

ECONOMIC
DEVELOPMENT

Fourth Edition

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ECONOMIC DEVELOPMENT

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PREFACE

A New Edition

More than eight years have elapsed since the publication of the third edition of this book. While the nature of truth has not undergone notable changes during that period, new problems of economic development have appeared. More accurately, the general perception of what is and what is not important has changed. Methods of analyzing and treating development problems have been refined and, in a few cases, overturned. While tracing the intellectual history of economic development might have its attractions, we avoid that approach here. Instead, we survey the present panorama of international poverty, the applications to it of economic analysis, and the policies for improvement that the analysis implies.

Readers familiar with the previous edition will note that this edition has been extensively rewritten. We have redrawn the scatter diagrams, which remain the single most popular feature of the book. We have added questions following each chapter and a glossary to try to cut through some of the most oppressive jargon in the field. We have added an introductory chapter, included more insights from sociology and anthropology, increased the emphasis on income distribution and productive employment, project analysis, and practical approaches to economic policy and planning. At the same time, the emphasis on applying economic analysis to the problems of economic development has been retained.

The Authors' Biases

It goes without saying that we both have our own views, not all of which coincide. Readers should be conscious of these views. We are both natives of developed regions in an affluent country. We try to avoid a patronizing tone, since in fact we do not feel patronizing about the problems of international poverty; we can only hope to succeed. Neither of us has, so far as we know, a regional bias, although one of us has spent some years living and working in Latin America.

We think economic development is a good thing. We are inclined to think that international development in all its facets concerns all countries, not just the

poor ones. It is increasingly clear that events in the world's poor countries have important repercussions in rich countries—both in resource allocation (e.g., oil embargoes and price changes) and in attitudinal change (e.g., international transmission of world opinion).

If we have a bias that we are capable of recognizing, it is one of skepticism. That stance is unlikely to be questioned. Anyone who claims to understand economic development completely, or to have found “the” key to “the” secret of economic growth, is likely to be a fool or a charlatan or both. We continue to subscribe to the assertion that “everything is more complicated than most people think.”

Acknowledgments

We have tried, however imperfectly, to recognize the official intellectual paternity of this book through its citations and suggestions for further reading. Less officially, of course, two lifetimes of conferences, collegial discussions, student and executive seminars, international consultations, and field studies are inevitably reflected here as well. Our exposure to conditions of life and work in low-income countries on farms and in mines, railroad repair shops, steel mills, artisan handicraft operations, development banks, government agencies, and new towns has predictably modified a purely rational or deductive view of the realities of the development process.

Three readers of the draft for this edition made suggestions about its substance and classroom suitability. They are Professors Terry Roe (University of Minnesota), Miltiades Chacholiades (Georgia State University), and Dickson K. Smith (Cardinal Stritch College). The diligence and ultimate usefulness of their efforts deserve more than perfunctory recognition.

Research assistance was rendered by Bob Herrick in this edition's preliminary stages. Jane G. Hughes sensitively backstopped the stenographic and early editorial processes.

Bruce Herrick

Charles P. Kindleberger

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INTRODUCTION

Most of the people in the world are poor, so if we knew the economics of being poor we would know much of the economics that really matters.

Theodore W. Schultz,
Nobel lecture, 1979

Economic development studies the causes and cures of mass poverty. In affluent industrialized countries, poverty, where present, belongs only to a relative few. The present book chooses, by contrast, to examine the economic situations of people in countries where the majority lives in poverty. Mass poverty characterizes most countries of Asia, Africa, and Latin America, as well as some regions of countries elsewhere.

Our interest also centers on the involuntarily poor. Some people choose a life of poverty—usually frugality rather than poverty as such—voluntarily. Religious vows or the desire for simplicity has caused some people in the West to turn away from the complications and accouterments of material excess and toward a less cluttered and more satisfying way of life. But we focus here on involuntary deprivation of fundamental material comforts of life—basic nutrition, rudimentary shelter, minimally competent medical attention, primary education. The involuntary deprivation that accompanies mass poverty has, as we will see, a self-fulfilling and self-perpetuating character. It is hard to overcome because it consists of a series of vicious circles or, more technically, a set of interlocking equilibrium circumstances that reinforce one another. Poor

people do not consume much and thus cannot work hard. They earn little and thus cannot save much. They view children as potential contributors to family income and thus produce many of them, which may be in the family's interest but is not so clearly in society's.

When basic consumption needs remain unfilled, the poor suffer obvious lacks. Perhaps even more distressing, poverty may be automatically transmitted to their children. In addition, the more comfortable, better-endowed remainder of society, outnumbered by the poor, must coexist with poor people whose restricted views of their own world and of the difficulties of changing it breed resignation and apathy at best and resentment ending in violence at worst. In short, while most people would choose wealth in a poor country over poverty there, being rich in a country where infant mortality is high, general educational levels are low, cities crowded, dirty, and unpleasant, and public facilities meager or absent does not fulfill common visions of the good life.

Of course, the study of economic development includes a wide variety of interesting subtopics, as a review of the table of contents indicates. Among them are problems of quantity and quality of resources, of population growth and rural-urban shifts, of poor infrastructure and inadequate institutions, and of survival in an international environment not noted for its charity. At the same time, however, we want to underscore the object of our concern, which is not theoretical or institutional but human. In short, the study of all the topics of economic development grows out of our most basic interest: the situations of great masses of people living involuntarily in poverty.

REASONS FOR STUDYING DEVELOPMENT ECONOMICS

Most people reading this book may need no persuasion to study economic development. However, we want to set out a number of compelling reasons to do so. They are not mutually exclusive; one might want to understand economic development for any single one of them or for any combination of them.

Moral and Ethical Reasons

If we took a poll on the question, we are confident of finding that most people study economic development from a conviction that the distribution of income in the world is not fair. Even those who think it is fair sometimes study the subject defensively, to learn more about the justification for positions to which they are opposed.

The question of basic fairness frequently arises from a realization that the circumstances of birth determine much of a person's fate. Persons born into rich families will themselves be rich, or at least start off rich. Those unlucky enough to be born in poor countries to poor families have the odds stacked heavily against them. A poor boy or girl may, by good fortune or hard work, improve his or her lot from misery to comfort. A poor family may, by the greatest exertions,

be able to educate one or more family members beyond the primary level and thus tap into an ongoing stream of returns. But beware of the fallacy of composition here: what's possible for one is not possible for all at once. To mention anecdotally the escape from poverty of any given poor person in a poor country does not demonstrate persuasively that anyone else could have made it too. Rags-to-riches stories ring hollow when placed in a context of mass poverty. If income is associated so strongly with circumstances of birth—with choosing one's parents and one's place of birth carefully—that situation is almost universally regarded as unfair. And when the differences between the incomes of rich and poor do not merely exist but are as wide as they are in poor countries, most people's sense of justice is even further offended.

Economics as a social science cannot show unequivocally what is fair and what is not. It can, however, indicate the alternatives, assess their costs, and thus provide a systematic basis for comparison among economic systems and possible policy alternatives. Alfred Marshall, the great nineteenth-century English codifier of microeconomic analysis, put the matter very well:

Now at last we are setting ourselves seriously to inquire whether it is necessary that there should be any so-called “lower classes” at all: that is, whether there need be large numbers of people doomed from their birth to hard work in order to provide for others the requisites of a refined and cultured life; while they themselves are prevented by their poverty and toil from having any share or part in that life.¹

While Marshall was closest to the deprived in Victorian and Edwardian England, the inquiries he suggested can be extended to poverty on a world scale.

National Self-Interest

Understanding economic development is in the interest of rich countries as nations. International relations, geopolitical concerns, national security, military power, strategic questions—all turn crucially on the nature of the economic development or its absence among three-quarters of the world's people. The prosperity of the affluent countries depends on the development of the poor ones. In the short run, of course, interruption in the export of oil or strategic minerals concentrated in underdeveloped countries can cause grave economic dislocations in importing countries, rich or poor. In the longer run, the growth of exports from rich and poor countries alike requires continued development of import capacity in the underdeveloped world.

Private Self-Interest

At levels less lofty than those of the nation-state, self-interest motivates the study of economic development. People who understand the economic, finan-

¹Alfred Marshall, *Principles of Economics*, Macmillan, New York, 1948, p. 3 (first published in 1920).