10. The Geography of Growth

In effect the subject of economic growth was broached when an economic landscape was built up in Chapter 3. It was central to the discussion of agglomeration economies and the last chapter dealt with some of the geographic processes involved in economic adjustment and growth. It is now time to dwell exactly on the combination of circumstances which lead to the expansion of the wealth per person of an economy and which we call economic growth. Most of the theory put forward thus far has attended to the problem of sharing limited resources among various uses in an instantaneous world without technical or attitudinal change among a given population of actors. The process of economic growth is compounded of a multiplicity of political, demographic, technical and preferential events, decisions and discoveries. So far no generalized abstraction has come close to mirroring the richness of the real process. Some of its principal components have, however, been isolated in a fashion which is of use. They provide light in seeking policies to raise well-being in regions and countries where people have not enjoyed much relief from hunger and the limitations of poverty.

One overarching question is that of the physical resources of our world, their extent, exploitation and depletion. There has been much written on this of late and many of the questions raised are matters of geographical fact. However, little of the outpouring could be counted as theory. It is frequently apocalyptic and beyond the ken of political economy, with the merit of a viewpoint determined by the volume of the prophet's voice. The problem of evaluating physical resources is a matter of comparing the utilities of different generations and guessing what technical advance might occur and how tastes will change. For present purposes, the physical resource endowment must be kept in mind as the ultimate limitation on the development process. Given such an upper bound, an explanation of the development process with predictive capability would need several elements. Firstly, the processes of population change and capital formation and their interaction should be articulated. How the views, desires, aptitudes and capacities of the population change over time needs to be understood. Finally, the causes and effects of technological improvement
must be accounted for. The last two elements are inherently unpredictable and only amenable to historical explanation in terms of a sequence of unique human purposes and choices with no necessary or sufficient general cause. To venture more absolute causes is an interesting but over-simple speculation. Some quantitative propositions about population change and capital accumulation and their interactions are possible, and provide a prelude and basis for any qualitative conjectures on changes in human resources and technical progress.

Population and Capital

The classical formulation of the growth problem had part of the output of the economy going as wages to maintain labour at a subsistence level. An additional part goes to landowners as rent. This is the difference between the price of a good set by the production costs of the marginal producer and any other producer’s production costs. Costs in agriculture rise as output expands. The residuum of total output goes to those who have invested in machinery, as profits. The unit cost of manufacturing with this equipment remains constant with changes in output.

If a capitalist invests in making more machinery, wage payments will be increased to employ labour in this endeavour. This causes population to increase which, in turn, calls for an increase in the output of food. Because agriculture is subject to diminishing returns, the price of food and thus rents will rise. The manufacturer’s wage bill increases as more labourers require more expensive subsistence. The cost-determined price of manufactured goods remains constant and so the capitalists’ profit dwindles and investment and growth are discouraged. The Malthusian spectre of people outstripping food supply grinds any growth to a halt.

Obviously, improvements in production methods which increase output per head would release this constraint on the process. Allowing that such developments have occurred, then the path of growing wealth traces a balance between increasing investment (and the savings to finance it) and consumption. The motive for increasing productive capacity is to serve increasing consumption. Yet the supply of the means of production must be met by non-consumption of some of the national product. Setting aside government and overseas trade and rearranging the Keynesian aggregates introduced in the last chapter, we can divide calls on the nation’s output into demand for consumer goods and for investment goods. The supply of output is determined by the employment of available resources and the level of technology. There is one level of income at which demand for output is just equal to the full employment supply of resources. In order for this full-employment income level to be sustained over time in a steady