

"If we can learn about government policy options that have even small effects on the long-term growth rate, then we can contribute much more to improvements in standards of living than has been provided by the entire history of macroeconomic analysis. Economic growth is the part of macroeconomics that really matters."<sup>1</sup>

"The basic test of development success must be economic growth, because if poverty is to be attacked successfully, the economy as a whole must grow."<sup>2</sup>

## 2. Introduction

The stunning divergence of growth patterns between countries over the last forty years is perhaps the single most important factor in determining the differences between the haves and the have-nots of the 1990s. The stories are apocryphal, but do indeed have a core element of truth. After the Second World War, per capita incomes in Asia and Africa were not dissimilar; even, for example, those in South Korea were comparable to Ghana. Yet the experience and relative prosperity of those countries and many others have changed dramatically since that period. The reason for this is economic growth.

Even small changes in the yearly growth rate of GDP have extremely large cumulative effects on per capita income over the time period being discussed. For developing countries, the growth experience has been even more extreme than in the industrialized world. Economists have tried to explain these differing growth experiences using a variety of models, usually based on a simple neoclassical production function. In such a model, the creation of capital is vital for economic growth, and subsequently investment is a central factor. For much of the last thirty years, large sums of assistance have been transferred from the industrialized world to various countries in the developing world, through both official bilateral and multilateral channels and through non-official sources. Yet today, many countries remain dependent on foreign aid, trapped in low-growth, poverty-stricken states. By contrast, other nations have experienced a high-growth period, where

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<sup>1</sup> Robert J. Barro, "Recent Research on Economic Growth", NBER Reporter, Summer 1994, p.7.

<sup>2</sup> William Ryrie, First World, Third World, St. Martin's Press, London, 1995, p.17.