
Contents

Preface xiii

Preface to *The Less Developed Economy*, 1984 xvii

I Preliminaries 1

1 Introduction 3

1.1 The Scenario 3

1.2 Prospectus 6

1.3 Economic Rationality and Norms 8

1.4 On Weighing Scales Known to Be Biased 12

1.5 From Analysis to Prescription 13

II Macro Perspectives 15

2 The Vicious Circle of Poverty 17

2.1 Introduction 17

2.2 The Idea of the Vicious Circle 19

2.3 The Vicious Circle, Industrialization, and Balanced Growth 23

2.4 The O-Ring Theory of Low Productivity 33

2.5 Manifestations of Unemployment 39

| | | |
|----------|--|------------|
| 3 | Growth and Development | 43 |
| 3.1 | The Harrod-Domar Legacy | 43 |
| 3.2 | The Neoclassical Model | 46 |
| 3.3 | Endogenous Growth | 50 |
| 3.4 | Distribution and Development | 55 |
| 3.5 | Limitations | 62 |
| 4 | Inflation and Structural Disequilibrium | 65 |
| 4.1 | Employment Policy and the Inflation Barrier | 65 |
| 4.2 | Notes on Michał Kalecki | 66 |
| 4.3 | Structural Disequilibrium | 72 |
| 5 | Foreign Exchange and Trade: Some Considerations | 83 |
| 5.1 | Closed and Open Economies | 83 |
| 5.2 | Foreign Exchange Constraints and Growth: A Two-Gap Model | 88 |
| 5.3 | Aid and Welfare: A Paradoxical Theorem | 93 |
| 5.4 | The Terms of Trade in the Long Run | 98 |
| 6 | International Debt | 103 |
| 6.1 | The Agenda | 103 |
| 6.2 | The Background | 104 |
| 6.3 | Sovereign Risk and Rationality | 108 |
| 6.4 | Some Standard Models | 117 |
| 6.5 | Loan Pushing | 126 |
| 6.6 | Debt Forgiveness | 138 |
| 6.7 | Buybacks and Debt-Equity Swaps | 142 |

| | |
|---|------------|
| III The Dual Economy | 149 |
| 7 The Structure of a Dual Economy | 151 |
| 7.1 Introduction | 151 |
| 7.2 The Lewis Model | 153 |
| 7.3 Critiques | 157 |
| 8 Migration | 163 |
| 8.1 Migration and Urban Unemployment | 163 |
| 8.2 The Harris-Todaro Model | 166 |
| 8.3 Policy Issues | 173 |
| Appendix: The Monotonicity Proposition | 179 |
| 9 The Rural-Urban Wage Gap | 183 |
| 9.1 The Labor Turnover Model | 183 |
| 9.2 Extensions and Critique | 189 |
| 9.3 Labor Turnover and Duopsony: A Digression | 193 |
| 10 Unemployment and Surplus Labor | 197 |
| 10.1 Preliminary Remarks | 197 |
| 10.2 The Wage-Productivity Model | 198 |
| 10.3 Surplus Labor and the Efficiency Wage | 205 |
| 10.4 Surplus Labor in the Casual Labor Market | 208 |
| 10.5 A Comment on Dualism | 215 |
| 10.6 A Collusive Theory of Unemployment | 216 |
| IV The Rural Economy | 223 |
| 11 Stagnation in Backward Agriculture | 225 |
| 11.1 Introduction | 225 |
| 11.2 A Theory of Stagnation | 227 |

| | | |
|-----------|---|------------|
| 11.3 | The Debt Trap: By Chance or by Design? | 234 |
| 11.4 | Stagnation and Tenurial Laws | 238 |
| 11.5 | Alternative Explanations of Stagnation | 246 |
| 11.6 | Desiderata | 249 |
| 12 | Tenancy and Efficiency | 251 |
| 12.1 | Forms of Agricultural Land Tenure | 251 |
| 12.2 | Share Tenancy | 252 |
| 12.3 | Screening and Entrepreneurial Ability | 261 |
| 12.4 | Scale, Productivity, and Tenancy | 263 |
| 13 | Rural Credit Markets | 267 |
| 13.1 | The Lender's Risk Hypothesis | 267 |
| 13.2 | Monopolistic Markets | 269 |
| 13.3 | Market Fragmentation | 274 |
| 13.4 | Credit Policy | 278 |
| 14 | Interlinkage in Rural Markets | 281 |
| 14.1 | Antecedents | 281 |
| 14.2 | Potential Risk and the Emergence of Interlinkage | 282 |
| 14.3 | Partial Equilibrium in an Interlinked Market | 286 |
| 14.4 | Market Equilibrium | 291 |
| 14.5 | The Structure of Wages and Interest | 294 |
| 14.6 | The Intertemporal Earnings Approach | 299 |
| 14.7 | Response to Exogenous Changes | 303 |
| 14.8 | Moral Hazard and Interlinkage | 306 |
| 14.9 | Triadic Interactions | 312 |
| | Appendix: The Algebra of the Intertemporal Earnings Approach | 314 |

| | | |
|-----------|---|------------|
| V | Concluding Remarks | 317 |
| 15 | The Limits of Economic Analysis | 319 |
| 15.1 | Introduction | 319 |
| 15.2 | On Power, Custom, and Social Institutions | 319 |
| 15.3 | Some Comments on Method | 326 |
| 15.4 | Concluding Remarks | 328 |
| | References | 331 |
| | Name Index | 355 |
| | Subject Index | 361 |