Lecture 3: Development and Growth

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Poverty Alleviation

- There is a great deal of inequality of incomes internationally
  - Much more inequality than within the USA

- Many people are interested in increasing the incomes of the world’s poorest people
  - NGOs
  - Governments
  - Individuals
What is Poverty?

- Is it *relative* or *absolute*?
- Is it an *easy* problem or a *hard* problem?
- Common perception: problems in developing countries have relatively simple solutions
- Common mistake: the reasons that income varies across countries is the same reason it varies within countries
  - Education, access to finance, worth ethic
It’s complicated...

- In reality, developing countries have extremely complicated problems
- If they were easily solved, the people who live there would have solved them already
- Results are real and insidious:
  - Wasted potential on an unimaginable scale
  - Makes the global poor AND the global middle class/rich worse off
- What, then, can be done?
Dividing up the Problem

- Such a huge question, how can it be addressed?
- Split it into two different fields of study
- Development Economics:
  - What policies or interventions are good at increasing income or wellbeing of people in poor countries?
- Growth Economics:
  - What policies increase GDP per capita?
Connection between Growth and Development

- Increasing income of microenterprises is development, but if it works on a broad scale, may cause growth.

- Policies that increase growth give people more income, which they can use to improve their wellbeing (e.g., health, education, food security).

- Growth is more complicated and more difficult to study.
Development Economics

- Goals:
  - Improve access to education
  - Improve health
  - Improve incomes

- May have macroeconomic effects

- How is it studied?
Esther Duflo

- Conducts randomized experiments in development
- This is a *micro* approach to development, as oppose to a *macro* approach
- Overriding question: How can we best spend money on development?
- Suggests that child mortality in developing countries could be nearly eliminated relatively cheaply

- Economics Professor at MIT
Duflo Lecture

https://www.ted.com/talks/esther_duflo_social_experiments_to_fight_poverty/transcript?language=en
Questions

- Problems with this methodology?
- Important? Why or why not?
- Ethical issues?
What do we mean by growth?

- Economic Growth: Long run increases in real GDP per person (this is our measure of “development”)

- Many countries are “less developed” than the USA (and Australia, Hong Kong, the UK, etc.)

- What policies could be pursued in those countries to “catch up” with those richer countries?
  - This means they have to grow faster than 2%
  - If they grow 0%, they fall further and further behind
The Problem of Economic Growth

Robert Lucas:
- World’s leading macroeconomist
- Won the Nobel Prize in 1995
- Professor at the University of Chicago

“I do not see how one can look at figures like these without seeing them representing possibilities. Is there some action a government of India could take that would lead the Indian economy to grow like Indonesia's or Egypt's? If so, what exactly? If not, what is it about the "nature of India" that makes it so? The consequences for human welfare involved in questions like these are simply staggering: once one starts to think about them, it is hard to think about anything else.”

GDP around the World over Time


http://www.google.com/publicdata/explore?ds=d5bncppjof8f9_#!ctype=m&strail=false&bcs=d&nselm=s&met_s=ny_gdp_pcap_kd&scale_s=lin&ind_s=false&idim=country:USA&ifdim=country&pit=1346644800000&hl=en_US&dl=en_US&ind=false
Composition of GDP by Continent
Why is studying growth hard?

- When countries change policies, they do it for a reason
- When countries change policies, they usually make many changes at once
  - Which policy caused the increase in growth?
  - Are there interactions between policies?
- There aren’t very many countries in the world, so big changes are rare
What we have learned

- Past 60 years: many countries had rapid growth (China, Spain, Botswana, Chile…)

- Patterns they all had in common:
  - International trade very important
  - “Market oriented” policies important
  - Stability is very important
  - Politics matter

- Countries grow for a while and may stop
Factors in Growth

http://www.google.com/publicdata/explore?ds=d5bncppjof8f9#!ctype=m&strail=false&bcs=d&nselm=s&met_s=ne_trd_gnfs_zs&scale_s=lin&ind_s=false&ifdim=country&hl=en_US&dl=en_US&ind=false

http://www.google.com/publicdata/explore?ds=d5bncppjof8f9#!ctype=m&strail=false&bcs=d&nselm=s&met_s=ny_gds_totl_zs&scale_s=lin&ind_s=false&idim=country:USA&ifdim=country&hl=en_US&dl=en_US&ind=false

http://www.google.com/publicdata/explore?ds=d5bncppjof8f9#!ctype=m&strail=false&bcs=d&nselm=s&met_s=aid_flows_at_constant_us&scale_s=lin&ind_s=false&idim=country:USA&ifdim=country&pit=210571200000&hl=en_US&dl=en_US&ind=false

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Factors in Growth

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Next Lecture

- Can and do countries “catch up” through growth?
- What drives growth?
- After that, look at particular examples from history