

Book Review

Vinod Thomas, Mansoor Dailami, Ashok Dhareshwar, Daniel Kaufmann, Nalin Kishor, Roman Lopez & Yan Wang - - - The Quality of Growth - Oxford University Press. 2000, pp. 231. Price not mentioned.

“The Quality of Growth” is a combined effort of economists at the World Bank to give a broader perspective of development and the means of measuring it at the end of the 20th century.

The 1st chapter focuses on the development scene over the last four decades from 1960 to 2000, in terms of natural and environmental growth factors besides the conventional GDP measures. It highlights the importance of sustainable development and the factors that need to be emphasised for growth in development in real terms, accounting for elements such as; life expectancy, education, air and water pollution, reduced mortality rate, higher literacy rates besides increased income levels.

In the second chapter, the authors emphasise Growth, Assets and Welfare. In this section case studies and references are given of countries such as Brazil, Chile and Korea where different patterns of growth were being enforced by the government to maintain sustained development. Pattern 1 emphasises unsustainable growth with abrupt growth in certain sectors of the economy eventually following a declining trend. In pattern 2, however, distorted growth is attained at the expense of deteriorating natural capital and investing in physical capital. In the 3rd pattern, sustained growth is attained by means of investment in human and natural resources, by raising the quality of education, etc.

The author explains how the whole concept of welfare in development can be brought about by the desired induction of investment in these resources (physical capital, natural capital and human capital), that change the entire dynamics of an economy.

The authors' views, however, supported by cases are biased towards induction of resources in human and natural capital, hence ignoring the significance of economies with different industrial and economic advantages. Not all countries can invest in human capital at the cost of ignoring physical capital (subsidies, tax benefits and tariff exemptions). If this course is followed some regions might end up having a larger literate economy with no industries to employ them. The authors completely ignore the concept behind the “Trickle Down Effect”, where wealth flows from the industrial or agricultural (whichever may be the predominant) sectors to others in the economy.

The third chapter highlights the importance of distribution of opportunities and assets throughout the economy. It demonstrates the significance of providing education through different segments (rich to poor) in society as well as gender based equality in education and equal distribution of land and other assets in the economy.

In this section, the author with the help of econometric tools such as Gini co-efficient and Lorenz curve highlight the disparities in opportunities for the provision of equal education throughout the economy.

In a case the author has, however, shown that a very weak correlation exists between increased Government spending on education and improved or better education outcomes over time (when adjusted for prices). The reasons explained for this are poor quality of education and less emphasis laid on education for the poor. However, the author conveniently ignores the presence of other factors such as; varied family preferences, bleak employment opportunities, opportunity cost of providing education to children to other necessities or birthrates in the economy.

On the whole the economists at WB have jotted down extremely relevant data from around the globe, showing growth trends in NI, education spending, sectoral growths, environmental and natural capital growth / deterioration etc. However, their stance has been more in view of Welfare than Development. Inclusion of these elements is desirable for all economies but provisions of natural and environmental capital for some developing countries in stages of debt traps and high financial costs may not be feasible.

The fourth, fifth and sixth chapters of “The Quality of Growth” cover issues such as; sustaining natural capital, dealing with global financial risks and governance and anti-corruption. The authors have highlighted facts and figures showing that preservation of resources such as air, water, land and mineral resources are key to the welfare of any country. Growth at the cost of environmental degradation shall have hazardous effects for the community as a whole. The author has also cited examples of an Indian city, New Delhi where the air pollution level is twice the safe standard established by WHO (World Health Organization).

Corruption is also sighted as a major deterrent to growth, such that Foreign Direct Investment tends to be less in countries where corruption is high. Corruption acts as a corporate tax on foreign investment, hence having a negative effect on growth.

The authors emphasise the benefits and risks associated with open markets and volatility of flows. The Financial Market size which, in this context refers to the size of world stock market capitalisation as well as stock of international bonds and loans outstanding has been shown in comparison with World Trade volume which, is less than one-fifth of financial market size over the last 16 years (1980-1996).

Most of the capital came from FDI and international capital markets that increased the net flow of capital to developing countries from **US\$ 43.9 billion in 1990 to US\$229 billion in 1997**. The abrupt capital inflow, however, leads to increase in interest rates and distortionary policies that provide incentives for short-term capital inflow that could lead to heightened financial vulnerability.

Lastly, the analysts rest the case saying that the concept of quality in growth should not be expected to be brought about by government intervention alone, it should more so be an effort made by the private sector, NGOs and by civil society. They emphasise more on raising a voice for better distribution of opportunities and the safe guard of natural and human capital, so that development can rise above the literal measures of growth into a broader spectrum of welfare.

In my opinion, the suggestion made by this text for expanding the scope of growth beyond GDP levels to human and natural capital growth and equal distribution of opportunities is very appealing. What it lacks largely is to show that the rise in certain growth factors could be subject to more than one factor, than the one the authors have regressed it against. To reach more appropriate analysis, multiple regression should be run on variables that could be affecting growth (increase or decrease) in any particular region.

Besides that, another very important factor that is an elementary part of developing economies is that most of them are indebted because of external loans and aid, the eligibility criteria for which is not just high interest payments but regulatory instructions of international lending agencies that this book completely overlooks.

These regulatory instructions bind the governments to raise and lower interest rates upto defined brackets and remove tariffs and taxes that generally damage the domestic industry of developing economies. In such circumstances, keeping GDP growth above a certain minimum becomes the primary concern for governments, over natural assets preservation and equality in asset distribution. Developing economies such as Pakistan require structural readjustment strategies instead of welfare preaching.

All said and done, "The Quality of Growth" is a fine piece of analytical writing supported by facts gathered from the world's most trusted sources such as the World Bank, ADB, UNDP and government agencies around the world. The economists have supported the facts well by citing examples from real cases of developing countries and shown growth trends over the past four decades. The book is very well edited and would act as a useful source of information for development analysts and government agencies in policy matters.

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