

Why isn't the whole world developed?

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Meeting 29

Econ N171 Economic Development

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Today

- ▶ Chapter 17 of Gregory Clark's "Why isn't the whole world developed?"
- ▶ Increasing differences in income due to low output per worker, not due to institutional differences

Is Labor the Problem in Poor Countries?

- ▶ Could it be a problem of management, and not labor?
- ▶ Consensus after WW2 is a generalized failure by management to use inputs – including labor – efficiently
 - They use more units of labor and more units of capital than in developed economies
 - (Draw a diagram with per unit isoquants for US and India)
 - They substitute labor for capital since labor is cheap

International Textile Industry

- ▶ Resolution of the two competing visions in the case of the textile industry favors the explanation that it was poor labor quality that is responsible for low efficiency
- ▶ Management chooses to use more labor but that is because labor is less productive
- ▶ Evidence that textile mills in India were overstaffed

Labor Problems at the Root

- ▶ “The evidence presented above strongly supports the idea that labor problems were at the root of India’s failure to industrialize under British rule in 1857–1947 and subsequently under independent Indian governments. The socially induced lethargy that afflicted Indian labor may have extended throughout the society”

Why the Great Divergence?

- ▶ Differences in societies have been there but why the increasing differences in incomes?
- ▶ Explanations:
 - One: During the Malthusian era, labor effectiveness had no effect on output
 - Two: Modern medicine has substantially reduced the subsistence wage (and increased life expectancy)
 - Three: New production techniques (less tolerant of error) have raised the wage premium for skilled labor

Why the difference in labor quality?

- ▶ No satisfactory explanation
- ▶ What can they be?