

Book Reviews

Lopamudra Banerjee, Anirban Dasgupta, and Rizwanul Islam (eds.). *Development, Equity and Poverty: Essays in Honour of Azizur Rehman Khan*. India: Macmillan Publishers India Ltd. 2010. Hardback, 542 pages, Indian Rs 2100.00.

The book, as the title indicates, is collection of articles by the experts in the field of development economics. It is compiled in honour of Professor Azizur Rehman Khan, guru in the field of development economics. Unfortunately, I have not met Professor Khan but his writings were always a source of inspiration. This book is the best present to Professor Khan on his seventieth birthday.

Acknowledging the fact that development challenges are becoming more complex and multidimensional, the collection of articles is based on following six themes: First theme focuses on Macroeconomics of Development. Second theme is Growth, Poverty and Inequality Linkages and third is Analysis of Poverty. The fourth theme relates to issues of Employment-Intensive Growth. Fifth theme reviews the Labour Markets, Wages and Productivity and the final focus is on Rural Development.

Three articles on *Macroeconomics of Development* focus on role of pricing structure, investment, sources and structure of growth in China and the macroeconomic policy framework to ensure stability, growth and employment. Keith Griffin critically evaluates the existing development theories. In the first instance, he questions the role of relative prices in resource reallocation resulting in change in economic structure. Griffin evaluates different dimensions of the argument. For example the degree of mobility of factors of production across sectors which can impose additional costs. Furthermore, he argues, it may not be the price signal that affects the resource allocation. It is the investment decision that, "...determines how resources in fact are allocated".

Victor D. Lippit discusses the sustainability of economic growth in China. He argues that Chinese rapid growth is not sustainable because it has resulted in high resource degradation imposing environmental costs, rising inequalities and dampening domestic consumption because of focus of growth strategy on exports and investment. Growth sustainability will require government intervention to correct for these problems. The study concludes that recent steps taken by the Government of China will reduce the inequality and poverty and expand domestic consumption, however, the environmental concerns need more attention.

Muhammed Muqtada presents a historical perspective of the role of macroeconomic policies in development. It analyses the structural adjustment programmes, macroeconomic policies and poverty reduction papers. Based on the assessment of various programmes, and PRSPs, the author argues that, in developing countries, autonomous macroeconomic policies are required to achieve the objectives of employment expansion and pro-poor growth.

The second part of the book focuses on the *Linkage between Growth, Poverty and Inequality*. The theme is closely linked to the work of Professor Khan. The articles selected for this part focus on income inequality, educational inequality and regional inequalities. In this part the article by Achin Chakraborty raises the concern that it is not just the income inequality that matters but it is 'outcome inequality' which is more critical. He develops 'education concentration index' for selected Indian States, for measuring inequality in education across economic classes and across socially classified group. The study finds strong correlation between the two sets of indices and finds strong correlation between two sets of indices. However, he finds various outliers in the index. His conclusion is, "... find a strong correlation between two types of inequalities across the states of India. We also find, as one would expect, that the inequality index values are negatively correlated with the average years of education. However, in actual policy context, analysis of the outliers might be more illuminating than studying the general pattern".

Arthur MacEwan argues that success of poverty reduction efforts depends on prevailing income inequalities. He argues that reduction in inequality is essential for reduction in poverty, however, the issue of equality of opportunity and equality of outcome are critical. The paper argues that relative equality may be a more desirable social goal and the macroeconomic policies focusing on redistribution may help to achieve better results.

The paper by Terry McKinley supports the viewpoint that growth is critical for poverty reduction and provides insights in the evolution of the concept of pro-poor growth. His review of literature on the nexus between growth and poverty suggests that dynamic of growth are important for poverty reduction, and the role of inequality is only instrumental. The major findings of the study are: there is a need to focus on "structural causes of the secular trends in both inequality and growth and, by implications, trends in poverty"; redistribution may be possible without significant impact on inequality; need to focus on issues of absolute inequality; qualitatively the 'pro-poor growth' and 'inclusive growth' may lead to same outcome; tying growth and redistributive policies too strictly may not be desirable; redistribution of physical and human capital may be more desirable; and finally the political costs of redistribution should also be taken into account.

Carl Riskin focuses on inequality in China. According to Riskin, inequality in China is highest among Asian countries, however, it is more rural-urban and regional phenomena. The policies pursued for health, education and social security, given the employment intensity of these sectors, will play a critical role in reducing the regional disparities.

Binayek Sen explores the role of human capital formation in reducing inter-regional consumption inequalities in Sri Lanka for the periods 1990-91 and 2001-02. Sen provides important insights into inequality in Sri Lanka. The result, based on quantile decomposition technique, show that returns to education are higher in leading states. The results also show that returns to education are higher in upper quantile relative to the lower quantile and differences in returns to covariates (education, ethnicity, demographics and geography) are important to explain the gap in welfare among regions in the two survey periods. Sen concludes, "Upward mobility through deliberate 'human capital accumulation' thus anticipates initial investments in reducing risk and uncertainty

in the lagging region. Food security as a pre-condition for educational and health human capital accumulation, for instance, is a case in point”.

Third theme focuses on the *Poverty Reduction Strategies*. First paper by Rashid Amjad focuses on the significance of the remittances in poverty reduction. According to Amjad, based on data for Pakistan, who sends the money from abroad and the channel of money transfer are important for poverty reduction. The paper reports that the elasticity of poverty with respect to remittances is equal to -0.15 . The study concludes that remittances sent by members of poor households (semi-skilled and unskilled workers) and sent through formal channels have larger impact on poverty reduction. This result will have important implications for future channels of poverty reduction as the workers, particularly the workers from the poorer households, return home.

Gary A. Dymski examines the impact of micro-lending and community based banking (Grameen Bank) on poverty reduction in Bangladesh. He compares the outcomes of these initiative in Bangladesh to the outcomes of the similar initiatives taken in USA (South-Shore and others). After critically comparing the characteristics of socially excluded in the two countries, Dymski, concludes “...that strategies aimed at poverty alleviation and ethnic divides, no matter how noble, must have the right pre-conditions in place to succeed. To succeed, Grameen or South-Shore initiatives require political will, sufficient resources, and the reconstruction of financial and non-financial market structures in US inner-cities. Experiments may lead to yet financial model for inner-city revitalisation; but experiments large enough to make a difference require the political recognition that nothing worthwhile comes free, including initiatives aimed at creating wealth through market processes”.

The study by Mahabub Hossain and Nigar Nargis focused on poverty dynamic and economic mobility in Bangladesh. The analysis is based on longitudinal data for the years 1987-88, 2000, 2003-04 and 2007. The paper examines the impact of shocks like floods and rise in food prices on poverty. The multivariate analysis suggests that remittances, engagement in non-farm activities and accumulation of assets help the households to move out of poverty whereas the shocks like floods and natural disaster and rise in prices of food push the households into poverty. The study concludes “...negative elasticity of income growth with respect to base year income suggests gradual conditional convergence of income growth overtime. The benefits from this convergent growth path associated with the structural transition in the rural livelihood system have remained beyond the reach of a major segment of the poor population, the chronic poor”.

The focus of Qazi Shahabuddin’s study is on the role of location factors on perpetuating chronic poverty in Bangladesh. The results show that distance from the urban and unfavourable agricultural conditions contribute to poverty rise. Asset holding is critical in persistence of poverty. However, the non-farm employment opportunities have contributed to reduction in chronic poverty in Bangladesh.

The forth theme focuses on the *Employment Intensity and Growth Linkage*. The first paper on the theme is by Rizwanul Islam. Islam argues, based on cross-country data analysis, that structural transformation plays a critical role in employment intensive growth. The second paper on the theme is by S. R. Osmani. He decomposes the employment growth in output effect and elasticity effect. The elasticity effect is further decomposed into output effect and choice of technique effect. Applying this technique to

manufacturing employment in ten Asian economies, the study concludes that disaggregated sectoral level analysis is critical to understand the employment intensity of the growth process.

The paper by Eduardo Zepeda, Diana Alarcon, Fabio Veras Soares and Rafael Guerreiro Osorio focuses on employment growth linkage in three major Latin American economies, viz., Brazil, Chile and Mexico. The study highlights the importance of labour income in household income and its pro-poor effect. The authors decompose the change in per capita household labour income into changes in earnings per worker and change in rate of employment. The study shows that change in earnings has a larger impact on poverty reduction. However, the employment ratio becomes important during the period of economic stress. The study highlights the importance of distributional patterns in periods of high growth when the income gap between the poor and non-poor widens.

The fifth theme of the book is *Labour Markets, Wages and Productivity*. Lopamudra Banerjee examines the relationship between agriculture wage rate and rise in labour productivity in the short run. The study argues that institutional arrangements play a critical role in output sharing practices in Bangladesh.

The study by Rushidan Islam Rahman deals with the critical issue of conceptual and measurement inconsistencies in the data. Analysing these inconsistencies and advocating the collection of reliable urban and rural wage data, she argues that fluctuations in real wages affect the living conditions in the short run. The study shows employment reduces the incidence of poverty. In addition, sectoral differences, urban-rural divide and gender dimensions affect the wages significantly. The study finds that human capital can help to reduce wage inequality.

Robert Pollin, reviews the efficiency of labour market in Kenya. He disagrees with the IMF-WB view that labour market rigidities and the excessive labour costs discourage employers from hiring labour. According to Pollin, minimum wage laws and presence of unions protects the workers and these institutions should not be weakened. He argues that government can play an important role in reducing the labour cost.

Selim Jehan studies the critical issue of gender dimensions of development strategies. He argues that ignoring the gender dimensions, in the labour market and at home, affects females adversely. The study proposes engendering of the macroeconomic policies and incentive mechanism, keeping in view the productive and reproductive role of the females.

The final theme of the book is *Rural Development*. The article by Anirban Dasgupta reviews the land reforms experience of West Bengal, India. The study argues that unequal distribution of land and role of state, particularly in acquiring land for industrialisation, affect the agenda of inclusive development. The land acquisition by State was considered important as there were limits to employment generation in the agriculture and to provide the employment opportunities to the surplus labour. However, the corporate led industrialisation is criticised and the author argues that, "For a state like West Bengal with a progressive left government in charge, it should have been natural to look for alternatives in terms of people-centred, locally based, labour intensive option for industrialisation. Instead, the LFG was only too ready to jump into the bandwagon with other competing states to lure corporate capital with the promise of acquiring any land of their choice".

The six themes selected in the book are very close to the ideas pursued by Professor Khan. Since it covers some of the major themes pursued in the development economics, it can be compulsory reading for the students of economics. It can be part of compulsory reading material in the reading list of a course in Development Economics and Policy. The development practitioners and policy makers can also benefit from the evidence provided in book.

Rehana Siddiqui

Pakistan Institute of Development Economics,
Islamabad.