

The Dynamics of Socio-Economic Development

An Introduction

Adam Szirmai



CAMBRIDGE
UNIVERSITY PRESS

Contents

<i>List of figures</i>	<i>xvii</i>
<i>List of tables</i>	<i>xix</i>
<i>List of boxes</i>	<i>xxiii</i> <•
<i>Preface</i>	<i>xxv</i>
<i>List of abbreviations</i>	<i>xxix</i>
<i>Acknowledgements</i>	<i>xxxii</i>

I'

Chapter 1 Developing countries and the concept of development 1

1.1	Approaches to development	2
1.2	The development debate	4
1.3	Growth and development	6
1.4	Are growth and development desirable?	9
1.5	Development and Westernisation	11
1.6	Indicators of growth and development	12
1.7	Does the 'third world' exist?	16
1.8	What do developing countries have in common?	28

Chapter 2 Development of the international economic order, 1450-2000 35

2.1	International economic order	36
2.2	Economic breakthrough and external expansion from Western Europe	36
2.3	Why expansion from Europe instead of from China?	39
2.4	European expansion in the world	43
2.4.1	Types of international economic orders	45
2.4.2	The first wave of expansion, 1400-1815	47
2.4.3	The first wave of decolonisation	50
2.4.4	The second phase of European expansion, 1815-1913	51
2.4.5	The period 1870-1913	53
2.4.6	Migration flows	54
2.4.7	Non-colonised areas	59
2.4.8	Latecomers in the process of economic development	60
2.4.9	The period 1913-1950	60
2.4.10	The period after World War II	61

- 2.5 Two perspectives on developments in the world economy; 1500-2000 63
- 2.6 Key issues in development 64

Chapter 3 Growth and stagnation: theories and experiences 68

- 3.1 What are the basic sources of growth?
How do economies grow and societies become more prosperous? 69
- 3.2 Classical thinking about growth, development and stagnation 70
 - 3.2.1 Adam Smith 71
 - 3.2.2 The classical economists Ricardo, Malthus and Mill 71
 - 3.2.3 Friedrich List 72
 - 3.2.4 Classical sociologists: Spencer, Tonnies and I 'Durkheim 72
 - 3.2.5 Karl Marx 74
 - 3.2.6 Imperialism 75
 - 3.2.7 Max Weber and Joseph Schumpeter 76
- 3.3 Internal and external approaches 78
- 3.4 Explanations of economic backwardness 79
 - 3.4.1 Rostow's theory of the stages of economic growth 79
 - 3.4.2 Kuznets's preconditions for industrialisation 83
 - 3.4.3 Advantages of backwardness 82
 - 3.4.4 Neoclassical theories of growth 83
 - 3.4.5 Evolutionary theories of economic change 87
 - 3.4.6 North and Thomas: efficient institutions 88
 - 3.4.7 Myrdal: Institutional reforms 89
- 3.5 Explanations of underdevelopment 90
 - 3.5.1 Neo-Marxist theories of underdevelopment 91
 - 3.5.2 Structuralism and theories of unequal exchange 94
 - 3.5.3 Underdevelopment theories: a preliminary evaluation 96
- 3.6 Empirical study of development experiences 97
 - 3.6.1 Growth of income per capita: can developing countries grow? 98
 - 3.6.2 Investment: how important is capital? 102
 - 3.6.3 Export performance 104
 - 3.6.4 External finance: does money flow from poor to rich countries? 106
 - 3.6.5 Are developing countries capable of structural change? 109
 - 3.6.6 How unequal is the income distribution? 112

Chapter 4 Technology and development 117

- 4.1 The role of technology 117
- 4.2 The technology race 218
- 4.3 Technological change and increases in productive capacity 121
 - 4.3.1 How to increase labour productivity? 121
 - 4.3.2 Investing in technological change 123
 - 4.3.3 Diffusion of technology and technological and social capabilities 124
 - 4.3.4 Technology, productivity and competitiveness 125
- 4.4 Economic theories about the role of technological change 126
 - A A.1 Solow 126
 - 4.4.2 Advantages of backwardness 127
 - 4.4.3 Endogenous and evolutionary growth theories 327
- 4.5 Consequences of the acceleration of technological development for developing countries 229
 - 4.5.1 Acceleration of global technological change 329
 - 4.5.2 Knowledge gaps 330
 - 4.5.3 New opportunities offered by technological development 232
 - 4.5.4 New threats 232
- 4.6 International technology transfer and technology diffusion 233
 - 4.6.1 Intellectual property rights 234
 - 4.6.2 Technological capabilities 235
 - 4.6.3 National innovation systems 236
- 4.7 Biotechnology 237
- 4.8 Information and communication technology 237
- 4.9 National and international policy 238

Chapter 5 Population and development 241

- 5.1 Introduction 142
- 5.2 Perspectives on population growth 342
- 5.3 Growth of world population 243
- 5.4 The demographic transition 245
- 5.5 Demographic developments in developing countries 347
- 5.6 Socio-economic consequences of population growth 353
 - 5.6.1 Pessimistic and optimistic perspectives 153
 - 5.6.2 Malthusian analyses 352
 - 5.6.3 The neo-Malthusian trap 152
 - 5.6.4 Growth of national income, growth of per capita income and the dependency ratio 254
 - 5.6.5 Dependency ratio and savings 254

- 5.6.6 Population growth and investment 155
- 5.6.7 Population growth, education and health care 256
- 5.6.8 Employment, income distribution and poverty 256
- 5.6.9 Population growth and the environment 259
- 5.6.10 Population growth and technological progress 263
- 5.6.11 Consequences of population growth: concluding remarks 365
- 5.7 Why do people in developing countries have so many children? 365
 - 5.7.1 Introduction 365
 - 5.7.2 Intermediate determinants of fertility: the Bongaarts model 366
 - 5.7.3 Economic explanations of fertility 368
 - 5.7.4 Cultural and institutional explanations of 'fertility' 369
- 5.8 Policy 372

Chapter 6 Health, health care and development 277

- 6.1 The state of health in developing countries 278
 - 6.1.1 Quantitative indicators of the state of health 278
 - 6.1.2 Infant and child mortality 279
 - 6.1.3 Life expectancy 282
 - 6.1.4 Patterns of disease and health 283
 - 6.1.5 Common infectious and parasitic diseases in developing countries 186
 - 6.1.6 Epidemiological transition 290
- 6.2 Theoretical explanations of changes in health and morbidity 292
 - 6.2.1 Factors affecting the state of health 192
 - 6.2.2 Preston: per capita income and life expectancy 293
 - 6.2.3 McKeown: the importance of nutrition 294
 - 6.2.4 Preston and McKeown 295
 - 6.2.5 The Mosley model and the importance of education 296
 - 6.2.6 Caldwell: the importance of health-care policy 299
 - 6.2.7 Standards of living, education, medical technology and health-care systems: a synthesis 202
- 6.3 Health and economic development 204
- 6.4 Health-care policy 206

Chapter 7 Education and development 223

- 7.1 Theories of the contribution of education to economic development 224
 - 7.1.1 'Human capital' theory 224
 - 7.1.2 Criticisms of human capital theory 228

7.1.3	Screening theory	229
7.1.4	Criticisms of screening theory	220
7.1.5	An evaluation of the human capital debate	220
7.1.6	Education as a necessary but not sufficient condition for development	222
7.2	Indicators of educational development	225
7.2.1	Indicators of educational enrolment	225
7.2.2	Educational Attainments	226
7.2.3	Financial indicators	227
7.2.4	Physical indicators	227
7.2.5	Literacy	227
7.3	Educational performance in developing countries	228
7.3.1	The initial situation after World War II	228
7.3.2	Increases in educational enrolment	229
7.3.3	Education completed	232
7.3.4	Years of education per member of the labour force-	233
7.3.5	Educational expenditures	234
7.3.6	Non-formal and informal education	237
7.3.7	Summary: comparison with developments in more developed countries	238
7.4	Problems	239
7.4.1	Discrepancies between educational needs and financial resources	239
7.4.2	The quality of education	240
7.4.3	Lack of relevance	243
7.4.4	Unequal access to education	242
7.4.5	Mismatch between education and the labour market	243
7.5	Literacy	245
7.6	Nation building	248
7.7	Policy	250

Chapter 8 **Economic development, structural transformation and primary exports** 255

8.1	Capital accumulation and industrialisation	256
8.2	Economic development and structural transformation	258
8.2.1	Definitions of economic sectors	258
8.2.2	Structural change	260
8.2.3	Arguments in favour of industrialisation	262
8.2.4	The prestige of industrialisation	266
8.3	Accumulation of industrial capital in open and closed models of the economy	266
8.3.1	Open and closed models of the economy: early and late stages of development	266

- 8.3.2 Is the agricultural sector a stagnant or a dynamic sector? 269
- 8.3.3 What about the service sector? 273
- 8.4 The development of agriculture as a prerequisite for industrialisation 272
 - 8.4.1 The role of agriculture in early stages of development 272
 - 8.4.2 Historical examples of relationships between agriculture and industry 274
 - 8.4.3 Conclusion 275
- 8.5 Open model: are primary exports an engine of growth and structural transformation? 276
 - 8.5.1 Introduction 276
 - 8.5.2 Comparative advantage and the role of trade in ' development 276
 - 8.5.3 ' Primary exports as an engine of growth between 1817 and 1913: vent for surplus 278
 - 8.5.4 Why disappointing industrialisation? 280
 - 8.5.5 Can primary exports function as the engine of growth? 283 •
 - 8.5.6 Export pessimism 283
 - 8.5.7 Export pessimism and policy 288
 - 8.5.8 Finding an appropriate balance between primary exports and industrialisation 288
- 8.6 Closed model: interactions between agriculture and industry in later stages of development and structural change 294
 - 8.6.1 Introduction: import-substituting industrialisation in the closed model 294
 - 8.6.2 Transfer mechanisms 295
 - 8.6.3 Towards a balance between agriculture and industry 295
 - 8.6.4 The mix of negative and positive incentives in a balanced growth path 298
- 8.7 Closed and open models and industrialisation 303

Chapter 9 Industrial development 303

- 9.1 Introduction 304
- 9.2 Large-scale industrialisation and balanced growth strategies 306
 - 9.2.1 Economic development with unlimited supplies of labour 306
 - 9.2.2 Capital-output ratio 309
 - 9.2.3 Shortage of capital as the key bottleneck in economic development 310

- 9.2.4 Does economic development result in increasing income inequality? 320
- 9.2.5 The two-gap model of foreign finance: the role of financial flows from abroad 312
- 9.2.6 Big is beautiful: large-scale investment, government planning and import substitution 333
- 9.3 Criticisms of orthodox industrialisation strategies 338
 - 9.3.1 Shortcomings of the Lewis model 339
 - 9.3.2 Is capital really so important? 323
 - 9.3.3 How important is the scale of investment? 322
 - 9.3.4 Protection breeds inefficiency 323
 - 9.3.5 Urban industrial bias 324
 - 9.3.6 Alternative industrialisation strategies 326
- 9.4 Unbalanced growth 326
 - 9A.1 The function of dynamic imbalances 326
 - 9.4.2 Backward and forward linkages 327
 - 9A3 Shift to the market 329
- 9.5 Balanced growth path 330
- 9.6 Medium and small-scale enterprises and the urban informal sector 331
- 9.7 Export-oriented industrialisation 334
 - 9.7.1 The shift from import substitution to export orientation 334
 - 9.7.2 Globalisation, foreign direct investment and the role of multinational companies in development 340
- 9.8 Liberalisation, deregulation and the debate on industrial policy: neoliberals versus interventionists 343
- 9.9 Outcomes of industrialisation strategies 345
- 9.10 Conclusion 351

Chapter 10 Agricultural development and rural development 354

- 10.1 Is there enough food to feed the world population? 355
- 10.2 What are the sources of growth of agricultural production? 361
 - 10.2.1 How much land is still left for cultivation? 363
 - 10.2.2 Intensification of land use 367
 - 10.2.3 Increasing yields per harvest 372
 - 10.2.4 Models of agricultural development 375
 - 10.2.5 The green revolution: increase in yields per harvest 380
 - 10.2.6 The green revolution continued: biotechnology and genetically modified crops 386
 - 10.2.7 Summary and prospects 388

10.3	Food consumption and nutrition	390
10.4	Rural development versus agricultural development	396
10.4.1	Changes in rural societies	399
10.4.2	Three perspectives on rural development	400
10.4.3	The peasant economy and peasant households	404
10.4.4	Rationality, risk and survival strategies in peasant societies	409
10.5	Land reform	434
10.6	Collectivisation and decollectivisation	429
10.7	Non-agrarian activities and integrated rural development	423
Chapter 11	State formation and political aspects of development	426
11.1	Concepts	427
11.2	Marxist and Weberian perspectives on the state	433
11.3	Processes of state formation in Europe	433
11.4	State formation in developing countries	438
11.4.1	The importance of external penetration in processes of state formation	439
11.4.2	Internal political instability	443
11.4.3	External political interference as a destabilising factor	445
11.4.4	The role of the military in politics	453
11.4.5	One-party states	455
11.4.6	Is there a resurgence of democracy in developing countries?	457
11.4.7	Rapid growth of the public sector since 1945	459
11.4.8	'Soft states' and the political economy of rent seeking	459
11.5	The role of government in economic development	462
11.5.1	The role of the state in economic development: five examples	463
11.6	Interactions between political and economic developments	472
11.6.1	Political instability as a source of economic stagnation	472
11.6.2	Economic development and political stability	474
11.6.3	Is there a relationship between democracy and economic development?	476
11.6.4	Good governance and economic development	478
11.7	The predatory state as an obstacle to economic development in Sub-Saharan Africa	480
11.8	Concluding remarks	483

Chapter 12 Cultural dimensions of development	486
12.1 Introduction	487
12.1.1 Concepts	487
12.1.2 How important is culture?	487
12.2 The Protestant ethic and the rise of capitalism	489
12.3 Efficient institutions	493
12.4 Traditional versus modern cultures	493
12.4.1 Modernisation theory	493
12.4.2 Towards a more differentiated approach to the opposition between traditional and modern	495
12.5 Are there cultural obstacles to economic development?	497
12.5.1 The caste system	498
12.5.2 The low status of physical work and effort	499
12.5.3 Social obligations in African cultures	500
12.5.4 Gender discrimination	501
12.5.5 The importance of trust in market relationships	501
12.5.6 The mysterious role of ethnic minorities in economic development	502
12.5.7 Cultural differences between North and Latin America	502
12.5.8 The Soviet legacy	503
12.5.9 Asian values and the Confucian ethic	503
12.6 Civic culture	506
12.7 Cultural consequences of and reactions to Western penetration	507
12.7.1 Cultural consequences	507
12.7.2 Reactions to Western penetration and cultural disruption	508
12.8 Interactions between culture, technology and economics at micro-level	512
 Chapter 13 The international economic and political order since 1945	 525
13.1 Characteristics of international relations since 1945	526
13.1.1 Economic aspects	516
13.1.2 Political aspects	523
13.2 Institutions and institutional change since 1945: a chronological overview	526
13.2.1 Free trade versus international regulation	532
13.2.2 The financial institutions	532
13.2.3 The UN family of institutions and the call for a new international economic order	534
13.2.4 Responses to the new international economic order	535

- 13.2.5 The debt crisis and the rise of the Washington consensus 536
- 13.2.6 The Asian crisis and the debate on the architecture of the international order 538
- 13.2.7 Environment 539
- 13.3 The call for a new international order in the 1960s and 1970s 539
 - 13.3.1 Criticisms of the liberal international order 539
 - 13.3.2 Lome agreements 542
 - 13.3.3 Criticisms of the new international order 542
- 13.4 The debt crisis 546
 - 13.4.1 What is wrong with debt? 546
 - 13.4.2 What caused the 1982 debt crisis? 547
 - 13.4.3 Quantitative data on debt and financial flows in developing countries 549
 - 13.4.4 How to deal with debt? 558
- 13.5 Structural adjustment policies 563
 - 13.5.1 Neoliberalism versus structuralism 563
 - 13.5.2 Structural adjustment, IMF and the World Bank 564
 - 13.5.3 Stabilisation and structural adjustment 565
 - 13.5.4 The effectiveness of structural adjustment programmes 568
- 13.6 The Asian crisis and the renewed debate on globalisation 573

Chapter 14 Foreign aid and development 580

- 14.1 Why foreign aid? 581
- 14.2 The emergence of foreign aid 585
- 14.3 Development aid: sources and categories 588
- 14.4 Quantitative data on aid flows 592
 - 14.4.1 Long-term trends in the magnitude and geographical distribution of aid flows 592
 - 14.4.2 Development aid in proportion to total resource flows 594
 - 14.4.3 Net development assistance as a percentage of gross domestic product 598
 - 14.4.4 Reduction of the real value of aid by tying 600
 - 14.4.5 Conclusion: the volume of aid is not negligible 602
- 14.5 Theories of development and objectives of aid 601
 - 14.5.1 Aid as a source of investment, capital accumulation and growth 601
 - 14.5.2 Aid, growth and poverty reduction 604
 - 14.5.3 Technical assistance, human capital theory and growth 606

14.5.4	Policy dialogue and programme aid: policy reform and improvements in governance and institutions	607
14.6	Does aid work? Different perspectives on the effectiveness of development aid	609
14.6.1	Does aid contribute to welfare and socio-economic dynamism?	609
14.6.2	Radical criticisms of development aid	612
14.6.3	Neoliberal criticism of development aid	624
14.6.4	Criticism of development projects	627
14.6.5	Empirical debates about aid effectiveness and proposals for reform	628
14.6.6	Epilogue: an attempt at evaluation	628
	<i>Bibliography</i>	633
	<i>Author index</i>	688
	<i>Subject index</i>	698