

Contents

List of Figures and Tables	page xiii
Abbreviations and Measures	xvii
Preface to the Fourth Edition	xix

PART I. PRINCIPLES AND CONCEPTS OF DEVELOPMENT

1 Introduction	1
Nature and Scope of the Text, 1 / Organization of the Text, 3 / How the Other Two-Thirds Live, 3 / Globalization, Outsourcing, and Information Technology, 6 / India's and Asia's Golden Age of Development, 8 / Critical Questions in Development Economics, 10 / Limitations of Standard Economic Approaches, 11 / Guide to Readings, 12	
2 The Meaning and Measurement of Economic Development	15
Scope of the Chapter, 15 / Growth and Development, 15 / Classification of Countries, 20 / Problems with Using GNP to Make Comparisons over Time, 25 / Problems in Comparing Developed and Developing Countries' GNP, 27 / Comparison-Resistant Services, 30 / Purchasing-Power Parity (PPP), 30 / Measurement Errors for GNP or GDP Adjusted for Purchasing Power, 33 / A Better Measure of Economic Development?, 34 / Weighted Indices for GNP Growth, 39 / "Basic-Needs" Attainment, 42 / Development as Freedom and Liberation, 44 / Small Is Beautiful, 46 / Are Economic Growth and Development Worthwhile?, 46 / Conclusion, 48 / Guide to Readings, 51	
3 Economic Development in Historical Perspective	53
Scope of the Chapter, 53 / An Evolutionary Biological Approach to Development, 53 / Ancient and Medieval Economic Growth, 54 / World Leaders in GDP per Capita, 1500 to the Present, 55 / Beginnings of Sustained Economic Growth, 56 / The West and Afro-Asia: The 19th Century and Today, 57 / Capitalism and Modern Western Economic Development, 57 / Economic Modernization in the Non-Western World, 61 / Growth in the Last 100 to 150 Years, 74 / The Power of Exponential Growth – The United States and Canada: The Late 19th and 20th Centuries, 77 / Economic Growth in Europe and Japan after World War II, 81 /	

Recent Economic Growth in Developing Countries, 81 / The Convergence Controversy, 88 / Conclusion, 91 / Guide to Readings, 93

4 Characteristics and Institutions of Developing Countries 95

Scope of the Chapter, 95 / Varying Income Inequality, 95 / Political Framework, 95 / An Extended Family, 97 / Peasant Agricultural Societies, 97 / A High Proportion of the Labor Force in Agriculture, 97 / A High Proportion of Output in Agriculture, 97 / Inadequate Technology and Capital, 102 / Low Saving Rates, 102 / A Dual Economy, 103 / Varying Dependence on International Trade, 104 / Rapid Population Growth, 105 / Low Literacy and School Enrollment Rates, 106 / An Unskilled Labor Force, 107 / Poorly Developed Economic and Political Institutions, 107 / Conclusion, 119 / Guide to Readings, 120

5 Theories of Economic Development 123

Scope of the Chapter, 123 / The Classical Theory of Economic Stagnation, 124 / Marx's Historical Materialism, 126 / Rostow's Stages of Economic Growth, 128 / Vicious Circle Theory, 131 / Balanced Versus Unbalanced Growth, 132 / Coordination Failure: The O-Ring Theory of Economic Development, 137 / The Lewis–Fei–Ranis Model, 138 / Baran's Neo-Marxist Thesis, 142 / Dependency Theory, 144 / The Neoclassical Counterrevolution, 149 / The Neoclassical Growth Theory, 153 / The New (Endogenous) Growth Theory, 155 / Conclusion, 157 / Guide to Readings, 161 / Appendix to Chapter 5: The Harrod–Domar Model, 162

PART II. POVERTY ALLEVIATION AND INCOME DISTRIBUTION

6 Poverty, Malnutrition, and Income Inequality 165

Information Sparsity, 165 / Scope of the Chapter, 167 / Poverty as Multidimensional, 167 / \$1/day and \$2/day Poverty, 171 / Global and Regional Poverty, 173 / Concepts and Measures of Poverty: Amartya Sen's Approach, 176 / The Lorenz Curve and Gini Index (G): Measures of the Distribution of Income, 179 / The World Bank, Institute for International Economics, and Sala-i-Martin: Three Views of Poverty and Inequality, 181 / Early and Late Stages of Development, 186 / Low-, Middle-, and High-Income Countries, 188 / Slow and Fast Growers, 191 / Women, Poverty, Inequality, and Male Dominance, 191 / Accompaniments of Absolute Poverty, 194 / Identifying Poverty Groups, 195 / Case Studies of Countries, 196 / Policies to Reduce Poverty and Income Inequality, 202 / Income Equality Versus Growth, 210 / Poverty, Inequality, and War, 212 / Conclusion, 214 / Guide to Readings, 217

7 Rural Poverty and Agricultural Transformation 220

Scope of the Chapter, 221 / Agriculture's Role in Transforming the Economy, 221 / Major Rural Groups in Poverty, 222 / Rural Poverty by

World Region, 223 / Rural and Agricultural Development, 223 / Rural–Urban Differentials in 19th-Century Europe and Present-Day LDCs, 224 / Agricultural Productivity in DCs and LDCs, 224 / The Evolution of LDC Agriculture, 226 / Multinational Corporations and Contract Farming, 228 / Growth of Average Food Production in Sub-Saharan Africa, Other LDCs, and DCs, 229 / Food in India and China, 232 / LDC Food Deficits, 235 / Food Output and Demand Growth, 237 / Fish, Meat, and Grains, 238 / Factors Contributing to Low Income and Poverty in Rural Areas, 239 / Policies to Increase Rural Income and Reduce Poverty, 245 / Agricultural Biotechnology, 264 / Conclusion, 266 / Guide to Readings, 268

PART III. FACTORS OF GROWTH

8 Population and Development 271

Scope of the Chapter, 271 / World Population Throughout History, 271 / Population Growth in Developed and Developing Countries, 272 / World Population: Rapid but Decelerating Growth, 273 / The Demographic Transition, 277 / Is Population Growth an Obstacle to Economic Development?, 284 / Strategies for Reducing Fertility, 297 / Conclusion, 304 / Guide to Readings, 306

9 Employment, Migration, and Urbanization 308

The Production Function, 308 / Employment Problems in LDCs, 309 / Scope of the Chapter, 310 / Dimensions of Unemployment and Underemployment, 310 / Underutilized Labor, 311 / Labor Force Growth, Urbanization, and Industrial Expansion, 311 / Disguised Unemployment, 314 / Rural–Urban Migration, 316 / Western Approaches to Unemployment, 319 / Causes of Unemployment in Developing Countries, 321 / Policies for Reducing Unemployment, 325 / Conclusion, 330 / Guide to Readings, 332

10 Education, Health, and Human Capital 334

Scope of the Chapter, 334 / Investment in Human Capital, 335 / Economic Returns to Education, 335 / Noneconomic Benefits of Education, 337 / Education as Screening, 338 / Education and Equality, 339 / Education and Political Discontent, 342 / Secondary and Higher Education, 342 / Education via Electronic Media, 344 / Planning for Specialized Education and Training, 345 / Achieving Consistency in Planning Educated People, 346 / Vocational and Technical Skills, 347 / Reducing the Brain Drain, 348 / Socialization and Motivation, 350 / Health and Physical Condition, 352 / Mortality and Disability, 354 / AIDS, 355 / Conclusion, 357 / Guide to Readings, 359

11 Capital Formation, Investment Choice, Information Technology, and Technical Progress 361

Scope of the Chapter, 362 / Capital Formation and Technical Progress as Sources of Growth, 362 / Components of the Residual, 364 / Learning by

Doing, 366 / Growth as a Process of Increase in Inputs, 366 / The Cost of Technical Knowledge, 367 / Research, Invention, Development, and Innovation, 368 / Computers, Electronics, and Information Technology, 370 / Investment Criteria, 378 / Differences between Social and Private Benefit–Cost Calculations, 383 / Shadow Prices, 387 / Conclusion, 388 / Guide to Readings, 391

12 Entrepreneurship, Organization, and Innovation 392

Scope of the Chapter, 393 / Entrepreneur as Innovator, 393 / Entrepreneur as Gap-Filler, 395 / Functions of the Entrepreneur, 396 / Family as Entrepreneur, 398 / Multiple Entrepreneurial Function, 399 / Achievement Motivation, Self-Assessment, and Entrepreneurship, 399 / Theory of Technological Creativity, 400 / Occupational Background, 401 / Religious and Ethnic Origin, 402 / Social Origins and Mobility, 404 / Education, 406 / Gender, 407 / Technological Mobilization and Entrepreneurship in Socialist and Transitional Economies, 407 / Long-Term Property Rights, 409 / Conclusion, 409 / Guide to Readings, 411

13 Natural Resources and the Environment: Toward Sustainable Development 413

Sustainable Development, 413 / Importance of Natural Resources, 413 / Land, Natural Resources, and Environmental Resources, 414 / Petroleum, 414 / Dutch Disease, 418 / Resource Curse, 418 / Poverty and Environmental Stress, 420 / Grassroots Environmental Action, 421 / Market Imperfections and Policy Failures as Determinants of Environmental Degradation, 422 / Pollution, 426 / Contingent Valuation, 431 / Arid and Semiarid Lands, 432 / Tropical Climates, 433 / Global Public Goods: Climate and Biodiversity, 434 / Limits to Growth, 448 / Natural Asset Deterioration and the Measurement of National Income, 452 / Adjusting Investment Criteria for Future Generations, 455 / Living on a Lifeboat, 458 / Conclusion, 459 / Guide to Readings, 462

PART IV. THE MACROECONOMICS AND INTERNATIONAL ECONOMICS OF DEVELOPMENT

14 Monetary, Fiscal, and Incomes Policy and Inflation 465

Scope of the Chapter, 466 / Limitations of Monetary Policy, 466 / Tax Ratios and GNP Per Capita, 467 / Goals of Tax Policy, 468 / Political Constraints to Tax Policy, 476 / Expenditure Policy, 477 / Inflation, 478 / Financial Repression and Liberalization, 489 / A Capital Market and Financial System, 493 / Financial Instability, 494 / Islamic Banking, 495 / Conclusion, 496 / Guide to Readings, 499

15 Balance of Payments, Aid, and Foreign Investment 501

Scope of the Chapter, 501 / Globalization and Its Contented and Discontented, 501 / North–South Interdependence, 503 / Capital Inflows,

504 / Two Gaps, 507 / Stages in the Balance of Payments, 508 / Sources of Financing the Deficit: Aid, Remittances, Foreign Investment, and Loans, 508 / Perverse Capital Flows: From LDCs to DCs, 545 / Massive Capital Inflows to the United States, 546 / Conclusion, 547 / Guide to Readings, 549

16 The External Debt and Financial Crises 551

Scope of the Chapter, 551 / Definitions of External Debt and Debt Service, 552 / Origins of Debt Crises, 552 / Capital Flight, 555 / The Crisis from the U.S. Banking Perspective, 558 / Spreads and Risk Premiums, 559 / The Crisis from the LDC Perspective, 560 / Debt Indicators, 563 / Net Transfers, 564 / Major LDC Debtors, 564 / Financial and Currency Crises, 566 / World Bank and IMF Lending and Adjustment Programs, 568 / Fundamentalists versus the Columbia School (Stiglitz–Sachs), 569 / Changing the IMF and the International Financial Architecture, 571 / IMF Failed Proposals to Reduce Financial Crises, 573 / Debt Cancellation, 573 / Concerted Action, 575 / The IMF’s Sovereign Debt Restructuring Mechanism, 576 / Resolving the Debt Crises, 577 / The Policy Cartel, 586 / Conclusion, 587 / Guide to Readings, 589

17 International Trade 591

Scope of the Chapter, 591 / Does Trade Cause Growth?, 591 / Arguments for Free Trade: Comparative Advantage, 592 / Arguments for Tariffs, 596 / Path Dependence and Comparative Advantage, 603 / The Application of Arguments For and Against Free Trade to Developed Countries, 603 / Shifts in the Terms of Trade, 608 / Import Substitution and Export Expansion in Industry, 612 / Global Production Sharing and Borderless Economies, 615 / DC Import Policies, 622 / Expanding Primary Export Earnings, 626 / Agricultural Protection, 628 / Trade in Services, 630 / The Mankiw Debate, 632 / Intellectual Property Rights, 632 / Foreign Exchange Rates, 633 / Domestic Currency Overvaluation, 634 / Avoiding Bias against Exports, 635 / Domestic Currency Devaluation, 635 / The Real Exchange Rate (RER), 636 / Dual Exchange Rates, 637 / Exchange-Rate Adjustment and Other Prices, 638 / The Impossible Trinity: Exchange-Rate Stability, Free Capital Movement, and Monetary Autonomy, 638 / Currency Crises, 639 / Managed Floating Plus, 641 / Regional Integration, 642 / The Euro and U.S. Dollar as LDC Reserve Currencies, 645 / Promotion and Protection of Infant Entrepreneurship, 647 / Black Markets and Illegal Transactions, 648 / Conclusion, 649 / Guide to Readings, 652

PART V. DEVELOPMENT STRATEGIES

18 Development Planning and Policy Making: The State and the Market 655

State Planning as Ideology for New States, 656 / Afro–Asian Socialism, 657 / *Dirigiste* Debate, 657 / Scope of the Chapter, 658 / Soviet Planning, 658 / Indian Planning, 659 / The Market versus Detailed Centralized Planning,

661 / Indicative Plans, 665 / Planning Goals and Instruments, 665 / The Duration of Plans, 666 / Planning Models and Their Limitations, 667 / Input–Output Tables and Other Economic Data, 668 / Public Policies Toward the Private Sector, 673 / Public Expenditures, 673 / Conclusion, 674 / Guide to Readings, 676	
19 Stabilization, Adjustment, Reform, and Privatization	677
The World Bank, 677 / International Monetary Fund, 678 / Internal and External Balance, 679 / Critique of the World Bank and IMF Adjustment Programs, 681 / A Political Economy of Stabilization and Adjustment, 683 / Empirical Evidence, 685 / The Sequence of Trade, Exchange Rate, and Capital Market Reform, 689 / Public Enterprises and the Role of Public Goods, 690 / Arguments for Public Enterprises, 691 / Definition of State-Owned Enterprises, 691 / Importance of the State-Owned Sector, 691 / Performance of Private and Public Enterprises, 692 / Determinants of Public Enterprise Performance, 695 / Privatization, 697 / Some Pitfalls of Privatization, 698 / Public Enterprises and Multinational Corporations, 699 / Adjustment and Liberalization in Eastern Europe, the Former Soviet Union, and China, 700 / The Collapse of State Socialism and Problems with Subsequent Economic Reform in Russia, 704 / The Transition from Socialism to the Market in Poland, 718 / The Transition to a Market Economy in China, 719 / Lessons for LDCs from the Russian, Polish, and Chinese Transitions to the Market, 732 / Guide to Readings, 735	
Glossary	737
Bibliography	759
Index	827