

Economic Development on the Five Continents

Why has it proceeded so differently?

Interaction of Geography, Institutions, Technology

- Human life arose first in Africa and spread to other continents
- Hunter-gatherers became agriculturalists with settlements and cities
- Trade in items not available locally was primarily on rivers and along coasts
 - Africa the only continent without navigable rivers

Interaction of Geography, Institutions, Technology

- Agricultural surplus (*Topsoil and Civilization*)
 - ➔ other consumption, investment
 - Pyramids of Egypt, Mexico, Peru
 - Wars of conquest of Greece, Rome, Mongols
 - Main way of “increasing” resources was to take them
 - Crafts and manufacture for individual sale
 - Development of middle class in W. Europe 1500's
- Trade and specialization of labor within communities increases

Other interesting books

- *Classics-*
 - *Climate, Man and History*
 - *The Great Transformation*, Karl Polanyi
 - *Toward a Theory of Economic Growth*, Kuznets
 - *The Theory of Economic Progress*, Ayres
- *More recent-*
 - *Collapse*, Jared Diamond
 - *Economic Development*, Grabowski et al.
 - Case studies of different parts of the world
 - *Uneven Economic Development* – Ocampo & Vos

Why industrial revolution in western Europe, especially England?

- Better levels of scientific knowledge in ancient China, Persian and Indian empires, Inca, Mayan, Islamic empires
- *Timing?* Development of ability to sail large oceans rather than only the coast
- Temperate climate + *weak institutions* allowed new/foreign knowledge to flourish

Weak institutions?

- Country with extremely weak social capital or institutions cannot turn resources, entrepreneurship and hard work into sustainable economic development
- But also true that traditions and institutions that are “too strong” inhibit innovation, ability to learn from other cultures
- Creative people who want to try new things flock to certain places

W. Europe & England frontier of Roman empire

- Legal system and building techniques from Romans, philosophy from Greeks, Phoenician alphabet and Arabic numerals
- Abandoned tree worship and Druidism for Christianity, a “foreign religion” that they adapted rather than following absolutely
 - Laws on usury modified: allow interest charge
- Invention of printing press coincided with desire of Protestants to interpret directly

Settlement of western hemisphere another “frontier”

- Economic growth and development occurred more rapidly where less native population survived (“guns, germs & steel”)
 - United States and Canada
 - Brazil, Chile, Costa Rica, Argentina
- Changes to traditional ways occurred fastest in U. S. colonies – *why?*
 - *Religion? Political and cultural traditions about work? status? Human rights? Other?*

Early colonies were agricultural

- Export were agricultural, manufactures imported or perhaps made by craftsmen
- Early manufacturing was import-substitution
- Many products made at home
- First factory workers? Young unmarried women no longer needed in “home production” due to technological innovations in weaving, cigar making, cheese making, etc.

Economic growth to 1840’s

- More land & labor, not more capital per person or rapid technological change
- Social capital grew, infrastructure grew
- No public education until 1880’s
- Slavery and large families more important than immigration in providing labor force
- Productivity, per capita income, and living standards grew slowly

After U. S. Civil War....

- Labor force grew primarily from immigration
 - No laws until the Chinese exclusion act of 1880’s
 - WWI led to major immigration restrictions
 - Land area continued to grow – wars, purchases, treaties with defeated native tribes
 - Fossil fuels to increase energy use in agriculture, manufacturing, transportation → new energy sources for sustainable future?
- Per capita income and average living standards rose although inequality was high in the late 1800’s

Urbanization and money economy in 20th century

- More people leaving farms, working for wages in factories vs. on farm or as self-employed craftsmen → less than 50% worked in agriculture by 1910
- Beginning of public education, sanitation and public health in cities in late 1800’s
- Banks became more important as more people participated in a money economy
 - Federal Reserve system established: 1913

Urbanization and money economy in 20th century

- 1920's – first modern era with consumer products such as cars, radios, food distribution
- 1930's – financial collapse led to collapse of jobs and spending, no farms to go back to for many → first federal safety net programs
- Greater regulation of banks, new labor laws
- 1940's – entry into WWII caused large budget deficits prescribed by Keynes and brought full employment again
- Development of indicators like GDP, ue, CPI to better measure economic activity

Post WWII – increases in std of living

- “A rising tide lifts all boats” – 3% avg annual growth, 1% population growth, stable distribution of income → everyone better off
- Exports continued to be primarily agricultural but manufacturing also important
- Increased civil and economic rights for women and minority groups members
- U. S. the dominant western power after war devastated Europe vs. Russia and eastern bloc

Last few decades

- 1970's- Growth in programs for elderly, student loans & grants, expansion of programs for poor
- Declining real wages of low and then middle income wage earners supplemented by more women in the workforce → family income grew
- First realizations of energy shortages, negative environmental effects of “business as usual”
- 1980's – consumer credit maintained living standards even when income growth slowed

Last 20 years

- Breakup of Soviet Union and its power
- W. Europe and major economic players, joined by China and India in late 90's, also Brazil, South Korea, etc.
- Economic growth rates in U. S. slowed but still continued to be innovation center
- Issues of affordability (housing, health care, college education, etc.) even for many Americans whose income rose

Is the “American Dream” still alive? Is our standard 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

Next class:

- Read Ch. 1 in GH (11 pages)
- Introduction and parts of Ch.1 in *Development as Freedom*, Amartya Sen

If development is more than simple growth (measured by increased GDP) then what is it?