

The background of the book cover is a photograph of a construction site at sunset. A large crane is silhouetted against the orange sky, and several construction workers are visible on a building's framework in the foreground.

ECONOMIC DEVELOPMENT

GARETH REES & CHARLES SMITH

SECOND EDITION



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Second Edition

Gareth Rees and Charles Smith





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Dedications:

Irene Rees, my mother

D. G. R.

* * *

Francis Archie Smith, Mary Louise Quibell, José Brocca
Ramón, and Rosa García López; my grandparents,
mis abuelos

C. E. S.

**Make John Lennon's dream come true . . .
It's the least we can do.**

**Song by Gerry Murray (Brandon Publishers), performed by Christy Moore
(WEA Records).**

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All errors and omissions are our own responsibility.

D. G. R.

C. E. S.

Preface to the First Edition

Development Economics has a reputation for being a particularly difficult branch of an already difficult subject. This is partly due to the fact that textbooks on development tend to be either encyclopaedic works for degree students, or in-depth studies of narrow topics aimed at the high-level specialist. In contrast, this book is meant to be an 'entry-level' text, suitable for economics candidates at A-Level (where development is likely to increase in importance as syllabuses adopt an 'issues based' approach); and also suitable for equivalent examinations such as the International Baccalaureate (where development is already an important part of the curriculum). Additionally, it should be useful to students of related subjects, such as geography; to undergraduates embarking on a study of development; and to the general reader.

It is therefore hoped that this little book will have something of value for young economists who wish to be shown ways in which their chosen subject is of vital importance in the real world; for teachers who wish to give higher priority to development topics; and for readers of all ages who wish to take an informed interest in these important issues.

In a book of this size it is not possible to address all development issues in detail, and so some selection has taken place. An attempt has been made to address those aspects of development which relate to the themes of 'growth' and 'welfare'; and to discuss issues which give the student of introductory economics a chance to see

some applications of basic economic theory, and to use the language of economics in a development context.

Readers wishing to continue their interest in development with further reading can safely afford to avoid most of the British tabloid press, where foreign news reporting tends to range in standard from non-existent to appallingly xenophobic. It is no wonder that so many readers of most examples of this genre appear to have difficulty in regarding themselves as Europeans, let alone as world citizens. Of the broadsheet papers, the *Financial Times* can be singled out for its regular in-depth surveys of particular countries, and *The Independent*, *The Observer* and *The European* often focus on particular development issues. The 'EG' supplement of the education section of *The Guardian* very often contains a great deal of useful information, of interest to both teachers and students. Probably the most efficient way of keeping in touch with development issues is to follow the themes presented every week in *The Economist* and in the monthly *New Internationalist*, and I think that it is fair to say that these journals view matters from rather different political stances.

Somewhat in advance of anticipated changes in the A-Level economics syllabuses, the editors of *The Economic Review* and *Economics and Business Education* (formerly *Economics*) show commendable willingness to carry articles covering development topics. It is to be hoped that this healthy trend will continue, and that students will be encouraged to follow the new opportunities to study development economics which should become available in the near future.

Among official publications I would strongly recommend the World Bank's *World Development Report* and the United Nations Development Programme's *Human Development Report*, whose findings feature strongly in parts of this book. These are annual publications, and something which makes them particularly interesting is the way in which they usually deal with a particular theme each year.

On BBC Radio 4, programmes such as *Analysis* and *From Our Own Correspondent* sometimes touch on development issues. While there are occasional emotional appeals at the time of some obvious disaster, mainstream television largely ignores the less developed countries. The so-called 'minority' channels are honourable exceptions. It is particularly worth seeking out relevant Open University programmes on BBC2, and any repeats of the excellent *One World* series screened on Channel 4 during the 1992 Rio Summit Conference on the Environment.

As mentioned earlier, a book of limited size and scope has to be selective in its approach. During the important gestation period, I found the aforementioned sources of great value in helping me to select some themes and issues as being particularly worth highlighting in this book.

I hope that students using this book will find themselves just a little better equipped to follow development issues, wherever they are discussed, with a critical awareness.

C. E. S.

Preface to the Second Edition

The first edition of this book was something of a speculative venture, written in anticipation of major changes in economics syllabuses. While the book has established itself as an important resource for entry-level courses in the field, economic development has become a popular and significant part of pre-university courses, notably the A-Level syllabuses offered by the Cambridge and London boards; and university students have continued to show a growing interest in a systematic study of development issues. Meanwhile, the International Baccalaureate has undergone an exciting curriculum review which has confirmed the central role of development economics as part of the education of its world-wide clientele. This has happened against a background of growing concern in the media and among political and business circles for themes such as 'globalisation' and principles such as 'polluter pays' which are germane to development.

This second edition therefore demonstrates enough confidence in the role of an entry-level text of this kind to enable us to shorten its title to *Economic Development* (from *Economic Development, Growth and Welfare*). Since economic development can now be regarded as a mainstream subject area, there is no need to hedge our bets to widen the audience, although 'growth' and 'welfare' are still important themes within the book. The new edition also benefits from the input of a second author who has unrivalled experience of teaching development issues at this level.

The opportunity has been taken to correct some minor errors from the first edition, to up-date information sources (particularly in the later chapters whose 'macro' nature is more prone to built-in obsolescence), and to expand some sections in the light of recent developments. We therefore hope to have improved on and supplemented rather than replaced a successful framework which has been well received by teachers, lecturers, examiners and students.

We should also mention that Macmillan's academic and professional catalogue contains a large number of books at university level on development topics.

Gareth Rees, St Donats;
Charles Smith, Bridgend;
Wales.

List of Abbreviations

ASEAN	Association of South East Asian Nations
CAFOD	Catholic Fund for Overseas Development
CAP	Common Agricultural Policy
DAC	Development Assistance Committee
EBRD	European Bank for Reconstruction and Development
EFTA	European Free Trade Association
ERM	Exchange Rate Mechanism
EU	European Union
FAO	Food and Agriculture Organisation
FDI	foreign direct investment
FTA	free trade area
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNNP	green net national product
GNP	gross national product
HDI	Human Development Index
HDR	Human Development Report
HPI	Human Poverty Index
HYV	high-yielding varieties (of cereal)
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation

IMF	International Monetary Fund
IPPF	International Planned Parenthood Federation
ITC	International Tin Council
LDCs	less developed countries
LRAC	long run average cost curve
MAI	Multilateral Agreement on Investment
MDCs	more developed countries
MEW	measure of economic welfare
MFA	Multi-fibre Agreement
MFN	most favoured nation
MIGA	Multilateral Investment Guarantee Agency
MNE	multinational enterprise
MRP	marginal revenue product
MTN	multinational trade negotiations
NAFTA	North American Free Trade Area
NGO	non-governmental organisation
NIC	newly industrialised countries
NSP	net social product
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
OXFAM	Oxford Committee for Famine Relief
PPC	production possibility curve
PPP	purchasing power parity
R&D	research and development
SDR	Special Drawing Rights
TRIMS	trade related investment measures
TRIPS	trade related intellectual property rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VER	voluntary export restraint
WDR	World Development Report
WHO	World Health Organisation
WIPO	World Intellectual Property Organisation
WTO	World Trade Organisation

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