Growth and Development

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Growth and Development

With Special Reference to Developing Economies

Fifth Edition

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with Macmillan Education

The Macmillan Press Ltd
Houndmills, Basingstoke,
Hampshire RG21 2XS

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First published 1972
Reprinted 1974
Second edition 1978
Reprinted 1979, 1981, 1982
Third edition 1983
Reprinted 1986, 1987
Fourth edition 1989
Fifth edition 1994

ELBS edition first published 1978
Reprinted 1979, 1980, 1982
ELBS edition of third edition 1985
Reprinted 1986, 1987
ELBS edition of fourth edition 1989
ELBS edition of fifth edition 1994

ISBN 978-0-333-60087-0 ISBN 978-1-349-23195-9 (eBook)
DOI 10.1007978-1-349-23195-9

To Elizabeth
For love and friendship

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Preface to the Fifth Edition

Since *Growth and Development* was first published in 1972 it has been widely used as a text for courses in economic growth and development in both developed and developing countries. In 1978, 1983 and 1989 new editions were published, and the book was taken into the Educational Low-Priced Books Scheme (formerly known as the English Language Book Society) for subsidised distribution in several developing countries. In this fifth edition, further revisions have been made to add to, and update, statistics, to include new institutional material, and to improve on the exposition to aid students and teachers alike.

The purpose of the book remains the same: to introduce students to the exciting and challenging subject of development economics, which draws on several branches of economics in order to elucidate and understand the development difficulties facing the economies of the world's poor countries. This does not mean that the book provides a recipe or blue-print for development: 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.

The book combines description and analysis, with an emphasis on the elaboration of simple and useful theoretical economic models for an understanding of the issues that comprise the subject-matter of development economics. I make no apology for the use of conventional economic theory. I concur with Theodore Schultz, the Nobel-Prize-winning economist, who has said of development economics:

This branch of economics has suffered from several intellectual mistakes. The major mistake has been the presumption that standard economic theory is inadequate for understanding

low-income countries and that a separate economic theory is needed. Models for this purpose were widely acclaimed until it became evident that they were at best intellectual curiosities. The reaction of some economists was to turn to cultural and social explanations for the alleged poor economic performance of low income countries. Quite understandably, cultural and behavioural scholars are uneasy about this use of their studies. Fortunately the intellectual tide has begun to turn. Increasing numbers of economists have come to realise that standard economic theory is just as applicable to scarcity problems that confront low income countries as to the corresponding problems of high income countries. (T. W. Schultz, 'The Economics of Being Poor', *Journal of Political Economy*, August 1980.)

This is not to say, of course, that *all* standard theory is useful and relevant for an understanding of the development process. The relevance of static equilibrium theory may be particularly questioned. Nor is it possible to ignore non-economic factors in the growth and development process. The fact is, however, that the desire for material improvement in developing countries is very strong, and economics does have something positive to offer by way of analysis unadulterated by political, sociological and other non-economic variables. In the final analysis growth and development must be considered 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. The book lays 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.

For those new to the book, or for those now using the fourth edition, I outline below the main contents of each chapter and the changes introduced into the fifth edition.

Chapter 1 portrays various dimensions of the development gap between rich and poor countries, and includes sections on income distribution, unemployment, nutrition, health, education, and the basic needs approach to development pioneered by the World Bank. There are new sections on the measurement of poverty; on the attempt by the United Nations Development Programme (UNDP) to construct a Human Welfare Index; and on research as to whether the developing countries are catching up with the developed countries in terms of productivity and levels of *per capita* income. The mutual interdependence of the world economy is emphasised, and there is discussion of the call for a New International Economic Order. The latest statistics are given for all the main dimensions of the development gap.

Chapter 2 is on the production-function approach to the measurement of the sources of growth. This chapter stays unchanged except for the reporting of new empirical studies, including one from the World Bank. However, it is important to continue to stress that the approach cannot tell us *why* factor supplies and productivity grow at different rates between countries. The production-function approach is essentially a supply-orientated approach to growth which treats the supply of factors of production as exogenous to an economic system. In practice, growth is likely to be demand-constrained, particularly by the balance of payments in an open economy, and factor supplies are likely to be endogenous to an economic system. Given the growth of output permitted by demand, however, it is interesting to apportion this growth between quantity and quality improvements in the various factors of production on the one hand and technical progress on the other.

Chapter 3 deals with the role of agriculture and surplus labour in the development process. Particular attention is paid to the influential Lewis model of economic development with unlimited supplies of labour. There is explicit treatment, fol-

lowing on from Lewis, of the interaction and complementarity between agriculture and industry, with a number of interesting insights concerning the importance of demand expansion from agriculture as a stimulus to industrial growth and of achieving an equilibrium terms of trade between the two sectors. New studies are reported on the supply response of agriculture.

Chapter 4 is on the role of capital accumulation and technical progress in the development process, and remains unchanged.

Chapter 5 is on dualism and Myrdal's concept of the process of circular and cumulative causation. This chapter describes the various mechanisms by which economic divisions between regions and countries tend to be perpetuated and widened. The chapter includes the early centre-periphery models of Prebisch and Seers, and the views of Marxist writers, including Emmanuel's model of unequal exchange.

Chapter 6 is on population and development and attempts to evaluate the debate on whether population expansion is a growth-inducing or retarding force. Particular attention is devoted to the work of Enke and to the recent work of Simon.

Chapter 7 is on the case for planning and raises some of the broader issues of development strategy, including early discussion of investment criteria.

Chapter 8 is devoted exclusively to social cost-benefit analysis, and has been largely rewritten to make a clearer distinction between the financial, economic and social appraisal of projects. The major emphasis is on comparing and contrasting the approaches of Little and Mirrlees (using world prices) on the one hand and the United Nations (using domestic prices and shadow exchange rates) on the other. More attention is given to the relation between the shadow exchange rate and the standard conversion factor used by Little and Mirrlees for the repricing of non-traded goods. The chapter contains a lengthy discussion of the determination of the shadow wage rate, and how to take account of the distributional effects of project choice.

Chapter 9 is a new chapter written by my colleague Dr John Peirson on how environmental

issues may be incorporated into social cost–benefit analysis, and on the new and important concept of sustainable development.

Chapter 10 is concerned with the choice of techniques and with the potential conflicts involved in moving towards the use of more labour-intensive techniques: between employment and output on the one hand, and between employment and saving on the other. The role played by multinational corporations in dictating technological choice is also examined.

Chapter 11 introduces the student to the technique of input–output analysis and its role in planning and forecasting. It is shown how input–output analysis can be used for forecasting output, import requirements, labour and capital requirements. There is a new section on linkage analysis and on tests of the hypothesis that countries which encourage activities with the highest backward and forward linkages grow the fastest.

Chapter 12 gives an elementary exposition of the technique of linear programming.

Chapter 13 turns to the finance of development from domestic sources and includes extensive discussion of the various means to raise the level of saving, including forced saving through inflation. There is consideration of the role of monetary and fiscal policy, including discussion of tax reform and a new section on the theory and practice of financial liberalisation.

Chapter 14 looks at the finance of development from external sources, and the debt-servicing problems created by foreign borrowing. The debt crisis that arose in the 1980s, and which still lingers, is thoroughly surveyed, and there is a new section on solutions to the debt crisis and the progress that has been made so far on the basis of various initiatives. All the statistics relating to foreign resource inflows have been updated to 1990/91. The whole aid debate is reviewed, plus the advantages and disadvantages of private foreign investment. There is a new section on the activities of the World Bank, and on the theory and practice of Structural Adjustment Programmes.

Chapter 15 is devoted to the topic of trade and development. The gains from trade are thoroughly

explored, as are the ways in which the present pattern of trade works to the relative disadvantage of developing countries. The tendency for the terms of trade to deteriorate, and for balance-of-payments difficulties to arise, is stressed. The case for protection, and the relative merits of import substitution and export promotion, are examined. New studies are reported on the relation between trade performance and economic performance.

Chapter 16 is on the balance of payments and development and discusses the important concept of balance-of-payments constrained growth and the various policy responses to this constraint at the national and international level. The latter involves a consideration of the extensive facilities afforded by the International Monetary Fund for balance-of-payments support. Some of the criticisms levelled at the IMF are also considered, including the relevance of devaluation. The chapter ends with a discussion of special drawing rights as a potential form of international assistance to developing countries.

By the time the sixth edition of this book becomes due in 1999, the facts pertaining to developing countries will again be out of date, and no doubt there will have been new institutional changes and new innovations in thinking about development strategy. To keep abreast with what is going on students are encouraged to consult such publications as the *World Development Report* and *Finance and Development* (published quarterly in several different languages by the IMF and World Bank), and journals such as *World Development*, *Journal of Development Studies*, *Journal of Development Economics*, *Economic Development and Cultural Change*, and the *World Bank Economic Review*.

I am deeply grateful to Celine Noronha for preparing the manuscript for this new edition; to Elizabeth Schachter for checking the proofs; to Keith Povey, Stephen Rutt and Jane Powell for editorial assistance; and to Jackie Butterley for compiling the index.

Canterbury, January 1993

A. P. THIRLWALL

GNP Per Capita Map of the World

Where the people are . . .

Average gnp per capita

Where the income is . . .

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)