

# Brief Contents

## **PART ONE** Development and Growth

<b>1</b>	Patterns of Development	3
<b>2</b>	Measuring Economic Growth and Development	23
<b>3</b>	Economic Growth: Concepts and Patterns	55
<b>4</b>	Theories of Economic Growth	89
<b>5</b>	States and Markets	129

## **PART TWO** Distribution and Human Resources

<b>6</b>	Inequality and Poverty	165
<b>7</b>	Population	217
<b>8</b>	Education	257
<b>9</b>	Health	299

## **PART THREE** Macroeconomic Policies for Development

<b>10</b>	Investment and Savings	349
<b>11</b>	Fiscal Policy	391
<b>12</b>	Financial Development and Inflation	421
<b>13</b>	Foreign Debt and Financial Crises	455
<b>14</b>	Foreign Aid	499
<b>15</b>	Managing Short-Run Crises in an Open Economy	545

## **PART FOUR** Agriculture, Trade, and Sustainability

<b>16</b>	Agriculture and Development	583
<b>17</b>	Agricultural Development: Technology, Policies and Institutions	619
<b>18</b>	Trade and Development	665
<b>19</b>	Trade Policy	709
<b>20</b>	Sustainable Development	757

# Contents

*Preface*

xv

*International Development Resources on the Internet*

xxiii

## PART ONE

### Development and Growth

<b>1</b>	<b>Patterns of Development</b>	<b>3</b>
	Three Vignettes 3   <i>Malaysia</i> 3   <i>Ethiopia</i> 5   <i>Ukraine</i> 6   <i>Development and Globalization</i> 8   Rich and Poor Countries 10   Growth and Development 13   <i>Diversity in Development Achievements</i> 15   Approaches to Development 16   <i>The Study of Development Economics</i> 18   Organization 19   Summary 20	
<b>2</b>	<b>Measuring Economic Growth and Development</b>	<b>23</b>
	Measuring Economic Growth 24   <i>Measuring GDP: What Is Left Out?</i> 25   <i>Exchange-Rate Conversion Problems</i> 27   Economic Growth around the World: A Brief Overview 32   JARED DIAMOND: GUNS, GERMS, AND STEEL 34   <i>Economic Growth, 1970–2010</i> 36   What Do We Mean by <i>Economic Development?</i> 38   <i>Measuring Economic Development</i> 40   HUMAN DEVELOPMENT DEFINED 41   WHY USE LOGARITHMS? 43   <i>What Can We Learn from the Human Development Index?</i> 44   <i>Millennium Development Goals</i> 46   TARGETS OF THE MILLENNIUM DEVELOPMENT GOALS 47   Is Economic Growth Desirable? 50   Summary 53	
<b>3</b>	<b>Economic Growth: Concepts and Patterns</b>	<b>55</b>
	Divergent Patterns of Economic Growth since 1960 56   BOTSWANA'S REMARKABLE ECONOMIC DEVELOPMENT 59   Factor Accumulation, Productivity, and Economic Growth 60   CALCULATING FUTURE VALUES, GROWTH RATES, AND DOUBLING TIMES 61   Saving, Investment, and Capital Accumulation 64   Sources of Growth Analysis 66   Characteristics of Rapidly Growing Countries 74   1. <i>Macroeconomic and Political Stability</i> 75   2. <i>Investment in Health and Education</i> 77   3. <i>Effective Governance and Institutions</i> 79	

INSTITUTIONS, GOVERNANCE, AND GROWTH 80 | 4. *Favorable Environment for Private Enterprise* 82 | 5. *Trade, Openness, and Growth* 83 | 6. *Favorable Geography* 84 | Summary 87

## 4 Theories of Economic Growth 89

The Basic Growth Model 91 | The Harrod-Domar Growth Model 94 | *The Fixed-Coefficient Production Function* 94 | *The Capital-Output Ratio and the Harrod-Domar Framework* 96 | *Strengths and Weaknesses of the Harrod-Domar Framework* 98 | ECONOMIC GROWTH IN THAILAND 101 | The Solow (Neoclassical) Growth Model 103 | *The Neoclassical Production Function* 103 | *The Basic Equations of the Solow Model* 104 | *The Solow Diagram* 108 | *Changes in the Saving Rate and Population Growth Rate in the Solow Model* 109 | POPULATION GROWTH AND ECONOMIC GROWTH 112 | *Technological Change in the Solow Model* 113 | *Strengths and Weaknesses of the Solow Framework* 116 | Diminishing Returns and the Production Function 117 | EXPLAINING DIFFERENCES IN GROWTH RATES 118 | *The Convergence Debate* 121 | Beyond Solow: New Approaches to Growth 125 | Summary 127

## 5 States and Markets 129

Development Thinking after World War II 130 | MARKET FAILURE 133 | Fundamental Changes in the 1970s and 1980s 137 | GHANA AFTER INDEPENDENCE 139 | THE DECLINING EFFECTIVENESS OF GOVERNMENT INTERVENTION IN THE MARKET: KOREA, 1960S–2010 143 | Structural Adjustment, the Washington Consensus, and the End of the Soviet Model 144 | *Soviet Command Model to Market Economies: The Great Transition* 148 | *Was the Washington Consensus a Success or Failure?* 153 | Summary 159

## PART TWO

### Distribution and Human Resources

## 6 Inequality and Poverty 165

Measuring Inequality 166 | Patterns of Inequality 172 | *Growth and Inequality* 174 | *What Else Might Cause Inequality?* 177 | Why Inequality Matters 178 | Measuring Poverty 180 | *Poverty Lines* 181 | NATIONAL POVERTY LINES IN BANGLADESH, MEXICO, AND THE UNITED STATES 183 | *Why \$1.25 a Day?* 186 | *Dissenting Opinions on the Extent of Absolute Poverty* 191 | WHO IS NOT POOR? 192 | *Poverty Today* 192 | *Who Are the Poor?* 193 | *Living in Poverty* 195 | Strategies to Reduce Poverty 197 | *Growth is Good for the Poor* 198 | *Sometimes Growth May Not Be Enough* 200 | *Pro-Poor Growth* 201 |

WHY SHOULD DEVELOPMENT STRATEGIES HAVE A POVERTY FOCUS? 202 | *Improving Opportunities for the Poor* 205 | *Income Transfers and Safety Nets* 206 | Global Inequality and the End of Poverty 208 | Summary 214

## 7 Population 217

A Brief History of World Population 218 | *The Demographic Transition* 220 | *The Demographic Situation Today* 224 | TOTAL FERTILITY RATES 225 | *The Demographic Future* 227 | POPULATION MOMENTUM 229 | The Causes of Population Growth 231 | *Thomas Malthus, Population Pessimist* 232 | *Why Birth Rates Decline* 233 | Population Growth and Economic Development 236 | *Population and Accumulation* 237 | POPULATION GROWTH, AGE STRUCTURE, AND DEPENDENCY RATIOS 239 | *Population and Productivity* 241 | *Population and Market Failures* 243 | Population Policy 245 | *Family Planning* 246 | *Authoritarian Approaches* 249 | MISSING GIRLS, MISSING WOMEN 251 | Population Issues for the Twenty-First Century 253 | Summary 254

## 8 Education 257

Trends and Patterns 258 | *Stocks and Flows* 259 | *Boys versus Girls* 263 | *Schooling versus Education* 264 | Education as an Investment 267 | *The Rate of Return to Schooling* 269 | *Estimated Rates of Return* 272 | *First-Generation Estimates* 273 | ESTIMATING RATES OF RETURN FROM WAGE EQUATIONS 275 | *Second-Generation Estimates* 276 | *Puzzles* 278 | RETURNS TO SCHOOLING AND INCOME OPPORTUNITIES 279 | *Making Schooling More Productive* 281 | *Underinvestment* 282 | *Misallocation* 282 | *Improving Schools* 286 | *Reducing the Costs of Going to School* 287 | MEXICO'S PROGRESA 288 | *Inefficient Use of Resources* 290 | *It Is about More than the Money* 293 | COMBATING TEACHER ABSENCE 294 | Summary 298

## 9 Health 299

What Is Health? 302 | LIFE EXPECTANCY 305 | *Transitions in Global Health* 307 | *The Epidemiologic Transition* 308 | The Determinants of Improved Health 310 | Health, Income, and Growth 313 | *Income and Health* 314 | HOW BENEFICENT IS THE MARKET? A LOOK AT THE MODERN HISTORY OF MORTALITY 318 | *Health and Productivity* 319 | *Health and Investment* 320 | Three Critical Diseases 321 | MALARIA, YELLOW FEVER, AND THE PANAMA CANAL 322 | *HIV/AIDS* 323 | HIV/AIDS, MALARIA, AND TUBERCULOSIS: SOME BASICS 324 | *Malaria* 329 | MAKING MARKETS FOR VACCINES 330 | *Tuberculosis* 333 | What Works? Some Successes in Global Health 335 | *Preventing HIV/AIDS in Thailand* 336 | *Controlling Tuberculosis in China* 336 | *Eradicating Smallpox* 337 | *Eliminating Polio in Latin America* 338 | *Preventing Deaths from Diarrheal Disease* 340 | *Lessons Learned* 342 | Health Challenges 343 | Summary 344

## PART THREE

## Macroeconomic Policies for Development

- 10** Investment and Savings 349
- Using Investment Productively: Cost-Benefit Analysis 351 | *Present Value* 351 | *Opportunity Costs* 355 | *Shadow Prices* 355 | *Welfare Weights* 356 | Barriers to Productive Public and Private Investment 357 | Barriers to Doing Business 359 | Foreign Direct Investment 363 | *FDI Patterns and Products* 364 | *Benefits and Drawbacks of FDI* 365 | *FDI and Growth* 369 | *Policies Toward Foreign Direct Investment* 370 | Savings 374 | Household Saving and Consumption 376 | Corporate Saving 379 | Government Saving 380 | Foreign Saving 384 | Summary 388
- 11** Fiscal Policy 391
- Government Expenditures 393 | *Categories of Government Expenditures* 394 | REINING IN FISCAL DECENTRALIZATION IN BRAZIL AND CHINA 398 | *Government Revenue and Taxes* 399 | TAX RATES AND SMUGGLING: COLOMBIA 401 | *Taxes on International Trade* 401 | *Sales and Excise Taxes* 402 | *Personal and Corporate Income Taxes* 404 | *New Sources of Tax Revenues* 404 | *Changes in Tax Administration* 405 | *Fundamental Tax Reform* 405 | TAX ADMINISTRATION IN INDIA AND BOLIVIA IN THE 1980S 406 | INDONESIAN TAX REFORM 407 | Taxes and Income Distribution 411 | *Personal Income Taxes* 412 | *Taxes on Luxury Consumption* 413 | *Corporate Income and Property Taxes: The Incidence Problem* 414 | Economic Efficiency and the Budget 417 | *Sources of Inefficiency* 417 | *Neutrality and Efficiency: Lessons from Experience* 418 | Summary 420
- 12** Financial Development and Inflation 421
- The Functions of a Financial System 423 | *Money and the Money Supply* 423 | *Financial Intermediation* 426 | *Transformation and Distribution of Risk* 426 | *Stabilization* 427 | Inflation 427 | *Inflation Episodes* 428 | HYPERINFLATION IN PERU, 1988–90 431 | Monetary Policy and Price Stability 432 | *Monetary Policy and Exchange-Rate Regimes* 433 | *Sources of Inflation* 435 | *Controlling Inflation through Monetary Policy* 438 | *Reserve Requirements* 439 | *Credit Ceilings* 439 | *Interest-Rate Regulation and Moral Suasion* 440 | *International Debt and Combating Recessions* 441 | Financial Development 442 | *Shallow Finance and Deep Finance* 443 | *Shallow Financial Strategy* 444 | *Deep Financial Strategy* 447 | *Informal Credit Markets and Micro Credit* 449 | DOES MICRO CREDIT REDUCE POVERTY? 451 | Summary 453

13	<b>Foreign Debt and Financial Crises</b>	455
	Advantages and Disadvantages of Foreign Borrowing 458   Debt Sustainability 459   Debt Indicators 460   From Distress to Default 463   A SHORT HISTORY OF SOVEREIGN LENDING DEFAULT 465   <i>The 1980s Debt Crisis</i> 466   <i>Causes of the Crisis</i> 467   <i>Impact on the Borrowers</i> 469   <i>Escape from the Crisis, for Some Countries</i> 470   The Debt Crisis in Low-Income Countries 473   <i>Debt Reduction in Low-Income Countries</i> 474   <i>The Heavily Indebted Poor Country Initiative</i> 475   ODIIOUS DEBT 476   DEBT RELIEF IN UGANDA 479   Emerging Market Financial Crises 480   <i>Domestic Economic Weaknesses</i> 482   <i>Short-Term Capital Flows</i> 484   <i>Creditor Panic</i> 486   MODEL OF SELF-FULFILLING CREDITOR PANICS 486   <i>Stopping Panics</i> 489   <i>Lessons from the Crises</i> 494   Summary 496	
14	<b>Foreign Aid</b>	499
	Donors and Recipients 501   <i>What Is Foreign Aid?</i> 501   Who Gives Aid? 503   THE MARSHALL PLAN 503   THE COMMITMENT TO DEVELOPMENT INDEX 507   <i>Who Receives Foreign Aid?</i> 512   <i>The Motivations for Aid</i> 514   CHINA'S FOREIGN AID 515   Aid, Growth, and Development 518   <i>View 1. Although Not Always Successful, on Average, Aid Has a Positive Impact on Economic Growth and Development</i> 520   CONTROLLING RIVER BLINDNESS IN SUB-SAHARAN AFRICA 524   <i>View 2. Aid Has Little or No Effect on Growth and Actually May Undermine Growth</i> 526   FOOD AID AND FOOD PRODUCTION 528   <i>View 3. Aid Has a Conditional Relationship with Growth, Stimulating Growth Only Under Certain Circumstances, Such as in Countries with Good Policies or Institutions</i> 533   Donor Relationships with Recipient Countries 535   <i>The Principal-Agent Problem</i> 536   <i>Conditionality</i> 537   <i>Improving Aid Effectiveness</i> 540   Summary 543	
15	<b>Managing Short-Run Crises in an Open Economy</b>	545
	Equilibrium in a Small, Open Economy 546   <i>Internal and External Balance</i> 547   REAL VERSUS NOMINAL EXCHANGE RATES 550   <i>The Phase Diagram</i> 553   <i>Equilibrium and Disequilibrium</i> 556   PIONEERING STABILIZATION: CHILE, 1973–84 559   <i>Stabilization Policies</i> 560   Applications of the Australian Model 564   <i>Dutch Disease</i> 564   RECOVERING FROM MISMANAGEMENT: GHANA, 1983–91 566   <i>Debt Repayment Crisis</i> 567   <i>Stabilization Package: Inflation and a Deficit</i> 569   THE GREEK DEBT CRISIS OF 2010–12 571   <i>Drought, Hurricanes, and Earthquakes</i> 574   Summary 575   Appendix to Chapter 15: National Income and the Balance of Payments 576	

## PART FOUR

### Agriculture, Trade, and Sustainability

- 16** Agriculture and Development 583
- Unique Characteristics of the Agricultural Sector 584 | Structural Transformation 587 | Two-Sector Models of Development 590 | *The Labor Surplus Model* 591 | SURPLUS LABOR IN CHINA 598 | *The Neoclassical Two-Sector Model* 599 | DEBATES OVER SURPLUS LABOR 602 | Evolving Perspectives on the Role of Agriculture in Economic Growth and Poverty Alleviation 604 | *Agriculture and Economic Growth* 604 | THE NUTRITION LINKAGE TO ECONOMIC GROWTH 608 | *Agriculture and Poverty Alleviation* 610 | *Agricultural Growth as a Pathway out of Poverty* 613 | Summary 617
- 17** Agricultural Development: Technology, Policies, and Institutions 619
- Characteristics of Traditional Agriculture and Agricultural Systems 620 | *Agricultural Systems* 621 | Diagnosing the Constraints to Agricultural Development 622 | Raising the Technical Ceiling 627 | *The Green Revolution* 628 | *Recent Trends in Agricultural Productivity* 632 | A MODEL OF INDUCED TECHNICAL CHANGE IN AGRICULTURE 635 | Raising the Economic Ceiling 637 | *Food Production Analysis* 638 | *What to Produce? The Product-Product Decision* 638 | *How to Produce It? The Factor-Factor Decision* 641 | *How Much to Produce? The Factor-Product Decision* 643 | FERTILIZER SUBSIDIES IN MALAWI 645 | *Market Access* 651 | CELL PHONES AND AGRICULTURAL DEVELOPMENT 651 | Institutions for Agricultural Development 653 | Land Reform 656 | The World Food Crisis of 2005–08 658 | *Causes of the Crisis* 659 | *Consequences of the Crisis* 661 | Summary 663
- 18** Trade and Development 665
- Trade Trends and Patterns 667 | *Who Trades?* 671 | Comparative Advantage 674 | *The Benefits of Trade* 677 | *Winners and Losers* 681 | Trading Primary Products 683 | EMPIRICAL EVIDENCE ON PRIMARY EXPORT-LED GROWTH 687 | *Export Pessimism* 688 | *Declining Terms of Trade?* 690 | *Dutch Disease* 693 | DUTCH DISEASE: A GEOMETRIC PRESENTATION 697 | NIGERIA: A BAD CASE OF DUTCH DISEASE 700 | INDONESIA: FINDING A CURE 702 | *The Resource Trap* 703 | *Breaking the Resource Curse* 705 | Summary 707

## 19 Trade Policy 709

Import Substitution 711 | Protective Tariffs 713 | *Import Quotas* 714 | EFFECTIVE RATES OF PROTECTION 715 | Trade Protection and Politics 718 | THE TWO-COUNTRY MODEL WITH A TARIFF 719 | *Production Subsidies* 720 | *Exchange-Rate Management* 722 | *Outcomes of Import Substitution* 724 | Export Orientation 725 | *Removing the Bias against Exports* 727 | *Favoring Exports* 728 | *Building Export Platforms* 730 | IS CHINA'S EXCHANGE-RATE POLICY UNFAIR? 731 | Trade Strategy and Industrial Policy 734 | Trade, Growth, and Poverty Alleviation 736 | *Trade Reforms and Poverty Alleviation* 739 | Key Issues on the Global Trade Agenda 741 | *Increased Global Competition and the Rise of China (and India)* 741 | *Does Outward Orientation Create Sweatshops?* 743 | LABOR ACTIVISTS AND LABOR OUTCOMES IN INDONESIA 746 | *Expanding Market Access* 747 | *Multilateral Trade Negotiations and the WTO* 750 | *Temporary Migration: Another Dimension of International Trade* 753 | Summary 755

## 20 Sustainable Development 757

Will Economic Growth Save or Destroy the Environment? 759 | Concept and Measurement of Sustainable Development 761 | *Saving for a Sustainable Future* 765 | THE MALTHUSIAN EFFECT OF POPULATION GROWTH ON ADJUSTED NET SAVINGS IN GHANA 768 | Market Failures 769 | *Externalities and the Commons* 770 | Policy Solutions 773 | *Property Rights* 773 | *Government Regulation* 774 | *Taxes, Subsidies, and Payments for Environmental Services* 776 | TAXING WATER POLLUTION IN COLOMBIA 777 | *Marketable Permits* 779 | *Informal Regulation* 781 | Policy Failures 782 | POLICY FAILURES AND DEFORESTATION IN INDONESIA 783 | *Poverty-Environment Linkages* 785 | *Global Climate Change* 792 | Summary 800

## Index 803