

What do we need to do to reach the MDG?

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Many things have gotten better

90-10 Gap

	1960	1980	2000
Infant Mortality	121	96	80
Fertility Rate	5		2
Income/worker	20	18	23

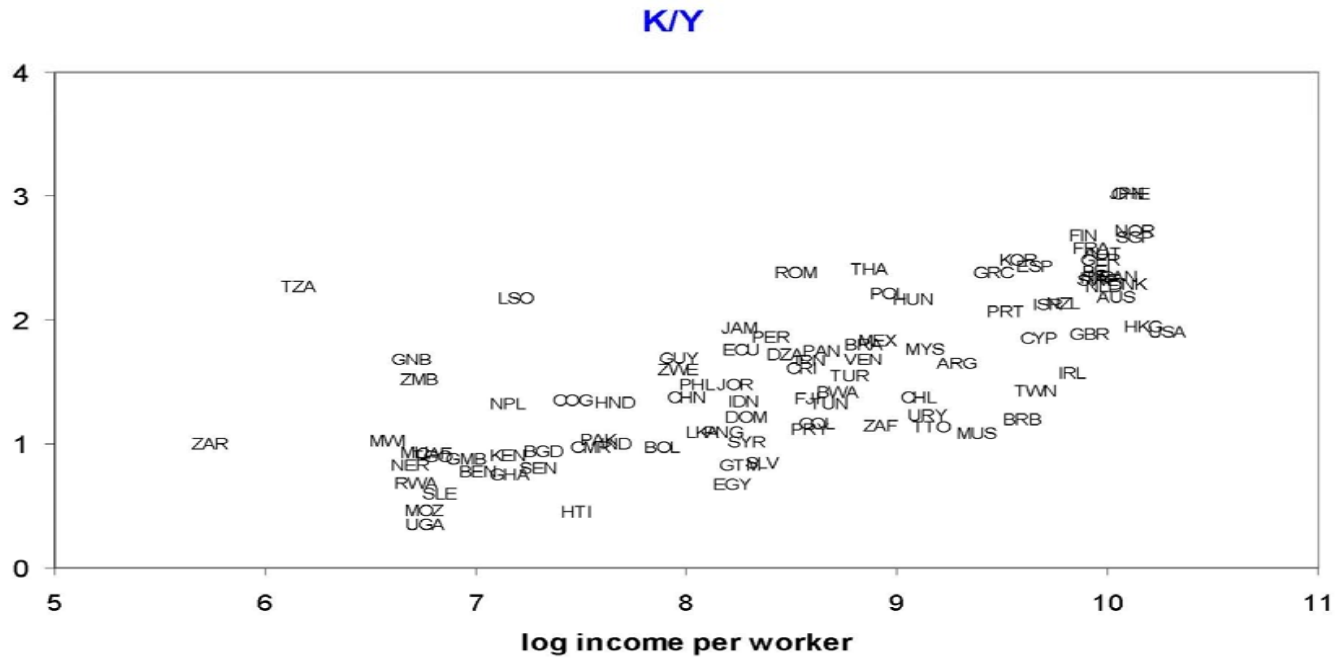
Y/L depends on resources (physical capital, human capital) and efficiency/technology.

- Is it lack of savings?

- Is it lack of human capital?

- Is it low efficiency and technology?

Is it low capital?



Source: Penn World Table (97 countries in 1996)

Why do poor countries have little capital?

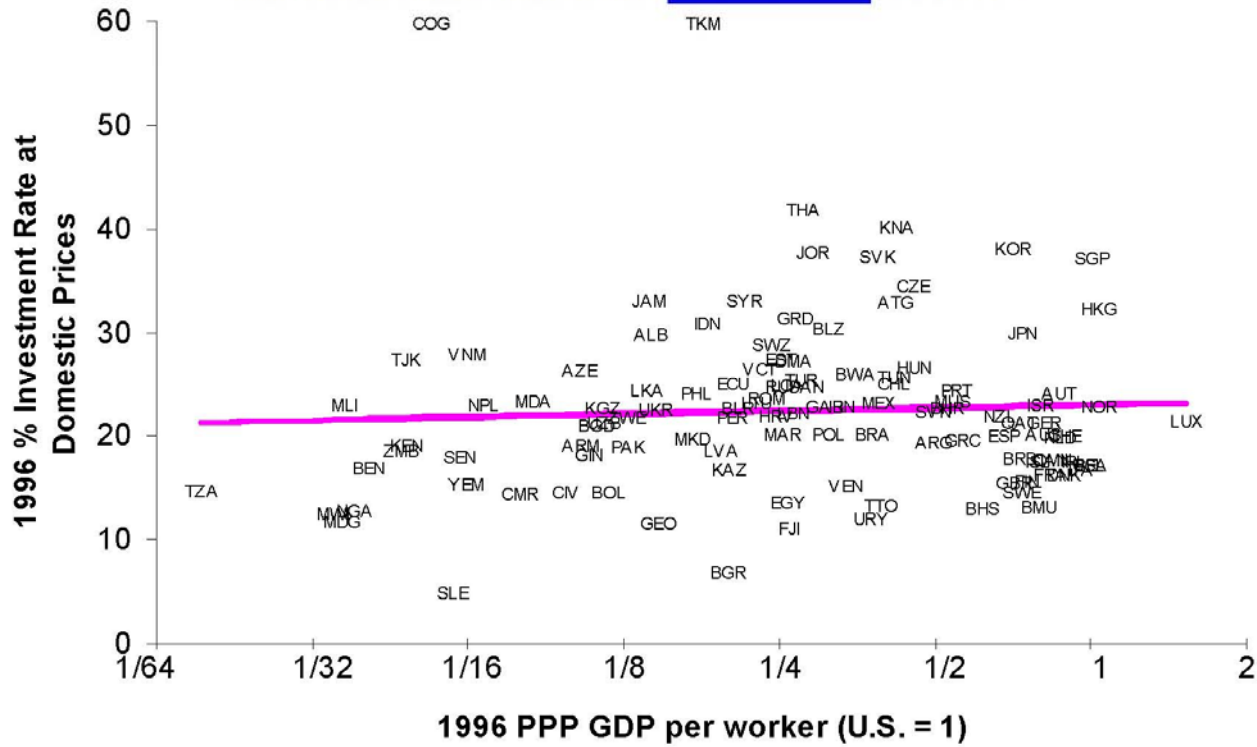
$$\frac{I}{Y} = \frac{\text{Investment Spending} / P_I}{GDP / P_{GDP}}$$

$$\frac{I}{Y} = \frac{\text{Investment Spending}}{GDP} \cdot \frac{P_{GDP}}{P_I}$$

Lack of resources

=> Investment Spending/GDP is low

Investment Rates at Domestic Prices



Source: Penn World Table

Low capital is not due to resource constraints

It is instead due to

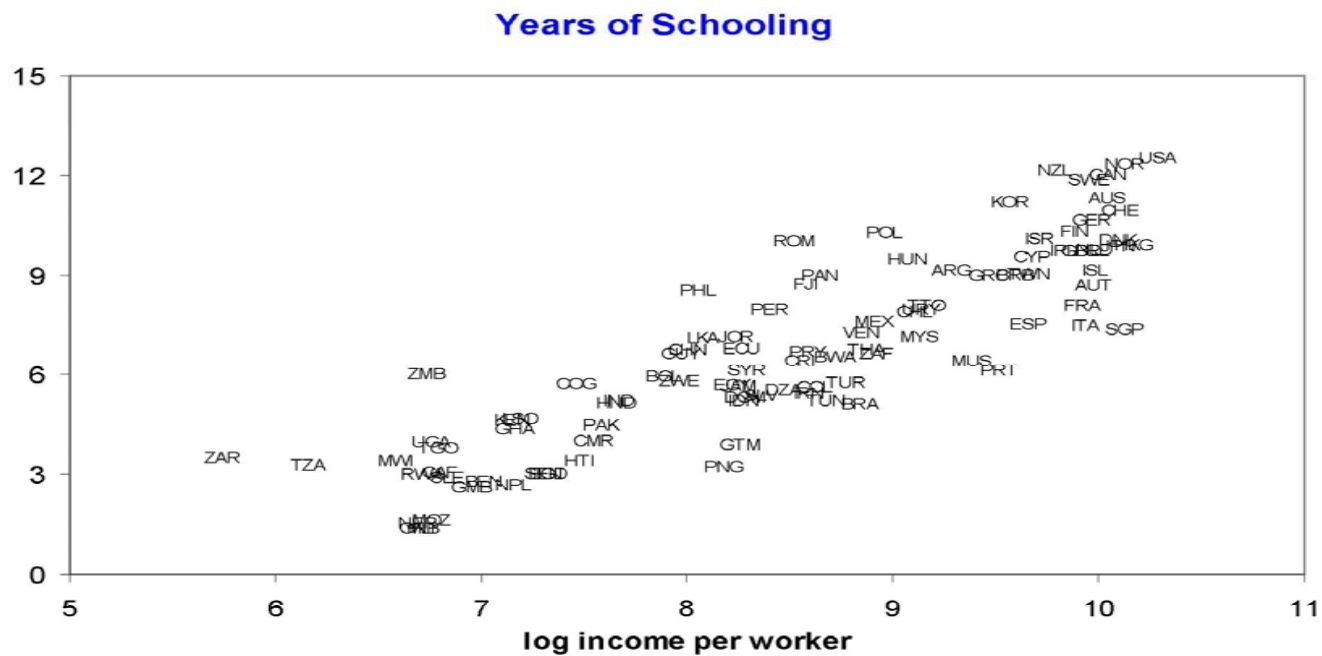
Expensive capital goods

Cheap consumption goods

Low productivity in making tradables

Resource transfers from rich to poor countries does not address the source of the problem.

Is it low schooling?



Source: Penn World Table and Barro-Lee (97 countries in 1996)

School Spending in Mexico

	1991	2004
<i>Public Spending/Gov. Exp.</i>	15	26
$\frac{\textit{Spending / Student}}{\textit{GDP per Capita}}$	5	15

Secondary School Enrollment Rate

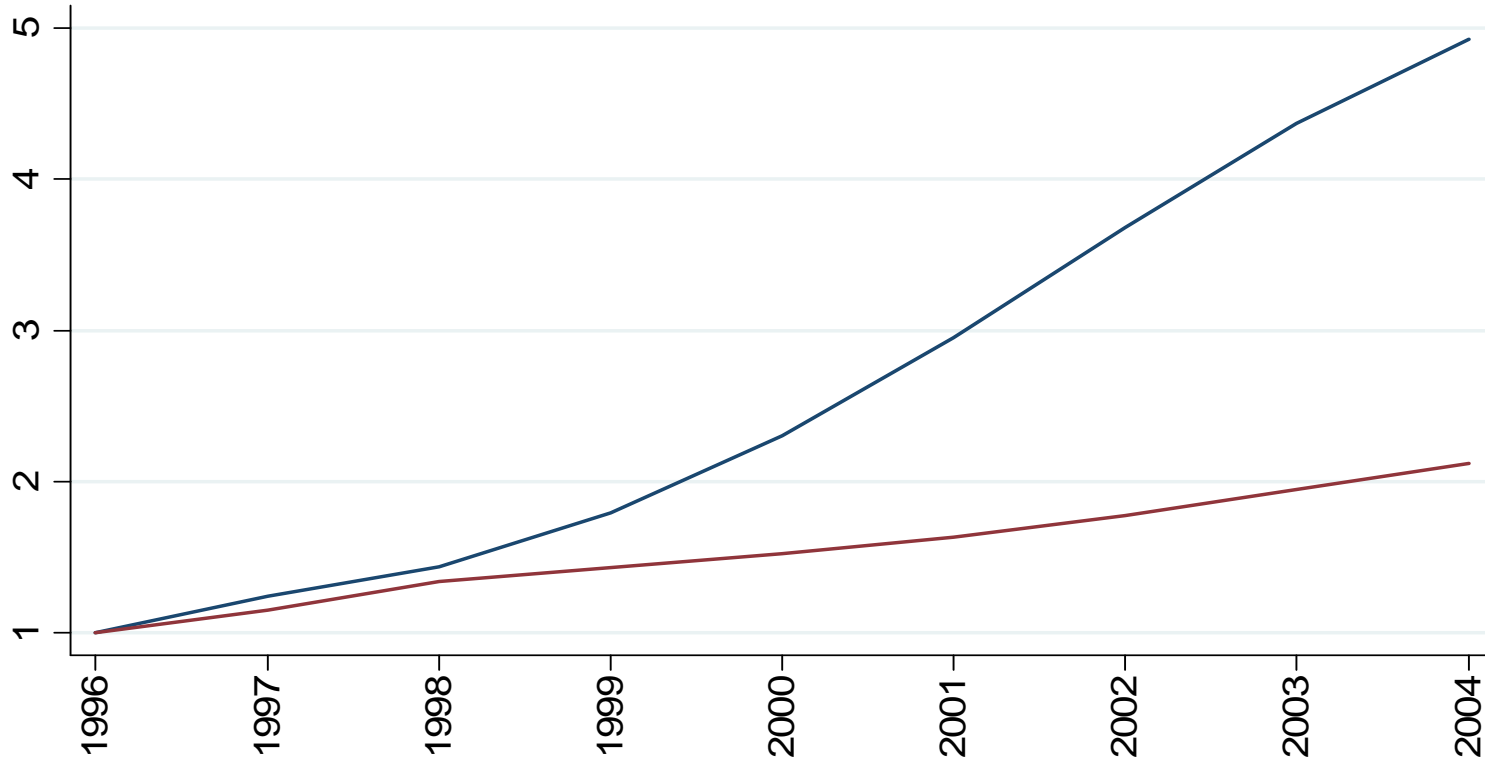
	1991	2004
Mexico	45	67

School Spending in Country X

	1991	2004
<i>Public Spending/Gov. Exp.</i>	21	15
Tuition & Fees/School Spending	7	32

Understates decline in public support for K-12 (increased public support for universities)

Country X Public School Fees



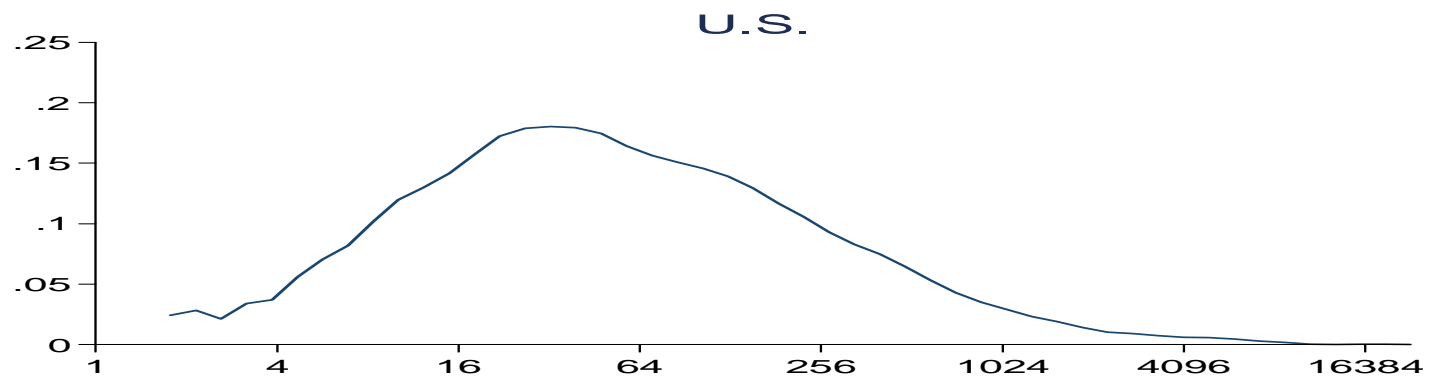
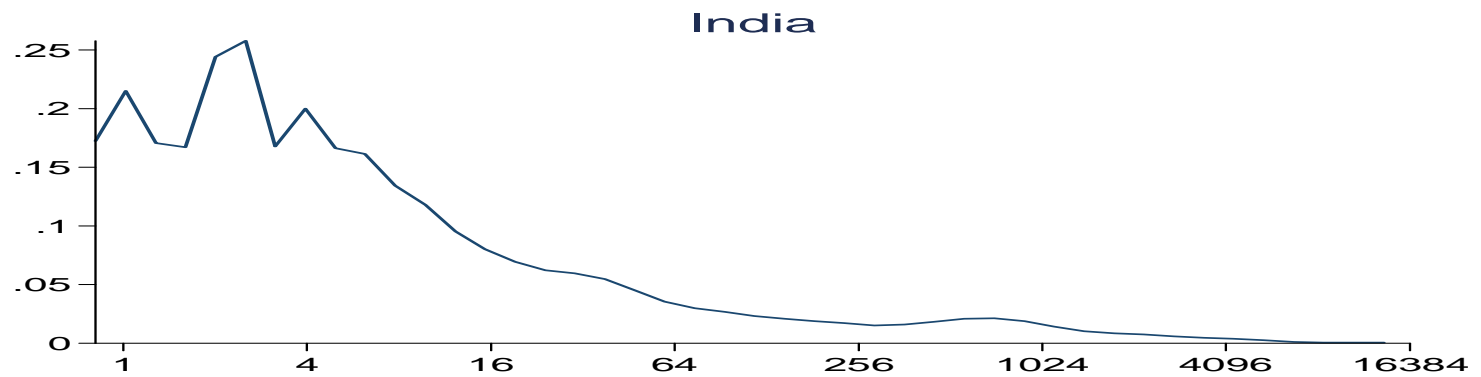
secondary primary

Secondary School Enrollment Rate

	1991	2004
Mexico	45	67
Country X	50	70

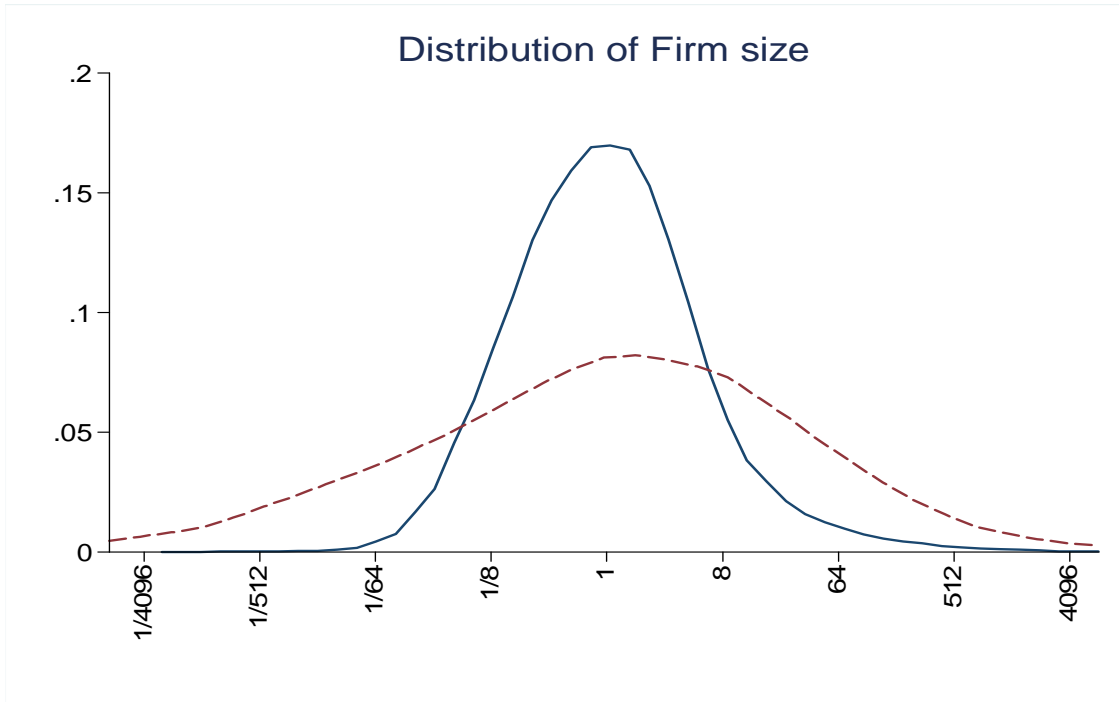
What is the essence of the problem?

Distribution of Number of Workers

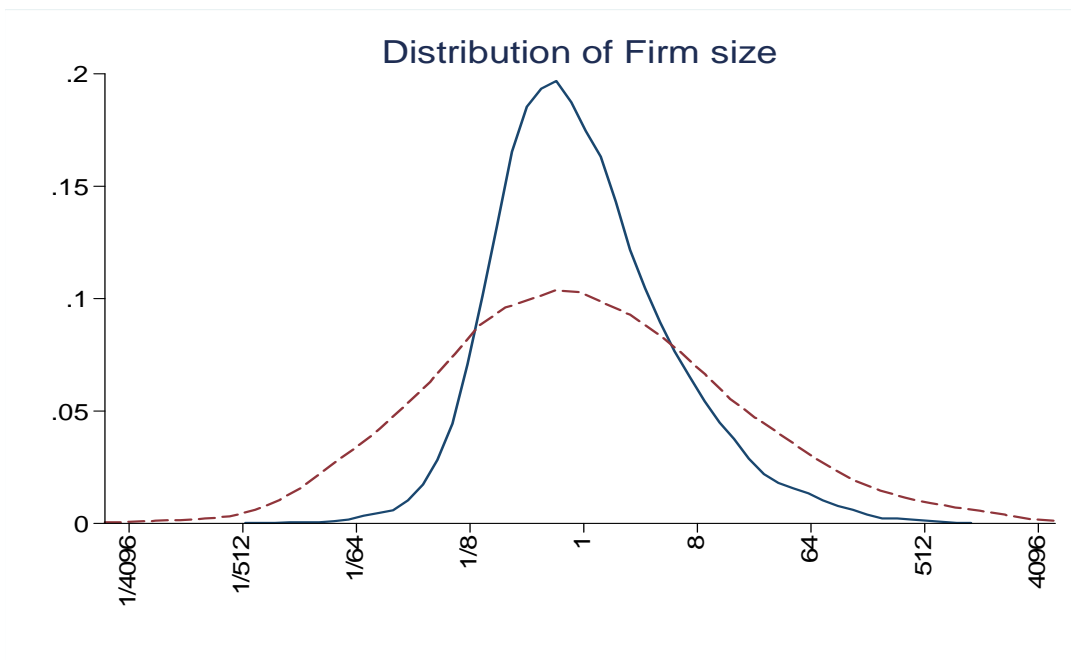


Distribution of Actual vs. "Efficient" Firm Size -- Mexico

Retailing

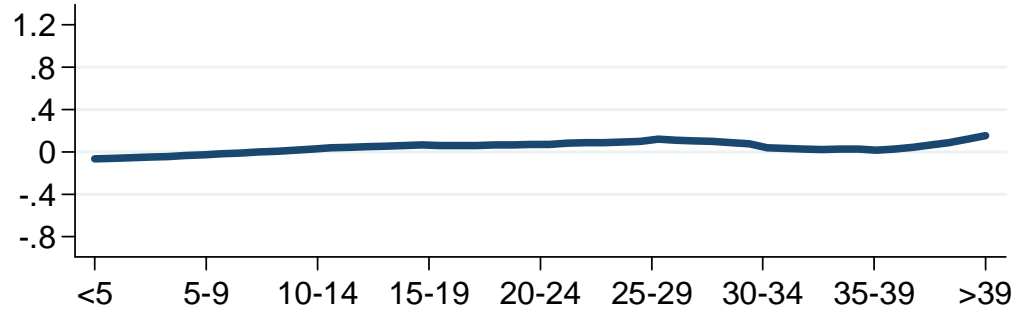


Manufacturing

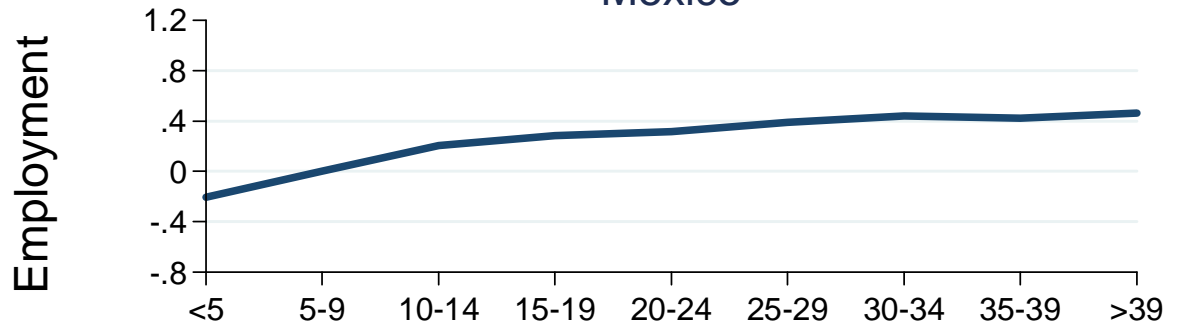


Employment vs. Age

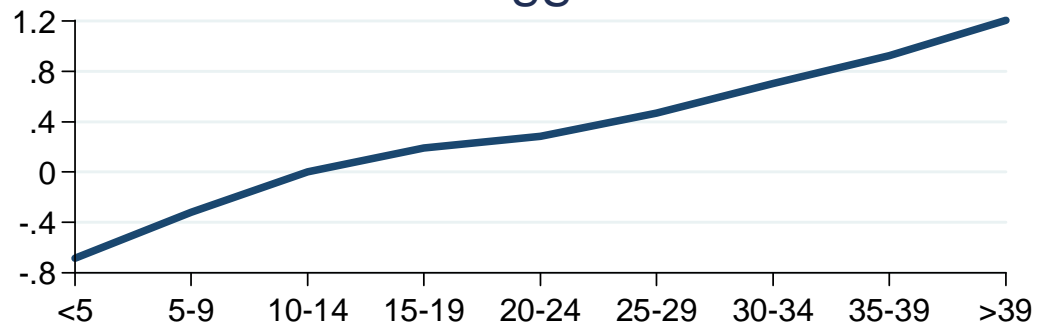
India



Mexico



US



Age