

Introduction to International Economics

Update to Chapter 21

Growth and Development

Old Growth Theory

How fast can increases in capital-labor ratios or other shift factors make economies grow? Table 21.1 presents some examples. In this table, Ghana has been added to the countries reported on in Chapter 20. As you see in Table 21.1, growth rates in GDP per capita can differ significantly among countries and over time. The variation recorded in this table alone ranges from minus 7 percent (Haiti in 2010) to 16 percent (China in 1970). It is important to keep in mind that when poor countries record negative growth rates, poverty is most likely increasing. In the case of Ghana, you can see that in 1980, 1990 and 2000, the growth rate was very low. In 2010, however, it had increased to 5 percent. Also note that the 2010 GDP per capita recorded in the table was US\$1,319, so some progress had been made since 2000.

Table 21.1 Growth in GDP Per Capita (percent)

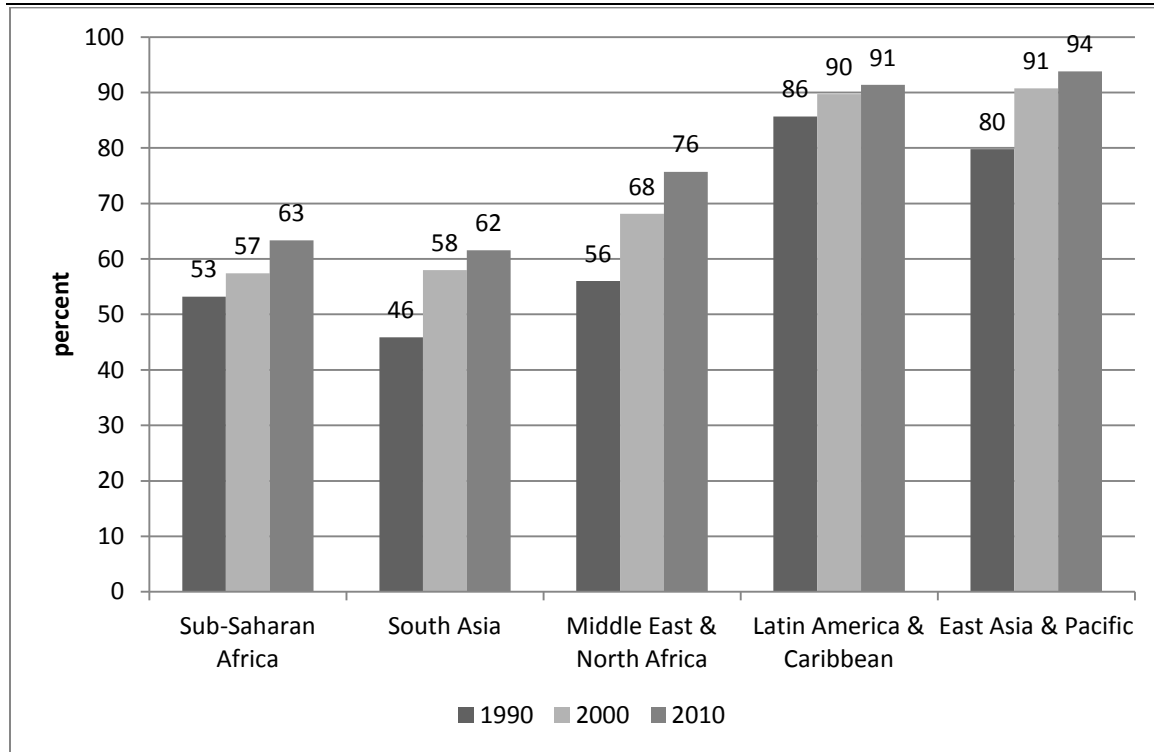
| Country | GDP Per Capita, 2015 | Growth Rate in GDP Per Capita | | | | | |
|---------------|----------------------|-------------------------------|------|------|------|------|------|
| | | 1970 | 1980 | 1990 | 2000 | 2010 | 2015 |
| Ethiopia | 619 | NA | NA | 2.7 | 6.1 | 12.6 | 9.6 |
| Haiti | 829 | NA | NA | NA | 0.9 | -5.5 | 1.7 |
| Ghana | 1,381 | 9.7 | 0.5 | 3.3 | 3.7 | 7.9 | 3.9 |
| India | 1,582 | 5.2 | 6.7 | 5.5 | 3.8 | 10.3 | 7.6 |
| Indonesia | 3,346 | 8.2 | 8.7 | 9.0 | 4.9 | 6.2 | 4.8 |
| China | 7,925 | 19.4 | 7.8 | 3.9 | 8.4 | 10.6 | 6.9 |
| Brazil | 8,539 | 8.8 | 9.1 | -3.1 | 4.1 | 7.5 | -3.8 |
| Turkey | 9,130 | 3.2 | -2.4 | 9.3 | 6.8 | 9.2 | 4.0 |
| Costa Rica | 10,630 | 7.5 | 0.8 | 3.9 | 1.8 | 5.0 | 2.8 |
| Spain | 25,832 | 4.3 | 2.2 | 3.8 | 5.3 | 0.0 | 3.2 |
| South Korea | 27,222 | 12.9 | -1.9 | 9.3 | 8.8 | 6.5 | 2.6 |
| Japan | 32,477 | -1.0 | 2.8 | 5.6 | 2.3 | 4.7 | 0.5 |
| United States | 55,837 | 3.2 | -0.2 | 1.9 | 4.1 | 2.5 | 2.4 |

Source: World Bank, World Development Indicators Online

New Growth Theory and Human Capital

Levels of human capital can vary significantly among countries as over time. Consider Figure 21.4. This takes adult literacy as a measure of human capital for a range of years and for five developing regions. Outside of sub-Saharan Africa and South Asia, adult literacy rates are on significant upward trends. However, they vary significantly, from just over 60 percent in these two lagging regions to over 90 percent in the Latin America/Caribbean and East Asia/Pacific regions. The view of new growth theory is that such differences can matter for technological efficiency and, therefore, GDP per capita.

Figure 21.4 Adult Literacy Rates by Region (percent)



Source: World Bank, World Development Indicators Online