

Theory and Practice of Economic Transition Lecture no. 1

Relevance of economic systems for growth



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Lecture no. 1

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Poverty is natural...

- 3 billion people live on less than 2 dollars a day.
- Average American?
- Average Czech?

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Economic growth is not automatic

First millenium – standard of living of an average farmer did not improve...

Economic growth is a new phenomenon

- 1000 – 2000 a.d. population grew 22 times, wealth 286 times (wealth per capita 13 times)
- 1000 – 1820 wealth per capita rose by 50 %
- 1820 – 2000 wealth per capita rose 8 times

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Economic growth is not evenly distributed

Table 1–2. Level and Rate of Growth of GDP Per Capita: World and Major Regions, 0–1998 A.D.

	0	1000	1820	1998	0–1000	1000–1820	1820–1998
	(1990 international dollars)				(annual average compound growth rate)		
Western Europe	450	400	1 232	17 921	-0.01	0.14	1.51
Western Offshoots	400	400	1 201	26 146	0.00	0.13	1.75
Japan	400	425	669	20 413	0.01	0.06	1.93
Average Group A	443	405	1 130	21 470	-0.01	0.13	1.67
Latin America	400	400	665	5 795	0.00	0.06	1.22
Eastern Europe & former USSR	400	400	667	4 354	0.00	0.06	1.06
Asia (excluding Japan)	450	450	575	2 936	0.00	0.03	0.92
Africa	425	416	418	1 368	-0.00	0.00	0.67
Average Group B	444	440	573	3 102	-0.00	0.03	0.95
World	444	435	667	5 709	-0.00	0.05	1.21

Source: Appendix B.

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Growth means better life



Table 1–4. Life Expectation and Infant Mortality, Both Sexes Combined, 33–1875 A.D.

Country and period	Years of life expectation at birth	Death rate per 1000 population in 1st year of life	Source & authors
Roman Egypt, 33–258	24.0	329	Fragments of Roman Censuses Bagnall and Frier
England, 1301–1425	24.3	218	Very crude estimates derived from fiscal records: Russell
England, 1541–56	33.7	n.a.	Family reconstitution and inverse projection from birth and death records: Wrigley, et al.
England, 1620–26	37.7	171	
England, 1726–51	34.6	195	
England, 1801–26	40.8	144	
France, 1740–49	24.8	296	Family reconstitution: Blayo
France, 1820–29	38.8	181	
Sweden, 1751–55	37.8	203*	Parish records & census returns: Gille
Japan, 1776–1875	32.2	277	Temple records: Jannetta Temple records: Yasuba Population registers: Saito
Japan, 1800–50	33.7	295	
Japan, 1751–1869	37.4	216	

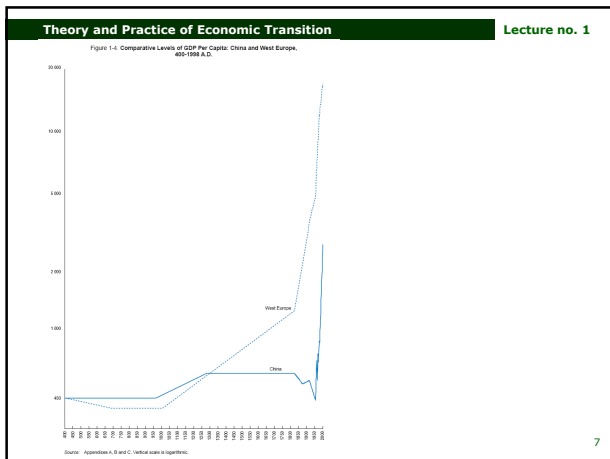
*) 1751–1800.

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What causes economic growth?

- 1) Nature is generous / less detrimental...
- 2) People are smart...
- 3) Economic systems matter...

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Nature...

A. ... is less detrimental

- Heat vs. Cold (+ germs)
- Quantity and distribution of rain

How much does it explain? Sub-Saharan Africa...

B. ... is more generous in natural resources

Russia vs. Lichtenstein
Angola vs. Singapore

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People...

Chinese inventions:

- Cast iron 4th bc / 8th ad
- Compass 11th ad / 13th ad
- Horse collar 4th bc / 6 ad
- Paper 2nd ad / 12th ad
- Gunpowder 8th ad / 12th ad
- Printing (wood block, movable type) 11th ad / 15th ad

Technology in modern times:

- Nuclear reactor 1958
- nuclear bomb 1966
- satellite 1970

Chinese in China vs. US, Indians in India vs. US?

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Economic systems

Wealth depends on coordination / order...

Division of labor; exchange → higher productivity

“Every individual...generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.”

A. Smith, Wealth of Nation, book IV., c. II.

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