Inequality Between Countries

Last class…

1) Reviewed the scientific method
2) Discussed testing hypotheses
3) Introduced the idea of confounding
4) Three mechanisms and evidence for:
   a) ethnic diversity → public goods → inequality

Review #4: Three mechanisms

Three logical reasons (mechanisms) why ethnic diversity would be causally related to public goods provision.

1) (Other-regarding) Preferences

2) Findability

3) Strategy Selection

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2) Technology/Findability
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3) Strategy Selection
   - People from same ethnic groups expect others to sanction them if they do wrong

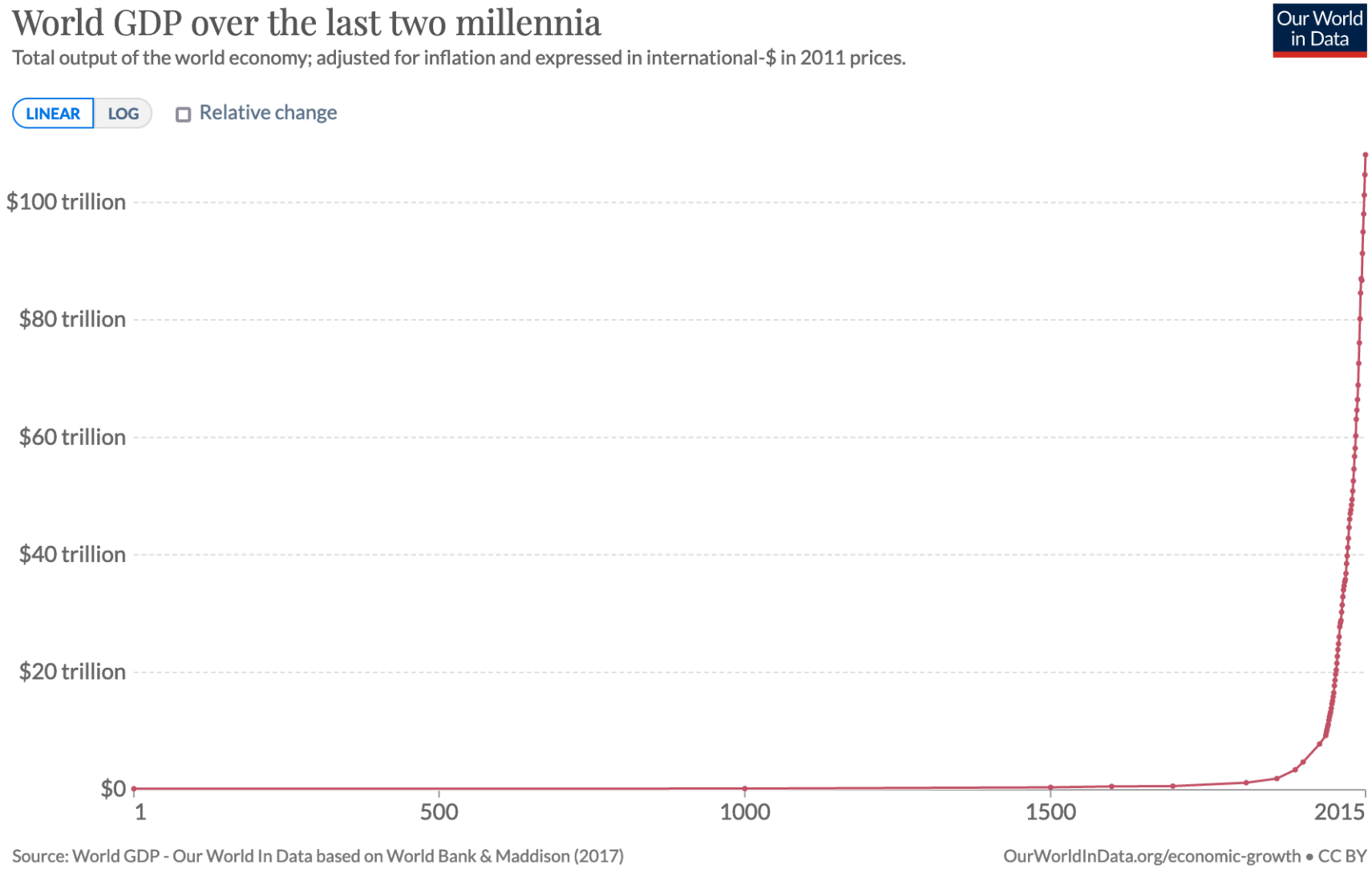
Today…

1) Why are some countries rich and others poor?

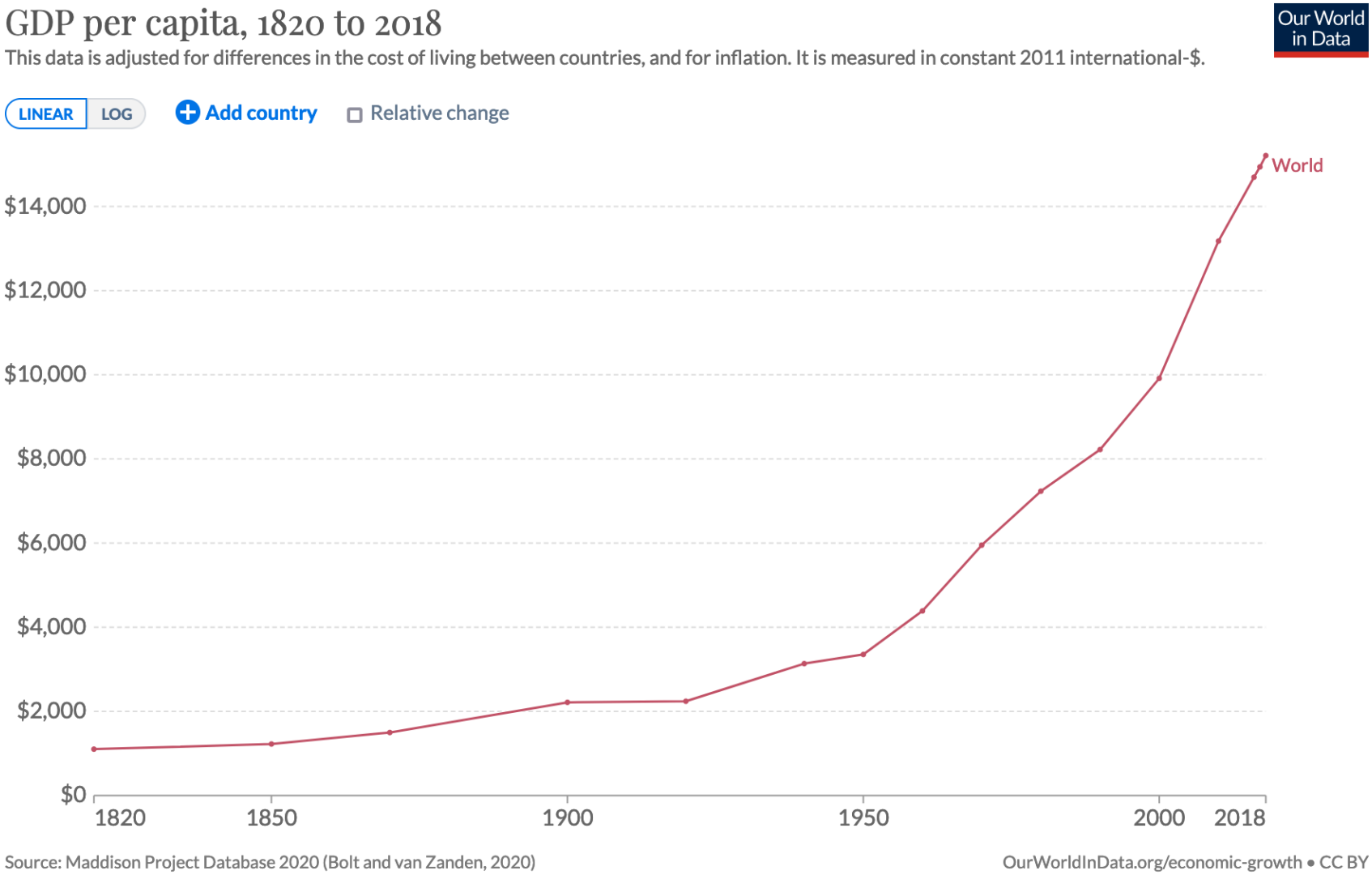
2) General ingredients for growth

3) How politics matters

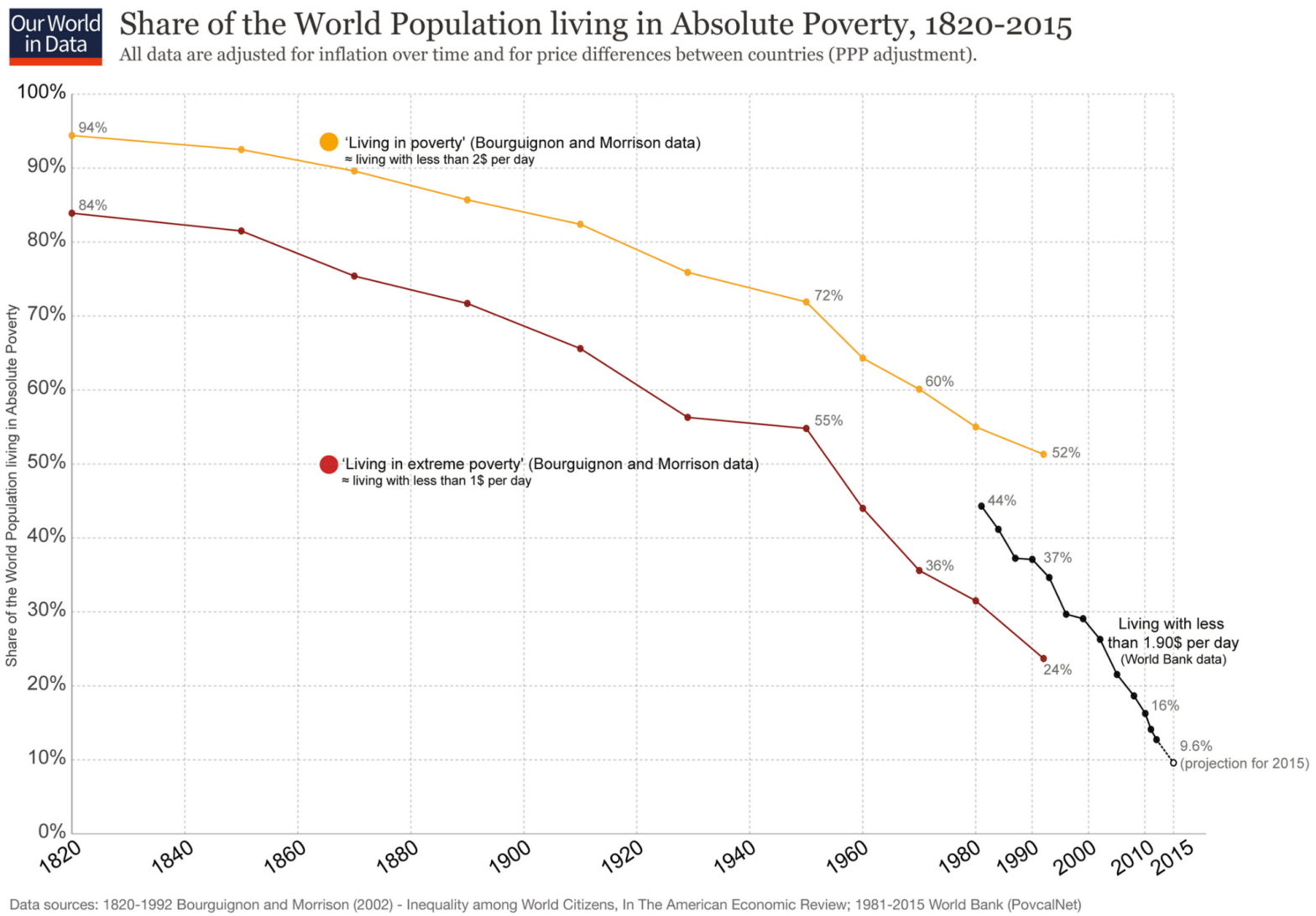
First, the good news…



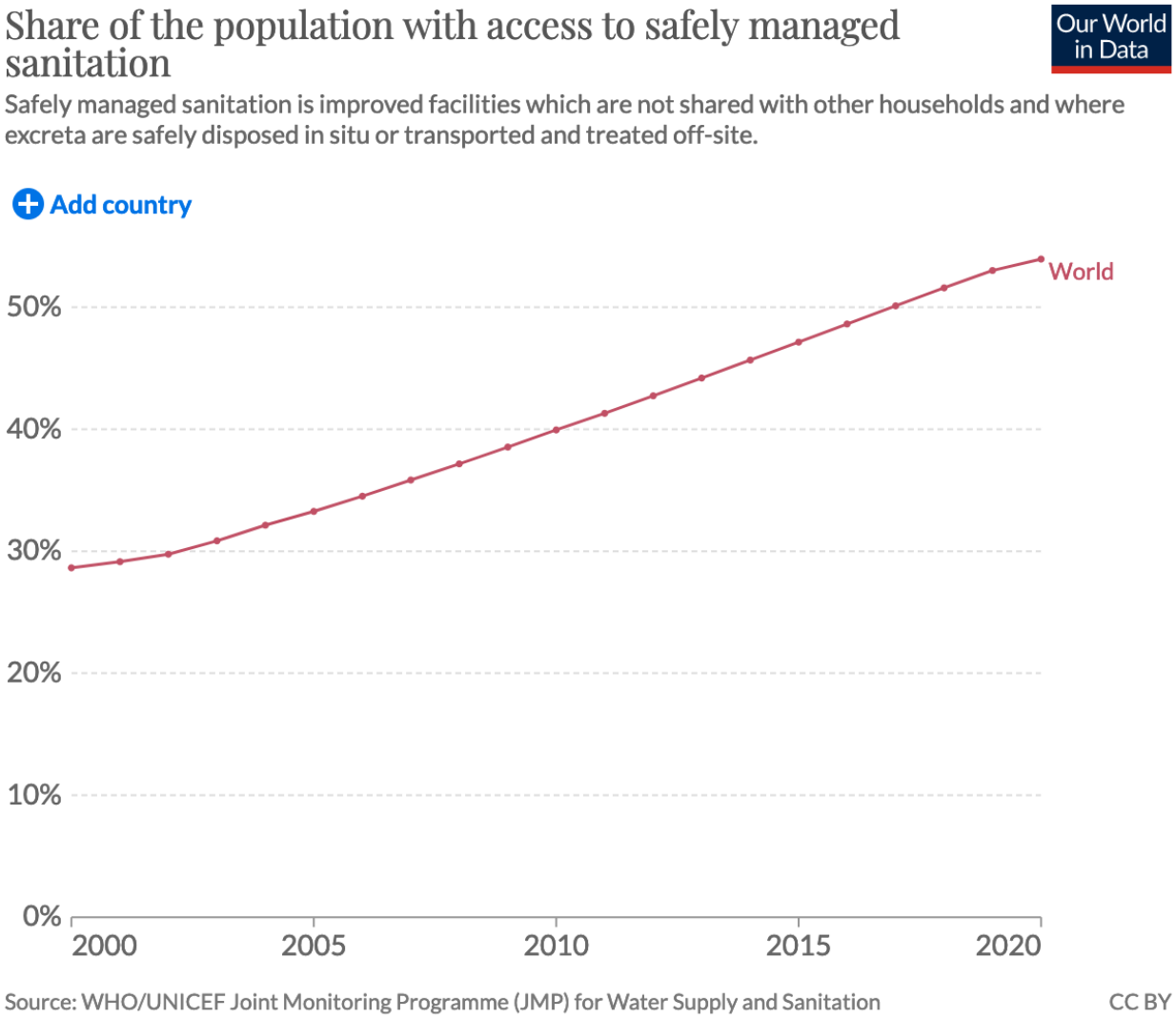
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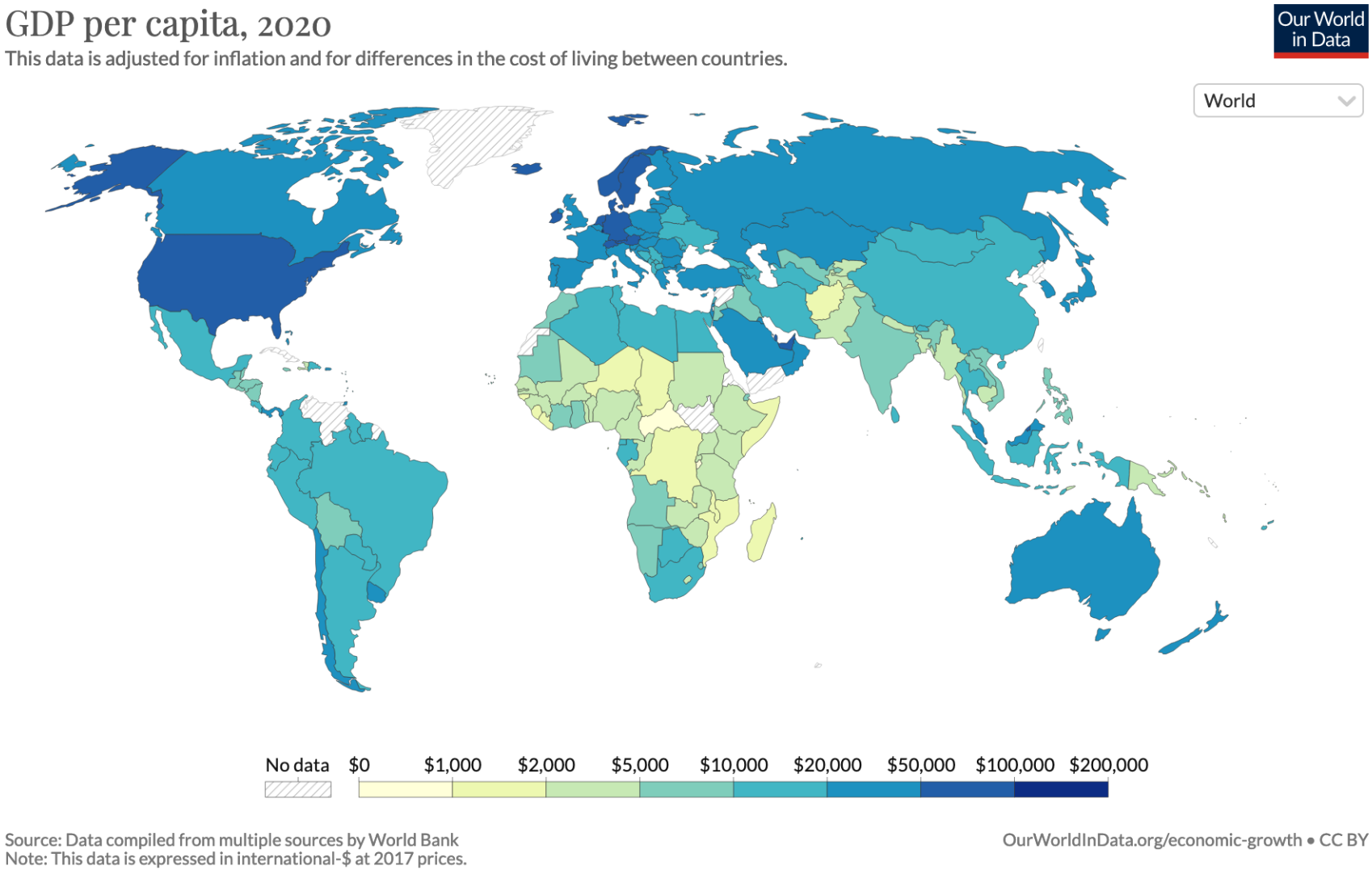
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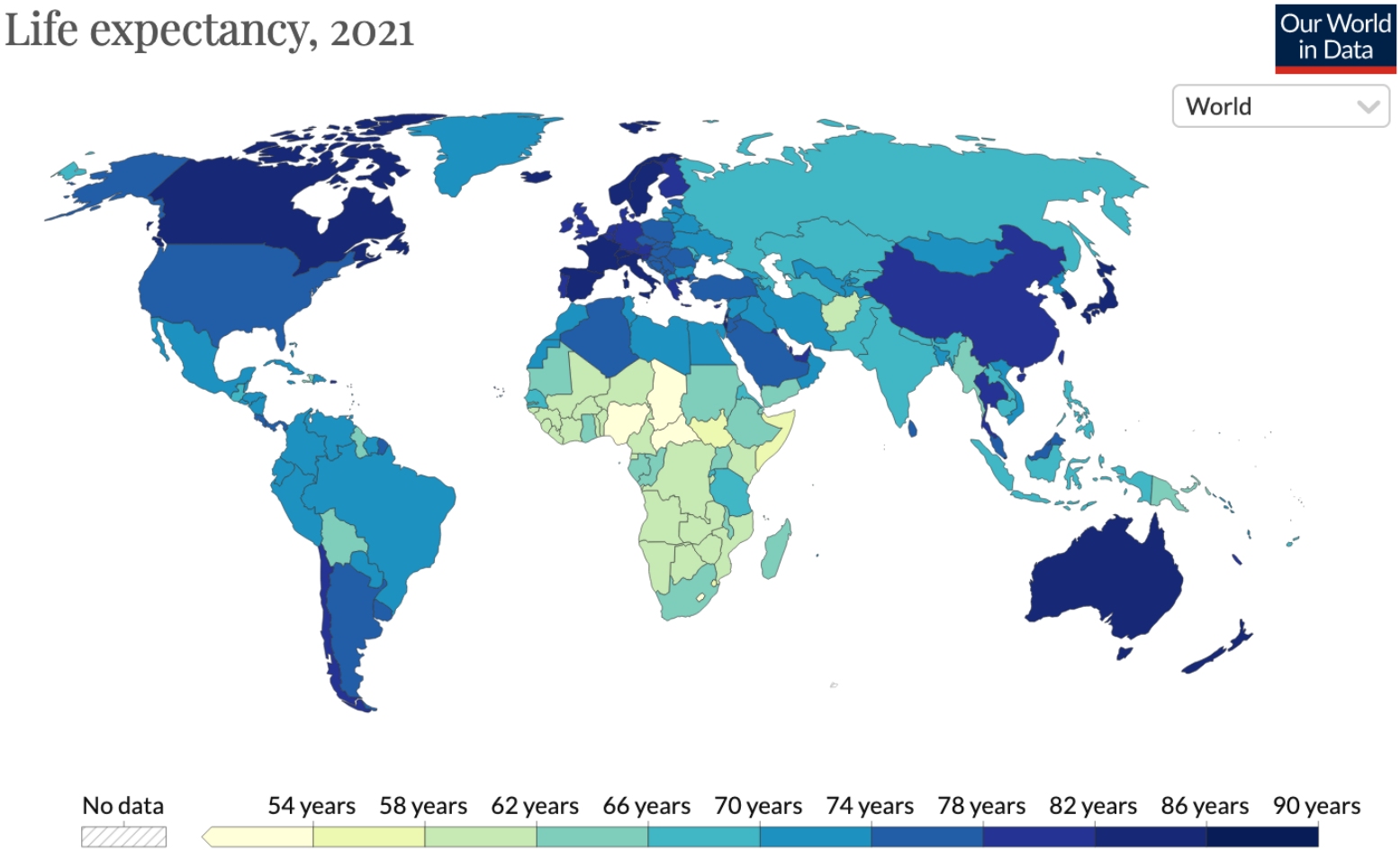
First, the good news



But now the bad news…

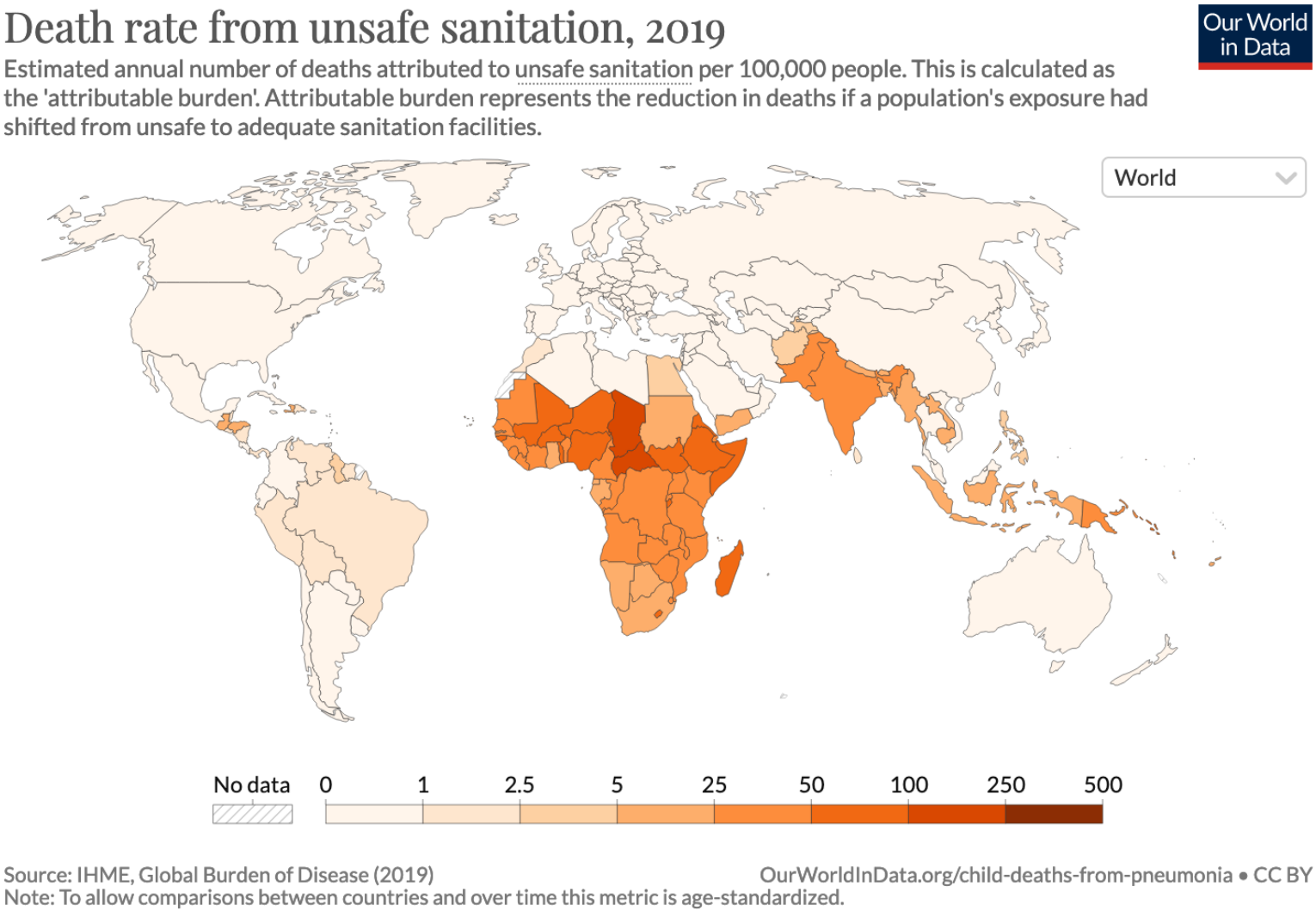


But now the bad news…



Source: UN WPP (2022); Zijdeman et al. (2015); Riley (2005)
OurWorldInData.org/life-expectancy • CC BY
Note: Shown is the 'period life expectancy'. This is the average number of years a newborn would live if age-specific mortality rates in the current year were to stay the same throughout its life.

But now the bad news…



Why these patterns?

We need to understand how countries produce "development."

Economic development as a concept

Two conceptual views of development

1) Economic production
   → Measure: Per capita GDP

2) Human development
   → Measure: Human development index

Per capita GDP (PPP)

- GDP = Gross domestic product
  - How much is produced in a country in a year
- Per capita = divide by population
- PPP = purchasing power parity (make it comparable across countries)
- Measured in a dollar amount
- Because what is produced is also consumed, per capita GDP is akin to per capita income

The US is wealthy in per capita GDP

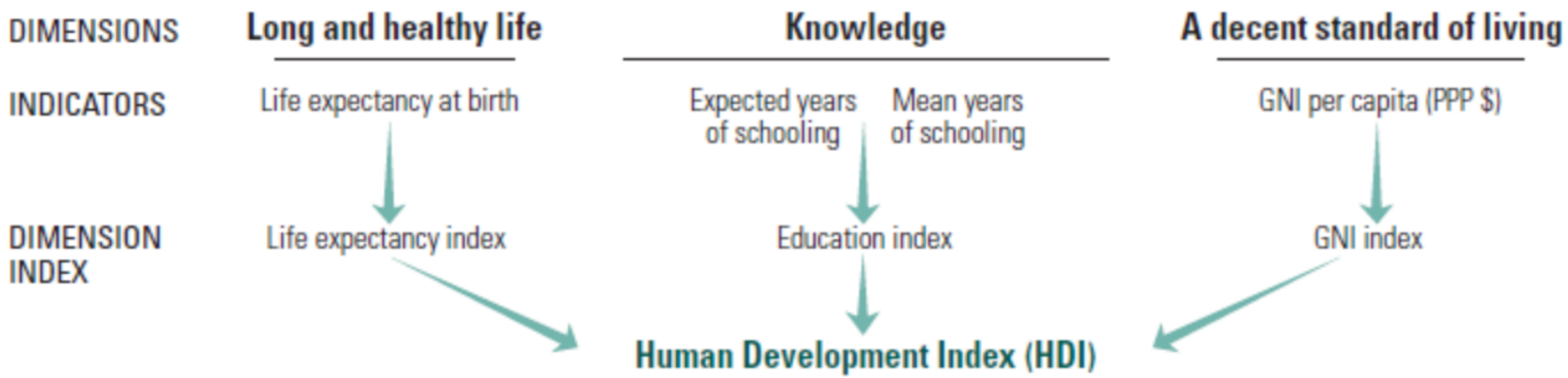
Country	Per capita GDP	
	IMF	World Bank
Luxembourg	$141,587	$135,545
Singapore	$131,426	$116,487
United States	$75,180	$69,288
Canada	$57,827	$52,085
China	$21,291	$19,338
Grenada	$18,436	$15,038
Honduras	$6,769	$6,122
Chad	$1,719	$1,556

Strengths and limitations of the measure

Strengths?

Limitations?

Human development index



Other measures exist too

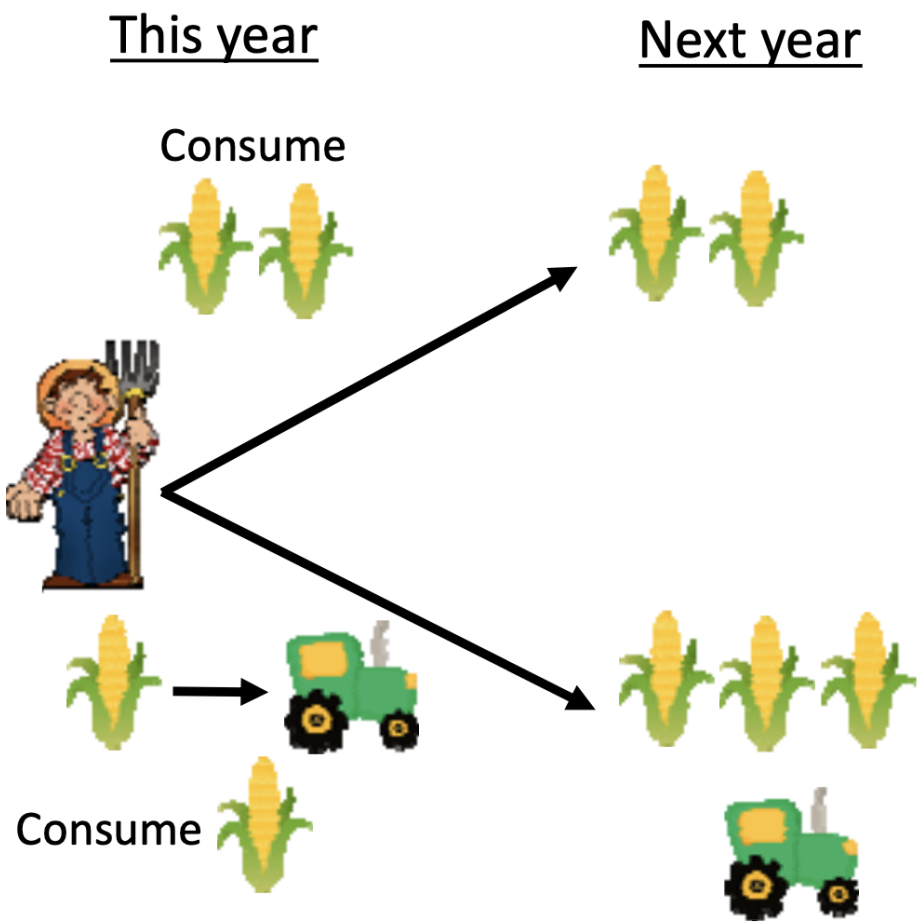
- Poverty (Living <1$ or <2$ per day)
- Human capabilities index
- Sustainable economic welfare
- World happiness index

Where does GDP come from? How do we generate long run economic growth?

Factors allowing us to produce more:

- Physical capital
  - Investment → more stuff to produce stuff

Investment and GDP



Where does GDP come from? How do we generate long run economic growth?

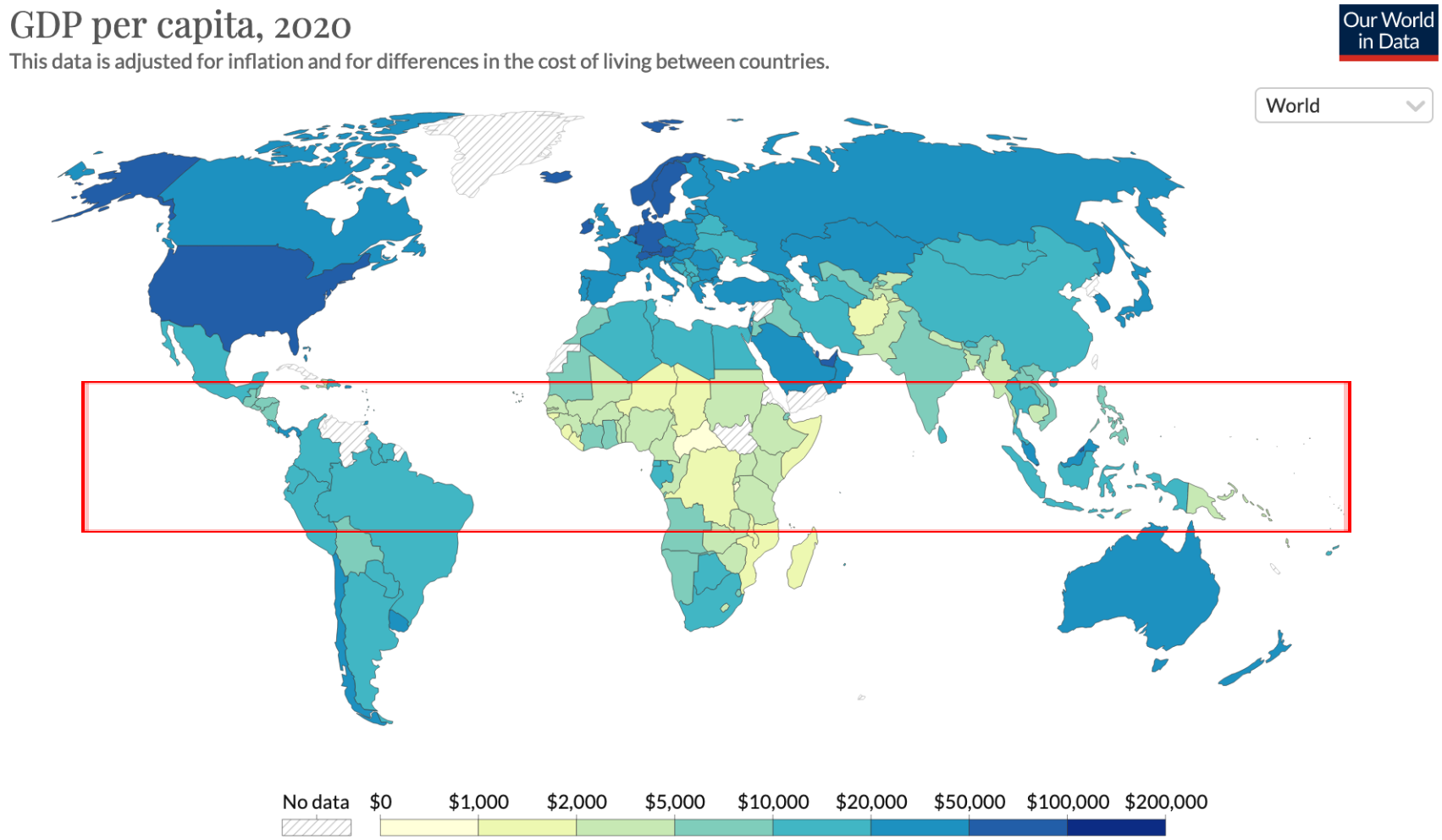
Factors allowing us to produce more:

- Physical capital
  - Investment → more stuff to produce stuff
- Human capital
  - Knowledge of how to produce
- Technological change
- More labor?
  - But this won't change per capita GDP!
- More inflation?
  - But this won't change PPP!

Why are some countries able to grow and others not?

Geography?

Is there a geographic pattern to poverty?



Why geography → poverty?

Why geography → poverty?

Mechanisms:

- Disease environment
- What you can grow
- Transportation to markets

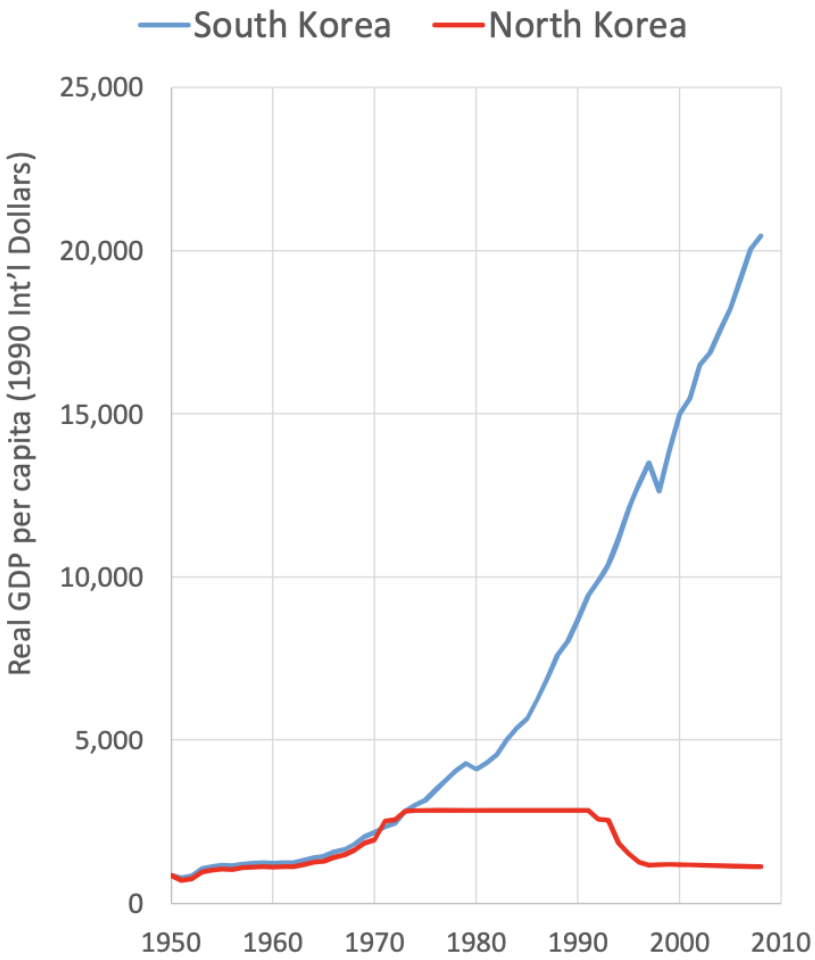
Limits to this explanation?

Limits of geography → poverty?

- Significant variation in development even at the same latitude

North vs. South Korea

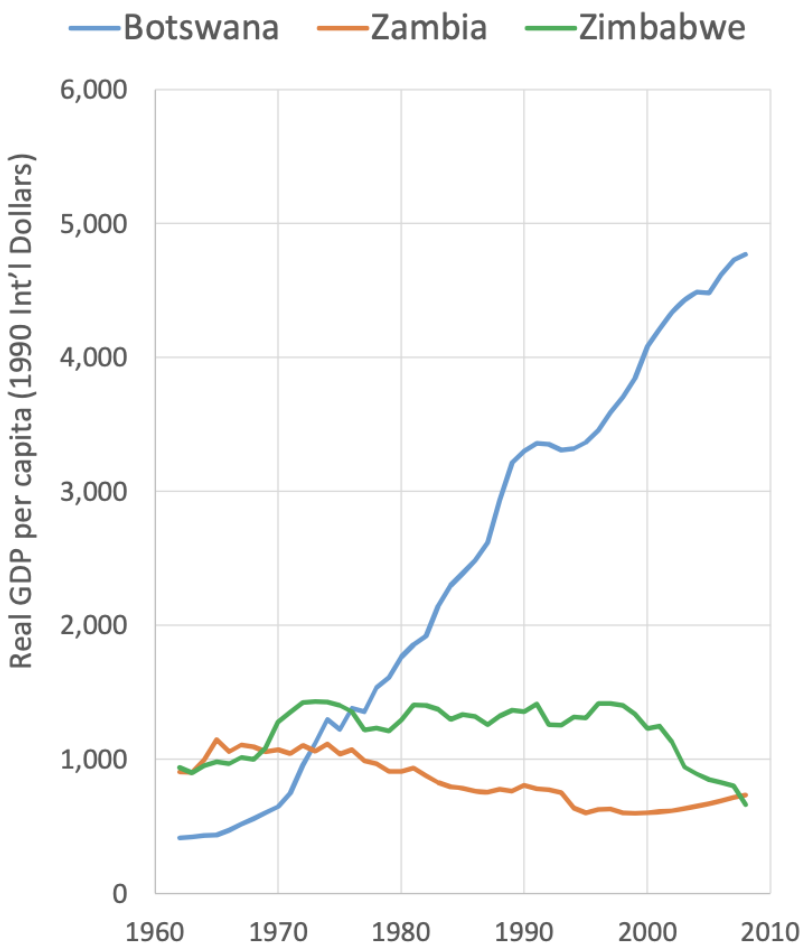




Source: The Maddison-Project, http://www.ggdc.net/maddison/maddison-project/home.htm, 2013 version.

Botswana vs. Zambia & Zimbabwe





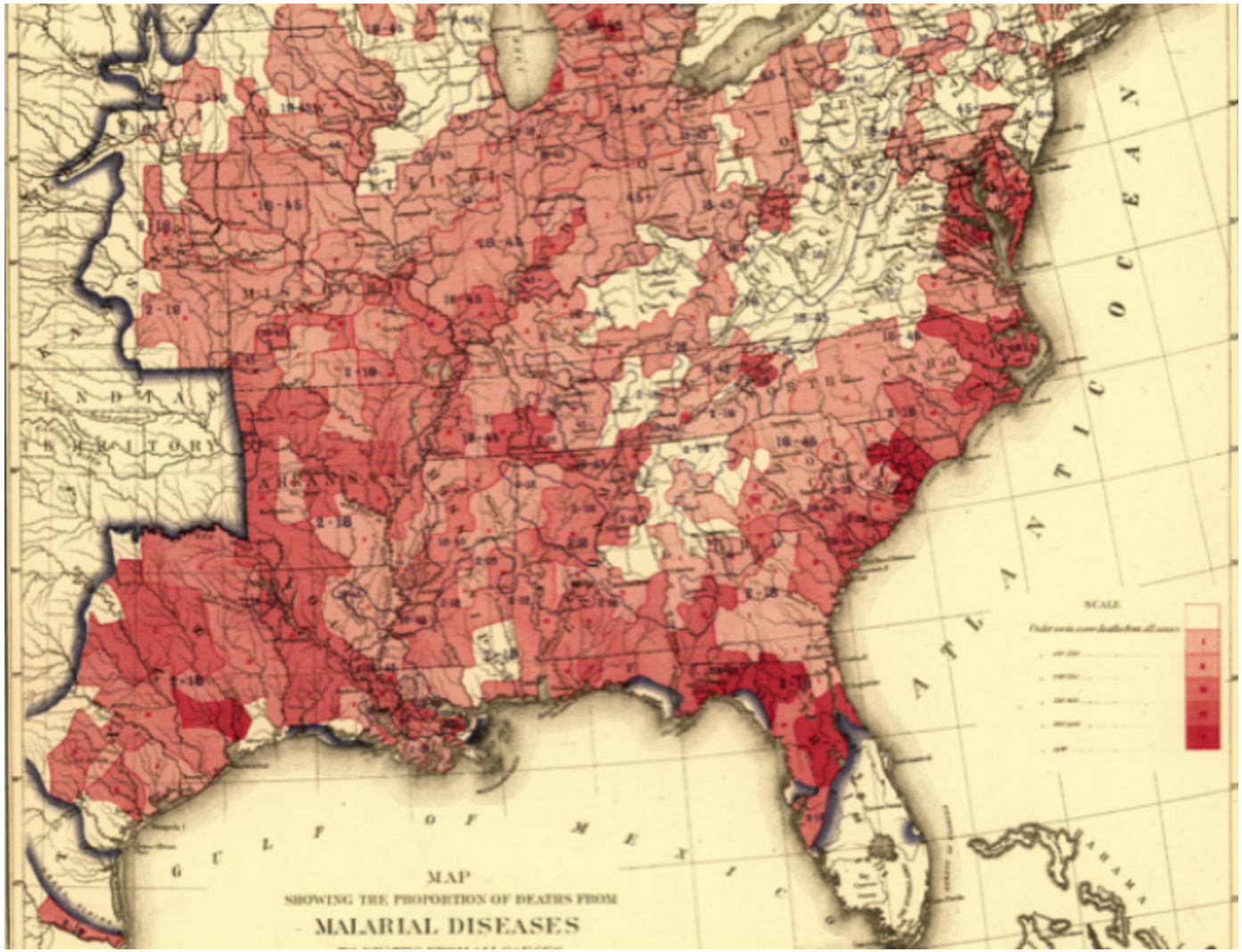
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(Does one counterexample invalidate a theory?)

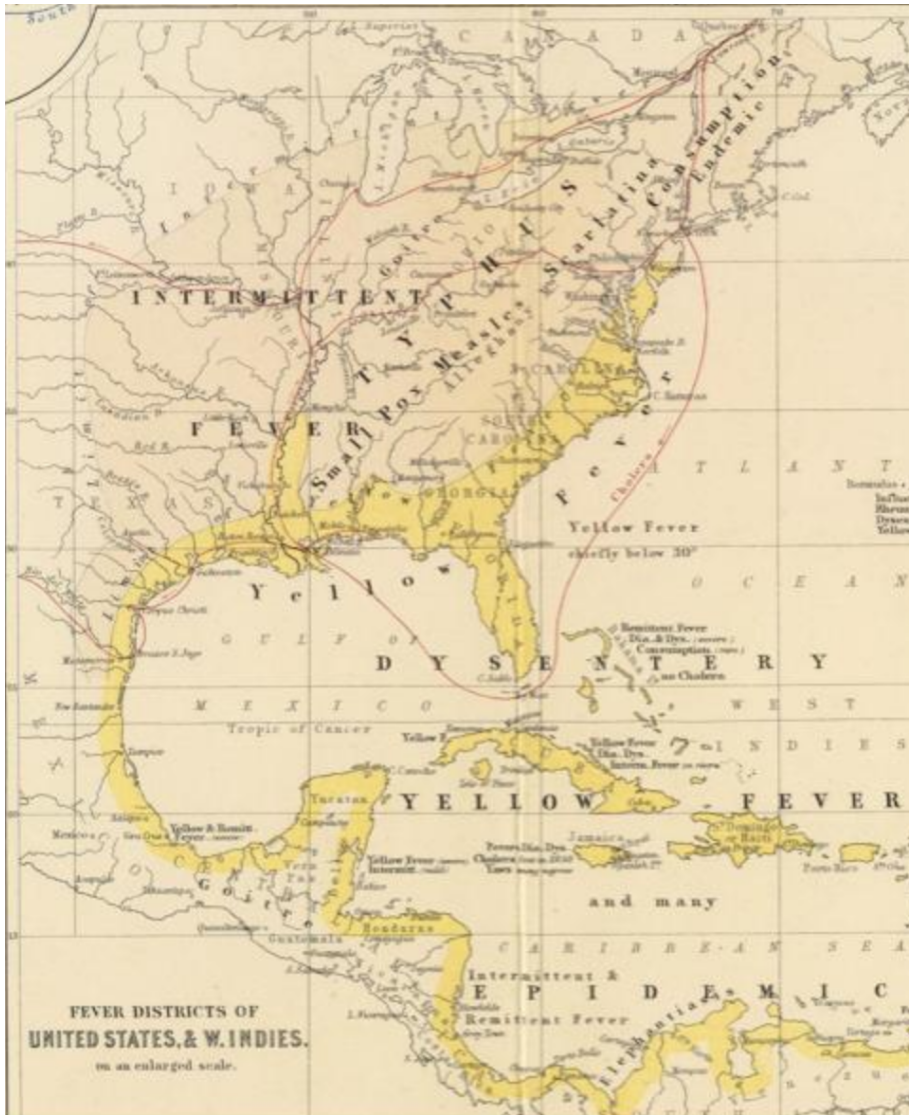
Limits of geography → poverty?

- Significant variation in development even at the same latitude
- Crop yields and disease are partly a function of development
  - With better technology you can grow more, protect more from disease
  - Example: Malaria and yellow fever in the US

Malaria in the US, 1870



Yellow fever in the US, 1856



Limits of geography → poverty?

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- Temporal patterns: Poorer regions today were not always poor

The “Reversal of Fortune”

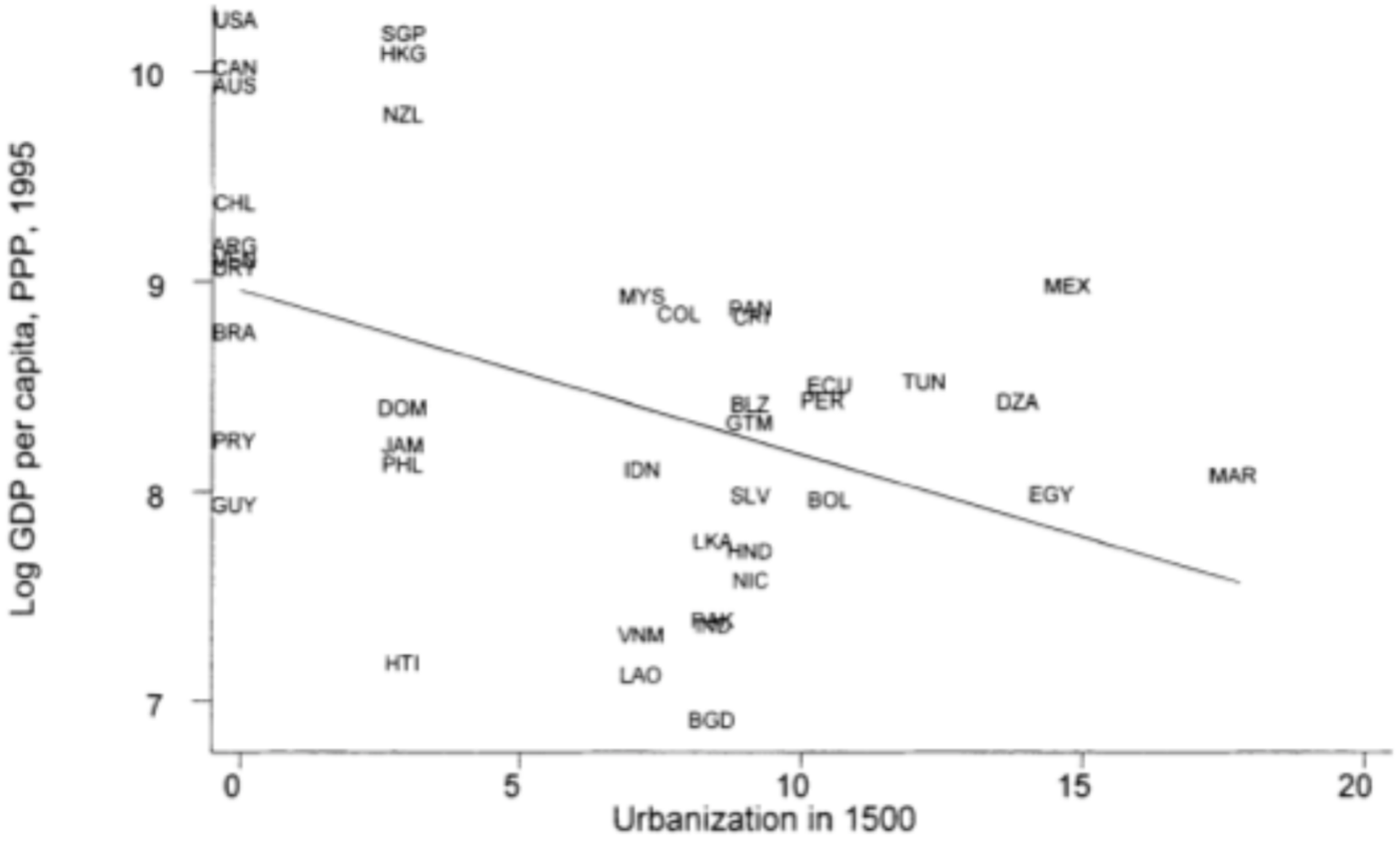


FIGURE I

Source: Acemoglu, Daron, Simon Johnson, and James A. Robinson. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." *The Quarterly Journal of Economics* 117, no. 4 (2002): 1231-294. http://www.jstor.org/stable/4132478.

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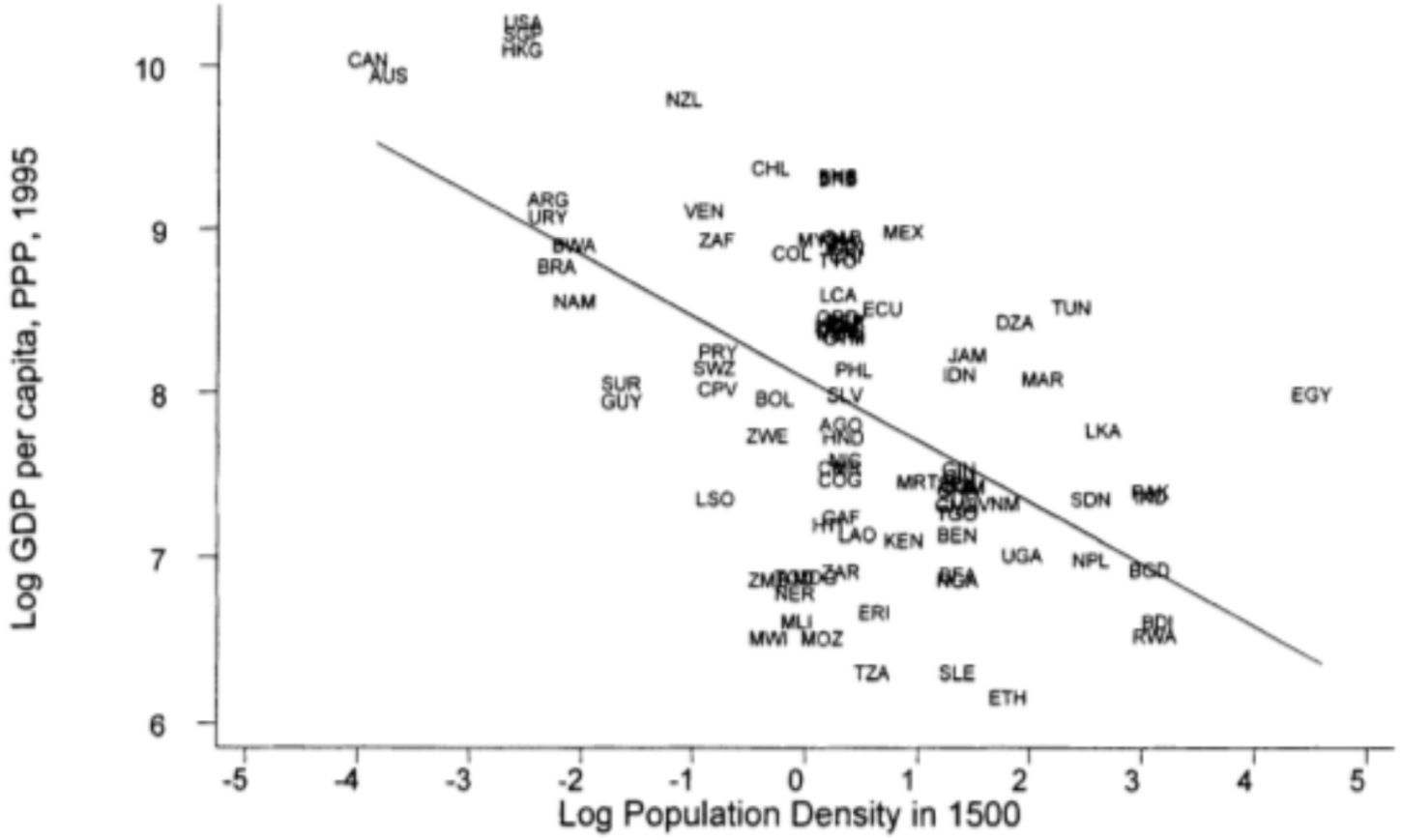


FIGURE II

Source: Acemoglu, Daron, Simon Johnson, and James A. Robinson. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." *The Quarterly Journal of Economics* 117, no. 4 (2002): 1231-294. http://www.jstor.org/stable/4132478.

Why are some countries able to grow and others not?

Colonialism?

Why colonialism → poverty?

Why colonialism → poverty?

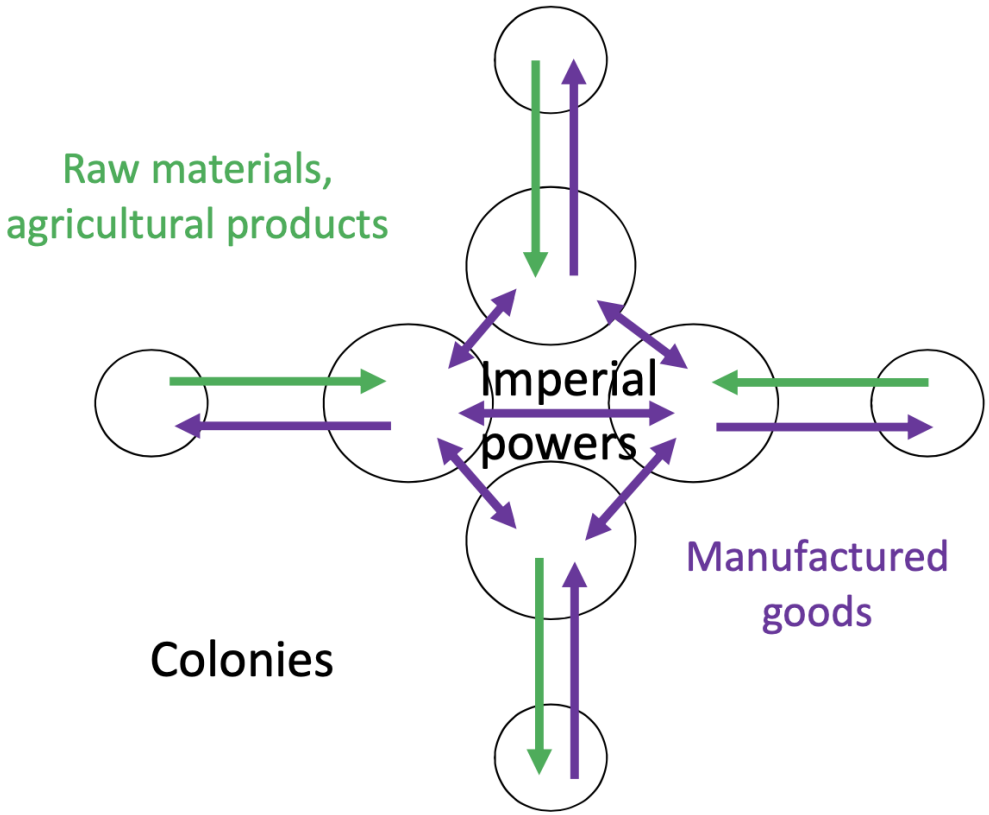
Some mechanisms:

- Economic dependence on primary products
- Politicization of ethnic groups
- Weak central governments

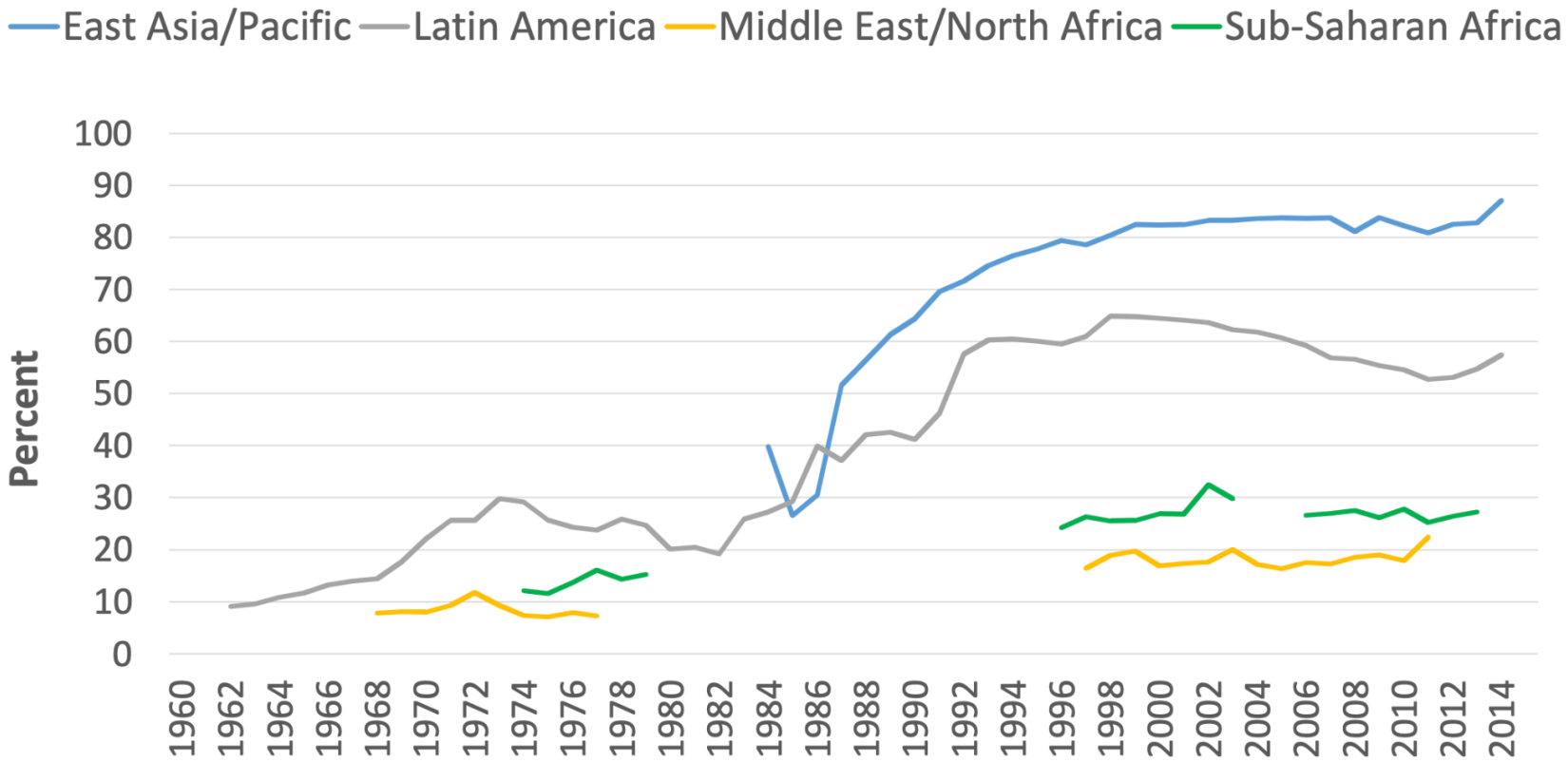
Dependency theory

Primary products = raw materials

Low prices relative to manufactured goods, no ability to invest



Manufactured goods exports in poor countries

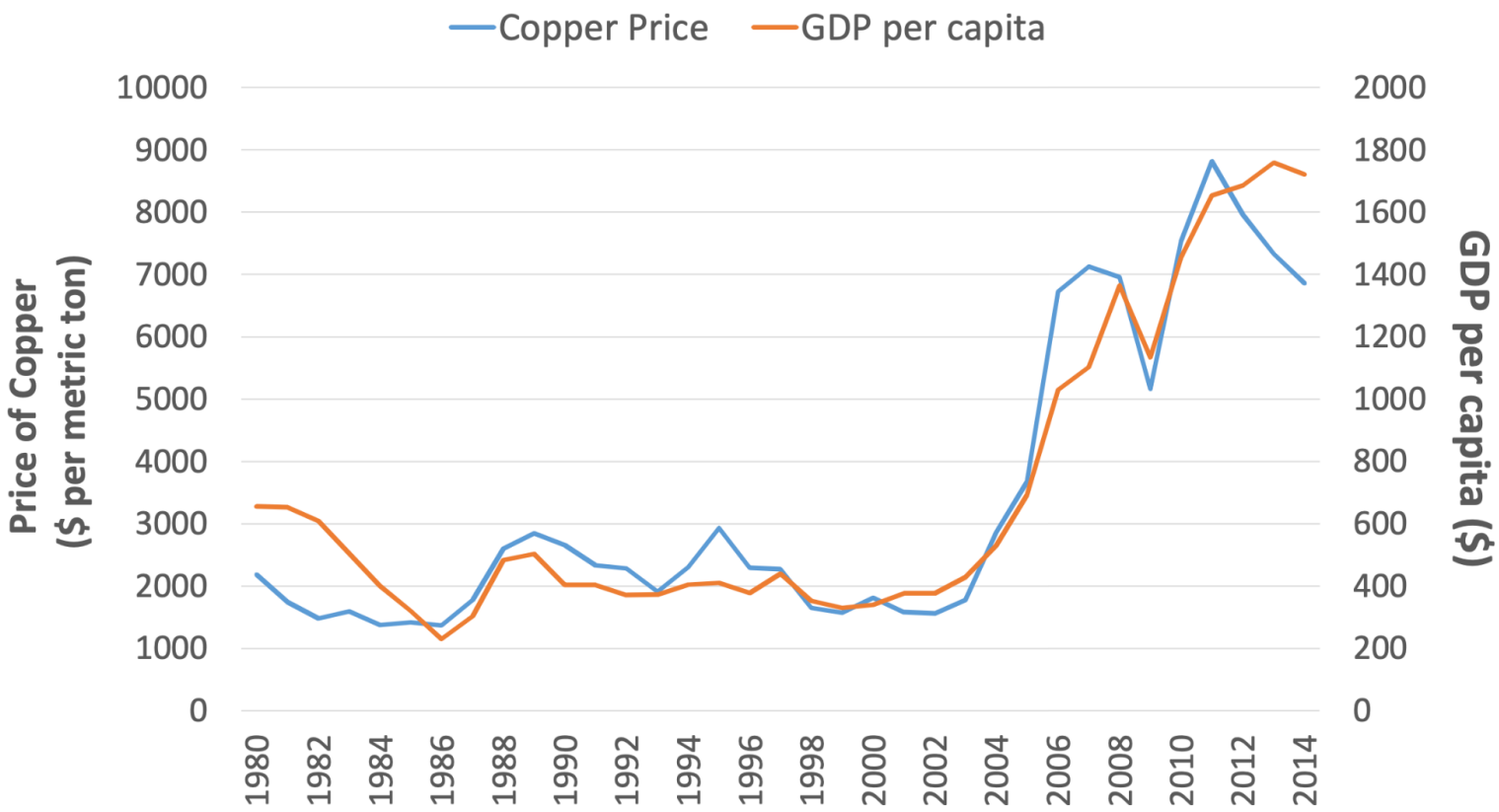


Source: World Bank.

Example: Zambia and copper



Example: Zambia and copper



Source: GDP data from World Bank. Copper price data from IMF.

Example: Zambia and copper

Zambia's copper belt reels as price falls

Declining copper prices a large factor in Zambia's economic tumble

Low copper prices cripple Zambian towns

China's Slowdown Tarnishes Economic Boom in Copper-Rich Zambia

Limits of colonialism → poverty?

Limits of colonialism → poverty?

- Many wealthy places were colonies; many fairly poor places were not colonized
  - The U.S. and the Democratic Republic of the Congo were both colonies
  - North Korea was never colonized



Jamestown Colony



Leopold II
of Belgium





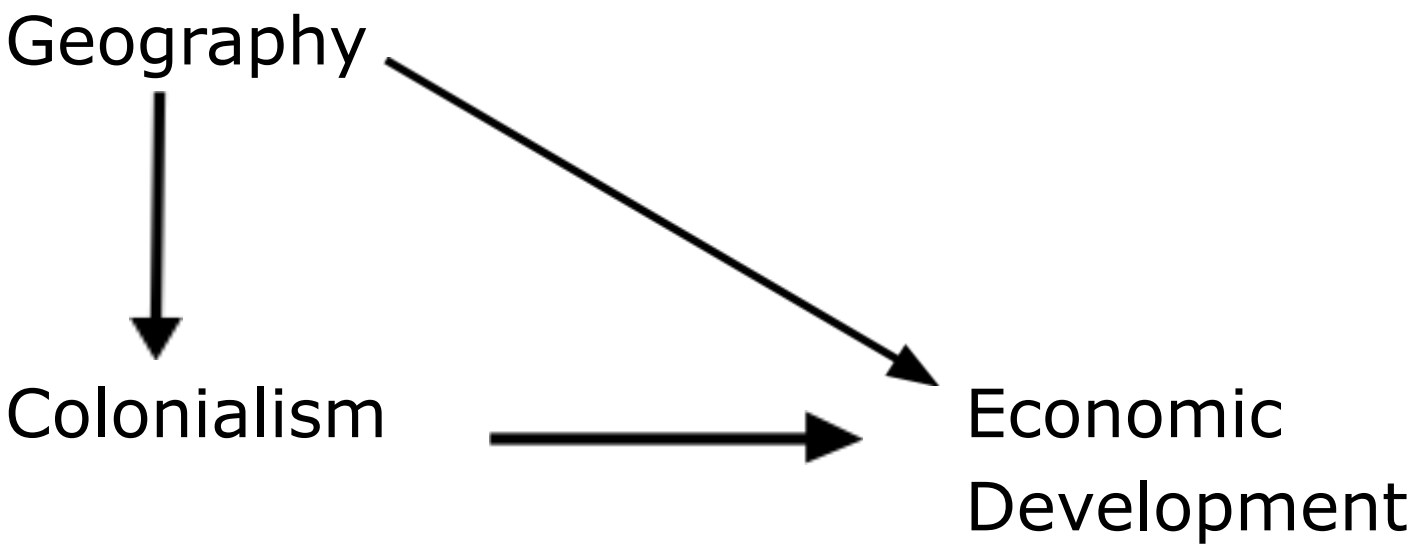
Virginia Assembly



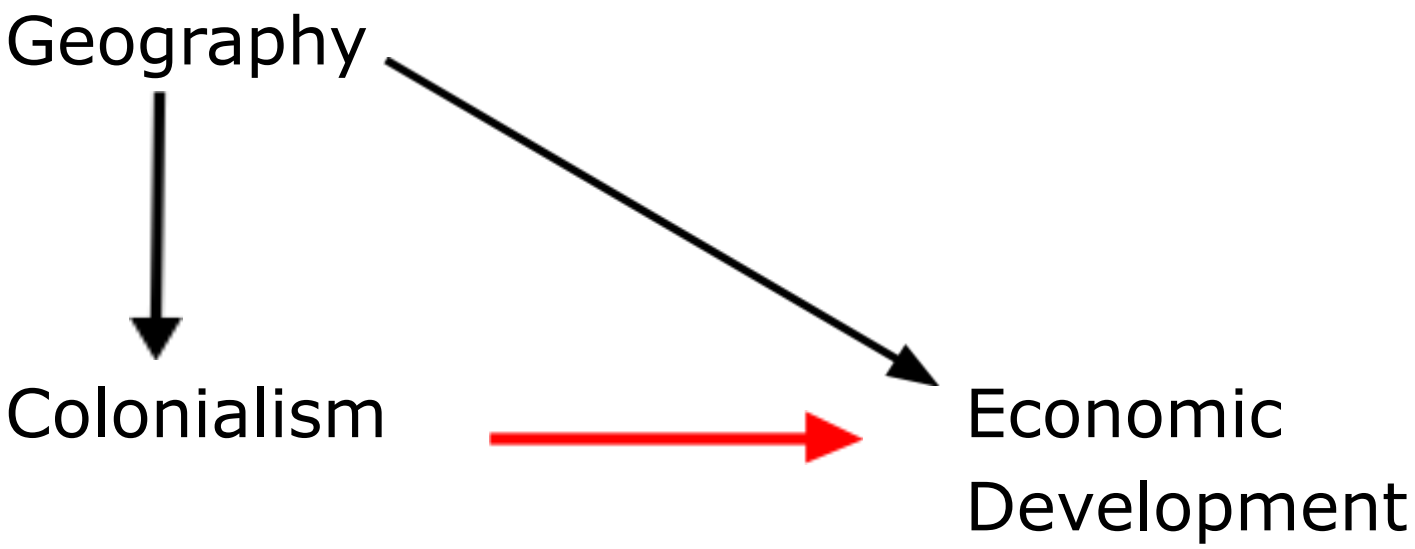
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- Colonialism was shaped by geography…

Geography and colonialism are related…



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The causal effect of colonialism on economic development is confounded by the fact that geography causes part of who colonized where AND economic development.

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  - North Korea was never colonized
- Colonialism was shaped by geography…
- Countries can stimulate domestic production to try to escape dependence
  - ISI = Import substitution industrialization

Brazil makes airplanes since 1969

