

Contents

Preface	vii
Case Studies	xxvii

Part One Principles and Concepts


1 Economics, Institutions, and Development: A Global Perspective	3
How the Other Half Live	3
Economics and Development Studies	8
The Nature of Development Economics	9
Why Study Development Economics? Some Critical Questions	10
The Important Role of Values in Development Economics	13
Economies as Social Systems: The Need to Go Beyond Simple Economics	14
What Do We Mean by Development?	15
Traditional Economic Measures	15
The New Economic View of Development	16
Sen's "Capabilities" Approach	17
Three Core Values of Development	20
The Three Objectives of Development	22
The Millennium Development Goals	22
Conclusions	25
Case Study: Progress in the Struggle for More Meaningful Development: Brazil	27
2 Comparative Development: Differences and Commonalities among Developing Countries	37
Defining the Developing World	38
The Structural Diversity of Developing Economies	41
Size and Income Level	42
Historical Background	44
Physical and Human Resources	45
Ethnic and Religious Composition	45

Relative Importance of the Public and Private Sectors and Civil Society	46
Industrial Structure	47
Political Structure, Power, and Interest Groups	49
Common Characteristics of Developing Nations	49
Low Levels of Living	50
A Holistic Measure of Living Levels: The Human Development Index	59
Low Levels of Productivity	64
High Rates of Population Growth and Dependency Burdens	65
Substantial Dependence on Agricultural Production and Primary-Product Exports	67
Prevalence of Imperfect Markets and Incomplete Information	69
Dependence and Vulnerability in International Relations	70
How Developing Countries Today Differ from Developed Countries in Their Earlier Stages	71
Physical and Human Resource Endowments	72
Relative Levels of Per Capita Income and GDP	73
Climatic Differences	73
Population Size, Distribution, and Growth	74
The Historical Role of International Migration	74
The Growth Stimulus of International Trade	76
Basic Scientific and Technological Research and Development Capabilities	77
Stability and Flexibility of Political and Social Institutions	78
Efficacy of Domestic Economic Institutions	79
Are Living Standards of Developing and Developed Countries Converging?	79
Conclusion	82
Case Study: Divergent Development: Pakistan and Bangladesh	84
Appendix 2.1 Components of Economic Growth	97
3 Classic Theories of Economic Development	102
Classic Theories of Economic Development: Four Approaches	103
Development as Growth and the Linear-Stages Theories	104
Rostow's Stages of Growth	104
The Harrod-Domar Growth Model	105
Obstacles and Constraints	107
Necessary versus Sufficient Conditions: Some Criticisms of the Stages Model	107
Structural-Change Models	108
The Lewis Theory of Development	108
Structural Change and Patterns of Development	113
Conclusions and Implications	114

The International-Dependence Revolution	115
The Neocolonial Dependence Model	115
The False-Paradigm Model	117
The Dualistic-Development Thesis	117
Conclusions and Implications	118
The Neoclassical Counterrevolution: Market Fundamentalism	119
Challenging the Statist Model: Free Markets, Public Choice, and Market-Friendly Approaches	119
Traditional Neoclassical Growth Theory	121
Conclusions and Implications	123
Classic Theories of Development: Reconciling the Differences	124
Case Study: Schools of Thought in Context: South Korea and Argentina	126
Appendix 3.1 The Solow Neoclassical Growth Model	136
4 Contemporary Models of Development and Underdevelopment	140
The New Growth Theory: Endogenous Growth	141
Motivation for the New Growth Theory	141
The Romer Model	143
Criticisms of the New Growth Theory	144
Underdevelopment as a Coordination Failure	145
Multiple Equilibria: A Diagrammatic Approach	148
Starting Economic Development: The Big Push	153
The Big Push: A Graphical Model	155
Why the Problem Cannot Be Solved by a Super-Entrepreneur	161
Further Problems of Multiple Equilibria	162
Kremer's O-Ring Theory of Economic Development	166
The O-Ring Model	166
Implications of the O-Ring Theory	169
Conclusions: Multiple Equilibria and Coordination Failures	171
Case Study: Understanding a Development Miracle: China	174

Part Two Problems and Policies: Domestic

5 Poverty, Inequality, and Development	193
Measuring Inequality and Poverty	195
Measuring Inequality	195
Measuring Absolute Poverty	202

Poverty, Inequality, and Social Welfare	207
What's So Bad about Inequality?	207
Dualistic Development and Shifting Lorenz Curves: Some Stylized Typologies	209
Kuznets's Inverted-U Hypothesis	212
Growth and Inequality	216
Absolute Poverty: Extent and Magnitude	218
Growth and Poverty	220
Economic Characteristics of Poverty Groups	225
Rural Poverty	225
Women and Poverty	227
Ethnic Minorities, Indigenous Populations, and Poverty	231
The Range of Policy Options: Some Basic Considerations	232
Areas of Intervention	232
Policy Options	234
Summary and Conclusions: The Need for a Package of Policies	239
 Case Study: Making Microfinance Work for the Poor:	
The Grameen Bank of Bangladesh	241
Appendix 5.1 Appropriate Technology and Employment Generation:	
The Price-Incentive Model	255
Appendix 5.2 The Ahluwalia-Chenery Welfare Index	258
6 Population Growth and Economic Development: Causes, Consequences, and Controversies	262
The Basic Issue: Population Growth and the Quality of Life	263
A Review of Numbers: Population Growth—Past, Present, and Future	264
World Population Growth through History	264
Structure of the World's Population	265
The Hidden Momentum of Population Growth	272
The Demographic Transition	275
The Causes of High Fertility in Developing Countries:	
The Malthusian and Household Models	277
The Malthusian Population Trap	277
Criticisms of the Malthusian Model	280
The Microeconomic Household Theory of Fertility	282
The Demand for Children in Developing Countries	285
Some Empirical Evidence	286
Implications for Development and Fertility	286
The Consequences of High Fertility: Some Conflicting Opinions	287
Population Growth Is Not a Real Problem	287
A Deliberately Contrived False Issue	289
A Desirable Phenomenon	289

Population Growth Is a Real Problem	290
The Empirical Argument: Seven Negative Consequences of Population Growth	292
Goals and Objectives: Toward a Consensus	293
Some Policy Approaches	295
What Developing Countries Can Do	295
What the Developed Countries Can Do: Resources, Population, and the Global Environment	298
How Developed Countries Can Assist Developing Countries with Their Population Programs	300
Conclusion	300
Case Study: Population, Poverty, and Development: China and India	302
7 Urbanization and Rural-Urban Migration: Theory and Policy	312
The Migration and Urbanization Dilemma	312
Urbanization: Trends and Projections	313
The Role of Cities	319
Industrial Districts	320
Efficient Urban Scale	322
The Urban Giantism Problem	323
First City Bias	325
Causes of Urban Giantism	325
The Urban Informal Sector	328
Policies for the Urban Informal Sector	330
Women in the Informal Sector	333
Urban Unemployment	334
Migration and Development	335
Toward an Economic Theory of Rural-Urban Migration	337
A Verbal Description of the Todaro Model	339
A Diagrammatic Presentation	341
Five Policy Implications	343
Summary and Conclusions: The Shape of a Comprehensive Migration and Employment Strategy	346
Case Study: Rural-Urban Migration and Urbanization in Developing Countries: India and Botswana	349
Appendix 7.1 A Mathematical Formulation of the Todaro Migration Model	360
8 Human Capital: Education and Health in Economic Development	363
The Central Roles of Education and Health	363
Education and Health as Joint Investments for Development	366

Multisector Models and Sectoral Projections	524
Project Appraisal and Social Cost-Benefit Analysis	525
Conclusions: Planning Models and Plan Consistency	528
Problems of Plan Implementation and Plan Failure	529
Theory versus Practice	529
Reasons for Plan Failure	530
Government Failure and the Resurgent Preference for Markets over Planning	531
The Market Economy	534
Sociocultural Preconditions and Economic Requirements	534
Role and Limitations of the Market in LDCs	535
The “Washington Consensus” on the State in Development and Its Limitations	537
Toward a New Consensus	539
Development Political Economy: Theories of Policy Formulation and Reform	541
Understanding Voting Patterns on Policy Reform	542
Institutions and Path Dependency	544
Democracy versus Autocracy: Which Facilitates Faster Growth?	545
Development Roles of NGOs and the Broader Citizen Sector	546
Trends in Governance and Reform	552
Tackling the Problem of Corruption	552
Decentralization	554
Development Participation	556
Development Policy and the State: Concluding Observations	559
■ Case Study: A National Development NGO: The BRAC Model	561

Part Three Problems and Policies: International and Macro

12 Trade Theory and Development Experience	577
Globalization: An Introduction	577
International Trade and Finance: Some Key Issues	580
Five Basic Questions about Trade and Development	582
Importance of Exports to Different Developing Nations	584
Demand Elasticities and Export Earnings Instability	585
The Terms of Trade and the Prebisch-Singer Thesis	586
The Traditional Theory of International Trade	587
Comparative Advantage	588
Relative Factor Endowments and International Specialization: The Neoclassical Model	589

Trade Theory and Development: The Traditional Arguments	593
Some Criticisms of Traditional Free-Trade Theory in the Context of Developing-Country Experience	594
Fixed Resources, Full Employment, and the International Immobility of Capital and Skilled Labor	595
Fixed, Freely Available Technology and Consumer Sovereignty	598
Internal Factor Mobility and Perfect Competition: Increasing Returns, Imperfect Competition, and Controlled Markets	599
The Absence of National Governments in Trading Relations	601
Balanced Trade and International Price Adjustments	602
Trade Gains Accruing to Nationals	602
Some Conclusions on Trade Theory and Economic Development Strategy	603
Case Study: Taiwan: A Development Success Story	607
13 The Trade Policy Debate: Export Promotion, Import Substitution, and Economic Integration	620
Trade Strategies for Development: Export Promotion versus Import Substitution	621
Export Promotion: Looking Outward and Seeing Trade Barriers	622
Import Substitution: Looking Inward but Still Paying Outward	626
The IS Industrialization Strategy and Results	629
Foreign-Exchange Rates, Exchange Controls, and the Devaluation Decision	635
Summary and Conclusions: Trade Optimists and Trade Pessimists	639
Trade Pessimist Arguments	639
Trade Optimist Arguments	640
The Industrialization Strategy Approach to Export Policy	641
Reconciling the Arguments: The Data and the Consensus	643
South-South Trade and Economic Integration: Looking Outward and Inward	645
The Growth of Trade among Developing Countries	645
Economic Integration: Theory and Practice	645
Regional Trading Blocs and the Globalization of Trade	647
Trade Policies of Developed Countries: The Need for Reform	650
Rich-Nation Tariff and Nontariff Trade Barriers and the 1995 Uruguay Round GATT Agreement	650
Case Study: Industrial and Export Policy: South Korea	654
14 Balance of Payments, Developing-Country Debt, and the Macroeconomic Stabilization Controversy	666
The Balance of Payments Account	667
General Considerations	667
A Hypothetical Illustration: Deficits and Debts	669

Financing and Reducing Payments Deficits	670
Some Initial Policy Issues	670
Trends in LDC Balance of Payments	672
The Debt Crisis of the 1980s	673
Background and Analysis	673
Origins of the Debt Crisis	675
Attempts at Alleviation: Macroeconomic Instability, IMF Stabilization Policies, and Their Critics	680
The IMF Stabilization Program	680
Tactics for Debt Relief	682
Has the Debt Problem Disappeared? Winners and Losers	684
Conclusions	685
Case Study: Mexico: Crisis, Debt Reduction, and the Struggle for Renewed Growth	687
Appendix 14.1 A Brief History and Analysis of the International Monetary Fund and the World Bank	696
15 Foreign Finance, Investment, and Aid: Controversies and Opportunities	706
The International Flow of Financial Resources	706
Private Foreign Direct Investment and the Multinational Corporation	707
Multinational Corporations: Size, Patterns, and Trends	708
Private Foreign Investment: Some Pros and Cons for Development	710
Private Portfolio Investment: Boon or Bane for LDCs?	716
Foreign Aid: The Development Assistance Debate	718
Conceptual and Measurement Problems	718
Amounts and Allocations: Public Aid	719
Why Donors Give Aid	721
Why LDC Recipients Accept Aid	727
The Growing Role of Nongovernmental Organizations in International Aid	728
The Effects of Aid	729
Case Study: Botswana: African Success Story at Risk	731
16 Finance and Fiscal Policy for Development	741
The Role of the Financial System	742
The Painful Road to Macroeconomic Stability	744
Differences between MDC and LDC Financial Systems	744
The Role of Central Banks	747
The Emergence of Development Banking	750
Informal Finance, Group Lending, and Microfinance Institutions for Small-Scale Enterprise	751

Reforming Financial Systems	754
Financial Liberalization, Real Interest Rates, Savings, and Investment	754
Financial Policy and the Role of the State	756
Debate on the Role of Stock Markets	758
Fiscal Policy for Development	759
Macrostability and Resource Mobilization	759
Taxation: Direct and Indirect	760
Public Administration: The Scarcest Resource	765
State-Owned Enterprises	767
Improving the Performance of SOEs	768
Privatization: Theory and Experience	769
Military Expenditures and Economic Development	770
Significance and Economic Impact	770
Case Study: Chile and Poland: Privatization: What, When, and to Whom?	775
17 Some Critical Issues for the Twenty-First Century	789
Global Independence and the Growth of Developing-World Markets	789
The Global Environment and the Developing World	790
Pollutants and Their Consequences for the Global Environment	790
MDC and LDC Contributions to Greenhouse Gases	790
Rain Forest Preservation as a Public Good: Who Should Pay?	792
Searching for Solutions: The 1992, 1997, and 2002 Summits	794
The Crisis in Sub-Saharan Africa	796
Globalization and International Financial Reform	798
Concluding Remarks	800
Glossary	805
Name Index	833
Subject Index	845