



Clarence Zuvekas, Jr.

ECONOMIC DEVELOPMENT

An Introduction

Clarence Zuvekas, Jr.

TO ANN

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Preface

This textbook treats economic development as an interdisciplinary subject and is designed specifically for courses in which many students may not be economics majors. Its focus thus differs from that of the several good-to-excellent texts aimed at advanced undergraduate and graduate students in economics. Still, it is written from an economist's perspective, with no attempt at any "grand synthesis" of the social sciences.

Coverage of the subject matter is fairly comprehensive but certainly not exhaustive. Space considerations dictate that some topics be treated only briefly, and this results inevitably in generalizations with which I myself am sometimes uncomfortable. However, students should not have to wade through qualifications and exceptions to every statement. For those who wish to explore certain topics in more detail, the annotated references at the end of each chapter provide a guide to studies that can be read without great difficulty. These references are selective because important works on the subject now run into the thousands. The compactness of the text should afford instructors considerable flexibility in assigning additional readings of particular interest to them.

Since I began teaching development economics in the early 1960s, this relatively new field has matured and changed significantly. Fifteen years ago, economists tended to devote much attention to abstract theories of development. There were several reasons for this, including (1) a natural tendency to try to bring order and simplicity to a new field of inquiry; (2) fascination with the new Keynesian growth theories; (3) lack of data, which restricted the opportunities for empirical research; and (4) limited experience with institutional environments and practical policy issues in a wide range of developing countries. More recently, greater availability of data and improved tools of analysis have stimulated a great deal of empirical research, much of which has caused economists to revise their notions about the development process. In addition, the firsthand experience acquired by many economists, a result of what might be called the "foreign aid boom" of the 1960s, has made them more

concerned about development policy issues and more aware of the importance of political and other noneconomic factors in the development process.

My own classroom teaching has reflected these broad trends. Particularly since acquiring my own overseas experience, both as an academic researcher and as a government employee and consultant, I have placed less emphasis on theories of development and devoted increasing attention to policy issues and empirical findings. But theory cannot be neglected. Microeconomic theory can be used imaginatively to examine a variety of specific policy issues, and macroeconomic theory is necessary if we are to understand problems such as inflation and balance-of-payments deficits. I have no regrets, however, about abandoning the search for a comprehensive theory of development, or mentioning only briefly great debates such as the one over "balanced" versus "unbalanced" growth. Writings on these subjects have often been far removed from the arenas in which policy decisions are made. Graduate students in economics should become acquainted with them, but for undergraduates the priorities lie elsewhere.

In summary, I have tried to achieve a balance between theory and policy, leaving space also for historical interpretation, description, and empirical evidence. The analytical tools used are simple, but they do presume an acquaintance with basic macro and micro theory and with the specialized terminology of economics. Ideally, students should also be acquainted with the theory of comparative advantage in international trade, but for those who are not, a brief introduction is provided.

One of the early and great development economists, Nobel prize-winner Gunnar Myrdal, has advised his colleagues to say something about their values in their writings, since nothing is written from a perfectly value-free, or "objective," standpoint. The very choice of topics and relative emphasis given to each, for example, constitutes a value judgment. May I simply say that I share Myrdal's ideals of liberty and equality of opportunity, recognizing with him that these general terms have different policy implications in each country. It follows from this position, I think, that attitudes toward any particular government's development policy should be based not on what kind of hat the chief executive wears, or on what kind of "ism" he, she, or they *claim* to represent, but rather on what is being done to improve equality of opportunity and the quality of life for *all* of the country's population.

My opinions about the desirability of certain policy actions and the degree to which various governments have pursued them are expressed in this book only occasionally, and, I hope, without implying that they are the only reasonable opinions possible. The policy discussions in this text strive rather to emphasize the reporting of facts and empirical find-

ings and a consideration of different viewpoints. A description and interpretation of events is also necessary to provide perspective, and here I strive to report what I think is happening, even if these perceived trends disappoint or displease me. Readers should not assume that I endorse every reported trend. Instead, they should make up their own minds about the merits of alternative policies regarding such issues as tariffs, land ownership, and population growth, based on their own values and an awareness of the implications of each alternative.

Readers may find it difficult to pin a label on me, for I do not claim to represent any particular "ism." These and similar labels have been so abused that they now have little meaning. Too often there is little connection between what a government actually does and what the stereotype of its label says it is doing, and it is the former that should concern us.

This book draws not only on published materials but also on my research and work experience, since 1965, in Argentina, Bolivia, Ecuador, Haiti, and eight island states in the eastern Caribbean. Each of these countries is unique, and outside of the Western Hemisphere the differences among countries are greater still. I am indebted to the participants in the U.S. Department of Labor's 1964 International Manpower Seminar, for which I served as Chief Rapporteur, for introducing me to some of the issues in their twenty-one countries, mainly in Africa and Asia. Without this experience, my selection of examples from outside Latin America and the Caribbean would have been less informed.

In preparing the final manuscript, I have benefited from critical comments by John Adams and several anonymous reviewers. I would also like to thank Jacques Defay for illuminating discussions of the absorptive capacity issue; Elizabeth Erickson for comments on the Physical Quality of Life Index and many stimulating conversations about development issues generally; and Ann Zuvekas for a valuable critical reading of the section on public health. Judith Cromwell deserves much credit for undertaking the typing of the manuscript and executing it so well on top of an already heavy workload. Valuable editorial assistance was provided by Bertrand W. Lummus and Carolyn Eggleston of St. Martin's Press. Finally, I wish to thank my children, Sam and Ann, for their patience.

Clarence Zuvekas, Jr.

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Introduction

More than 4 billion people now inhabit the earth, and a majority live under conditions that make low-income groups in the United States seem wealthy by comparison. Most of us have seen, on television, the human suffering associated with malnutrition, hunger, and the lack of opportunity for individual or community advancement in some developing countries. Many seem to think that these conditions are inevitable in the early stages of development but gradually will improve as economic growth occurs and yields benefits that will "trickle down" to the poor. In the short run, they may conclude, there is little that can be done to alleviate world poverty, especially in areas such as South Asia and Africa which seem remote and plagued by problems that are too big and complex to solve.

Such attitudes, which combine resignation with complacency, may threaten world political order—and perhaps even the survival of the human race—if they continue to be widely held in the advanced industrial nations. Less industrialized countries (or developing countries, as they are now usually called) certainly see nothing inevitable about the present situation, and in the last few decades they have acquired the political power necessary to challenge it effectively. This power is increasingly being exercised in the world arena for the purpose of bringing about a redistribution of global resources and income. The industrial nations are now on the defensive, and if they do not respond to the challenge of the developing countries, the result could well be an increase in the use of economic boycotts, terrorism, and other forms of politically motivated violence. As developing countries acquire nuclear capabilities—as some of them now are doing—the potential results of their actions become frightening.

The very unequal distribution of world income and wealth is deeply rooted in history. The evolution of human society has proceeded at different rates in different geographic regions of the world. Civilization, or the culture of cities, developed first in the Near East and Mediterranean regions, as did the important invention of writing (which seems to have been invented contemporaneously in China). Because of population growth and climatic changes, among other factors, civilization and writing spread northward and westward into Europe, where further advances occurred. After a temporary pause during the so-called Dark Ages following the collapse of the Roman Empire in the fifth century A.D., the groundwork began to be laid in Europe for the scientific and technological revolution that burst forth in the seventeenth and eighteenth centuries.

Scientific and technological developments gave the Europeans not only a material advantage over peoples in other parts of the world but a political and military advantage as well. After Europeans began to cross the oceans in the fifteenth and sixteenth centuries, they were able to subjugate peoples on other continents and to keep for themselves a large share of the fruits of the economic growth they stimulated overseas. At the same time, many Europeans sincerely believed that they were helping to accelerate economic progress in these "heathen" or "barbarian" lands. And most economists (an easily identifiable breed only since the late nineteenth century) were convinced that economic progress in non-European lands would best be stimulated by worldwide application of the principles of free trade and laissez faire.

Some writers have attributed international inequality to an "international capitalist conspiracy"; but sophisticated critics of capitalism know that an unconspiratorial "invisible hand" can lead to the same result if capitalists have some form of monopoly power. Because such power did exist in the era of colonialism, international trade policies and the mechanics of colonial administration discriminated in several important respects against the developing countries. On the other hand, we should be careful not to place the entire blame for poverty in the developing countries on European colonists, Yankee imperialists, multinational corporations, or other foreign agents. An examination of the policies followed by independent governments in developing countries quickly reveals that these policies often have prevented economic growth or limited its benefits to a small segment of the popluation.

On the whole, however, governments in developing countries have been following policies in the last two or three decades which have increased domestic savings rates and rates of economic growth. Although this has not generally been accompanied by a more equal distribution of income, impressive gains have been made in many developing countries in nonmonetary dimensions of welfare, such as education, health, and access to transportation and communications facilities. These improvements—together with unprecedented rates of economic growth in the developing world as a whole—are often obscured by ill-informed media reports of "the rich countries getting richer and the poor countries getting poorer." Spokesmen for developing countries may also convey the impression of stagnation or retrogression by expressing disappointment that economic growth and welfare gains have fallen short of expectations. Finally, economists—including the writer of this text—may sometimes lead readers astray by emphasizing the shortcomings of policy making rather than the successes.

This is not say that recent trends in developing countries should be regarded with satisfaction. World Bank President Robert McNamara has estimated that about 40 percent of the developing world's population has not benefited at all from the growth of the last few decades. Indeed, living standards for many persons in this group have declined. With developing countries' aspirations so much higher now than they were twenty to thirty years ago,2 complacency about recent gains in the developing world—as we argued in our opening paragraphs—is an unhealthy attitude. In our view, it is in the interests of the industrialized countries to support the developing countries' call for more rapid rates of growth and a more widespread improvement of living standards. On equity grounds alone, of course, these are objectives with which many people are in accord. Others, however, see no need for special efforts to accelerate change in the developing world, arguing that the benefits of growth will be widespread in the long run and that tensions between developing countries and industrialized countries can be relieved without resort to violence on a global scale.

Before discussing briefly the organization of this text, it is useful to highlight several major themes that will appear frequently, either explicitly or implicitly. One is that there is no magic key, or surefire formula, for rapid economic development. When one considers the great diversity of resources and institutions in the developing countries, and the fact that they began or are beginning their processes of economic developments in very different historical contexts, it should not be surprising that attempts to construct a grand theory of development have been unsuccessful. A development strategy which works well for one country may fail for others, not just because of political, social, and cultural differences

^{1.} Robert S. McNamara, One Hundred Countries, Two Billion People: The Dimensions of Development (New York: Praeger Publishers, 1973), p. 11.

^{2.} The highly industrialized nations were never faced with a large gap between what they had and what they knew had been attained by other nations. The present wide gap has a profound effect on attitudes in the developing countries toward the highly industrialized nations.

but also because of radically different relative factor endowments. Country size is another important factor. Independent countries with populations of only a few hundred thousand or even a few million have domestic markets that are too small for significant economies of scale to be realized for a wide range of products. This fact, combined with a narrow resource base, makes their economic growth and development much more dependent on foreign trade than is the case for countries with large populations and a diversified resource base, such as China and India.

A second theme of this book is that development is more appropriately viewed as a complex, interdisciplinary "art" rather than a narrow branch of economic "science." Too often in the last few decades, economic advisors, donor governments, and international agencies have found that "obvious" solutions to development problems in a particular country turn out to be unrealistic because of social, cultural, and political realities or administrative limitations. And where reliance is placed on the market mechanism, it is sometimes naïvely assumed that markets function as efficiently in developing countries as they do in industrialized capitalist or socialist market economies. In fact, market participants in developing countries—both buyers and sellers—usually have considerably less information than participants in industrialized countries, thus making their responses slower and their risks higher. Many markets have strong elements of monopoly or monopsony (monopoly on the buying side of the market), and if these are ignored, a project may benefit not the intended beneficiaries but rather a privileged few. A project which seeks to increase wheat production among small farmers, for example, may fail to have a significant impact on their incomes if wheat marketing is controlled by a small number of buyers with market power.

Over time, foreign assistance agencies have come to realize that development projects are complex undertakings which must consider more than economic relationships. Project preparation teams now often include anthropologists or sociologists as well as economists, engineers, and other "technical" specialists. Many technocrats have become more flexible in their approaches to policy suggestions, considering the feasibility of their proposals in the light of the social, cultural, and political characteristics peculiar to each project. But despite this greater sensitivity to the complexity of development activities, many projects still are poorly conceived. This may occur because project designers are too inflexible; or because they fail to consult intended project beneficiaries, who even though illiterate may know more about local agronomic or sociological conditions than outside "experts"; or because they misjudge a government's commitment to the project. Whatever the reasons, the "science" of development is still a very imperfect one.

A third theme is that many development projects are undertaken not

primarily for their economic benefits but rather for their political impact. The same applies to many development policies. There is nothing unusual about this: "pork barreling" is a common practice in industrialized countries, as are subsidy schemes which benefit influential voting constituencies and are paid for by society at large. To argue that political considerations should play no role in development is naïve; to ignore them is to present an incomplete analysis. Unfortunately, economists have had a difficult time bringing political and other noneconomic variables explicitly into their analyses of the benefits and costs of economic policies and projects.

Finally, we shall argue that the price mechanism is a powerful tool at the disposal of government policy makers. By manipulating relative prices in factor and product markets, policy makers can create incentives for action to achieve development objectives. But some price manipulations—e.g., price controls on retail food sales and public utility rates, or overvalued exchange rates which discourage exports and encourage the importation of capital-intensive technology—can actually retard development. We should make clear that emphasis on the power of the price mechanism does not imply advocacy of a capitalist market economy. Socialist economies, even those relying heavily on the command mechanism, also stand to gain from more judicious manipulation of relative prices.

A few words are now in order about how this book is organized. Chapter 1 attempts to clarify the subject matter of development by examining the semantics of some widely used terms in the field. Particularly important is the distinction between economic growth and economic development. We then consider, in chapters 2 and 3, various economic and noneconomic factors that are alleged to be obstacles to development. Chapter 4 discusses rapid population growth, also widely considered to be an obstacle to development. In chapter 5, we analyze the historical relationship between international trade and economic development, another alleged constraint hindering the progress of the developing countries.

The next ten chapters examine the responses of developing countries' public and private sectors to these constraints. Chapters 6 to 8 are concerned with the role of government in providing physical infrastructure, education, health care, and nutrition, and planning the development process itself. Chapters 9 and 10 examine the development problems of (and relationships between) agriculture and industry, the major production sectors of the economy. Chapters 11 and 12 discuss income distribution and employment, issues that became important in the 1970s because several decades of economic growth had not generally been accompanied by lower unemployment rates and more equal distributions

of income. In chapters 13 and 14, we look at problems of mobilizing domestic and foreign savings to meet the investment requirements of rapid economic growth. Chapter 15 evaluates the results of the efforts developing countries have made in the last fifteen to twenty years to change the structure of international trade and finance to their advantage. Finally, in chapter 16, we consider the debate over the limits to world economic growth, focusing on such issues as environmental pollution, energy availabilities, and global food supplies in the context of rapid population growth.