Economic Development in the Third World

SECOND EDITION

Michael P. Todaro

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Preface to the Second Edition

In the four years since the publication of the First Edition of this book, many significant developments have affected the international economy in general and Third World countries in particular. Foremost among them in the late 1970s was the intensification of the global energy crisis, which wreaked havoc with the balance of payments and international reserve positions of most non-oil-exporting developing nations. In addition, the persistence of chronic worldwide inflation, the spreading economic recession among the more developed countries, and the ever-present threat of a devastating famine in the Third World contributed to a general sense of uncertainty and deep concern about prospects for significant economic progress in developing countries during the 1980s. On a more conceptual front, the latter half of the 1970s witnessed the widespread acceptance among economists, Third World policy makers, and international assistance agencies of the "new orthodoxy" of development economics—that is, the poverty-oriented, "basic human needs" approach to economic development. Economic growth was by no means dethroned as the principal development goal; rather, it was combined with increased concern with distributional issues to form a more holistic conceptualization of a desirable development process.

I am extremely gratified by the enthusiasm with which the First Edition of this book was received, both by peer-group reviewers and by the very large number of instructors at universities throughout the United States, Canada, and Europe—not to mention those of the developing world—who chose to adopt this book for their economic development courses. This was particularly gratifying to me because the book did represent a fundamental new approach to the teaching of development economics with its emphasis on the analysis of critical development problems from a combined theoretical, empirical, and policy-oriented perspective. I trust that this new edition will find an equally positive and widespread reception by instructors and students alike.

Although the major orientation and organization of the book remain unchanged, this Second Edition contains a significant amount of new material reflecting theoretical and empirical developments in the late 1970s and 1980. As an aid to the reader, the following items represent the major changes in the new edition:

1. An updating of almost every statistical table and figure, as well as the addition of many new tables, charts, and figures
2. A corresponding updating of the textual statistics relating to the major domestic and international development problems analyzed in Parts 2 and 3 as well as the initial overview of the diverse structure and common characteristics of developing countries in Chapter 2
3. The addition of new or greatly revised and updated sections on topics such as the neo-Marxist critique of orthodox development theory, the urbanization dilemma, energy and inflation in the world economy, the unique problems of Third World public administration, the possibilities and limitations of industrialization strategies, OPEC pricing activities and implications for Third World debt, and the goals of and prospects for the establishment of a "new international economic order"
4. A revision of those conceptual and policy aspects of problem-oriented chapters where new theories and/or evidence have emerged to alter or modify previous perceptions about the analytical nature and possible policy approaches to ameliorating the problem
5. A thorough updating of the 'readings' sections at the ends of chapters with emphasis on more readily accessible, recently published books and articles
6. A comprehensive new bibliography at the end of the book in which readings—*in addition to* those suggested at the end of each chapter—are listed and organized in accordance with the major themes of each chapter

I trust that this book will continue to provide an accurate reflection of the multidimensional nature of development problems in the 1980s and to stimulate instructors and students to explore in depth the theoretical and quantitative complexities of contemporary development issues. My indebtedness and gratitude to the many individuals who have helped shape this book cannot adequately be conveyed in a few sentences. I will therefore leave it to the Acknowledgments to mention specific names and only record here my substantial indebtedness to my many colleagues in both developed and developing countries who are engaged in research efforts to understand better and perhaps eventually help find solutions to the profound human problems of Third World development.

Preface to the First Edition

The field of development economics has undergone profound changes during the 1970s. Old clichés and shibboleths about necessary conditions and historical determinants have been replaced by a healthy agnosticism and a refreshing willingness to focus on specific problems and real issues. The very meaning of the term "development" has been altered from an almost exclusive preoccupation with aggregate economic growth to a much broader interpretation that encompasses questions of poverty, inequality, and unemployment as well as aggregate growth. If nothing else, the 1970s will be remembered as a decade during which the problems of domestic and international poverty and income distribution rose to the top of the agenda of the development debate. Moreover, the 1970s ushered in a new era of international instability and global economic disorder which shattered the complacency and security of the developed world and forced it to take seriously its pious rhetoric about global interdependence. Whatever else happens, the system of economic relationships between the developed and the underdeveloped world will never be quite the same again; nor will the field of development economics.

In a constantly changing world, outmoded and outdated textbooks have a special proclivity for survival. Long after academic researchers have discarded irrelevant or incorrect theories and have thoroughly reoriented their discipline toward new issues and problems, many leading textbooks continue to focus on discarded concepts and inappropriate models. Nowhere is this more evident than in the rapidly changing field of development economics.[1] It is in the hope of rectifying this situation that this book is conceived and structured (see the Introduction for the detailed description of the organization and orientation of the text).

NOTE

1. In his major survey of the recent evolution of development theory and policy, for example, Derek Healey concluded that "there can be little doubt that a thorough survey of opinion on the problem of economic development would show that at the end of the 1960s and the beginning of the 1970s a new consensus began to emerge. Like all new attitudes, it arose not in a vacuum but in response to the demonstrable failure of past beliefs and practices. For it is difficult to alter accepted notions—we have invested too much intellectual capital in them. It is difficult to admit that what once appeared axiomatic is in fact subject to the limitations of time and space and must now be doubted." Derek T. Healey, "Development policy: new thinking about an interpretation," *Journal of Economic Literature*, September 1972, 792–94.

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Finally, to my lovely wife, Donna Renée, who typed the entire First Edition manuscript and provided the spiritual and intellectual inspiration to persevere under difficult circumstances, I can do no more than reaffirm my eternal devotion.

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Introduction

The Nature, Scope, and Organization of the Text

This book is designed for use in courses that focus on the economics of development in Africa, Asia, and Latin America, regions often collectively referred to as the Third World.[1] It is structured and written *both* for students who have had some basic training in economics *and* for those with little or no formal economics background. For the latter group, those essential principles and concepts of economics that appear to be of particular relevance for analyzing and reaching policy conclusions about specific development problems are explained at appropriate points throughout the text. Thus, the book should be of special value for those undergraduate development courses that at present attract or seek to attract students from a variety of disciplines. Yet the material is sufficiently broad in scope and rigorous in coverage to satisfy most undergraduate and some graduate economics requirements in the field of development, while still being intelligible and informative to the lay reader.[2]

The book has a unique organization and orientation for development texts. Furthermore, it embodies a number of important pedagogic innovations that represent significant improvements over existing books in the field. Among these innovations, the following are perhaps the most significant.

First, it is oriented exclusively toward the teaching of economic development within the context of a major set of problems and issues faced by Third World nations; *the focus is on "real world" development problems* like poverty, inequality, unemployment, and rural stagnation rather than on abstract and often unrealistic models of how countries develop or sterile debates about comparative aggregate economic performances.

Second, it focuses on a wide range of developing countries not only in their capacity as independent nation states but also in relation to one another and in their interaction with rich nations, both capitalist and socialist.

Third, it recognizes the necessity of treating the problems of development and underdevelopment from an *institutional* and *structural* (i.e., a "noneconomic") as well as an economic perspective with appropriate modifications of the received "general" economic principles, theories, and policies. We thus try to incorporate relevant theory with realistic institutional analyses.

Fourth, it views development and underdevelopment in both a domestic and a global context stressing the increasing *interdependence of the world economy* in areas such as food, energy, natural resources, technology, and financial flows.

Fifth, it takes a *problem- and policy-oriented approach* to the teaching of development economics on the dual assumption that

a. students can best grasp and eventually apply important economic concepts when these are explicated in the context of actual development problems, and
b. a central objective of any development economics course should be the fostering of a student's ability to understand contemporary Third World economic issues and to reach independent judgments and policy conclusions about their possible resolution.

Sixth, it approaches development problems systematically by following a *standard procedure* with regard to the analysis and exposition of each problem. Each chapter begins by stating the general nature of the problem (e.g., population, poverty, rural development, education, income distribution, unemployment), its principal issues, and how it is manifested in the various developing countries. It goes on to discuss main goals and possible objectives, the role of economics in illuminating the problem, and some possible policy alternatives and their likely consequences. I believe that this approach will not only assist students to think systematically about major current development issues but, more importantly, will provide them with a methodology and operating procedure for analyzing and reaching policy conclusions about other contemporary and future development problems.

Seventh, it is based on the conviction that it is possible to design and structure a broadly based development economics textbook that simultaneously utilizes the best available cross-section data from Africa, Asia, and Latin America and appropriate theoretical tools to illuminate common Third World problems. While recognizing that these problems will differ in both scope and magnitude when dealing with such diverse countries as India, Indonesia, Kenya, Nigeria, Brazil, Mexico, and Guatemala, the fact remains that they all *do* face similar development problems. Widespread poverty and growing income and asset inequalities, rapid population growth, low levels of literacy and nutritional intake, rising levels of urban unemployment and underemployment, stagnating agriculture and relative rural neglect, inadequate and often inappropriate educational and health delivery systems, inflexible institutional and administrative structures, significant vulnerability to external economic, technological and cul-

tural forces of dominance and dependence, and the difficult choices regarding tradeoffs between "modernization" and cultural preservation; these and other problems are a pervasive phenomenon and, in fact, often define the nature of underdevelopment in Third World nations.

Finally, it views the many economic, social, and institutional problems of underdevelopment as ***highly interrelated*** and requiring ***simultaneous and coordinated approaches to their solution at both the national and international levels.*** It is based on the premise that economic development, even when defined in terms of ***both*** the rapid growth and more equitable distribution of national incomes and opportunities, is a ***necessary*** but not ***sufficient*** condition for "development." The problem is that one simply cannot talk about economics for development without placing economic variables squarely in the context of sociopolitical systems and institutional realities. To ignore "noneconomic" factors in an analysis of so-called economic problems such as poverty, unemployment, and inequality, both within and between nations, would do students a great disservice.

Organization and Orientation

The book is organized into four parts. Part 1 focuses on the nature and meaning of underdevelopment and its various manifestations in Third World nations. It also examines the historical growth experience of the now developed countries and ascertains the degree to which this experience is relevant to contemporary developing nations.

Parts 2 and 3 form the core of the book. They focus on major development problems and policies, both domestic and international. Topics of analysis and review include economic growth, poverty and income distribution, population, unemployment, migration, urbanization, technology, agricultural and rural development, education, international trade and finance, foreign aid, and private foreign investment.

Finally, Part 4 reviews the possibilities and prospects for Third World development. After discussing the theory and practice of development planning and the role and limitations of public policy in the development process, it analyzes the evolving world economy of the 1980s and the place of less developed nations in an increasingly interdependent but highly unequal global system. The inflationary impact of the recent energy, food and resource shortages on the economies of developing nations is closely examined, while growing Third World demands for a "new international economic order" in the context of greater collective "self-reliance" are reviewed and analyzed.

All four parts of the book ask fundamental questions: What kind of development is most desirable? And how can Third World 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?

Our discussion and analysis of critical development problems gives the diverse and often conflicting viewpoints of development economists, other social scientists, planners, and those actually on the "firing line" in Third World government ministries or departments. If we reveal a bias, it is probably in trying always to put forward the viewpoints of Third World social scientists and development practitioners who began in the 1970s to articulate their shared perceptions of the meaning of development as never before.[3]

The locus of intellectual influence on development thinking is rapidly shifting from the First (Advanced Capitalist) and Second (Advanced Socialist) Worlds to the Third World. These nations must find the ultimate answers and formulate appropriate strategies. The nationals of these countries will increasingly exert the major influence on the form and content of these strategies. Yet, unless students from economically advanced nations possess a broad knowledge and understanding of the real meaning of underdevelopment and its various manifestations in diverse Third World nations, the probability of enlightened developed country policies toward the plight of the world's poor, who comprise over two-thirds of our global population, will be even more remote than at present.

One further introductory comment seems in order. In the final analysis we must realize that the development of *every* person depends directly or indirectly on the development of *all* persons. Third World nations are an integral part of the ever-shrinking global economic and political organism. Their economic role and influence are likely to increase over the coming decades. A thorough understanding, therefore, of the unique nature of their economic problems and aspirations, as well as the direct and indirect linkages between these problems and aspirations and the economic well-being of people in developed nations should be an essential component in the education of all university economics students. It is our hope that the present book contributes in some small way to this broadening of student perspectives and that it will lead to a better understanding of the contemporary problems, possibilities, and prospects for economic and social development in the diverse nations of Africa, Asia and Latin America.

NOTES

1. The 141 African, Asian, and Latin American member countries of the United Nations often collectively refer to themselves as the Third World. They do this primarily to distinguish themselves from the economically advanced capitalist (First World) and socialist (Second World) countries. Although the precise origin of the term Third World is obscure, it has become widely accepted and utilized by *economically poor nations themselves*, especially in their negotiations with economically rich nations on critical international controversies relating to trade, aid, energy,

natural resource depletion, and dwindling world food supplies. While it is unfortunate that numbers such as First, Second, and Third occasionally bear the regrettable connotation of superiority and inferiority when used in reference to different groups of nations, the fact remains that the term Third World *is* widely used among developing nations primarily in an effort to generate and represent a new sense of common identity and a growing unity of purpose. Accordingly, we will often use the expression Third World when referring to the developing countries as a whole with the clear understanding at the outset that it is always being used in its positive sense of a common identity and a growing unity of purpose.

2. A glossary at the end of the book provides a quick source of information on the meaning of various economic development concepts and institutional acronyms (e.g., IBRD, ILO) used in the text.
3. See, for example, Padma Desai, "Third World social scientists in Santiago," *World Development* 1, no. 9 (1973); "Self-reliance and international reform," *Overseas Development Council Communiqué*, no. 24 (1974); Mahbub ul Haq, "Crisis in development strategies," *World Development*, no. 1 (1973); and finally, the first *Communiqué* of fifty leading economists from developing nations who met as members of the Third World Forum in Karachi, Pakistan in January 1975. Both the Santiago Declaration and the Karachi Communiqué are reproduced as Appendices to Chapter 17.

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