

# ECON7560

Dr Cameron Murray

**Week 1:** Course intro, What is growth?, Historical growth patterns, Contemporary picture of the global economy.

## Who am I

- Three degrees in economics, yet I still don't trust degrees as signals of intelligence/knowledge.
- Written nearly 1,000 blog posts + 5 of academic papers.
- Book: *Game of Mates: How favours bleed the nation* (with Prof. Paul Frijters)
- Consultant. Specialist in property, planning, environment, natural resource management, and corruption.
- I don't know everything about growth and globalisation. But I know how to research.

## Course objective

1. Provide you with a set of historical facts to provide context to debates about growth and globalisation.
2. Learn some of the core and contemporary theories and learn the "language of economics". This will help you when conducting your own research.
3. Foster a) a critical mindset for interrogating theories and the evidence for/against them, and b) an appreciation of details.
4. Simulate an interest in economics! This course is what you make of it - so what do you want to learn about? Ask questions! No tutorials to this is your chance.

## Expectations

- Read provided material prior to class each week
- Attend class for quizzes and activities
- Complete assessment

## Course outline

1. What is economic growth and development?
2. What are the prevailing theories that account for the massive differences in standard of living across countries?
3. How do researchers attempt to untangle the factors that contribute to economic growth and development?
4. What is globalisation, and how does the process of international economic integration affect national economies?

## Assessment

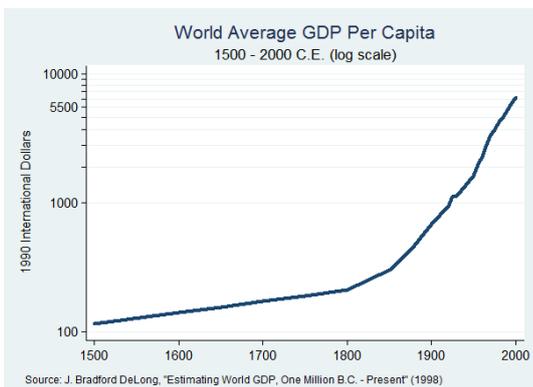
- Assignment (40%)
  - Your chance to research two economic theories **that interest you**.
  - Write a critical analysis in a structured essay.
  - Due 7 May 2018. Draft reviews 23 - 27 April. 5,000 words max.
- Final exam (30%)
  - A mix of multiple choice, short answer, and short essay questions.
  - 2 hrs during exam period

# Assessment

- Class quizzes
  - Write your quiz for designated week (10%)
  - Complete quizzes (10%)
- For 10 weeks there will be a 15 minute quiz at 1.30pm written by a nominated person or pair based on the readings. Minimum 5 questions (multiple choice or short answer).
- Today we will nominate who will write which week's quiz. Quiz due to me on Friday 5pm three days prior to lecture time.

# Today

- Historical patterns of growth.
- What do we mean by growth and globalisation?
- Emerging issues you need to be aware of.
- Mostly talkfest. Ask questions, share ideas. Will have class activity most weeks in second hour.



# Very long run

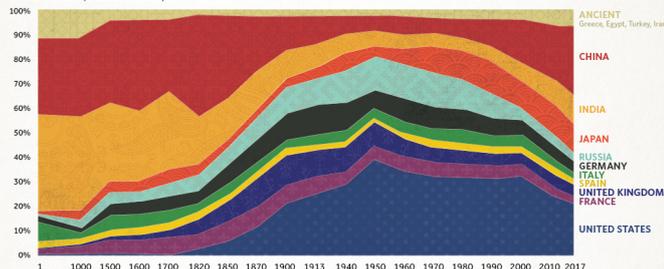
- Why didn't human societies really grow until the industrial revolution?
- Yuval Noah Harari argues that we simply didn't collectively believe we could, so we didn't organise our society towards that outcome.
- Transformation / industrial revolution was accompanied by the belief system of *Mercantilism*.
- Once we collectively believed in growth we took action to get it (individually, commercially, politically).

Chart of the Week

## 2,000 YEARS OF ECONOMIC HISTORY IN ONE CHART

All major powers compared by GDP from the year 1 AD

SHARE OF GDP (WORLD POWERS)



<https://www.weforum.org/agenda/2017/09/over-2000-years-of-economic-history-in-one-chart>

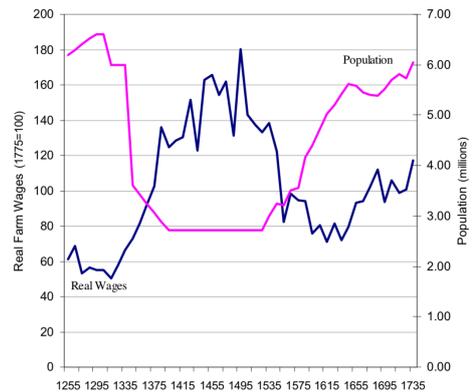
# Malthus

- Thomas Malthus (1766 – 1834): An Essay on the Principle of Population (1798)
- “Population, when unchecked, increases in a geometrical ratio. Subsistence increases only in an arithmetical ratio. A slight acquaintance with numbers will shew the immensity of the first power in comparison of the second”
- Evidence from high fertility of US where “the means of subsistence have been more ample”



# Malthus

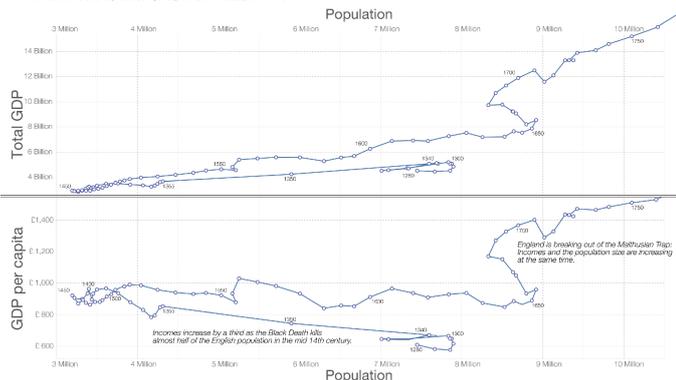
- “might fight for glory, for the fame of extensive conquests, but the true cause that set in motion the great tide of northern emigration, and that continued to propel it till it rolled at different periods against China, Persia, Italy, and even Egypt, was a scarcity of food, a population extended beyond the means of supporting it.”
- “The reason that the greater part of Europe is more populous now than it was in former times, is that the industry of the inhabitants has made these countries produce a greater quantity of human subsistence.”



[https://www.brown.edu/academics/economics/sites/brown.edu/academics/economics/files/uploads/2008-6\\_paper.pdf](https://www.brown.edu/academics/economics/sites/brown.edu/academics/economics/files/uploads/2008-6_paper.pdf)

The Malthusian Economy: GDP, GDP per capita, and the size of the population in England from 1280 to 1770. GDP is adjusted for inflation and expressed in 2012 prices. OurWorldInData

Before sustained economic growth was achieved the English economy was trapped in a 'Malthusian Economy': productivity increases lead to population increases so that per capita output did not increase. And vice versa, population decreases, such as the strong decline due to the plague in the mid-14th century, lead to increasing output per capita for those that survived the Black Death. For reference and in the same prices: GDP per capita in 2012 was £28,161 in the UK.



Data source: Broadberry et al and Bank of England. Data prior to 1700 refers to England; data thereafter refers to the UK. Averages over 5 year intervals are shown here. The visualization is available at OurWorldInData.org where you find more visualizations and research on global development. Licensed under CC-BY-SA by the author Max Roser.

<https://ourworldindata.org/wp-content/uploads/2013/11/GDP-and-GDP-per-capita-in-England-since-1270.png>

# Modern era

- Idea that per capita economic growth is easier with more stable population influences economics and policy advice.
- “Obviously, **reducing fertility will reduce population growth thereby raising economic development.** In view of this, the paper discusses incentives and disincentives for fertility reduction, those factors which influence both policy making for fertility reduction and the actual effectiveness of family planning programs. The central conclusion of this paper is that **direct population policies and general development policies reinforce each other** in raising per capita incomes and in reducing fertility.”

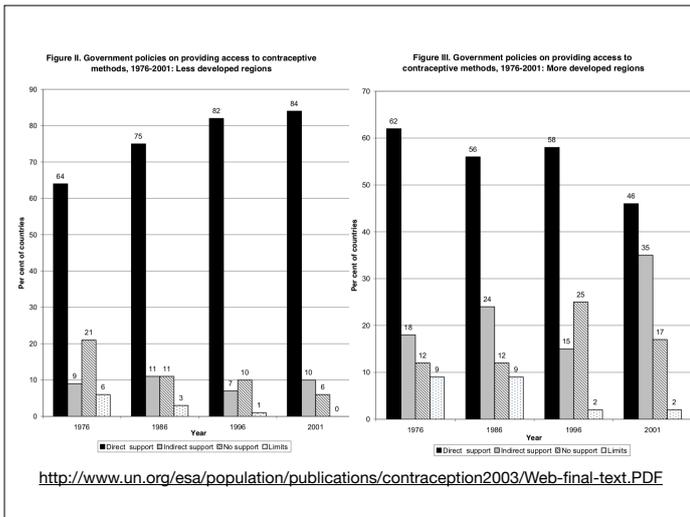
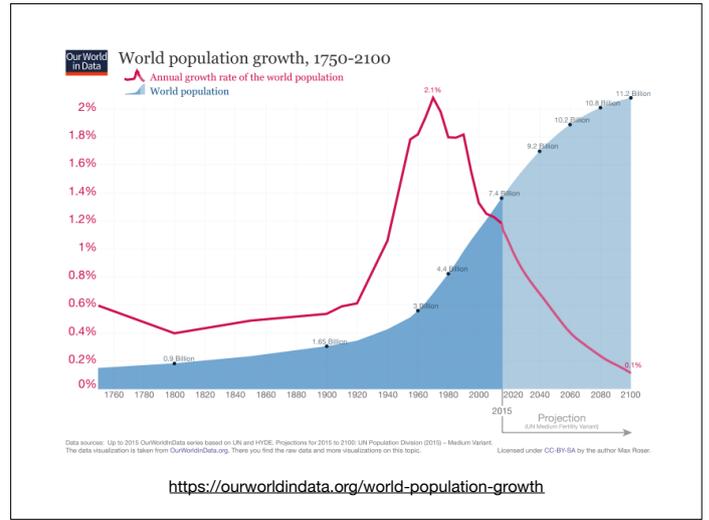
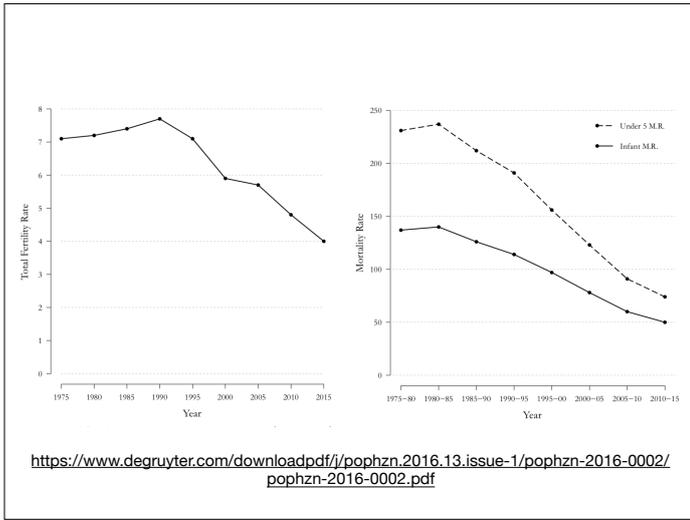
<http://documents.worldbank.org/curated/en/691161468330299714/Population-policies-and-economic-development>

# Examples

- Hong Kong - “Two is enough”
- South Korea - “Stop at two, regardless of sex”
- Bangladesh - “One child is ideal, two children are enough”
- Family planning subsidies in Sweden (1950s), Sri Lanka, Pakistan and India (1962).
- China - One child policy 1979.
- India - National Population Policy 2000.

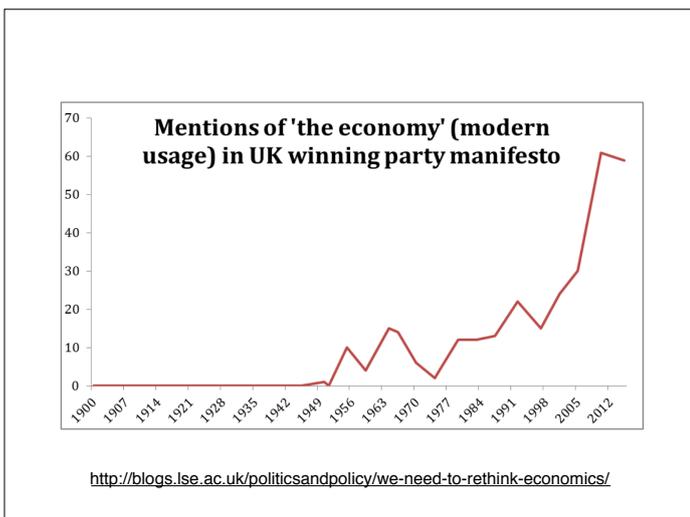
<http://personal.lse.ac.uk/tenreyro/fertility.pdf>

- Total fertility was to be reduced by nearly 50%, from 7.7 children per woman to 4.0. The contraceptive prevalence rate, which stood at 4.8% in 1990, was to be increased to 44%.
- The policy also aimed (but with no fixed targets) to reduce infant, child and maternal mortality rates, and to increase female participation at all levels of the educational system.
- The policy proposed the elimination of all legal and customary practices affecting women’s economic, social and political rights; and incorporated an ambitious programme of measures to guarantee spatially balanced population distribution patterns, and improve productivity in agriculture and introducing off-farm non-agricultural activities.
- The policy also proposed the launching of a country-wide population information, education and communication programme (TGE 1993).



# What is GDP?

- Growth of what? Is GDP the economy?
- When and why was GDP invented?
- Why choose this metric?



## NATIONAL INCOME, 1929-32

### CHAPTER I

#### CONCEPT, SCOPE, AND METHOD

##### 1. NATIONAL INCOME PRODUCED AND NATIONAL INCOME PAID OUT

Year in, year out the people of this country, assisted by the stock of goods in their possession, render a vast volume of work toward the satisfaction of their wants. Some of this work eventuates in commodities, such as coal, steel, clothing, furniture, automobiles; other takes the form of direct, personal services, such as are rendered by physicians, lawyers, Government officials, domestic servants, and the like. Both types of activity involve an effort on the part of an individual and an expenditure of some part of the country's stock of goods. If all commodities produced and all personal services rendered during the year are added at their market value, and from the resulting total we subtract the value of that part of the nation's stock of goods which was expended (both as raw materials and as capital equipment) in producing this total, then the remainder constitutes the net product of the national economy during the year. It is referred to as national income produced, and may be defined briefly as that part of the economy's end-product which is attributable to the efforts of the individuals who comprise a nation.

[https://fraser.stlouisfed.org/scribd/?title\\_id=971&filepath=/files/docs/publications/natincome\\_1934/19340104\\_nationalinc.pdf&start\\_page=1](https://fraser.stlouisfed.org/scribd/?title_id=971&filepath=/files/docs/publications/natincome_1934/19340104_nationalinc.pdf&start_page=1)

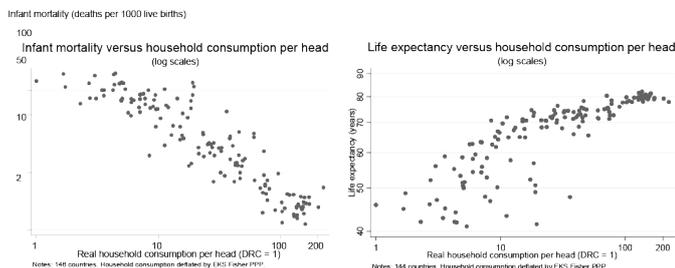
# Gross Domestic Product

- GDP measures the **total market value of all final goods and services newly produced** in a **specified country or region** during a **specified period of time**.
- Link to welfare (utility, or well-being) is that a higher GDP means more goods and services are produced, and it is the consumption of these that provides utility.
- Excludes assets (property, bonds, equities).
- Includes own-home occupation, government sector.

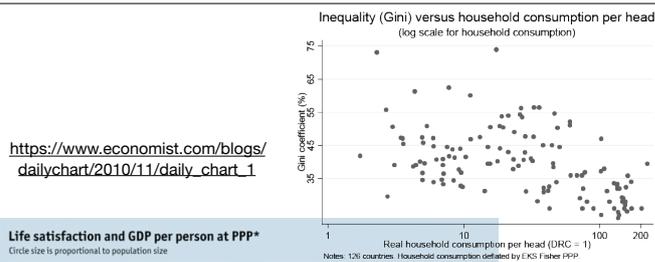
# Hard to measure

- GDP is criticised as a development metric because it doesn't measure 'what we value'. Which is true.
- GDP is very difficult to measure and its definition has changed repeatedly over time.
- Comparisons over time difficult (changing types of goods and services which are incomparable).
- Comparisons between countries difficult for similar reasons.

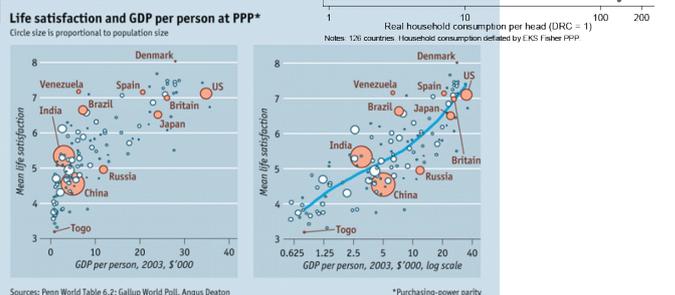
# Correlates with GDP



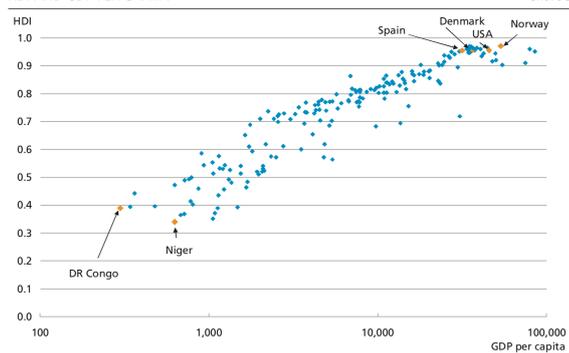
<http://voxeu.org/article/defence-gdp-measure-wellbeing>



[https://www.economist.com/blogs/dailychart/2010/11/daily\\_chart\\_1](https://www.economist.com/blogs/dailychart/2010/11/daily_chart_1)

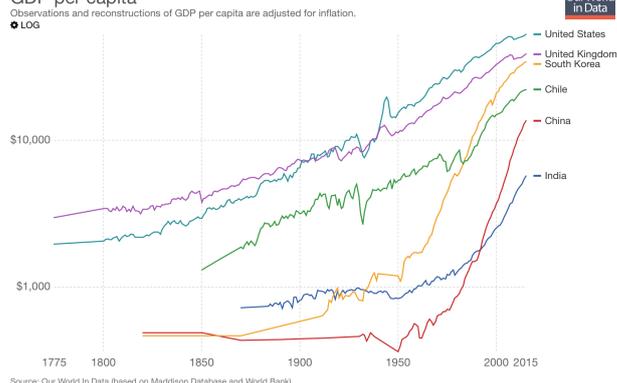


HDI AND GDP PER CAPITA Chart 5

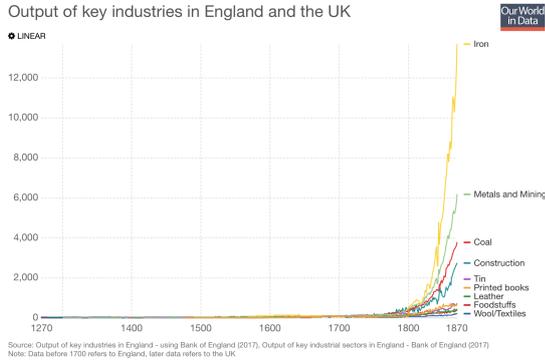


[http://www.nationalbanken.dk/en/publications/Documents/2010/07/gross\\_2q\\_2010\\_A.pdf](http://www.nationalbanken.dk/en/publications/Documents/2010/07/gross_2q_2010_A.pdf)

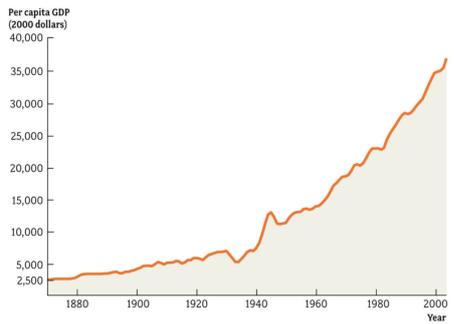
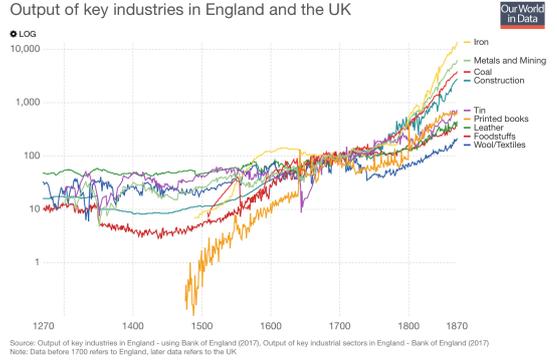
# GDP per capita



# Use of log graphs

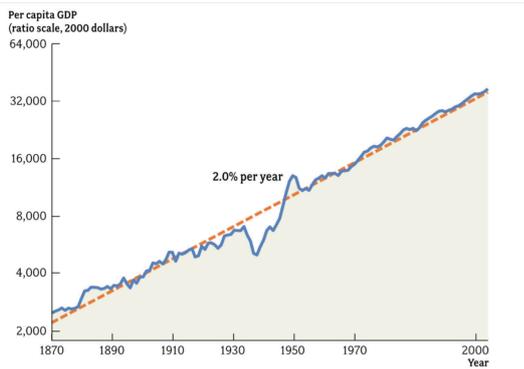
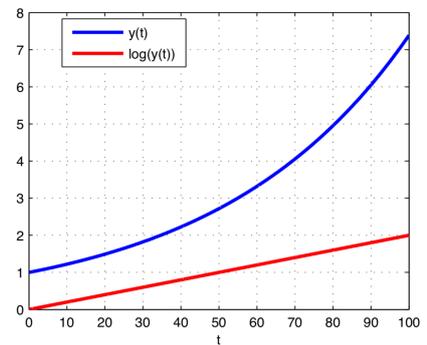


# Use of log graphs



- It looks like US GDP per capita is accelerating. Is that true?

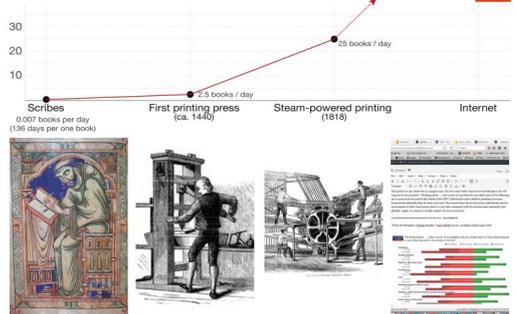
Example:  $y(t)$  grows by 2% per year.



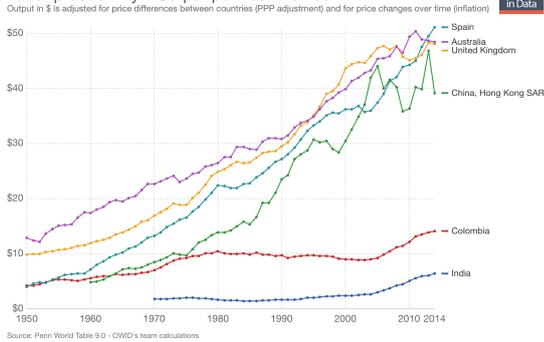
[http://lhendricks.org/econ520/growth/growth\\_algebra\\_sl.pdf](http://lhendricks.org/econ520/growth/growth_algebra_sl.pdf)

# Labour Productivity

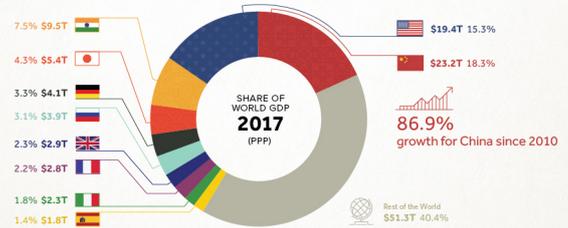
Over the last 6 centuries: How many books can you produce in one day?



### Labor productivity – Output per hour worked



## Global distribution



## What is globalisation?

- Many possible approaches/interpretations. An increase in global:
  - **trade interdependencies** (i.e. international trade a % of GDP).
  - **cross-ownership of financial assets** (international ownership of property, bonds, equities etc).
  - **formal institutions** that play a role in regulating human society (World Bank, IMF, etc).
  - **culture exchange** (e.g. US entertainment culture).
  - **migration**.

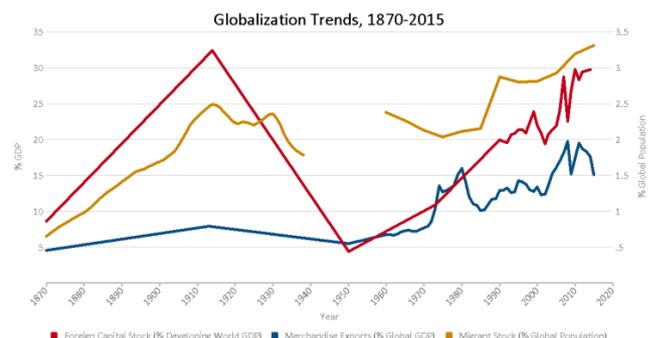
## Invert the idea

- Why is the world fragmented into different groups (countries) rather than having always been a single human society?

## First wave

- Commonly acknowledged that British colonialism was the 'first wave' of globalisation from about 1870 to 1913, though arguably started a century earlier.
- "From the domestication of the camel around 1,000BC to the first commercial steam engine in 1712, the first great wave of globalisation unbundled production and consumption. From 1820, British prices were set by international demand, and café-goers could sip Chinese tea sweetened with Jamaican sugar."

<https://www.economist.com/news/books-and-arts/21710240-first-free-movement-goods-then-ideas-momentum-may-stop-free-exchange>



<https://www.brookings.edu/research/is-globalizations-second-wave-about-to-break/>



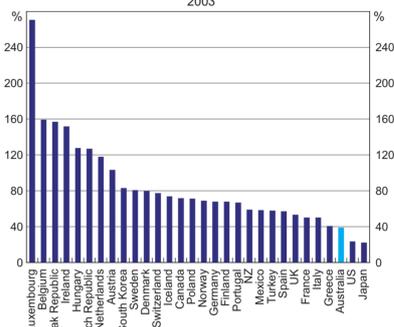
<https://ourworldindata.org/international-trade>

## Trade



<https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS>

### Trade as a Proportion of GDP – OECD Countries



Source: authors' calculations based on IMF *Direction of Trade Statistics*

<https://www.rba.gov.au/publications/bulletin/2005/mar/pdf/bu-0305-1.pdf>

## Financial assets

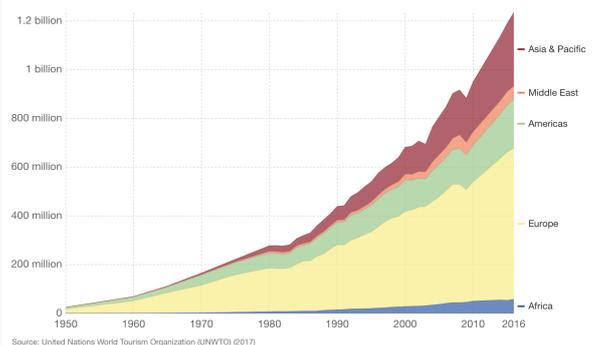
- If a country has a **trade imbalance**, the difference is made up by a financial transaction.
- "...running a trade deficit was similar to a very rich family over-consuming each year and selling a small piece of their farm in order to consume. Slowly, the rich family's wealth is transferred to those selling them what they are consuming. Another way of putting this is that the family is running a negative current account balance and offsetting that with a positive capital account balance."

<https://www.intobserver.com/the-truth-and-truthiness-of-global-trade/>

## Culture

- Tourism, film and TV, music. US dominated in English-speaking world post-WWII.
- Now have global fashion trends, global music hits, global video game markets, etc.

### International tourist arrivals by world region



Source: United Nations World Tourism Organization (UNWTO) (2017)

<https://ourworldindata.org/tourism>

# Global migration

## On the go

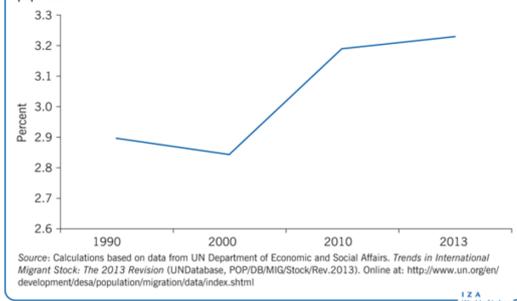
The number of European emigrants rose from 300,000 a year in 1846 to over a million a year by the end of the century, before plummeting with the U.S. imposition of quotas.



Source: I. Ferenczi and W.E. Willcox, 1929, *International Migrations*, Vol. 1 (New York: National Bureau of Economic Research).

<http://www.imf.org/external/pubs/ft/fandd/2006/09/williams.htm>

Figure 1. The international migrant stock accounts for an increasing share of the world population



Source: Calculations based on data from UN Department of Economic and Social Affairs, *Trends in International Migrant Stock: The 2013 Revision* (UNDatabase, POP/DB/MIG/Stock/Rev.2013). Online at: <http://www.un.org/en/development/desa/population/migration/data/index.shtml>

IZA World of Labor

<https://wol.iza.org/articles/migration-and-families-left-behind/long>

# 20th Century Wars

- We shouldn't underestimate the effect of conflict on economic conditions, growth, and patterns of globalisation.
- The end of the First Wave of globalisation coincided with WWI, and the Second Wave did not begin until after WWII.
- Note coincided and not "caused by". We need to be cautious attributing causality.
- The end WWII saw nations looking to establish a global order that would impede nations waging large scale war.

# Bretton Woods

- Post-war meeting at Bretton Woods, New Hampshire designed to ensure economic power and trade imbalances do not flare up again and result in war.
- John Maynard Keynes (UK) & Harry Dexter White (US)
- Created the International Monetary Fund and World bank (originally the International Bank for Reconstruction and Development - IBRD)
- Used IMF as institution to agree on fixed (and managed) exchange rate regime to ensure balance trade.

<https://www.economist.com/blogs/economist-explains/2014/06/economist-explains-20>

# World Trade Organisation

- The WTO sprang out of the General Agreement on Tariffs and Trade (GATT), which was signed on October 30, 1947 in Geneva by 23 countries.
- Original "contracting parties": Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia (now Zimbabwe), Syria, South Africa, United Kingdom and the United States.
- The 75 existing GATT members and the European Communities became the founding members of the WTO on 1 January 1995.



## World Trade Organisation

- Notice that GATT was an agreement between nations — a set of rules that they each independently and collectively agreed to comply with.
- The WTO is very different. It was established as a fully fledged international institution/organisation, with its own hierarchy and structure, headquarters, staff etc. It provides technical assistance, handles disputes, administrates agreements, etc.
- This is an example if institutional globalisation.

## United Nations

- Another post WWII international institution.
- Established 24 October 1945 with 51 member States. Now with 193 members.
- Similar attempts after WWI with League of Nations.
- Objective is to foster cooperation and peace.

## Puzzles/questions

- Why do some countries stay poor?
- What factors determine the observed patterns of development and globalisation?
- What is the effect of globalisation and its component parts of economic development and well-being?
- What policies are available to improve welfare and what are their effect on economic development and the income distribution?

## Asian Tigers

- Also called “Little Dragons”
- Hong Kong, Singapore, South Korea and Taiwan.
- Sustained (> decade) high growth rates of over 7%.
- Transformation to world leading producers.
- Controversy over how they did it! A lot of this course is about what made these countries different to all the other poor countries that stayed poor.

## Most poor stay poor

- Asian Tigers are the exception rather than the rule.
- Most countries that were poor in the 1960s grow slower in the subsequent half century.

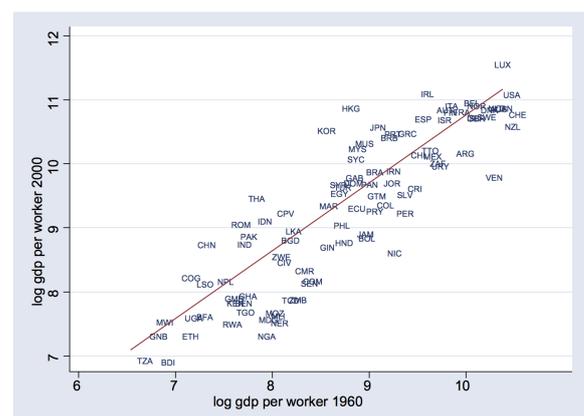
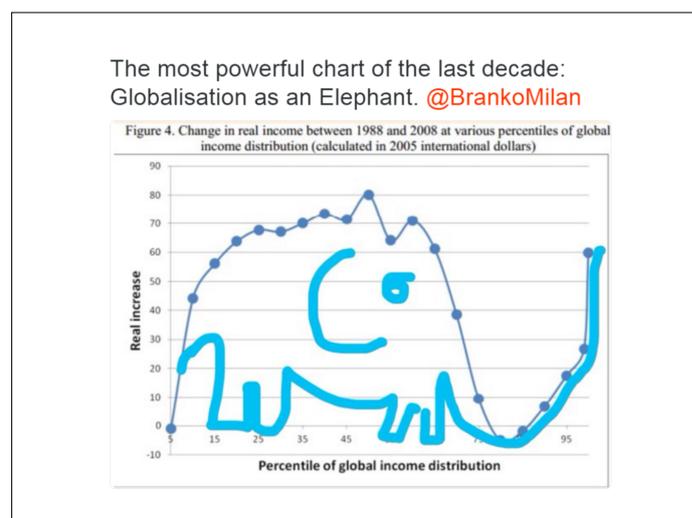
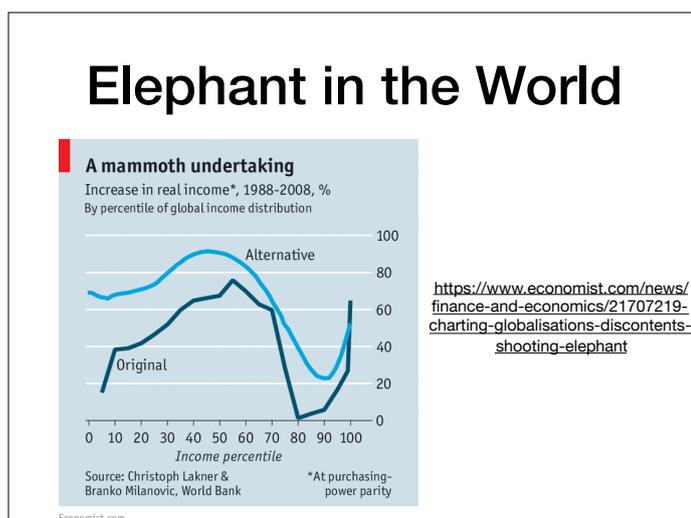
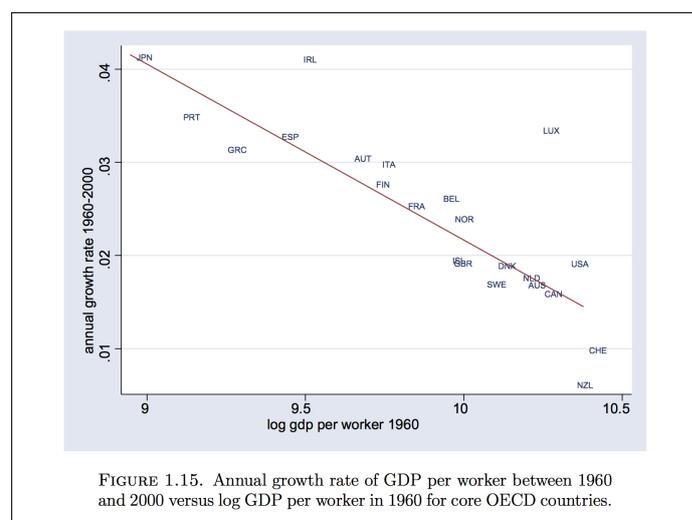
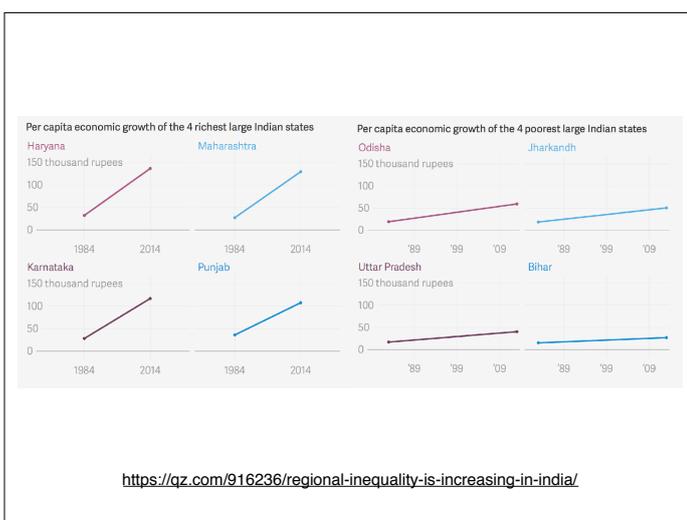


FIGURE 1.9. Log GDP per worker in 2000 versus log GDP per worker in 1960, together with the 45° line.



- ## Summary
- Took thousands of years for economic growth to take off
  - Long periods of Malthusian limits
  - Industrial revolution, population control, seems to have changed global economic growth dynamic
  - The idea of a thing called "the economy" didn't enter the realm of public debate until after WWII. GDP invented during depression era then later used for war purposes.
  - GDP correlated with many other things that improve well-being

- ## Summary
- Arguably the thing that matters is making more stuff per hour. That is called Labour Productivity.
  - Many facets to globalisation - trade, finance, culture, people, institutions.
  - Wars correlate with big changes to patterns of globalisation
  - Asian tigers show that in modern times poor countries becoming rich is the exception rather than the rule.

## Course objective

1. Provide you with a set of historical facts to provide context to debates about growth and globalisation.
2. Learn some of the core and contemporary theories and learn the "language of economics". This will help you when conducting your own research.
3. Foster a critical mindset about how to interrogate theories and evidence for/against them, and an appreciation of details!
4. Simulate an interest in economics.

## Reading for next week

1. Taylor, J and T, Lybbert. (2015). What Works and What Doesn't? Chapter 2 of Essentials of Development Economics. University of California Press. **Pages 23 -4 7 only.**

Example class quiz document on Blackboard under Assessment. Use this as a template.

Email class quiz to [c.murray7@uq.edu.au](mailto:c.murray7@uq.edu.au)