

Economic Development

ELEVENTH EDITION

Michael P. Todaro

New York University

Stephen C. Smith

The George Washington University

Addison-Wesley

Boston Columbus Indianapolis New York San Francisco Upper Saddle River
Amsterdam Cape Town Dubai London Madrid Milan Munich Paris Montreal Toronto
Delhi Mexico City São Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo



Editorial Director: Sally Yagan
Editor in Chief: Donna Battista
AVP/Executive Editor: David Alexander
Editorial Project Manager: Lindsey Sloan
Editorial Assistant: Megan Cadigan
Director of Marketing: Patrice Jones
AVP/Executive Marketing Manager:
Lori DeShazo
Marketing Assistant: Ian Gold
Managing Editor: Nancy H. Fenton
Senior Production Project Manager:
Kathryn Dinovo
Senior Manufacturing Buyer: Carol Melville
Creative Director: Christy Mahon
Art Director, Cover: Anthony Gemmellaro

Cover Designer: Anthony Gemmellaro
Cover Art, clockwise from top, left: © David R. Frazier Photolibrary, Inc./Alamy; BRAC/Shehzad Noorani; © image100/age fotostock; © Ton Koene/age fotostock
Permissions Project Supervisor: Michael Joyce
Media Producer: Angela Lee
Supplements Editor: Alison Eusden
Project Management, Composition, and Design:
Nesbitt Graphics, Inc.
Copyeditor: Bruce Emmer
Printer/Binder: Courier, Westford
Cover Printer: Lehigh-Phoenix
Color/Hagerstown
Text Font: 10/12 Palatino

Credits and acknowledgments borrowed from other sources and reproduced, with permission, in this textbook appear on appropriate page within text.

Copyright © 2012, 2009, 2006, 2003 Michael P. Todaro and Stephen C. Smith. All rights reserved. Manufactured in the United States of America. This publication is protected by Copyright, and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. To obtain permission to use material from this work, please submit a written request to Pearson Education, Inc., Rights and Contracts Department, 501 Boylston Street, Suite 900, Boston, MA 02116, fax your request to 617-671-3447, or e-mail at www.pearsoned.com/legal/permissions.htm.

Many of the designations by manufacturers and sellers to distinguish their products are claimed as trademarks. Where those designations appear in this book, and the publisher was aware of a trademark claim, the designations have been printed in initial caps or all caps.

Library of Congress Cataloging-in-Publication Data

Todaro, Michael P.
Economic development / Michael P. Todaro, Stephen C. Smith. -- 11th ed.
p. cm.
Includes index.
ISBN 978-0-13-801388-2
1. Economic development. 2. Developing countries--Economic policy.
I. Smith, Stephen C. II. Title.
HD82.T552 2012
338.9009172'4--dc22

2010054260

10 9 8 7 6 5 4 3 2 1

Addison-Wesley
is an imprint of



www.pearsonhighered.com

ISBN 10: 0-13-801388-8
ISBN 13: 978-0-13-801388-2

Contents



Case Studies and Boxes	xvii
Preface	xix

Part One Principles and Concepts 1

1	Introducing Economic Development: A Global Perspective	2
1.1	How the Other Half Live	2
1.2	Economics and Development Studies	7
	The Nature of Development Economics	7
	Why Study Development Economics? Some Critical Questions	9
	The Important Role of Values in Development Economics	12
	Economics as Social Systems: The Need to Go Beyond Simple Economics	13
1.3	What Do We Mean by Development?	14
	Traditional Economic Measures	14
	The New Economic View of Development	14
	Amartya Sen's "Capability" Approach	16
	Development and Happiness	19
	Three Core Values of Development	20
	The Central Role of Women	22
	The Three Objectives of Development	22
1.4	The Millennium Development Goals	23
1.5	Conclusions	25
■	Case Study 1: Progress in the Struggle for More Meaningful Development: Brazil	28
2	Comparative Economic Development	37
2.1	Defining the Developing World	38
2.2	Basic Indicators of Development: Real Income, Health, and Education	44
	Purchasing Power Parity	44
	Indicators of Health and Education	45
2.3	Holistic Measures of Living Levels and Capabilities	47
	The Traditional Human Development Index	47
	The New Human Development Index	54
2.4	Characteristics of the Developing World: Diversity within Commonality	56

Lower Levels of Living and Productivity	57
Lower Levels of Human Capital	59
Higher Levels of Inequality and Absolute Poverty	61
Higher Population Growth Rates	62
Greater Social Fractionalization	64
Larger Rural Populations but Rapid Rural-to-Urban Migration	65
Lower Levels of Industrialization and Manufactured Exports	66
Adverse Geography	67
Underdeveloped Markets	68
Lingering Colonial Impacts and Unequal International Relations	69
2.5 How Low-Income Countries Today Differ from Developed Countries in Their Earlier Stages	71
Physical and Human Resource Endowments	71
Relative Levels of Per Capita Income and GDP	72
Climatic Differences	72
Population Size, Distribution, and Growth	73
The Historical Role of International Migration	73
The Growth Stimulus of International Trade	76
Basic Scientific and Technological Research and Development Capabilities	76
Efficacy of Domestic Institutions	77
2.6 Are Living Standards of Developing and Developed Nations Converging?	78
2.7 Long-Run Causes of Comparative Development	83
2.8 Concluding Observations	91
■ Case Study 2: Comparative Economic Development: Pakistan and Bangladesh	94
3 Classic Theories of Economic Growth and Development	109
3.1 Classic Theories of Economic Development: Four Approaches	110
3.2 Development as Growth and the Linear-Stages Theories	110
Rostow's Stages of Growth	111
The Harrod-Domar Growth Model	112
Obstacles and Constraints	114
Necessary versus Sufficient Conditions: Some Criticisms of the Stages Model	114
3.3 Structural-Change Models	115
The Lewis Theory of Development	115
Structural Change and Patterns of Development	120
Conclusions and Implications	121
3.4 The International-Dependence Revolution	122
The Neocolonial Dependence Model	122
The False-Paradigm Model	124
The Dualistic-Development Thesis	124
Conclusions and Implications	125
3.5 The Neoclassical Counterrevolution: Market Fundamentalism	126
Challenging the Statist Model: Free Markets, Public Choice, and Market-Friendly Approaches	126
Traditional Neoclassical Growth Theory	128
Conclusions and Implications	129
3.6 Classic Theories of Development: Reconciling the Differences	131
■ Case Study 3: Schools of Thought in Context: South Korea and Argentina	133

Appendix 3.1 Components of Economic Growth	140
Appendix 3.2 The Solow Neoclassical Growth Model	146
Appendix 3.3 Endogenous Growth Theory	150
4 Contemporary Models of Development and Underdevelopment	155
4.1 Underdevelopment as a Coordination Failure	156
4.2 Multiple Equilibria: A Diagrammatic Approach	159
4.3 Starting Economic Development: The Big Push	163
The Big Push: A Graphical Model	165
Other Cases in Which a Big Push May Be Necessary	170
Why the Problem Cannot Be Solved by a Super-Entrepreneur	171
4.4 Further Problems of Multiple Equilibria	172
4.5 Michael Kremer's O-Ring Theory of Economic Development	176
The O-Ring Model	176
Implications of the O-Ring Theory	179
4.6 Economic Development as Self-Discovery	180
4.7 The Hausmann-Rodrik-Velasco Growth Diagnostics Framework	182
4.8 Conclusions	185
■ Case Study 4: Understanding a Development Miracle: China	189

Part Two Problems and Policies: Domestic 201

5 Poverty, Inequality, and Development	202
5.1 Measuring Inequality and Poverty	204
Measuring Inequality	204
Measuring Absolute Poverty	211
5.2 Poverty, Inequality, and Social Welfare	219
What's So Bad about Extreme Inequality?	219
Dualistic Development and Shifting Lorenz Curves: Some Stylized Typologies	221
Kuznets's Inverted-U Hypothesis	224
Growth and Inequality	228
5.3 Absolute Poverty: Extent and Magnitude	229
Growth and Poverty	232
5.4 Economic Characteristics of High-Poverty Groups	235
Rural Poverty	236
Women and Poverty	237
Ethnic Minorities, Indigenous Populations, and Poverty	240
5.5 Policy Options on Income Inequality and Poverty: Some Basic Considerations	241
Areas of Intervention	241
Altering the Functional Distribution of Income through Relative Factor Prices	242
Modifying the Size Distribution through Increasing Assets of the Poor	244

Progressive Income and Wealth Taxes	245
Direct Transfer Payments and the Public Provision of Goods and Services	246
5.6 Summary and Conclusions: The Need for a Package of Policies	248
■ Case Study 5: Institutions, Inequality, and Incomes: Ghana and Côte d'Ivoire	250
Appendix 5.1 Appropriate Technology and Employment Generation: The Price Incentive Model	262
Appendix 5.2 The Ahluwalia-Chenery Welfare Index	265
6 Population Growth and Economic Development: Causes, Consequences, and Controversies	269
6.1 The Basic Issue: Population Growth and the Quality of Life	269
6.2 Population Growth: Past, Present, and Future	270
World Population Growth throughout History	270
Structure of the World's Population	273
The Hidden Momentum of Population Growth	277
6.3 The Demographic Transition	278
6.4 The Causes of High Fertility in Developing Countries: The Malthusian and Household Models	281
The Malthusian Population Trap	281
Criticisms of the Malthusian Model	284
The Microeconomic Household Theory of Fertility	285
The Demand for Children in Developing Countries	288
Implications for Development and Fertility	289
6.5 The Consequences of High Fertility: Some Conflicting Perspectives	290
It's Not a Real Problem	291
It's a Deliberately Contrived False Issue	292
It's a Desirable Phenomenon	292
It Is a Real Problem	294
Goals and Objectives: Toward a Consensus	297
6.6 Some Policy Approaches	298
What Developing Countries Can Do	298
What the Developed Countries Can Do	300
How Developed Countries Can Help Developing Countries with Their Population Programs	301
■ Case Study 6: Population, Poverty, and Development: China and India	303
7 Urbanization and Rural-Urban Migration: Theory and Policy	311
7.1 The Migration and Urbanization Dilemma	311
Urbanization: Trends and Projections	312
7.2 The Role of Cities	318
Industrial Districts	318
Efficient Urban Scale	322
7.3 The Urban Giantism Problem	323
First-City Bias	325
Causes of Urban Giantism	325
7.4 The Urban Informal Sector	327

Policies for the Urban Informal Sector	329
Women in the Informal Sector	333
7.5 Migration and Development	334
7.6 Toward an Economic Theory of Rural-Urban Migration	337
A Verbal Description of the Todaro Model	337
A Diagrammatic Presentation	340
Five Policy Implications	342
7.7 Summary and Conclusions: A Comprehensive Migration and Employment Strategy	344
■ Case Study 7: Rural-Urban Migration and Urbanization in Developing Countries: India and Botswana	347
Appendix 7.1 A Mathematical Formulation of the Todaro Migration Model	356
8 Human Capital: Education and Health in Economic Development	359
8.1 The Central Roles of Education and Health	359
Education and Health as Joint Investments for Development	361
Improving Health and Education: Why Increasing Income Is Not Sufficient	362
8.2 Investing in Education and Health: The Human Capital Approach	365
8.3 Child Labor	368
8.4 The Gender Gap: Discrimination in Education and Health	373
Consequences of Gender Bias in Health and Education	375
8.5 Educational Systems and Development	377
The Political Economy of Educational Supply and Demand: The Relationship between Employment Opportunities and Educational Demands	377
Social versus Private Benefits and Costs	379
Distribution of Education	381
Education, Inequality, and Poverty	383
Education, Internal Migration, and the Brain Drain	386
8.6 Health Measurement and Distribution	386
8.7 Disease Burden	390
HIV/AIDS	393
Malaria	396
Parasitic Worms and Other “Neglected Tropical Diseases”	397
8.8 Health, Productivity, and Policy	399
Productivity	399
Health Systems Policy	400
■ Case Study 8: Pathways out of Poverty: Progres/Oportunidades	404
9 Agricultural Transformation and Rural Development	416
9.1 The Imperative of Agricultural Progress and Rural Development	416
9.2 Agricultural Growth: Past Progress and Current Challenges	419
Trends in Agricultural Productivity	419
Market Failures and the Need for Government Policy	422
9.3 The Structure of Agrarian Systems in the Developing World	423
Three Systems of Agriculture	423
Peasant Agriculture in Latin America, Asia, and Africa	425

Agrarian Patterns in Latin America: Progress and Remaining Poverty Challenges	427
Transforming Economies: Problems of Fragmentation and Subdivision of Peasant Land in Asia	429
Subsistence Agriculture and Extensive Cultivation in Africa	432
9.4 The Important Role of Women	433
9.5 The Microeconomics of Farmer Behavior and Agricultural Development	438
The Transition from Peasant Subsistence to Specialized Commercial Farming	438
Subsistence Farming: Risk Aversion, Uncertainty, and Survival	438
The Economics of Sharecropping and Interlocking Factor Markets	442
The Transition to Mixed or Diversified Farming	444
From Divergence to Specialization: Modern Commercial Farming	445
9.6 Core Requirements of a Strategy of Agricultural and Rural Development	447
Improving Small-Scale Agriculture	448
Conditions for Rural Development	450
■ Case Study 9: The Need to Improve Agricultural Extension for Women Farmers: Kenya	453
10 The Environment and Development	465
10.1 Environment and Development: The Basic Issues	465
Economics and the Environment	465
Sustainable Development and Environmental Accounting	467
Population, Resources, and the Environment	468
Poverty and the Environment	469
Growth versus the Environment	469
Rural Development and the Environment	470
Urban Development and the Environment	470
The Global Environment and Economy	471
The Nature and Pace of Greenhouse Gas–Induced Climate Change	471
Natural Resource–Based Livelihoods as a Pathway out of Poverty: Promise and Limitations	471
The Scope of Domestic-Origin Environmental Degradation: An Overview	472
10.2 Rural Development and the Environment: A Tale of Two Villages	473
A Village in Sub-Saharan Africa	474
A Settlement Near the Amazon	474
Environmental Deterioration in Villages	475
10.3 Global Warming and Climate Change: Scope, Mitigation, and Adaptation	476
Scope of the Problem	476
Mitigation	478
Adaptation	479
10.4 Economic Models of Environment Issues	481
Privately Owned Resources	481
Common Property Resources	483
Public Goods and Bads: Regional Environmental Degradation and the Free-Rider Problem	486
Limitations of the Public-Good Framework	488
10.5 Urban Development and the Environment	488
Environmental Problems of Urban Slums	488
Industrialization and Urban Air Pollution	489
Problems of Congestion, Clean Water, and Sanitation	492
10.6 The Local and Global Costs of Rain Forest Destruction	493

10.7 Policy Options in Developing and Developed Countries	496
What Developing Countries Can Do	496
How Developed Countries Can Help Developing Countries	498
What Developed Countries Can Do for the Global Environment	500
■ Case Study 10: A World of Contrasts on One Island: Haiti and the Dominican Republic	502
11 Development Policymaking and the Roles of Market, State, and Civil Society	511
11.1 A Question of Balance	511
11.2 Development Planning: Concepts and Rationale	512
The Planning Mystique	512
The Nature of Development Planning	513
Planning in Mixed Developing Economies	513
The Rationale for Development Planning	514
11.3 The Development Planning Process: Some Basic Models	516
Three Stages of Planning	516
Aggregate Growth Models: Projecting Macro Variables	517
Multisector Models and Sectoral Projections	519
Project Appraisal and Social Cost-Benefit Analysis	520
11.4 Government Failure and the Resurgent Preference for Markets over Planning	524
Problems of Plan Implementation and Plan Failure	524
The 1980s Policy Shift toward Free Markets	526
11.5 The Market Economy	528
Sociocultural Preconditions and Economic Requirements	528
11.6 The Washington Consensus on the Role of the State in Development and Its Subsequent Evolution	530
Toward a New Consensus	531
11.7 Development Political Economy: Theories of Policy Formulation and Reform	533
Understanding Voting Patterns on Policy Reform	534
Institutions and Path Dependency	536
Democracy versus Autocracy: Which Facilitates Faster Growth?	537
11.8 Development Roles of NGOs and the Broader Citizen Sector	539
11.9 Trends in Governance and Reform	546
Tackling the Problem of Corruption	546
Decentralization	547
Development Participation	549
■ Case Study 11: The Role of Development NGOs: The BRAC Model	552

Part Three Problems and Policies: International and Macro 563

12 International Trade Theory and Development Strategy	564
12.1 Economic Globalization: An Introduction	564
12.2 International Trade: Some Key Issues	567
Five Basic Questions about Trade and Development	569
Importance of Exports to Different Developing Nations	571

Demand Elasticities and Export Earnings Instability	572
The Terms of Trade and the Prebisch-Singer Hypothesis	573
12.3 The Traditional Theory of International Trade	575
Comparative Advantage	575
Relative Factor Endowments and International Specialization: The Neoclassical Model	576
Trade Theory and Development: The Traditional Arguments	581
12.4 The Critique of Traditional Free-Trade Theory in the Context of Developing-Country Experience	582
Fixed Resources, Full Employment, and the International Immobility of Capital and Skilled Labor	583
Fixed, Freely Available Technology and Consumer Sovereignty	586
Internal Factor Mobility, Perfect Competition, and Uncertainty: Increasing Returns, Imperfect Competition and Issues in Specialization	586
The Absence of National Governments in Trading Relations	589
Balanced Trade and International Price Adjustments	590
Trade Gains Accruing to Nationals	590
Some Conclusions on Trade Theory and Economic Development Strategy	591
12.5 Traditional Trade Strategies for Development: Export Promotion versus Import Substitution	593
Export Promotion: Looking Outward and Seeing Trade Barriers	595
Expanding Exports of Manufactured Goods	597
Import Substitution: Looking Inward but Still Paying Outward	599
The IS Industrialization Strategy and Results	602
Foreign-Exchange Rates, Exchange Controls, and the Devaluation Decision	607
Trade Optimists and Trade Pessimists: Summarizing the Traditional Debate	611
12.6 The Industrialization Strategy Approach to Export Policy	613
12.7 South-South Trade and Economic Integration	617
Economic Integration: Theory and Practice	617
Regional Trading Blocs and the Globalization of Trade	619
12.8 Trade Policies of Developed Countries: The Need for Reform and Resistance to New Protectionist Pressures	620
■ Case Study 12: A Pioneer in Development Success through Trade: Taiwan	624
 13 Balance of Payments, Debt, Financial Crises, and Stabilization Policies	 638
13.1 International Finance and Investment: Key Issues	638
13.2 The Balance of Payments Account	639
General Considerations	639
A Hypothetical Illustration: Deficits and Debts	642
13.3 The Issue of Payments Deficits	644
Some Initial Policy Issues	644
Trends in the Balance of Payments	648
13.4 Accumulation of Debt and Emergence of the Debt Crisis	650
Background and Analysis	650
Origins of the 1980s Debt Crisis	652

13.5 Attempts at Alleviation: Macroeconomic Instability, Classic IMF Stabilization Policies, and Their Critics	654
The IMF Stabilization Program	654
Tactics for Debt Relief	656
13.6 “Odious Debt” and Its Prevention	661
13.7 Resolution of 1980s–1990s Debt Crises and Continued Vulnerabilities	662
13.8 The Global Financial Crisis and the Developing Countries	664
Causes of the Crisis and Challenges to Lasting Recovery	664
Economic Impacts on Developing Countries	666
Differing Impacts across Developing Regions	670
Prospects for Recovery and Stability	672
Opportunities as Well as Dangers?	673
■ Case Study 13: Trade, Capital Flows, and Development Strategy: South Korea	675
14 Foreign Finance, Investment, and Aid: Controversies and Opportunities	684
14.1 The International Flow of Financial Resources	684
14.2 Private Foreign Direct Investment and the Multinational Corporation	685
Private Foreign Investment: Some Pros and Cons for Development	688
Private Portfolio Investment: Benefits and Risks	694
14.3 The Role and Growth of Remittances	695
14.4 Foreign Aid: The Development Assistance Debate	697
Conceptual and Measurement Problems	697
Amounts and Allocations: Public Aid	699
Why Donors Give Aid	701
Why Recipient Countries Accept Aid	705
The Role of Nongovernmental Organizations in Aid	706
The Effects of Aid	707
14.5 Conflict and Development	708
The Scope of Violent Conflict and Conflict Risks	708
The Consequences of Armed Conflict	708
The Causes of Armed Conflict and Risks of Conflict	712
The Resolution and Prevention of Armed Conflict	713
■ Case Study 14: African Success Story at Risk: Botswana	718
15 Finance and Fiscal Policy for Development	729
15.1 The Role of the Financial System in Economic Development	730
Differences between Developed and Developing Financial Systems	731
15.2 The Role of Central Banks and Alternative Arrangements	734
The Role of Development Banking	738
15.3 Informal Finance and the Rise of Microfinance	739
Traditional Informal Finance	739
Microfinance Institutions	741

15.4 Reforming Financial Systems	746
Financial Liberalization, Real Interest Rates, Savings, and Investment	746
Financial Policy and the Role of the State	747
Debate on the Role of Stock Markets	749
15.5 Fiscal Policy for Development	751
Macrostability and Resource Mobilization	751
Taxation: Direct and Indirect	751
15.6 State-Owned Enterprises and Privatization	756
Improving the Performance of SOEs	757
Privatization: Theory and Experience	758
15.7 Public Administration: The Scarcest Resource	761
■ Case Study 15: Making Microfinance Work for the Poor: The Grameen Bank of Bangladesh	763
Glossary	773
Name Index	787
Subject Index	797

Para tener acceso completo a este libro usted debe solicitarlo de manera formal a la Coordinación del Programa de Doctorado Interinstitucional en Ciencias Ambientales mediante el **Formato de Préstamo Bibliográfico** ([descargar formato](#)) y remitirlo al siguiente correo: **dicambientales@unicauca.edu.co**



DOCTORADO INTERINSTITUCIONAL EN
CIENCIAS AMBIENTALES

