Contents

Case Studies xxvi

PART ONE PRINCIPLES AND CONCEPTS

1. Economics, Institutions, and Development: A Global Perspective
   How the Other Three-Quarters Live 3
   Economics and Development Studies 7
   The Nature of Development Economics 7
   Why Study Development Economics? Some Critical Questions 9
   The Important Role of Values in Development Economics 11
   Economies as Social Systems: The Need to Go Beyond Simple Economics 12
   What Do We Mean by Development? 13
   Traditional Economic Measures 14
   The New Economic View of Development 14
   Three Core Values of Development 16
   The Three Objectives of Development 18
   Summary and Conclusions 18
   Case Study: The Economy of Brazil 21
   Concepts for Review · Questions for Discussion · Notes · Further Reading 25

2. Diverse Structures and Common Characteristics of Developing Nations 29
   Some Classifications of Developing Countries 30
   The Structural Diversity of Developing Economies 33
   Size and Income Level 36
   Historical Background 37
   Physical and Human Resources 37
   Ethnic and Religious Composition 38
   Relative Importance of the Public and Private Sectors 39
   Industrial Structure 39
   External Dependence: Economic, Political, and Cultural 40
   Political Structure, Power, and Interest Groups 40
Common Characteristics of Developing Nations 42

Low Levels of Living 42
Low Levels of Productivity 53
High Rates of Population Growth and Dependency Burdens 55
High and Rising Levels of Unemployment and Underemployment 56
Substantial Dependence on Agricultural Production and Primary-Product Exports 57
Prevalence of Imperfect Markets and Incomplete Information 60
Dominance, Dependence, and Vulnerability in International Relations 61

Conclusion 62

Case Study: The Economy of Nigeria 63

Concepts for Review · Questions for Discussion · Notes · Further Reading 65

Appendix 2.1 Social Indicators as Alternative Measures of Development: The Physical Quality of Life and Human Development Indexes 69

3. Theories of Development: A Comparative Analysis 77

Leading Theories of Economic Development: Five Approaches 78
The Linear-Stage Theory 79
Rostow's Stages of Growth 79
The Harrod-Domar Growth Model 80
Obstacles and Constraints 82
Necessary versus Sufficient Conditions: Some Criticisms of the Stages Model 83

Structural-Change Models 84
The Lewis Theory of Development 84
Structural Change and Patterns of Development 89
Conclusions and Implications 90

The International-Dependence Revolution 91
The Neocolonial Dependence Model 91
The False-Paradigm Model 92
The Dualistic-Development Thesis 93
Conclusions and Implications 94

The Neoclassical Counterrevolution 95
Challenging the Statist Model: Free Markets, Public Choice, and Market-Friendly Approaches 95
Traditional ("Old") Neoclassical Growth Theory 97
Conclusions and Implications 98

The New Growth Theory 99
Motivation for the New Growth Theory 99
Endogenous Growth 100
Criticisms of the New Growth Theory 102

Theories of Development: Reconciling the Differences 102

Case Study: The Economy of Cuba 105

Concepts for Review · Questions for Discussion · Notes · Further Reading 108
4. Historic Growth and Contemporary Development: Lessons and Controversies 114

The Growth Game 114

The Economics of Growth: Capital, Labor, and Technology 115

Capital Accumulation 115
Population and Labor Force Growth 116
Technological Progress 118
Conclusion 120

The Historical Record: Kuznets's Six Characteristics of Modern Economic Growth 120

High Rates of Per Capita Output and Population Growth 121
High Rates of Total Factor Productivity Increase 122
High Rates of Economic Structural Transformation 122
High Rates of Social, Political, and Ideological Transformation 123
International Economic Outreach 123
Limited International Spread of Economic Growth 124
Conclusions: The Interdependence of Growth Characteristics 124

The Limited Value of the Historical Growth Experience: Differing Initial Conditions 125

Physical and Human Resource Endowments 126
Relative Levels of Per Capita Income and GNP 127
Climatic Differences 127
Population Size, Distribution, and Growth 127
The Historical Role of International Migration 128
The Growth Stimulus of International Trade 131
Basic Scientific and Technological Research and Development Capabilities 132
Stability and Flexibility of Political and Social Institutions 132
Conclusions 133

Case Study: The Economy of Malaysia 135

Concepts for Review · Questions for Discussion · Notes · Further Reading 137

Comparative Case Study: South Korea and Argentina 142
Contributions of Alternative Approaches to Development

PART TWO PROBLEMS AND POLICIES: DOMESTIC 148

A Note to the Student 148

5. Growth, Poverty, and Income Distribution 151

The Growth Controversy 151
### Contents

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Some Basic Concepts: Size and Functional Distributions of Income</strong></td>
<td>153</td>
</tr>
<tr>
<td>Size Distributions</td>
<td>153</td>
</tr>
<tr>
<td>Lorenz Curves</td>
<td>155</td>
</tr>
<tr>
<td>Dualistic Development and Shifting Lorenz Curves: Some Stylized Typologies</td>
<td>157</td>
</tr>
<tr>
<td>Gini Coefficients and Aggregate Measures of Inequality</td>
<td>159</td>
</tr>
<tr>
<td>Functional Distributions</td>
<td>160</td>
</tr>
<tr>
<td><strong>A Review of Evidence: Inequality and Absolute Poverty in Third World Countries</strong></td>
<td>163</td>
</tr>
<tr>
<td>Inequality: Variations among Countries</td>
<td>163</td>
</tr>
<tr>
<td>Absolute Poverty: Extent and Magnitude</td>
<td>165</td>
</tr>
<tr>
<td>The Human Poverty Index</td>
<td>169</td>
</tr>
<tr>
<td><strong>Economic Characteristics of Poverty Groups</strong></td>
<td>170</td>
</tr>
<tr>
<td>Rural Poverty</td>
<td>170</td>
</tr>
<tr>
<td>Women and Poverty</td>
<td>172</td>
</tr>
<tr>
<td>Ethnic Minorities, Indigenous Populations, and Poverty</td>
<td>175</td>
</tr>
<tr>
<td><strong>Income Levels, Growth, and the Extent of Poverty: The Kuznets Hypothesis and Other Tests</strong></td>
<td>176</td>
</tr>
<tr>
<td><strong>Redefining Development Goals: Growth with Improved Income Distribution</strong></td>
<td>179</td>
</tr>
<tr>
<td><strong>The Role of Economic Analysis: Redistribution from Growth</strong></td>
<td>181</td>
</tr>
<tr>
<td>Growth versus Income Distribution</td>
<td>181</td>
</tr>
<tr>
<td>GNP Growth as a Biased Index of National Development and Well-Being</td>
<td>183</td>
</tr>
<tr>
<td>Constructing a Poverty-Weighted Index of Social Welfare</td>
<td>185</td>
</tr>
<tr>
<td>Combining the Economics of Growth and Distribution</td>
<td>188</td>
</tr>
<tr>
<td><strong>The Range of Policy Options: Some Basic Considerations</strong></td>
<td>189</td>
</tr>
<tr>
<td>Areas of Intervention</td>
<td>189</td>
</tr>
<tr>
<td>Policy Options</td>
<td>190</td>
</tr>
<tr>
<td><strong>Summary and Conclusions: The Need for a Package of Policies</strong></td>
<td>193</td>
</tr>
<tr>
<td><strong>Case Study: The Economy of India</strong></td>
<td>195</td>
</tr>
<tr>
<td><strong>Case Study: The Economy of South Africa</strong></td>
<td>198</td>
</tr>
<tr>
<td><strong>Concepts for Review · Questions for Discussion · Notes · Further Reading</strong></td>
<td>202</td>
</tr>
</tbody>
</table>

### 6. Population Growth and Economic Development: Causes, Consequences, and Controversies

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Basic Issue: Population Growth and the Quality of Life</td>
<td>210</td>
</tr>
<tr>
<td><strong>A Review of Numbers: Population Growth—Past, Present, and Future</strong></td>
<td>211</td>
</tr>
<tr>
<td>World Population Growth through History</td>
<td>211</td>
</tr>
<tr>
<td>Structure of the World's Population</td>
<td>214</td>
</tr>
<tr>
<td>The Hidden Momentum of Population Growth</td>
<td>219</td>
</tr>
</tbody>
</table>
### Contents

**The Demographic Transition** 222

- The Causes of High Fertility in Developing Countries: The Malthusian and Household Models 224
  - The Malthusian Population Trap 224
  - Criticisms of the Malthusian Model 227
  - The Microeconomic Household Theory of Fertility 230
  - The Demand for Children in Developing Countries 232
  - Some Empirical Evidence 233
  - Implications for Development and Fertility 234

- The Consequences of High Fertility: Some Conflicting Opinions 234
  - Population Growth Is Not a Real Problem 235
  - A Deliberately Contrived False Issue 237
  - A Desirable Phenomenon 237
  - Population Growth Is a Real Problem 238
  - The Empirical Argument: Seven Negative Consequences of Population Growth 240

- Goals and Objectives: Toward a Consensus 241
- Some Policy Approaches 243
- What Developing Countries Can Do 243
- What the Developed Countries Can Do: Resources, Population, and the Global Environment 248
- How Developed Countries Can Assist Developing Countries with Their Population Programs 249

**Case Study: The Economy of China** 251

**Concepts for Review • Questions for Discussion • Notes • Further Reading** 254

### 7. Unemployment: Issues, Dimensions, and Analyses 259

- The Employment Problem: Some Basic Issues 259
- Dimensions of LDC Unemployment: Evidence and Concepts 261
  - Employment and Unemployment: Trends and Projections 261
  - Four Dimensions of the Employment Problem 264
  - Labor Force: Present and Projected 268
  - Labor Underutilization: Some Definitional Distinctions 269
  - Linkages among Unemployment, Poverty, and Income Distribution 270
  - The Phenomenon of Jobless Growth and the Output-Employment Lag 271

- Economic Models of Employment Determination 274
  - The Traditional Competitive Free-Market Model 274
  - Output and Employment Growth: Conflict or Congruence? 276
  - Appropriate Technology and Employment Generation:
    - The Price-Incentive Model 279

- Conclusion 282

**Case Study: The Economy of Kenya** 283

**Concepts for Review • Questions for Discussion • Notes • Further Reading** 286

The Migration and Urbanization Dilemma 291
Urbanization: Trends and Projections 291
The Urban Informal Sector 296
Women in the Informal Sector 300

Urban Unemployment 301
Migration and Development 303

Toward an Economic Theory of Rural-Urban Migration 305
A Verbal Description of the Todaro Model 305
A Diagrammatic Presentation 308
Five Policy Implications 310

Summary and Conclusions: The Shape of a Comprehensive Migration and Employment Strategy 312

Case Study: The Economy of Mexico 315

9. Education and Development 326

Education and Human Resources 326
Education in Developing Regions 328
Public Educational Expenditure 328
Enrollments 329
Literacy 331
Costs and Earnings 331

The Gender Gap: Women and Education 333

The Economics of Education and Employment 335
Educational Supply and Demand: The Relationship between Employment Opportunities and Educational Demands 335
Social versus Private Benefits and Costs 339

Education, Society, and Development: Some Issues 342
Education and Economic Growth 342
Education, Inequality, and Poverty 343
Education, Internal Migration, and the Brain Drain 345
Education of Women, Fertility, and Child Health 348
Education and Rural Development 349

Summary and Conclusions: Major Educational Policy Options 350
Policies Largely External to Educational Systems 352
Policies Internal to Educational Systems 352

Case Study: The Economy of Egypt 354

Concepts for Review · Questions for Discussion · Notes · Further Reading 357
PART THREE PROBLEMS AND POLICIES: INTERNATIONAL

12. Trade Theory and Development Experience 457

The Importance of International Trade and Finance 457

Five Basic Questions about Trade and Development 459

The Importance of Trade for Development: A Statistical Review 461

LDC Exports: Trends and Patterns 461
Importance of Exports to Different Developing Nations 463
Demand Elasticities and Export Earnings Instability 463

The Terms of Trade and the Prebisch-Singer Thesis 466

The Traditional Theory of International Trade 468

Relative Factor Endowments and International Specialization: The Neoclassical Model 469
Trade Theory and Development: The Traditional Arguments 474
Some Criticisms of Traditional Free-Trade Theory in the Context of Third World Experience 474

Fixed Resources, Full Employment, and the International Immobility of Capital and Skilled Labor 475
Fixed, Freely Available Technology and Consumer Sovereignty 480
Internal Factor Mobility and Perfect Competition: The Structuralist Critique and the Phenomenon of Increasing Returns, Imperfect Competition, and Controlled Markets 481
The Absence of National Governments in Trading Relations 483
Balanced Trade and International Price Adjustments 484
Trade Gains Accruing to Nationals 485
Some Conclusions on Trade and Economic Development:
The Limits of Theory 486

Case Study: The Economy of Taiwan 490

Concepts for Review · Questions for Discussion · Notes · Further Reading 492

13. The Trade Policy Debate: Export Promotion, Import Substitution, and Economic Integration 497

Trade Strategies for Development: Export Promotion versus Import Substitution 498

Export Promotion: Looking Outward and Seeing Trade Barriers 499
Import Substitution: Looking Inward but Still Paying Outward 504
The IS Industrialization Strategy and Results 507
Foreign-Exchange Rates, Exchange Controls, and the Devaluation Decision 513

Summary and Conclusions: Trade Optimists and Trade Pessimists 518

Trade Pessimist Arguments 518

Trade Optimist Arguments 519

Reconciling the Arguments: The Data and the Consensus 519

South-South Trade and Economic Integration: Looking Outward and Inward 521

The Growth of Trade among Developing Countries 521
Economic Integration: Theory and Practice 523
Regional-Trading Blocs and the Globalization of Trade 525

Trade Policies of Developed Countries: The Need for Reform 527
Rich-Nation Tariff and Nontariff Trade Barriers and the 1995 Uruguay Round
GATT Agreement 527
The Problem of Adjustment Assistance 529
Domestic Economic Policies 530

Case Study: The Economy of South Korea 532

Concepts for Review · Questions for Discussion · Notes · Further Reading 535


The Balance of Payments Account 542
General Considerations 542
A Hypothetical Illustration: Deficits and Debts 543

Financing and Reducing Payments Deficits 546

Some Initial Policy Issues 546
Recent Trends in LDC Balance of Payments 548

The Third World Debt Crisis 549
Background and Analysis 549
Dimensions of the Crisis  551
Attempts at Alleviation: Macroeconomic Instability, IMF Stabilization Policies, and Their Critics  557
The IMF Stabilization Program  557
Global Dimensions of the LDC Debt Problem  559
Has the Debt Problem Disappeared? Winners and Losers  561
Conclusions  562

Case Study: The Economy of Venezuela  564

Concepts for Review · Questions for Discussion · Notes · Further Reading  566

Appendix 14.1 A Brief History and Analysis of the International Monetary Fund and the World Bank  570

15. Foreign Finance, Investment, and Aid: Controversies and Opportunities  577
The International Flow of Financial Resources  577
Private Foreign Direct Investment and the Multinational Corporation  578
Multinational Corporations: Size, Patterns, and Trends  579
Private Foreign Investment: Some Pros and Cons for Development  582
Private Portfolio Investment: Boon or Bane for LDCs?  588

Foreign Aid: The Development Assistance Debate  590
Conceptual and Measurement Problems  590
Amounts and Allocations: Public Aid  592
Why Donors Give Aid  595
Why LDC Recipients Accept Aid  600
The Growing Role of Nongovernmental Organizations (NGOs)  601
The Effects of Aid  602

Conclusions: Toward a New View of Foreign Aid  603

Case Study: The Economy of Indonesia  605

Concepts for Review · Questions for Discussion · Notes · Further Reading  608

Comparative Case Study: Thailand and the Philippines
Trade Strategy  613

PART FOUR    POSSIBILITIES AND PROSPECTS

16. Planning, Markets, and the Role of the State  621
The Planning Mystique  621
The Nature of Development Planning  622
Contents

Basic Concepts 622
Planning in Mixed Developing Economies 623

The Rationale for Planning in Developing Economies 624
Market Failure 624
Resource Mobilization and Allocation 625
Attitudinal or Psychological Impact 625
Foreign Aid 626

The Planning Process: Some Basic Models 626
Characteristics of the Planning Process 626
Planning in Stages: Three Basic Models 627

The Crisis in Planning: Problems of Implementation and Plan Failures 634
Theory versus Practice 635
Reasons for Plan Failures 637

Government Failure and the Resurgent Preference for Markets over Planning 639

The Market Economy 642
Sociocultural Preconditions and Economic Requirements 642
Role and Limitations of the Market in LDCs 643

Development Planning and the State: Concluding Observations 646

Case Study: The Economy of the Philippines 649
Concepts for Review · Questions for Discussion · Notes · Further Reading 651

17. Financial Reform and Fiscal Policy 656

The Painful Road to Macroeconomic Stability 656

Financial Systems and Monetary Policy 657
Differences between MDC and LDC Financial Systems 657
The Role of Central Banks 660
The Emergence of Development Banking 662
The Role of Informal Finance for Small-Scale Enterprise 664

Reforming Third World Financial Systems 666
Financial Liberalization, Real Interest Rates, Savings, and Investment 666
Financial Policy and the Role of the State 668

Fiscal Policy for Development 669
Macro Stability and Resource Mobilization 669
Taxation: Direct and Indirect 670

Public Administration: The Scarcest Resource 676

State-Owned Enterprises 678
Improving the Performance of SOEs 680
Privatization: Theory and Experience 681

Military Expenditures and Economic Development 682
Significance and Economic Impact 682

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Interdependence and the Growth of Third World Markets</td>
<td>698</td>
</tr>
<tr>
<td>The Global Environmental Threat: Greenhouse Gases and Ozone Depletion</td>
<td>698</td>
</tr>
<tr>
<td>Pollutants and Their Consequences for the Global Environment</td>
<td>700</td>
</tr>
<tr>
<td>MDC and LDC Contributions to Greenhouse Gases</td>
<td>701</td>
</tr>
<tr>
<td>Rain Forest Preservation as a Public Good: Who Should Pay?</td>
<td>704</td>
</tr>
<tr>
<td>The Economic Crisis in Sub-Saharan Africa</td>
<td>708</td>
</tr>
<tr>
<td>Economic Transition in Eastern Europe and the Former Soviet Republics: Implications for Third World Development Assistance</td>
<td>711</td>
</tr>
<tr>
<td>Globalization and International Financial Reform</td>
<td>713</td>
</tr>
<tr>
<td>Summary and Concluding Remarks</td>
<td>716</td>
</tr>
<tr>
<td><strong>Case Study: The Economy of Uganda</strong></td>
<td>718</td>
</tr>
<tr>
<td><strong>Comparative Case Study: Chile and Poland</strong></td>
<td>720</td>
</tr>
<tr>
<td><strong>Glossary</strong></td>
<td>732</td>
</tr>
<tr>
<td><strong>Name Index</strong></td>
<td>771</td>
</tr>
<tr>
<td><strong>Subject Index</strong></td>
<td>776</td>
</tr>
</tbody>
</table>