

Introduction

Paulo Brito
`pbrito@iseg.ulisboa.pt`

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Object of economic growth theory

- ▶ Dynamics of per capita aggregate income across long time, and space.
- ▶ Main questions
 - ▶ what is the meaning of "long time" (millenia, centuries, decennials) ?
 - ▶ what are the main factors explaining economic growth ?
 - ▶ why rates of growth differ along historical times ?
 - ▶ why the rates of growth differ accross countries ?
 - ▶ why countries hold inequalities in the GDP per capita while having similar rates of growth ?

Main takeaways from the course

- ▶ Economic growth exists only if a **reproduction** mechanism exists
 \Rightarrow economic growth has an **exponential** feature

$$y(t) \approx e^{\gamma t}$$

- ▶ The observed increase in the GDP per capita is not a reliable measure of economic growth: we should **distinguish the transition from long term** growth rate

$$\left. \frac{\Delta y}{y} \right|_{\text{observed}} = \gamma + \gamma_{\text{transition}}$$

\Rightarrow we need some **theory** to separate the two

- ▶ **Level** from **rate of growth** effects of shocks should be distinguished.
- ▶ (Side takeaway) In the very long run everything is endogenous.

Beyond economic growth

Human impact on Earth's geological phases

The **Anthropocene**:

- ▶ consensus: there is a geological impact by human activity
- ▶ no consensus: periodization (when did it started ?)
 - ▶ around 8000 BCE ? (deforestation, increase in carbon concentration preventing a "natural" reduction in Earth's temperature)
 - ▶ around 1600 CE ? (exchange in animal and plant species brought about by human activity)
 - ▶ around 1800 CE ? (industrial revolution, increase in earth's temperature)
 - ▶ around 1944 CE ? (clear increase in temperature, start of the atomic era)
- ▶ see <http://www.anthropocene.info>

Main growth factors

By increasing degree of variability

- ▶ Physical and biological environments: geography, size, resources, biology;
- ▶ Population: demography, human capital, social capital;
- ▶ Technology: capital accumulation, productivity growth (learning by doing, R&D);
- ▶ Aggregation: externalities, public goods ;
- ▶ Economic institutions: inclusive/exclusive, financial institutions, trade openness, patent protection;
- ▶ Political Institutions: in a broad sense (inclusive/exclusive, rule of law, enforcement, accountability) or a narrow sense (government intervention, governance)
- ▶ Luck (good or bad)

Phases of economic growth

Secular long run perspective:

- ▶ Malthusian trap and first globalization (goods) : (almost) constant rates of growth (6000 BCE to 1700 CE)
- ▶ Industrial Revolution: transition with modest increases in the rate of growth
- ▶ Modern economic growth and second globalization (goods): rapid economic growth and Great Divergence: post 1820 and until 1990 (according to some authors)
- ▶ Great convergence and third globalization (ideas): post 1990
- ▶ Nature strikes back: eventual natural limits to growth ?

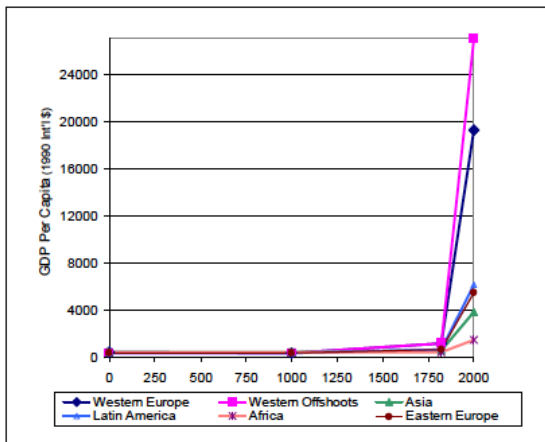


Figure 1: The Evolution of Regional Income Per Capita, 1-2000 CE
 (Source: Maddison, 2003)

Figure: Maddison on the evolution of income per capita

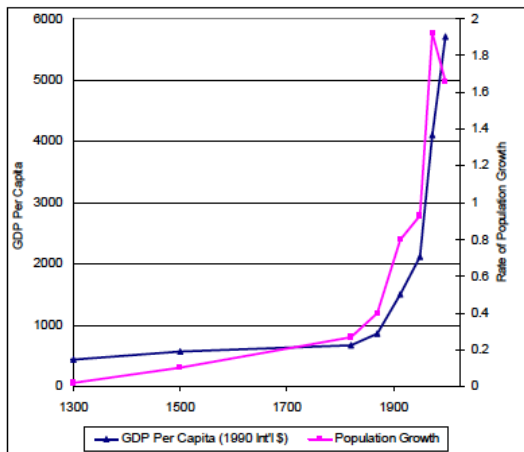


Figure 4: World Population Growth and Income Per Capita
(Source: Maddison, 2001)

Figure: Maddison on the evolution of population

Ancient growth experience

Malthusian trap

- ▶ low rates of growth: between 0% and 0.5%
- ▶ rises in income implied rises in population (not income p.c.)
- ▶ negative correlation between population growth and real wages
- ▶ big impact of demographic changes and (ex Black-Death (1347-1350)) and institutions (ex. different responses to it in E. and W.Europe);

Ancient growth experience

Malthusian trap

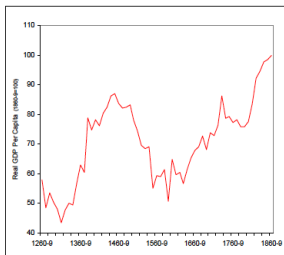


Figure 2: Fluctuations in Real GDP Per Capita in England, 1260-1870 CE
(Source: Clark, 2005)

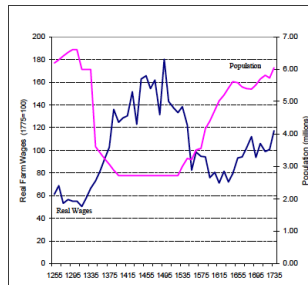


Figure 5: Population and Real Wages in England, 1250-1750 CE
(Source: Clark, 2005)

Figure: Clark on the UK's population and real wages

Ancient growth experience

Limits to growth

- ▶ labor was the main factor of production
- ▶ land had an impact on growth because of decreasing returns;
- ▶ there were some gains in productivity, although not related to a purposeful activity as R&D;

Ancient growth experience

First globalization

- ▶ there was a small difference in GDP per capita across the world (Eurasian continent)

Table: Ratio richest to poorest region: before the great divergence

1000	1500	1820
1.1:1	2:1	3:1

- ▶ E. and SW. Asia were richer (see Frankopan (2016))
- ▶ first globalization: a first decoupling between production and consumption took place with trade in a small number of (luxury) goods (Silk road)
- ▶ physical distance was a major factor

Modern economic growth

Main features

- ▶ modern economic growth: permanent positive rates of growth;
- ▶ it may have started in the UK around 1800;
- ▶ it was contemporaneous with a demographic revolution, but growth became independent from the growth population;
- ▶ non-Malthusian features: rise in wages and almost stationary rate of return of capital

Modern economic growth

Main factors

- ▶ two driving forces: increases in productivity and capital accumulation (physical, human, social)
- ▶ physical capital accumulation: massive, helped by the development of financial system
- ▶ technologic progress: rise in productivity as a purposeful activity, huge reduction in transport costs;
- ▶ unprecedented accumulation of human capital: schooling and knowledge (Scientific Revolution)
- ▶ social capital: institutions (protection of property rights, contract enforcement, reduction of transactions costs, reduction in uncertainty, etc)
- ▶ non-renewable natural resources: no decreasing returns ?

Modern economic growth

Great divergence

- ▶ *The Great divergence:*

Table: Ratio richest to poorest region: after the great divergence

1820	1870	1913	1950	2001
3:1	5:1	9:1	15:1	18:1

- ▶ increase in disparities and change of the economic center
- ▶ second globalization (inter-industrial trade): huge reduction in transport costs lead to an increase in the trade in **goods** and the Ricardo comparative advantage mechanism start working massively;
- ▶ relative free capital movement re-inforced this movement and lead to an international alignment of interest rates;
- ▶ increasing agglomeration of economic activity in a few centers (at national and international levels)

Present epoch: a new phase ?

Great convergence

- ▶ technical progress: driven by IT lead to a reduction of costs in the movement of **ideas**, robotization;
- ▶ third globalization (intra-industrial trade): a large part of international trade is related to the supply chains of some multinational corporations;
- ▶ allowed high increases in wages in a few (7) countries (technology from the "North" and wages from the "South") and competition between countries for parts of the supply chains;
- ▶ institutional consequences: rebalances of the inclusive/exclusive attitudes around the world ?
- ▶ limits to growth as a result of the environmental impact of human activity ?

Growth theory: Some puzzles

Puzzle 1: on the exponential structure of growth

- ▶ Long run growth arises only for a very particular mathematical structure:
- ▶ Let

$$\dot{y} \equiv \frac{dy(t)}{dt} = \mu(y)$$

- ▶ **logistic** growth: $\mu(y) = \alpha y(\beta - y)$,
 - ▶ **exponential** growth: $\mu(y) = \gamma y$,
 - ▶ **power law** growth: $\mu(y) = y^\phi$ for $\phi > 1$,
- ▶ **razor edge property of growth models**: although the exponential case is very particular it is the structure underlying (almost) all growth theories

Growth theory: Some puzzles

Puzzle 1: on the exponential structure of growth

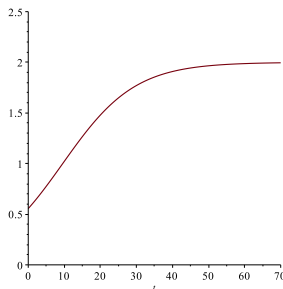


Figure: Logistic growth $\mu(y) = \alpha y(\beta - y)$

- ▶ there is short run (transition) growth
- ▶ but there is no long-run growth

Growth theory: Some puzzles

Puzzle 1: on the exponential structure of growth

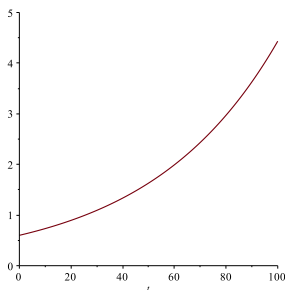


Figure: Exponential growth $\mu(y) = \gamma y$

- ▶ there is no short run (transition) growth
- ▶ but there is long-run growth
- ▶ gdp becomes infinite ($y(t) \rightarrow \infty$) in **infinite** time

Growth theory: Some puzzles

Puzzle 1: on the exponential structure of growth

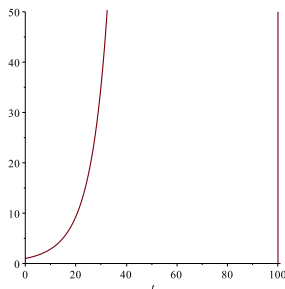


Figure: Power law growth $\mu(y) = y^\phi$ for $\phi > 1$

- ▶ gdp becomes infinite ($y(t) \rightarrow \infty$) in **finite** time
- ▶ and collapses afterwards

Some puzzles

Puzzle 2: growth and distribution

- Consider the former equation

$$dy(t) = \mu(y) dt$$

- let $\rho(y, t)$ be the density of population having the income $y \in [y_0(t), y_1(t)] \in (0, \infty)$, such that

$$\int_0^\infty \rho(y, t) dy = 1,$$

- the dynamics of the distribution is given by

$$\frac{\partial \rho(y, t)}{\partial t} + \frac{\partial}{\partial y} (\mu(y) \rho(y, t)) = 0$$

Some puzzles

Puzzle 2: growth and distribution

We can determine

- ▶ the average per capita income

$$\bar{y}(t) = \int_0^{\infty} \rho(y, t) y dy$$

- ▶ its variance

$$\sigma(t) = \int_0^{\infty} \rho(y, t) (y - \bar{y}(t))^2 dy$$

- ▶ the Gini index

$$G(t) = \frac{1}{\bar{y}(t)} \int_0^{\infty} R(y, t) (1 - R(y, t)) dy \in (0, 1)$$

where $R(x, t) = \int_0^x \rho(y, t) dy$

Some puzzles

Puzzle 2: growth and distribution

- ▶ there are four important properties that interest us
 - ▶ **long run growth**: does $\lim_{t \rightarrow \infty} y(t) = \infty$?
 - ▶ **ergodicity**: does $\lim_{t \rightarrow \infty} \sigma(t) = \bar{\sigma}$ finite and constant (independent from the initial distribution) ?
 - ▶ **dispersion**: does $\sigma(t) = 0$ or $\lim_{t \rightarrow \infty} \sigma(t) = 0$?
 - ▶ **inequality**: does $G(t) \in (0, 1)$ stays stationary, increases, decreases, f or $\lim_{t \rightarrow \infty} \sigma(t) = 0$?

Some puzzles

Puzzle 2: growth and distribution

- ▶ there are four important properties that interest us
 - ▶ **long run growth**: does $\lim_{t \rightarrow \infty} y(t) = \infty$?
 - ▶ **ergodicity**: does $\lim_{t \rightarrow \infty} \sigma(t) = \bar{\sigma}$ finite and constant (independent from the initial distribution) ?
 - ▶ **dispersion**: does $\sigma(t) = 0$ or $\lim_{t \rightarrow \infty} \sigma(t) = 0$? or $\lim_{t \rightarrow \infty} \sigma(t) = +\infty$? or $\lim_{t \rightarrow \infty} \sigma(t) = 0$?
 - ▶ **inequality**: does $G(t) \in (0, 1)$ stays stationary, increases, decreases,
- ▶ examples, starting from an initial heterogeneous distribution:
 - ▶ case1: logistic $\mu(k) = ay(b - y)$
 - ▶ case 2: constant $\mu(k) = \bar{\mu}$
 - ▶ case 3: exponential $\mu(k) = \gamma k$
- ▶ can we have long-run growth without an increase in inequality ?

Some puzzles

Puzzle 2: growth and distribution

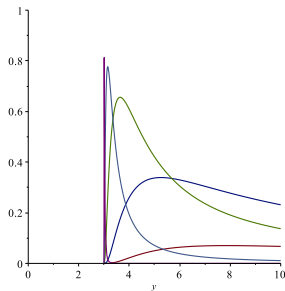


Figure: case 1: ergodicity, long run equality, but no growth (obs: increasing time moves distribution to the left)

Some puzzles

Puzzle 2: growth and distribution

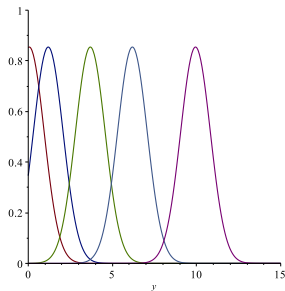


Figure: case 2: permanent ergodicity and dispersion and growth:

$$\mu(k) = \bar{\mu}$$

Some puzzles

Puzzle 2: growth and distribution

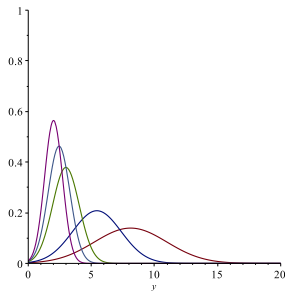
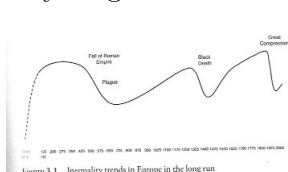


Figure: case 3: no ergodicity, increasing dispersion, permanent inequality and growth: $\mu(k) = \gamma k$

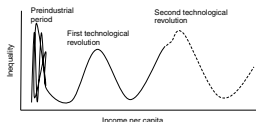
Some historical facts

Inequality

- Inequality in the very long run: Scheidel (2017) and



Milanovic (2016)



- Pre IR: compression (short) and distension (longer) periods
- Post IR: distension (IR - WWI, 1970 - present) and compression (WWI- 1970)

References

- ▶ Anthropocene: Lewis and Maslin (2018)
- ▶ Long-run growth facts: Maddison (2007)
- ▶ Stylized facts on economic growth: (Acemoglu, 2009, ch. 1, 2) , (Barro and Sala-i-Martin, 2004, ch. 10,11,12)
- ▶ Pre-modern and modern economic growth: (Galor, 2011, ch 2)
- ▶ Inequality: Milanovic (2016), Scheidel (2017)

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