

## Foreword

Here is a book that has been missing from the library shelves of policy makers, policy advisers, teachers and students of economics and anyone seriously concerned with economic growth and policies addressed to the processes, infrastructure, and institutions needed to achieve prosperity and economic development without experiencing recurrent bouts of instability and crises. The publisher, World Scientific, deserves commendation for its acute sense of relevance on display in this book. The authors deserve congratulations for their unique intellectual and practical ability to bring their lifetime of experience of a total of more than a century of contributions to theory and policy to bear on a vital subject of economic adjustment and growth and do so in a readable style. This is a remarkable team of experts of innovators and highly respected thinkers. Their contributions to the field, subject of the book, are well known (think of Villanueva's contributions to the theory and application of endogenous growth, Mariano's contributions to econometrics theory and application, like the famous and most useful Diebold-Mariano test for accuracy of econometric forecasts, and Guinigundo's long time experience as a central banker). Readers are in for a treat. Here are three brilliant minds that lived—as researchers, policy advisers and policy makers—through intellectually and practically unprecedented challenging times. The period of their intellectual and practical contributions, spanning the 1970s to the present, represents a time of shifting theoretical and policy grounds, a time when new economic paradigm was emerging forged by Mont Pelerin ideology; a time of Chicago school's triumph, liberalism, Washington Consensus, and Reagan-Thatcher policy commitment to individualism. This was also a time of emergence of a new paradigm of adjustment and growth with the main objective of making developing countries debt worthy and capable of producing enough fiscal room to service their debt to the international banking community, with little or no concern for the infrastructural, educational and health needs of these countries.

The authors of this book are no armchair theoreticians. They have had an eye wide open to the problems of adjustment and growth programs, externally designed and domestically applied, in developing and emerging countries leading to recurrent cycles of instability resulting from big-bang liberalization. At the present challenging time for developing and emerging market economies facing instability and debt crises, this book could not be timelier as it focuses on conceptualizing an alternative process of adjustment and growth, evaluating it empirically, and applying it to an emerging market economy. The critical components of a successful economic growth strategy include physical, financial, and educational infrastructures supported by macroeconomic and financial stabilization policies and structural reforms. Guided by the principles enunciated in this book, the authors illustrate the interplay between economic adjustment strategy and growth, culminating in a case study of the Philippines. They begin the book with a review of the neoclassical growth model before delving into more specialized topics such as endogenous growth theory, adaptive inflationary expectations, learning by doing, optimal saving, and sustainable external debt.

The book's wide-ranging and rich collection of analytical papers on transitory and permanent growth effects of monetary, financial, fiscal, external trade and debt policies, labor participation and capital accumulation provide an original and valuable overview of diverse aspects of modern growth economics. Simple mathematical models of economic growth often neglect key factors critical to the growth process, while larger and more complex models often mire in minutia of details, thus missing the forest for the trees. Thanks to the efforts of Villanueva, Mariano, and Guinigundo, the book manages to correct the shortcomings of simple models without losing sight of core policy issues. Hence, it has achieved the status of an effective guide for policy makers and policy advisers in developing and emerging market economies facing the challenges of adjustment and growth. It is a remarkable and challenging alternative to the traditional and naive model of adjustment and growth. The authors deserve our thanks and congratulations.

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