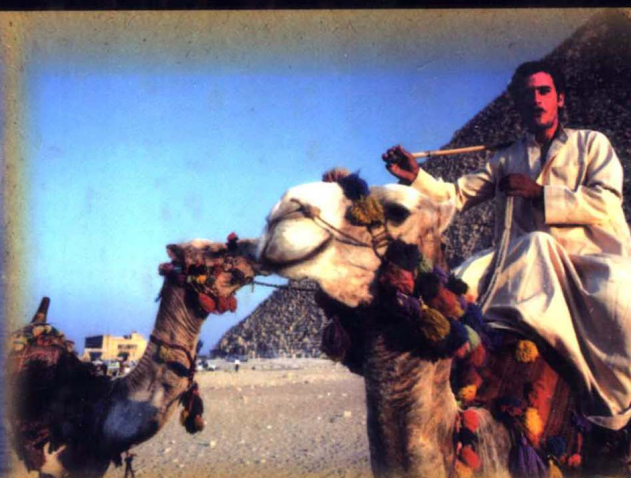




# ECONOMIC DEVELOPMENT

SIXTH EDITION

MICHAEL P. TODARO



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**Michael P. Todaro**

New York University



**Addison-Wesley Publishing Company**

Reading, Massachusetts   Menlo Park, California   New York   Don Mills, Ontario  
Harlow, United Kingdom   Amsterdam   Bonn   Sydney   Singapore   Tokyo  
Madrid   San Juan   Milan   Paris

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Cover image of two Black African Herero women by Ted Wood,  
Black Star Publishing Company.  
All other cover images © 1996 Photo Disc, Inc.

Todaro, Michael P.

Economic development / Michael P. Todaro.—6th ed.

p. cm.

Includes index.

ISBN 0-201-42187-9

1. Economic development. 2. Developing countries—Economic  
policy. I. Title.

HD82.T552 1996

338.9'009172'4—dc20

96-12710

CIP

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Published by Addison-Wesley Publishing Company, Inc.

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1 2 3 4 5 6 7 8 9 10—MA—0099989796



# Preface

## Audience

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. 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 both groups, essential principles and concepts of economics that are particularly relevant for understanding development problems are highlighted in boldface and explained at appropriate points throughout the text. They are also defined in a detailed and extensive glossary which includes other terms and concepts that may be unfamiliar to non-economics majors. 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* resulted from 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, unemployment, 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 case study illustrations.

2. It adopts a *problem- and policy-oriented approach* to the teaching of development economics on the assumption that a central objective of any development economics course should be the fostering of a student's ability to understand contemporary Third World economic problems and to reach independent and informed judgments and policy conclusions about their possible resolution.
3. It approaches development problems systematically by following a *standard pedagogic procedure* with regard to their analysis and exposition. Each chapter begins by stating the general nature of a problem, its principal issues, and how it is manifested empirically in various developing countries. The chapter then presents main goals and possible objectives, the role of economic analysis in illuminating the problem, and some possible policy alternatives and their likely consequences. This approach not only helps students think systematically about major current development issues but, even more important, provides them with a methodology and an operating procedure for analyzing and reaching policy conclusions about other contemporary and future development problems.
4. It starts from the premise that it is possible to design and structure a broadly based development economics textbook that simultaneously uses the *best available cross-sectional data* from Africa, Asia, and Latin America and *appropriate theoretical tools* to illuminate common Third World problems. Although these problems will of course 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 growing income and asset inequalities, rapid population growth, low levels of literacy and nutritional intake, rising levels of urban unemployment and underemployment, and chronic balance of payments and foreign-debt burdens, to name just a few.
5. 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*.
6. It recognizes the necessity of treating the problems of development and underdevelopment from an *institutional and structural* (noneconomic) as well as an economic perspective, with appropriate modifications of received general economic principles, theories, and policies. It thus attempts to combine relevant theory with realistic institutional analyses.
7. 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.
8. It considers the many economic, social, and institutional problems of underdevelopment as closely interrelated and requiring *simultaneous and coordinated approaches* to their solution at both the national and international levels.



## Organization and Orientation

The book is organized into four parts. Part One focuses on the nature and meaning of underdevelopment and its various manifestations in Third World nations. After critically reviewing five alternative theories of economic development, it proceeds to examine the historical growth experience of the now developed countries and ascertains the degree to which this experience is relevant to contemporary developing nations.

Parts Two and Three form the core of the book, focusing 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, the environment, education, international trade and finance, foreign aid, private foreign investment, and the debt crisis. Finally, Part Four reviews the possibilities and prospects for Third World development. After discussing the theory, practice, and failures of development planning and the role and limitations of financial and fiscal policy in the development process, it analyzes the rapid spread of market economies in the 1990s and the place of less developed nations in an increasingly interdependent but highly unequal global system.

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?

## Case Studies

In order to provide students with up-to-date case study materials, there are 20 *country case studies*, which appear at the ends of chapters, as well as four *comparative case studies*, one at the conclusion of each of the four parts. Each country case study provides a two- to three-page descriptive analysis of the major economic features and critical problems faced by a leading Third World nation. Featured are such countries as Brazil, India, Cuba, Nigeria, Mexico, China, South Africa, the Philippines, and South Korea. The purpose of each country profile is to familiarize students with the basic economic features of important developing economies and thus provide them with the kind of applied material that is often absent from development texts. Furthermore, each country case study is chosen to reflect and illustrate the specific problem analyzed in the chapter to which it is appended—for example, China for population, India for poverty, Ghana for agriculture, Venezuela for foreign debt, South Korea for international trade.

Each comparative case study contrasts two developing countries, one relatively successful and the other less so in dealing with one or more of the critical issues or problem areas discussed in the preceding chapters. For example, at the end of Part One, "Principles and Concepts," is a comparison of Argentina and South Korea intended to illustrate how the five different development approaches discussed in

Chapter 3, “Theories of Development,” have been successfully or otherwise pursued in these two countries. At the end of Part Two is a comparison of the relative effectiveness of poverty policies in Bangladesh and Nigeria. And so on for Parts Three and Four, where trade policies in Thailand and the Philippines and privatization strategies in Chile and Poland, respectively, are compared and evaluated.

## Changes for the Sixth Edition

In the three years since publication of the fifth edition, many developing countries have undergone rapid, sometimes wrenching economic and political changes. The ideology of market economics and privatization, the emergence of new regional trading blocs, and the increasing globalization of trade, technology, information, and finance have all combined to alter fundamentally the workings of the world economy and the place of the Third World nations within that global system. Accordingly, in addition to an extensive updating of all statistical tables and figures as well as the inclusion of many new ones, this edition incorporates a wide range of new and expanded topics. Here are some examples organized by chapter.

## New Concepts, Analytic Frameworks, and Problem-focused Topics

### *Chapter 2*

- The role of ethnicity and religion as significant factors in the development process
- The importance of imperfect markets, incomplete information, and high transaction costs as a characteristic of developing nations
- Recent theoretical and methodological refinements of the United Nations Development Program’s *Human Development Index* to account for gender, race, and ethnic disparities as well as income inequality and regional differences in development performance

### *Chapter 3*

- The distinction among the free-market, “market-friendly,” public-choice, and new institutional approaches to development theory and policy
- The importance of human capital, externalities, and returns to scale for new endogenous growth theories and the theoretical contrasts between these and traditional neoclassical growth theories for developing countries

### *Chapter 4*

- New evidence on the importance of political stability for economic growth
- The role of skilled human resources, ideas, and ingenuity in the historical growth record

- The recent surge in illegal LDC immigration into North America and Europe and the concomitant increase in restrictive policies in host countries

### ***Chapter 5***

- The disproportionate experience of poverty among indigenous populations, especially indigenous women and girls
- Some results of the recent United Nations conferences on poverty (Copenhagen) and women (Beijing)

### ***Chapter 6***

- New empirical research on the consequences of population growth
- A brief review of the 1994 U.N. Conference on Population and Development (Cairo)

### ***Chapter 7***

- Four dimensions of the LDC employment problem, with special emphasis on women's employment issues
- The problem of jobless growth in many developing countries

### ***Chapter 9***

- Linkages among rural credit markets, risk sharing, and informal finance for small farmers

### ***Chapter 10***

- Theory and methodology of environmental accounting for sustainable development

### ***Chapter 11***

- Recent evidence on the returns to education
- The impact of imperfect capital markets and limited information on the ability of poor students to obtain private financing for their education

### ***Chapter 12***

- The changing pattern and composition of Third World exports
- Recent evidence on the terms of trade and export earnings instability
- New "strategic" trade theories under imperfect international competition
- The significance of the increasing globalization of trade and finance
- The role of industrial policy in the export expansion experience of Pacific Rim countries

### ***Chapter 13***

- The nature and potential impact of the Uruguay Round of the GATT, the World Trade Organization (WTO), and the North American Free Trade Agreement (NAFTA).



- The potential impact of newly expanded regional trading blocs in Asia and the Pacific and in Latin America

### ***Chapter 14***

- Recent trends in the balance of payments of LDCs
- The current status of the Third World debt problem from the perspective of both developed and developing countries
- The differential economic impact of International Monetary Fund and World Bank stabilization and structural adjustment programs

### ***Chapter 15***

- The recent growth in private portfolio investment and the expansion of equity and debt markets as sources of finance in middle-income developing countries
- The increasing role of nongovernmental organizations (NGOs) in the field of development assistance

### ***Chapter 16***

- Markets versus the state and the relevance of the “East Asian miracle” for other LDCs
- The growing debate about authoritarianism versus democracy in promoting growth and development

### ***Chapter 17***

- New views about financial policy and the role and limitations of the state in orchestrating financial reform
- Recent experiences of privatization in LDCs and Eastern Europe

### ***Chapter 18***

- The growing importance of Third World countries as major export markets for developed nations
- The continuing and worsening economic crisis in sub-Saharan Africa
- The current status and prospects for economic transition in the former Soviet Union and Eastern Europe
- Some proposals for improving the global economy and international institutions so as better to serve the needs of developing countries in the twenty-first century

## **New Organizational Arrangement**

Chapters 13 and 14 from previous editions have been reversed to show more clearly the transition from trade theory and policy to the balance of payments and international finance.

## New Case Studies

In addition to revising and updating all 18 original end-of-chapter Country Case Studies and the four Comparative Case Studies at the end of each part of the text, two new Country Case Studies—on Cuba and South Africa—have been added.

## Revised Supplements

Both the *Instructor's Manual* and monograph *Case Studies in Economic Development*—designed to supplement the text and prepared by Professor Stephen C. Smith of the George Washington University—have been revised, updated, and, in the latter case, largely rewritten so as more closely to coordinate with the chapter outline of the main text.

The foregoing highlights of the new edition should indicate how extensively the text has been revised and updated to meet the current needs of undergraduate economic development courses in the late 1990s. I am extremely gratified by the widespread success of previous editions, which have now been translated into ten languages, and by the enthusiastic response and encouragement that I have received from professors and students in both the developed and developing world.

## Acknowledgments

My indebtedness and gratitude to the many individuals who have helped shape this new edition cannot adequately be conveyed in a few sentences. However, I must once again record my 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 me about the ways in which this text could be further improved. I am 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 my ideas about development economics and how an economic development text should be structured. To my former students in Africa and the United States and to my colleagues in Latin America and Asia, I owe a particular debt of gratitude for their probing and challenging questions. Two good friends and colleagues, Edgar O. Edwards and Lloyd G. Reynolds, were particularly helpful at an earlier stage. Kenneth W. Thompson, a close friend and in many ways my mentor in the field of international relations, indirectly provided much of the inspiration for this book.

Extremely useful and detailed suggestions for improving the fifth and sixth editions were received from Stephen C. Smith (who also prepared the four comparative case studies, the excellent *Instructor's Manual*, and the *Case Studies Book* to accompany the sixth edition), Habib Ahmed, Hassein Akhavi-Pour, Valerie Bencivenga, James Boyce, James Cobbe, William Cole, Michael Conroy, Fred Curtis, William Darity, John Davies, Smile Dube, Hadi Salehi Esfahani, Joseph Fosu, S. M. Ghazanfar, Mitchell Harwitz, Allen Heston, John Isbister, Richard Kalish, Kwan Kim, Darryl McLeod, J. Mohan Roa, Amin U. Saplear, Andreas

Savvides, Emilson Silva, Janet Tanski, Frank Thompson, Kenneth Thompson, J. S. Uppal, Wim Vijverberg, Donald Wells, and many anonymous respondents to a questionnaire sent out to users of the book in over 300 universities by my publishers. I should also like to express my gratitude to the Compton Foundation and its chairman, James Compton, for support of my ongoing research in the area of human resources, population, and development. The staff at Addison Wesley Longman, particularly Denise Clinton, Lena Buonanno, Kathy Manley, Bruce Emmer, Thomas Park, Jim Rigney, Theresa Riley, Mark Childs, Beth Toland, and Christopher Harrison, provided ideas, encouragement, and timely assistance to bring a complicated manuscript once again to completion with minimal delays and maximum efficiency.

We gratefully acknowledge the efforts of our reviewers in offering detailed and insightful comments. These individuals include

Habib Ahmed, University of Connecticut  
 Hassein Akhavi-Pour, Hamline University  
 Valerie Bencivenga, Cornell University  
 James Boyce, University of Massachusetts, Amherst  
 James Cobbe, Florida State University  
 William Cole, University of Tennessee  
 Michael Conroy, University of Texas, Austin  
 Fred Curtis, Drew University  
 William Darity Jr., University of North Carolina, Chapel Hill  
 Smile Dube, California State University, Sacramento  
 Hadi Salehi Esfahani, University of Illinois  
 Joseph Fosu, Western Illinois University  
 S. M. Ghazanfar, University of Idaho  
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 Andreas Savvides, Oklahoma State University  
 Emilson C. D. Silva, University of Oregon  
 Stephen C. Smith, George Washington University  
 Janet Tanski, New Mexico State University  
 Frank Thompson, University of Michigan  
 Kenneth W. Thompson, University of Virginia  
 J. S. Uppal, State University of New York, Albany  
 Wim Vijverberg, University of Texas, Dallas  
 Donald A. Wells, University of Arizona

Their input has strengthened the book in many ways and has been much appreciated.

Finally, to my lovely wife, Donna Renée, who typed the entire first-edition manuscript and provided me with the spiritual and intellectual inspiration to persevere under difficult circumstances, I can do no more than reaffirm my eternal devotion. She has always been there to help me maintain a proper perspective on life and living and, through her own creative and artistic talents, to inspire me to think in original and sometimes unconventional ways about the global problems of human development.

Michael P. Todaro  
*New York, New York*



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