

# The Power of Macroeconomics

Lecture Eleven:  
The Economics of Developing Countries



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## Introduction

- We are going to turn our attention now to the developing countries of Africa, Asia, and Latin America.
- To begin, let's explain what we mean by a "developing country"?

## **Aspects of a Developing Country**

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- Some textbooks prefer the term “less developed country” or “LDC” while others simply say “developing country” or DVC.
- Regardless, the most important characteristic of developing countries is that the people have low per capita incomes.
- In addition, people in developing countries usually have poor health and a short life expectancy, suffer from malnutrition, and have low levels of literacy.

## **Life In Low-Income Countries**

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- Imagine that you are a typical 25-year-old in a low-income country such as Mali, India, or Bangladesh.
- Your annual income barely averages \$500, your life expectancy is four-fifths that of the average person in an advanced country, and already two of your brothers and sisters have died before reaching adulthood.

## Living Conditions



- You can barely read, and you work very long hours in the fields without the benefit of machinery and with but one-sixtieth the horsepower of a prosperous North American worker.
- At night you sleep on a mat in a one-room house along with your parents and grandparents and five children.

## Living Conditions



- Your house has no electricity, indoor toilet, or fresh water supply.
- You have little household furniture, perhaps a table and a radio.
- Your only mode of transportation is an old pair of boots while despite much sickness in your village, qualified doctors are far away tending to the needs of wealthier families.



## Income



- You and your fellow citizens in the 40 poorest countries constitute 55 percent of the world population but must divide among each other only 4 percent of world income.
- You are often hungry, and the food you eat is mainly roughage or rice.

## Global Income Disparity

World population	Percentage of world income
Richest 20%	82.7
Second 20%	11.7
Third 20%	2.3
Fourth 20%	1.9
Poorest 20%	1.4

Source: United Nations Development Program.

## What Drives Development?



## The Four Elements in Development

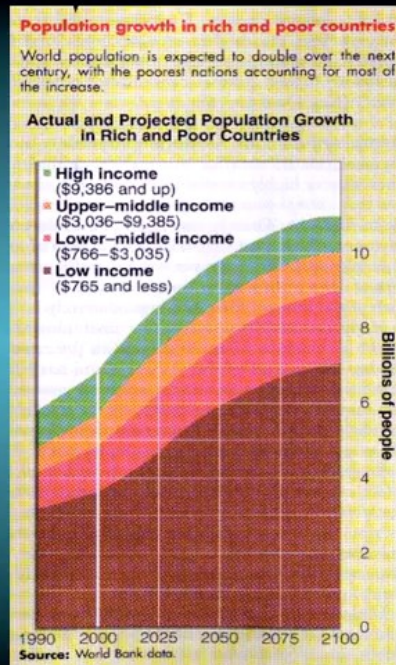
- Recall that growth in modern industrialized economies depends on four factors:
  1. Human Resources
  2. Natural Resources
  3. Capital Formation
  4. Technology

## #1A: Human Resources: The Dimension of **Quantity**

- Because of rapid population growth, many poor countries are forever running hard just to stay in place.
- Even as a poor nation's GDP rises, so does its population.
- Many developing countries are never able to escape the Malthusian trap of high birth rates and stagnant incomes.

Country	Population per square mile	Birth Rate
United States	75	1.0%
Pakistan	430	2.9%
Bangladesh	2380	1.6%
Venezuela	65	2.3%
India	829	1.8%
China	336	1.1%
Kenya	128	2.7%
Philippines	647	2.2%
World	114	1.5%

**How much is the world population expected to grow over the next century and in which category of countries will the bulk of this growth occur?**





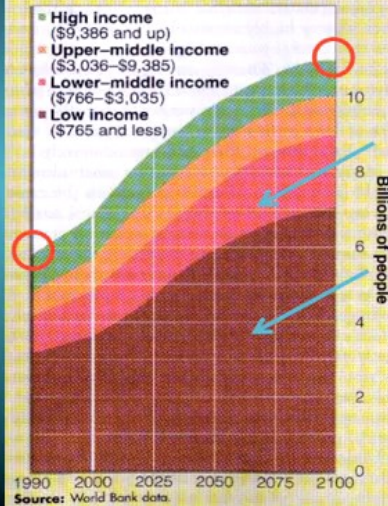
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**So what strategies might be adopted to address overpopulation?**

#### Population growth in rich and poor countries

World population is expected to double over the next century, with the poorest nations accounting for most of the increase.

#### Actual and Projected Population Growth in Rich and Poor Countries



## Directly Control Population Growth

- Some Catholic countries in Latin America have introduced educational campaigns and subsidized birth control despite Church doctrine.
- In Asia, China's "One Child Policy" puts tight quotas on the number of births and imposes economic penalties and mandatory sterilization on those who violate their "baby quota."

## **Demographic Transition**

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- Some experts hold a view contrary to the traditional one that population growth can only be controlled directly.
- This demographic transition view holds that rising income first must be achieved before slower population growth can be achieved.

## **The Benefits and Costs**

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- There are both marginal costs and marginal benefits associated with having another child.
- In the developing countries, the marginal benefits are relatively large because the extra child becomes an extra worker to support the family and a safety net for parents in their senior years.



## In The Wealthier Industrialized Nations

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- The marginal cost of children is much greater than in the developing countries because of the high costs of things like healthcare, daycare, and education.
- Also, there is a government safety net for senior citizens in the form of retirement and health care programs so children as “retirement insurance” are less necessary.

## Birth Rates Will Drop

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- Thus, in this demographic transition view, as a country industrializes, people will choose to have fewer children.
- And indeed, in countries like Mexico, South Korea, and Taiwan we have seen birth rates drop sharply as their incomes rose and their populations received more education.