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THE QUALITY OF GROWTH



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THE QUALITY OF
GROWTH

A Note about the Cover

Future: Bright or Dark? by Maja Sasek, age 12, Skopje, FYR Macedonia.

The future is a chance you should take. It is a creation and everyone has his or her own vision. It will look the way we make it look.

—Maja Sasek

Over 5,000 children and students from Albania, Bosnia-Herzegovina, Bulgaria, FYR Macedonia, and Romania took part in art and essay contests on their vision of the future for themselves, their cities, and their countries and regions. A selection of their paintings was displayed in an exhibit entitled "Children Look to the Horizon," which was shown at the World Bank, Washington, D.C., April 1999; in Vienna, Austria, September 1999; and in Florence, Italy, October 1999.

THE QUALITY OF GROWTH

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FOREWORD

We have much to celebrate as we begin the new millennium. A child born today in the developing world can expect to live 25 years longer and be healthier, better-educated, and more productive than a child born 50 years ago. The spread of democracy has brought new freedoms and unprecedented opportunities for many people throughout the world. And the communications revolution holds the promise of universal access to knowledge.

But, if we take a closer look, we see something else—something alarming. In the developing countries, excluding China, at least 100 million more people are living in poverty today than a decade ago. And the gap between rich and poor yawns wider. In many countries the scourge of AIDS has cruelly cut life expectancy—in some African countries by more than 10 years. More than 1 billion people still lack access to safe water, and each year 2.4 million children die of waterborne diseases. As many as a billion people have entered the 21st century unable to read or write. Some 1.8 million people die every year of indoor air pollution in rural areas alone. Forests are being destroyed at the rate of an acre a second, with unimaginable loss of biodiversity.

Those are some measures of our shortcomings: that despite prosperity for some, the quality of life has remained bleak for many. In the face of almost two decades of rapid economic growth in some countries, others have not benefited from such progress. In many settings policies have favored vested interests of the elite, and thus not promoted adequate investments in human capital and natural capital, which are essential for broad-based growth. The quality of the factors contributing to growth requires fundamental attention if poverty is to be reduced and a better quality of life attained by all. This is the central theme of this book.

A better quality of life for the poor calls for higher incomes. This requires sound economic policies and institutions conducive to sustained growth. Achieving higher incomes and a better quality of life also calls for much more—improved and more equitable opportunities for education and jobs, better health and nutrition, a cleaner and more sustainable natural environment, an impartial judicial and legal system, greater civil and political liberties, trustworthy and transparent institutions, and freedom of access to a rich and diverse cultural life. The World Bank's recent book *Voices of the Poor: Can Anyone Hear Us?* reinforces this message. Poor women and men from around the world noted emphatically the importance of dignity, respect, security, gender issues, a clean environment, health, and inclusion in addition to material well-being.

As incomes per capita rise, several aspects of quality of life improve as well, but not all, not at the same rate, and not inevitably. In different countries the same pace of economic growth has been associated with very different degrees of improvements over time in education, health, civil liberties, citizens' participation in the decisions affecting their lives, freedom from corruption, and environmental quality and sustainability. This book demonstrates that how growth is generated and whether it is sustainable matter crucially for the quality of life of everyone.

The World Bank's strategy is to design and evaluate its activities through the lens of poverty reduction, the vision that informs the Comprehensive Development Framework we have embraced in the countries we work with. This framework encourages countries to pursue a balanced approach to development, simultaneously trying to augment the human, social, natural, and physical dimensions. Only then are the fruits of development widely shared and sustained.

In aligning these complementary dimensions, this integrated framework also attempts to bring together the key development actors. It puts institutions, governance, corporate responsibility, and issues of inclusion, voice, liberties, and participation on par with conventional economic concerns and policymaking. In addressing these related issues simultaneously, the framework emphasizes the need for the country's leadership, as well as for partnership among government, the private sector, civil society, and the international community, in driving the development agenda. We are committed to assisting this framework not only with financing, but increasingly also with state-of-the-art learning and knowledge programs using new data, toolkits, and methodologies, and supported by the latest information and communication technologies.

Indeed, travelling throughout all continents I am constantly reminded by the people—in rural villages and overcrowded urban centers alike—that

the quality of life for them transcends the contribution of just financing. That quality is about access for girls and boys to education, and to jobs when they graduate. It is about access for the rural poor to basic medicine when they go to their village clinic. It is about the cleanliness of the air and water and about protecting the precious biodiversity. It is about the dignity the poor might enjoy and the security of their lives. It is about the participation of people along with reformers in the government in implementing an anticorruption program. It is about fighting the vested interests of an economic elite that unduly influences, or even purchases, the policies, regulations, and laws of the state.

This volume makes a compelling case for focusing on these policy and institutional dimensions, and for doing so with country ownership and partnership among participants in the development process. Investing in people, sustaining natural resources, managing risks, and improving governance, it shows, are dimensions that make up quality growth. It is more of such growth that can best promote poverty reduction, environmentally and socially sustainable development, and an improved quality of life shared by all.



James D. Wolfensohn
President
The World Bank Group

PREFACE

The 1990s—at the end of a century and a millennium—were a period of stocktaking about development. Studies reexamined and assessed some of the central tenets of development. Sustained economic growth emerged unscathed as fundamental for reducing poverty. And the development record confirmed the efficacy of certain reforms for sustaining growth in both developing and industrial countries: investing more—and more efficiently—in education and health, reducing barriers to trade and investment, dismantling domestic price controls in agriculture and industry, and reducing fiscal deficits. Neither the economic ups nor the downs of the 1990s called these relationships into question.

The assessments also uncovered some crucial gaps. Missing from country policymaking as well as the advice, conditions, and financing of external entities has been adequate attention to the quality and sustainability of growth. Without that, the real potential of reforms cannot be realized.

And the assessments highlighted some profound changes in development thinking over the past 50 years as our understanding of development processes has matured, shaped by experience. Not that interpretations have been entirely uniform. For example, some have understood the “Washington consensus” solely as a policy prescription for liberalizing markets. Others have accepted the extended interpretation of the *World Development Report 1991*'s market-friendly approach as a market-plus view, involving both liberalization and a strong, positive role for the state and other stakeholders.

Differing interpretations aside, the assessments show an emerging consensus on some key lessons about complementarity and balance among

policies and institutions. Functioning markets and liberalization are crucial. But so is acknowledging the limits of the market and an essential role for governments and other stakeholders in the reform process.

Sometimes expectations based on experience have been borne out, sometimes not. Early discussions predicted the success of such natural resource-rich countries as Myanmar, the Philippines, and some in Africa and the failure of such natural resource-poor economies as the Republic of Korea or Singapore. Expectations of rapid development through market liberalization in the transition economies failed to materialize. And in the 1980s, the slowdown of productivity growth in North American and European industrial economies contrasted with the marked success of Japan, prompting calls for changes in the growth paradigm.

Sometimes reality fell short of expectations because changes in global and local circumstances blunted the impact of actions and forced governments to revise priorities. "Heavy industries first" seemed the best way forward at the turn of the 19th century; information technology seems to be the key to success at the turn of the 20th. And as markets were liberalized in recent decades, sometimes disappointing outcomes exposed the importance of institution building to make markets work.

We present this book in this spirit of continuous inquiry and feedback in framing development thinking. It is addressed to policymakers, practitioners, and others in developing as well as industrial countries. It reaffirms the crucial contribution of market-friendly policies. It also highlights key missing ingredients and fresh evidence. Not a complete review of development, the book examines vital issues that are often overlooked as a basis for action: the distribution of opportunities, especially education; environmental sustainability; management of risks; and governance and anticorruption. It does not address such important factors as the political economy of change, the influence of social instability, the consequences of communicable diseases such as HIV/AIDS, or the impact of cross-border and global issues—population pressures, labor migration, global warming, information technology, and the global financial and business architecture. It concludes that growth is crucial, and so is the quality of growth.

The work for this book was carried out by a team at the World Bank Institute. The work was supported by a research grant from the World Bank as a contribution to the learning material for a course on development as well as background for the *World Development Report 1999/2000: Entering the 21st Century* and the *World Development Report 2000/2001: Attacking Poverty*. It was inspired by a keynote paper and discussion by Stanley

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THE REPORT TEAM

This work was carried out by a team at the World Bank Institute led by Vinod Thomas and comprising Mansoor Dailami (chapter 5), Ashok Dhareshwar (chapter 1), Daniel Kaufmann (chapter 6), Nalin Kishor (chapter 4), Ramón E. López (chapter 2), and Yan Wang (chapter 3 and task manager). The team was assisted in its research by Cary Anne Cadman, Xibo Fan, and John Van Dyck. Taji Anderson, Alice Faria, and Jae Shin Yang provided support.

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