

# Growth and Development Books Econ 6470 Fall 2020\*

Darryl McLeod, Fordham Univ Econ Dept Economic Growth and Development, Fall 2020\*

Painting at Left: Wassily Kadinsky "blue segment"

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**Economic Growth and Development, Fall 2020\*** 

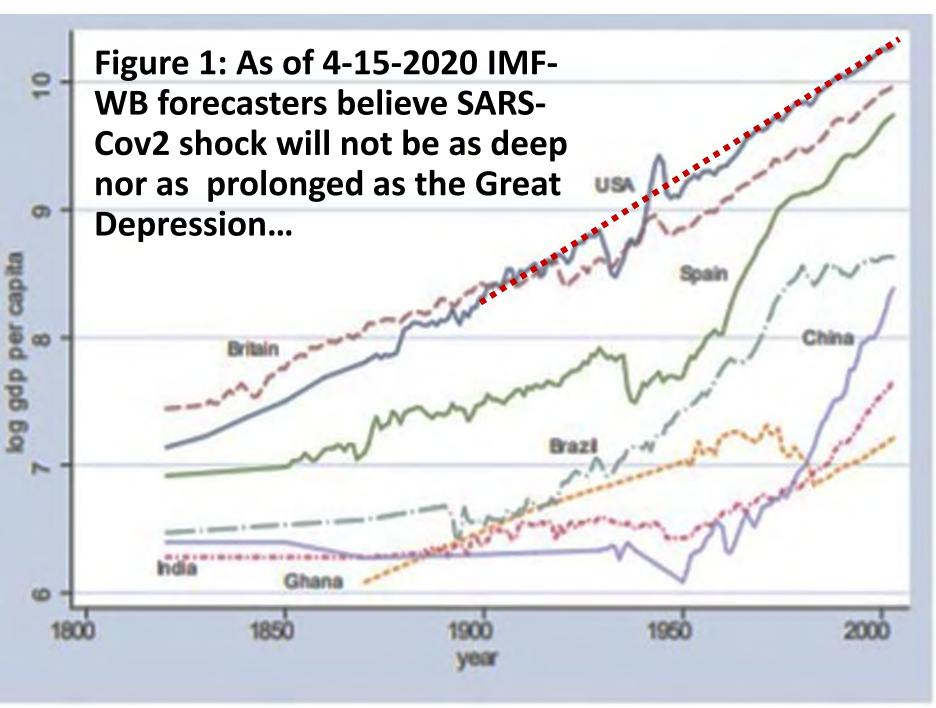
Painting at rigjt: Wassily Kadinsky "blue segment"



## Which of these paintings adorn G&D text books?

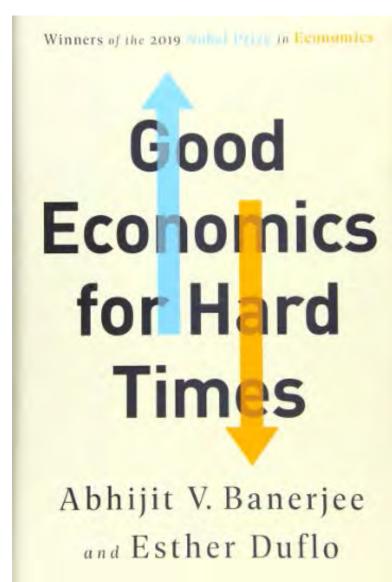


Clearly COVID-19 is the global GDP shock of our century: as of April 2020 it is too early to assess its long term impacts, log scale so a constant rate of growth creates a straight line... note that exp(10.3) is about \$30,000, the red dotted line is roughly trend growth from 1900 to 2000, evidently GDP per person returned to trend after a 15 years dominated by the great depression & WWII



Abhijit Banerjee & Esther Duflo wrote this book before they knew you know what....

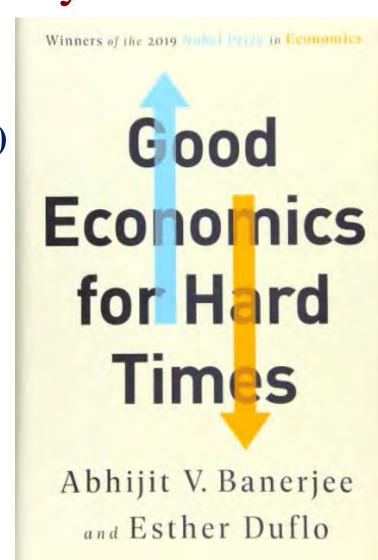
- In 2017-18, seeing the main drivers of globalization and growth under siege from the populist right and left,
- Two of our bestdevelopment economists weigh in on various controversies starting with MEGA & a dumb economics joke..
- I strongly recommend the Kindle version so you can "click through" to footnotes and references which are a treasurd chest of MIT economics...



## **2019 Nobel prize winners** Abhijit Banerjee and Esther Duflo wrote this book before they knew they had won...

- Chapter 1 Introduction & Joke
- Chapter 2 Immigration (From mouth of the Shark)
- Chapter 3 The China shock (see American Factory...)
- Chapter 4 How Economics deals with Racism
- Chapter 5 the global growth slow down
- Chapter 6: climate change & development
- Chapter 7: Automation
- Chapter 8 Government as an agent of Development
- Chapter 9 Transfers can reduce inequality & poverty

Carefully reasoned & thoroughly referenced by two of the best economists of our era Chapts 3-9 perfect for us



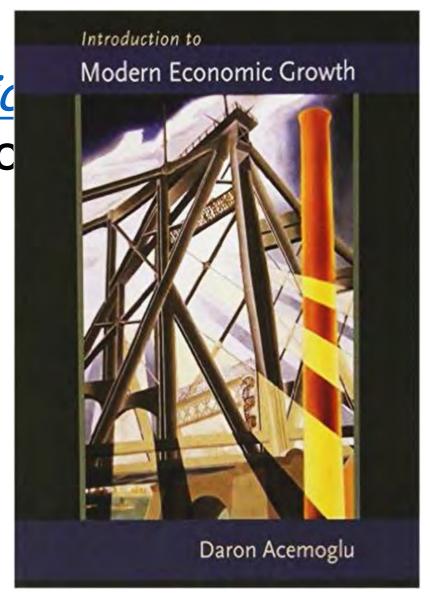
Daron Acemoglu (2009) *Introductio to Modern Economic Growth,* Princetc Univ Press 0691132925

(*Chapter 1,* 2, & 5 as well as an *epilogue* or an early *pdf draft)*.

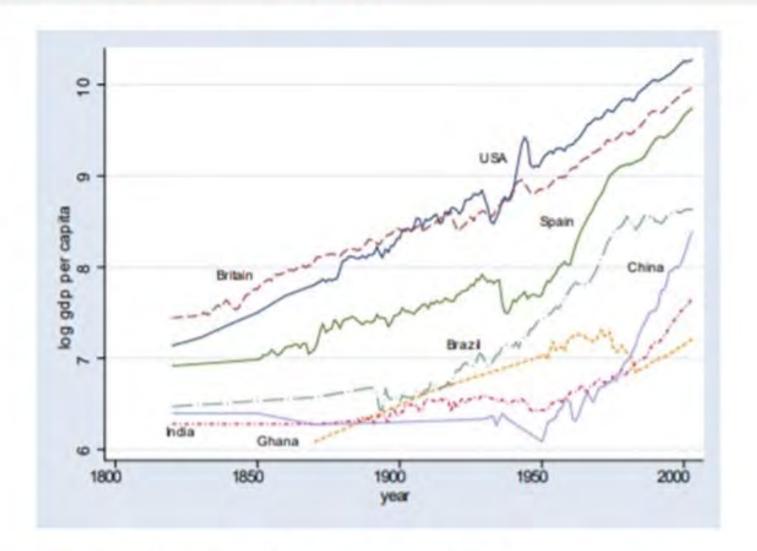
Must have for PhD Economists (a bit Mathy

ISBN-13: 978-0691132921

ISBN-10: 0691132925



#### Growth in the Last 200 Years





#### **Daron Acemoglu**

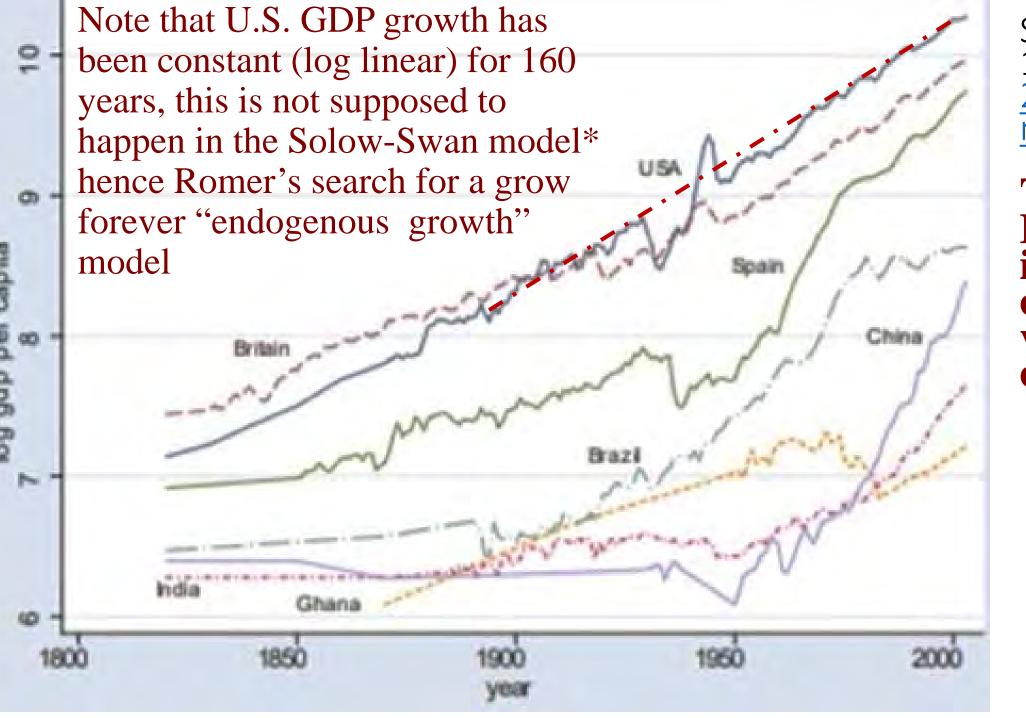
Courses

14.773 - Political Economy Spring 2020

Syllabus

Source Figure 1 Acemoglu 2019 lecture notes

Figure: Evolution of income per capita in various countries.

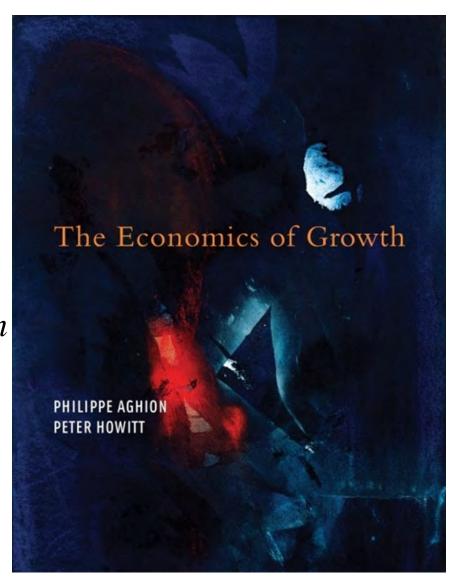


SourceFigure 1 Acemoglu 2019 lecture notes

Title: Evolution of income per capita in various countries..

## The Economics of Growth Philippe Aghion & Peter W. Howitt

- MIT Press, ISBN: 9780262012638
- A comprehensive, rigorous, and up-to-date introduction to growth economics that presents all the major growth paradigms and shows how they can be used to analyze the growth process and growth policy design. ISBN: 9780262012638
- Endogenous Growth theory: A central puzzle of growth theory is to account for sustained productivity increase in the face of diminishing returns. Aghion and Howitt describe, with great clarity and verve, the main explanations that growth theory has proposed: from denial of the reality of diminishing returns to capital to Schumpeterian creative destruction, with intervening stops for exogenous and endogenous technological progress. An industrious reader can end up poised at the current analytical frontier, prepared to think about open questions and new issues" Robert Solow, MIT



Charles Jones & Dietrich Vollrath (2013)

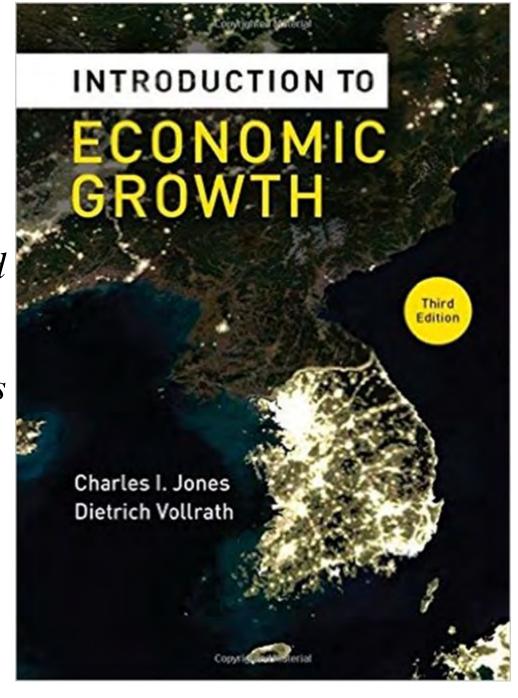
Introduction to Economic Growth 3<sup>rd</sup>

edition W.W. Norton ISBN:039391917X

This 3<sup>rd</sup> edition is the 2<sup>nd</sup> edition lightly revised with a useful new chapter 8 on Population and Economic Growth, plus updated data and Figures, ver most end of chapter review problems are the same....even when they should be different.

See Chad Jones web page

and Dietrich Volraths' web page



## Page 5 of C. Jones The Facts of Economic Growth

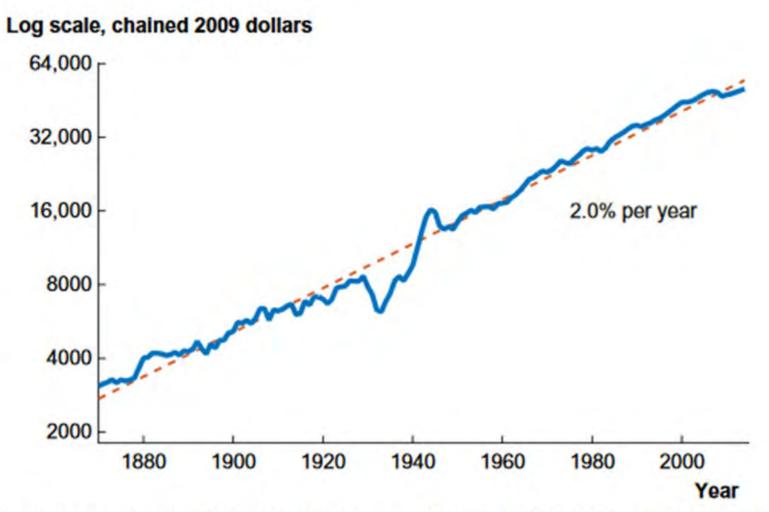
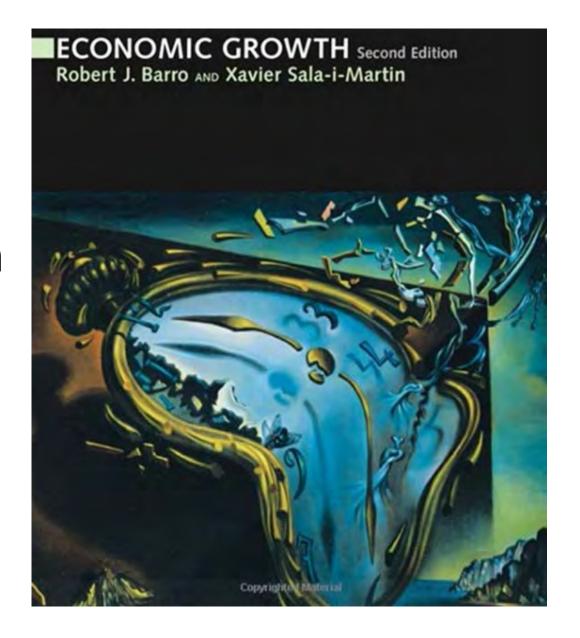
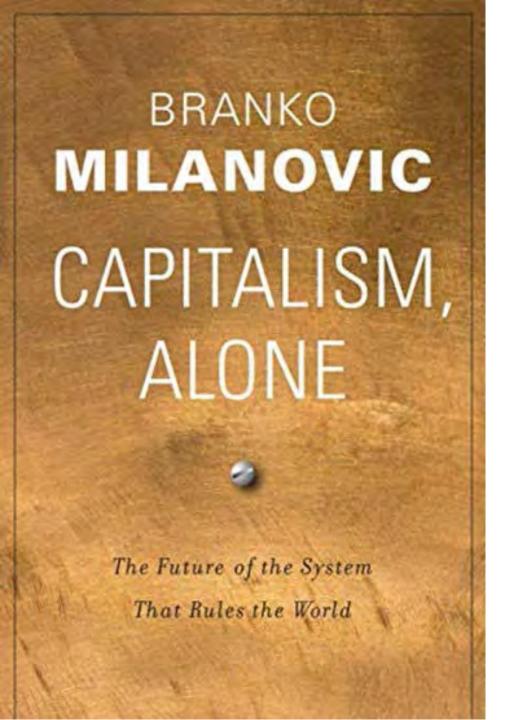


Fig. 1 GDP per person in the United States. Source: Data for 1929–2014 are from the U.S. Bureau of Economic Analysis, NIPA table 7.1. Data before 1929 are spliced from Maddison, A. 2008. Statistics on world population, GDP and per capita GDP, 1-2006 AD. Downloaded on December 4, 2008 from <a href="http://www.ggdc.net/maddison/">http://www.ggdc.net/maddison/</a>.

On Convergence and early empirical work see Barro and Sali-Marin Economic Growth 2<sup>nd</sup> edition, classic derivation of optimal growth model as an Appendix





Branko Milanovic (2019) *Capitalism, Alone: The Future of the System That Rules the World* 

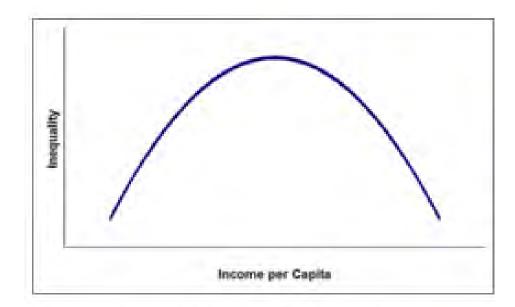
• For the first time in history, the globe is dominated by one economic system. Capitalism prevails because it delivers prosperity and meets desires for autonomy. But it also is unstable and morally defective. Surveying the varieties and futures of capitalism, Branko Milanovic offers creative solutions to improve a system that isn't going anywhere.

HUP ISBN 9780674987593

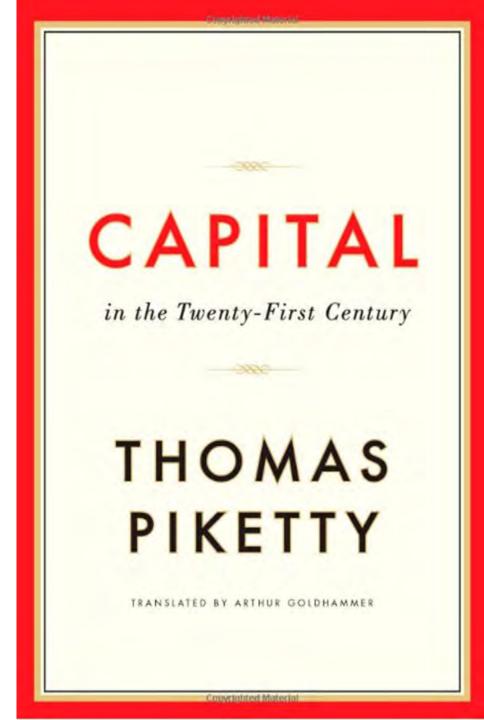
## Capital in the 21st century already a classic... 1.5 million copies sold!!

Thomas Piketty (2013). ISBN:1491534656

See BB for necessary excerpts from this book Here is an excerpt

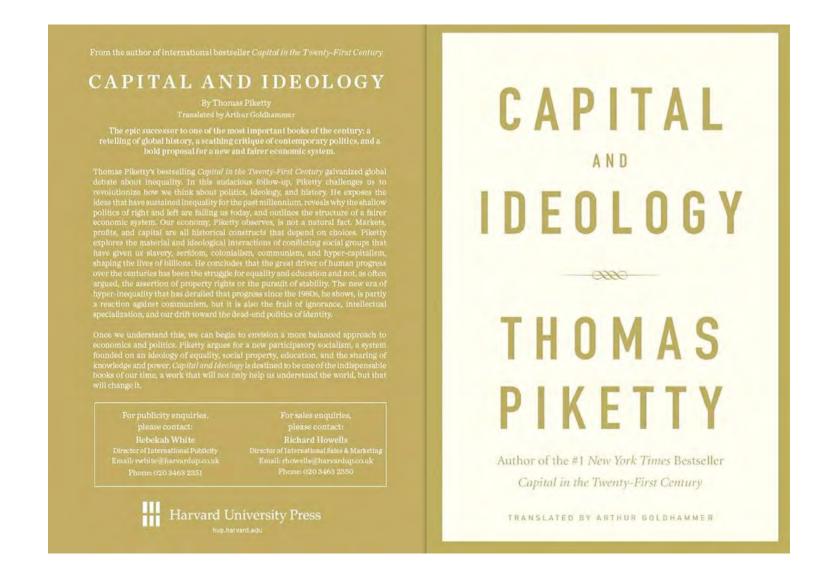


Though based on work of the utmost importance, the theory of the Kuznets curve was in large part a product of the Cold War.



## Capital and Ideology? Thomas Piketty (2020). ISBN:9780674980822

See many reviews of this bok and video and print, BB for readings this book Here is an excerpt



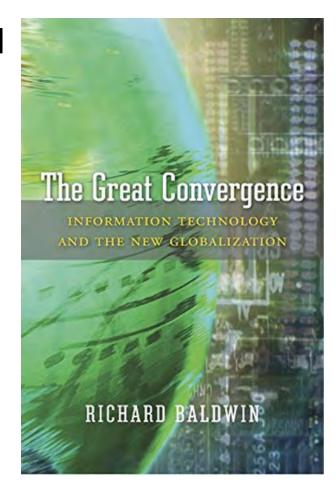
# World inequality database (<a href="https://wid.world/">https://wid.world/</a>) Paris school of Economics



## The Great Convergence by Richard Baldwin

Baldwin, Richard (2016) The Great Convergence, Harvard University Press, ISBN <u>0674660489</u>

Comments: Ties together various themes of growth theory, provides an alternative interpretation of Elephant curve. See also review in <a href="Economist">Economist</a> and FT and his <a href="excellent presentation">excellent presentation</a> at the Peterson Institute. Richard Baldwin is a trade economist from UC Daves (now in Europe)



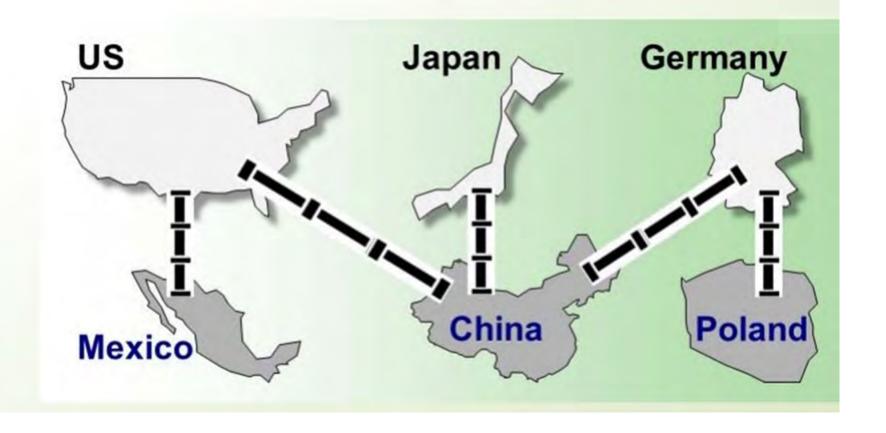
Korea at night
Figure 31 From
Jones, 2015
The facts of
economic
growth,



Note: North Korea is the dark area in the center of the figure, between China to the north an South Korea to the south. Pyongyang is the isolated cluster in the center of the picture. Source http://commons.wikimedia.org/wiki/File:North\_and\_South\_Korea\_at\_night.jpg

## This is why NAFTA matters... to us

Assume this pipeline pattern



## Romer's theory of knowledge in action...

THOUGHT EXPERIMENT

### **Review 1990 situation**

- Headquarter Economies (G7)
  - High Knowhow implies High wages
- Factory Economies
  - Low Knowhow implies Low wages

THOUGHT EXPERIMENT

## Pipeline opens; Globalisation "knowledge arbitrage" begins

Headquarter Economies (G7)



#### Thought experiment

## What would international impact be?

- Manufacturing shifts HQ Economies to Factory Economies.
- Factory-Economy growth take off.
  - → Great Convergence explained.
- Factory Economies embrace policies that <u>foster</u> knowledge flows; HQ Economies embrace policies that <u>protect</u> them.
  - → Hyper-globalisation & 'globalisation paradox' explained.
- Other developing nations puzzled; Why not growing like China?

### Richard Baldwin focuses on global value chains, which are quite complex...



Figures don't add up to 100% due to rounding. Figures are estimates.
Source: Xing, Y., and N. Detert. 2010. How the iPhone Widens the United States Trade Deficit with the People's Republic of China. ADBI Working Paper 257. Tokyo: Asian Development Bank Institute.

World Bank; IMF (2016)

Global Monitoring Report 2015/2016 (free pdf)

Development Goals in an Era

of Demographic Change

Washington, DC: World Bank.

License: CC BY 3.0 IGO



Global Monitoring Report 2015/2016

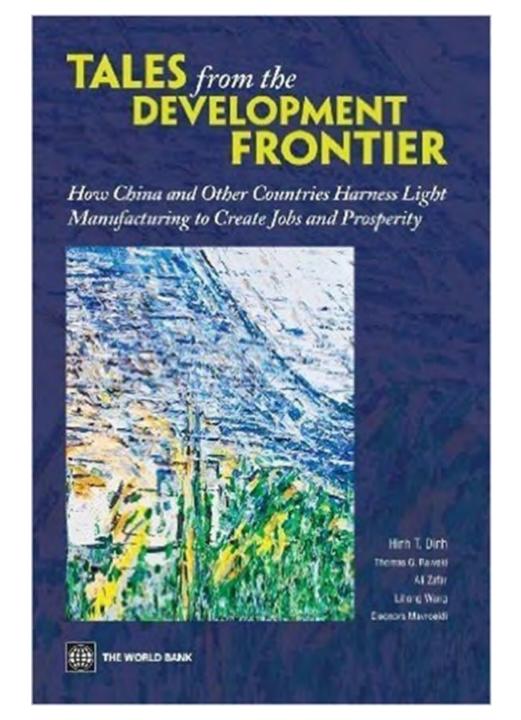
#### Development Goals in an Era of Demographic Change



Dinh, Hinh T.; Rawski, Thomas G.; Zafar, Ali; Wang, Lihong; Mavroeidi, Eleonor (2013)

Tales from the Development Frontier: How China and Other Countries Harness Light Manufacturing to Create Jobs and Prosperity

World Bank, Wash DC. License: CC BY 3.0 IG *pdf available online* 



Why nations fail: the origins of power, prosperity, and poverty (theory of Everything #2)

Acemoglu & Robinson (2012). ISBN: 0307719225

\$13 Kindle, \$9.80 new voice ready see chapter on why and when the South caught up with the North

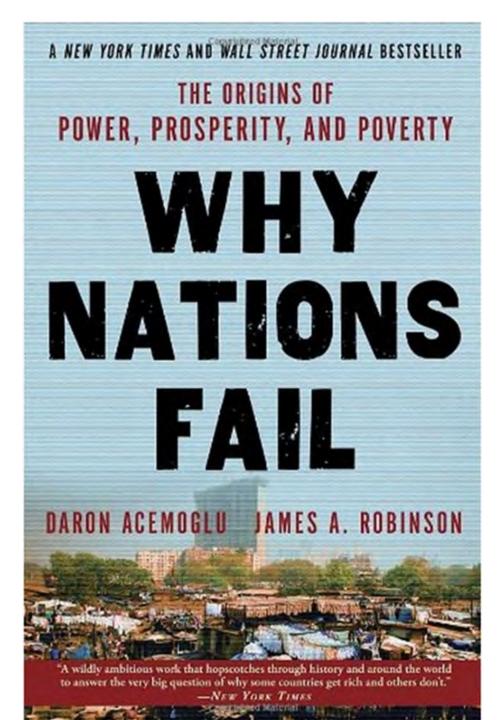


FIGURE 1.11 The evolution of average GDP per capita in Western offshoots, Western Europe, Latin America, Asia, and Africa, 1000–2000. Acemoglu, Daron (2008-12-15). Introduction to Modern Economic Growth (Kindle Locations 565-566). Princeton University Press. Kindle Edition.

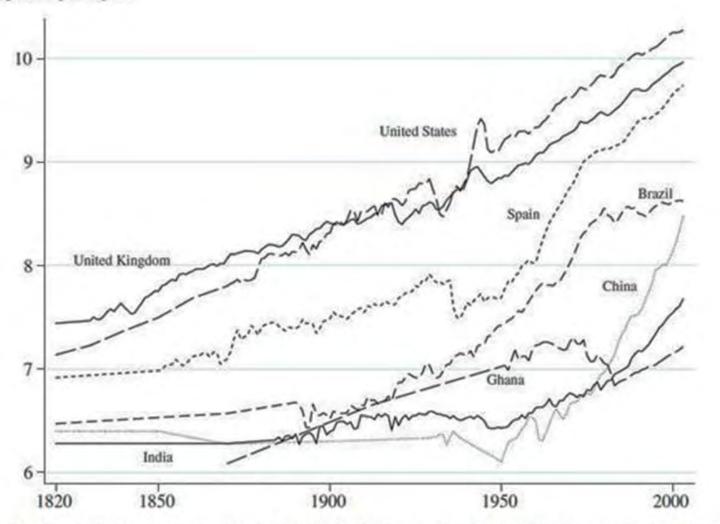
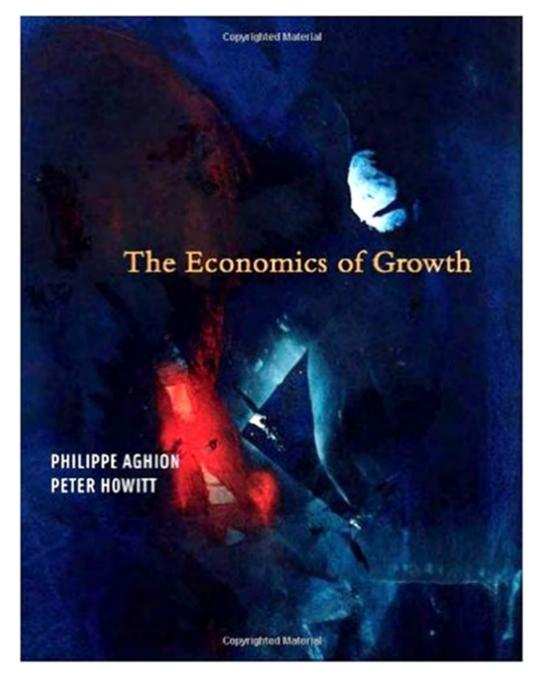


FIGURE 1.12 The evolution of income per capita in the United States, the United Kindgom, Spain, Brazil, China, India, and Ghana, 1820–2000.

Phillipe Aghion, P and P. Howitt (2009) *Economics of Growth*(MIT Press, Boston)

0262012634 Chapter 1 and Chapter 4 (excerpts) \$30 used, Kindle \$24-\$64

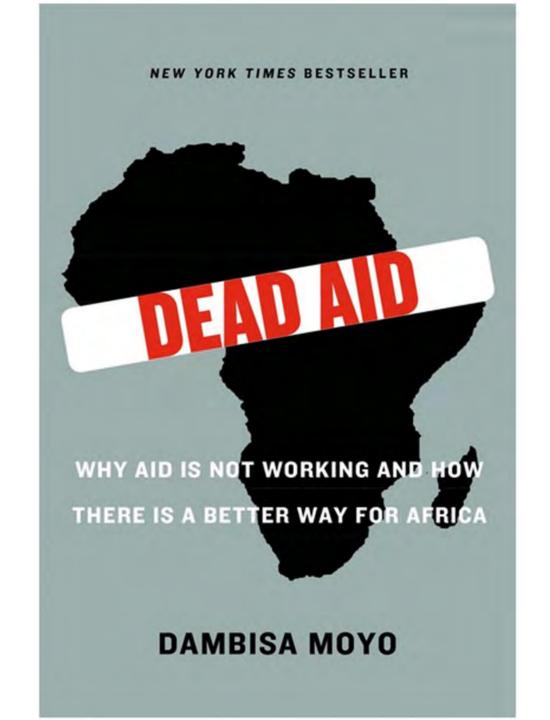


Dead Aid.

Moyo, Dambasi (2009).

ISBN: 0374532123

\$10 on Kindle, \$4 used.



Arvind Subramanian, Eclipse, a bit out of date now, but great discussion of \$PPP growth rates, belassa-Samuelson effect, nice excerpt at Peterson Institute, What is Arvind Subramanian doing in India? Answer here... on youtube

## **ECLIPSE**



Living in the Shadow of China's Economic Dominance

Arvind Subramanian

Peterson Institute for International Economics

# Apple makes a substantial profit on Iphones which it uses to pay geniuses (employees & Shareholders....)

Keep in mind, this is from four years ago, perhaps the Iphone 3 or 4 perhaps, today an Iphone 5s is \$750 and the 5c is \$450 with no contract, manufacturing costs may be higher since wages have doubled in China over the past five years source: ADBI, 2010

Table 3: Profit Margin of iPhones

	2007	2008	2009
Unit Price*	US\$600	US\$500	US\$500
Unit manufacturing	US\$229	US\$174.33	US\$178.96
costs*			
Profit margin**	US\$371	US\$325.67	US\$321.04
Profit Margin (%)**	62	65	64

Sources: Supply, ; "Cabulated by the authors.

# Poor Economics: a radical rethinking of the way to fight global poverty...

Abhijit Banerjee & Esther Duflo (2011)

ISBN: 1610390934 free if you take their MIT Edx course (highly recommended) \$10 on Kindle, \$7 used

## POOR ECONOMICS

A RADICAL RETHINKING OF THE WAY TO FIGHT GLOBAL POVERTY

ABHIJIT V. BANERJEE

FINANCIAL TIMES / GOLDMAN SACHS
BUSINESS BOOK OF THE YEAR

"Engrossing.....intrepid research and a store of personal anecdotes
Illuminate the lives of the 865 million people who, at the last count,
live on less than \$0.99 a day." —ECONOMIST



The Bottom Billion.

Collier, Paul (2008).

ISBN: 0195373387

\$7 on Kindle, \$1.14 used

# BOTTOM BILLION

Why the Poorest Countries are Failing and What Can Be Done About It



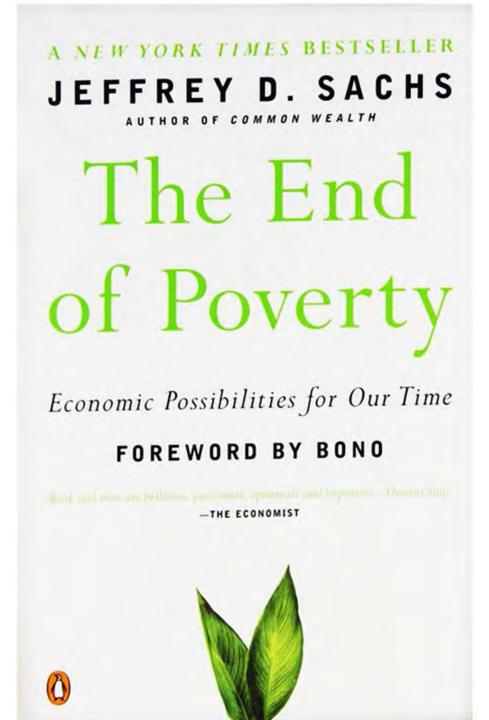


PAUL COLLIER

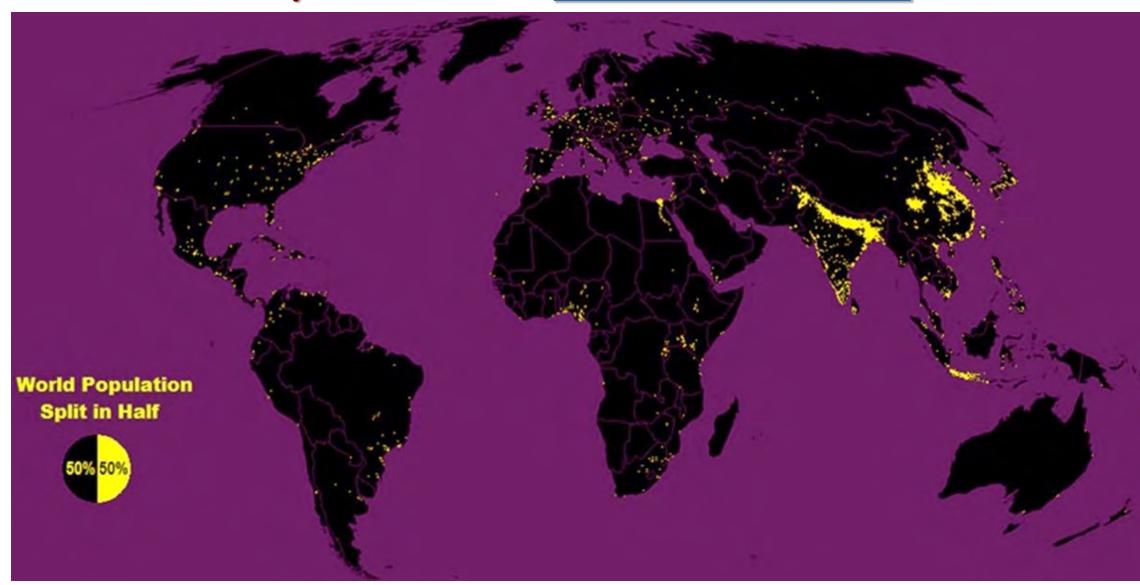
# The End of Poverty: Economic Possibilities for Our Time. Sachs, Jeffrey (2005).

ISBN: 0143036586

\$11 on Kindle, \$4 used

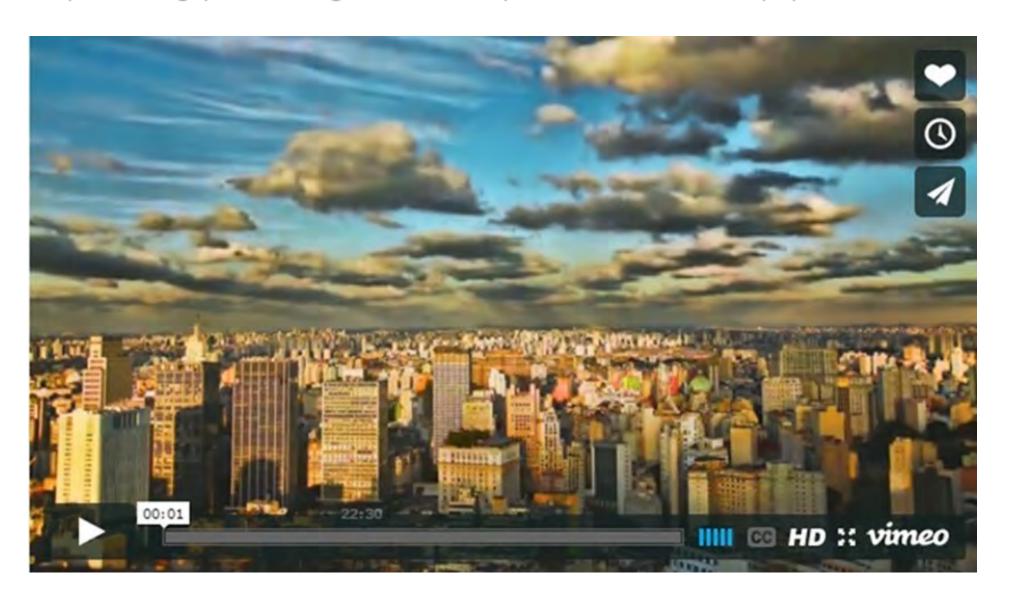


# Population density... sustainable population 10 billion plus.. Chris <u>Blattman tweet</u>?



## Hans Rosling, BBC special: Don't Panic

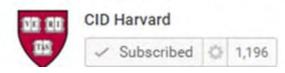
http://www.gapminder.org/videos/dont-panic-the-facts-about-population/



# Ricardo Hausmann MIT Complexity lab... The Puzzle of Development:



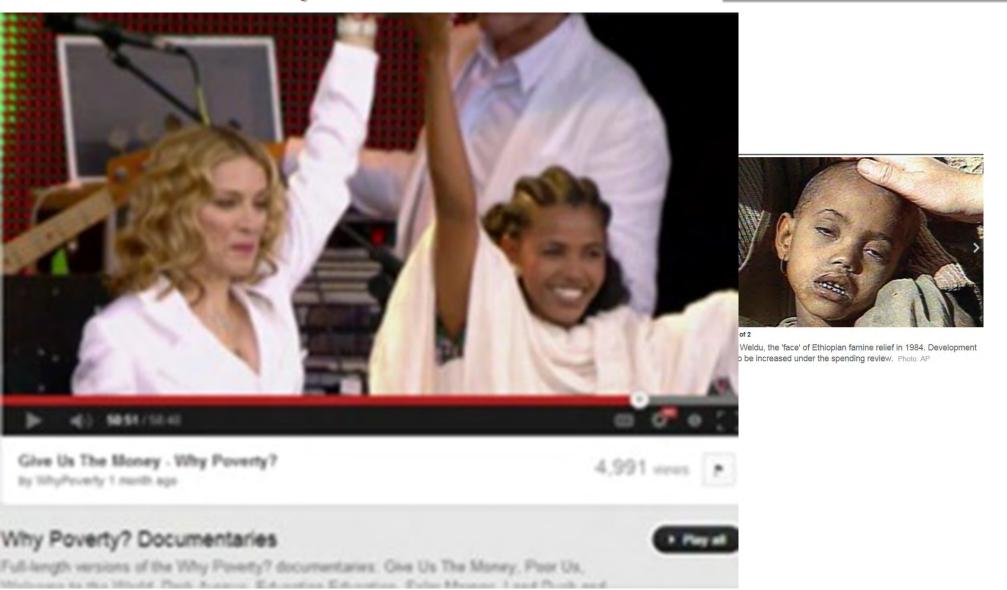
GEM13: Ricardo Hausmann on the Puzzle of Development



## Transfer Programs in Brazil and Ethiopia



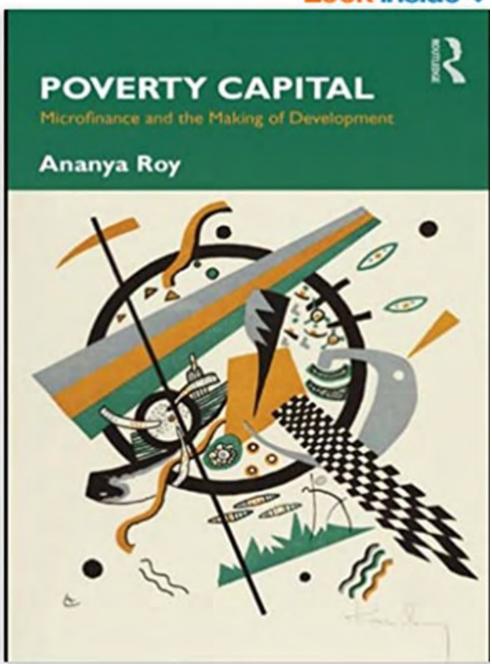
## Bono and Bob Geldorf solicit Foreign aid for Ethiopia, then Pepfar & Debt relief?: Give us the money



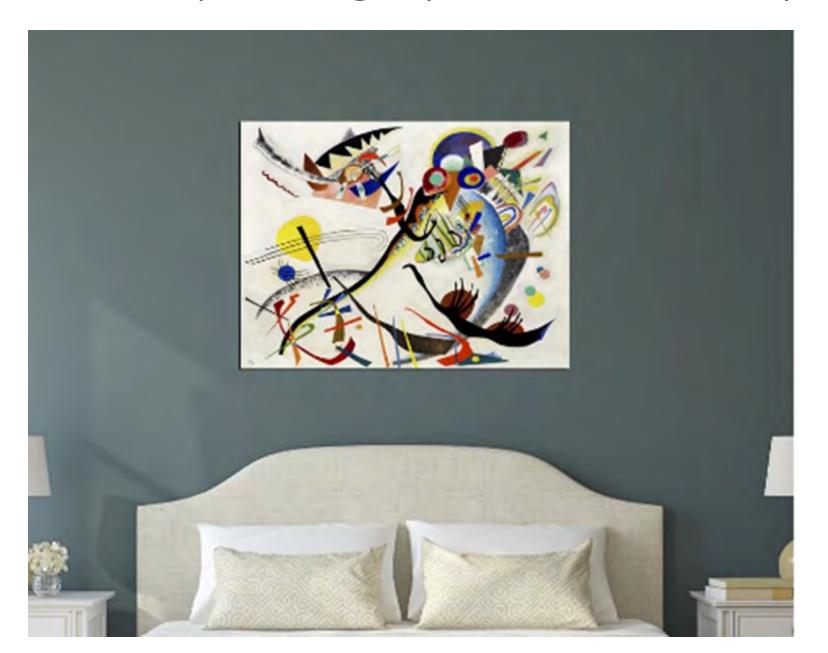
ECON 5808 (preview) Roy, Ananya (2010) Poverty capital: Microfinance and the making of development.

Routledge, UBC Open Library presentation 2010 Cited by 870





## Same Kadinsky on a gray wall (from wayfair...)



## Figure 8: Trade deficit is not always what it appears (<u>Fallows</u>, <u>2010</u> & <u>ADBI</u>.2010)

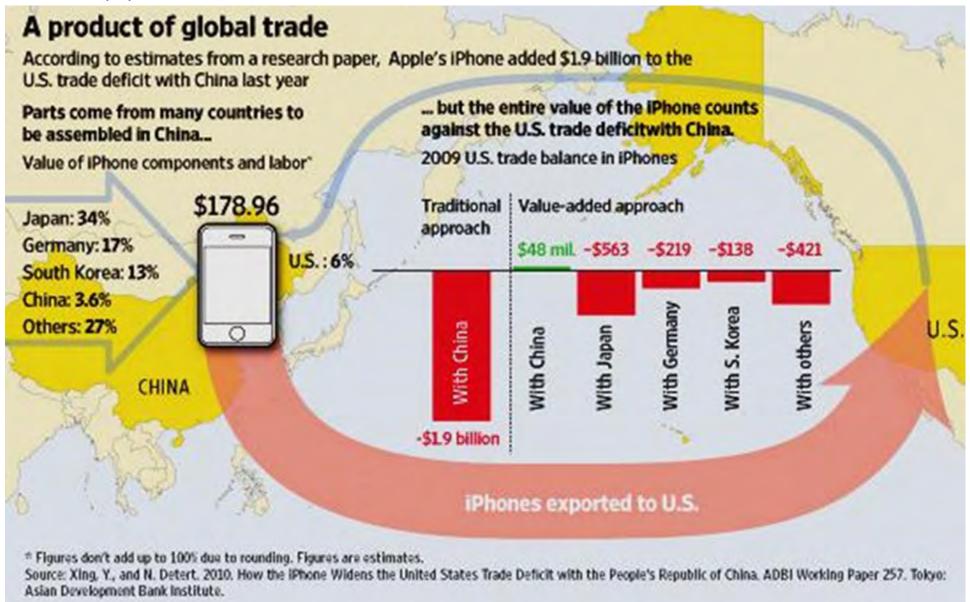
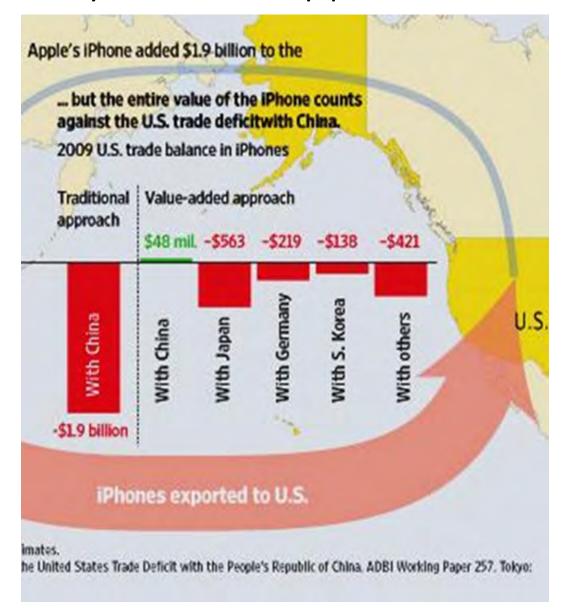


Figure 8: Trade deficit is not always what it appears

(<u>Fallows</u>, 2010 & ADBI)

It appears that importing Iphones from China created a \$2 billion U.S. trade deficit, but this is largely an accounting illusion: value added is what matters and China's share of Iphone VA is small

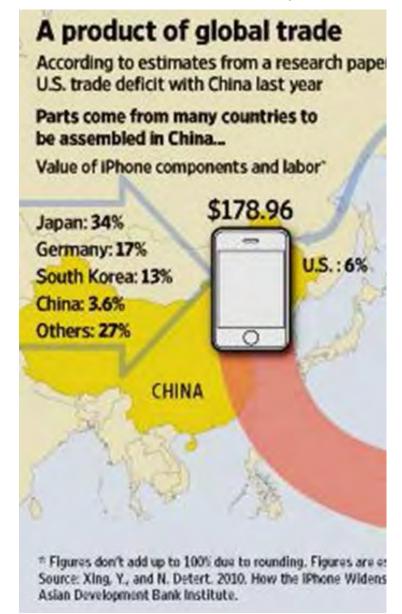


### The smiley curve (Fallows, 2010 & ADBI) assembly is low VA

activity

- China earns just 4% of the cost of a manufactured Iphone (U.S. gets 6% this means the Iphone generates a trade surplus for us, the U.S.).
- Japan, Germany, South Korea
  & others get 91%
- Remember the smiley curve





- 1. In 2010, the U.S. exported \$11 worth of components to China per Iphone. Apple then pays Foxconn \$7 to assemble each iPhone so the net/net impact of importing IPhones may be a small trade surplus (depending on what share of U.S. parts VA is imported....) Source: ADBI, 2010)
- 2. What does this say about plants that assemble BMWs, Toyotas, Hondas, Mercedes etc. in the U.S.? Are they really eliminating the U.S. trade deficit with Japan or Germany? It depends.... On where the components of each car are made.....

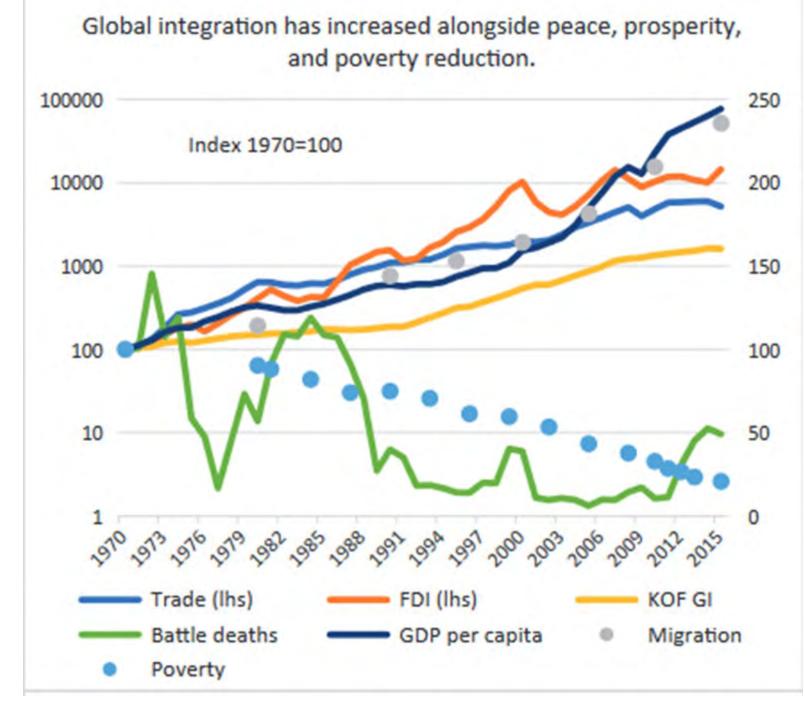
### Whose VA is in the Iphone?

Table 1: Apple iPhone 3G's Major Components and Cost Drivers

h4	0	01	
Manufacturer	Component	Cost	
Toshiba (Japan)	Flash Memory	US\$24.00	
	Display Module	US\$19.25	
	Touch Screen	US\$16.00	
Samsung (Korea)	Application	US\$14.46	
	Processor		
	SDRAM-Mobile	US\$8.50	
	DDR		
Infineon (Germany)	Baseband	US\$13.00	
	Camera Module	US\$9.55	
	RF Transceiver	US\$2.80	
	GPS Receiver	US\$2.25	
	Power IC RF	LICOLA DE	
	Function	US\$1.25	
Broadcom (US)	Bluetooth/FM/WLAN	US\$5.95	
Numonyx (US)	Memory MCP	US\$3.65	
Murata (Japan)	FEM	US\$1.35	
losson to the loss of the	Power IC		
Dialog Semiconductor	Application	US\$1.30	
(Germany_	Process or Function	750.000	
Cirrus Logic (US)	Audio Codec	US\$1.15	
Rest of Bill of Materials		US\$48.00	
Total Bill of Materials		US\$172.46	
Manufacturing costs		US\$6.50	
Grand Total	US\$178.96		
roe : Raccule ller (2009)			

Source : Rassweller (2009).

Globalization is good but not enough... see
Banerjee and Duflo Chapter 3



## The U.S. has barely recovered from the 2008 recession (see Great Recession Hanover Washington Post, 9-13-18)

