

Growth and Development

Lecture 3

Readings

- Gareth Dale (2019) Economic Growth: A short history of a controversial idea. *Open Democracy*

www.opendemocracy.net/en/oureconomy/economic-growth-short-history-controversial-idea/

- Gareth Dale (2018) A rising tide lifts us all; don't rock the boat!' Economic growth and the legitimization of inequality
- Tim Dyson (2001) A partial Theory of World Development: The Neglected Role of the Demographic Transition in Shaping of Modern Societies.

International Journal of Population Geography

- E. A. Wrigley (1999) Chapter 7 in Poverty, Progress and Population
Cambridge University Press

Agenda

- What is the historical origin of growth as a dominant economic idea?
- Why was growth not a natural state of affairs in a traditional economy?
- How does the role of demographic transition interact with the process of growth?

Economic growth in history

- Did humans have a transhistorical ‘will to grow’?
- Difficult to substantiate it in pre-neolithic age with nomadic nature of civilization
- First idea of immovable possession and accumulation starts with settlements and control of farm land
- However, growth/accumulation of personal wealth, wealth of the royal exchequer gives way to national wealth and its growth only from the 17th century
- William Petty and his ‘political arithmetic’ ie initial quantification of national aggregates like income, population and territory
- Subsequent justification of increase in national wealth/income(not the same!) to better manage social conflict and ensure harmony across classes

A prototype traditional economy

- A society with low productivity or low value created per capita
- With moderate inequality (absolute equality is unrealistic historically even in most traditional societies), there is low ceiling on consumption, low ability to produce surplus and therefore low capacity to grow
- Poverty is a near-universal phenomenon (relative poverty might be low but so is absolute standard of living)
- The typical wisdom suggests an externally induced growth path to escape this poverty trap
- Once growth picks up, poverty is effectively dealt with an increase in *average* standard of living
- The capacity to produce enough value for increased consumption is seen as the primary requirement to deal with

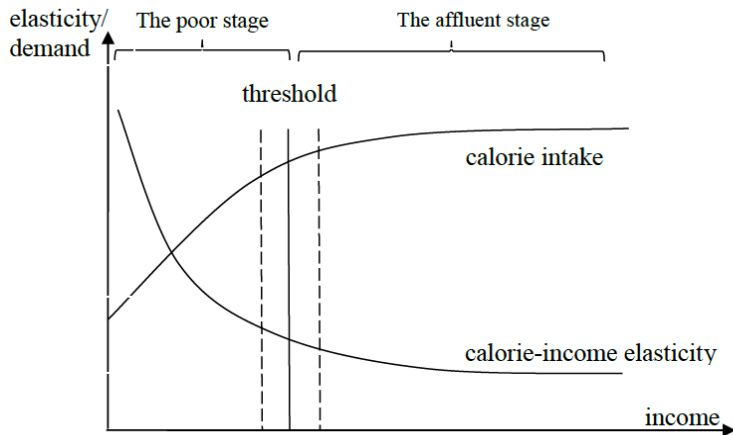
General growth constraints faced by a traditional economy

- 70-90 percent of labour force engaged in agriculture with low productivity and limited potential to enhance it (low economies of scale and room for division of labour)

‘ The nature of agriculture, indeed, does not admit of so many subdivisions of labour, nor of so complete a separation of one business from another, as manufactures . . . The spinner is almost always a distinct person from the weaver; but the ploughman, the harrower, the sower of seed, and the reaper of the corn, are often the same.’ (Adam Smith)

- Diminishing marginal returns in land/agriculture vs. the possibility of increasing returns in manufacturing
- Income elasticity of demand for food and other necessary primary commodities was very high (near unity) with little scope for

Figure 1. The changes in calorie consumption and calorie-income elasticity with income dynamics



Key elements of a demographic transition

- The process starts with a decline in death rates due to advances in medicine, hygiene and scientific knowledge in general
- Leads to a decline in birth rates with a lag (why?)
- In the interim population growth increases and then slowly comes down as decline in birth rates kick in
- The process is completed as both death and birth rates stabilize at a low and approximately equal level implying a stable population size.
- The average age of populations tend to increase with demographic transition

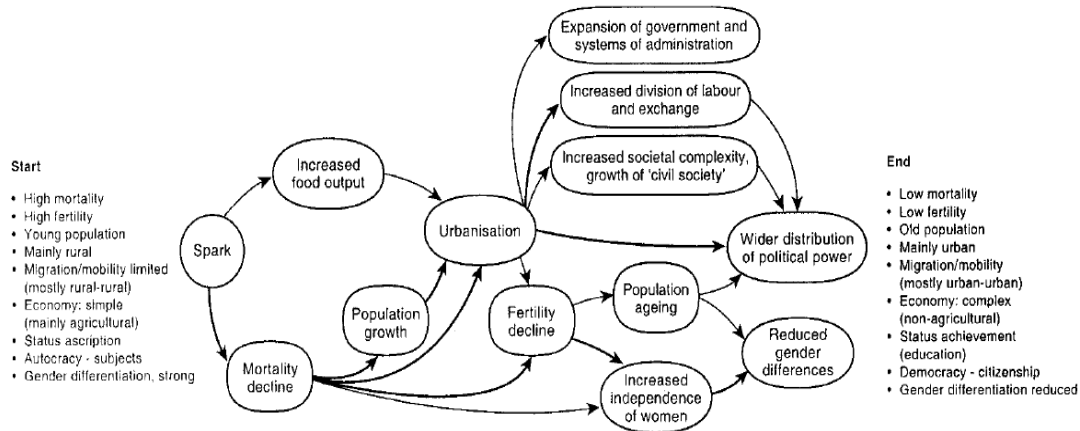


Figure 1. The role of the demographic transition in shaping the modern world. *Notes:* The elements shown in this highly simplified chart, and those listed as 'start' and 'end' conditions, are selected. There is merit in simplicity. The many cases of feedback and interdependence between processes (e.g. increased food production and urbanisation) have been ignored, although in reality these were often necessary for the processes to be self-sustaining. While the text provides some elaboration, inevitably it too is selective – *inter alia* giving somewhat greater weight and attention to those relationships indicated with a bold arrow.

Why does fertility come down following mortality?

- Micro decision at the level of household/individual: higher probability of survival of children slows down fertility. Budget constraint at the level of households for rearing children
- Facilitating factors: female education, availability of contraception, urbanisation and associated constraints
- Macro or systemic reason: Overall resource constraint at the societal level

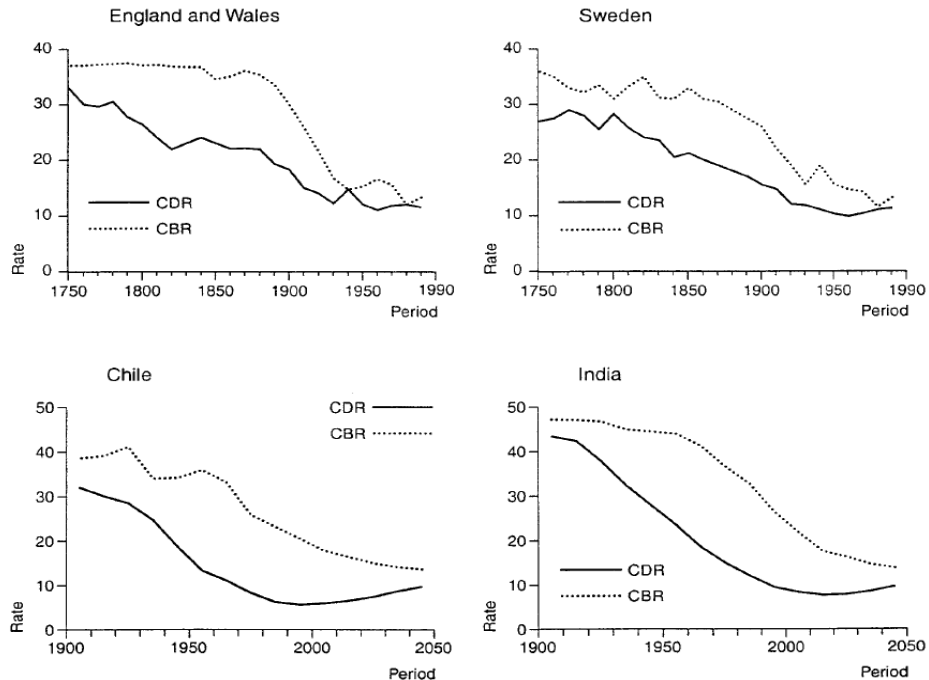
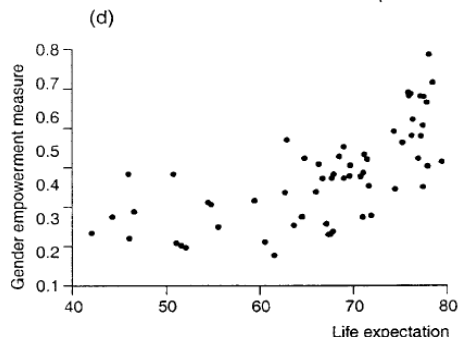
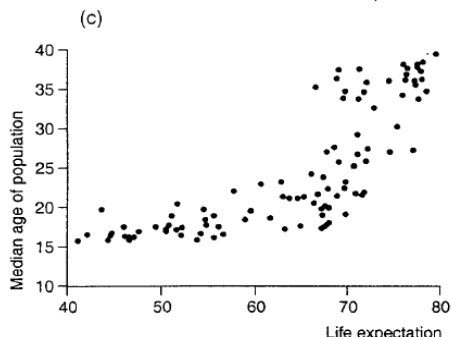
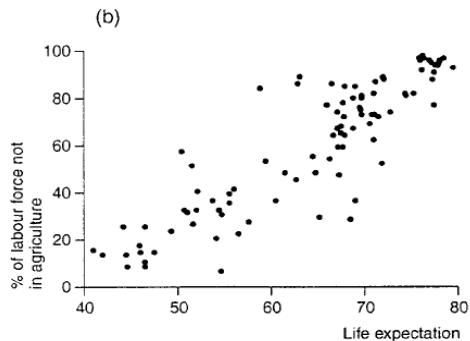
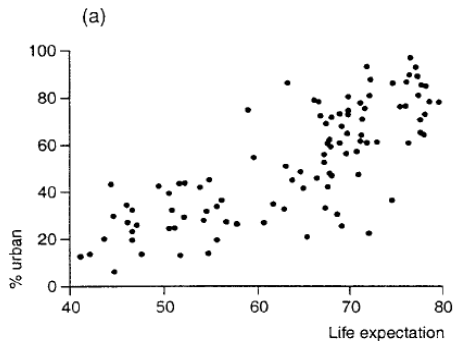


Figure 2. Selected demographic transitions : England and Wales, Sweden, Chile and India. *Note:* Series have

Major phenomena associated with demographic transition

- Migration and Urbanisation
- Structural transformation (as de-agrarianisation and division of labour)
- Democracy
- Female empowerment
- Change in population structure and related issues of social provisioning



Urbanisation

- Urbanisation causing fertility decline:

'In short, under the impact of urban life, the social aim of perpetuating the family gave way progressively to that of promoting the health, education, and material welfare of the individual child; family limitation became widespread; and the end of the period of [population] growth came in sight.'
(Notestein, 1945: 41, my emphasis)

Demographic transition leading to urbanisation:

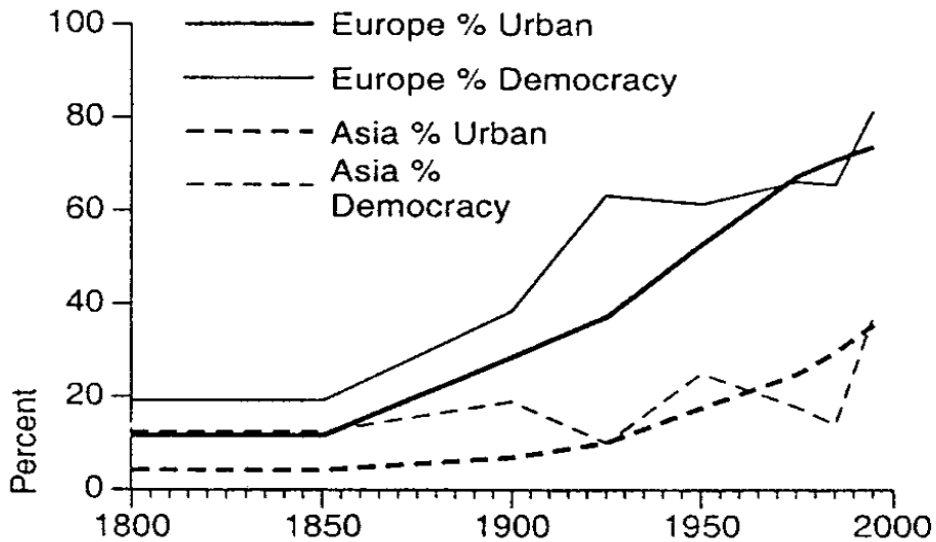
Structural Transformation

- Both caused by and a cause of urbanisation
- Structural change of the economy away from agriculture is a major determinant of urbanisation
- Urban clusters also facilitate division of labour and increased complexity in economic production which in turn results in structural change
- Increased food productivity and production allows faster urbanisation and is also forced by population growth in the initial phase of demographic transition

Democracy

- Democracy as an outcome of urban societies: classical Greece and medieval Italian cities
- An addition push for democracy coming out of more aged population (due to demographic transition)
- Urbanisation and liberation from identity-based oppression
- Uneven spread of democracy and the possibility of European exceptionalism

(a) Europe and Asia



(b) Latin America and Africa

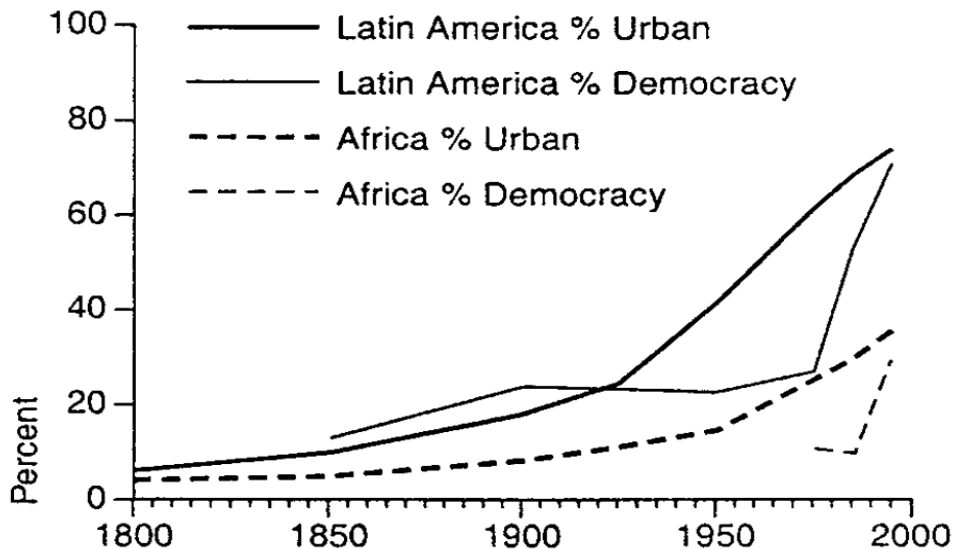


Table 1. Average democracy scores for the 100 most populous countries, by levels of urbanisation and population ageing, mid-1990s.

% urban	% population aged 15 and over			
	<57%	57–74%	>74%	Total
<34%	2.6 (20)	3.4 (13)		3.0 (33)
34–66%	3.0 (10)	4.2 (16)	7.1 (8)	4.5 (34)
>66%	2.0 (2)	5.9 (11)	8.9 (20)	7.5 (33)
Total	2.7 (32)	4.4 (40)	8.4 (28)	5.0 (100)

Notes: The brackets contain the number of countries in each cell. Libya and Jordan (scored respectively at 0 and 4) fall in the cell combining urbanisation above 66% with less than 57% aged over 15. For Afghanistan, Somalia and the Democratic Republic of the Congo (formerly Zaire), the Polity 3 data-set give no democracy scores for 1994;

Female Empowerment

- A strong impact of low fertility on female choices in addition to longer life expectation
- A transition from short lives dominated by maternal duties to longer lives with less proportion spent on maternal duties
- Related outcomes range from higher female literacy, higher female employment (outside the household), female voting rights and increase in women who do not marry or marry late.
- Regionally uneven trajectories and mediated strongly by cultural and religious factors.

Aging of population

- Demographic transition almost always increases average age ultimately leading to a high share of the old in the total population
- Dependency ratio (% of retired to working age population) increases
- This implies a challenge for maintaining the old with the value created by the young
- Both a problem of running the economy and transferring a large part of the value generated to the retired (typical in many rich countries)
- The reverse situation of a young population is seen as an advantage for many poor countries: demographic dividend