CONTENTS

LIST OF EXHIBITS xv
PREFACE xvii
USING THIS BOOK xix

I. INTRODUCTION 1
 Overview 1

I.A. MEASURING DEVELOPMENT 5
 Note I.A.1. The Evolution of Measures of Development 5
 Selection I.A.1. Why Are Services Cheaper in the Poor Countries? 13
 Comment I.A.1. The Productivity and Factor Proportions Explanations Again 17
 Selection I.A.2. Burden of Poverty 18
 Comment I.A.2. Capabilities and Entitlements 30

I.B. ECONOMIC PERFORMANCE OF LESS DEVELOPED COUNTRIES:

THE RECENT PAST 35
 Selection I.B.1. The East Asian Miracle 36
 Selection I.B.2. East Asian Crisis: An Overview 42
 Selection I.B.3. Completing China’s Move to the Market 48
 Selection I.B.5. The Launching of the Reforms 58
 Note I.B.1. The Triumph of Laissez-Faire? 64
 Selection I.B.7. Explaining Africa’s Development Experiences 65

I.C. THE DISCIPLINE OF DEVELOPMENT ECONOMICS 69
 Note I.C.1. Evolution of Development Economics 69
 Comment I.C.1. Classical Growth Theory 72
 Comment I.C.2. Development Economics as a Special Subject 73
 Note I.C.2. New Endogenous Growth Theory 75
II. HISTORICAL PERSPECTIVE

Overview: The Division of the World

Selection II.1. The Spread of Economic Growth to the Third World: 1850–1980
Comment II.1. State-owned Enterprises and Privatization
Selection II.2. The Division of the World and the Factoral Terms of Trade
Note II.1. Why Not Export First?
Note II.2. The Lewis Model of the World Economy
Selection II.3. Agricultural Productivity, Comparative Advantage, and Economic Growth
Comment II.2. Income Elasticity of Demand for Food in the Matsuyama Model
Selection II.4. Income Distribution, Market Size, and Industrialization
Comment II.3. Minimum Market Size in the Murphy–Shleifer–Vishny Model
Selection II.5. Divergence, Big Time

III. SAVINGS AND INVESTMENT

Overview: Savings—The Engine of Growth?

Note III.1. The AK Model
Selection III.1. Is Fixed Investment the Key to Economic Growth?
Selection III.2. Interest Rates in the Organized Money Markets of Underdeveloped Countries and Interest Rates Outside the Organized Money Markets of Underdeveloped Countries
Selection III.3. Financial Liberalization in Retrospect: Interest Rate Policies in LDCs
Comment III.1. Financial Liberalization
Selection III.4. Financial Development and Economic Growth in Underdeveloped Countries
Selection III.5. Financial Development and Economic Growth: Views and Agenda
Selection III.6. Good Policy or Good Luck? Country Growth Performance and Temporary Shocks
Comment III.2. Policies Versus Shocks: A Closer Look

IV. INTERNATIONAL TRADE AND TECHNOLOGY TRANSFER

Overview

IV.A. TRADE

Selection IV.A.1. Natural Resource Abundance and Economic Growth
Note IV.A.1. Import-substituting Industrialization and the Infant-Industry Argument
Selection IV.A.2. Typology in Development Theory: Retrospective and Prospects
Selection IV.A.3. An Exposition and Exploration of Krueger’s Trade Model
Comment IV.A.1. Moving Up the Ladder and Changes in Relative Costs of Factors of Production
Selection IV.A.5. Exchange Control, Liberalization, and Economic Development 187
Selection IV.A.6. Trade Policy Reform
  Comment IV.A.2. Stabilization-cum-Liberalization Programs 193
Selection IV.A.7. Getting Interventions Right: How South Korea and Taiwan Grew Rich 195
Note IV.A.2. Tradeability of Intermediate Goods, Linkages, and Bottlenecks 202

IV.B. FOREIGN CONTACT AND TECHNOLOGY TRANSFER 204
  Note IV.B.1. Learning in International Production Networks 204
Selection IV.B.1. Technology Gaps Between Industrial and Developing Countries: Are There Dividends for Latecomers? 206
Selection IV.B.2. The Benefits of FDI 209
  Note IV.B.2. Trade as Enemy, Handmaiden, and Engine of Growth 211

V. HUMAN RESOURCES 213
  Overview 213
  V.A. EDUCATION 216
  Note V.A.1. Three Views of the Contribution of Education to Economic Growth 216
  Selection V.A.2. Economic Impact of Education
    Comment V.A.1. Ability Differences, Spillovers, and the Returns to Education 226
    Comment V.A.2. Education and Development 227
  Selection V.A.3. Interpreting Recent Research on Schooling in Developing Countries 229
  Selection V.A.4. Schooling Quality in a Cross Section of Countries 234
  Selection V.A.5. Creating Human Capital 237
  V.B. POPULATION 241
  Note V.B.1. The Size of the World’s Population and the Size of the Average Family 241
  Selection V.B.1. Economic Approaches to Population Growth 242
  V.C. HEALTH AND NUTRITION 249
  Selection V.C.1. Health and Nutrition 254
  Selection V.C.2. Investing in Health 257
  V.D. GENDER AND DEVELOPMENT 263
  Selection V.D.1. Women’s Education in Developing Countries: An Overview 263
| Selection V.D.2. Women in the Labor Force | 271 |
| Selection V.D.3. Women, Poverty, and Development in the Third World | 275 |
| Selection V.D.4. Women in Developing Countries | 280 |
| Selection V.D.5. Missing Women | 283 |
| Comment V.D.1. The Grameen Bank and “Empowerment” of Women | 287 |
| Comment V.D.2. Gender-Aware Analysis | 288 |

### VI. MIGRATION AND THE URBAN INFORMAL SECTOR

Overview: The Evolving View of Urban Underemployment, the Informal Sector, and Their Connection with Rural-Urban Migration

| Selection VI.1. Urban Growth in Developing Countries: A Demographic Reappraisal | 293 |
| Selection VI.2. Economic Development with Unlimited Supplies of Labor | 297 |
| Selection VI.3. A Model of Labor Migration and Urban Unemployment in Less Developed Countries | 300 |
| Note VI.1. The Lewis Versus the Harris–Todaro View of Underemployment in Less Developed Countries | 302 |
| Selection VI.4. Wage Spillover and Unemployment in a Wage-gap Economy: The Jamaican Case | 307 |
| Note VI.2. Econometric Studies of Migration | 312 |
| Selection VI.5. The Informal Sector | 313 |
| Selection VI.8. The Role of the Informal Sector in the Migration Process: A Test of Probabilistic Migration Models and Labour Market Segmentation for India | 323 |

### VII. AGRICULTURE

Overview

| VII.A. THE IMPORTANCE OF AGRICULTURE FOR ECONOMIC DEVELOPMENT | 332 |
| Selection VII.A.1. Development Strategy in a Limping World Economy | 332 |
| Note VII.A.1. Food, Hunger, Famine | 335 |

| VII.B. DESIGNING AN AGRICULTURAL STRATEGY | 336 |
| Selection VII.B.1. Some Theoretical Aspects of Agricultural Policies | 336 |
| Comment VII.B.1. The Green Revolution | 345 |
Comment VII.B.2. Land Reform
346
Selection VII.B.3. The Agricultural Transformation
347
Note VII.B.1. Induced Technical and Institutional Change
350

VII.C. MICROECONOMICS OF THE RURAL SECTOR
352
Selection VII.C.1. The New Development Economics
352
Selection VII.C.2. Contractual Arrangements, Employment, and Wages in
Rural Labor Markets: A Critical Review
356
Selection VII.C.3. The New Institutional Economics and Development Theory
359
Selection VII.C.4. Rural Credit Markets and Institutions in Developing Countries:
Lessons for Policy Analysis from Practice and Modern Theory
361
Selection VII.C.5. A Survey of Agricultural Household Models:
Recent Findings and Policy Implications
364
Comment VII.C.1. Supply Functions and Price Responsiveness
366

VII.D. AGRICULTURAL PRICING POLICY AND URBAN BIAS
368
Note VII.D.1. Agricultural Pricing Policy
368
Selection VII.D.1. Urban Bias
370
Comment VII.D.1. Rural–Urban Terms of Trade
373
Comment VII.D.2. The Rural–Urban Divide
373

VIII. INCOME DISTRIBUTION
375
Overview
375
Note VIII.1. Measurement of Income Inequality
379

VIII.A. THE IMPACT OF DEVELOPMENT ON INCOME DISTRIBUTION
382
Selection VIII.A.1. Economic Growth and Income Inequality
382
Selection VIII.A.2. Inequality, Poverty, and Development
387
Selection VIII.A.3. Growth and Income Distribution
391
Selection VIII.A.4. A Note on the U Hypothesis Relating Income Inequality
and Economic Development
394
Selection VIII.A.5. Economic Development, Urban Underemployment, and
Income Inequality
395
Comment VIII.A.1. The Informal Sector, Intraurban Inequality, and the Inverted U
399

VIII.B. THE IMPACT OF INCOME DISTRIBUTION ON DEVELOPMENT
401
Selection VIII.B.1. Distributive Politics and Economic Growth
401
Selection VIII.B.2. Income Distribution, Political Instability, and Investment
404
### VIII.C. CASE STUDIES

- **Selection VIII.C.1.** Economic Growth and Income Distribution in Taiwan, 1953–64
  - Page 409
- **Selection VIII.C.2.** Brazilian Size Distribution of Income
  - Page 417

### IX. POLITICAL ECONOMY

**Overview**
- Page 421

**IX.A. THE (PROPER) ROLE OF THE STATE IN LESS DEVELOPED COUNTRIES**
- **Selection IX.A.1.** Public Policy and the Economics of Development
  - Page 426
  - **Comment IX.A.1.** Development Planning
    - Page 431
  - **Comment IX.A.2.** Governing the Market
    - Page 432

**IX.B. RENT SEEKING AND GOVERNMENT FAILURE**
- **Note IX.B.1.** What Are Rents?
  - Page 434
- **Selection IX.B.1.** The Political Economy of the Rent-Seeking Society
  - Page 437
  - **Comment IX.B.1.** Complete Rent Dissipation Through Competitive Rent Seeking in the Harris–Todaro Model
    - Page 440
  - **Comment IX.B.2.** The Relationship Between Rent Seeking and Corruption
    - Page 440
- **Selection IX.B.2.** Neoclassical Political Economy, the State, and Economic Development
  - Page 442
- **Selection IX.B.3.** India
  - Page 446
- **Selection IX.B.4.** Governments and Agricultural Markets in Africa
  - Page 450
- **Selection IX.B.5.** Africa’s Growth Tragedy: Policies and Ethnic Divisions
  - Page 456

**IX.C. STATE CAPACITY**
- **Selection IX.C.1.** Institutions and Economic Performance:
  - Cross-Country Tests Using Alternative Institutional Measures
    - Page 471
- **Selection IX.C.2.** The State as Problem and Solution:
  - Predation, Embedded Autonomy, and Structural Change
    - Page 476
- **Selection IX.C.3.** Taking Trade Policy Seriously:
  - Export Subsidization as a Case Study in Policy Effectiveness
    - Page 495
- **Selection IX.C.4.** Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries
  - Page 508

### X. DEVELOPMENT AND THE ENVIRONMENT

**Overview: Environmental Problems in Less Versus More Developed Countries**
- Page 517
- **Selection X.1.** Development and the Environment
  - Page 520
  - **Comment X.1.** The “Environmental Kuznets Curve”
    - Page 529
- **Selection X.2.** North–South Trade and the Global Environment
  - Page 531
<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>xiii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comment X.2. Empirical Studies of the Impact of International Trade on the Environment in Less Developed Countries</td>
<td>533</td>
</tr>
<tr>
<td>Selection X.3. Deforestation and the Rule of Law in a Cross Section of Countries</td>
<td>535</td>
</tr>
<tr>
<td>Selection X.4. Determinants of Pollution Abatement in Developing Countries: Evidence from South and Southeast Asia</td>
<td>544</td>
</tr>
<tr>
<td>Selection X.5. Sustainable Development: Ecology and Economic Progress</td>
<td>554</td>
</tr>
<tr>
<td>Comment X.3. Weak Sustainability, Genuine Savings, and Green National Accounting</td>
<td>559</td>
</tr>
</tbody>
</table>

APPENDIX: HOW TO READ A REGRESSION TABLE 561
INDEX OF SELECTION AUTHORS 567
INDEX 569
EXHIBITS

Exhibit I.A.1. Basic Indicators
Exhibit I.A.2. Exchange-Rate-Deviation Index in Relation to Real GDP per Capita,
   Thirty-four Countries, 1975.
Exhibit I.A.3. The Human Development Index
Exhibit I.A.4. Similar Income, Different Human Development, 1993
Exhibit I.A.5. Human Development Index Rankings
Exhibit I.B.1. Balance Sheet of Human Development—Developing Countries
Exhibit III.1. Economic and Social Indicators in Fast and Slow Growth Economies
Exhibit IV.A.1. Share of Primary Products in Merchandise Exports and Index of
   Export Concentration
Exhibit V.C.1. Health Indicators
Exhibit V.C.2. Life Expectancies and Health Expenditures in Selected Countries
Exhibit VI.1. Self-employment and Unpaid Family Workers Circa 1990
Exhibit VII.D.1. Rural and Urban Poverty in the 1980s
Exhibit IX.A.1. Market Failure and State Intervention
The economics of development is one of the most exciting subjects in social science. Why, two centuries after the Industrial Revolution, are poverty and its attendant ills so prevalent in most of the world? And what can be done about it? Nobel Prize–winning economist Robert Lucas wrote of the questions addressed by development economics, “Once one starts to think about them, it is hard to think about anything else” [“On the Mechanics of Economic Development,” Journal of Monetary Economics 22 (July 1988), p. 5].

Development economics is also a very frustrating subject. Unlike most areas within economics, there exists no consensus on what the student should know. Two scholars can with equal justification write two completely different textbooks.

The aim of this book is to convey as much of the excitement of development economics and as little of the frustration as possible. To this end we have avoided writing the ordinary type of textbook, instead culling the most insightful readings from the diffuse field of development and bringing them into conceptual order. By using this distinctive approach we allow for a variety of perspectives while keeping in sight the most important overarching themes. The section “Using This Book” (p. xix) describes our strategy of combining excerpted readings (“Selections”) with our own “Overviews,” “Notes,” “Comments,” and “Exhibits.”

After being responsible for the previous six editions of Leading Issues in Economic Development over the past 35 years, Professor Meier has now selected Professor Rauch to upgrade and modernize this seventh edition and to perpetuate subsequent editions. This edition is mainly Professor Rauch’s effort. It reflects his desire to strengthen the analytical and quantitative dimensions of development economics and to illuminate contemporary—and future—problems of development policymaking. In all, it provides fresh and serious attention to the interplay between development experience, changing views of economists, and policy.

While this seventh edition maintains the format of previous editions, the inclusion of a new author has brought many changes relative to the sixth edition:

- New chapters on income distribution and on development and the environment have been added while other chapters have been consolidated.
- Most of the Selections and Notes are new.
- The representation in the Selections of articles from leading professional journals has increased.
- The Selections make greater use of statistical analysis, and an Appendix, “How to Read a Regression Table,” has been added to ensure that these Selections are easily accessible to all readers.

We wish to express our appreciation to the authors and publishers who have granted permission to use excerpts from publications for which copyrights exist. Specific acknowledgment is given with each Selection. Some parts of the original versions of the excerpted materials have been omitted out of consideration for relevance and to avoid repetition. In some instances, tables and diagrams have been renumbered and the footnotes have been deleted or renumbered.

We would like to thank a number of extremely busy people who generously took time out to provide advice or to comment on portions of the manuscript: Richard Carson, Graham Elliott, Peter Evans, and Dani Rodrik. We would also like to acknowledge the valuable research assistance of Neville Francis, Timothy Kane, Paula Lindsay, and Donald McCubbin. James Rauch wishes to thank his wife, Doris
Bittar, for making room in her life for this book during its final months of preparation. Kenneth MacLeod has been a very helpful and patient editor. Finally, we are grateful to the entire profession of social scientists whose writings on development provide the foundation for this volume.
Instructors and students can use this book more like a main text or more like a supplementary reader. To facilitate the latter approach the contents have been designed to allow individual freedom of choice in deciding what chapters and Selections to read and in what sequence. If the former approach is taken, the organizational and thematic guidance of the chapter Overviews can be followed and the chapters can be read in numerical order.

The chapters include the following materials:

**Overviews:** These are introductory essays that show how the subsequent chapter materials fit together and elucidate one or more overarching themes. They sometimes contain ideas that are not explicitly presented by the other chapter materials.

**Selections:** These are the core of the book. They present a broad sample of the major contributions by scholars and practitioners on the central issues in economic development. Each Selection has been edited for the sake of brevity and to highlight the points of greatest relevance for the chapter in which it appears.

**Notes:** These serve two purposes. One is to expound important ideas that are extant in the literature but are not presented as clearly or simply as we would like. The other is to present more original material that complements the Selections.

**Comments:** Like the Notes, these serve two purposes. One is to clarify or expand upon the immediately preceding Selection. The other is to suggest additional readings on the subject of the immediately preceding Selection.

**Exhibits:** These are tables and charts that provide empirical illustrations and data on topics under discussion. Starting with Selection III.1, some Selections include regression tables. Readers without econometric training are urged to refer to the Appendix to get the most insight from these Selections.
## INDEX OF SELECTION AUTHORS

<table>
<thead>
<tr>
<th>Ahluwalia, Montek S., 387–90</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alesina, Alberto, 401–3, 404–8</td>
</tr>
<tr>
<td>Balassa, Bela, 180–86</td>
</tr>
<tr>
<td>Banerjee, Biswajit, 323–27</td>
</tr>
<tr>
<td>Barbier, Edward, 554–59</td>
</tr>
<tr>
<td>Bardhan, Pranab, 359–60, 446–49</td>
</tr>
<tr>
<td>Barro, Robert J., 234–36</td>
</tr>
<tr>
<td>Bates, Robert H., 450–55</td>
</tr>
<tr>
<td>Behrman, Jere R., 254–56</td>
</tr>
<tr>
<td>Benhabib, Jess, 218–22</td>
</tr>
<tr>
<td>Bhagwati, Jagdish N., 13–17, 187–90</td>
</tr>
<tr>
<td>Binswanger, Hans P., 356–58</td>
</tr>
<tr>
<td>Birdsall, Nancy, 242–48</td>
</tr>
<tr>
<td>Blomström, Magnus, 126–28</td>
</tr>
<tr>
<td>Braverman, A., 361–63</td>
</tr>
<tr>
<td>Buvinic, Mayra, 275–79</td>
</tr>
<tr>
<td>Cardoso, Eliana, 52–57</td>
</tr>
<tr>
<td>Chichilnisky, Graciela, 531–33</td>
</tr>
<tr>
<td>Collier, Paul, 280–82</td>
</tr>
<tr>
<td>Deacon, Robert T., 535–43</td>
</tr>
<tr>
<td>Deardorff, Alan V., 175–78</td>
</tr>
<tr>
<td>Deolalikar, Anil B., 254–56</td>
</tr>
<tr>
<td>Easterly, William, 147–53, 456–70</td>
</tr>
<tr>
<td>Edwards, Sebastian, 58–60</td>
</tr>
<tr>
<td>Evans, Peter B., 476–94, 508–15</td>
</tr>
<tr>
<td>Fei, John C. H., 409–16</td>
</tr>
<tr>
<td>Fields, Gary S., 318–22, 391–93</td>
</tr>
<tr>
<td>Fishlow, Albert, 52–57, 417–20</td>
</tr>
<tr>
<td>Guasch, J. L., 361–63</td>
</tr>
<tr>
<td>Hanushek, Eric A., 229–33</td>
</tr>
<tr>
<td>Harrison, Ann, 209–10</td>
</tr>
<tr>
<td>Hettige, Hemamala, 544–53</td>
</tr>
<tr>
<td>Hill, M. Anne, 263–70</td>
</tr>
<tr>
<td>Huq, Mainul, 544–53</td>
</tr>
<tr>
<td>ILO Mission, 313–15</td>
</tr>
<tr>
<td>International Labour Office, 271–74</td>
</tr>
<tr>
<td>Johnston, Bruce F., 340–45</td>
</tr>
<tr>
<td>Keefer, Philip, 471–75</td>
</tr>
<tr>
<td>Khalily, Basqu, 285–87</td>
</tr>
<tr>
<td>Khan, Zahed, 285–87</td>
</tr>
<tr>
<td>Khandker, Shahidur R., 285–87</td>
</tr>
<tr>
<td>King, Elizabeth M., 263–70</td>
</tr>
<tr>
<td>Knack, Stephen, 471–75</td>
</tr>
<tr>
<td>Kremer, Michael, 147–53</td>
</tr>
<tr>
<td>Krueger, Anne, 187–90, 437–40</td>
</tr>
<tr>
<td>Kuo, Shirley W. Y., 409–16</td>
</tr>
<tr>
<td>Kuznets, Simon, 382–86</td>
</tr>
<tr>
<td>Lee, Jong-Wha, 234–36</td>
</tr>
<tr>
<td>Levine, Ross, 141–46, 456–70</td>
</tr>
<tr>
<td>Lipsey, Robert E., 126–28</td>
</tr>
<tr>
<td>Lipton, Michael, 370–72</td>
</tr>
<tr>
<td>Livingstone, Ian, 316–17</td>
</tr>
<tr>
<td>Lyrette, Margaret A., 275–79</td>
</tr>
<tr>
<td>McKinnon, Ronald L., 133–36</td>
</tr>
<tr>
<td>Markandya, Anil, 554–59</td>
</tr>
<tr>
<td>Matsuyama, Kiminori, 107–9</td>
</tr>
<tr>
<td>Murphy, Kevin M., 111–13</td>
</tr>
<tr>
<td>Overseas Development Institute, 65–68</td>
</tr>
<tr>
<td>Pack, Howard, 206–8</td>
</tr>
<tr>
<td>Pargal, Sheoli, 544–53</td>
</tr>
<tr>
<td>Patrick, Hugh T., 138–40</td>
</tr>
<tr>
<td>Pearce, David, 554–59</td>
</tr>
<tr>
<td>Perkins, Dwight, 48–51</td>
</tr>
<tr>
<td>Perotti, Roberto, 404–8</td>
</tr>
<tr>
<td>Preston, Samuel H., 293–94</td>
</tr>
<tr>
<td>Pritchett, Lant, 114–18, 147–53</td>
</tr>
<tr>
<td>Psacharopoulos, George, 223–26</td>
</tr>
<tr>
<td>Ranis, Gustav, 170–74, 409–16</td>
</tr>
<tr>
<td>Rauch, James E., 395–99, 508–15</td>
</tr>
<tr>
<td>Reynolds, Lloyd G., 80–95</td>
</tr>
<tr>
<td>Robinson, Sherman, 394</td>
</tr>
<tr>
<td>Rodrik, Dani, 195–201, 401–3, 495–507</td>
</tr>
<tr>
<td>Rosenzweig, Mark R., 356–58</td>
</tr>
<tr>
<td>Sachs, Jeffrey D., 161–67</td>
</tr>
<tr>
<td>Sen, Amartya, 283–84</td>
</tr>
<tr>
<td>Shleifer, Andrei, 111–13</td>
</tr>
<tr>
<td>Singh, Inderjit, 364–66</td>
</tr>
<tr>
<td>Spiegel, Mark M., 218–22</td>
</tr>
<tr>
<td>Squire, Lyn, 364–66</td>
</tr>
<tr>
<td>Srinivasan, T. N., 61–63, 442–45</td>
</tr>
<tr>
<td>Stern, Nicholas, 426–30</td>
</tr>
<tr>
<td>Strauss, John, 364–66</td>
</tr>
<tr>
<td>Summers, Lawrence, 147–53</td>
</tr>
<tr>
<td>Tidrick, Gene M., 307–11</td>
</tr>
<tr>
<td>Timmer, C. Peter, 347–49</td>
</tr>
<tr>
<td>Todaro, Michael P., 300–301</td>
</tr>
<tr>
<td>Vishny, Robert W., 111–13</td>
</tr>
<tr>
<td>Wai, U Tun, 129–32</td>
</tr>
<tr>
<td>Warner, Andrew M., 161–67</td>
</tr>
<tr>
<td>Wheeler, David, 544–53</td>
</tr>
<tr>
<td>Zejan, Mario, 126–28</td>
</tr>
</tbody>
</table>
INDEX 571


Economic environment, 429–30

Economic growth: agricultural productivity, comparative advantage and, 107–9; agriculture and, 81, 82, 83–84, 342–43; cross-country studies of, 141–45, 458–60; in East Asia, 36–41, 147, 152; education and, 216–17; environment and, 524–26; extensive, 80–85; financial development and, 138–40, 141–46; fixed investment and, 126–28; functional approach to, 40–41; income distribution and, 391–93, 401–3, 409–16; income inequality and, 382–86; industrialization and, 81, 82, 183–84; institutional indicators and, 471–75; intensive, 80, 88–95; in Latin America, 52–54, 80, 84, 86, 89, 90, 93, 94; natural resources and, 156, 161–67; policies versus shocks in, 147–53; in Sub-Saharan Africa, 80, 456–70; in Third World countries: 1850–1980, 80–96; trade and, 81, 82, 84, 85–86, 87, 89, 90, 149–51, 187–90; turning point in, 85–88

Economic indicators, 56

Economic Planning Board (EPB), 483

Economic reforms: in India, 61–63; in Latin America, 58–60

El Salvador, 52

Endowment ratio, 15–16

Endogenous growth theory, 4, 192

Enclosure, 532

Endogenous politicians, 443

Endowment ratio, 15–16

England, 97, 138, 244–45.

See also

Great Britain/United Kingdom; environment and, 531, 532; industrialization and, 111

Environment, 517–59; balance sheet of, 35; economic development and, 520–29; Kuznets curve for, 517, 529–30; sustainable development and, 519, 554–59; trade and, 518, 531–34

Environmental Protection Agency (EPA), 529, 547, 548

Ethiopia, 88, 115, 335

Ethnic diversity, 423–24, 456–58, 460–66; bureaucracy and, 514; concepts and country examples, 460–63; measuring, 463

Europe, 88. See also

Central Europe; Eastern Europe; Western Europe; agriculture and, 59–100; divergence and, 114; education in, 225; environment and, 528; trade and, 202; women in, 283

Exchange-rate deviation index, 6, 12

Exchange rates, 43–44, 45, 46, 54

Exploitation hypothesis, 354–55, 361

Export crops, 450–51

Export processing zones (EPZs), 50, 165, 210

Export promotion: direct, 192; import substitution versus, 187–88

Exports, 180, 184–85; China and, 48, 50, 51; East Asia and, 36, 37, 46, 47; economic growth and, 87–88, 90, 93–94; fictitious, 503, 504; as first trade move, 102–3; foreign direct investment and, 210; India and, 61, 62; industrialization and, 183–84; Korea and, 105; Latin America and, 53; natural resources and, 162; primary products in, 155–56, 159–60; Sub-Saharan Africa and, 65, 68; Taiwan and, 105

Export subsidies, 424, 495–507; failures in, 502–3; intermediate cases, 503–6; successes in, 496–501

Export substitution: primary, 171, 173; secondary, 171–72, 173

Expropriation risk, 471, 472, 473–74

Extensive growth, 80–85

Externalities, 259, 336

Extinction, 523–24

Factorial terms of trade, 99–101

Factor prices, 175, 176, 178

Factor proportions explanations, 17

Factors of production, 176–78

Family income, 244

Family planning programs, 36, 242, 246–47, 345, 348

Family size, 241

Famine, 335

Fertility rates, 242, 243, 244, 283.

See also

Birth rates; economic growth and, 82, 83; education and, 226; family planning programs and, 246–47; infant mortality and, 245–46; nutrition and, 255

Fertilizer plants, 544, 548–49

Fictitious exports, 503, 504

Financial development, 138–40, 141–46

Financial liberalization, 133–37

Five-Year Plan, 431

Fixed investment, 126–28

Fixed-rate tenancy, 357, 358

Food and Agriculture Organization (FAO), 535

Food crops, 451

Food prices, 254–55

Food supply, 82–84, 88–89, 91

Foreign direct investment (FDI), 90, 102, 157–58; benefits of, 209–10; China and, 50–51; East Asia and, 39, 44; Latin America and, 53, 58; technology transfer and, 209–10

Formal sector, 313, 317, 319

mobility from informal sector to, 323–26; relation between informal sector and, 314–15, 321

Four Tigers, 3, 36. See also

Hong Kong; Korea; Singapore; Taiwan

France, 90, 97, 138, 283

Franc Zone, 65
Free-rider problem, 168, 442, 443, 445
Freighters, 97
Full income, 365
Functional approach to economic growth, 40–41
Gabon, 166
Gabun, 481
Gandhi, Indira, 62
Gandhi, Rajiv, 62
Gabon, 166
Gross national product (GNP), 2; as development measure, 5–7; in East Asia, 37; economic growth and, 92, 93, 94; education and, 237, 239; health care and, 258; inverted-U hypothesis and, 387, 389; women’s education and, 263
Growth accounting, 219–22
Granger-causes growth, 120, 126
Harris-Todaro model, 423; rent seeking in, 440; of Automobilistica (GEIA), 490–91
Guatemala, 18, 58
Gulf War, 62
Haiti, 58, 307, 310, 529, 536
Handicrafts, 81, 84, 89
Haiti, 58, 307, 310, 529, 536
Handicrafts, 81, 84, 89
Harriss-Todaro model, 423; rent seeking in, 440; of underemployment, 291, 302–6, 396, 399
Headcount index, 19
Health insurance, 258, 259
High-income economics: basic indicators in, 11; development measures in, 5; Gini coefficient in, 392; health indicators in, 252–53; population and labor force in, 34; self-employment and unpaid family workers in, 295–96
High-performing East Asian Economies (HPAEs), 3, 36–41, 237–39; See also Hong Kong; Indonesia; Korea; Malaysia; Singapore; Taiwan; Thailand
Historical perspective, 77–118; on division of the world, 97–99; on factorial terms of trade, 99–101; on spread of economic growth, 80–96
Honduras, 55, 276, 473
Hong Kong, 3, 51, 460, 466; economic crisis in, 43; economic development in, 52; economic environment in, 430; economic growth in, 36, 95, 147; education in, 237; family planning programs in, 246; import substitution and, 184; industrialization and, 180; natural resources and, 164; trade and, 184; women’s education in, 270
Hot Oil Act, 532
Household model, 243, 244
Household production, 80–81
Human capital: creating, 237–39; economic development and, 218–22; knowledge acquisition, 207–21; of Latin America and, 118–19, 384, 385, 386, 414–16; in Latin America, 54–57, 403, 407; market size and, 111–13;
Middle-income economies: basic indicators in, 9–11; development measures in, 5; health indicators in, 250–52; health systems in, 258–59; income inequality in, 389–90; population and labor force in, 32–34; self-employment and unpaid family workers in, 295; women’s education in, 263–64

Migration. See Rural-urban migration

Mill, John Stuart, 73

Ministry of Trade and Industry (MTI), 483, 485

Mobutu Sese Seko, Joseph, 479, 480

Mohapatra, Narayan, 10, 11

Monopolies and Restrictive Trade Practices (MRTP) Act, 62

Morocco, 87; bureaucracy in, 514; environment and, 533; foreign direct investment and, 157, 209–10; poverty in, 18

Mortality rates, 2, 82–83, 298; child, 19, 82, 257, 260; infant. See Infant mortality; maternal, 257, 283

Mozambique, 65, 88, 115

Multinational enterprises (MNEs), 209–10

Murphy-Shleifer-Vishnev model, 113

Myrdal, Gunnar, 496

National Development Bank (BNDE), 489

Nationalization potential, 472

National Renewal Fund, 62

National Resources Commission (NRC), 484

Natural capital stock, 519, 554, 555–58, 559

Natural habitats, 523–24

Natural resources, 156, 161–67, 173

Neoclassical economics, 152, 423, 477; development economics and, 70, 71, 73; East Asian economic growth and, 39; income inequality and, 387; state, economic development and, 442–45

Neoliberalism, 476, 477

Nkrumah, Kwame, 462

Nongovernmental organizations (NGOs), 258, 259

North Africa, 1; economic growth in, 80; poverty in, 19; women in, 272, 275, 283, 284; women’s education in, 264, 266

North America, 97, 98, 225, 283

Nutrition. See also Food and nutrition

Oil and petroleum, 7, 50, 54, 165, 500

Off-shore companies, 44, 45

Oil and gas, 45; ownership in, 444

Open economies, 108

Organization for Economic Cooperation and Development (OECD), 54, 87, 94, 406, 485; agriculture and, 347; economic growth in, 147; environment and, 527, 548; income distribution in, 401

Organized money markets, 129–32

Outward-oriented industrial development, 184–86

Ozal, Turgut, 503, 504

Pakistan: economic growth in, 85, 88, 91, 92, 93; education in, 237; family planning programs in, 246; women in, 283

Panama, 273

Park Chung Hee, 197, 482–83, 484, 497, 498, 499

Paternalism, 426

Per capita income, 3. See also Gross domestic product (GDP); Gross national product (GNP); in AK model, 123–25; as development measure, 5–7; divergence and, 114–18

Peru: economic growth in, 89, 91; economic reforms in, 58; health in, 258–59; poverty in, 18; women in, 276, 278

Petite bourgeoisie, 423, 449

Philippines, 3; agriculture and, 414; deforestation in, 536; economic crisis in, 44; economic growth in, 39, 86, 90, 91, 92, 93; environment and, 523; family planning programs in, 247; industrialization and, 98; pollution abatement in, 545, 546–47; trade reform in, 192; women in, 273; women’s education in, 263, 268

Physical Quality of Life Index (PQLI), 7

Plantations, 86, 100, 180, 271

Pluralist theory, 453–54

Population, 2, 214, 241–48; agriculture and, 332, 333; deforestation and, 536–38, 541–42; of East Asia, 36; economic approaches to, 242–48; economic growth and, 82–84, 88–89, 91; environment and, 521; labor force and, 31–34; size of, 241

POSCO, 200

Poverty: balance sheet of, 35; burden of, 18–35; capabilities and entitlements in, 30; decline in, 36; environment and, 521; extent of, 19–20; health and, 259; income inequality, economic development and, 387–90; in India, 18, 36, 61; in Latin America, 54–57; women and, 18, 215, 275–79

Poverty gap, 19

Poverty line, 6, 18, 19, 54–55, 115

Predisch, Raul, 52

Predation, 476, 479–80, 481, 487, 491

Price controls, 451

Price distortions, 36–37, 526

Prices: agricultural, 331, 337–38, 366–67, 368–69, 448; factor, 175, 176, 178; food, 254–55; in India, 448–449; service, 13–17

Primary export substitution (PES), 171, 173

Primary import substitution (PIS), 171, 173

Primary products, 155–56

Primary school education, 347, 366–67, 368–69, 448; factor, 175, 176, 178; food, 254–55; in India, 448–449; service, 13–17

Principle-agent approach, 508, 509

Privatization, 96

Probabilistic migration model, 292, 323–27
INDEX

Switzerland, 107
Synthesis model, 243, 244

Taiwan, 2, 3, 51, 168, 480; agriculture and, 340, 344, 348, 412–14; economic crisis in, 43, 45; economic development in, 52; economic environment in, 430; economic growth in, 36, 39, 86, 87, 89, 91, 93, 94, 403, 409–16; income distribution in, 378, 403, 409–16; industrialization and, 111, 414–16; interest rates in, 124, 133; state intervention in, 157, 195–201, 482, 484–86, 487; technology and, 206–8; trade and, 184, 185, 202; typology of development in, 170–74; women in, 275
Taiwan Agriculture and Forestry Development Corporation, 415
Taiwan Cement Corporation, 415
Taiwan Industrial and Mining Corporation, 415
Taiwan Pulp and Paper Corporation, 415
Taiwan Sugar Corporation, 410
Tanganyika, 86, 87
Tanzania, 18, 115, 280, 451
Tariff Refund Certificate (CRA), 503
Tariffs, 435–36, 437; agricultural trade and, 338; concertina approach to, 192; industrialization and, 180, 182; Latin America and, 54; reforming, 191–92; replacing quantitative restrictions, 191
Taxes, 406, 500; in Africa, 450–51; agricultural, 368; carbon, 527; direct, 368, 386, 418; income, 124, 125, 386; in India, 448–49; indirect, 368, 449
Technology: agriculture and, 332, 350–51, 352, 353–54; economic growth and, 152; gaps between countries, 206–8
Technology transfer, 157–58, 204–12
Tenancy ladders, 330, 358
Textiles, 84, 89, 98, 99, 168, 485–86
Thailand, 3; agriculture and, 342, 414; economic crisis in, 42, 43, 44, 45, 46, 47; economic growth in, 36, 39, 84, 86, 89, 91, 93, 94; education in, 216, 230, 237; environment and, 526, 529; industrialization and, 98, 99; pollution abatement in, 544, 545, 546, 549–51
33/50 program, 548
Todaro paradox, 396
Trade, 153, 158, 286; and, 451–52; agricultural, 332, 337–38; China and, 50–51; classical growth theory on, 72, 73; control of, 187–90; division of world in, 97–99; economic growth and, 81, 82, 84, 85–86, 87, 89, 90, 149–51, 187–90; as enemy, handmaiden, and engine of growth, 211–12; environment and, 518, 531–34; factorial terms of, 99–101; India and, 61, 189, 191; in intermediate goods, 202–3; Krueger’s model of, 175–78, 179; Latin America and, 53, 202; liberalization of, 187–90, 192–94; policy reform in, 191–94; rural-urban terms of, 373; technology transfer and, 157–58, 204–12
Trade unions, 301, 307, 396
Transaction costs, 355, 357, 359, 360, 361
Transportation costs, 6, 85–86, 89
Trickle down process, 389
Trinidad, 307
TSPC, 549
Tunisia, 6
Turkey, 102; economic growth in, 84, 85, 88, 91, 93, 94; export subsidies and, 503–5; rent seeking in, 438–39; trade and, 188; women’s education in, 263
Two-sector model of endogenous growth, 107–9
Typology of development, 170–74
Uff, 549
Uganda, 86, 87, 95, 99, 115
Uncertainty, 406
Underemployment. See also Unemployment: economic development, income inequality and, 395–99; Harris-Todaro model of, 291, 302–6, 396, 399; Lewis model of, 291, 302–6
Unemployment. See also Employment; Underemployment; disguised, 297, 317; in East Asia, 47; in Jamaica, 291, 307–11; model of labor migration and, 300–301
Unimodal agricultural strategy, 330, 340–43, 345, 347
United Kingdom. See Great Britain/United Kingdom
United States, 88, 90, 97, 100, 101, 104, 139, 170; agriculture and, 332; divergence and, 116, 117; education in, 229, 230; environment and, 528, 532; financial development in, 145; health systems of, 258; income distribution in, 375–76, 382–83, 384, 385, 386, 417, 419; industrialization and, 107, 111; Latin America and, 52, 54; pollution abatement in, 548; technology transfer and, 204; trade and, 183, 184, 202; women in, 283
Unorganized money markets, 129–31
Unpaid family workers, 295–96, 319, 397
Upper-middle-income economies: basic indicators in, 10–11; health indicators in, 251–52; income inequality in, 397; population and labor force in, 33–34; self-employment and unpaid family workers in, 295; women’s education in, 265, 267
Urban bias, 331, 370–74
Urban sector, 395–99. See also Informal sector; Rural-urban migration
Urban traditional sector, 291, 300
Uruguay, 52, 55, 58, 192
Venezuela: economic development in, 52; economic growth in, 86, 87, 89, 91; economic reforms in, 58; education in, 237; environment and, 533; foreign direct investment and, 157, 209–10; political system of, 406
Vietnam, 42, 48
Wage-gap model, 308–9
Wage-rental ratio, 13, 14–15, 16
Wages/earnings: in agricultural labor, 341; in informal sector, 319, 327; in Jamaica, 307–11; in Krueger’s trade model, 175–76, 178; minimum, 448; in rural sector, 356–58; rural-urban migration and, 300; underemployment and, 302, 304–5; unlimited labor supply and, 297; for women, 243, 266, 271, 275–77
Water quality, 521, 522–23, 524, 525, 532, 545–47, 551
Weak states, 496, 504, 506
Weak sustainability, 555, 559
Weak states, 496, 504, 506
Weak sustainability, 555, 559
Weber, Max, 477–78, 481, 494, 508
Weberian state hypothesis, 508, 509, 510, 511–14
West Africa, 81–82, 273
Western Europe, 97, 98, 99, 104; agriculture and, 333; divergence and, 115; economic growth in, 81; income distribution in, 417
Wigs, 184
poverty and, 18, 215, 275–79; role models for, 281; savings and, 280–81
Women-headed households, 215, 273, 275
Women’s education, 263–70, 277, 279, 280; benefits at work and home, 269–70; costs, benefits and gender differentials, 264–67; economic impact of, 225–26; financial, opportunity, and psychic costs of, 267–69; health and, 254, 255; labor force participation, wages and, 243
Wood pulp plants, 544, 548–49
World Conservation Strategy, 555

Yunus, Muhammad, 285
Zaire, 65, 88, 95, 263, 479–80
Zambia, 87, 275
Zimbabwe (Southern Rhodesia), 86, 87, 258
Economic development implies an improvement in economic welfare through higher real GDP, but also through an improvement in other economic indicators, such as improved literacy, better infrastructure, reduced poverty and improved healthcare standards. Policies for economic development could involve: Improved macroeconomic conditions (create stable economic climate of low inflation and positive economic growth). Free market supply-side policies â€“ privatisation, deregulation, lower taxes, less regulation to stimulate private sector investment. Government interventionist supply-side policies â€“ in Completely updated and revised in this eighth edition, Leading Issues in Economic Development covers the main issues in economic development through professional journal articles by leading scholars. These articles are edited to provide greater accessibility to an undergraduate audience and organised thematically using overview essays along with explanatory notes and comments. This distinctive approach allows for a variety of perspectives while keeping the most important overall themes in sight. In attempting to define â€œless developed countryâ€ it would clearly be helpful to have an accepted measure of â€œdevelopment.â€ In recent years a consensus has been gathering around the Human Development Index (HDI) as the preferred measure of development. G. Meier, James E. Rauch. Published 1957.