

# Contents

## I. ENVIRONMENT FOR DEVELOPMENT

### 1. THE POLITICS OF DEVELOPMENT, 3

Rising Economic Aspirations, 3

*The demonstration effect Alleged "colonial" exploitation Expectations regarding government*

Rival Development Objectives, 7

*Increasing real incomes Increasing particular outputs Government's timing of increased consumption*

Western Motives for Granting Aid, 11

Possibilities of Frustration, 14

### 2. COMMON CHARACTERISTICS OF POOR COUNTRIES, 16

What Is an Underdeveloped Country? 16

Various Aspects of General Poverty, 17

Unproductive Agriculture the Dominant Occupation, 22

Dualism, 24

*The market economy The subsistence economy The "foreign" enclaves*

A Tropical Climate, 29

*Lower human effort Prevalence of disease Unfavorable agricultural conditions*

High Birth Rates and Too Few Adults, 33

## An Uneconomic Culture, 34

*Some philosophical and religious handicaps Sources of status Im-  
mobility among occupations The family's role Grip of custom  
Uses of money*

Summary, 39

3. ECONOMIC DIFFERENCES AMONG POOR  
COUNTRIES, 40

## National Differences in Economic Welfare, 40

*National income per capita estimates Problems of measuring dif-  
ferences in income Specific indications of economic welfare*

## National Differences in Saving and Capital Wealth, 46

*Differences in savings Some difficulties in estimating investment  
Concept of capital*

## National Differences in Natural Resources, 52

## National Differences in Labor Availability, 55

*Population size and growth rates Labor force to population ratios  
Different occupations of labor force*

## Varying Participation in Foreign Trade, 58

## Attempted Classification of Underdeveloped Countries, 60

## II. INNOVATIONS AND DEVELOPMENT

## 4. DEVELOPMENT IDEAS OF EARLY ECONOMISTS, 65

## Mercantilism: The New Merchant Class, 65

*The new merchant class Their economic views Significance for  
development*

## "Classical" Principles of Economic Development, 70

*Laissez-faire Division of labor Free foreign trade Money and  
credit Capital accumulation from surplus value Theory of wages  
Diminishing returns to increasing population Threat of population*

## Development "Dynamics" of Classical Economics, 85

*Aggregate dynamic model Critique of system Applicability to  
today*

## 5. DEVELOPMENT THROUGH SCIENCE AND TECHNOLOGY, 91

Technology a Factor of Production, 91

Progress Through Innovation and Profit, 95

*Equilibrium without innovation The impact of innovations  
Critique*

Conditions That Favor Invention and Innovation, 100

*The technological process: invention to innovation Circumstances  
favoring invention Encouraging innovation in backward countries*

## 6. ECONOMICS OF INNOVATION, 107

New Kinds of Productive Agents, 107

Labor Saving or Capital Saving? 109

Price-Determined Innovations, 112

Should Capital-Poor Economies Favor Capital-Saving Innovations? 113

Resistance to Innovation and Waste of Capital, 118

*Innovation timing by existing firms Innovation timing by new  
firms Time preferences and innovation rates*

## 7. EXPANSION OF AGRICULTURE OR INDUSTRY? 124

The Superficial View, 125

Induced Industrialization Through Increased Productivity, 127

*Some major determinants Zero price elasticity case Complex elasticity case*

Forced Growth Through Government Intervention, 130

*Closed economy case Open economy case Food constraints on  
forced industrialization Associated urbanization costs*

Is Underemployed Rural Labor Free? 138

Some Policy Conclusions, 141

## 8. AGRICULTURAL INNOVATIONS AND COMMUNITY DEVELOPMENT, 143

Role of Agriculture in Development, 143

Possibilities of Innovation Without Reorganization, 146

Land Reforms and Agricultural Efficiency, 151

*Some degrees of land reform Some land reforms and their economic impact What is needed?*

Modernizing Subsistence Agriculture, 159

*Combining land holdings Specializing in output for market Introducing improved methods*

Over-all Community Development, 164

9. SOME GROWTH AND DEVELOPMENT MODELS, 167

Capital Sector Expansion by Equipping Subsistence Labor, 167

*Stage one—unlimited labor supply Stage two—limited labor supply Some general comments*

Growth Models That Stress Capital, 171

*Incremental capital-to-output ratios Savings rates and capital productivity: Harrod Growth without inflation*

Forced Growth in Backward Economies, 177

The Contributions of Labor and Technology Also Included, 181

*Labor and capital when productivity is constant Labor and capital: constant substitution elasticities Advances in technology*

A General Model of Economic Development in Backward Countries, 186

10. HISTORICAL STAGES OF ECONOMIC GROWTH, 189

Description or Theory? 189

Growth Stages in Past Theories, 191

*List Hildebrand Bucher*

A Modern Version: Walt Rostow's "Stages," 194

*The traditional society The preconditions for take-off Take-off The drive to maturity The age of high mass consumption*

Some Real Dangers, 201

*Are there stages? Neo-Rostowian policies Why should history repeat itself?*

III. ACCUMULATION AND USE OF CAPITAL

11. PRIVATE SAVING AND DOMESTIC INVESTMENT, 209

Some Concepts Described, 209

*Savings Investment Capital Rate of interest*

## Incentives to Save, 214

*Saving against disasters Family saving for direct investment Private savings for indirect investment*

## How Profitable Is Real Investment? 220

*Interest rates not too dissimilar Inadequate effective demand Competition of labor*

## 12. GOVERNMENT POLICIES TO INCREASE INVESTMENT, 224

## Government Borrowing from Private Savers, 224

*Government borrowing for public investment Government borrowing for private investment*

## Ability of Government to Borrow Without Inflation, 229

*Taxable capacity National debt burden Reducing the burden through inflation*

## Credit Inflation to Divert Resources, 233

*Diversion of resources Compounding of inflation Consequences of inflation*

## Using a Budget Surplus for Investment, 239

*More receipts or fewer expenditures? Government surpluses from industrial operations Taxes, borrowing, and inflation*

## 13. TAX POLICIES FOR UNDEVELOPED NATIONS, 245

## Taxation for Growth, 246

## Minimizing Production Deterrents, 248

*Tax on rents Levy on capital Taxes on income Taxes on estates*

## Reduce Non-Essential Consumption, 252

*Poll taxes Taxing "luxury" goods General sales tax*

## Avoid Distorting the Economy's Structure, 254

## Income Elastic Taxes, 256

## Economy of Administration, 256

## Special Problems of Taxation in Primitive Economies, 257

*Taxes on turnover Taxes in kind Compulsory labor on government projects*

## 14. BANKING REQUIREMENTS OF BACKWARD COUNTRIES, 261

## General Money and Banking Needs, 261

## Special Problems of Backward Countries, 263

*Continuance of barter Institutions for channeling savings into investment Few bank depositors No money market Fluctuations in balance of payments*

## Banking Systems for Backward Countries, 269

*Mixed banking and money systems Government banking monopoly Government monopoly or mixed banking*

## 15. ALTERNATIVE INVESTMENT CRITERIA, 277

## General Investment Calculations, 278

*Static case Dynamic analysis*

## Public Investment Calculations, 283

*Distinction between real and money costs and benefits Pricing policies for government enterprises Assuming socially desirable income distribution*

## Proposed Investment Criteria, 290

*Maximizing output per unit investment Investing to maximize profits and saving Maximizing profit per investment unit Maximizing social profit Some "scientific" but political criteria*

## 16. A "BIG PUSH" UNDER GOVERNMENT DIRECTION, 298

## "Big Push" Arguments, 298

*Balanced growth (complementarity of demand) Capital "lumpiness" and increasing returns Kinked supply of domestic savings*

## Investment Incentives and the Price System, 309

*Inelastic demands and price fluctuations Discrete investments in limited markets Present prices and future conditions*

## Some Practical and Theoretical Problems, 314

## 17. UNBALANCED INDUSTRIAL GROWTH, 317

## Growth Through Imbalance, 317

*Profits and entrepreneurs Profit opportunities and "external economies" Imbalance a stimulant*

## Unbalancing the Economy with "Infrastructure," 321

## Leading with DPA, 324

## "Last" Industries First, 328

## Summary, 332

## IV. LABOR AND DEVELOPMENT

## 18. DANGERS OF OVERPOPULATION, 335

The Population "Explosion," 335

Some Population Theorems, 338

*Malthusian population determinants Population traps with low consumption Population and income and growth*

Optimum Population Notions, 345

*Extreme static argument Subtraction of consumption vs. addition of output Resources for population or investment?*

Conclusions, 355

## 19. POPULATION SIZE AND LABOR HOURS, 356

Ratio of Labor Force to Population, 356

Hours of Work and Motivation, 360

*Inadequate employment opportunities Backward sloping labor supply schedules Increasing work incentives*

Human Energy and Hours Worked, 366

## 20. GOVERNMENT MEASURES TO REDUCE BIRTHS, 368

The Value of Permanently Preventing a Birth, 368

Customary Motives for Many Children, 371

Five Policies to Reduce Births, 373

*Advocating planned parenthood Raising the minimum age of marriage Legalizing abortion Establishing birth control clinics Taxing large families*

Government Payments for Nonpregnancy, 377

The Bonus-Vasectomy Scheme, 379

Relative Effectiveness of Bonus Schemes, 381

## 21. PRODUCTIVITY AND EDUCATION, 385

Education and Productivity, 385

Some Major Issues, 390

*Who is to be educated? Who should pay for education? Who should operate the schools?*

Educational Investment and National Accounts, 395

## 22. PUBLIC HEALTH AND EFFECTIVE LABOR, 398

Public Health in Backward Countries, 398

*Malaria Yaws Brucellosis (Undulant Fever) Infant malnutrition  
Gastro-enteritis*

Investing in Health, 404

*Similarities between health and education Increased output from  
improved health Increasing life expectancy*

Allocating Expenditures for Improving Health or Education, 408

*Equalizing the cost per person Minimizing expected deaths Maxi-  
mizing extra output Health vs. education Education vs. industry  
Fewer deaths vs. fewer births*

Conclusions, 414

## V. DEVELOPMENT THROUGH TRADE

23. WORLD DEVELOPMENT BEFORE THE FIRST  
WAR, 419

Spread of European Influence and Culture, 420

The Economic Revolution in Western Europe After 1750, 422

*Agriculture Transport Industry Emergence of entrepreneurs  
Sources of capital Growth of population*

Extending the Old World Into the New, 430

Development Through Colonialism, 434

*How most recent colonies were established Alleged colonial exploi-  
tation*

Conclusion, 442

## 24. MAKING USE OF THE WORLD ECONOMY, 444

National Accounts and International Transactions, 444

*Balance of payments The physical flows International trade and  
national accounts*

Using the Savings of Others, 450

*Advantages of borrowing Capital inflows increase gross imports  
Expanding exports necessary*

Gains from Trade, 455

*Welfare gains from trading a fixed output Increasing purchasing  
power by adjusting national output Trading producer goods*

Balanced Consumption and Unbalanced Production, 460

Disciplinary Role of World Markets, 462



## 25. THE NEW AUTARKY, 464

Worsening Terms of Trade for Primary Exports, 464

*Barter or commodity terms of trade Factoral terms of trade  
Double factoral terms*

Price Instability of Primary Exports, 468

Control of Exports for Revenue, 470

Preventing the Trade Consequences of Inflation, 472

Protection for Industrialization, 476

*When industrial money costs exceed real costs Protecting infant  
industries—a new version Industrializing by performing more  
processes*

Conclusions, 482

## 26. INTERNATIONAL CAPITAL MOVEMENTS, 483

Alternative Means of Transferring Capital, 483

Relative Importance of Different Kinds of Capital Transfers, 485

Direct Private Investment, 486

National Grants and Capital Loans, 489

The International Bank and Its Affiliates, 492

*The International Bank for Reconstruction and Development In-  
ternational Finance Corporation International Development Asso-  
ciation*

Development Agencies of the United Nations, 496

Trade or Aid? 497

Capital Transfers and Domestic Accumulation, 500

## 27. THE UNITED STATES' AID PROGRAMS, 505

Brief Historical Review, 505

The Current United States Development Program, 507

*1. Long-term loans 2. Agricultural surplus disposal 3. The Ex-  
port-Import Bank (Eximbank) 4. Private investment opportunity  
surveys 5. Development grants and technical assistance 6. The  
Peace Corps 7. Research for development*

Military Assistance Programs, 516

*Support assistance vs. military assistance Support assistance vs.  
economic development Maintaining economic stability*

Some Concluding Comments, 520

## VI. PROSPECTS FOR DEVELOPMENT

## 28. DEVELOPMENT PROSPECTS AND GOVERNMENT POLICIES, 525

Material Prospects of Developing Countries, 525

Government Intervention for Economic Development, 528

*Typical economic policies of undeveloped nations "People's democracies" in tropic lands Economic development with personal freedom*

Does Economic Development Prevent Communism? 540

*The Communist threat Why economic development? What organization for economic development?*

## APPENDIX A INDUSTRIALIZATION THROUGH GREATER PRODUCTIVITY IN AGRICULTURE, 547

Statement and Proof of Theorem, 547

Conclusions, 551

## APPENDIX B SOME ASPECTS OF INDIA'S THIRD FIVE YEAR PLAN: A CASE STUDY IN PLANNING FOR DEVELOPMENT, 553

Introduction, 553

General Framework of the Draft Plan Frame, 555

An Evaluation of the Draft Plan Frame, 557

*National income projections Foreign exchange and external assistance Financial resources of public authorities Taxes Surpluses Profits from trade in food grains New savings and borrowings Current government expenditures Resources available to the Private Sector Additional jobs created*

A Theoretical Reappraisal, 568

Prospects for Economic Growth During 1961-66, 569

## BIBLIOGRAPHY, 573

## INDEX, 595