In this space last week we criticised a new World Bank study, “The Quality of Growth”, for muddling the message on growth and poverty. We asked Vinod Thomas, leader of the team that wrote the report, to reply.

LAST week’s Economics Focus emphasised the centrality of growth in reducing poverty. We agree about that. But it is a big mistake to neglect, as you do, lessons on how to achieve more and better growth—growth that is sustained, and whose benefits flow to all.

In the past decade the number of poor people in the world (outside China) is estimated to have risen by more than 100m. To reverse this trend, economic growth is crucial. If the economies of sub-Saharan Africa had grown as fast on a per capita basis as East Asia over the past three decades, living standards would have quintupled instead of barely standing still, and poverty would have fallen, not risen.

Experience in developing as well as industrial countries shows that it is not merely more growth but also better growth that determines how much welfare improves—and whose welfare. Countries with similar incomes and growth over the past three decades have achieved widely differing outcomes in education, health and environmental protection. The impact of growth on poverty has also varied enormously: in India, a given growth rate has cut poverty in some states by four or five times as much as in others.

These experiences demand that we seek answers beyond the “Washington consensus” that you referred to. You say that asking these questions blurs the message for the sake of political correctness. The truth is quite the opposite. Understanding the process of growth, including its social, environmental and institutional aspects, builds country ownership and improves development outcomes. Quantity versus quality is a false dichotomy. The two are jointly determined and their interaction is what decides whether the results will be good, bad or indifferent. Consider three examples.

First, severe inequalities in investment in education and health imply that millions of people lack opportunities to improve their lives. Educational differences in India are one reason why the impact of growth on poverty is five times greater in Kerala than in Bihar. International differences in educational opportunities within countries are enormous. According to a new survey of 85 countries, Poland, the United States, Canada and the Czech Republic provide the most equitable opportunities for schooling; at the other extreme, countries such as Egypt, India, Pakistan and Tunisia have educational inequalities that are four to five times greater. This is enormously costly in every sense.
Second, poor governance retards growth and particularly hurts the poor. Large-scale corruption allows domestic elites and some transnationals to steer policies and laws to their own advantage, at others’ expense. New research suggests that strengthening the implementation of the rule of law or reducing corruption from the levels seen in countries such as Ukraine to the levels of countries such as Hungary is, over the long term, associated with a more than doubling of average incomes. Civil and political liberties and freedom of the press help to reduce corruption, improve the effectiveness of social spending and safety nets, and increase the productivity of investments.

Third, improving environmental quality and protecting natural resources spurs growth and welfare directly, especially for the poor. Dealing with pollution in cities, the depletion and deterioration of water supplies, or the destruction of forests and precious biodiversity is urgent and can make a big difference. Indonesia’s forest fires, partly because of bad policy, caused at least $8 billion in direct losses in 1997-98, harming the poor, arguably, even more than had the financial crisis. Yet much of the cost of environmental degradation goes unaccounted for. Reported gross domestic saving in the developing countries is about 25%GDP and in the industrial countries about 21%. Corrected for the depletion of environmental capital, saving in both groups shrinks to an estimated 14% (down from 22% to minus 12% for Nigeria, from 25% to minus 2% for Russia).

Policy analysis and advice have often neglected these issues, as you did last week. As a result, they have been neglected in practice as well. A country’s wealth includes not just physical capital but human, institutional and natural capital as well. The evidence shows systematic under-investment in human capital, inadequate attention to institutional capital, and over-exploitation of natural capital. Meanwhile, physical capital continues to be heavily subsidised. Agriculture, energy, road transport and water received gross subsidies of between $700 billion and $900 billion a year in the past decade, two-thirds of this in industrial countries (accounting for 3% of GDP) and one-third in developing countries (accounting for 5% of GDP).

Some worry that this broader agenda emphasises lower and unfunded priorities. This is wrong. Avoiding special incentives for physical capital or improving property rights and the pricing of natural resources can generate resources for redressing social under-investment. Improving governance and reducing corruption are money-savers. Greater transparency and broader participation in decision-making improve public services. These aspects of “quality” are central to what the poor—and everybody else—value most in economic progress.

Some question whether this broader agenda is too ambitious. It should not be. The quality agenda is not a veiled demand for big government. Rather, it is an invitation to all parts of society, within market-friendly policy frameworks, to participate in development. This calls for strengthening government and non-government institutions alike.

None of us has the final word on what is the best way forward. We need to continue learning the lessons as they emerge. As part of its consultation processes, the World Bank is starting a worldwide electronic forum on the issue.