

# Economic Development

NINTH EDITION

Michael P. Todaro  
Stephen C. Smith



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The George Washington University



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For Donna Renée  
and  
For Renee, Martin, and Helena



# Preface

*Economic Development*, Ninth Edition, marries the latest thinking in development economics with the clear and comprehensive approach that has been so well received in previous editions. The text places the established themes of early editions into today's global setting, and introduces current topics such as the Millennium Development Goals, complementarities and coordination failure, industrialization strategy, new strategies for poverty reduction, the capabilities approach to well-being, the central role of health, new thinking on the role of cities, and the economic character and comparative advantage of nongovernmental organizations in economic development. This book also emphasizes the international context for development, including the implications of the rapid pace of globalization and the rise of China, the continuing crisis of sub-Saharan Africa, and the conflict over funding for debt relief and poverty reduction. We have entirely rewritten the end-of-chapter analytical case studies for this edition; most cover new topics and each case builds on and illustrates the central topics of the chapter. While there is legitimate disagreement about which topics in economic development deserve the greatest emphasis, we have structured the presentation of the text so as to provide instructors with considerable leeway in selecting lecture topics.

## Audience

This book is designed for use in courses that focus on the economics of development in Africa, Asia, and Latin America, as well as the “transition” countries of Eastern Europe and the former Soviet Union now classified as developing countries. It is written for students who have had some basic training in economics and for those with little or no formal economics background. Essential principles of economics that are relevant to understanding development problems are highlighted in boldface and explained at appropriate points throughout the text. They are also defined in a detailed glossary. Thus the book should be of special value in undergraduate development courses that attract students from a variety of disciplines. Yet the material is sufficiently broad in scope and rigorous in coverage to satisfy any undergraduate and some graduate economics requirements in the field of development.

## Approach

*Economic Development* originally resulted from Professor Todaro's five years of living and teaching in Africa as well as two decades of extensive travel throughout Latin America and Asia, first as a director of the Rockefeller Foundation and then as a professor of economics at New York University. These experiences have helped shape and refine a book that is unique among development texts in approach, organization, and pedagogy. Among its most significant innovations are the following:

1. It teaches economic development within the context of a *major set of problems*, such as poverty, inequality, population growth, environmental decay, and rural stagnation. Formal abstract models and concepts are used to elucidate real-world development problems rather than being presented in isolation from these problems.
2. It adopts a *problem- and policy-oriented approach* because a central objective of the development economics course is to foster a student's ability to understand contemporary economic problems of developing countries and to reach independent and informed judgments and policy conclusions about their possible resolution.
3. It simultaneously uses the *best available cross-sectional data* from Africa, Asia, and Latin America and *appropriate theoretical tools* to illuminate common developing country problems. Although these problems will differ in both scope and magnitude when we deal with such diverse countries as India, Bangladesh, Kenya, Egypt, Nigeria, Brazil, Mexico, and Guatemala, the fact remains that most face similar development problems: widespread poverty and large income and asset inequalities, rapid population growth, low levels of literacy and health, high levels of urban unemployment and underemployment, and chronic balance of payments and foreign-debt burdens, to name a few.
4. It focuses on a wide range of developing countries not only as *independent nation-states* but also in relation to one another and in their *interactions with rich nations in a global economy*.
5. It recognizes the necessity of treating the problems of development and underdevelopment from an *institutional and structural* as well as a market perspective, with appropriate modifications of received general economic principles, theories, and policies. It thus attempts to combine relevant theory with realistic institutional analyses.
6. It views development and underdevelopment in both domestic and international contexts, stressing the *increasing interdependence of the world economy* in areas such as food, energy, natural resources, technology, information, and financial flows.
7. It considers the economic, social, and institutional problems of underdevelopment as closely interrelated and requiring *coordinated approaches* to their solution at local, national, and international levels.

## Organization and Orientation

The book is organized into three parts. Part One focuses on the nature and meaning of development and underdevelopment and its various manifestations in developing nations. After examining the historical growth experience of now developed countries, and ascertaining the degree to which this experience is relevant to contemporary developing nations, we review four classic theories of development and examine recent development models.

Parts Two and Three focus on major development problems and policies, both domestic and international. Topics of analysis include economic growth, poverty and income distribution, population, migration, urbanization, technology, agricultural and rural development, the environment, education, health, international trade and finance, problems of high debt burdens, foreign aid, private foreign investment, and the roles of market, state, and nongovernmental organizations in economic development. The book concludes with a look ahead at key emerging issues in economic development.

All three parts of the book ask fundamental questions: What kind of development is most desirable? How can developing nations best achieve these economic and social objectives either individually or, better, in cooperation with one another and, it is to be hoped, with appropriate and meaningful assistance from the more developed countries of the world?

## Case Studies

In order to provide students with up-to-date case study materials, there are 16 in-depth *case studies*, which appear at the ends of chapters. Each chapter's case study reflects and illustrates the specific problem analyzed in that chapter.

We have completely redesigned the format of the case studies for this edition. We have removed the general country cases because such background material is now readily available from the Internet and other sources. Instead, each case spotlights one or more of the issues raised in the foregoing chapter. Two of the comparative case studies from the previous edition, "Schools of Thought in Context: Argentina and South Korea" and "Privatization and Financial Reform: China and Poland," have been retained and updated for Chapters 3 and 16, respectively. Six case studies were adapted and updated from an earlier companion volume, *Case Studies in Economic Development*. The remainder of the case studies are new to the text. Overall, six of the cases compare key features of two countries, while ten focus on a key development issue in one country.

## New to the Ninth Edition

The book is now divided into three parts, instead of four: Part One, "Principles and Concepts"; Part Two, "Problems and Policies: Domestic"; and Part Three, "Problems and Policies: International and Macro." Chapters 2 and 3 from the Eighth



Edition have been combined into a new Chapter 2, “Comparative Development: Differences and Commonalities among Developing Countries.” The most recent data and information have been incorporated in the tables and text.

In Chapter 1, we have added coverage of the Millennium Development Goals, which have become the benchmark for the work of all major development organizations. We have retained the material on Amartya Sen’s capabilities approach that we introduced in the Eighth Edition. Chapter 1 concludes with a case study on Brazil, which we have rewritten to explore more directly the chapter’s theme of the meaning of development.

The new title of Chapter 2, “Comparative Development: Differences and Commonalities among Developing Countries,” reflects that this chapter is a combination of Chapters 2 and 3 from the previous edition. A new case study, “Divergent Development: Pakistan and Bangladesh,” further probes into the meaning of development and offers perspectives on comparative development. Chapter 3, “Classic Theories of Economic Development,” appeared as Chapter 4 in the previous edition. The popular comparative case study on South Korea and Argentina from previous editions has been retained and placed at the end of this chapter.

Chapter 4 is “Contemporary Models of Development and Underdevelopment.” This chapter was entirely new to the Eighth Edition (where it appeared as Chapter 5), and it has proved very popular with instructors. However, it is possible to omit this chapter from a course syllabus. We have added an entirely new case study, “Understanding a Development Miracle: China.”

Part Two addresses “Problems and Policies: Domestic.” Chapter 5, “Poverty, Inequality, and Development” (formerly Chapter 6), features the case study “Making Microfinance Work for the Poor: The Grameen Bank of Bangladesh,” which considers the role of microfinance in poverty alleviation and examines in depth the well-known case of Grameen.

At the end of Chapter 6, “Population Growth and Economic Development: Causes, Consequences, and Controversies,” a new case study, “Population, Poverty, and Development: China and India,” surveys alternative family planning policies and their potential links to development outcomes. The Indian state of Kerala is featured.

In Chapter 7, “Urbanization and Rural-Urban Migration: Theory and Policy,” the case study “Rural-Urban Migration and Urbanization in Developing Countries: India and Botswana” was adapted and updated from *Case Studies in Economic Development*. The expanded coverage of the role of cities in economic development, introduced in the Eighth Edition, has been updated.

Chapter 8, “Human Capital: Education and Health in Economic Development,” was largely new to the Eighth Edition. The chapter retains its integrated presentation of human capital by stressing the relationships between investments in health and education. The case study “AIDS—Economic Development Impact and the Needed Response: Uganda and South Africa” adapts and updates some material on AIDS in Uganda from *Case Studies in Economic Development* and also introduces new comparative material on AIDS in South Africa.

In Chapter 9, “Agricultural Transformation and Rural Development,” we have



expanded the coverage of new research on rural development economics and the green revolution. The case study “Improving Agricultural Extension for Women Farmers: Kenya” was adapted and updated from *Case Studies in Economic Development*.

Chapter 10, “The Environment and Development,” features a special case study, “Economic Growth and Environmental Sustainability: The Philippines.” It is guest-authored by a scholar and practitioner on the subject, Professor Elizabeth Remedio of the University of San Carlos, the Philippines.

Chapter 11, formerly Chapter 16, is now called “Development Policymaking and the Roles of Market, State, and Civil Society.” As the modified title suggests, we now give extended coverage of the nature of nongovernmental organizations and their role in development in relation to government and private sectors. This material is entirely new to this edition.

Part Three addresses “Problems and Policies: International and Macro.” New case studies for Chapters 12 and 13 look at two countries, Taiwan and South Korea, that experienced growth and development as a result of taking advantage of opportunities offered by international trade. These two countries were the subjects of the case studies for these chapters in the Eighth Edition, but for this edition the cases were adapted and updated from two chapters in *Case Studies in Economic Development*.

In Chapter 14, “Balance of Payments, Developing-Country Debt, and the Macroeconomic Stabilization Controversy,” there is expanded coverage of debt problems of low-income countries, especially in Africa. The case study examines the historical origins and subsequent approaches to resolution of the 1980s debt crisis in Mexico.

In Chapter 15, an entirely new case study examines the sources of Botswana’s success. Chapter 16, “Finance and Fiscal Policy for Development,” concludes with a case study, “Chile and Poland: Privatization: What, When, and to Whom?” based on the last comparative case study from the Eighth Edition.

Finally, in Chapter 17, we take a further look ahead at three key emerging issues in economic development: looming environmental problems, the crisis in sub-Saharan Africa, and globalization and issues in financial market reform.

## Supplementary Materials

The Ninth Edition comes with a comprehensive companion website with content by Abbas Grammy of California State University, Bakersfield. Available at [http://www.aw-bc.com/todaro\\_smith](http://www.aw-bc.com/todaro_smith), this site offers an online Student Study Guide for each chapter that includes multiple-choice quizzes and sets of graphing and quantitative exercises. In addition, Internet exercises allow students to explore the countries highlighted in the country case studies in more depth. A Recommended Readings section provides links to and questions about additional development resources.

The Web site also links to material for the instructor, including PowerPoint slides for each chapter, which have been updated for this edition by Meenakshi Rishi of Ohio Northern University.

The text is further supplemented with an Instructor's Manual by Andreas Savvides of Oklahoma State University. It has been thoroughly revised and updated to reflect changes to the Ninth Edition.

## Acknowledgments

Our indebtedness and gratitude to the many individuals who have helped shape this new edition cannot adequately be conveyed in a few sentences. However, we must record our immense indebtedness to the hundreds of former students and contemporary colleagues who took the time and trouble during the past three years to write or speak to us about the ways in which this text could be further improved. We are indebted to a great number of friends (far too many to mention individually) in both the developing world and the developed world who have directly and indirectly helped shape our ideas about development economics and how an economic development text should be structured. Professor Todaro would like to thank his former students in Africa and the United States and colleagues in Latin America and Asia, for their probing and challenging questions; two good friends and colleagues, Edgar O. Edwards and Lloyd G. Reynolds, who were particularly helpful at an earlier stage; and Kenneth W. Thompson, a close friend and in many ways a mentor in the field on international relations, who indirectly provided much of the inspiration for this book. The Compton Foundation once again supported Professor Todaro's research in the fields of population, human resources, and the environment, which is gratefully acknowledged.

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Michael P. Todaro  
 Stephen C. Smith

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