

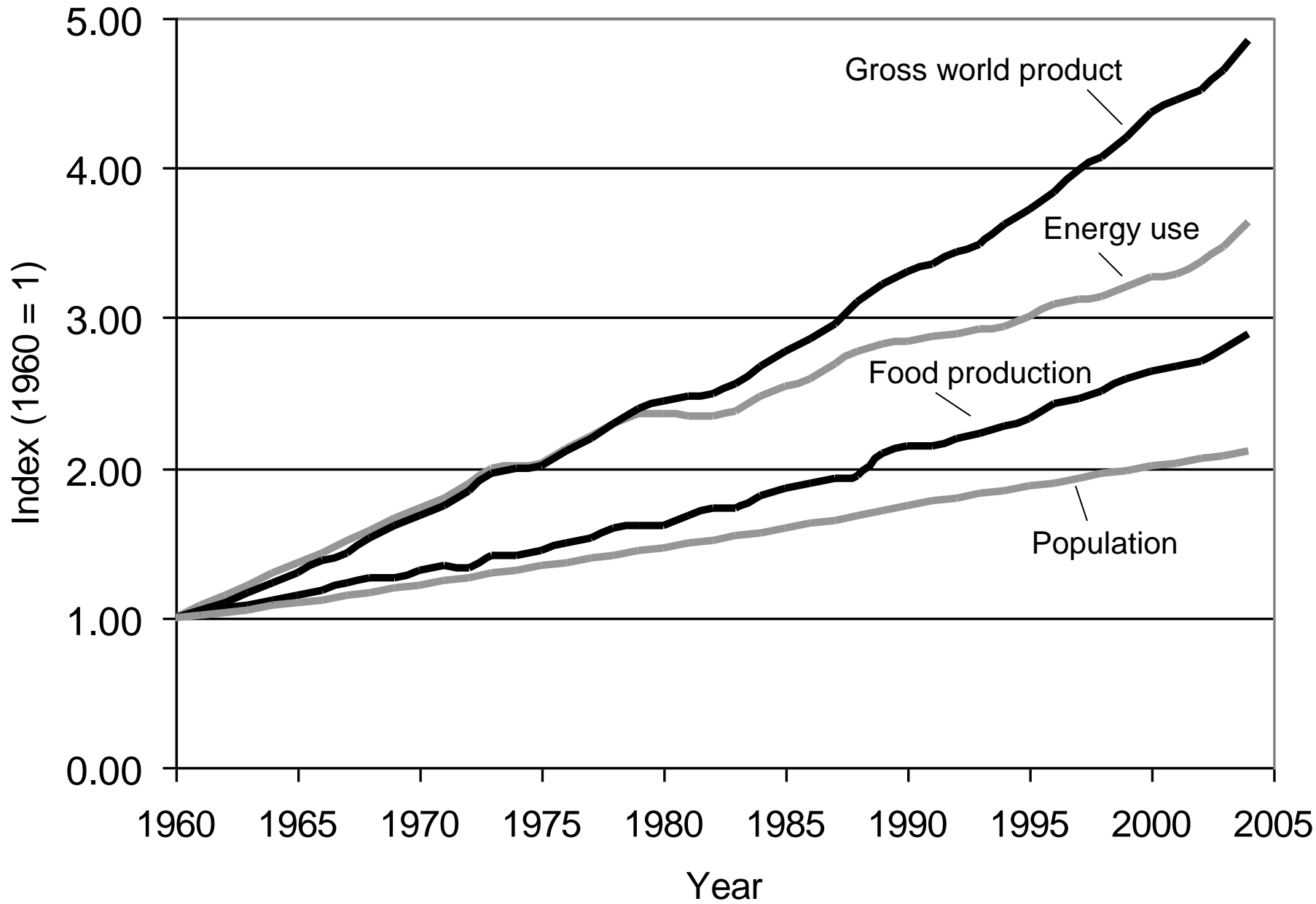
Economic Development
...it's what economics is all about!

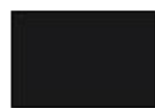
Beginning with Adam Smith

- *The Wealth of Nations* was about how countries could achieve greater prosperity
- Specialization of labor → productivity
- Free trade between nations
- Stop mercantilism: subsidies to favored industries and granting of monopoly rights
- Wealth is not gold (money) but real productive capability

200+ years since Adam Smith...

- Transition to capitalism and increased use of markets and money
- Industrial Revolution: mechanization, automation, now artificial intelligence
- Globalization: settlement of western hemisphere by Europeans, African slaves and eventually Asian immigrants (*Guns, Germs and Steel* by Jared Diamond)





\$25,000 or more



\$15,000 - \$25,000



\$10,000 - \$15,000



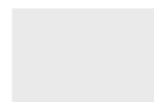
\$7,500 - \$10,000



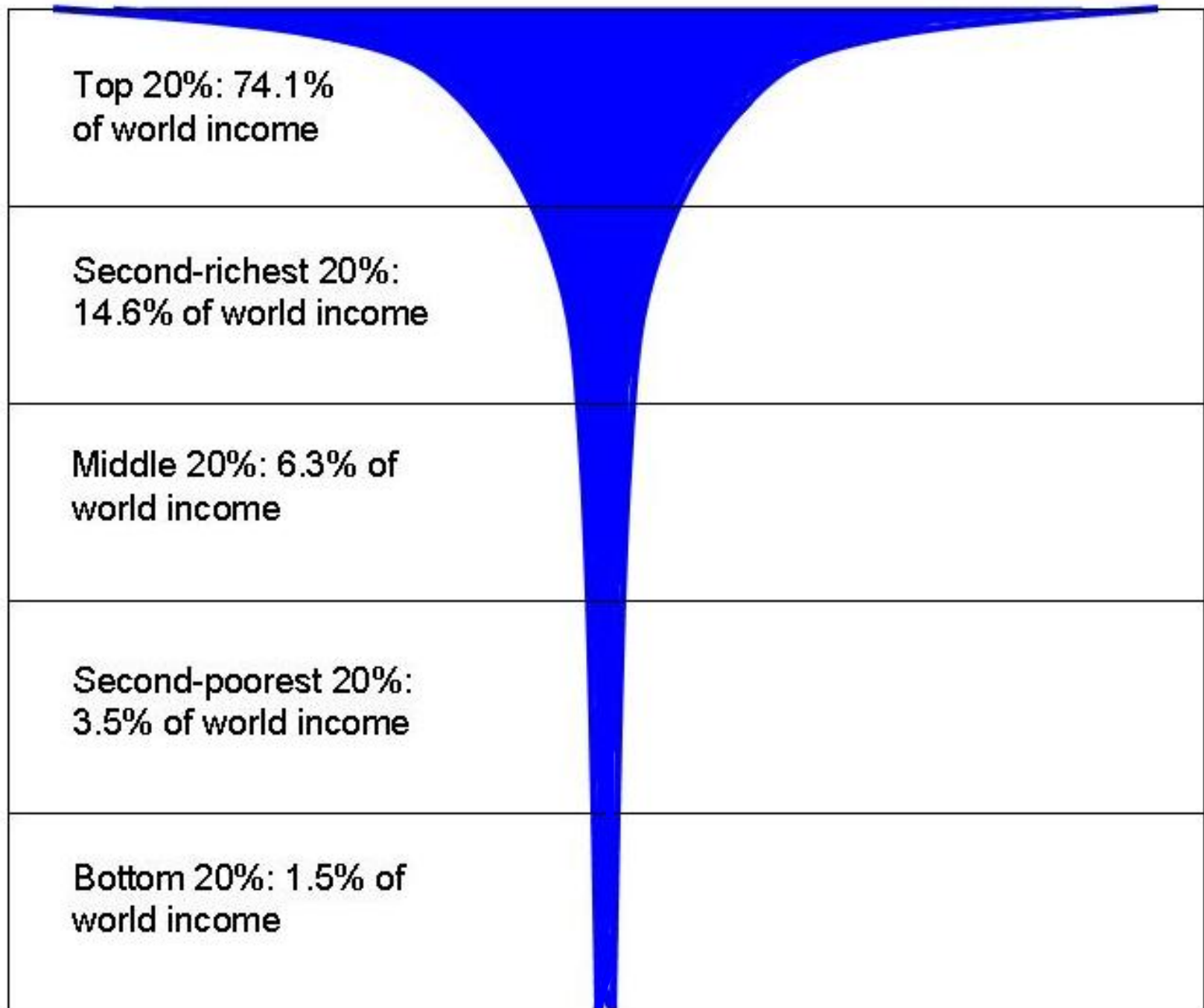
\$5,000 - \$7,500



\$2,500 - \$5,000



Less than \$2,500



Growth and development have happened unevenly

Std of living of average American in 1800 was about equal to Bolivia

- *2 room house, no plumbing, heat or electricity*
- *Meat once or twice a week*
- *little schooling*
- *But per capita GDP has grown by 10 times in U.S. and only slightly in Bolivia*

However, development is more than economic growth

- More per capita income or GDP → growth
- Development: a sustainable and broadly based increase in the standard of living
 - Std of living includes more than income
 - Higher per capita income is just an average: how many people are how much better off?
 - Is the std of living sustainable over time?

Income is not a full measure of the standard of living

- Income allows more command over market resources → better off → 😊
- Many non-mkt factors affect quality of life and therefore the standard of living
 - Family and community
 - Nature and environment
 - Publicly provided goods (schools, roads, etc)
 - Aesthetics and intangibles
- *How to measure happiness or Quality of life?*

“A rising tide lifts all boats”

Pres. John F. Kennedy

- Does rising per capita income mean incomes rising for most people?
 - It did in US from 1940's-70's
 - Various factors: technological, global, institutional → has not for most of last 30 yrs
 - Internationally → worked in 1980's and 90's in most of Asia, but Africa becoming poorer in absolute terms

Is std of living sustainable?

- Will future generations be able to live at least as well as today?
- Attention to capital stocks
 - Physical manufactured capital
 - Private business
 - Public infrastructure
 - Human Capital
 - **Natural capital** (resources/biosphere)
 - Social Capital: institutions, habits, culture

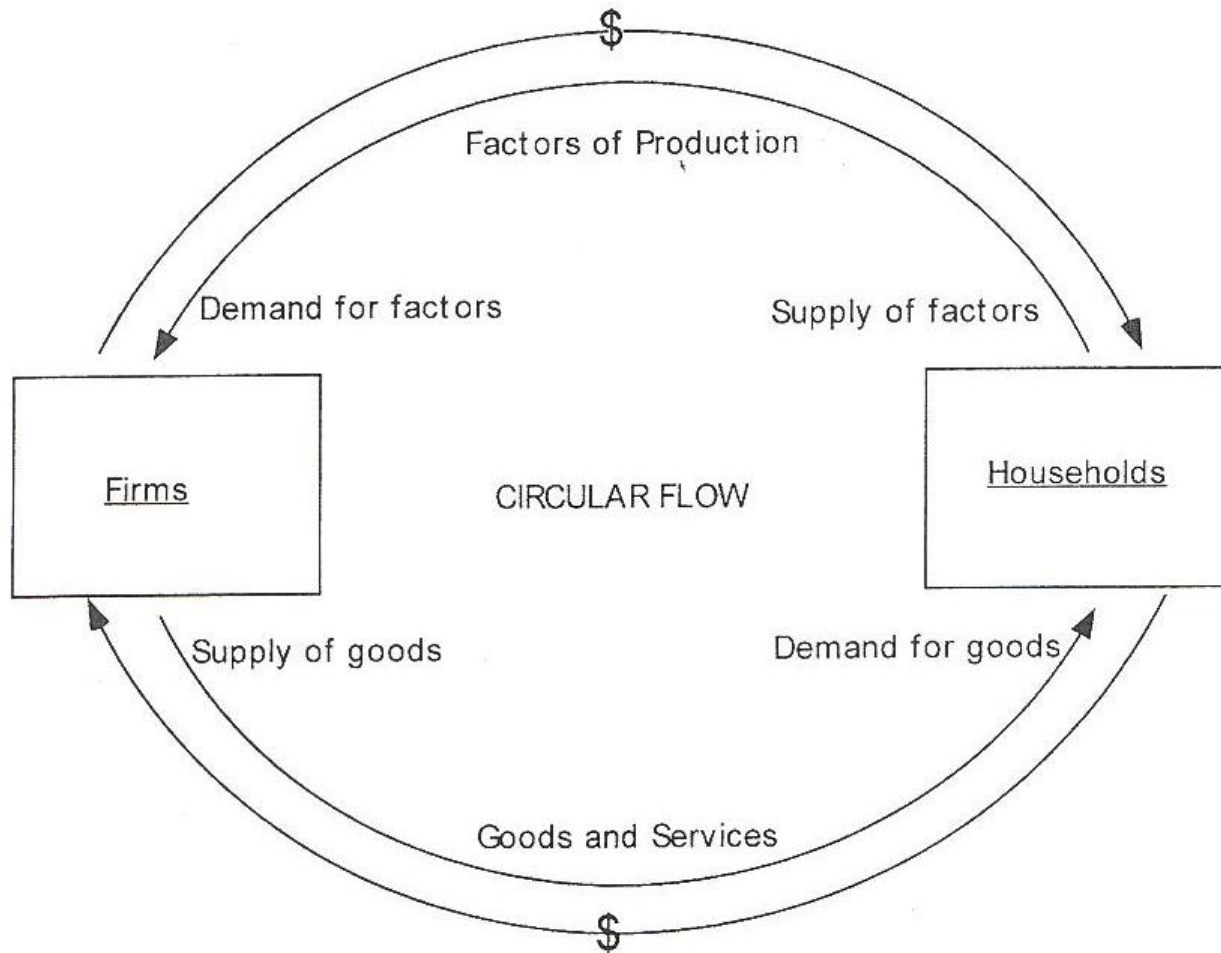
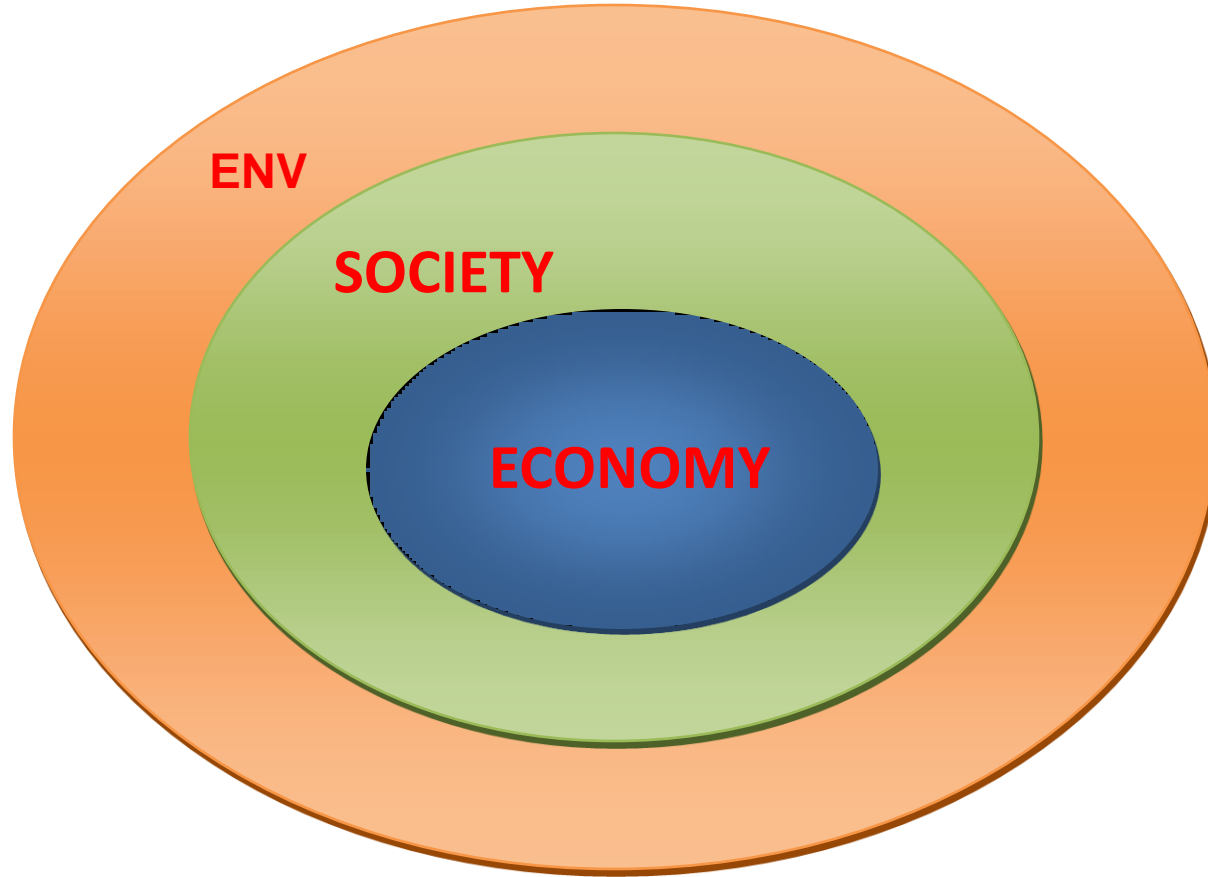


Figure 2.4 • The circular flow of the economy.

A broader vision than circular flow



Necessary for true development to occur

When is economic growth also economic development?

- Is it sustainable for future generations?
- Sustainability comes from maintaining or enhancing all **five capital stocks**:
 - finding new ways to do things
- Does it increase quality of life for most?
 - **Standard of living** is more than income
 - Individual incomes vary from per capita income

Next class:

- Read Ch. 2 (JS) and think about
 - The causes of economic development throughout history and why it is often unsustainable
 - The role of technology and innovation and how it affects each of these
 - The role of formal and informal institutions and customs and how they affect the ability to use natural and human resources as well as private and public capital