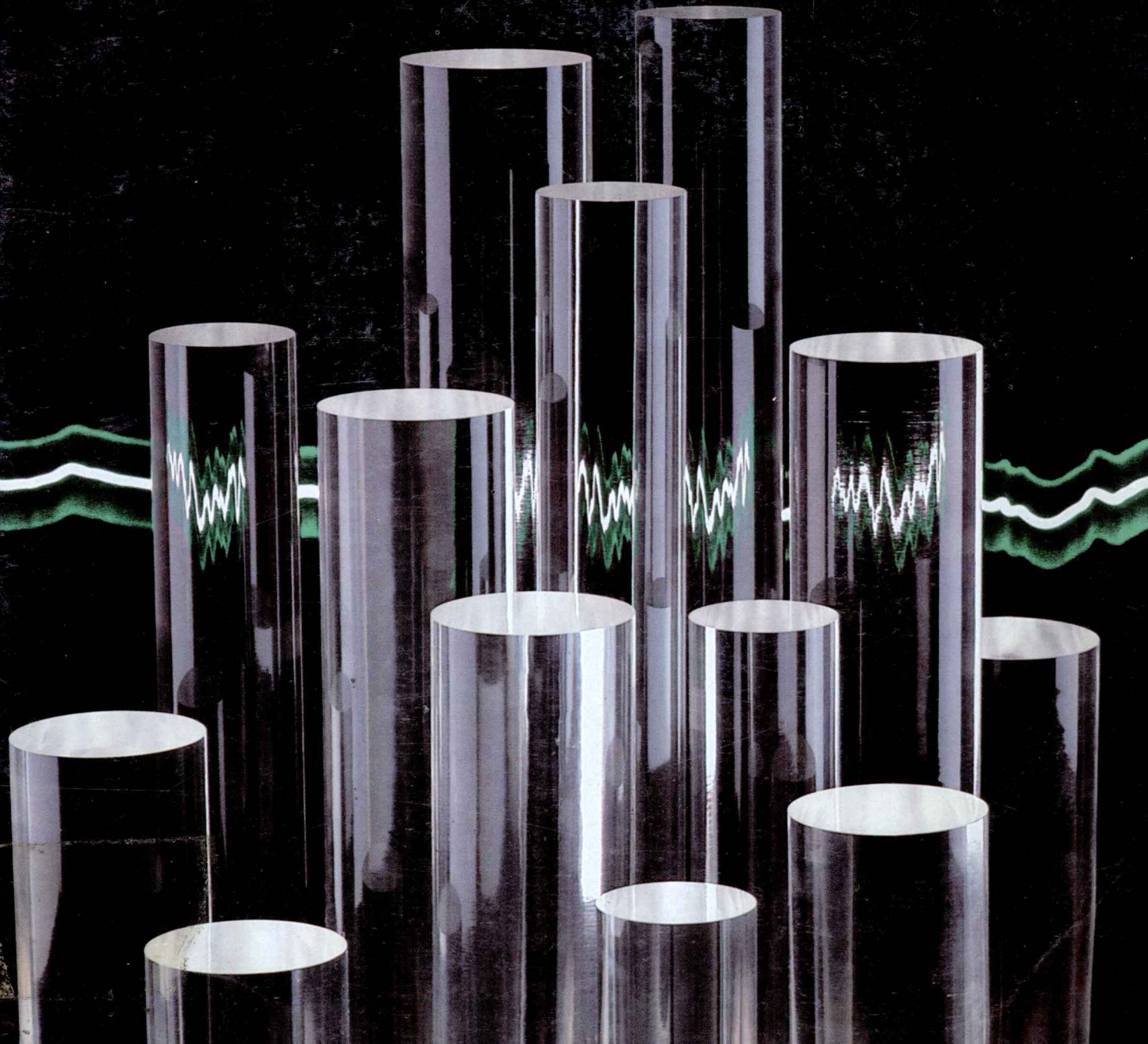


MACROECONOMICS

BRONFENBRENNER · SICHEL · GARDNER · Second Edition



Macroeconomics

Second Edition

MARTIN BRONFENBRENNER

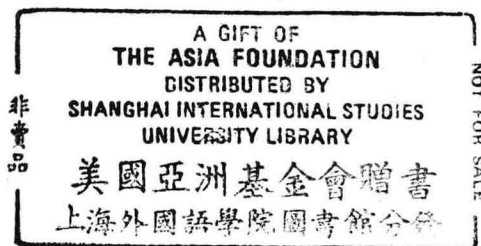
Aoyama Gakuin University, Japan
Professor Emeritus, Duke University

WERNER SICHEL

Western Michigan University

WAYLAND GARDNER

Western Michigan University



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Palo Alto

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Preface

From the beginning, our goal has been to write a text which would answer the needs of students and instructors concerning the well-established as well as the controversial topics in economics. To accomplish this goal, we believe that a beginning text should be (1) open-minded and searching for the best in all schools of thought where there is disagreement, (2) thorough and realistic in presenting material that is generally accepted, and (3) flexible and oriented to a broad view in matters like international trade, economic development, and comparative economic systems.

We have built these characteristics into our book. We believe that they make it an appropriate text for the late nineteen eighties. We also believe that they form the basis for the kind of "economic literacy" which sees the *applicability* of economic principles beyond the specific applications in any one topic or any one period of time.

NEW FEATURES IN THE SECOND EDITION

We have benefited greatly from suggestions offered by users of our first edition and have incorporated many of these ideas into our second edition. The following is a check-list of the more important new features in our second edition.

- Shortened and restructured introductory section.

- Improved sequence of macroeconomics material.
- Revised and simplified presentation of the Keynesian model.
- Strengthened treatment of monetary economics.
- Improved coverage of aggregate demand and aggregate supply.
- Greater integration of expectations theories.
- Up-to-date analysis of OPEC.
- Expanded analysis of the shifting U.S. international trade position.
- New material on China's economy under Deng Xiaoping.
- Several new and revised essays.
- Integrated study guide and testbank.
- New computerized ancillaries.

ORGANIZATION

Introductory Chapters

The first five chapters provide the basic groundwork for all that is to come. In the first chapter, we present a broad overview of economics. It goes beyond explaining what microeconomics and macroeconomics are about, and considers alternative economic systems and several criteria for judging them. Chapter 2 introduces the "actors on the economic stage"—households, business firms, governments, and the rest of the world. This is a new chapter in the second edition,

PREFACE

consisting of selected materials from two chapters of the introductory section of the first edition plus information about the stock market, which was not included in the first edition. The remaining three chapters of the introductory section outline the methodology of economics, present scarcity as *the* economic problem, and introduce the basic concepts of supply and demand.

Macroeconomics

In our second edition, macroeconomics is covered in four parts, each consisting of three chapters. The first part provides basic definitions and measurements (unemployment, inflation, index numbers, national income accounting, and the circular flow) that students need as a foundation for the theories that follow. The material on unemployment and inflation, which leads off the macroeconomics section, appeared as Chapter 15 in the first edition.

The Keynesian approach to the determination of output and employment is presented in the second part of the macroeconomics material—Chapters 9, 10, and 11. In our second edition, we have simplified these models by using the concept of autonomous consumption expenditure and by assuming a lump-sum net tax rather than the 20 percent income tax assumed in the first edition. This has enabled us to reduce the number of charts and graphs needed to present the basic Keynesian model. As in our first edition, exports, imports, and government purchases are part of the expenditures model from the very start of the exposition. They are not “add-ons,” as in some texts.

Monetary economics and monetarism are presented in the third part of the macroeconomics material—Chapters 12, 13, and 14. In describing money (Chapter 12), we have added the concept of money as “a standard for deferred payments” and, in discussing monetary control institutions (Chapter 13), we have updated the material to include information about the *Garn-St. Germaine Depository Institutions Act*. We have strengthened the chapter on monetarism (Chapter 14) by (a) adding material on the “direct” mechanism for

transmitting the effects of monetary actions, (b) by adding a discussion of inflationary expectations, and (c) by moving the discussion of the loanable funds market to the end of the chapter, to distinguish it more clearly from the money market and to provide a stronger presentation of modern monetarism.

Aggregate demand and aggregate supply, which are introduced in the introductory section (Chapter 5) are developed fully in Chapter 15—the lead-off chapter of the fourth part of the macroeconomics material. New in our second edition are (a) a simple graphic derivation of the aggregate-demand curve, connecting this concept with both Keynesian and monetarist models, and (b) a wage-cost-lag theory of the aggregate-supply curve to go along with the money-illusion theory of the first edition. The aggregate demand and aggregate supply presentation is thus substantially strengthened in our second edition. In Chapter 16, on demand-side macroeconomic policies, we offer new graphs to illustrate differing views about the demand-for-money curve and in Chapter 17, on supply-side policies, we have (a) enhanced our discussion of inflationary expectations theories and (b) provided a graph applying aggregate demand and aggregate supply reasoning to wage and price controls. As before, our presentations are designed to be analytical rather than political.

International Macroeconomics and Economic Development

The international aspects of economics are becoming much more important to Americans. Part Six of our second edition begins with international macroeconomics (Chapter 18), in which we explain exchange rates and balance of payments accounting. Our second edition includes (a) a revised and simplified format for the U.S. International Accounts and (b) an expanded discussion of the U.S. balance of payments situation in the mid-1980s. It is followed by a chapter on free trade versus protection (Chapter 19) that has a new section on the changing U.S. trade position in the 1980s.

Economic growth and development (Chapter 20) are given careful economic analysis, but are also recognized as highly sensitive issues of political economy. Along with the theories of development we also offer theories of underdevelopment, presenting the views of many who claim to speak for the billions of people who live in Third World countries. Our discussion of a New International Economic Order (NIEO) in Chapter 21 is tuned to the demands of Third World leaders and the responses from the developed countries.

Comparative Economic Systems

In Part Seven we compare systems in the context of “more planning or less?” (Chapter 22), because all modern economies employ some planning. After exploring a few basic ideas from Marxian economics, we examine planning systems and welfare state systems actually operating in the world today. We observe that a strong ideology is no protection against errors of judgment and that no system has all the answers, whether it is “Japan, Incorporated,” Soviet socialism, workers’ self-management in Yugoslavia, or modern American capitalism. New material has been added on China’s economy under Deng Xiaoping.

We close with a discussion of radical economics (Chapter 23). Here we examine radical movements, of both the left and the right, and include a list of questions designed to help the student discover whether he or she is in fact a radical.

Topical Essays

At the end of each part, we present an original essay, adding a special dimension to the subjects just studied. Some discuss the contributions of famous economists—“John Maynard Keynes and the Great Depression”; “Friedman and Monetarism: Do Not Confuse Them!”; and “From Karl Marx to the New Left.” Others provide historical flavor or extensions of the materials covered—“Classical Economics: The Dismal Science?”; “Macroeconomic Policy: From the New Frontier to Supply Side”; “Japan’s Economic Miracles and

the International Economy.” An entirely new essay for the second edition is “Headaches in the Economics of Inflation.”

We put these essays at the ends of parts rather than in boxes inside chapters so as not to interrupt the reader’s concentration on the text material itself. The text is complete without them. However, the essays help to tie some ideas together and to place them more clearly in their historical context.

Built-in Learning Aids

A number of learning aids are built into this book. Each chapter starts with a preview, designed to show how that chapter fits into the pattern of the book and to give a foretaste of its contents. At the end of each chapter, there is a summary listing the main ideas in the chapter.

Also, at the end of each chapter are discussion questions relating to subjects studied in that chapter. Some provide problems or exercises to work out. Most are designed to encourage students to think beyond the basic concepts presented in the chapter and to gain added insight by applying the concept to real-world situations. Students can compose their own answers, which can provide the basis for classroom discussion.

At the back of the book, there is a glossary giving nearly 1,000 key economic terms and phrases and their definitions or descriptions. Most of these key terms are highlighted in the text itself, appearing in boldface type the first time they are used. A definition or description appears along with each boldface term in the text. But it is a good idea for readers to check the glossary whenever they come upon a word or phrase that they believe has special meaning in economics. Learning the language of economics is an important part of mastering the subject.

THE AUTHORS

Each of us has instructed thousands of students in elementary economics. We have used many

PREFACE

different texts, and each of us has taught many parts of the subject—micro, macro, international, comparative systems, and points between and beyond. Each of us has his areas of special interest. However, the final product is far less the work of three individuals than it is the combined efforts of a team. Each chapter is the result of the cooperative efforts of all the authors. The result, we believe, is far superior to what any one of us could have accomplished alone.

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It is a pleasure to acknowledge the help we have received in writing this book and preparing it for publication. Martin Bronfenbrenner gratefully acknowledges the assistance provided by Faik Korum, Masato Yamazaki, and Chuck Yaros at Duke University. Werner Sichel and Wayland Gardner acknowledge help from their colleagues at Western Michigan University who generously shared their knowledge of economics and their teaching insights. Especially helpful were Sisay Asefa, Phillip Caruso, Bassam Harik, Salim Harik, Emily Hoffman, Gangaram Kripalani, Jon Neill, Susan Pozo, Myron Ross, Raymond Zelder, and David Zinn. All three of us are grateful for the typing services of Bonnie Guminski and Becky Ryder.

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M.B.

W.S.

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Miami University, Ohio
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M. Dudley Stewart, Jr.
Stephen F. Austin State University
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Manhattan College
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Bryant College

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R. Freed
*California State University,
Dominguez Hills*

Mark Gardner
Emory & Henry College

Douglas Gordon
Arapahoe Community College

A. Grow
Mesa Community College

George Hartley
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*Virginia Polytechnic Institute & State
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*City University of New York,
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Jesse Mercer
College of the Albemarle

Ellen Miller
University of North Carolina

Jack Minkoff
Pratt Institute

Eric Mitchell
University of New Hampshire

Gary Mongiovi
St. John's University

R. B. Moore
U.S. Naval Academy

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University of North Carolina

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Ball State University

Gilbert Suzawa
University of Rhode Island

W. Swift
Hofstra University

K. Taylor
University of Southern California

Fred Tiffany
Bryn Mawr College

Tom Till
St. Andrew's Presbyterian College

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Contents

I INTRODUCTION TO ECONOMICS	1	Business Firms	23
		Forms of Business Organization	23
1 What Economics Is	3	The Stock Market	25
Preview	3	Business Accounting	25
What Is Economics?	3	Governments	29
Microeconomics and Macroeconomics	4	The Allocation Function	29
Microeconomics: Three Basic Choices	4	The Distribution Function	29
Macroeconomics: Analysis of Aggregate Economic Activity	5	The Stabilization Function	30
Economic Growth and Development	8	The Rest of the World	30
Economic Growth: More of the Same Output	8	The Actors in Action	31
Economic Development: Growth Plus Progress	8	Summary	31
How Societies Solve Economic Problems	8	Discussion Questions	32
Market or Planning?	10		
Capitalism or Socialism?	12	3 How Economists Approach Problems	34
Evaluating Economic Systems	12	Preview	34
Six Criteria	12	Economic Theory	34
Policy Tradeoffs	14	Testing Economic Theory	35
Why So Hard?	15	The Role of Assumptions	36
Summary	15	Economic Rationality	36
Discussion Questions	16	Positive and Normative Economics	38
		Functional Relationships	38
2 The Actors on the Economic Stage	18	Dependent and Independent Variables	39
Preview	18	Direct and Inverse Relationships	39
Households	18	Graphs	39
Population and Age Groups	19	Marginal Analysis	42
Sources of Income	20	Marginal Analysis	
Median Family Income	20	in Functional Relationships	43
Labor Force Participation	21	Relationship Between Marginal, Average, and Total Amount	43
Uses of Income	22	Marginal Cost and Marginal Benefit	43
		Criticism of Marginal Analysis	45

CONTENTS

Equilibrium	45	Summary	83
Stable and Unstable Equilibrium	45	Discussion Questions	84
Partial Equilibrium Versus General Equilibrium	46	<i>Essay: Classical Economics: The Dismal Science?</i>	86
A Word to the Wise . . .	46		
Terms	46		
Cause and Effect	47		
Fallacy of Composition	47		
Time Lags	47		
Expectations	47		
Pervasive Errors	48		
Summary	48		
Discussion Questions	49		
 4 Scarcity: The Economic Problem	 51	 II THE MACROECONOMY	 89
Preview	51	6 Unemployment and Inflation	91
Scarcity	51	Preview	91
Scarce Goods and Services	52	Historical Perspective	91
Scarce Resources	52	Unemployment	92
Choice	55	The Economic Concept of Unemployment	93
Opportunity Cost	55	Types of Unemployment	96
Opportunity Cost in Consumption	56	The Incidence of Unemployment	100
Opportunity Cost in Production	56	The Social Consequences of Unemployment	100
Summary	63	The Employment Rate	102
Discussion Questions	64	The Labor Force Participation Rate	104
		Inflation	104
 5 Demand and Supply—or Supply and Demand	 66	Price Index Numbers	104
Preview	66	The Implicit Price Deflator for GNP	106
Individual Consumer Demand Decisions	66	The Consumer Price Index	107
The Demand Schedule and Curve	67	Special Purpose Index Numbers	110
Slope of the Demand Curve	68	Inflation in the United States	111
Changes in the Quantity Demanded and Changes in Demand	69	The Consequences of Inflation	113
Individual Firm Supply Decisions	71	Summary	114
The Supply Schedule and Curve	72	Discussion Questions	116
Slope of the Supply Curve	72		
Changes in the Quantity Supplied and Changes in Supply	74	 7 National Income Accounting	 118
Market Demand and Supply	75	Preview	118
Equilibrium Price and Quantity	76	National Income and Product Accounts	118
Market Manipulation	78	The National Product Section	119
Aggregate Demand and Supply	81	The National Income Section	123
Graphing Aggregate Demand and Supply	81	The Personal Income Section	123
Macroeconomic Equilibrium	83	Why Five Series?	124
Which Sequence: Macro-Micro or Micro-Macro?	83	Shortcomings of the System	124
		“Do-It-Yourself” Production	125
		The Underground Economy	125
		Intermediate Products	126
		Relations with the Environment	126
		War and Violence	127
		Usefulness of the Accounts	127
		Summary	128
		Discussion Questions	128

8 The Circular Flow and Macroeconomic Equilibrium	130	Planned Investment Expenditure	164
Preview	130	Planned Investment and the Rate of Interest	164
A "Consumption Only" Circular Flow	130	Other Determinants of Planned Investment	165
The Concept of Macroeconomic Equilibrium	131	Planned Investment in the Keynesian Model	166
Circular Flow with Financial Markets, Government, and Foreign Markets	131	Government Purchases	166
Saving and Investment	134	Imports and Exports	167
Taxes and Government Purchases	136	Graphic Illustration of Planned Investment Expenditure, Government Purchases, and Net Exports	167
Imports and Exports	137	Equilibrium National Income	168
The Key Position of Financial Markets	138	Total-Planned-Expenditure Method	169
Financial Markets and Government	138	Leakage-and-Injection Method	171
Financial Markets and Foreign Markets	139	Keynesian Versus Neoclassical Equilibrium	172
Equilibrium and Disequilibrium in the Whole Economy	141	Summary	173
Disequilibrium Conditions	141	Discussion Questions	174
Is Equilibrium Desirable?	141		
Leakages and Injections	142	10 The Multiplier and Business Fluctuations	176
Equilibrium Between Leakages and Injections	142	Preview	176
Disequilibrium Between Leakages and Injections	143	The Multiplier	176
Summary	143	Shifting Total-Planned Expenditure	177
Discussion Questions	144	Changing Equilibrium	177
		The Simple Multiplier	178
		Business Cycles and Fluctuations	184
		Phases of Business Fluctuations	184
		The Historical Record	185
		A Simple Theory of Cycles	187
		Business Cycle Doctrines	190
		Karl Marx and Business Cycles	190
		Joseph Schumpeter and Innovations	190
		The Great Depression and the Hungry Thirties	191
		Prosperity and the Crash	191
		The Hoover Administration	192
		The New Deal	193
		Summary	194
		Discussion Questions	195
		11 Fiscal Instruments	197
		Preview	197
		Target Levels of National Income and Product	197
		The Need for a Target	198
		Setting the Target	198
		Contractionary and Expansionary Gaps	198
		Contractionary Gaps	198
		Expansionary Gaps	200
III KEYNESIAN ECONOMICS AND FISCAL POLICY	153		
9 The Keynesian Model	155		
Preview	155		
Keynes and Neoclassical Economics	155		
Neoclassical Economics and Say's Identity	156		
Equilibrium at Full Employment	156		
Keynes and Keynesian Economics	157		
Planned Consumption Expenditure	157		
The Consumption Function	158		
The Marginal Propensities to Consume and Save	158		
The Keynesian-Cross Graph	160		
Taxes and the Consumption Function	161		
Shifting the Consumption Function	164		

Essay: Headaches in the Economics of Inflation

146

CONTENTS

Changing Government Purchases	201	<i>13 The Federal Reserve System and Monetary Instruments</i>	235
Changes in Taxes	202	Preview	235
Tax Increases	202	The Federal Reserve System	235
Tax Decreases	203	The Board of Governors	236
The Tax-Change Multiplier	203	The Federal Open Market Committee	236
Policy Applications	204	Federal Reserve District Banks	237
The Balanced-Budget Multiplier	204	Federal Reserve Bank Balance Sheet	237
Automatic or Built-in Stabilizers	205	Instruments of Monetary Policy	239
Influencing Economic Behavior Through		Reserve Requirements	239
Fiscal Instruments	205	Open Market Operations	241
Deficits and the National Debt	206	The Discount Rate	242
The Problem of Crowding Out	206	Other Instruments	243
How National Debt Is Created	207	The Monetary Base and Its Multiplier	244
How Large Is the National Debt?	207	The Monetary Base	244
Can Debt Lead to National Bankruptcy?	208	The Money Multiplier	244
Do Deficits Burden Future Generations?	209	The Historical Record	245
Summary	209	The Recession of 1921	245
Discussion Questions	210	The Stock Market Crash: 1929	245
		Repairing the Monetary System	246
<i>Essay: John Maynard Keynes and the Great Depression</i>	212	Money Goes to War: 1941–1945	247
		The “Accord” of 1951	247
		Disintermediation	247
		The Great Stagflation	248
		An Overview	249
		Summary	249
		Discussion Questions	250
IV MONEY, BANKING, AND MONETARY POLICY	215	<i>14 Monetary Economics and Monetarism</i>	252
<i>12 Money and Banks</i>	217	Preview	252
Preview	217	The Quantity Theory of Money	252
Money	217	Is Money Velocity Constant?	252
The Functions of Money	218	Will Money Affect Real Production?	253
What Is Money?	220	The Role of Interest Rates	255
The U.S. Money Supply	222	Real and Nominal Values	255
Banks and Deposit Expansion	223	Behavior Based on Real Values	256
How Banks Are Organized	224	Real and Nominal Interest Rates	256
The Balance Sheet of a Bank	227	The Supply of and Demand for Money	257
Deposit Expansion and Contraction	227	The Demand-for-Money Curve	258
The Reserve Ratio	227	The Money-Supply Curve	260
The Deposit-Expansion Process	228	Equilibrium in the Money Market	260
The Deposit-Expansion Factor	231	Monetary Instruments in Action: The	
Controlling the Expansion Factor	232	No-Inflation Scenario	261
Controlling the Money Supply	232	Transmission to National Income	
Summary	232	and Product	262
Discussion Questions	233	Feedback to the Demand-for-Money Curve	262

Monetary Instruments in Action: The Inflation Scenario	264
Inflationary Expectations	264
Temporary Changes in Real Interest Rates	266
Real Interest Rates in the Long Run	267
Summary	268
Discussion Questions	268
<i>Essay: Friedman and Monetarism: Do Not Confuse Them!</i>	270

V AGGREGATE DEMAND, AGGREGATE SUPPLY AND MACROECONOMIC POLICY

273

<i>15 Aggregate Demand and Aggregate Supply</i>	275
Preview	275
Aggregate Demand	275
Slope of the Aggregate-Demand Curve	276
Location of the Aggregate-Demand Curve	277
Short-Run Aggregate Supply (SRAS)	279
Slope of the SRAS Curve	279
Location of the SRAS Curve	281
Short-Run Macroeconomic Equilibrium	282
Recession and Deflation	283
Recession	283
Recovery by Deflation	284
Recovery by Reflation	285
Expansion and Inflation	285
Expansion	285
Stagflation	285
Long-Run Aggregate Supply	287
Does the Price Level Affect Long-Run Aggregate Supply?	287
Shifts in the Long-Run Aggregate-Supply Curve	288
The Natural Rate of Unemployment	289
Supply Shocks	290
Summary	290
Discussion Questions	292

<i>16 Macroeconomic Policy: Demand Side</i>	294
Preview	294
Keynes and Demand-Side Economics	295
Antidepression Economic Policies	295
World War II and Inflation	297
The Employment Act of 1946	297
The Keynesian-Monetarist Debate	297
Are Monetary Instruments Weak or Strong?	298
Should the Federal Reserve Be Independent?	301
Rules or Discretion?	303
The Phillips Curve	304
The Phillips Curve and Macroeconomic Policy	305
Phillips Curve Experience	306
Summary	308
Discussion Questions	309

<i>17 Macroeconomic Policy: Supply Side</i>	311
Preview	311
Supply Shocks	311
Demand-Side Responses	312
Supply-Side Responses	313
Inflationary Expectations	313
Conditions and Qualifications	315
Accelerating Inflation	316
Decelerating Inflation	316
The Theory of Rational Expectations	316
Indexing	317
Wage and Price Controls	318
Changing the SRAS Curve	318
Problems with Wage and Price Controls	319
Supply-Side Economics	321
Say's Identity Again?	322
The Laffer Curve	322
Keynesians, Monetarists, and Supply-Siders	323
Reaganomics	323
Economic Theory and Economic Policy	324
Summary	325
Discussion Questions	326
<i>Essay: Macroeconomic Policy: From the New Frontier to Supply Side</i>	328

CONTENTS

VI INTERNATIONAL TRADE, ECONOMIC GROWTH, AND ECONOMIC DEVELOPMENT

18 *International Macroeconomics: Exchange Rates and the Balance of Payments*

Preview	335
The World Is Always With Us	335
Foreign Exchange Markets	336
A Two-Country Model	336
Multilateral Trade	337
The Slopes of Demand and Supply Curves	338
Equilibrium Foreign Exchange Rates	338
Fixed Versus Flexible Exchange Rates	339
Fixing Exchange Rates	339
The Case for Flexible Rates	340
The Case for Fixed Rates	340
The Policy Autonomy Issue	341
A Brief History of Exchange-Rate Systems	341
Balance of Payments Accounts	344
U.S. International Accounts	345
Balance of Payments Stages	348
Favorable or Unfavorable Balance?	349
Balance of Payments Problems	349
Solutions for Payments Problems	350
U.S. Payments Solutions	353
Summary	354
Discussion Questions	355
Appendix: Payments Equilibrium	357
Discussion Questions: Appendix	358

19 *Free Trade Versus Protection*

Preview	360
Gains and Losses from Trade	360
Trade in a Single Commodity	361
Gains and Losses to Producers and Consumers	363
Other Economic Effects	364
Comparative Advantage	365
Comparative Advantage and Choosing a Career	366
The Dynamics of Comparative Advantage	366
Factor Price Equalization	367

Protection	368
Nominal Versus Effective Protection	368
Disguised Forms of Protection	369
Economic Arguments for Protection	369
Political Arguments for Protection	372
Commercial Treaties, Free Trade Areas, and Customs Unions	373
Commercial Treaties	373
Free Trade Areas and Customs Unions	373
ITO and GATT	374
The Shifting U.S. Trade Position	375
The Passing of the "Dollar-Shortage" Era	376
Changing Factor Endowments	377
An Accelerating Product Cycle	377
Summary	378
Discussion Questions	379

20 *Economic Growth and Development*

Preview	381
Growth Is Not Development: Development Is Not Growth	381
The Vast and Variegated Majority	382
Per Capita Income	382
Differences in Living Standards	384
The Widening Gap	385
Theories of Development and Underdevelopment	385
Adam Smith's Development Theory	385
Marxian Theories	385
Dependencia Theories of Underdevelopment	386
Rostow's Institutional Stage Theory	388
Theories of Economic Growth	388
The Neoclassical Theory	388
Keynesian Theories	390
Is Growth a Good Thing?	391
Advantages of Growth	391
Antigrowth Arguments	391
Growth and Income Distribution	393
The Kuznets Hypothesis	393
Redistribution with Growth	394
Basic Human Needs	394
Dualism and Enclaves	394
Summary	394
Discussion Questions	396

21 A New International Economic Order? North-South Confrontation	397	Planning, Collectivism, and the Welfare State	423
Preview	397	Types of Planning	424
The Nature of the Conflict	397	Imperative Planning	424
The NIEO Demands: Fourteen Major Proposals	398	Indicative Planning	424
MDC Replies and Strategies	399	Public Sector Planning	424
Trade Issues	399	Macroeconomic Planning	424
Preferential Access to MDC Markets	399	Magic Wand Planning	425
Stockpiling of Goods	401	A Planned Collectivist Economy: The Soviet Union	425
Cartels	402	Stalin and the Growth of Gosplan	425
Redeployment of Industries	402	Problems of Soviet Planning	427
Capital Movements and Transfer		Soviet Planning Since Stalin	427
Payments	403	Planning Under Capitalism: Japan and Sweden	428
Aid—Charity or Reparation?	403	Japan, Incorporated	429
Concessional Lending	404	Sweden's Welfare State	430
Debt Renegotiation	404	Markets Under Socialism: Yugoslavia and China	432
Paper Gold	405	The Yugoslav Case	432
LDC Internal Economies	406	The Chinese Case	433
Technology Transfer	406	The Theory of Market Socialism	434
Control of Multinationals	406	How the System Works	435
Essentially Political Issues	407	Criticisms of the Theory	435
Law of the Sea Proposals	407	Austrian Theory: Planning as the Road to Serfdom	436
World Bank and IMF Voting Rights	408	The Growth of Controls Under Planning	436
Sovereignty	408	Arbitrary or Corrupt Bureaucracy	437
Disarmament	408	Propaganda and Suppression	437
A Boycott Weapon?	409	The Power Seekers	437
Summary	409	Criticism of the Theory	437
Discussion Questions	410	Summary	438
<i>Essay: Japan's Economic Miracles and the International Economy</i>	411	Discussion Questions	439
 VII COMPARATIVE ECONOMIC SYSTEMS	419	 23 Radical Economics	440
22 Comparative Economic Systems—More Planning or Less?	421	Preview	440
Preview	421	Indictments of Capitalism	440
Social Goals	421	Maldistribution	440
Planning, Freedom, and Power	422	Insecurity	441
		Alienation	441
		Some Marxian Propositions	442
		Marxian Economics: The Statics	444
		Marxian Economics: The Dynamics	445
		Are You a Radical?	446
		The New Left	447
		Branches of the New Left	448