

## Preface

IN THIS BOOK, we address growth and development strategies in the developing world (including the so-called emerging and transition economies) based on the *structuralist* tradition of economic thought. Structuralist views of how an economy works and especially how developing countries can advance toward economic and social sustainability have long been an integral part of economics in general and of development economics in particular. The appeal of structuralist economics to policy makers and researchers follows from its system-wide approach, including the social context in which economies operate. We believe that structuralism provides the best way to understand the problems people in poor countries have to confront in trying to reshape their national economies.

There is, however, no comprehensive text that looks at growth and development from this perspective, in both empirical and analytical terms, comparable to the diverse supply of mainstream texts on economic growth. In this book, we try to fill this gap by using structuralist methods to analyze the economic performance of developing countries around the world since the 1960s.

Traditionally, structuralist economists begin their analysis with a look at “stylized facts” that characterize the economy. The starting point in this book is the observed divergence in the economic performance between industrial and developing countries, and among the latter since the 1960s but particularly following the oil and interest rate shocks of the late 1970s. Our main task is to ascertain reasons why relatively few countries have managed to grow steadily for long time periods. Understanding, in turn, how the structure of the economic system, institutions, and the stage of financial development can constrain policy space is essential in providing the right solutions to policy problems as they arise in developing countries.

The structuralist approach departs from the orthodox policy framework proposed since the 1970s by mainstream economists and international financial

institutions such as the World Bank and the International Monetary Fund. Now, after more than three decades of negligible success, the influence of mainstream views on policy strategies and policy making in the developing world is clearly in decline. However, the void, in both academic and non-academic economic literature, in terms of analysis and a coherent set of policy alternatives, remains present.

From this perspective, this book is very timely and will answer the needs of those doing research on growth and development as well as of policy makers around the developing world. The book is relatively short, and we hope that it will be used as a textbook for courses on development economics and macroeconomics in developing countries. It is accessible to those with a less technical background, undergraduate students, and the general reader, without compromising the rigor of economic analysis by including the technical material in the appendices to the relevant chapters.

### The Structure of the Book

Chapter 1 starts with an overall presentation of structuralist views on development and the role of the state. It also provides a first look at the policy issues that the book analyzes, in the context of the broader debates on development and, in this sense, provides a summary of the major issues raised throughout the book.

Chapters 2 to 5 are empirical in character. They present major stylized facts about developing countries' economic performance.

Chapter 2 summarizes the post-World War II history of economic growth. The general message is that after the "golden age" of rapid worldwide economic expansion, there was a "great divergence" in the late twentieth century<sup>1</sup> both between industrial and developing countries, and among the latter. This divergence was associated with major international shocks in interest rates and commodity terms of trade, the effects of which lasted for almost a quarter of a century. The early twenty-first century saw again broad-based growth in the developing world, which hit the wall as a result of the global financial meltdown of 2007–2008.

Chapter 3 first takes up patterns of productivity growth and other supply side factors. It is shown that sustained growth in "successful" regions was accompanied by structural changes including output and labor share shifts toward industry and modern services, which is therefore the main determinant of sustained productivity growth. Variations in labor underemployment also play an important role, providing the labor force that dynamic modern sectors require but also absorbing in informal activities the labor surplus not employed in industry and modern services. In turn, capital stock and output growth rates are also related, possibly due to demand rather than supply-side causality.

In contrast, greater education and foreign direct investment are not closely tied to growth. There was a considerable variation in energy use patterns across regions, but in all cases the energy/labor ratio did not fall.

Chapter 4 is devoted to international trade and associated structural changes. Overall the chapter highlights that economic growth seems to be associated more with *how* an economy integrates itself into the global markets rather than with trade openness per se. Specifically, fast-growing economies have usually moved toward manufactured exports with high technological content and, to a lesser extent, mid- and low-technology manufactures. The stagnating economies tended to remain exporters of primary products and natural resource-based manufactures.

Chapter 5 considers the ways different net borrowing flows among different economic agents relate to each other. Neither the widely accepted “twin external/fiscal deficits” nor the “consumption-smoothing” views of macro adjustment seem to apply. The most typical pattern is parallel movements of *private* and external deficits. This pattern implies that the business cycle is dominated in developing countries by pro-cyclical swings in private spending (investment and consumption) that closely interact with—and, in fact, are largely determined by—pro-cyclical capital flows.

The rest of the book (chapters 6 to 9) presents simple structuralist models and analytical frameworks that help to make these stylized facts understandable and that draw upon them for basic recommendations on macroeconomic and development policies.

The discussion begins in chapter 6 with a review of how different financial structures can constrain—and, in contrast, how financial development facilitates—policy choice. It also shows how different financial structures generate opportunities for financial speculation and associated macroeconomic instability. From this analysis, basic ideas about financial development and regulation are sketched out.

Chapter 7 sets up a three-gap framework that facilitates understanding of the interaction between net borrowing patterns of different economic agents in developing countries. This framework serves as the basis for the analysis of counter-cyclical macroeconomic policies (fiscal, monetary, and foreign exchange rate and reserve management) and supporting capital management techniques (regulations on cross-border capital flows and counter-cyclical prudential regulation). The chapter ends with an analysis of the impacts of foreign aid on low-income countries.

Policies regarding growth and structural development strategies are the focus of Chapter 8. The basic framework is a model in which the interaction between supply and demand factors generates a dual link between economic growth and productivity improvements. Variations in underemployment (in the “reserve army of the underemployed,” as we call it in the book) are essential

in this dynamic, reflecting the crucial role played by structural underemployment in “dual economies,” in which an informal low-productivity sector coexists with a modern sector subject to increasing returns, a structural characteristic of developing countries. Policy frameworks for industry, agriculture, and trade are drawn from this analysis.

Finally, chapter 9 summarizes the main stylized facts presented throughout the book as well as policy options—macro, industrial, and commercial—with a focus on what sorts of interventions fit best in different kinds of developing economies.

We should note that the sequence of the analytical chapters, which covers from the short- to the long-term determinants of economic growth, is the inverse of that followed in the empirical chapters. This structure actually makes sense, as the empirical analysis starts with the focus on the central motivation of the book, the sharply different rates of growth among countries, whereas the analytical part follows the traditional sequence of macroeconomics textbooks, from the short to the long run. One interesting feature of this structure is that the main motivation of the book, explaining growth divergence among countries, figures prominently at the start and the end of the book.

### Acknowledgments

Earlier, versions of chapters 2 and 3 were originally written for the United Nations Department of Economic and Social Affairs in preparation of the *World Economic and Social Survey 2006*, a revised version of which was later published as *Uneven Economic Development* (Ocampo and Vos 2008). Mariángela Parra co-authored two chapters, and Rob Vos provided very helpful inputs at all stages along the way to the present volume. Jaime Ros also carefully read and provided comments to a first draft of the book that were very useful in preparing the final version.

### Notes

1. This “great divergence” of the late twentieth century may be seen as part of the divergence between now rich and poor countries that has taken place since the industrial revolution—the longer time period for which authors such as Pomeranz (2000) have used this concept.

GROWTH AND POLICY IN DEVELOPING COUNTRIES

