

# Growth

Everyone pays lip service to economic growth as a crucial foundation for sustained human development, if only to emphasise the need for a ‘green’ or ‘inclusive’ variety. Yet we know little about its causes, it receives less aid than it should, and public perceptions of its link to poverty reduction are fuzzy. These problems are related. It is easy to justify aid that increases the consumption of the poor or supports popular causes such as ‘micro enterprises’, but it is harder to demonstrate the impact of growth on poverty through, for example, building roads.

How do we balance the desirability of aid for the poorest against the probability that university education is needed as well as primary education, that big firms might create more benefits than tiny ones, or that exports without a ‘Fairtrade’ label are not necessarily ‘unfair’? Despite pro-growth rhetoric, it is far from clear that growth is being done well. The food price crisis, the credit crunch and renewed political interest in growth should be catalysts for a fundamental shift in approach. As the

World Bank observes ‘There is no universal set of rules.’

The central problem facing the poorest countries is either the lack of growth or the wrong kind of growth. The commodities boom generates attractive numbers for those blessed with the right minerals, but can easily create the ‘natural resource curse’, making other economic sectors uncompetitive. While Botswana has used diamond resources to develop the country, Nigeria has seen income levels fall despite substantial oil revenues. For countries without minerals or surplus food, the outlook is bleak. The old prescription of ‘industrialisation’ no longer looks feasible for smaller countries following the emergence of China and India as major exporters. Climate change also challenges the use of agriculture as an engine of growth in many parts of Africa.

In Asia, new opportunities are created as old ones disappear, and the region is a growing importer as well as exporter. Sustained growth, however, requires countries to move resources to new activities with higher productivity, but these can no longer be as simple as ‘agriculture’ or ‘manufacturing’, or even the new buzz word ‘services’. Should Africa’s response to climate change be to grow more staples for domestic consumption? Perhaps ‘yes’ if staples are going to be viable after a dozen years of climate change, but if not, selling animal feed to support China’s growing meat consumption might be a better bet. Or perhaps something completely different, such as donor-funded nurse training, with graduates contracted to work in their home country after a period in, say, the UK’s National Health Service.

New activities probably mean new production locations, and perhaps more urbanisation. Good infrastructure is crucial for growth, but it has been neglected. Donors and developing country governments have failed to invest sufficiently in infrastructure and the private sector has failed to fill the gap. New instruments are needed, such as public–private partnerships and the blending of grants and development finance.





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Growth has led to poverty reduction worldwide, but not everyone has gained. There are many cases where more old jobs have been lost than new ones created, and where new jobs require new skills. While the movement of people to new jobs requires new social adjustment mechanisms to ensure that growth also benefits those whose livelihoods decline, the social dimension of growth goes beyond this. Well-targeted safety nets can help the poorest retain their assets in difficult times, and can insure small countries facing big disasters. Too abrupt an introduction of western labour-market institutions can have negative results, but the smart and timely implementation of labour standards can bolster businesses – for example, it has helped Cambodia gain a market share in the USA.

The link also works the other way: good social policies are needed to support growth. Education, for example, is known to drive economic growth, but secondary and higher education have been neglected in the push for universal access to primary education. It is now recognised that the provision of a full range of education is essential for growth.

There needs to be a greater focus on country-level analysis, prioritisation of economic policies, and on how evidence-based growth policies have been adopted. The role of governments remains critical: they cannot pick winners, but they can create good conditions for winners. In economies with strong growth, the state can steer economies in market-friendly ways and remove potential bottlenecks. To achieve this in countries where growth is poor requires the creation of institutions to strengthen the capacities of the state and business, to support dialogue between the state and business, and to prioritise reforms. Not all donors have taken this on board. Some recent policy documents are at odds with the academic literature on growth. While the former focus on ‘the rules of the game’ and imply that policies should be neutral, the latter identify specific roles for the public sector.

Businesses, already expected to engage in philanthropy, need to move beyond corporate social responsibility to enhance the

development impact of their core business operations. The proportion of sales profit that remains with producing countries varies enormously depending on power within the supply chain. What systems work best for growth? How can consumer power best be harnessed to encourage retailers in the major markets to source their goods in the most development-friendly way? A Good for Development label proposed by ODI, which would cover a wide range of products and recognise their developmental benefits, is one avenue.



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