

An Introduction to Development Economics: A View from the Field

Presentation at Dame Alice Owens School by Daniel Rogger

Outline

- The History of Wealth
- The Divergence of Incomes
- The Fundamental Drivers of Growth
- Case Study: Nigeria
- Conclusions
- Further Reading

The History of Wealth (1 of 3)

- For most of human history, humanity has lived at subsistence.
- Maternal and child mortality rates far higher than today's average, miniscule literacy rates.
- Global wealth has exploded over the last two hundred years.

The History of Wealth (2 of 3)

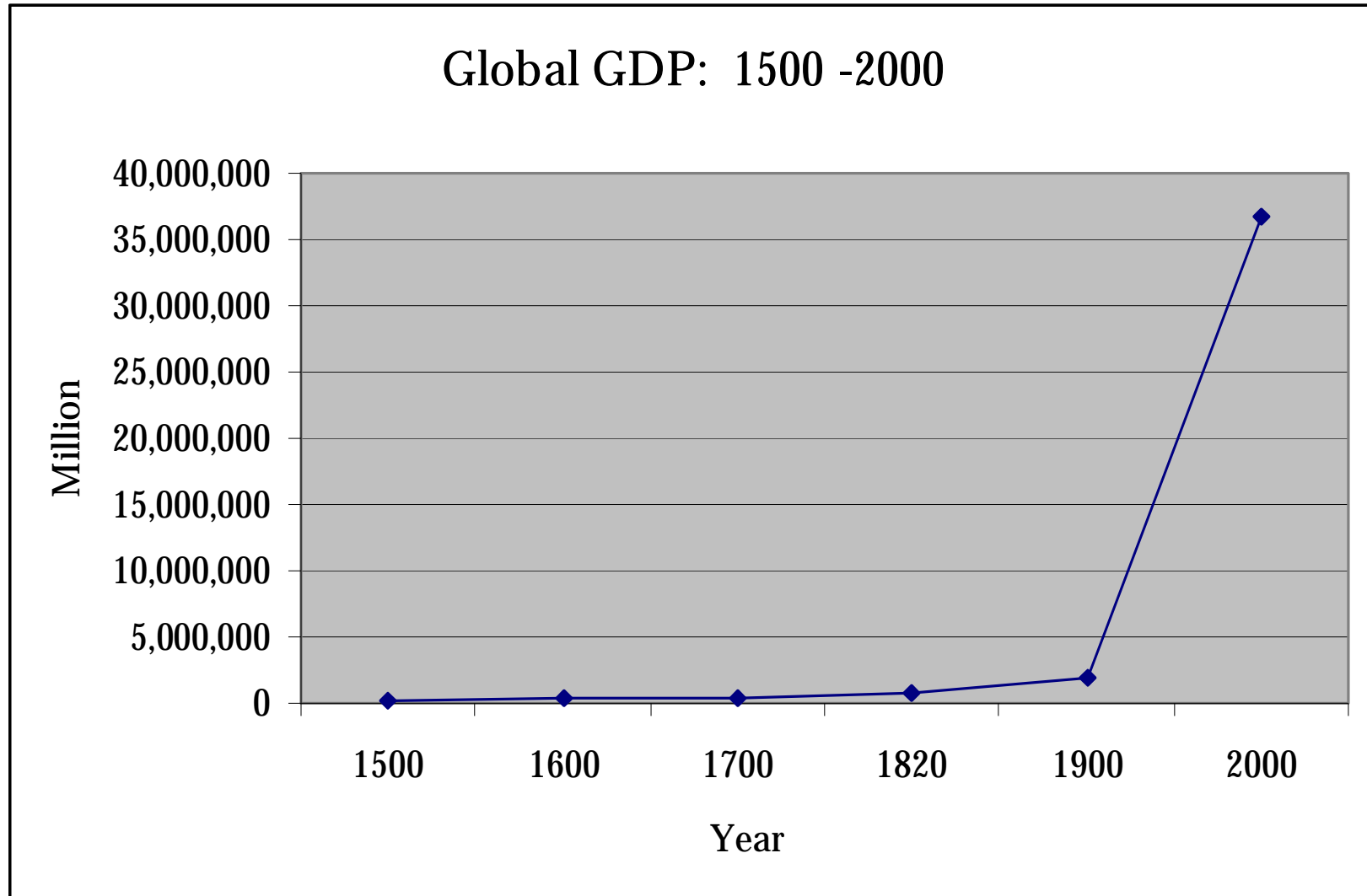


Figure .1. Gross Domestic Product (GDP), million, 1990 International Geary-Khamis dollars, data from Maddison (2003)

The History of Wealth (3 of 3)

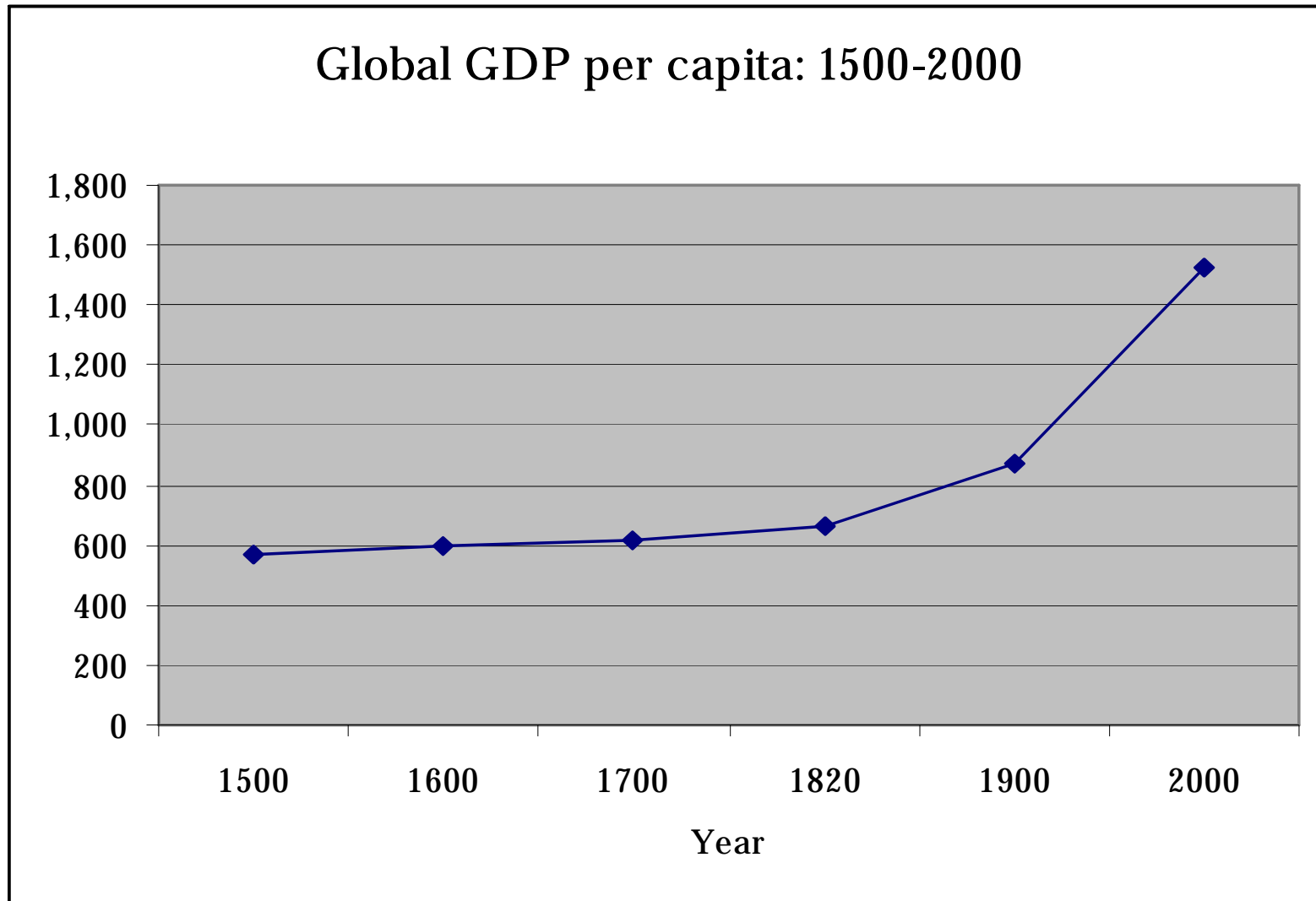
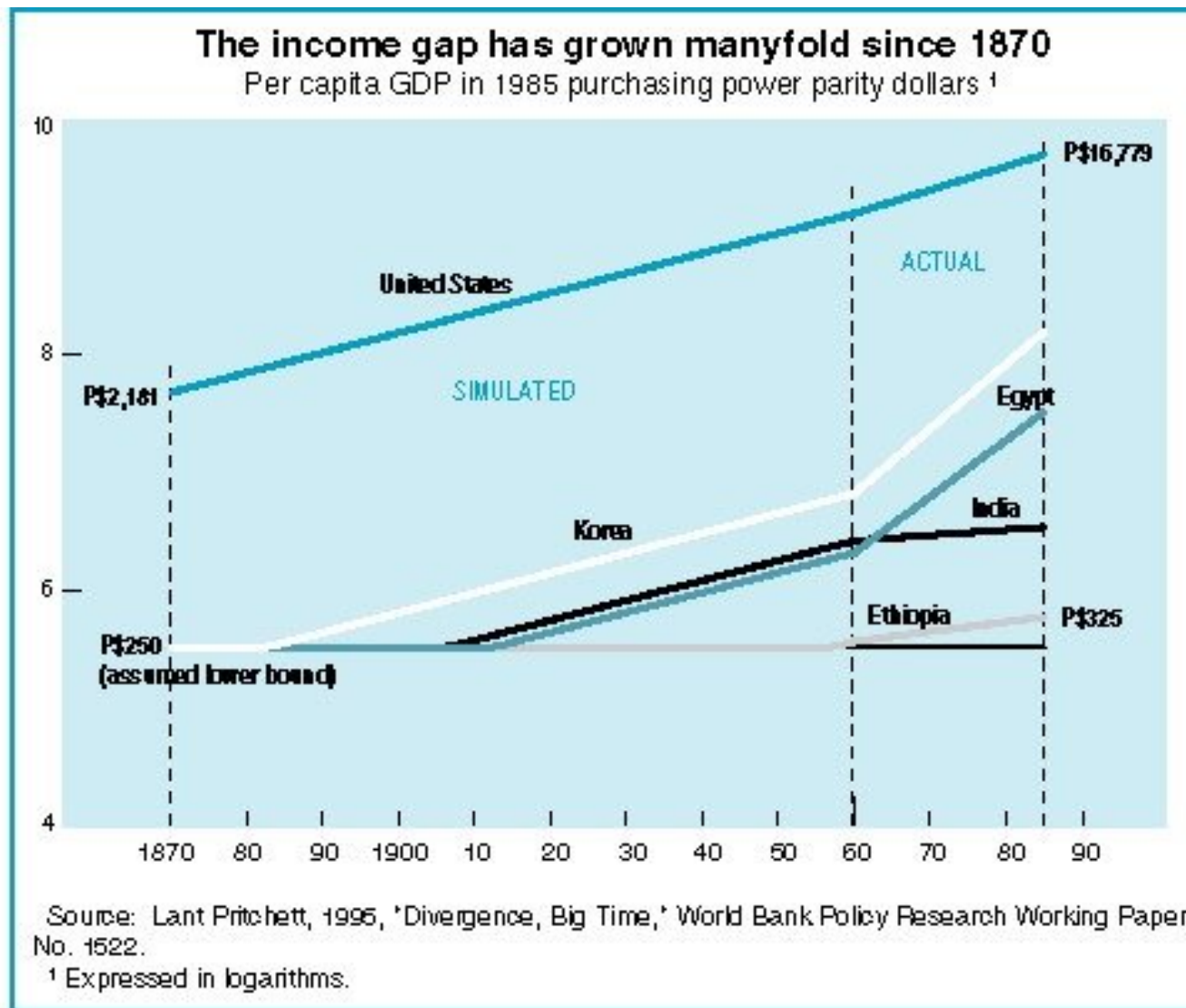


Figure .2. World per capita GDP, 1500-2001 AD, 1990 International Geary-Khamis dollars, data from Maddison (2003)

The Divergence of Income (1 of 3)

- To understand why there was this explosion in global wealth, it is important to understand the variation that characterises it.
- Not all peoples and nations have benefited equally from this increase in wealth.

The Divergence of Income (2 of 3)



The Divergence of Income (3 of 3)

- Broadly one can classify regions that have accelerated and areas that have lagged.
- *Growth leaders*: North America, Europe, East Asian Tigers, more recently China
- *Laggards*: Africa, India (until recently)
- **So what are the differences between these two sets?**

The Fundamental Drivers of Growth

- **Institutions are the fundamental cause of long run growth.**
- Natural resources are valuable only if they can be adequately managed in an institutional structure that converts them into welfare outcomes.
- Economies are complex systems that require refinement if they are to produce improved welfare outcomes for economic agents.

The Fundamental Drivers of Growth

- Let's take another look at the growth leaders and laggards:
 - *Growth leaders*: North America, Europe, East Asian Tigers, more recently China
 - *Laggards*: Africa, India (until recently)

Case Study: Nigeria (1 of 2)

- Nigeria:
 - West African nation
 - 140 million people
 - British Colony until 1961



Case Study: Nigeria (2 of 2)

- Nigeria:
 - Over US\$1trillion of oil reserves
 - Over 50% live on \$1/day
 - Maternal mortality: 1,800/100,000 live births
 - Infant mortality: 115/1000 live births
 - Life expectancy: 47
- **Why the discrepancy?**

Case Study: Nigeria (2 of 2)

- 80 percent of energy revenues benefit only 1 percent of the population.
- Inefficient and ineffective civil services and institutions of public service delivery.
- Limited incentives for market progress.
- Poor physical and legal infrastructure.
- Limited accountability.

Conclusions

- Divergence 'big time' in distribution of global wealth.
- Institutions as the fundamental cause of economic growth.
- Huge variance in institutions, which impacts on infrastructure, market capacities, incentives and political economy of government.

Further Reading

- *Institutions as the Fundamental Cause of Long-Run Growth* Ch.6 of 'The Handbook of Economic Growth'
<http://elsa.berkeley.edu/~chad/handbook9sj.pdf>
- *The Bottom Billion* Paul Collier
- Please ask me for individual reading recommendations