

Outline for lecture 11

ECON 1a, Fall 2008, Warren Gibson

Economic Growth, Text chapter 12

- Standards of living are very much higher in the U.S. and other developed countries, very low in much of Africa, and in between elsewhere. Picture on p. 248-249 tell the story. GDP figures (p. 219) tell the same story. Why such big differences?
- Productivity is the main reason: the amount of “stuff” produced per worker. What makes for high productivity?
- Main reason: a large amount of invested capital per worker. What encourages savers to invest in one place and not another?
- Main answer: people invest where they believe it is unlikely that politicians or other criminals will steal their investments. What makes this less likely in one country than another?
 1. Political climate
 - Respect for property rights
 - Objective laws, objectively enforced
 - Minimal corruption in government
 2. Educated and responsible workers. Education is a form of investment and investment requires savings. Somebody has to save money to finance education.
- Government policies that are likely to promote investment and rising standards of living:

- Get out of the way and let markets work. Low taxes, minimal regulation.
- Microfinance: small loans, mainly to women to start business, e.g. cell phone calls. This is controversial.
- Government policies that are *unlikely* to work:
 - International aid programs. The money is typically stolen by corrupt officials or used for showcase projects that do not benefit most citizens. Examples:
 - * Yasser Arafat stole \$1 billion of aid intended for Palestinians.
 - * Mobutu stole \$8 billion intended for Congolese people.

The World Bank has a lavish headquarters building; its employees are exempt from income tax. See p. 264.
- The experience of Hong Kong:
 - British Colony established in the 1840's when *laissez faire* was the dominant ideology in Britain.
 - No natural resources except a good harbor.
 - When the Japanese occupiers left Hong Kong in 1944, socialism had become the dominant ideology in Britain. But in 1949, Hong Kong was swamped by refugees from China making it impossible to set up a “welfare state” in Hong Kong.
 - Hong Kong benefitted from a low level of taxation and regulation and still enjoys relatively high economic freedom today.