Economic Growth: Facts
Robert Lucas (1988):

I do not see how one can look at figures like these without seeing them as 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.
Questions this course will address

- Why do some countries grow so fast while others do not?
  - Is there something fundamentally different about the people of rich countries?
    - Scott Fitzgerald: “The rich are different from us.”
    - Ernest Hemingway: “Yeah, they have more money.”
  - Or are they due to external factors that can be changed?
- Can a single theory explain the growth experience of developed and developing countries? Or do we need separate theories for each “mature economies” versus “growth miracles”? 
- Is there any evidence of “convergence” of economies?
- What kind of policies, if any, can promote growth? (Recall the Lucas (1988) quote.)
Absolute Convergence or the Lack Thereof

Figure 1.9. Log GDP per worker in 2000 versus log GDP per worker in 1980, together with the 45° line.

Econ 4960: Economic Growth

Absolute Convergence or the Lack Thereof

Figure 1.10. Annual growth rate of GDP per worker between 1960 and 2000 versus log GDP per worker in 1960 for the entire world.

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Conditional Convergence: Seems more plausible

Why Care about GDP?

- Hunger
  - The calorie intake is 1/3<sup>rd</sup> lower in poorest 1/5<sup>th</sup> of countries.
Why Care about GDP?

- **Hunger**
  - The calorie intake is $1/3$rd lower in poorest $1/5$th of countries.

- **Related to infant mortality**
  - $1/2$ million fewer children would have died in 1990 if Africa had grown 1.5% faster in the 1980’s.
  
  *(Caution: Need to be very careful about statements like this!)*

- **Related to Life expectancy**
Caution:

 pena These graphs merely show some “correlation”: that the two variables are related
 pena They do not—and cannot—prove any “causation”
 pena Therefore, we cannot—yet—infer whether high income causes longevity or the other way around!
 pena We need to be very careful before claiming “causation” (This is one of the most common and serious crimes committed by news media!)

Figure 1.6: The association between income per capita and life expectancy at birth in 2000.
Correlates of Growth: Investment

![Graph showing the relationship between average growth of GDP per capita and average growth of investment to GDP ratio, 1960-2000.]

**Figure 1.13.** The relationship between average growth of GDP per capita and average growth of investments to GDP ratio, 1960-2000.

Correlates of Growth: Education

![Graph showing the relationship between average growth of GDP per capita and average schooling, 1960-2000.]

**Figure 1.14.** The relationship between average growth of GDP per capita and average schooling, 1960-2000.
Kaldor facts (Balanced Growth):

In the last 150 years:
1. The real rate of return on capital shows no trend upward or downward (which is true even in different societies)
2. Share of income accruing to capital and labor owners show no trend
3. Average growth rate of output per person has been nearly constant over time

Even though Nicolas Kaldor made these observations in 1960’s, these “stylized facts” remain true today