

## BOOK REVIEWS

**Victor J. Elias, Sources of growth: A study of seven Latin American Economies, The Fundacion del Tucuman and the International Centre for Economic Growth, San Francisco, California, 1992), pp.xx + 254, n/p.**

While there is abundant literature on the sources of growth for the developed countries, (DCs) there is a quite a void in this area of research for the less developed countries (LDCs). For the Latin American economies Bruton [1967], Corea [1970], and recently, Victor J. Elias tried to fill this gap. Elias has taken upon himself the task of identifying the sources of growth and the forces that underlie them for seven Latin American economies, namely Argentina, Brazil, Chile, Columbia, Mexico, Peru and Venezuela for the period 1940-85. He also addresses himself to the all important question, raised earlier by Denison (1967) i.e., why do growth rates differ?. The differential of interest to him being that between the LDCs and the DCs. The book is a rich collection of data on the Latin American economies. There are 11 quite easy to understand and concise chapters, while more detailed information, the estimates and the figures etc., appear at the end of each chapter. The technicalities related with the methodology and detailed data on these economies appear in six appendices.

Elias has not tried to add a 'new wrinkle', or to undertake any methodological innovation. He uses standard growth accounting techniques, rather in the Jorgenson and Griliches (1967) tradition of trying to identify the contribution both of the conventional and non-conventional inputs to overall growth, as well as for the agricultural, manufacturing and the public sectors in the seven countries. The basic formula in this methodology states that the rate of output growth (GDP) is equal to (1) the rate of growth of gross labour plus the rate of growth of its quality times the labour income share plus (2) the rate of growth of the gross capital input plus the rate of growth of capital quality times the capital income share plus (3) the rate of growth of total factor productivity. The methodology is useful for the light it throws on the role played by each input,

the changes which such variables are undergoing, and the effects of these on growth. Such information is vital in the formulation of the government expenditure and tax policies as these affect both gross and quality components of these inputs. However, the methodology is subject to serious criticism, particularly on account of its unrealistic assumptions. How relevant are the assumptions related with neutral technological change, a linear and homogenous production function and perfectly competitive factor markets for the Latin American economies, Elias does not ponder upon. He appears to follow Solow (1957) by not trying to justify "what follows by calling on fancy theorems on aggregation and index numbers. Either this kind of aggregate economics appeals or it doesn't".

The author identifies the sources of growth for the Latin American economies at the aggregate GDP level as well as for the agricultural, manufacturing and the public sub-sectors. The capital and labour inputs are measured by their gross and quality components. The gross component of labour is a function of the number of workers and the annual average hours worked per labour. The quality component of labour is determined by education, gender, age, occupation, economic sector and regional reallocation. Similarly, the capital input is classified according to its gross and quality components. The gross component of the capital input is estimated through diverse methods. In some cases the author uses census estimates of capital stock for some economic sectors around 1940. While for others, he estimates initial capital between the annual average of real gross investment for the year 1940 and the sum of an assumed rate of capital growth and depreciation. He tries to capture the quality component of this input by classifying capital into corporate and non-corporate, private and public, residential and non-residential, and agriculture and manufacturing sub sectors, structures and equipment, domestic and imported. Elias computes the contribution of labour at 27.7 per cent and capital at 48 per cent at the aggregate GDP level for the seven countries, while the remainder 24.3 per cent has been attributed to total factor productivity. He finds that the quality of the labour input was a major factor in the growth of the labour input, while the quality of the capital input made a negative contribution to output growth in most cases. Most of the increase in the capital input was due to its gross component. Capital emerges as an important source of growth for agriculture, manufacturing and the public sectors as well. While these estimates are in keeping with conventional wisdom that inputs are the major source of growth in the developing countries (76 per cent in the present case), they do raise some worries. First, the contribution of the capital input may be over estimated as this variable has not been adjusted for capacity utilization. Second, any mis-specification in the computation of the capital input results in over estimation of its contribution. For example, in Pakistan's large-scale manufacturing sector the contribution of

For example, in Pakistan's large-scale manufacturing sector the contribution of capital has been shown to decline from 53.64 per cent to 36.84 per cent with improvement in its specification. The corresponding increase in the contribution of labour was from 18.45 per cent to 34.13 per cent (Wizarat, 1988).

The use of a technology transmission model to explain changes in domestic technology in Venezuela and Brazil is an interesting exercise. The explanatory variables are the total factor productivity indices in the USA and Western Europe, the level of trade protection in the two countries, import composition by country of origin, import shares of the GDP. Elias finds that the rate of change of Venezuela's total factor productivity is a weighted average of the rates of change of total factor productivity in the United State and Europe. Since the weights add up to more than one, the author concludes that Venezuela reacts faster than other Latin American countries to technological change in the US and Europe.

Towards the end Elias tries to make some predictions for the Latin American economic growth for the 1990s. He predicts output growth through predicting the rate of growth of inputs and their determinants. The predictions appear rather simplistic, inspite of the author's assertion that they are based not only on past behavior of the inputs, but on the possible effects of future economic policies as well. The uncertainty creeps in not only because the major sources of growth i.e., capital and technology are highly variable in character, but also because there are a multitude of macro-economic factors that determine and influence growth. And these factors do not often lend themselves to precise predictions.

The major usefulness of the book is not so much for any strides the author might have made on the methodological front. Its major worth is on account of the vast data set it makes available on the Latin American economies. Its estimates on the sources of growth might prove useful in the formulation of expenditure and tax policies in these countries. Moreover, these estimates also provide an easy reference to estimates on the sources of growth for other LDCs. The book is particularly recommended to students and researchers interested in discerning the contribution of different factors to growth.

*Shahida Wizarat*

*Applied Economics Research Centre  
University of Karachi.*

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**S. Nawab Haider Naqvi, *Development Economics: A New Paradigm*, (Sage and OUP, New Delhi, 1993), pp. 210, Rs. 190.00.**

Prof. Naqvi has a greater claim to be described as the doyen of the development profession in Pakistan than any other living economist. This book brings to light the vision and philosophy of our leading development academic. It should therefore be read carefully by Pakistanis and Pakistan watchers.

"The central theme of this book is (that) development economics (is) a paradigm with a territory of its own" (p.15). Naqvi's definition of the word "paradigm" is that "it is a distinct weltanschauung" (p.15) - i.e., philosophical world view. The book is concerned with establishing the distinctiveness of this weltanschauung from the weltanschauung of the neoclassical economics and its affinity with Rawlsian moral philosophy. I will seek to explore these questions in the rest of this review.

The concept of paradigms has become popular in the social sciences since

Kuhn's path breaking work. [Kuhn (1962)]. In my understanding Kuhn's conception is rooted in thinking about physical (not social) phenomenon and corresponds to conscious principles like those expounded by Newton or Einstein, providing a model for "scientific" activity by specifying problems and setting up methods for their solution. Kuhn's paradigms are 'exemplars' (this is also the dictionary meaning of the word 'paradigm') – midway between theory and world view [a legitimate conceptualisation of 'weltanschauung' is Foucault's 'epistemes' (1970)]. They belong more to practise less to scientific presumptions and while scientists remain concerned with 'refining' them, – paradigms always remain 'incommensurable' and do not perish in response to a compiling of contrary evidence and argument. Rather "a cultural sea change" is the primary cause of paradigmatic transitions and in times of 'paradigmatic crises' the ultimate triumph of one paradigm results from 'extra rational' causes in Kuhn's view.

This leads Gellner (1992) to the conclusion that a comparison between paradigms and reality is excluded ex-hypothesis; "reality can only be apprehended through paradigms... no sense can be attached to declaring one paradigm better, truer than another" (p.114). Gellner therefore explicitly rejects Kuhn's belief in scientific progress as inconsistent "with his vigorously formulated theory of incommensurate and therefore sovereign paradigms" (p.115).

Naqvi however does not distinguish between the development economics 'paradigm' and its neoclassical predecessor on strict theoretical grounds. Rather "it digs deeper than mainstream economics... makes normative judgements and is concerned with processes that raise per capita income and distributes it more equitably" (pp.15-16). That none of these concerns are entirely foreign to neoclassical economics is implicitly accepted by Naqvi when he bases his claim that development economics is "a new intellectual paradigm" on the belief that "following Meade development economics should be inspired by a passionate desire to devise a better ... society" (p.23). Who is more neoclassical than James Meade?

On the one hand the empirical – and therefore a theoretical nature of development economics is stressed by emphasising the historical specificity of development insights (p.33). On the other it is claimed that "the theory of economic development deals with comprehensive social change" (p.37). It is further stated "development economics is embedded in the metaphysical environment of the developing countries" (p.168). Statements such as these make an unambiguous description of elements of a distinct development economics "paradigm" and the way they cohere, impossible.

On page 174 development economics is clearly described as a "sub-discipline of mainstream economics" and the "paradigmatic shift" that is supposed to have occurred is attributed unambiguously to the Lewis model which shifted attention from steady state growth and incorporated a consideration of "factor mobility, price inelastic demand", etc. Why this represents anything more than a partial relaxation

of some neoclassical assumptions is not adequately discussed. Similarly Naqvi recommends Klein's proposal (1983) for developing a total picture of the macroeconomy by linking up the Keynesian income and product accounts, the Leontieff input output framework and flow of funds without explicating the neoclassical *Weltanschauung* which underlines this recommendation (p.170).

In fact the relationship between the neoclassical and the development economic "*Weltanschauungs*" are very intimate. Thus Naqvi himself notes that he is "not (making) a declaration of independence of mainstream economics" (p.16). He accepts that "there is a large body of growth literature such as the theory of optimal control – (which remains) directly relevant" (p.16). He accepts the neoclassical claim that non utility or profit maximising behaviour is irrational (p.32). Studies cited in support of the claim that development economics has generated "new knowledge" are all in fact strictly neoclassical. – Harris and Todaro (1970), Johnson (1969), Bhagwati (1978), Coale and Hoover (1958), Becker (1960), Scitovsky (1981) etc. Similarly all qualifications mentioned with regard to transforming saving into a socially optimal form of investment, reducing dependence on foreign flows and modifying market structures (p.64) can easily be incorporated in standard neoclassical analysis.

The failure to situate development economics within mainstream neoclassical economics creates many ambiguities. Thus the 'mixed economy' concept is nowhere clearly defined and statements such as 'in routine cases free markets are the most suitable instruments to optimise output' are open to a very wide range of interpretations. Naqvi's conception of "structural change" is pre-eminently distributional (see pp.41-42) but the required extent of redistribution of wealth is not adequately theorised. Given that the extent of this redistribution depends upon the inverse ratio of the growth rate of the income of 'the rich' and 'the poor' (p.41) it is an empirically determined magnitude the theoretical limits of which remain unspecified. Moreover in the perspective it is growth which determines the extent of required redistribution: the implication being that policy must remain concerned with growth, Naqvi cites a number of studies showing the need to modify GNP calculations so as to more adequately measure welfare but since all of these are neoclassical, the stress upon distribution does not represent a departure from the neoclassical paradigm.

There are points in the text where Naqvi seems to abandon the claim that development economics represents a paradigmatic break. Thus he can write "a rigorous description ... of the new paradigm in terms of 'a hard core' 'a positive heuristic' and a 'protective belt' may not be feasible" (p.45). He can explain in historical terms neither the emergence of development economics at the end of the second World War nor the disenchantment with it in the early 1980s. His claim that a paradigmatic shift has occurred rests mainly on, the view that development economists have provided new data – but as argued above in Kuhn's view paradigmatic transition cannot be a consequence merely of data accumulation. The claim

that development economics is somehow “progressive” also remains unsubstantiated. Even the defining characteristics of a development economist are not clear, for on page 90 we are told that there are some anti-dirigisme development economists. What distinguishes them from the neoclassicals? What is the “cultural sea change” that brought development economists into existence?

The “non-neoclassical” ideas and methods attributed to development economics are either Keynesian or classical. Yet the dismissive treatment of the classical economists on pages 150-151 lacks depth and substance. Similarly there are no arguments for showing that development economics represents a “paradigmatic” departure from Keynesianism – it is not merely a Keynesianism of the long run as applied to the situation prevailing in the poor countries. Furthermore the indispensable neoclassical micro-foundations of both Keynesianism and development economics are not reorganised. It is these common micro-foundations which ensure that development economics remains an economics: it is neither a political economy nor a distinct ‘ology’ (development-ology), but merely a cautious modification of some neoclassical assumptions and methodologies in order to widen the scope of this (neoclassical) type of analysis.

All this would become clear if the relationship between utilitarianism and Rawlsianism had been explored. It is important to stress that despite his extensive criticism of utilitarianism Rawls accepts welfare maximization as the individual’s primary goal. He recognises as legitimate the summation of the various conceptions of the good by a single self (implicit in the different objectives pursued by it) although he rejects the extension of this principle to determine social choice. Several authors have argued therefore that the difference between the Rawlsian and the utilitarian position on metaphysical questions is not as pronounced as Rawls seems to think. [Hare (1973)].

Rawlsian moral conceptions are extremely close to those of rule utilitarians such as Harsanyi (1977). Both Rawls and Harsanyi make a distinction between personal and moral preferences. All personal preferences – homosexuality and chastity, atheism and piety – are treated as of equal worth and since social preferences are merely a concatenation of these individual preferences the latter are as amoral as the former. The Kantian conception of universalisability which seeks to validate such a claim is pure form. It rules out the possibility of constructing a moral order in which some values and ideals are preferred over others. Pure practical reason leads to a concatenation – not an ordering – of individually valued ends. It remains devoid of a uniquely ordered substantive content [Kant (1963)].

Rawls’ ‘just’ procedures and institutions reflect this immoral morality which regards all individual preferences to be of equal value and is merely concerned with increasing access to means – income, wealth, power, authority i.e., Rawls’ ‘primary goods’ – for the satisfaction of any preferences. Naqvi fails to take account of the ‘thickness’ of the veil behind which persons in the original position choose the

principles of justice. As Dworkin has shown Rawls presupposes a set of shared intuitions among the choosers and therefore the principles of justice derived from the original position are valid not universally but only for societies whose individuals, share the common convictions characteristics of the citizens of a Western society [Dworkin (1973)]. The most important 'common intuition' is that of self interestedness. The state is a guardian for the pursuit of individuated self interests. Rawls' "community" is merely a concatenation of these self interested wills. In liberal society there can be no "common principals" over and above the principles which permit pursuit of self interest. Thus Rawls argues that the principles of justice are goals in themselves because they interfere least with the realisation of self interest. The institutions of justice are merely instruments for the pursuit of individuated self interests.

It is sometimes argued that liberalism's most basic assumption about human nature is that it is potentially divine – this assumption reflects liberalism's anthropomorphic Christian roots. But liberalism also represents a fundamental departure from the teaching of Christ. The liberal assumption is that man has the power of God but the nature of a beast. Man is a demon for whom it is unnatural to submit to God and love his fellow men. He possesses a devilish cunning (rationality) which enables him to structure social conflict through market and legal mediation processes and thus avoid the excesses of the jungle. But the Market and the Law are instruments for the realisation of man's bestial nature not means for achieving a moral transformation. This essential bestiality of liberal man is justified and celebrated as natural and eternal in the discourses of liberal philosophy and liberal social science.

Naqvi regards liberal values – tolerance, neutrality, universalisability – as "universally accepted norms" (p.105). Naqvi also believes that there are no metaphysical presumptions underlying Rawls' work and that an "overlapping consensus" can "be forged by emphasising reduction of absolute poverty in a growing economy" (pp.112-113). It has been argued that justice as fairness should be seen as a moral conception which permits several inter-related comprehensive metaphysical conceptions to recognise intrinsic values in shared principles. However since in this view justice is prior to the good, the principles of justice necessarily limit the conceptions of the good that are permissible in society. In general only liberal 'modes of life' can be endorsed and an ordering of values is ruled out.

Thus Rawls can write "imagine someone whose only pleasure is to count blades of grass ... the definition of the good forces us to admit that the good for this man is indeed the counting of blades of grass" [(1971) p.432]. All ends are of equal value and all persons are free and equal in precisely this sense. The unity of the self is achieved by an arbitrary act of will. The possibility of self knowledge is ruled out – not only can Javed never know Riffat, he can never know himself. Each individual is permitted to pursue his arbitrarily willed ends consistent with the freedom of all others.

The self which acknowledges justice as the prime virtue is a poor dispossessed self. It can possess ends but must remain empty in the sense that the ends can never be constitutive of a self. The bounds of a self are unalterable (by e.g., reflection, or dhikr). Self identity is antecedently given – it is not a matter of choice. I cannot pose the question “Who am I? What am I to become?” on Rawlsian terms. The dispossessed self is incapable of self knowledge. There is almost no scope for reflection in Rawls’ moral epistemology. One can choose any ‘good’ that one likes (homosexuality or family life, atheism or the worship of God) with the sole proviso that the institutional frame work of democratic liberalism is not open to choice – the gilded chains of liberalism can never be discarded. Freedom of choice is available only within liberal bounds.

Naqvi’s “universally accepted egalitarian goals” are thus merely the goals of liberal and capitalist societies. But such societies are morally corrupt as evidenced by the strains on the family [Zaman (1974)]. – half of all American marriages end in divorce and almost 60 percent of all Swedish births are illegitimate [UNDP (1993)].

The moral depravity of the West is accurately reflected in Rawls’ description of justice. Pure procedural justice obtains only when there is no independent criteria for the right result: instead there is a fair procedure such that the outcome is always regarded as correct and justified provided that the procedure has been properly followed. No independent criteria of justice can be invoked by persons in the original position. There are no independent criteria of social justice (or of anything else). Such criteria have to be created by men in the original position and even when so created they remain divorced from moral substance. They are merely procedures which permit the fair pursuit of any ends arbitrarily chosen by alienated autonomous individuals. If there are grounds external to the original position (such as Islamic Sharia) for judging the justice of social institutions and ordering the moral choices of individuals the justice as fairness notion stands discredited. It is only if one accepts the prior metaphysical claim that the choices of individuated free and equal wills cannot be ordered that one is committed to the conception of justice as fairness. The immorality of liberalism and of the contemporary West is most graphically illustrated in its doctrine of fairness and impartiality with respect to ultimate values – the atheist and the homosexual deserve as much concern and respect as the saint and the mother. A society which can seriously countenance such a claim is uniquely morally depraved and corrupted from the perspective of human history.

It is strange that while Naqvi criticise Nozick on several occasion for being a non consequentialist (p. 99, 114, 129) there is no recognition that Rawls too, believes in the sanctity of procedures alone and there are no logical grounds for distinguishing between the morality of Nozickian and Rawlsian procedures for both are validated by reference to the universalisability criteria. In any case most of the strictures against Nozick (p.127, 119) are based on a misreading of only State, Anarchy and Utopia.

The moral of the story surely is that development economists should not seek to become armchair philosophers. This prevents them from seeing development economics as it really is - a somewhat dated apology for liberal imperialism.

*Javed Akbar Ansari*

*Allied Bank of Pakistan Ltd  
Research Division, Karachi, Pakistan*

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