
- › Governments invest in communications infrastructure to encourage private investment.
- › Annual budgets include large government investments in education and healthcare. For example, in 2017 the health budget in Ireland was €14.6 billion and the education budget was €9.53 billion. Wealthier people also pay for private healthcare and education. This investment provides high levels of education and long life expectancy in these countries.
- › These countries are great trading nations with strong exports in manufactured goods and services.

GEOFACTS

- › 188 countries were ranked in the 2016 HDI.
- › Haiti is the poorest country in the Western Hemisphere.



Part of the Europort in the Netherlands, the largest port in the EU. The Netherlands is a great trading nation.

Countries with low HDI scores

In the 2016 HDI report, 37 of the 44 countries with the lowest HDI scores were all in Sub-Saharan Africa. Why is this?

- The rulers in some of these countries are corrupt.
- Dictators often spend large sums on prestige projects such as conference centres and showpiece airports rather than on schools, teacher training or health clinics.
- Civil wars ravage many countries. This leads to high spending on arms and low spending on health and education. Therefore, life expectancy and literacy levels are among the lowest in the world.
- HIV/AIDS is still the cause of many deaths.
- Many of the people in these countries are very poor and do not have balanced diets. Malnutrition leads to high child mortality.



The Catholic cathedral in Yamoussoukro, Côte d'Ivoire, a pet project of the late President Houphouët-Boigny. Côte d'Ivoire was, and still is, a very poor country.

Advantages of the HDI ranking system

- Clear global patterns of development are evident on a global map of the HDI, such as Figure 1.2.
- The HDI is used by economic and social planners in different countries and regions.
- The HDI does not concentrate solely on national income – it also focuses on more social ways to measure human development and well-being.
- The scoring system is easy to understand. The higher the score, the better the quality of life in a country.
- The poorest countries are easily identified. This helps global organisations such as the United Nations and the World Health Organization to target poverty, education and health issues in these countries.

Changes in the HDI over time

Since 1990, countries have shown remarkable improvements in their HDI score. Despite the fact that poverty exists in every country and that poverty is very high in the poorest countries, countries are registering higher scores now than in 1990. Some, such as China, have done very well.

ACTIVITY

Research

Look up the location of Côte d'Ivoire on the internet.

On a global scale, the higher scores are due to:

- Improved health services, including **primary healthcare**
- Safer drinking water
- Developments in education, especially for girls in poorer countries
- Economic growth because of inward investment and participation in international trade.

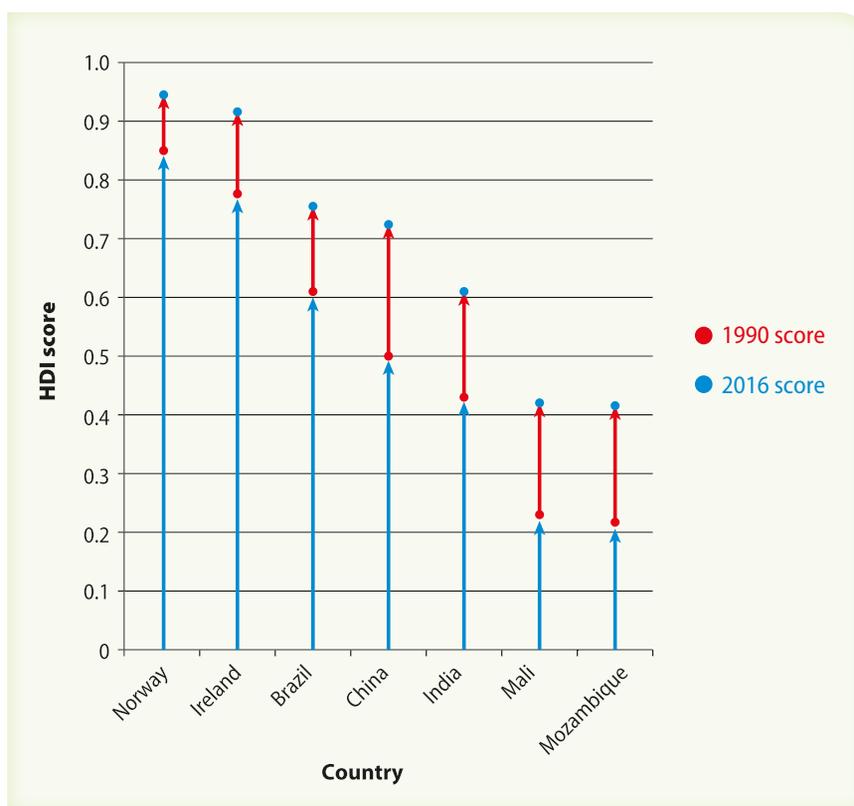


Figure 1.3 The scores for selected countries in the HDI for 1990 and 2016

CASE STUDY

The increase in Ireland's HDI score

Ireland's HDI score in 1990 was 0.77 but today it has climbed to more than 0.91, which is one of the highest scores in the world. How was this achieved?

The main driver of this improvement was economic development. There were several important milestones in the economic development of modern Ireland.

- Modern Ireland began in 1958 with the First Programme for Economic Expansion. Its author, Ken Whitaker, set out targets for economic development. The taoiseach at that time, Seán Lemass, backed the programme. Multinational corporations were invited to invest in the country and modern industrialisation began.
- EEC membership in 1973 gave a great boost to the Irish economy. A tariff-free export boom to mainland Europe grew steadily. Jobs were created and outward migration was reversed in the 1970s for the first time since the Great Famine. The population began to grow. This created a larger internal market.

GEOFACT

Over a 40-year period, Ireland went from being a relatively poor country to a very wealthy country per head of population.

GEOFACTS

- ▶ The IFSC in Dublin has gone from strength to strength since it was founded in 1987 and has raised the per capita income overall.
 - ▶ Ireland's 35-year-olds are among the most likely in the world to have completed third-level education.
- ▶ After free secondary education was introduced in 1968, the number of pupils who entered secondary education continued to increase. Over the next several years, a revolution took place in Irish education right up to third level.
 - ▶ In 1966, one in every three children left school with only primary education and a mere 20% sat their Leaving Certificate. In 2016, 70% of students who finished their Leaving Cert went on to third-level education. In 2016, there were 182,623 students in full-time third-level education. Those educational developments helped Ireland to improve its HDI score because students are staying in full-time education for a longer period of time.
 - ▶ The Celtic Tiger era (1995–2008) was a time of unprecedented economic growth when Irish per capita income was amongst the highest in the EU. Ireland embraced a technological wave and became a knowledge-based economy. Many of the world's top pharmaceutical, technological, and internet and social media companies established themselves in Ireland. Third-level courses prepared young people for these new jobs.

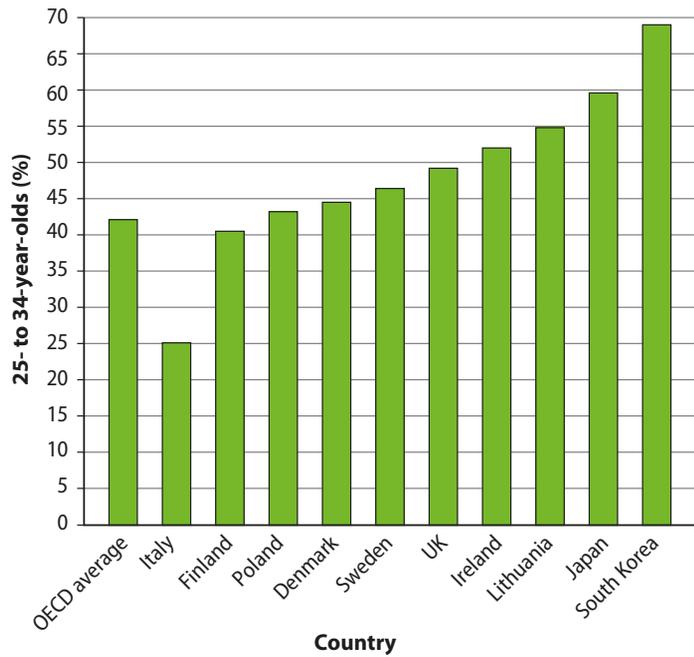


Figure 1.4 Percentage of 25- to 34-year-olds with third-level education in selected countries



Road bowling in Co. Cork in the 1930s, a practice that has almost died out in an Ireland that has changed dramatically in just a few generations. People made their own amusements in earlier generations.

- The Irish working population almost doubled, from approximately 1.1 million people in 1971 to 2.1 million in 2008. Wages increased and people's standards of living rose visibly during that time.
- During the Celtic Tiger years, the government had plenty of money from income tax, stamp duty from property sales and corporation tax to expand the health service and primary healthcare. Rising standards of living also helped to increase people's life expectancy.
- The economy crashed after September 2008. Austerity, poverty and emigration followed. However, after 2014 in particular, the economy began to grow strongly. Whether Brexit (the name given to the UK's planned departure from the EU) will weaken this growth over time remains to be seen.



East Point Business Park, Dublin. Dublin is the economic driver of the Irish economy.

Gross national income (GNI)

In some exam questions, the HDI uses **gross national income (GNI)** as an indicator.

GNI is a country's national income that includes **remittances** by migrants of that country from abroad and also international aid payments. For example, because of remittances from abroad, GNI in the Philippines greatly exceeds GNP.

DEFINITION

A **remittance** is a transfer of money by a foreign worker to an individual in his or her home country.

SUMMARY CHART

