

ECON 4774: Economic Reform in Developing Countries

Article Summaries—II

1. **Easterly, W., M. Kremer, L. Pritchett, and L. Summers.** (1993). “Good Policy or Good Luck? Country Growth Performance and Temporary Shocks,” *Journal of Monetary Economics*, 32.

The authors test empirically whether policies or macro-economic shocks account for the growth performance of countries. The main insight is that policies and institutions are fairly stable within countries. Thus, if shocks are relatively unimportant, countries’ economic performances should also be fairly constant over time. They show that this is not the case; “luck” (good and bad) does play an important role in explaining countries’ economic performance in the long run.

2. **Hall, R. and C. I. Jones.** (1999). “Why do Some Countries Produce So Much More Output per Worker than Others?,” *Quarterly Journal of Economics*, 114. The authors focus on and account for the levels of income rather than the growth of it across the countries. They construct a social infrastructure index that measures the quality of countries’ institutions and socio-economic environment and find that most of the differences in per-capita income levels across the countries can be explained by variations in this index. Getting the institutions “right” seems to be very important. But is social infrastructure exogenous?

3. **Jones, C. I.** (1997). “On the Evolution of the World Income Distribution,” *Journal of Economic Perspectives*, 11.

On the face of it, there seems to be divergence in the economic growth rates of countries in the last four decades. Jones documents that this is primarily due to the “club convergence” that has took place during that time. That is, while a number of middle-income countries have caught up with the rich ones, many poor countries have failed to catch up or fallen further behind. Moreover, a population-weighted examination of regional growth rates suggests a higher rate of convergence (due mostly, if not purely, to the impact of India and China with their 2.2 billion population). Using a Markov switching matrix (in which each cell shows the probability of moving from one country income classification to another in the long run), Jones then shows that, if we extrapolate from the historical cross-country growth record, we should see a lot more convergence across countries in the future.

4. **Pritchett, L.** (1997). "Divergence, Big Time," *Journal of Economic Perspectives*, 11.

The title summarizes it all! We need to better understand why and the way forward may be to acknowledge that each country may be different (i.e. what works best in one setting may not be suitable in another one).

5. **Temple, J.** (1999). "The New Growth Evidence," *Journal of Economic Literature*.

This is a survey article that covers the state of the research on economic growth/development. Poor countries are not catching up to the rich ones. WID has become more polarized. Countries converge to their own steady states but with lots of uncertainty. This suggests that both DMPK/DMPH and differences in technology adoption play a role in convergence. Solow model factors help to explain growth but many others not in the model also have been found to play roles (i.e. finance, inequality, R&D-driven technological change). Big government? Openness to Trade? Democracy? Jury is still out...

6. **Easterlin, R.** (2000). "Worldwide Standard of Living since 1800," *Journal of Economic Perspectives*.

Comparing countries at a point in time or a country over time just using GDP per capita could be very misleading. There are many other dimensions of well-being that would need to be considered as part of the process of economic development. Easterlin, using survey data from six countries and the early-1960s, identifies these other dimensions. He shows how they have evolved over time in these six countries. One of the main findings is that each of the countries exhibited varying patterns with respect to how each of the different dimensions of the standard of living changed with economic growth/progress.

7. **Haussman, R., L. Pritchett, and D. Rodrik.** (2005). "Growth Accelerations," *Journal of Economic Growth*, forthcoming.

The authors carry out a cross-country examination of economic growth and find that, since the 1950s, there have been many instances of growth accelerations. That is, countries were able to grow much faster than they had been able to when their performance is measured over eight-year time intervals. The main problem is that there exist only a few countries that were able to sustain this pick up in economic growth over the decade following the eight-year spurt. The authors argue that positive effects on a country's terms of trade and liberalizations in its financial sector impacted the likelihood that it experienced a growth spurt that was *not sustained* and that economic reforms and positive political reforms (meaning reforms towards more democracy) produced growth spurts that were *sustained*.

8. **Young, A.** (1995). "The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Experience," *Quarterly Journal of Economics*, 110.

Four countries in Far East Asia, South Korea, Taiwan, Hong Kong and Singapore, have grown very rapidly between the 1960s and the 1990s and moved from the ranks of the middle-income countries to those of industrialized ones. What explains their rare development experience? Was it mostly factor accumulation, like the Solow model would predict, or did total factor productivity growth play a role in it? This is a very important question to ask because if it were mostly the former, these countries would catch up with the richer, Western countries but would not overtake them. In contrast, if it were the latter, these countries could not only catch up but also overtake richer countries. Young shows that it was factor accumulation that accounts for most of the growth experience of these countries.

9. **Hsieh, C.** (2002). "What Explains the Industrial Revolution in East Asia: Evidence from the Factor Markets," *American Economic Review*, 92.

Not so fast Alwyn Young. We can calculate the total factor productivity growth in South Korea, Taiwan, Hong Kong and Singapore using the national income accounts. This represents the dual of the primal accounting that Young has done in articles 6 and 7. What we find is that TFP growth did account for more than what Young originally calculated. This suggests that factor accumulation alone was not the only reason these countries grew relatively fast between the 1960s and 1990s.

10. **Young, A.** (1993). "Invention and Bounded Learning-By-Doing," *Journal of Political Economy*, 101.

Productivity growth is an important aspect of development, at least among the rich and industrialized countries. What is the source of productivity growth? Technological change. However, the history of economic development suggests that when there are new inventions, they initially lower productivity and efficiency instead of raising them. Young shows how the combination of learning-by-doing and inventions can account for the patterns of productivity change and technological progress during the process of economic development. His main insight is that both inventions and learning-by-doing are essential elements of growth. Learning-by-doing helps workers to become more productive over time, but, for any given technology, there is an upper bound to how much learning-by-doing can improve productivity. When the major benefits of learning-by-doing are exhausted inventing new technologies may become more beneficial—despite the fact that they may make workers less productive early on.

11. **Bils, M. and P. Klenow.** (2000). "Does Schooling Cause Growth or the Other Way Around?," *American Economic Review*, 90.

In short, yes it does but it is mostly the other way around. By dissecting the channels through which schooling interacts with growth, Bils and Klenow are able to show that the impact of schooling on economic growth is much smaller

than the estimates found in the literature. The reason for the discrepancy, of course, is due to the fact that most if not all of the previous empirical work had ignored the impact of growth on schooling.

12. Hanushek, E. and D. Kimko. (2000). "Schooling, Labor Force Quality and the Growth of Nations," *American Economic Review*, 90.

Hanushek and Kimko start with the notion that measuring human capital with years of schooling or enrollment rates only can be misleading (which is what most existing empirical studies on human capital and economic growth had done up to that point). They propose to control for the quality of schooling with the international standardized test scores in mathematics and science. They find that the quality of schooling exerts a strong and positive influence on growth rates across countries over time.

13. Pritchett, L. (2001). "Where Has All the Education Gone? *World Bank Economic Review*.

In many countries around the world, there were significant increases in educational attainment. Yet, there is very little improvement in the standards of living subsequently. Pritchett argues that there are three potential explanations for this: (a) education is used in unproductive ways (for example, to seek rents via corruption, bureaucracy, etc.) when the infrastructure does not support skilled workers to be allocated to productive jobs; (b) demand for skilled workers may not exist; and (c) quality of education might be low in countries where educational attainment rose.