GROWTH AND DEVELOPMENT

GROWTH AND DEVELOPMENT

with special reference to
developing economies

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Second edition

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TO GIANNA
FOR LORENZO, ALESSANDRA
and the MEMORY OF ADRIAN

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Preface to the Second Edition

Since *Growth and Development* was first published in 1972 it has been widely used throughout the world as a text in courses in applied economic growth and development. I have, however, received a number of constructive suggestions for improvement, and have, through my own teaching, become conscious that sections of the book could be improved upon. Unless the world is static and first thoughts are best there must always be scope for improvement of the first edition of any textbook, particularly in a field such as development economics which is relatively new and evolving and when policy preoccupations have a tendency to alter dramatically. Two particular worries of teachers using the book have been the terseness of style and the relative lack of empirical material. Others have criticised the implicit emphasis on the growth of *per capita* income as the primary goal of development policy. The purpose of this second edition is to meet some of these criticisms to make the book more useful and relevant for teachers and students alike.

It also goes without saying, of course, that since I first embarked on the book in 1968, and its publication in 1972, much has happened in the world economy in general, and in the developing countries in particular. Not only have the everyday facts of life changed, but there have been new developments in thinking about economic strategy. There was a food crisis in 1974; the price of oil rose fivefold in 1973–4; Special Drawing Rights have been introduced; and there is now much greater policy emphasis on eradicating unemployment and the inequalities of wealth and income in developing countries. This second edition allows me to bring the facts up to date, to incorporate new institutional changes, and to reflect the changes in emphasis in thinking about development.

The structure and lay-out of the second edition are the same as the first edition, but virtually the whole text has been rewritten in order to incorporate the desired and necessary changes. To help the teacher I summarise below the major additions and changes that have been made.

Chapter 1 contains up-dated estimates of the magnitude of the development gap and now also includes discussion of unemployment in urban areas, the income distribution, and the problems of nutrition and food supply in developing countries.

Chapter 2, which is very much the analytic heart of the book and which, as one reviewer said, sets the tone of the book, contains a new section on production-function studies in developing countries.

Chapter 3 contains more discussion of the supply response of agricultural

output to price changes, and the section on measuring the static labour surplus in agriculture is extended. There is also a new section on models of rural–urban migration from which policy implications are derived.

Chapter 4 remains virtually unchanged.

Chapter 5 has an expanded discussion of the thesis of circular and cumulative causation and now contains a formal operational model of ‘regional’ growth-rate differences.

Chapter 6 is now a separate chapter on the population problem and contains much more empirical evidence on the relation between population growth and *per capita* income growth.

Chapter 7 replaces the old Chapter 6 on the allocation of resources and has been completely rewritten. It contains much more discussion of the use of social cost–benefit analysis and shadow prices in the allocation of investment resources. There is also a new appendix to the chapter which considers the alleged conflicts in the choice of techniques between maximising saving and employment on the one hand and between maximising output and employment on the other, and how the conflicts may be reconciled.

Chapters 8, 9, 10 and 11 replace the old Chapter 7 and its Appendixes on planning and planning techniques. The topic of input–output analysis is gone into in more detail, with a practical case study of the economy of Papua New Guinea.

Chapters 12 and 13 replace the former Chapter 8 on the financing of economic development, and have been completely rewritten, taking the analytical approach of my book *Financing Economic Development* (Macmillan, 1976).

Chapter 12 is devoted exclusively to the finance of development from domestic resources. As well as considering monetary and fiscal policy for the finance of development, the Keynesian and Quantity Theory of Money approaches are also discussed and particularly the role of inflation in redistributing income to profits and to the government sector.

Chapter 13 is devoted exclusively to the finance of development from external resources. On this topic there is now more attention paid to models of the relation between capital imports and growth and on estimating the aid component of international assistance, together with practical examples. All the figures for international resource flows have also been up-dated.

Chapter 14, on trade and development, replaces the previous Chapter 9 and contains more empirical evidence of the relation between export performance and saving and between exports and growth. There is also a new section on the ‘trade versus aid’ controversy.

Chapter 15 is devoted to a discussion of Special Drawing Rights as a potential means of transferring resources from developed to developing countries, and is a new addition to the book.

For this second edition, Miss Marilyn Spice and Miss Carol Wilmshurst typed the manuscript and they did so as usual, expertly.

Revised Preface to the First Edition

This book is offered as an introduction to certain topics in development economics, with particular emphasis on the economic obstacles to development and the economic means by which developing countries may raise their rate of growth of output and living standards. This does not mean that it provides a recipe or blueprint for development in the present developing countries — far from it. There can be no general recipes of this nature, and even if there were there would have to be more than economic ingredients. It is possible, however, to highlight certain fundamental principles and economic truths common to all countries which have set themselves the objective of development, and this is the purpose here. The text is primarily theoretical, and the discussion ranges from the mundane to the technical. This may be offputting, but is virtually inevitable with a subject like development which draws on all branches of economics, and which applies a large chunk of economic analysis to one particular country or set of countries. Certain obvious things need saying about the development process, while the analysis of particular development difficulties and their solution can become quite complex.

Despite its theoretical emphasis, no more than an elementary knowledge of economics is required, such as a student may receive in a first-year economics principles course. Indeed, the course on which the book is built was originally designed to provide a balanced diet for students studying the sociology and politics of development with no more than one year's exposure to macro- and micro-economic theory. Mathematics is kept to a minimum and there is no recourse to elaborate growth models.

Some readers may be worried by the neglect of non-economic factors in the growth process. The emphasis on the economics of development is not to deny or demote the importance of non-economic factors; rather it is a reflection of my interest and competence. Having said this, however, I think the importance of institutional barriers to development is often exaggerated. As Maddison¹ and others have remarked, the desire for material improvement in developing countries is very strong and the evidence is not very convincing that basic institutional reform is a necessary precondition of accelerated growth. But, in any case, it is my belief that the economist has something positive to offer by way of analysis unadulterated by sociological, political and other non-economic variables. It is a favourite pastime of other social scientists to criticise economists for ignoring

¹ A. Maddison, *Economic Progress and Policy in Developing Countries* (London: Allen & Unwin, 1970).

institutional considerations. We now seem to me to be in the opposite danger of a great deal of woolly thinking about what raising living standards is all about. In the final analysis, growth must be considered as an economic process in the important practical sense that it is unlikely to proceed very far in the absence of an increase in the quantity and quality of the resources available for production. Even if it is conceded that the availability of resources may depend on non-economic factors such as attitudes towards effort, saving, risk-taking and 'maximising' in general, this does not make non-economic factors prime determinants of development. Their impact is indirect. This is how economists tend to view the relation between development and the institutional environment, and this will be the implicit assumption throughout the present volume.

In preparing this book I have been haunted by that celebrated review which began: 'There is much in this book which is new and true; unfortunately that which is new is not true and that which is true is not new!' There is nothing in this present volume which is new either of a theoretical or an empirical nature. I hope, however, that what is not new does not deviate too radically from 'truth' or relevance, and that what is 'true' provides a useful synthesis for an introduction to a course in development economics.

Since this book has arisen out of a series of lectures given to third-year undergraduates at the University of Kent, I should like to express a debt of gratitude to at least three cohorts of students who endured the role of guinea pig so patiently. I am also very grateful to my colleague Roger Hill, who read the entire manuscript in draft and pointed out many slippages and obscurities. But I cannot implicate him in my views or analysis, because I know that he disagrees with a good deal of the approach I have taken – especially the presentation of theoretical skeletons without much empirical flesh, and my neglect of non-economic factors. None the less, I have valued his discussion enormously.

A . P . T .

*Keynes College,
University of Kent at Canterbury,
1971*

The First Law of Development

‘For unto everyone that hath shall be given
and he shall have abundance, but from him
that hath not shall be taken away even that
which he hath.’

(Matthew 25: 29)