



# Modern Economic Growth: Rate, Structure and Spread

Simon Kuznets



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## Simon Smith Kuznets

- 1901 Born in Russia
- 1922 Emigration to the United States
- 1926 Ph.D. in Economics at Columbia University
- 1930 Publishment of Dissertation „Secular Movements in Production and Prices“
- 1927-1960 National Bureau of Economic Research: work on national income and capital formation
- Late 1940 Committee on Economic Growth of the Social Science Research Council
- 1948 Chairman of the Committee on Economic Growth: Study of long term growth
- 1971 Nobel Prize in Economics „For his empirically founded interpretation of economic growth which has led to new and depened insight into the economic and social structure and process of development.

→ Produced 31 books and 200 papers. Growth and distribution appear prominently in his studies.



„Modern Economic Growth (MEG) is the term applied by Simon Kuznets to describe the economic epoch of the last 250 years, distinguished by the pervasive application of science-based technology to production.“

### Characteristics:

- High rates of growth of per capita product
- High rates of growth of population
- High rates of growth of factor productivity
- High rate of structural transformation:
  - Shift away from agriculture
  - Increase in scale of productive units
  - Shifts in organization and the status of labor
  - Shifts in the structure of consumption
- Extended application of science to problems of economic production
- Politics



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## Attitudes to initiate and sustain growth:

- Technological change
- Social epochal innovations
- Secularism = material attainment in this world
- Egalitarianism = denial of inborn differences among human beings
- Nationalism = capacity of the state to provide stability and a historically community of feeling with an elite dedicated to modernization



## Example

- Shift from agriculture to industry and services
- Replacement in many industries of small-scale by large-scale productive units
- Shifts from personal enterprises to impersonal organizations of economic firms
- Geographic distribution of the population
- Manual work and unskilled labor replaced by office work and middle class society of employees
- Blue-collar to white-collar occupations



## Book Layout

- Chapter 2: population, total and per capita output, inputs of labor and capital, output-input relationship
- Chapter 3: allocation of resources
- Chapter 4: distribution of income by factor shares and size
- Chapter 5: consumption (national product by end use)
- Chapter 6: external relations
- Chapter 7 & 8: less developed countries



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### 13 Statements as Kuznets' conclusion

1. High sustained rates of growth in per capita product have been accompanied by high rates of population growth. The rates of growth of aggregate product have therefore had to be enormous by pre-modern standards - 20 to 50 per cent per decade.
2. Increases in inputs per head are too small to explain more than a small part of product growth. „modern economic growth is distinguished by the fact that the rate of rise in per capita product was due primarily to improvements in quality, not quantity of inputs...“
3. Growth in efficiency has characterized all major sectors of the developed economies. Although it was greatest relatively in industry, it was also clearly great in agriculture and in services (the latter being less clear because of difficulty in measuring product)
4. Several types of intersectoral output shifts have been characteristic: „decline in the share of agriculture and related industries; rises in the shares of manufacturing and public utilities; shifts within manufacturing from less to more durable products, and to a limited extent from consumer to producer goods; increases in the share of some service groups (personal, professional, government) and declines in the share of the others (domestic service).“
5. Intersectoral shifts reflect both demand and technological effects. They also imply shifts in comparative costs which have broadened and increased opportunities for international trade.



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6. Modern growth has been accompanied by a shift in the distribution pattern (of output) among economic enterprises classified by size. The larger have gained at the expense of the smaller units, reflecting scale economies in part, but also „high interindustry, interstatus and interoccupational mobility of the labor force.
7. Differential sectoral growth rates required very extensive geographic mobility, particularly between the rural and urban areas.
8. Income distributions patterns of change are less pronounced. There is no clear shift pattern in factor shares and only a „moderate“ tendency toward less inequality in personal income distribution.
9. Capital formation as a proportion of outcome encroached only moderately on the consumption share; „the proportion of growth in per capita input per capita to growth in product per capita remained low.“
10. „...modern economic growth spread sequentially from its pioneer beginnings in eighteenth-century England to various follower countries...“
11. International flows of goods and resources „were at high rates from the second quarter of the nineteenth century to World War I
12. „...up to 1913 a law of an ‚increasing‘ rather than a ‚declining‘ share of foreign trade in aggregate product seemed to operate.“
13. The spread of economic growth constituted „a necessary if not sufficient condition for world wars and for the increasing strain of backwardness which forced the powerful central governments to take a more active part in the initiation of economic modernization.



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## Critical Review

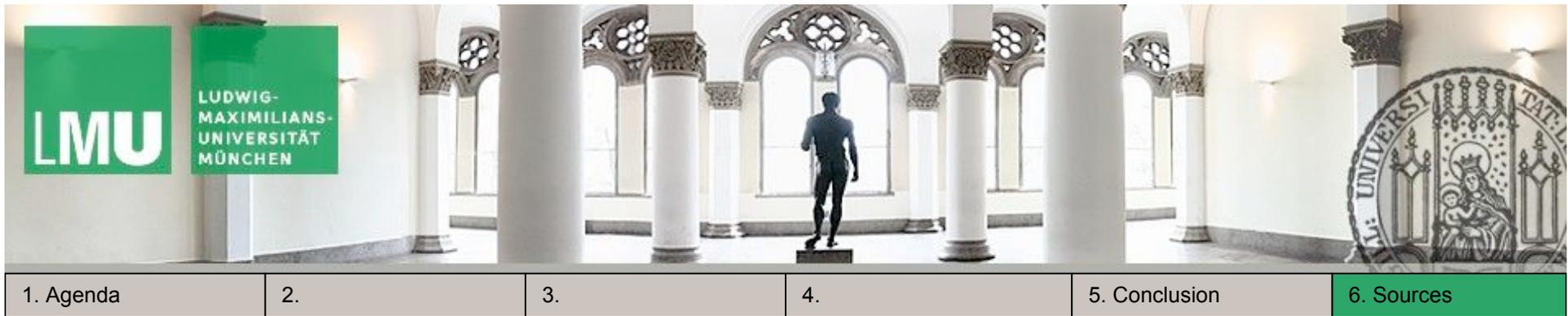
- small sample
- Highly individual and selective view of the process of growth.
- +/- A book for speculation
- + Well documented inventory of knowledge
- + Statistics carefully probed and reduced to comparative consistency
- + Essential concepts and theoretical arguments clearly defined
- + Impressively careful and remarkably free of typographical, stylistic and arithmetical errors.



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## Conclusion

- Economic Growth described as a process of controlled revolution
- Concise and comprehensive overview of the nature of long-term MEG: new
- Inferring historical trends from cross-sectional data
- Trends over time are dominated by changes in technology, institutions and tastes
- International differences in growth of population and product
- Trends in industrial structure
- International differences in income levels and in economic and social structure
- Evaluate the significance of past trends for current prospects and policies



## Sources

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