3. Diverging Growth Patterns in the Developing World

There are no hard and fast rules concerning growth in developing countries. While the growth figures and business-cycle pattern for the industrialized world have converged to a large degree in the last two decades, the experience of the developing world has been considerably different. The average for real GDP increases worldwide from the period 1976-86 was 3.3 per cent per annum. For the 1986-96 period, the figure is estimated to be 3.2 per cent.[5] But when the numbers are disaggregated by region, several important trends can be discerned. For industrialized countries, the averages for the two decades were 2.7 and 2.6 per cent respectively. Developing countries in Asia showed outstanding real growth figures of 6.7 and 7.7 per cent per annum for the decades in question, while African countries exhibited 2.1 and 2.4 per cent and Latin America and the Caribbean 3.2 and 2.7 per cent by comparison.

GDP growth figures by themselves, however, can misrepresent the true extent of economic growth. GDP per capita more realistically measures the benefits of economic growth, since high population grow rates can whittle away even impressive growth figures while low GDP growth figures may not be problematic if population growth is small. Even considering real GDP per capita, our story does not change appreciably. The difference in the developing world is starkly underlined by Asia's real annual increase of 5.3 per cent per capita in the last twenty years, or a doubling of per capita income roughly every thirteen years. By contrast, Western Hemisphere developing countries averaged a modest 1.2 per cent and Africa a -0.7 per cent decline per annum over the last twenty years, indicating how serious the situation is on that continent. Development theorists have noted these discrepancies in growth patterns, even more obvious given the similarities in per capita income levels forty years ago, and have sought to explain them using several different theoretical constructs.

4. Neoclassical Growth Theory

Neoclassical growth theory was first set out in Solow and Swan's work[6] in 1956. Its strength and weakness is its simplicity. Steady-state economic growth depends on technological progress and population growth, both of which are

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[5] International Monetary Fund, World Economic Outlook, October 1995.

[6] Robert Solow, "A Contribution to the Theory of Economic Growth", Quarterly Journal of Economics, Vol. 70 (1), February 1956.