Executive Summary

The economic growth experiences of developing countries have been markedly different since the end of the Second World War. Some countries, such as Taiwan and South Korea, have managed to increase their real per capita incomes by a factor of five or six from the mid 1950s. Other countries, notably sub-Saharan African countries, have actually seen a decline in their real per capita incomes. What are the factors that are responsible for the divergent growth experiences of these countries?

Traditional growth theory predicts that per capita real income growth rates between countries should converge over time, that investment is positively related to income growth rates, and that population growth has a negative impact on per capita income growth. Empirical evidence supports these predictions, but still leaves a great deal of the variation in growth rates unexplained. Traditional growth theory explains this variation as a result of exogenous technological change which is not easily specified, but which increases growth rates through better utilization of capital and labour in the production process.

The new growth theory attempts to overcome this inadequacy of the traditional growth model. Namely, it offers a theoretical explanation for differences in the rates of technical change between countries. While these approaches provide a firm theoretical foundation to advance hypotheses about the causes of divergent growth rates, they do not have a firm empirical basis and therefore remain untestable. These theories have, however, prompted economists to think again about the factors behind economic growth, exploring elements in addition to those in the traditional growth theory.

Human capital is one variable that tends to affect growth rates. Various proxies for human capital have proved to be highly significant in empirical studies. In addition, the type of human capital developed is also important. If society offers rewards to those engaged in rent-seeking activities, for example, then talented people will enter these occupations and growth prospects will be diminished.

Empirical evidence does not offer unqualified support for an export-expansion policy, as higher exports do not always lead to higher growth rates. More important may be export diversification and the movement away from an economy dependent mainly on commodity exports.