**Econ 333**  
**Lecture 8 (Summary)**

**Growth versus Income Distribution:** As emphasized earlier, till the early 1970s, development was considered to be synonymous with growth. And there was also a debate if growth or attainment of a more even distribution of income should get priority. In today's class we begin with a discussion on this.

**The Traditional Argument:** The basic argument is that "Highly unequal distribution of income is necessary for generating adequate savings to finance a rapid economic growth". (Read the section of the book pp.164-65 which discusses this argument in detail.)

**Counter Argument:** There are basically 4 grounds on which the traditional argument can be refuted. These are,-

1. **Capitalist Surplus Argument:** As has been argued when we criticized the Lewis model, since capitalists surplus in a lot of cases, is not reinvested and instead spent in activities which do not benefit the economy, policies should not be biased in favor of these surpluses at the expense of the poor.

2. **Productivity Argument:** As has been emphasized in our discussion of "Circular Cumulative Causation" and the "Vicious Circle of Poverty", when the income distribution goes against the poor, they simply may not have adequate means to remain productive or to enhance their productivity. As a result, the production possibility frontier may even shrink inward if the policies result in too unequal distribution of income.

3. **Demand Stimulant Argument:** The rich usually spend their income on imported material. It is the poor who spends on domestically produced commodities. So a income distribution which would favor the poor would also result in an increase in the demand for domestic product, indirectly leading to more domestic production and employment generation.

4. **Psychological Incentive Argument:** A more equitable distribution of income also act as a psychological boost which enhances the moral of the masses and leads to productivity increase.

**GNP as a biased index of National Development and Welfare:** We used specific example to show how this is so and why when GNP as such, is considered as a measure of welfare, can lead to policies which would lead to an income distribution which would favor the rich. We also discussed the importance of using an *Equal Weight Index* and *Poverty Weighted Index* as a measure of welfare. (The examples we discussed in class are all taken from the book, so please spend some time studying them, pp. 166-168)

**Policy Options:** Under policy option we discussed four major policies which would ensure a more equitable distribution of income. These are,-

1. Altering the Functional Distribution of Income through Policies Designed to Change Relative Factor Prices.
4. Direct Transfers.

(Read pp. 172-175.)

**Case Study: The Economy of India & South Africa**
I highlighted several important things about the economy of India and South Africa. You should follow the basic rules, which I mentioned in class, when studying any of the case studies. Geographic location of the country, colonial history, any feature which is unique to the country, the ethnic composition of its population, political orientation, key resources, major export items, etc., are some of the things that you would try to remember for exam purposes.

**Chapter 6: Population Growth and Economic Development: Causes, Consequences and Controversies:**

According to 1995 estimate population of the world was 5.8 billion people. U.N projections say that by the end of this century, this number will be 6.3 billion, by the year 2025 it will be 6.3 billion and by the end of 2050 it will be 8.5 billion. About 5/6 (83%) of this population will live in the developing world. The question, therefore, is if the world's resources would be enough to support this huge population. We would also try to seek answers to even deeper questions such as if rapid population growth by itself a problem or if it is a manifestation of more fundamental problems of underdevelopment and the unequal utilization of global resources between rich and poor nations.

We looked and analyzed the history of population growth and looked at Table 6.1 and 6.2. We also looked at Fig. 6.1 and 6.2.

We discussed the difference between **Crude Birth Rate**, **Fertility Rate** and **Total Fertility Rate**. We looked at Table 6.4 and Fig. 6.4 and discussed the problems of **Youth Dependency Ratio** and the **Hidden Momentum of Population Growth**.

We also discussed the **Demographic Transition** with the help of Fig 6.5 and 6.6, and the **Malthusian Population Trap** and its criticisms with the help of Fig. 6.7. (The book has a good discussion on these. Make sure to read pp. 200 to 206).