

## Contents

<i>Comparing the income per capita and HDI measures</i>	56
<i>Economic growth and equity: goals at odds?</i>	57
<i>Summary and conclusions</i>	63
<i>Questions and exercises</i>	63
<i>Notes</i>	66
<i>References</i>	69
<i>Appendix 2A</i>	69
<i>Appendix 2B</i>	71

### 3 Development in historical perspective 73

<i>Introduction</i>	73
<i>The origins of economic development</i>	75
<i>Colonialism</i>	76
<i>The lasting effects of colonialism and path dependency</i>	78
<i>Forms of European colonialism</i>	79
<i>Merchant capital: from old colonialism to new colonialism</i>	80
<i>British rule in India: the transition from merchant capital to industrial capital</i>	81
<i>The functional role of colonialism</i>	84
<i>The colonial elite: the enduring significance of collaboration</i>	86
<i>De-industrialization in the colonies</i>	87
<i>Colonial industrialization?</i>	89
<i>Measuring the impact of colonialism</i>	91
<i>The terms of trade and comparative advantage</i>	91
<i>Credit and underdevelopment</i>	93
<i>The new imperialism: 1870–1914</i>	95
<i>Mature colonialism and progressive colonialism</i>	96
<i>British and French colonialism in West Africa: 1945–65</i>	96
<i>Progressive colonialism</i>	97
<i>Decolonization</i>	98
<i>Point Four Aid</i>	98
<i>Economic dualism</i>	100
<i>Summary and conclusions</i>	102
<i>Questions for review</i>	103
<i>Notes</i>	103
<i>References</i>	105

### PART 2

### Theories of development and underdevelopment

### 4 Classical and neoclassical theories 109

<i>Introduction</i>	109
<i>Adam Smith: a theory of competitive capitalism and growth</i>	111

10	<i>Malthus's theory of population and economic growth</i>	114
	<i>Ricardo's theories of diminishing returns and comparative advantage</i>	118
	<i>Marx's analysis of capitalist development: a brief digression</i>	125
	<i>Neoclassical growth models</i>	127
	<i>Summary and conclusions</i>	131
	<i>Questions and exercises</i>	133
	<i>Notes</i>	136
	<i>References</i>	139

## 5 Developmentalist theories of economic development 140

<i>Introduction</i>	140
<i>The theory of the big push</i>	142
<i>A theory of balanced growth</i>	145
<i>Unbalanced growth</i>	147
<i>Growth with unlimited supplies of labor</i>	151
<i>Utilizing the economic surplus</i>	157
<i>Stages of growth theory</i>	159
<i>Questions and exercises</i>	164
<i>Notes</i>	164
<i>References</i>	166

## 6 Heterodox theories of economic development 168

<i>Introduction</i>	168
<i>The Latin American structuralists</i>	169
<i>The institutionalists</i>	180
<i>Dependency analysis</i>	185
<i>Classical Marxism</i>	194
<i>Questions and exercises</i>	196
<i>Notes</i>	197
<i>References</i>	199

## PART 3 The structural transformation 201

### 7 The state as a potential agent of transformation: from neoliberalism to embedded autonomy 203

<i>Introduction</i>	203
<i>Origins of the neoliberal paradigm</i>	205
<i>Government in the process of development</i>	210
<i>The neoliberalism of Deepak Lal</i>	213
<i>The new political economy</i>	216

<i>An assessment of the neoliberal theory of the state</i>	217
Embedded autonomy	220
Depicting state forms	231
Summary and conclusions	233
Questions and exercises	234
Notes	234
References	236

## 8 Endogenous growth theories and new strategies for development 239

Introduction	239
The income convergence controversy	240
Income convergence/divergence, path dependence, and poverty traps	243
Endogenous growth models	246
Measuring the impact of key inputs in endogenous growth models: growth accounting	254
Technical efficiency change	259
Conclusions	262
Questions and exercises	262
Notes	264
References	268

## 9 The initial structural transformation: initiating the industrialization process 271

Introduction: an industrialization imperative?	271
Structural change and economic growth	273
The Lewis dual-economy model of structural transformation: surplus labor	275
Initiating the structural transformation process: industrialization	276
Government and easy ISI	281
Infant industry tariffs: overcoming transitional inefficiencies	284
Static and dynamic welfare effects of an infant industry tariff: to do or not to do?	288
The elimination of infant industry protection: when is enough enough?	291
The importance of embedded state autonomy to successful ISI	292
Potential gains from the easy ISI stage of industrialization	295
Para-state firms and social capital	297
Measuring the success of easy ISI	298
Summary and conclusions	298
Questions and exercises	300
Notes	303
References	306

*Continuing structural change* 308  
*Industrial sequencing: beyond easy ISI* 309  
*Foreign exchange shortages* 310  
*Easy export substitution industrialization: the optimal strategy switch after easy ISI* 312  
*Difficult ISI: a sub-optimal strategy switch immediately after easy ISI* 317  
*Endowments and policies: explaining strategy switches* 322  
*Subsequent strategy switches* 325  
*Continuing strategy switches* 331  
*What can other less-developed nations learn?* 332  
*Where we are headed, where we have been* 333  
*Questions and exercises* 334  
*Notes* 336  
*References* 340

*Introduction* 341  
*Inadequate infrastructural investment* 346  
*Primary product mono-exporters* 350  
*Peasant agriculture and small-scale cultivators* 355  
*Are peasants efficient producers?* 358  
*High-yield varieties, biotechnology, genetically modified food crops, and rural productivity* 362  
*The developmental problems of cash crop farmers* 367  
*Large landholdings and agrarian backwardness* 371  
*The structuralist view* 373  
*Transnational agribusiness* 374  
*Government in agricultural development* 376  
*Land reform* 379  
*Land reform in Mexico* 382  
*Korea's Saemaul Undong* 383  
*Questions and exercises* 385  
*Notes* 387  
*References* 388

*Introduction* 391  
*A population problem?* 392  
*The natural and the actual rate of population growth* 394  
*The demographic transition* 396

800	<i>Determinants of the crude birth rate: understanding the dynamics of population growth</i>	400
	<i>The role of children in less-developed and developed economies</i>	402
	<i>Human capital accumulation: augmenting initial endowments</i>	405
	<i>Human capital accumulation and market failure: what is the role of government?</i>	408
	<i>Population growth and human capital accumulation</i>	413
	<i>Summary and conclusions</i>	415
	<i>Questions and exercises</i>	415
	<i>Notes</i>	418
	<i>References</i>	420
13	<b>Technology and development</b>	422
	<i>Introduction</i>	422
	<i>What is technology?</i>	423
	<i>A technological strategy of development</i>	425
	<i>Total factor productivity and national technology</i>	429
	<i>Technology-centered development</i>	434
	<i>Industrial innovation: continuing technological progress</i>	439
	<i>Industrial policies to promote an ITLC</i>	440
	<i>Macropolicies and technological change</i>	442
	<i>Summary and conclusions</i>	443
	<i>Questions and exercises</i>	444
	<i>Notes</i>	445
	<i>References</i>	447
PART 4		
	<b>Problems and issues</b>	449
14	<b>Transnational corporations and economic development</b>	451
	<i>Introduction</i>	451
	<i>Import substitution industrialization and the TNCs</i>	452
	<i>The globally integrated production system</i>	455
	<i>Foreign direct investment</i>	459
	<i>Who in the less-developed countries gains from FDI?</i>	461
	<i>Capital formation</i>	464
	<i>Potential costs of TNCs to a host country</i>	469
	<i>Weak linkages, thin globalization</i>	471
	<i>Export promotion and the fallacy of composition</i>	474
	<i>Long-term costs of TNCs: the potential for environmental degradation</i>	475
	<i>Export processing zones and the problems of small nations</i>	475

<i>Vertically integrated TNCs and development prospects</i>	480
<i>Bargaining with the TNCs</i>	482
<i>FDI in Asia and Latin America</i>	484
<i>Summary and conclusions</i>	487
<i>Questions and exercises</i>	488
<i>Notes</i>	488
<i>References</i>	489
<b>15 Macroeconomic equilibrium: the external balance</b>	491
<i>Introduction</i>	491
<i>The balance of payments</i>	492
<i>The current account: foreign exchange earnings and spending</i>	493
<i>The capital and financial account: foreign exchange borrowing and lending</i>	497
<i>Net errors and omissions</i>	501
<i>What does it mean to say that a country has a balance of payments problem?</i>	502
<i>Exchange rates</i>	503
<i>Types of exchange rate regimes</i>	504
<i>Real versus nominal exchange rates</i>	512
<i>Exchange rates and the balance of payments</i>	515
<i>Currency overvaluation and the possible impact on the balance of payments</i>	517
<i>“Good” external imbalances</i>	520
<i>Summary and conclusions: monitoring the external balances</i>	522
<i>Questions and exercises</i>	524
<i>Notes</i>	527
<i>References</i>	528
<b>16 The debt problem and development</b>	529
<i>Introduction</i>	529
<i>Origins of the 1970s–1980s external debt dilemma</i>	530
<i>Petrodollar recycling</i>	531
<i>Dimensions of the debt crisis</i>	533
<i>External borrowing, adjustment policies, and savings</i>	538
<i>The debt service obligation: the real cost of debt repayment</i>	541
<i>The 1980s debt crisis</i>	543
<i>Longer-term efforts to overcome the debt crisis</i>	545
<i>Debt overhang and future economic growth</i>	546
<i>Summary and conclusions</i>	548
<i>Questions and exercises</i>	549
<i>Notes</i>	551
<i>References</i>	553

## 17 International institutional linkages: the International Monetary Fund, the World Bank, and foreign aid

*Introduction* 555

*The IMF* 556

*Objectives of the IMF* 562

*Do IMF programs work?* 567

*The World Bank* 570

*Critiques of World Bank and IMF SALS* 577

*Sustainable development, comprehensive development framework, and a knowledge bank?* 578

*The Poverty Reduction Strategy approach* 579

*Foreign aid* 583

*Conclusion* 589

*Questions and exercises* 591

*Notes* 592

*References* 593

*Index*

555

597