Contextual Development Economics

A Holistic Approach to the Understanding of Economic Activity in Low-Income Countries

Contents

1	Inti	roduction		I
	1.1	The No	eed for a Contextual Approach to Development	
		Econor	mics	2
	1.2		es of Research.	
	1.3	Structu	re and Method of the Study	6
Par	t I	Economic	c Characteristics of Low-Income Countries	
2	Pov	ertv		13
	2.1		ultiple Dimensions of Poverty	
		2.1.1	÷	
		2.1.2	Health and Education	
		2.1.3	Social Exclusion	21
		2.1.4	Insecurity	22
	2.2	The Pr	oblem of Measuring Poverty	
3	Tra	nsaction	Costs	29
	3.1	Transa	ction Costs and the Organisation of Economic Activity	30
	3.2		ction Costs and the Institutional Environment	
	3.3	Definit	tion and Measurement of Transaction Costs	34
		3.3.1	The Cost of Regulation	
		3.3.2	Infrastructure Costs	
		3.3.3	Informal Institutional Determinants	
			of Transaction Costs	40
		3.3.4	Historical Determinants of Transaction Costs	
4	Pri	vate Gove	ernance	43
•	4.1		ations of Private Economic Governance	
	т.1	4.1.1	Morality	
		4.1.2	•	
		4.1.3	Reputation.	
		1.1.5	Ttop water the state of the sta	50

xii Contents

	4.2	Alterna	ative Institutions for Contract Enforcement.	52
		4.2.1	Group Structure	52
		4.2.2	Contractual Structure	56
		4.2.3	Coordinated Arrangements and Private Third Parties	58
	4.3	Alterna	ative Institutions for Property Rights Protection	62
		4.3.1	The Definition of Property Rights	62
		4.3.2	Sources of Property Rights Violations	63
		4.3.3	Private Protection of Property Rights	65
	4.4	The So	cope and Limits of Informal Enforcement Institutions	66
		4.4.1	The Relationship Between Informal Enforcement	
			and the Scope of Exchange	66
		4.4.2	Natural Limits of Private Governance Mechanisms	68
		4.4.3	Natural Advantages of Private Governance	
			Mechanisms.	69
5	Info	rmal Eco	onomic Activity	73
	5.1		ng and Measuring the Informal Economy	
		5.1.1	The Size and Growth of the Informal Economy	
			and How It Can Be Estimated	77
	5.2	Private	Support Institutions for Informal Firms	
	5.3		ole and Implications of Informality for Economic	
			opment	86
		5.3.1	•	
			Activity and the Merits of Formalisation	87
Par	t II	Develop	ment Economics: The Past 70 Years	
_		_		0.2
6			eneration of Development Economists	
	6.1		nisation Theories	95
		6.1.1	Paul Rosenstein-Rodan: Industrialisation	0.5
			and the "Big Push"	
		6.1.2	Arthur Lewis: The Dual Sector Model	96
		6.1.3	Ragnar Nurkse: Balanced Growth, Capital	
			Formation and the Primacy of Domestic Action	97
		6.1.4	The Analysis of Typical Growth Paths by Clark,	
		_	Kuznets, Rostow and Gerschenkron	
	6.2	Structi	uralist Approaches to Development Economics	
		6.2.1	Albert O. Hirschman: The Strategy of Unbalanced	
			Growth	102
		6.2.2	Gunnar Myrdal: Development as a Cumulative	
			Process of Circular Causation.	104
		6.2.3	Hans W. Singer: The International Distribution	
			of Gains from Trade and Investment	105
		6.2.4	Rau Prebisch: Import Substitution as Strategy	
			for Development	108

	6.2.5		
	6.2.6	Peter T. Bauer: A Class of His Own	.1 14
The S	Second (Generation: Return to the Mainstream	117
7.1		assical Development Economics.	
7.2		dological Considerations	
7.3		assical Welfare Economics and Methods	121
,,,,		ect Appraisal	125
	7.3.1	Social Cost: Benefit Analysis	
	7.3.2	Shadow Pricing	
	7.3.3		
	7.3.4		
	7.3.5		
7.4	Develo	opment Policies and the "Washington Consensus"	
The '	Third C	eneration: Institutional Turn	
		v Development Economics'	135
8.1		fect Information and the "New Development	133
0.1		mics"	136
8.2		ew Institutional Economics and Development	
0.2	8.2.1	The Concept of Transaction Costs	130
	0.2.1	in Institutional Theory	139
	8.2.2	The Process of Institutional Change.	
	8.2.3		
8.3		cal Literature on Institutions and Growth	
8.4		ood Governance Agenda	
Conc	ducione	from the Past and the Agenda	
		eneration of Development Economics	140
9.1		hallenge of Igniting Growth in Low-Income Countries	
9.2		Context Matters	
9.2	9.2.1	Operational Guidance to Policymakers:	131
	7.2.1	An Often Neglected Objective	
		of Development Research	15/
	9.2.2	The Balance and Sequence of Empirical	1.57
	7.2.2	and Theoretical Analysis in Development	
		Economics	158
9.3	The D	anger of Bureaucratic Failure in the Administration	
7.5		relopment Assistance	
	9.3.1	Problems of Accountability and Feedback	
	9.3.1	Adverse Behaviour of Aid Bureaucrats	
	9.3.3	Informational and Motivational Problems	100
	1.5.5	Associated with the Provision of Aid	168
9.4	Summ	ary of Conclusions from the Review	100
<i>7</i> . i		relopment Economics	171

xiv Contents

Part III	In Search of an Analytical Framework for the Study
	of Low-Income Countries: The Style-Economic Approach

10	Eme	rging Nev	w Directions in Development Economics	177
	10.1	Confess	sions of Humility and Ignorance	178
	10.2	Planner	s vs. Searchers	180
	10.3	Behavio	oural Development Economics	184
	10.4		at the Level of Research Methods	
		and Ana	alytical Techniques	187
		10.4.1	Analytic Narratives	188
		10.4.2	Growth Diagnostics	190
		10.4.3	Experimental Methods	192
11	Gern	nan Hist	orical Economics as Development Economics	195
	11.1	Scope a	and Scientific Method of the German	
		Historic	cal School	196
12	Fron	ı Stage T	Theories to the Concept of Economic Styles	203
	12.1		Theories and the Idea of Economic Systems	
		12.1.1	Historical Stage Theories	
		12.1.2	Werner Sombart and the Concept	
			of Economic Systems	205
	12.2	Spietho	off's Concept of the Economic Style	
		12.2.1	Methodological and Theoretical	
			Foundations of Spiethoff's Economic Styles	210
	12.3	The Co	oncept of Economic Styles in the Literature	
		Since S	piethoff	216
		12.3.1	•	
		12.3.2	The Concept of Economic Styles	
			in the Contemporary Literature	220
	12.4	Parallel	Contributions of the "Old" Institutional	
			of Economics.	222
13	The	Relevano	ee of the Historical School for the Study	
	of Lo	w-Incom	ne Countries	225
	13.1		lological Contributions	
		13.1.1	=	
		13.1.2	e e e e e e e e e e e e e e e e e e e	
		13.1.3		
		13.1.4	Models of Man and Behavioural Assumptions	
	13.2	The Sty	yle-Based Approach to the Understanding	
			nomic Activity in Low-Income Countries	233
		13.2.1	Culture and Style in Economic Analysis	
		13.2.2	Economic Style and Institutional Diversity	
		13.2.3		

Contents	XX
contents	A

14 Conclusions.	249
Bibliography	. 255
Author Index	. 275
Subject Index	. 281