

Book Review

Gerald M. Meier and Joseph E. Stiglitz (Eds.) *Frontiers of Development Economics: The Future In Perspective*, World Bank and Oxford University Press, Washington D. C. 2001, 575 pp.

Qais Aslam

The book consists of revised papers and commentary from the symposium "The Future of Development Economics" held in Dubrovnik in May 1999 and sponsored by the University of Zagreb and the World Bank. Nicholas Stern has written the forward to the book.

In the *Introduction: Ideas for Development*, G. M. Meier notes that "Over the past Half-Century, we have witnessed an unprecedented effort by the international community to accelerate the development of poor countries. This effort has been based on evolution in thinking about economic development - its nature, its causes, and the choice of policies for improving the rate and quality of the development process. Although the development record exhibits many successes, there are also failures and disappointed expectations". He further points out "No formula exists for development. Aid alone cannot yield development".

Gerald M. Meier: *The Old Generation of Development Economics* summarises the past and future of development economics from the viewpoint of the 'old generation'. To put the future of development economics in perspective, Meier reviews the development ideas from the first (1950-1975) and second (1975-the present) generation of development economists. Against this background, he then considers the unsettled questions and unfinished tasks for the next generation. These involve the recognition of an expanded meaning of 'economic development', more attention to the residual (total factor productivity) in the production-function approach to the sources of growth; refinement and extension of new growth theories in relation to the economics of ideas and knowledge; interpretation of 'right institutions'; determination of sources and consequences of social capital; undertaking of multidisciplinary analysis; recognition of historical lessons; examination of the opportunities and problems being created by globalisation; and attention to new perspectives on the interdependence of the state and the market in the development process. Meier distinguishes between ordinary neoclassical economic analysis of development and a more comprehensive approach that look to the operation of large, innovative changes and political-economy issues in development policymaking. All these issues are subsumed in the general

question of whether development economics is to be regarded simply as applied economics or whether there is a need for a special development theory to supplement general economic theory.

In *On the Goals of Development* Kaushik Basu maintains that new goals for development - beyond simply increasing the rate of economic growth - are implied by the movement toward "human development" or "comprehensive development". But can these larger social and political goals be given more precise meaning, let alone be subjected to measurement and some operational metric for the purposes of evolution? This question receives prime attention. To the extent that income growth is relevant, Basu suggests that the focus should be on how the poorest people are faring and on the growth rate of the per capita income of the poorest quintile of the population. Of special interest is the relatively ignored subject of the strategic interaction between the goals of different countries and the issue of "conditional morality" that they present. Such an analysis is relevant for the design of coordinated actions by nations to achieve development objectives.

Irma Adelman in *Fallacies in Development Theory and Their Implications for Policy* identifies three major misconceptions, a) underdevelopment has but a single cause (whether it be low physical capital, missing entrepreneurship, incorrect relative prices, barriers to international trade, hyperactive government, inadequate human capital, or ineffective government); b) a single criterion suffices in evaluating development performance; and c) development is a log-linear process. Adelman maintains that development should be analysed as a highly multifaceted, nonlinear, path-dependent, dynamic process involving systematically shifting interaction patterns that require changes in policies and institutions over time.

In *Revisiting the Challenge of Development* Vinod Thomas argues that development outcomes in the past decade confirm the essential contribution of market-friendly actions but also highlight missing or underemphasised ingredients. Foremost among the latter are the distribution of human development, the protection of the environment, globalisation and financial regulation, and the quantity of governance. Giving top priority to these issues would mean integrating the quality dimensions into development approaches instead of striving to maximise short-term growth. It would also replace the one-track effort to hasten the pace of market liberalisation and would expand the attention given to consensus building in civil society, along with the concern for policy changes.

In *The Evolution of Thinking about Poverty - Exploring and Interactions* Ravi Kanbur and Lyn Squire describe the progressive broadening of the definition and measure of poverty, from command over market-purchased goods (income) to other dimensions of living standards such as longevity, literacy, and health and, most recently, to concern about risk and vulnerability; and about powerlessness and lack of voice. Kanbur and Squire argue that although there are some correlations among these different dimensions, the broadening of the definition significantly changes our thinking about how to reduce poverty. The broader concept expands the set of relevant policies, but it also emphasises that poverty-reducing strategies must recognise interactions among policies: the impact of appropriately designed combinations will be greater than the sum of individual parts. The authors maintain that additional research is required to increase our understanding of those interactions, that in-depth country case studies are needed to explore the best policy combinations for countries with different problems and different capacities; and that institutional innovations designed to overcome information failures and knowledge gaps need to be carefully evaluated.

In *Development Issues - Settled and Open* Shahid Yusuf and Joseph E. Stiglitz consider which issues in development economics appear settled and which require future attention. Settled issues have to do with the following questions: what are the sources of growth? Does macroeconomic stability matter, and how can it be sustained? Should developing countries liberalise trade? How crucial are property rights? Is poverty reduction a function of growth and asset accumulation, or are poverty safety nets required? Can developing countries defer or downplay environmental problems? How closely should the state manage and regulate development? Current trends reveal a range of issues that are likely to call for future analysis and action. These trends relate to globalisation, localisation, environmental degradation, demographic change, food and water security, and urbanisation. The issues can be grouped under two headings: a) multilevel governance and regulation issues (participatory politics, organisational capability, decentralisation, inequality, and urban governance) and b) issues related to managing human capital and natural resources (cross-border migration, aging and capital supplies, management of the global commons, and food and water security). Responding to these issues could accelerate convergence of both income levels and human development levels. Fresh thinking on governance, institutions, regulatory policies, and measures for managing resources will lead to the highest payoff.

Institutions and incentive structures are also central in Pranab Bardhan's discussions of *Distributive Conflicts, Collective Action, and*

Institutional Economics. Drawing the connections between the new institutional economics and development economics, Bardhan gives particular attention to some issues such as a) the persistence of dysfunctional institutions in poor countries, b) institutional impediments as outcomes of distributive conflicts, c) the collective action problems these conflicts exacerbate, and d) a more complex and nuanced role of the state, to deal with the need for coordination. The analysis focuses on the effects of distributive conflicts among different social groups and asymmetries in bargaining power. Bardhan explains institutional failures and draws attention to the inevitable collective action problem at both the federal and local levels.

In *Historical Perspectives on Development.* Nicholas Crafts asks whether development economics has much to gain from resuming a closer relationship with economic history. Moving beyond growth regressions, the analysis focuses less on production and more on living standards, an area in which according to Crafts, development economists and economic historians can interact fruitfully. Central to both long-run economic history and development are endogenous institutional and technological changes. Crafts emphasises the importance of solving agency and appropriation problems in creating an environment conducive to innovation and productivity improvement. The next generation of development economists should be able to gain more insights from economic history than did the second generation.

Merilee S. Grindle in *Quest of the Political - the Political Economy of Development Policymaking*, asserts that there is still much to explain about development policymaking from a political-economic perspective. Grindle explicates two divergent traditions of political economy, based on economic and on sociological theory, that offer different interpretations of decision-making and the process of policy reform. Neither of these contending paradigms, Grindle argues, is adequate for understanding four real-world puzzles: why and when are politicians interested in supporting policy changes? How do political institutions affect the choices made by politicians? How are new institutions created or transformed? What are the consequences of new rules of the game for economic and political interaction? Grindle asserts that political-economy analysis should be able to model reality by reflecting the dynamics of policy and in the creation or transformation of institutions. The author emphasises that if development economists are to understand political decision-making, inquiry into political processes is especially needed.

In *Modern Economic Theory and Development* Karia Hoff & Joseph E. Stiglitz focus directly on the questions of what are the forces that can explain the divergence in income across countries and what interventions are more likely to promote development? The answers of the authors to these two fundamental questions reflect recent advances in economics of imperfect information and the economics of coordination failures. Instead of assuming that the information costs are negligible and the capacity to contract is limitless, Hoff & Stiglitz make explicit assumptions about individual-specific information constraints and the set of feasible transactions. This means that institutions, history, and distributional considerations do matter and that the analysis must go beyond the usual fundamentals of resources, technology, and preferences. Neither government-induced distortions, nor low capital accumulation have proved adequate for explaining underdevelopment. Hoff and Stiglitz emphasised that industrialised and developing countries are on different production functions and are organised in different ways.

The book closes with two sections of present reflections on the future of development economics by Nobel laureates and some original 'Pioneers' in the field.

The book *Frontiers of Development Economics: The Future In Perspective* makes interesting reading and gives a comprehensive study of the present and future of development economics in the words of some of the leading development economists of today's world. It is spiced up by words of Nobel laureates and some of the 'Pioneers' in the field. The book teaches students and teachers of development economics as well as policymakers in the developing countries that in order to put the future of development economics in perspective, all these issues that have been thrashed out by eminent names in the book are subsumed in the general question of whether development economics is to be regarded simply as applied economics or whether there is a need for a special development theory to supplement general economic theory. If development economics has to achieve some goals in the developing world, reduce poverty levels, reduce income and other inequalities, and increase economic growth and over all development patterns, then the new goals for development - beyond simply increasing the rate of economic growth - are implied by the movement towards "human development" or "comprehensive development". Such an analysis as done in the articles of the book, is relevant for the design of coordinated actions by nations to achieve development objectives. Development should be analysed as a highly multifaceted, nonlinear, path-dependent, dynamic process involving systematically shifting interaction patterns that require changes in policies and institutions over time. And that

development outcomes in the past decade confirm the essential contribution of market-friendly actions have increased economic growth, but also highlight the missing or underemphasised ingredients. Poverty-reducing strategies, which must recognise interactions among policies: the impact of appropriately designed combinations will be greater than the sum of individual parts. That additional research is required to increase our understanding of those interactions, that in-depth country case studies are needed to explore the best policy combinations for countries with different problems and different capacities. And that institutional innovations designed in order to overcome information failures and knowledge gaps need to be carefully evaluated by economists and policymakers alike.

The book also advocates that fresh thinking on governance, institutions, regulatory policies, and measures for managing resources will lead to the highest payoff. It draws attention to the inevitable collective action problem at both federal and local levels in every government of the developing world. The book advises the next generation of development economists to gain more insights from economic history than did the second generation. If development economists are to understand political decision-making, inquiry into political processes is especially needed. The pivotal questions posed by the book of a) why different countries of North and South are on different levels of economic development and b) how this gap can be bridged, the book advocates that industrialised and developing countries are on different production functions and are organised in different ways, therefore should be taken as different groups in economic development theory.

In conclusion, the following should be considered:

1. Growth is not the only measure of economic development; there are other measures and important dimensions to economic development like political democracy, human rights, health, education, the environment, and equal access to opportunities. These are the new challenges, which have to be considered by modern development economists.
2. Statistics and research show that income inequality in rich nations with high economic growth is relatively the same as with countries of low economic growth, while other indicators (social, political, and economic) are low where high income countries have more equality and low income countries have high inequalities between the upper richer portion of the population and the lower poorer portion of the population.

3. Enforcement of regulations such as those against employment of child labour and compulsory basic education for all will go a long way to reduce malpractices and exploitative practices in developing countries.
4. Can institutions be disregarded when they become dysfunctional or introduced when they are appropriate?
5. Public sectors are giving advantages to marginalised people and minorities, while the private sector is advantageous to the majority in a country or the educated who can innovate.
6. What would be the role of the bureaucracy if the implementation as well as formulation of policy is to be part of development economics?
7. How can actual changes to institutions be brought about? How strengthened will be the institutions at the grass roots levels? What is the role of the leader in institution building? The role of media in institution building and governance?
8. How large or small will be the decision making and law enforcing institutions in countries with larger population and or territory, but with small budgets, etc?

**Government College
Lahore**

Qais Aslam