'Economic growth often accompanies a decline in a poor country's wealth'

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Full Text (2266 words)

[Headnote]
Are developing countries really doing better, as orthodox economists say? No, argues PARTHA DASGUPTA. Rises in GNP are at the expense of the average person's assets

As a subject of inquiry, the economic development of poor countries is only a half-century old. Though classical economists were much engaged in identifying the social processes that create prosperity, it was not until the emergence of independent nations in Asia and Africa that economic development became a specialised field. Economists studied the impact of economic decisions on human well-being not only in the present and near future, but m the distant future, too.

Unfortunately, they also became attached to the idea that raising the rate of growth of gross national product (GNP) is the hallmark of economic development. Whenever we talk about growth, it is taken for granted that we are talking about growth in GNP. The central dogma of development economics became the belief that the key to economic progress in poor countries lies in increasing the rate at which capital is manufactured there. The United Nations' Human Development Index has recently been added to the list of economic indicators. But as I will show, the Human Development Index also suffers from myopia.

The word used for the overall worth of an economy's capital assets is "wealth". To say that an economy's wealth has increased is to say that there has been an overall accumulation in the worth of capital assets. By the same token, to say that wealth has declined is to say that there has been an overall decumulation. But economic statisticians interpret wealth narrowly. Wealth should include not only manufactured capital (roads and buildings, machinery and equipment, cables and ports) and what is nowadays called human capital (knowledge and skills), but also natural capital (oil and minerals, fisheries, forests and, more broadly, ecosystems).

I use the term "inclusive investment" for this broader definition of wealth and contrast it with the narrower scope of "recorded investment". Since a great many services obtained from natural capital are missing from standard economic accounts, recorded investment could be positive even if inclusive investment were negative. This would happen if the economy accumulated manufactured and human capital but destroyed or degraded natural capital at a fast rate.

Inclusive wealth reflects something like an economy's capacity to sustain human well-being-today and m the future. In fact, one can say more. Subject to certain qualifications, an increase in inclusive wealth per person corresponds to an improvement in the average well-being of present and future generations. An accumulation of inclusive wealth therefore corresponds to sustained development. Inclusive investment is thus a key to economic progress.

Consider, in contrast, GNP, which is taken to be the sum of an economy's rate of consumption and its (gross) investment in manufactured and human capital. GNP misleads because it docs not acknowledge that capital assets depreciate. So it is possible for GNP to increase, even while inclusive wealth declines.

This would happen if increases in GNP were brought about by mining capital assets - for example, degrading ecosystems and depleting oil and mineral deposits - without investing appropriate amounts of output in the accumulation of other forms of capital, such as knowledge and skills. There is, then, little reason to expect movements in GNP to parallel movements in inclusive wealth.

However, a situation where GNP grows and inclusive wealth declines cannot last for ever. If inclusive wealth decumulates sufficiently, GNP will eventually decline also. But the moral is telling: GNP- or, for that matter,

the Human Development Index - is not a measure of human well-being. And movements in either index are a poor basis for judging sustainable economic progress.

In poor countries, localised natural assets are of the utmost importance. When wetlands, inland and coastal fisheries, woodlands, ponds and lakes, and grazing fields are damaged (for example, because of agricultural encroachment or urban extensions or the construction of large dams), traditional dwellers suffer. For them - and they are among the poorest in society - there are frequently no alternative sources of livelihood. In contrast, rich ecotounsts or importers of primary products can find alternative sources. Macroeconomic reasoning glosses over the heterogeneity of the earth's resources and the diverse uses to which they are put - by people residing at the site and by those elsewhere.

Nature's services most often do not come with a price tag. This is because property rights to natural capital are often very difficult to establish, let alone enforce. And that is because natural capital is frequently mobile. At the broadest level, soil, water and the atmosphere (which are capital assets themselves) enable capital assets to connect and flourish, meaning that a disturbance to any one asset can be expected to reverberate with many others at distances away, sometimes at far distances.

Economic change in the poor world

	Average annual growth of population 1965-96(%)	Average annual change in wealth per head 1970-93(%)	Average annual change in GNP per head 1965-96(%)
Bangladesh	2.3	-2.4	1.0
India	2.1	-0.5	2.3
Nepal	2.4	-2.6	1.0
Pakistan	2.9	-1.7	2.7
Sub-Saharan Africa	2.7	-2.0	-0.2
China	1.7	1.09	6.7

Enlarge 200%
Enlarge 400%

Economic change in the poor world

Under current practice, though, the consequences of the connectedness of natural capital can easily go unnoted in economic transactions. Those who destroy mangroves in order to create shrimp farms, or cut down forests in the uplands of watersheds to export timber, are not required to compensate fishermen dependent on the mangroves, or farmers and fishermen in the lowlands whose fields and fisheries are protected by the upland forests. Economic development in the guise of growth in per capita GNP or improvement in the UN Human Development Index can come in tandem with a decline in the wealth of some of the poorest members of society.

Rural communities m poor countries recognised the local connectedness of nature's services long ago and devised mechanisms to cope with the problems created by it. A pond or a woodland is a system of organic and inorganic material, offering multiple services. This feature of ponds and woodlands makes them unsuitable for division into private property.

In recent years, anthropologists, ecologists, economists and political scientists have identified a variety of non-market institutions that evolved over centuries to mediate economic transactions in nature's services. These institutions are frequently communitarian and based on long-term relationships among community members. Moreover, they were designed to respond to the character of the natural capital under their jurisdiction. For example, it is usually not difficult to observe how many animals someone has let into the village grazing field, but it is less easy to determine the catch someone has made in a fishery. Institutions for managing grazing land and coastal fisheries reflect these differences.

But in recent years, communitarian institutions have eroded in many of the poorest regions of the world. There are a number of causes, among which state interference in the way they function seems to have been prominent, especially in Sahelian Africa.

State usurpation of common property (for logging or for the construction of large dams), without adequate compensation for local inhabitants, has been another reason. Since improved transportation can make it easier for people to raid the commons without the risk of being observed, the building of roads, otherwise a

good thing, can weaken community forest management practices. By creating a fertile ground for battles over resources, large population increases have been yet another reason why communitarian systems have faltered.

The growth of markets may also have contributed, by changing the incentives for people to remain in long-term relationships. Such relationships are almost always sustained by social norms, such as norms of reciprocity. The growth of markets in one set of goods and services can weaken incentives for remaining in longterm relationships that involve transactions in other goods and services. When such incentives weaken, social norms decay.

The decline in incentives is sharper for some people than for others. When, for example, market opportunities in a neighbouring town expand, it is the young men of the village who can take advantage of them, not the women with children, nor the old. But it is often the women and children who bear the responsibility for working the commons by collecting firewood, water, herbs and fruit. They get hurt most when norms decay. Economic theory predicts such possibilities, and rural studies m the world's poorest regions have confirmed them.

Even though there are no markets for many natural assets, it is possible to assign notional prices to nature's services if we are prepared to put in the effort and apply some low cunning. By estimating notional prices and adding net investment in natural capital to recorded investment, the World Bank has recently calculated inclusive investment m a large number of countries. The accounts are incomplete, and so there is an undercount, but we have to start somewhere. I have therefore used World Bank figures to estimate changes in inclusive wealth per head - over a quarter-century starting in 1970 - in sub-Saharan Africa, the Indian subcontinent and China. Taken together, these regions are where the bulk of the world's one billion poorest live. They are also the regions that have experienced the largest population growth.

The second column of the table opposite shows my estimates of the annual rate of change in inclusive wealth per head from 1970 to 1993. The striking message is that, in all but China, there has been a decumulation in per capita inclusive wealth. Moreover, given that the populations of Bangladesh and Nepal grew at a slower rate than their wealth per head declined, these countries actually became poorer in the aggregate. In India, Pakistan and sub-Saharan Africa, aggregate wealth grew but did not keep pace with population. All this may not be a surprise in the case of sub-Saharan Africa, which is widely known to have regressed in terms of most economic indicators. But the figures for Bangladesh, India, Nepal and Pakistan should cause surprise. Only China has managed to accumulate inclusive wealth in excess of population growth. But because the World Bank's estimates of inclusive investment do not include soil erosion or urban pollution, both of which are thought to be especially problematic in China, we ought to treat China's figure with caution.

Contrast the second column of mostly minus signs with the conventional GNP measure of long-term economic development shown in the third column of the table. If we were to rely on GNP, our assessment of development in the Indian subcontinent would be highly misleading. We would see Pakistan, for example, as a country where GNP per head grew at a healthy 2.7 per cent a year, implying that wealth per head doubled in value between 1965 and 1993. The corresponding figure in the second column, however, implies that the average Pakistani became one and a half times poorer over that same period. Bangladesh is recorded as having grown at 1 per cent a year. Yet the figure in the second column implies that, at the end of the period, the average Bangladeshi was only about half as wealthy as he or she was at the beginning.

The case of sub-Saharan Africa is even more depressing. The average person in the region became nearly twice as poor over the period from 1965 to 1993. The ills of sub-Saharan Africa are routine reading in today's press, but they are not depicted in terms of a decline in inclusive wealth. The table suggests that sub-Saharan Africa has experienced an enormous decline in its capital assets over the past three decades.

What of the Human Development Index? For all the countries and areas in the table, the index goes up. It offers a picture that is a near opposite to the one we should obtain when judging the performance of poor countries. It misleads even more than GNP.

The figures in the table for changes in inclusive wealth per capita are rough and ready, and we should not regard them with anything like the certitude we have developed over the years for international statistics on GNP and the demographic and morbidity statistics of poor countries. The estimates presented here are a first cut at what is an enormously difficult set of exercises. But the figures, such as they are, show how

accounting for nature can make substantial differences to our conception of the processes of economic development.

We would by now have been far ahead in our understanding of what really has happened in poor countries if development economists had taken nature's services seriously in the past.

[Sidebar]
GNP figures imply that the average Pakistani's wealth doubled between 1965 and 1993, but he may be one and a half times poorer

Phil loved his local

Enlarge 200%
Enlarge 400%

[Sidebar]
THIS ENGLAND L5 tokens for all winners. Entries on a postcard, please

Judge Messenger, 49, was arrested at the Best Kebab takeaway in Scarborough in May after trying to intervene in an argument in the kitchen. Richard Newbury, prosecuting, told the court that two constables had virtually calmed down a row between the shop owner and three other men, when Messenger lurched in, claiming to be a solicitor for one of the group.

He was asked to provide evidence of his connection, but replied instead: "What proof have you got that you are police officers?" Both officers were in full police uniform and had a fully marked police car outside the door.

Guardian (Peter Barnes)

Shakeela, 29, said: "[Speed-dating] was great... The only thing is that I'm 5ft 2ins and I don't like going out with men who are taller than 5ft 10ins. There's just no way of telling over the internet how tall someone is, unless you ask."

Daily Mirror (Francis Harvey)

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