

AAE/IS 374 - 2009

- **Introduction to the Course**

Welcome

- Teaching team: Profs. Brad Barham & John Morrow, and TA Dylan Fitz
- *Distribution in the Global Economy as seen through the stories of Nthabiseng, Pieter and Sven (NPS)*

Who we are:

- Brad, John and Dylan backgrounds
- Student Backgrounds –interview a fellow student you don't know (groups OK):
 - Most striking thing about NPS story.
 - Find out what global economy issues interest your partner.
 - Major?
 - Econ background?
 - » 1-2 courses
 - » Intermediate theory (301, etc.)

Consider two South African children born on the same day in 2000. Nthabiseng is black, born to a poor family in a rural area in the Eastern Cape province, about 700 kilometers from Cape Town. Her mother had no formal schooling. Pieter is white, born to a wealthy family in Cape Town. His mother completed a college education at the nearby prestigious Stellenbosch University.

On the day of their birth, Nthabiseng and Pieter could hardly be held responsible for their family circumstances: their race, their parents' income and education, their urban or rural location, or indeed their sex. Yet statistics suggest that those predetermined background variables will make a major difference for the lives they lead. Nthabiseng has a 7.2 percent chance of dying in the first year of her life, more than twice Pieter's 3 percent. Pieter can look forward to 68 years of life, Nthabiseng to 50. Pieter can expect to

complete 12 years of formal schooling, Nthabiseng less than 1 year.¹ Nthabiseng is likely to be considerably poorer than Pieter throughout her life.² Growing up, she is less likely to have access to clean water and sanitation, or to good schools. So the opportunities these two children face to reach their full human potential are vastly different from the outset, through no fault of their own.

As striking as the differences in life chances are between Pieter and Nthabiseng in South Africa, they are dwarfed by the disparities between average South Africans and citizens of more developed countries. Consider the cards dealt to Sven—born on that same day to an average Swedish household. His chances of dying in the first year of life are very small (0.3 percent) and he can expect to live to the age of 80, 12 years longer than Pieter, and 30 years more than Nthabiseng. He is likely to complete 11.4 years of schooling—5 years more than the average South African. These differences

Basic goals for today:

- Take a first look at evolution of standards of living and distribution of income in the world;
- Motivate focus on trade, technology, inequality, and institutions as key themes of course.
- Key skills or goals you might have
- Main challenges you can expect.
- Go over the syllabus and class logistics so that you know what the course will demand of you.

****Reaction Paper due next Thursday, September 10****

****Sections start Friday 9/11—review basics of functions, graphs, etc.****

I. Introduction to Course

- A. *Who we are*
- B. *Basic goals for the course*
- C. *Overview of Today's Lecture*

II. Standards of Living in the World since 1800

- A. *Elements of living standards & their measurement*
- B. *Economic Growth*
- C. *Health & fertility*
- D. *Education*

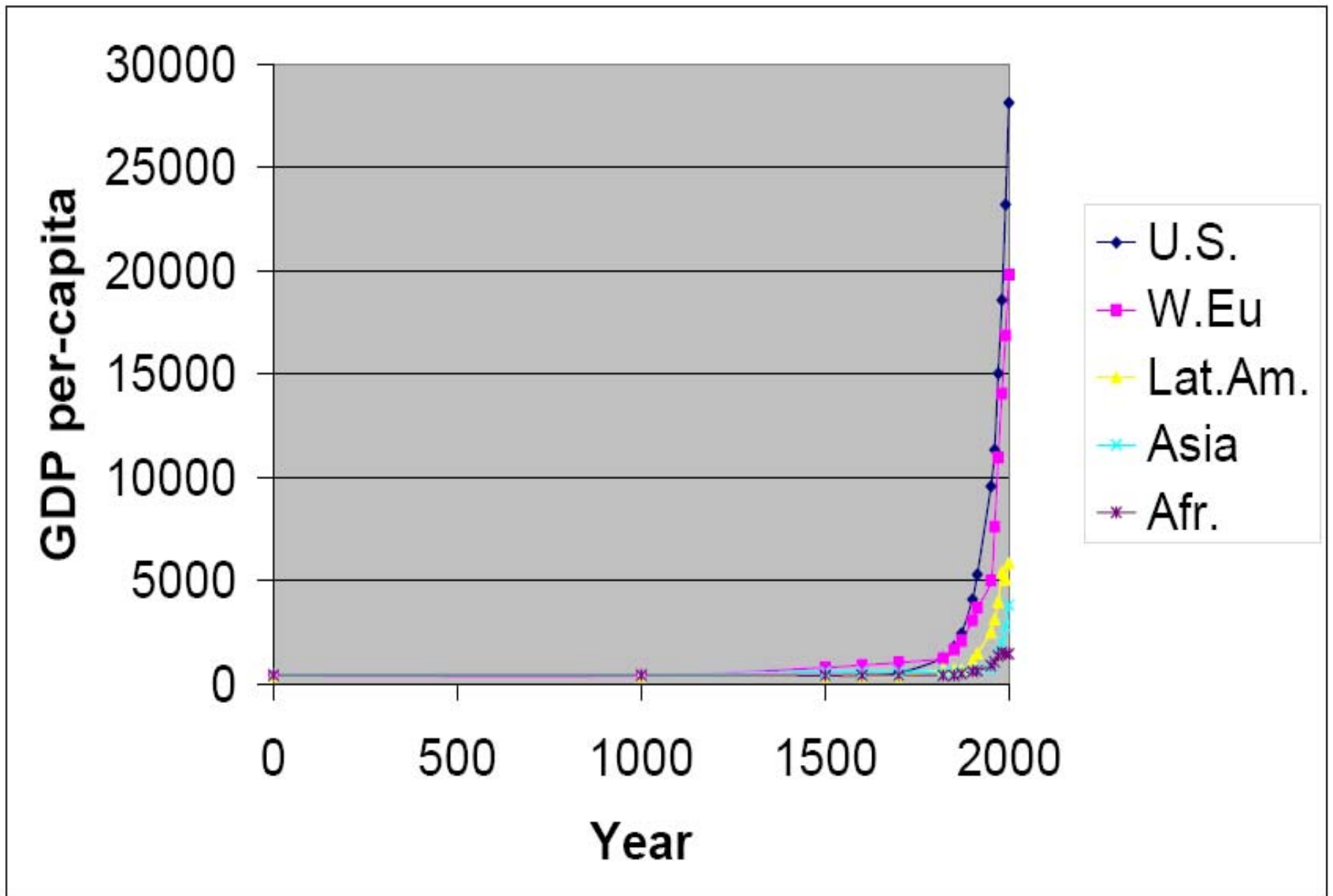
III. Distribution of Living Standards in the Contemporary World

- A. *Variation within & between Countries*
- B. *Poverty in the World*
- C. *How did we get here; Where are we going? Globalization and contemporary changes in the World Distribution of Well-being*

IV. The Syllabus in Detail

Development

- Key Indicators
 - Monetary/Material (often measured by per-capita GDP)
 - Health
 - Education
 - Human Rights/Democracy
- Measurement emphasis over time
 - GDP/capita at first
 - Human Development Index (UN)
 - Multiple angles related to people being able to express their capabilities (see Amartya Sen for more)
 - We focus mostly on growth early-on.
 - Keep us honest if you think we stray from “development”.



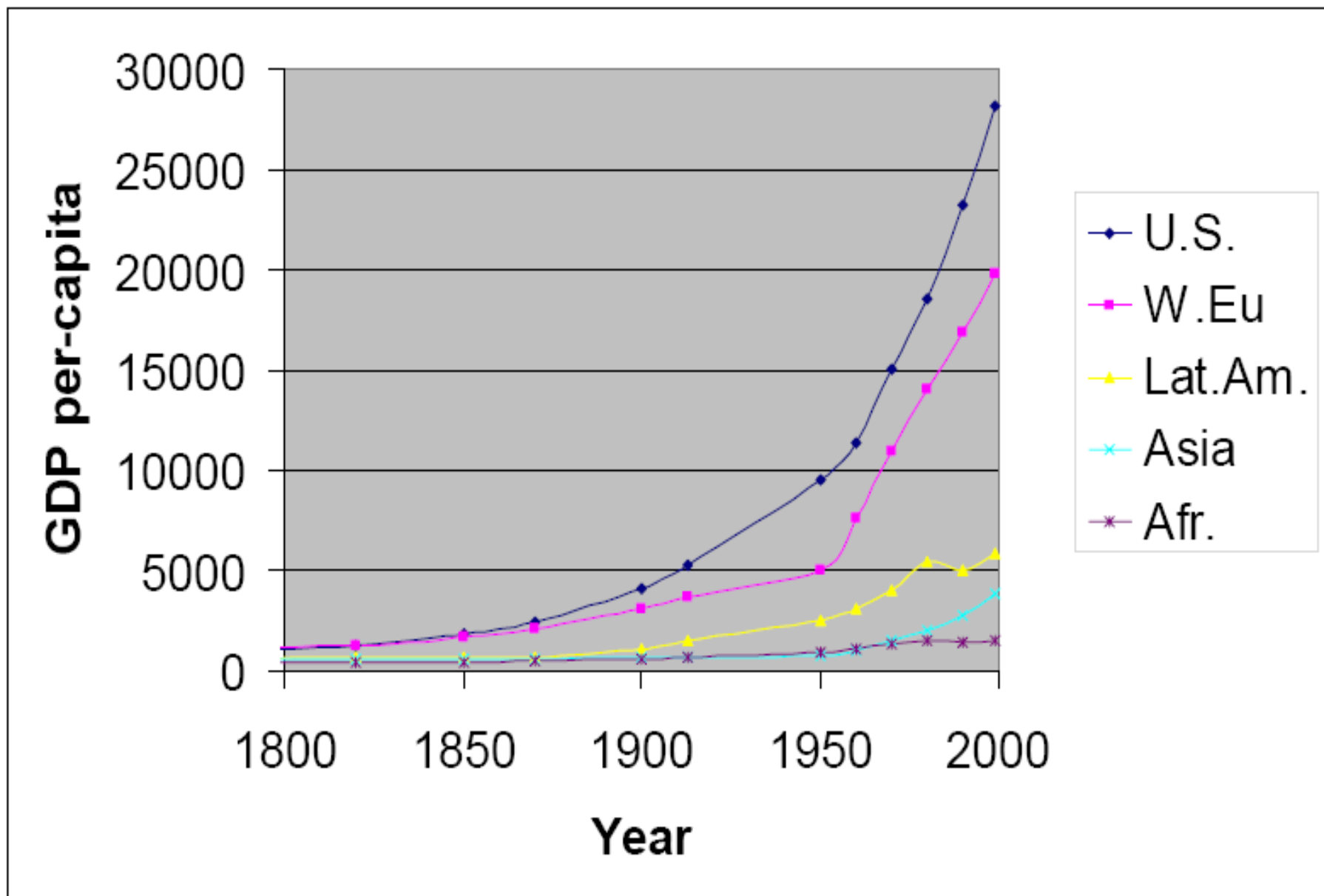


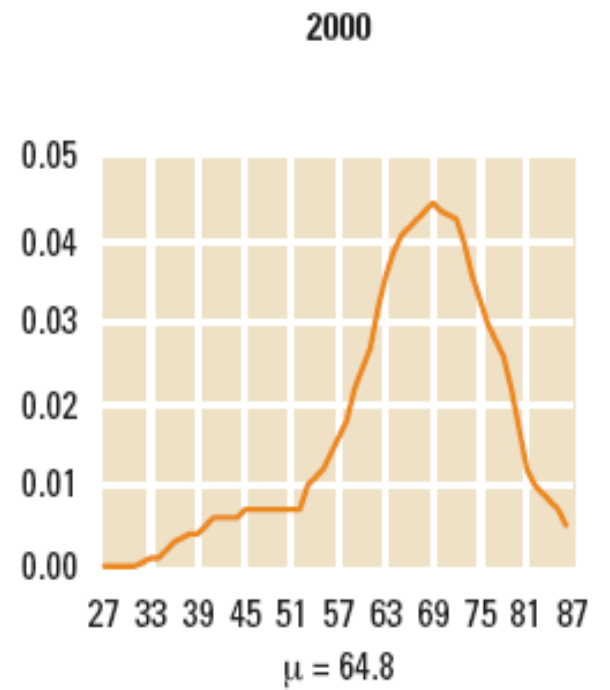
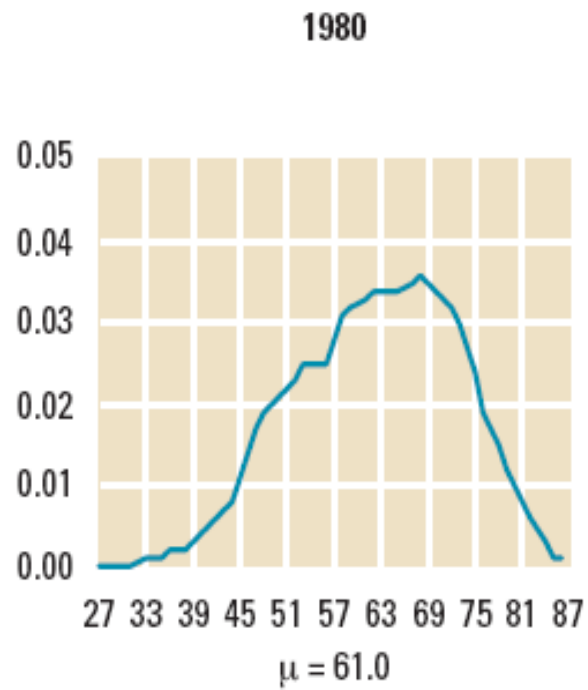
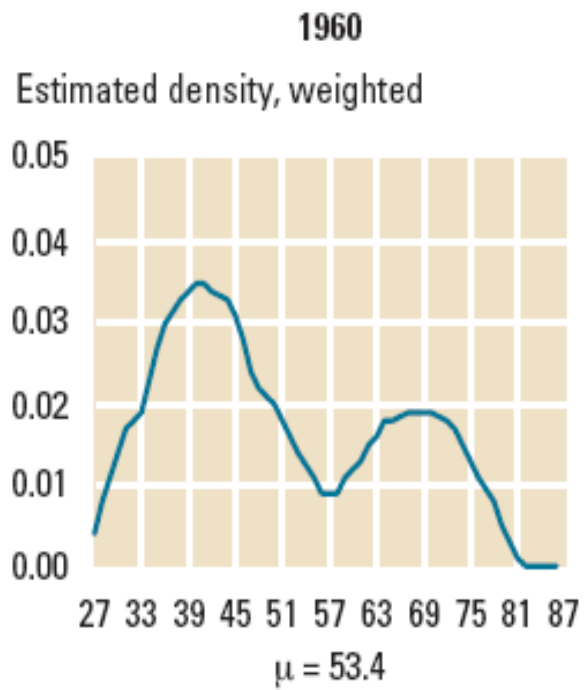
Table 2

Growth Rate of Real GDP Per Capita in the Half Century Before and After Its Turning Point in Six Countries

	<i>Approximate Turning Point</i>	<i>GDP Per Capita at Turning Point (1990 Dollars)</i>	<i>Growth Rate in Half Century</i>	
			<i>Before Turning Point</i>	<i>After Turning Point</i>
			<i>(Percent Per Year)</i>	
United Kingdom	1820	1,756	0.4	1.3
France	1820	1,218	0.3	0.9
Sweden	1850	1,289	0.2 ^a	1.3
Japan	1870	741	0.1	1.7
Brazil	1900	737	0.1	1.7
India	1945	663	0.1	1.7

*Table 5***Years of Life Expectancy at Birth, Major Areas of the World, 1950–55 and 1990–95**

	<i>1950–55</i>	<i>1990–95</i>	<i>Change</i>
More developed areas	66.6	74.1	7.5
Less developed areas	40.9	61.9	21.0
China	40.8	68.4	27.6
India	38.7	60.3	21.6
Rest of Asia	39.4	62.0	22.6
Latin America	51.4	68.1	16.7
Northern Africa	41.8	62.2	20.4
Sub-Saharan Africa	35.3	47.0	11.7



Source: Schady (2005).

Table 8

Adult Literacy Rate, Major Areas of the World, 1950 and 1995

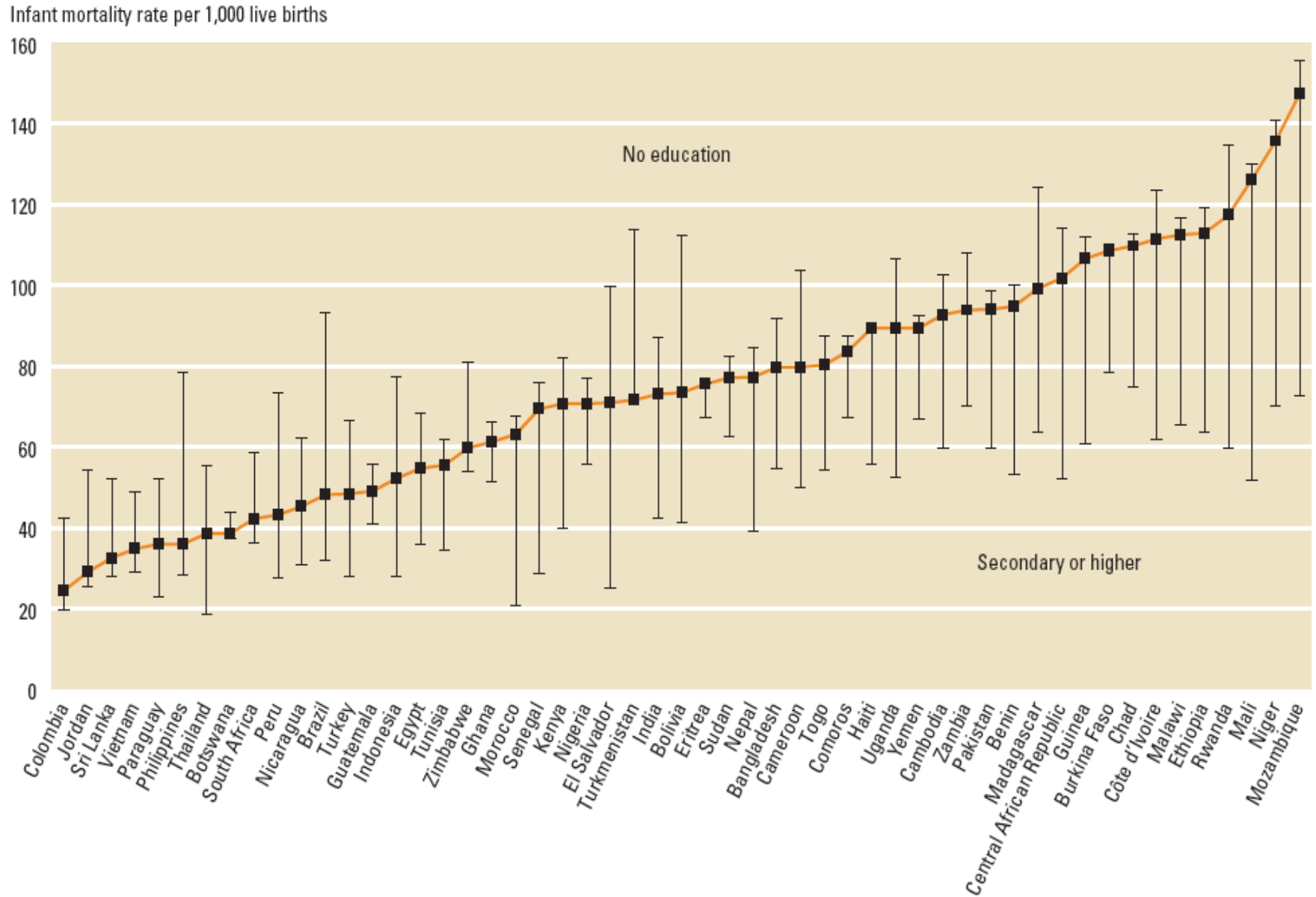
(percent)

	(1)	(2)	(3)
<i>More developed areas</i>	<i>1950</i>	<i>1995</i>	<i>Change, (2)–(1)</i> <i>(percentage points)</i>
More developed areas	93	98	5
Less developed areas	40	70	30
China	48	82	34
India	19	52	33
Rest of Asia	24	72	48
Latin America	57	86	29
Northern Africa	12	53	41
Sub-Saharan Africa	17	56	39

Distribution of Living Standards

- Seen indicators of average living standards over time.
- Now make sense of poverty and inequality.
- Two major dimensions:
 - *Across countries* (South Africa and Sweden)
 - *Within countries* (rich vs poor, black vs white)
- Quick peek at dynamics

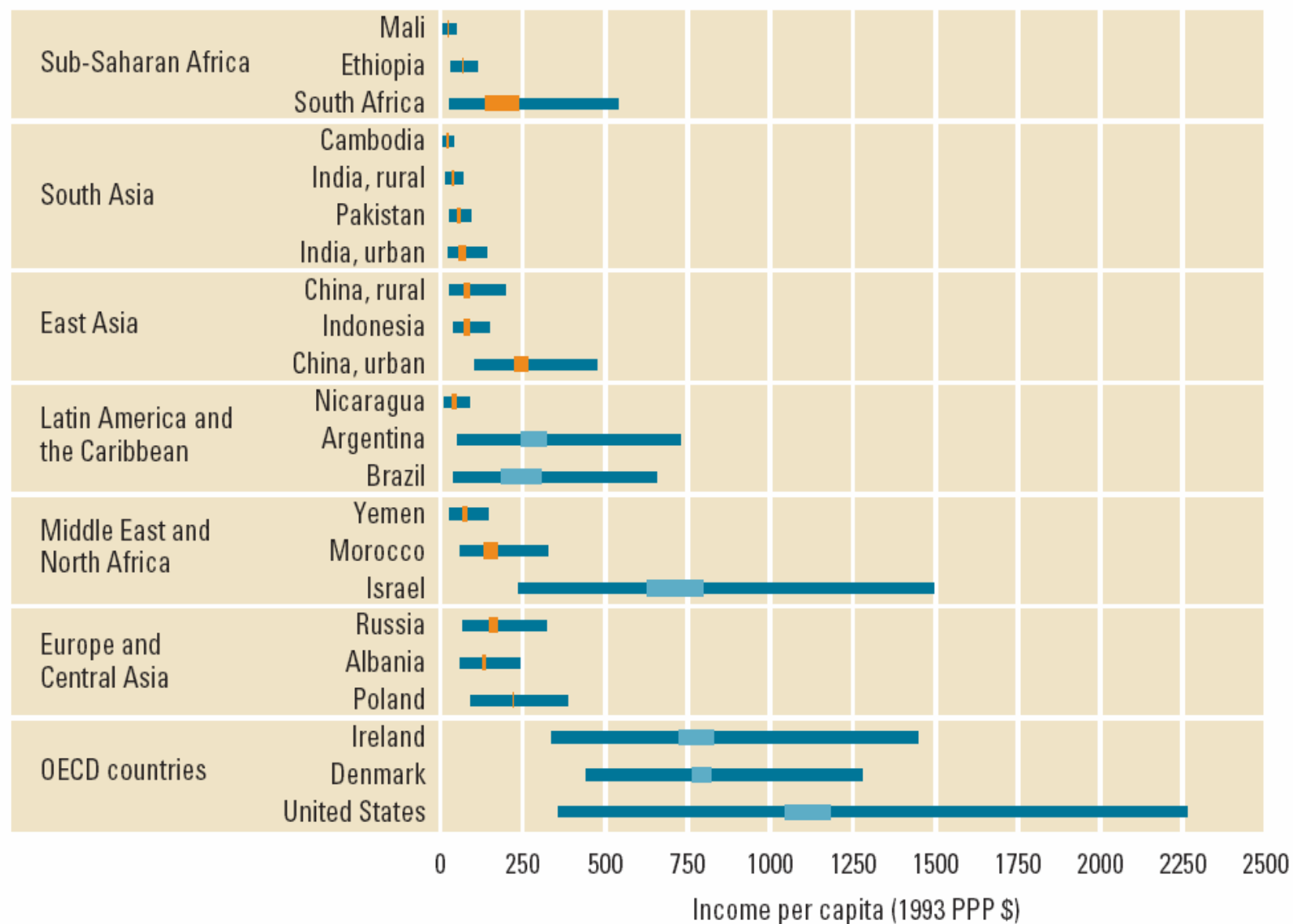
Figure 2.1 Infant mortality varies across countries but also by mother's education within countries



Source: Authors' calculations from Demographic Health Survey (DHS) data.

Note: The continuous dark line represents the mean infant mortality rate in each country, while the endpoints of the whiskers indicate the infant mortality rates by different levels of mother's education.

Figure 3.6 Incomes range broadly across countries and individuals



Source: Authors' calculations.

Note: Years range from 1997 to 2002 as measured by adjusted (1993 PPP \$) monthly per capita income (blue box) or consumption (orange box). The lowest point of each line represents the income level at the tenth percentile, followed by that at the median, the mean (the two edges of each box), and the ninetieth percentile (top of each line).

Distribution of People and Income

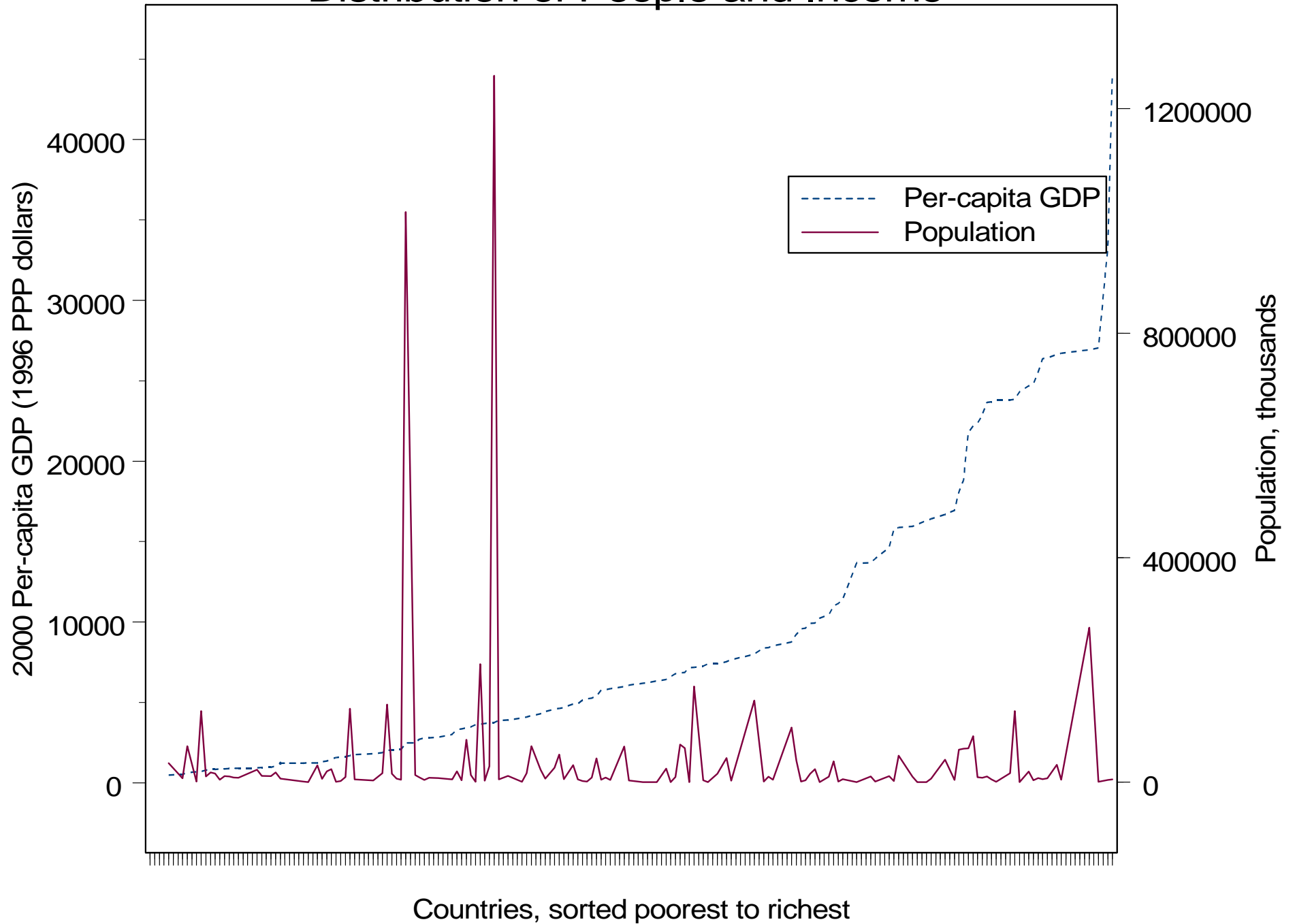
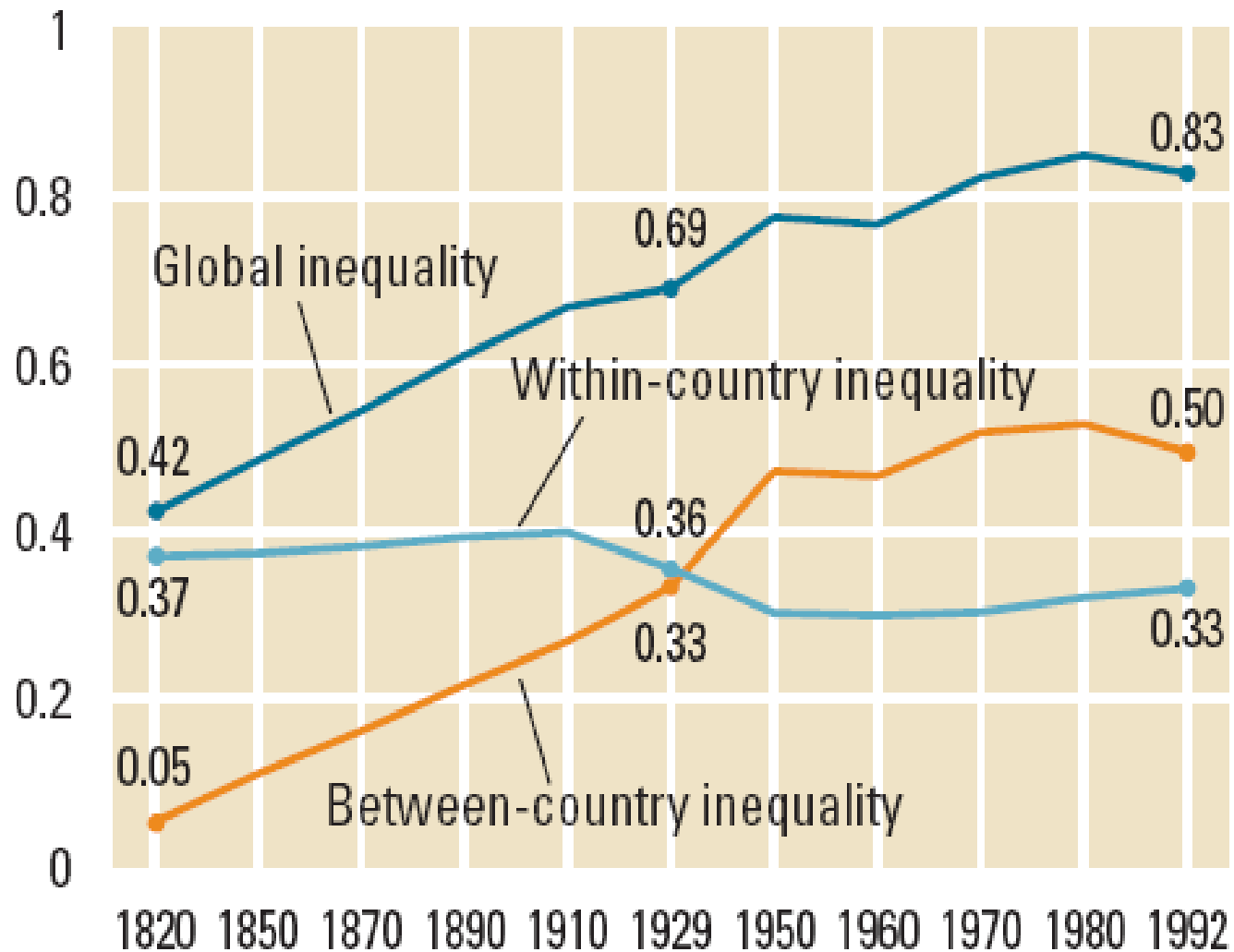


Figure 3.10 Inequality between countries became much more important over the long run

Mean log deviation



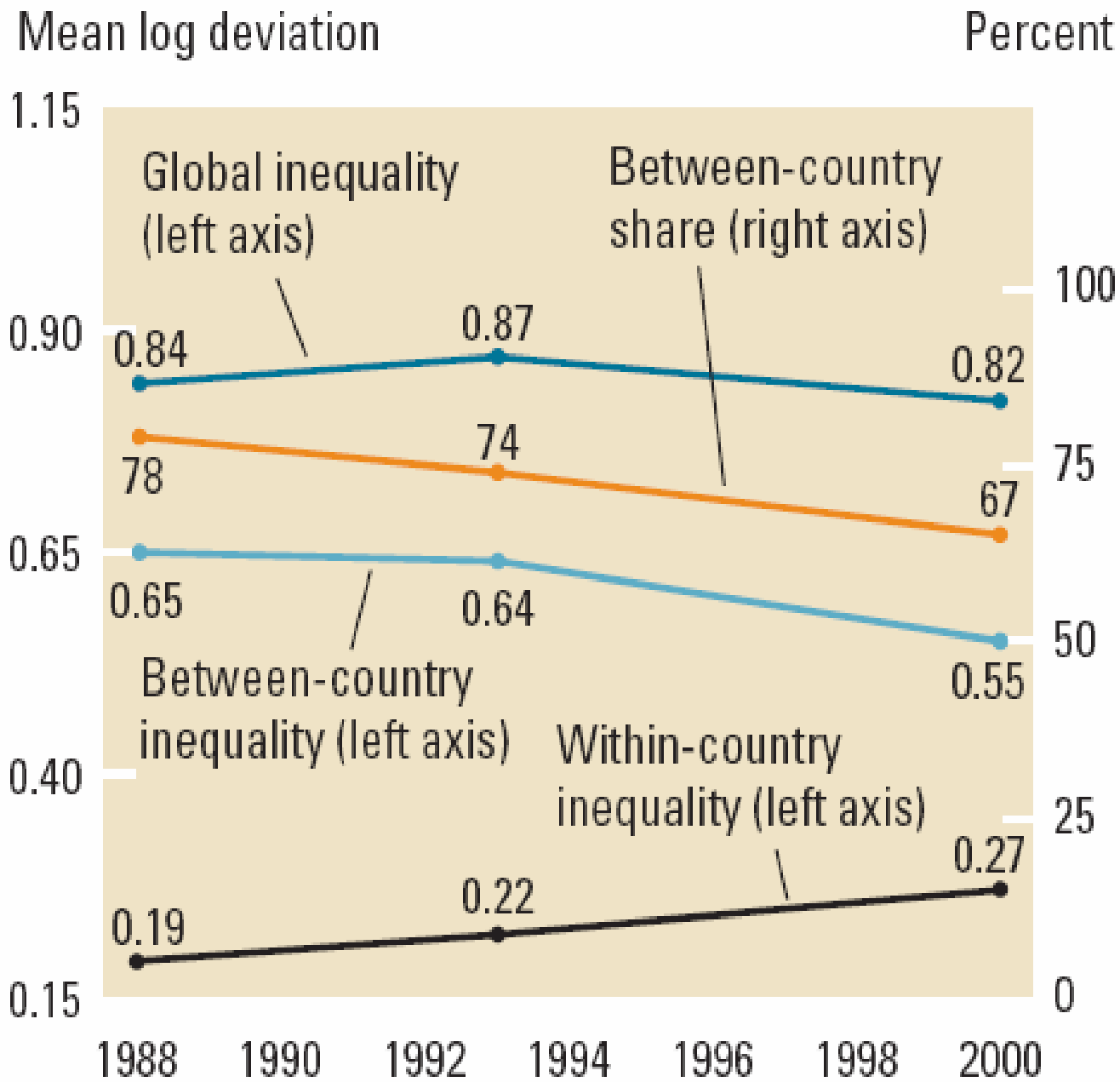


Table 2. Population living below \$1.08 per day at 1993 PPP

Region	Headcount index (% living in households that consume less than the poverty line)					Number of poor (millions)				
	1987	1990	1993	1996	1998 (prelim.)	1987	1990	1993	1996	1998 (prelim.)
East Asia (excluding China)	26.60 23.94	27.58 18.51	25.24 15.87	14.93 9.97	15.32 11.26	417.53 114.14	452.45 91.98	431.91 83.52	265.13 55.08	278.32 65.15
Eastern Europe & Central Asia	0.24	1.56	3.95	5.12	5.14	1.07	7.14	18.26	23.82	23.98
Latin America & Caribbean	15.33	16.80	15.31	15.63	15.57	63.66	73.76	70.79	75.99	78.16
Middle East & North Africa	4.30	2.39	1.93	1.83	1.95	9.31	5.66	4.95	5.01	5.55
South Asia	44.94	44.01	42.39	42.26	39.99	474.41	495.11	505.08	531.65	522.00
Sub-Saharan Africa	46.61	47.67	49.68	48.53	46.30	217.22	242.31	273.29	288.97	290.87
Total (excluding China)	28.31 28.51	28.95 28.05	28.15 27.72	24.53 27.01	23.96 26.18	1183.19 879.81	1276.41 915.94	1304.29 955.89	1190.58 980.53	1198.88 985.71

Table 3. Population living below \$2.15 per day at 1993 PPP

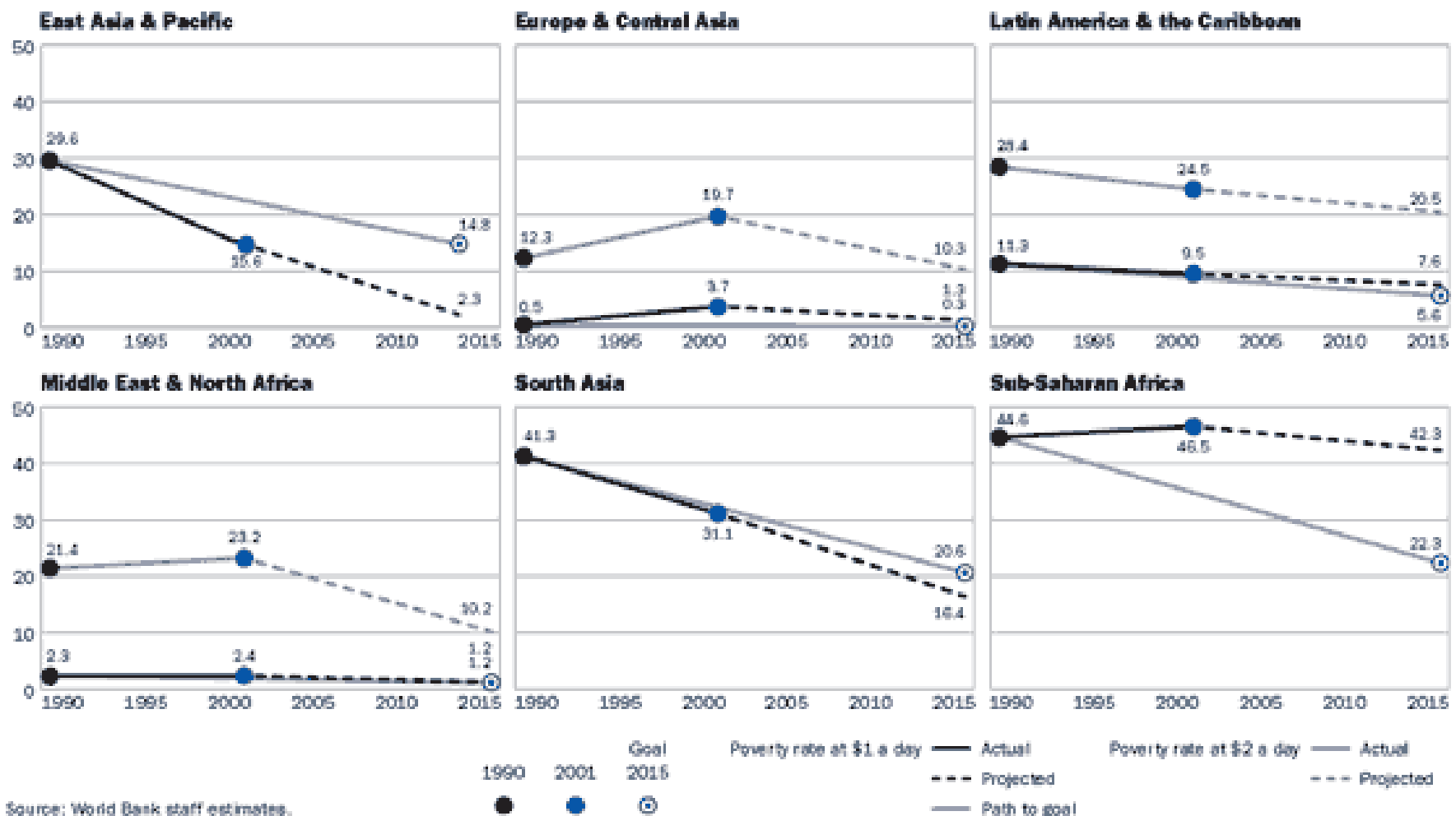
Region	Headcount Index (%)					Number of poor (millions)				
	1987	1990	1993	1996	1998 (prelim.)	1987	1990	1993	1996	1998 (prelim.)
East Asia (excluding China)	67.04 62.90	66.11 57.33	60.52 51.61	48.63 42.78	49.10 44.96	1052.32 299.92	1084.44 284.92	1035.85 271.62	863.86 236.30	892.23 260.11
Eastern Europe & Central Asia	3.59	9.55	17.17	19.91	19.92	16.35	43.83	79.38	92.67	92.87
Latin America & Caribbean	35.54	38.09	35.07	37.00	36.44	147.56	167.21	162.20	179.82	182.86
Middle East & North Africa	30.03	24.76	24.12	22.16	21.88	65.09	58.70	61.75	60.58	62.37
South Asia	86.30	86.76	85.41	85.02	83.96	911.04	975.95	1017.83	1069.48	1095.89
Sub-Saharan Africa	76.52	76.37	77.76	76.87	75.57	356.64	388.24	427.76	457.67	474.81
Total (excluding China)	61.00 58.22	61.66 58.77	60.10 58.59	56.12 57.75	55.98 57.60	2549.01 1796.61	2718.37 1918.84	2784.77 2020.54	2724.09 2096.53	2801.03 2168.91

Globalization and Income Distribution: the Big Debate

- Seen some broad trends. How did we get there and where are we going?
- Large expansion of trade, foreign investment, financial market integration, migration, and agreements/frameworks influencing them.
- The economies of the world are increasingly interlinked. “Globalization” has been increasingly used to describe these trends.
- Obviously complex and controversial. Tuesday we will explore more of your thoughts.

Most regions are on a path to cut extreme poverty by half by 2015

Share of people living on less than \$1 (or \$2) a day (%)



Source: World Bank staff estimates.

