17 Sources of Long-Run Economic Growth

18 Productivity and Growth

19 Long-Run Growth Policy

SECTION 5 LONG-RUN ECONOMIC GROWTH
Why Growth Rates Differ

- A number of factors influence differences among countries in their growth rates.
- Some countries add to their physical capital more rapidly than others, through high rates of investment spending.
- Some countries add to their human capital through education.
- Some countries engage in or encourage research and development (R&D) spending to create new technologies and prepare them for practical use.
Why Growth Rates Differ

China’s Students Are Catching Up

<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>4.6</td>
<td>0.7</td>
</tr>
<tr>
<td>1970</td>
<td>5.9</td>
<td>2.5</td>
</tr>
<tr>
<td>1990</td>
<td>7.9</td>
<td>4.9</td>
</tr>
<tr>
<td>2010</td>
<td>9.3</td>
<td>7.5</td>
</tr>
</tbody>
</table>
Role of Government in Economic Growth

• Government subsidies to infrastructure such as roads, power lines, ports, information networks, and other parts of an economy’s physical capital
• Government subsidies to education
• Government subsidies to R&D
• Government’s maintenance of a well-functioning financial system
• Government protection of property rights
• Political stability and good governance
Role of Government in Economic Growth

• Even when governments aren’t corrupt, excessive government intervention can slow economic growth.

• If large parts of the economy are supported by government subsidies, protected from imports, or otherwise insulated from competition, productivity tends to suffer because of a lack of incentives.
Success, Disappointment, and Failure

Real GDP per capita
(2000 dollars, log scale)

Year

$100,000

$10,000

$1,000


Argentina

South Korea

Nigeria
Success, Disappointment, and Failure

• The world economy contains examples of success and failure in achieving long-run economic growth.

• **East Asian** economies have done many things right and achieved very high growth rates.

• In **Latin America**, where some important conditions are lacking, growth has generally been disappointing.

• In **Africa**, real GDP per capita has declined for several decades (there are some signs of progress now).
Success, Disappointment, and Failure

• **East Asia**’s spectacular growth was generated by high savings and investment spending rates, emphasis on education, and adoption of technological advances from other countries.

• Poor education, political instability, and irresponsible government policies are major factors in the slow growth of **Latin America**.

• In **sub-Saharan Africa**, severe instability, war, and poor infrastructure— particularly affecting public health—have resulted in a catastrophic failure of growth.
Success, Disappointment, and Failure

• The growth rates of economically advanced countries have converged, but not the growth rates of countries across the world.

• This has led economists to believe that the convergence hypothesis fits the data only when factors that affect growth (i.e. education, infrastructure, and favorable policies and institutions) are held equal across countries.
Economics in Action: Convergence?

Are Economies Converging?

(a) Convergence Among Wealthy Countries...

Real GDP per capita annual growth rate 1955–2008

Real GDP per capita in 1955 (1990 dollars)

Spain, Italy, Germany, France, United Kingdom, Canada, Japan, Ireland, Australia, United States

(b) ... But Not for the World as a Whole

Real GDP per capita annual growth rate 1955–2008

Real GDP per capita in 1955 (1990 dollars)

East Asia, Western Europe, United States, Western Europe, Eastern Europe, Latin America, Africa