Chapter 1
Introduction

1.1 Rapid growth began only after 1800

- Population growth accelerated further between 1500 and 1890, from 425 millions to 1068 millions globally. After 1820, the world's population grew fivefold.

- In the last 200 years, real per capita output in the world suddenly grew eightfold and the total value of output produced in the world was more than 40 times as great in 1945 as it was in1820.

- The rate of real per capita GDP growth increased noticeably from the average 1973-1995 rates because the rise in output growth was accompanied by a fall in population growth.

	1950-1973	1973-1995	1820-1995	1991-1998
World population	1.93%*	1.72%	1%	1.5%
World per capita GDP	2.9%	1.05%	1.2%	1.7%

* Annual growth rates in %

1.2 Economic growth is not always rapid and consistent

- For example, at the end of 19th C Argentina was one of the fastest-growing economies in the world. Today Argentina was classified as "middle income" by the World Bank.

- In 1990 Japan's real per capita income was little more than one-third that of Argentina. But by the 1990s Japan's real per capita income was three times as great as Argentina's and was comparable to the real per capita incomes of the United States, Germany and Switzerland.

- Huge gaps that have arisen between standards of living in the developed countries and in the less developed countries. The real income of the average Ethiopian is just one-fortieth on one-fiftieth of the real income enjoyed by the average resident of Canada, New Zealand, France, or the United States.

- Over half of the world's population lives in low-income countries; only 15% lives in high-income countries.

- Unprecedented high rates of economic growth in a group of countries referred to as the “developed” countries.

- Slow economic growth in some countries.

1.3 Structural change and economic growth

- Economies that have achieved high levels of per capita output have a very different structure than do economies with low levels of per capita output.

- Rich economies produce a very different mix of goods and services, and they use very different production methods. The people living in the “rich” economies work at different jobs and consume different baskets of goods and services.

- The process of economic growth is not simply a process of doing more of the same; it is a process of structural change that alters almost all aspects of production and consumption.

- Economies with the highest per capita levels of output have the smallest agricultural sectors, as a percentage of the value of total output, and the largest service sectors.

	Agriculture	Industry	Services
1980	3%	37%	58%
1995	2%	32%	66%

- As people’s income rise, their consumption pattern changes. Production also changes. Improved methods and technology raise the returns to the production factors. Investments in physical and human capital supplement labor, increasing the output of each worker.

- Better working conditions such as more comfortable work space, air conditioning, safer working conditions, more vacation time, and more flexible work hours.

- As economies get wealthier they tend to alter their pattern of international specialization, importing the more labor-intensive products and exporting the more capital-intensive and technologically sophisticated products. Expanded foreign trade underscores the importance of structural change to the process of economic growth.

- Today, in the highest-income countries, at least three-fourths of all people live in urban areas.

- In 1995, only 27% of the populations of the lowest-income countries in Africa and Asia lived in cities and towns. But in the middle-income countries in Africa, Asia and Latin America, 38% of all people lived in urban areas. The proportion of urban residents shoots up to over 70% for the higher-income developing economies, such as Argentina, Chile, Mexico, Korea, Thailand, and Malaysia.

1.4 The benefits of economic growth

- Economic growth benefits both the present and future generations.

- Economic growth leads to investment in capital, new technology and increased productivity.

- The real benefits of economic growth for people are seen in the greater volume and variety of consumption, in rising levels of nutrition, better physical health, better educational facilities and higher standards of living.

1.5 The costs of economic growth

- (Arthur Lewis) Economic growth means that some of us will lose our current job. Some of us will lose our businesses, our farms, and our accustomed livelihoods.

- (Joseph Schumpeter) The effort by new firms and industries via the rapid rate of technological progress to destroy the older ones does more than give entrepreneurs monopoly profits. Because resources are scarce, the only way to create new production is to give up old production.

- (Dwight Lee and Richard McKenzie) In the long run, economic growth reduces scarcity and increases the economy's capacity to convert resources into welfare – enhancing output, but it does not eliminate scarcity or the need to make choices in the short run.

- (Luddites) The changes and factures that accompany economic growth can become problematic when the gains and losses are not equally shared. For example. The shift from a rural agrarian society to an urban industrial and service economy has seldom occurred without some resistance.

- (Malthusians) Further increases in human welfare will lead to a depletion of natural resources. Current growth can come only at the expense of future welfare.