

FOURTH EDITION

ECONOMIC
DEVELOPMENT
== IN THE ==
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W O R L D

MICHAEL P. TODARO

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MICHAEL P. TODARO

For Donna Renée

Economic Development in the Third World, Fourth Edition

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Preface

As the 1980s draw to a close and the last decade of the 20th century begins, the economies of many Third World nations are in a precarious state. Uncertainty and economic turbulence permeate the global financial community. The great economic upheavals of the 1980s—a severe global recession, a collapse in international commodity prices, a worsening Third World debt crisis, and a steady erosion of living standards throughout much of sub-Saharan Africa and Latin America—present an enormous challenge for the world economy of the 1990s. While there have been a number of notable success cases, particularly in the newly industrializing countries around the Pacific Rim, for the majority of nations development efforts in the 1980s were put on hold. Commenting on the current situation, the World Bank's *World Development Report 1988* states:

Poverty in the developing countries is on the rise. Between 1970 and 1980 the number of people with inadequate diets in developing countries (excluding China) increased from 650 million to 730 million. Since 1980 matters have turned from bad to worse: economic growth rates have slowed, real wages have dropped, and growth in employment has faltered in most developing countries. Precipitous declines in commodity prices have cut rural incomes, and governments have reduced their real spending on social services. . . . increases in the incidence of poverty make it essential for the issue to move again into the forefront of policy design.¹

These and other factors have combined to generate a sense of pessimism and sometimes even despair about the prospects for rapid economic and social development in the next decade. The global economic expansion of the 1960s and

1970s that enabled many Third World nations to record significant advances in their economic aggregates was not repeated in the 1980s and appears unlikely to be repeated in the 1990s. The implications for improving the material conditions of the world's poor—a major theme of this book—are not very positive.

Turning to the literature on economic development, the 1980s also witnessed a significant shift in emphasis (primarily among some Western economists and international development agencies like the World Bank) toward a more “free market” approach to development problems. The literature of the 1970s had emphasized issues of poverty and distribution within the context of a growing world economy; that of the 1980s seemed to turn once again toward growth and efficiency within the context of a slower growing world economy. And yet within the Third World itself there were still calls for a restructuring of the domestic and international economies so that the many hundreds of millions of people struggling to survive can preserve some hope that their situation might change. These calls have assumed a new urgency. If anything, the major problems of Third World development identified and analyzed in previous editions of this book—poverty, inequality, unemployment, rural neglect, population increase, overurbanization, trade imbalances, public and private sector inefficiencies, and so forth—have *intensified*.

I am extremely gratified by the enthusiasm with which the earlier editions of this book have been received, both by peer-group reviewers and by the very large number of instructors at universities throughout the United States, Canada, Europe and the developing world. This is particularly gratifying to me because the book still represents a fundamentally 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 also be well received by instructors and students alike.

Although the overall orientation and organization of the book remain unchanged, this fourth edition contains a significant amount of new material reflecting theoretical and empirical developments in the 1980s. As an aid to the reader, the major changes in the new edition are indicated here:

1. There is an entire new chapter (Chapter 13) on the Third World debt crisis including its historical evolution, recent trends, alternative methods of analysis, and the impact of IMF “stabilization” and World Bank “structural adjustment” programs, with an evaluation of various proposals for coping with the problem of international debt in the 1990s.
2. Chapters 1 and 2 have been reorganized and partially rewritten to focus more closely on the nature of development economics, the importance of noneconomic and institutional factors, and the diversity and similarity of developing countries.
3. The section Theories of Development in Chapter 3 has been revised and expanded. It now compares, contrasts, and critiques four major development models—the linear-stages approach, models of multi-sector structural

change, the 1970s international dependence challenge to conventional theory, and the 1980s neoclassical free market response.

4. Many new sections discussing topics not covered in earlier editions have been interspersed throughout the chapters of the book. These include, among others, sections on:
 - (a) the severe economic crisis in sub-Saharan Africa
 - (b) the possibilities and limitations of economic privatization of public enterprises
 - (c) the ongoing debate between “trade optimists” (free traders) and “trade pessimists” (protectionists)
 - (d) the “new” agricultural and monetary economics of development
 - (e) the impact of the debt crisis and the slowdown in Third World growth during the 1980s on problems of poverty, inequality, and unemployment, and,
 - (f) the relevance of the successful growth experience of the East Asian newly industrializing countries (South Korea, Taiwan, Singapore, and Hong Kong), for other developing countries and for the debate between free market advocates and government interventionists.
5. Wherever appropriate, there is a greater use of theoretical diagrams to help explain important development concepts and issues—for example, the mechanisms of the Lewis two-sector model, implications for income distribution of alternative development strategies, the effects of tariff protection, the impact of government controls on interests rates, etc.
6. Almost every statistical table and figure has been updated, and many new tables, charts, and figures have been added using the most recent (1988) statistical information.
7. Also updated are the textual statistics relating to the major domestic and international development problems analyzed in Parts II and III, as well as the initial overviews, in Chapters 1 and 2, of the diverse structure and common characteristics of developing countries.
8. The conceptual and policy aspects of problem-oriented chapters have been revised wherever new theories and/or evidence have emerged to alter perceptions about the analytical nature of and possible policy approaches to these problems.
9. The Further Readings sections at the end of chapters have been thoroughly updated and emphasize readily accessible, recently published books and articles.
10. Also revised and updated is the comprehensive 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 (in conjunction with the companion reader I have edited, *The Struggle for Economic Development: Readings in Problems and Policies*², will provide an accurate reflection of the multidimensional nature of contempor-

ary development problems and stimulate instructors and students to explore in depth their theoretical, quantitative, and policy-oriented complexities. My indebtedness and gratitude to the many individuals who have helped shape this new edition 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.

Michael P. Todaro
New York, September 1988

NOTES

1. World Bank, *World Development Report 1988* (New York: Oxford University Press, 1988), Box 1, p. 4.
2. M.P. Todaro (ed.), *The Struggle for Economic Development: Readings in Problems and Policies* (New York: Longman, 1983).

Preface to 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 association with aggregate economic growth to a much broader interpretation that encompasses questions of poverty, inequality, and unemployment also. 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 precisely in the hope of rectifying this situation that the present book has been conceived

and structured. (See the Introduction for a detailed description of the organization and orientation of the text.)

Michael P. Todaro
New York, January 1977

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), 792–794.

Acknowledgments

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 to 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 fourth edition were received from Steven Smith (who also prepared an excellent *Instructor's Manual* to accompany the fourth edition), Bruce Brunton, Fred Curtis, Alain de Janvry, Eugene Dykeman, Marty Haraldson, Mahmood Messkoub, Kazimierz Poznanski, Harlan Smith, Ranbir Varma, Harold Votey, John Weeks, and many anonymous respondents to a questionnaire sent out to users of the book in over 200 universities by the publisher, Longman Inc. Niev Duffy helped me to prepare the Index and spent many hours checking the manuscript for errors and omissions. Also, the assistance of my student, George Yannacogeogios, in the preparation of Appendix 3.1 is much appreciated. Kate Venet provided her usual valuable assistance in pulling together and typing the various pieces of the fourth edition manuscript. Kate has been especially helpful as my executive secretary over the past twelve years. She has kept diverse files and

wide-ranging correspondence in impeccable order and has always been willing to “go the extra mile” to meet typing deadlines. 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. My editorial staff at Longman Inc. and Longman UK, particularly David Estrin, Christopher Harrison, Victoria Mifsud, and Marie-Josée Schorp provided timely assistance in bringing a complicated manuscript to completion with minimum delays and maximum efficiency.

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 to maintain a proper perspective on life and living.

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 attract students from a variety of disciplines.² Yet the material is also sufficiently broad in scope and rigorous in coverage to satisfy most undergraduate and some graduate economics requirements in the field of development.

In terms of its organization and orientation this book is unique among development texts. Furthermore, the book incorporates a number of important pedagogical innovations that also make it a significant improvement over other books in the field. Among these innovations, the following are perhaps the most significant.

First, the book 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, debt burdens, 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 “non-economic”) as well as an economic perspective, with appropriate modifications of the received “general” economic principles, theories, and policies. It thus attempts to combine relevant theory with realistic institutional analyses.

Fourth, it views development and underdevelopment in both domestic and global contexts, 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) 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 judgments and policy conclusions about their possible resolution.

Sixth, it approaches development problems systematically by following a *standard procedure* with regard to their analysis and exposition. Each chapter begins by stating the general nature of a 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 starts from the premise 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. Although obviously these problems will differ in both scope and magnitude when we deal 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, chronic foreign debt problems, inadequate

and often inappropriate educational and health delivery systems, inflexible institution and administrative structures, significant vulnerability to external economic, technological, and cultural 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 co-ordinated 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 I 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 II and III 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, private foreign investment and the debt crisis. Finally, Part IV 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 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?

The discussion and analysis of critical development problems includes 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 there is any 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 three-quarters 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 of 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 economics students. It is my 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 nations of Africa, Asia, and Latin America.

NOTES

1. The 144 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, debts, 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 that it is being used in this 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 50 leading economists from developing nations who met as members of the Third World Forum in Karachi, Pakistan, in January 1975.