

Book Reviews

Development Economics Through the Decades: A Critical Look at 30 Years of the World Development Report by Shahid Yusof with commentaries from Angus Deaton, Kemal Dervis, William Easterly, Takatoshi Ito and Joseph Stiglitz, Washington DC: World Bank, 2009, 188 pp.

The World Bank led other supranational organizations when it launched the first *World Development Report* (WDR) in 1978. Driven by McNamara's conviction to eradicate poverty, the following volumes gained iconic status as the then unrivalled report sought to address development problems and solutions with great concern. This book seeks to provide an insider but critical account of 30 years of WDRs that the World Bank has produced. Despite the questionable expenditure and effort that goes into the reports, I think it is a worthy exercise given the attention governments have continued to give it. Being an insider, however, Shahid cannot be expected to offer a totally independent account of the WDRs and hence why I have chosen to express my own take on some of the pertinent issues covered by them.

The book is organized into four chapters with the first providing the circumstances, critical leaders and officials, shifts in focus and the setting of the book. Chapter two discusses the rationale and policy direction of Hollis Chenery who boldly set about to use development economics theory to generate policy reports that targeted growth and structural change as the instruments to eradicate poverty. Although the collapse of the welfare state started from the end of the 1960s with the fixed exchange rate mechanism withdrawn by the United States in 1971 with stagflation gripping the economy in the early 1970s, the adoption of rightwing neoliberal policies only received political support when Ronald Reagan and Margaret Thatcher were elected from the late 1970s. Chapter three captures the swing of the pendulum to the right end that inevitably sowed the seeds of the Washington Consensus for the expansion of neoliberalism across the world. As chief economist then, Anne Krueger fashioned the WDRs from the 1980s to envision development alongside enabling or augmenting markets. Chapter four presents the synthesis and a discussion of the direction future WDRs should take.

The commentaries run from a simple appreciation of Shahid's work by Ito to the most incisive critique of earlier WDRs by Stiglitz. Deaton and Easterly confine themselves largely to implementational and heuristic issues – the former focusing on the problems of getting prices and macroeconomic variables right against the latter on the randomness issue of growth occurring.

Stiglitz raises pertinent questions that critics have long asked that goes to the heart of the Washington Consensus. Stiglitz argues that any attempt to bridge the development gap requires a focus on closing the information gap between the developed and developing nations. Stiglitz also calls for a focus on listening to and empowering the masses of poor economies for them to build their own destinies rather than the old WDRs' approach of telling them what to do. Giving greater weight to the voices of the powerless should go a long way to help in the selection of the instruments, as well as, the application of strategies to alleviate poverty. Such normative solutions to dehumanization and underdevelopment were articulated lucidly by Freire (1970).

To the limit possible, Shahid addresses some of the salient issues that heralded and expanded the WDRs' role in the world with a careful injection of both passionate nostalgia and subtle critique of the obvious flaws. Shahid appears to prefer the earlier reports that were shaped in less dogma than the ones that came out from the 1980s, providing the motivation in the process for a serious look at the features of future issues. The WDRs from the 1980s improved the analysis and reporting of the issues with more grounding in microeconomic evidence and the articulation of cases using boxes, and in addition, referencing a wide range of materials. The book presents these strengths and rightly identifies the problems of moving the WDR too far to the right as noted by Ravi Kanbur. Shahid is also incisive when arguing that having information alone does not guarantee the closing of the knowledge gap. Indeed, it is how the knowledge (rather than information) is used that matters. Shahid also rightly questions the WDRs' preference for econometric analyses and modeling over common sense from the 1980s.

However, as an outsider, I wish to address what I think are four important shortcomings that the book could have addressed – which are targeted at the WDRs over the period under review rather than Shahid himself. Firstly, the extensive coverage of development economics theory did not carry the most fundamental of works relevant to technological catch up. Gerschenkron (1962) is cited but there is no real connection to Smith's 1776 circular argument on the division of labour driving markets that Young (1928) made famous later. The role of manufacturing in providing the increasing returns for driving differentiation and division of labour is hardly there. Only then can we understand why catch up economists such as Abramowitz (1956) and Kaldor (1960) promoted manufacturing as the engine of growth. Scaling the history from 1485 when Henry VII initiated the first industrial revolution that was to make England the world's industrial leader by the mid-18th century (see Reinert, 2007), and the works of Johnson (1982), Amsden (1989), Wade (1990), Amsden and Chu (2003) and Chang (2003) was to provide the setting for the role of government to engender the conditions for economic catch up and development. Although some of these

works have been cited, there is no real scrutiny of their arguments alongside the review of WDRs in the book.

Secondly, Shahid does not depart completely from Krueger's mistreatment of the East Asian export experiences. There is a tendency to compare the failed Latin American "import-substitution" policies against the successful East Asian "export-oriented" policies. It should have been noted instead that East Asian policies – *a la* Korea and Taiwan – were driven either by import-substitution for export-orientation strategies that Taiwan pursued or import-substitution of heavy industrialization strategies that South Korea implemented from 1970. The growing balance of payments and foreign debt problems that arose since were exacerbated by the first oil crisis of 1973-75 when oil prices rose by four times, forced the Korea government to force firms to raise exports. Korea did not float or devalue the won to cheapen exports and make imports expensive using the neoclassical Mundell-Fleming model. It is clear to me that the floating of the won would have also cleared the balance of payment deficits but it would have also undermined the heavy industries as prices of capital equipment and materials (including oil) would have soared. Increasing export quotas also acted as the discipline for scale-oriented industries to become competitive (Amsden, 1989; Lall, 1996). An attempt to explore this accordingly could have allowed Shahid to distinguish the successful exporters of Korea and Taiwan who managed to close the knowledge gap with the developed world against Malaysia, Thailand, Indonesia and Philippines whose growth has slowed down since the late 1990s. An evolutionary articulation of the macro-meso-micro interactions in economic development could have also benefited the WDRs (see Nelson, 2008).

Thirdly, while there is an almost rallying cry in the book for greater focus on institutions and an apt discussion of the problems of translating it into pragmatic action, it seems overly confined to Coase's (1937) and North's (1993) articulations of the concept, which leaves markets as the dominant institution. Although Shahid does go beyond the simple ideological use of market forces, there is not much effort to welcome the non-linear and open-ended elements that makes the types and nature of institutional coordination specific to issues, industries and sectors examined. Shahid may prefer a more general and precise set of strategies that involve institutions but I believe the open system should be comprehended accordingly. Hence, there is little discussion of the other institutions that are critical to the promulgation and implementation of policies.

Fourthly, Shahid's attempt to emphasize the use of knowledge rather than information is masterful but the problems of information asymmetry addressed by Stiglitz needs more scrutiny than what is discussed in the book. Whereas Stiglitz calls for changes in the mechanisms of power and exchange to close the information gap to achieve economic development across the

globe, Shahid leaves this as an open question that requires greater reflection. Such a stance leaves the book to a range of other criticisms – that the essence of development cannot be pursued when its chief coordinates are left under-determined. Among the corollaries of such an approach include the focus on total factor productivity (TFP) rather than technological progress. Not only that the TFP residue is not an appropriate proxy of technical change, it often generates misleading conclusions. Young's (1994) and Krugman's (1994) attack on the East Asian growth miracle is an example (see Rasiah, 2009). If on the basis of average annual TFP growth rates of Taiwan (1.5%), Korea (1.4%) and Singapore (0.1%) over the period 1970-85 we are forced to believe that these countries had grown through perspiration rather than inspiration, then what can we say about the technologically advanced countries of Japan (1.2%) and the United States (0.4%)? Using the same logic should we not ask developing economies to adopt the development strategies of Egypt (3.5%), Pakistan (3.0%), Botswana (2.9%) and Congo (2.8%) as these countries enjoyed the highest TFP growth rates over the period. These estimations can be found in Young (1994: 970). Similarly, why should distorting relative prices be regarded wrong if it was the route South Korea and Taiwan used to achieve economic catch up (see Amsden, 1989; Wade, 1990)? Why should we not shift our thinking to consider circumstances when market distorting interventions can lead to development correcting change? It is for these reasons Amsden (1989) argued that Korea got relative prices wrong to support technological catch up. To a large extent the WDR that was led by Carl Dahlman addresses a number of the evolutionary issues related to knowledge but tended to examine them on the basis of expenditures, human capital and organizations rather, than, to also discuss dynamic relationships between them.

Despite my comments the book is a must read for development planners, government leaders and students. Shahid gives an excellent account from the lenses of an insider of critical problems that future WDRs must address. Its assessment of the history, the dominant influences that drove the framework and direction of past WDRs and the final message that, it must change, is succinct.

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Education and Work: The World of Work by Nagaraj, S., Chew, S.B., Lee, K.H. and Rahimah, H.A. (eds), Kuala Lumpur: Faculty of Economics and Administration, University of Malaya, 2009, 324 pp.

While globalization offers many job opportunities around the world, it is evident from several international reports that many youths continue to face obstacles in accessing these benefits – the primary one being the difficulty in finding employment in the formal sector, which relates to the school-to-work transition (see United Nations, 2007; ILO, 2006). The reasons for such anomalies include the fact that the education they received did not prepare them specifically for the global job market. In developed countries there has emerged a growing concern with the failure of the transition mechanism

from high school to work resulting in increasing numbers of youths having to face obstacles in the job market. Hence, the identification of school-to-work transition as a major problem to be addressed by policy makers arose since the beginning of the 1900s (see Rosenbaum *et al.*, 1990; US General Accounting Office, 1990; Klerman and Karoly, 1995). In developing countries, research on school-to-work transition is rare. In Malaysia, this study is the first of its kind and a welcome one, indeed.

The book is organized in eight chapters that provide an excellent analysis in the expansion of higher education, occupational aspirations, expectations and attainment, employer-supported training, career mobility, and the preparedness of the future workforce. The opening chapter briefly outlines the approach and scope of the book and the methodology employed. It also discusses the concerns of successful transition from school to work among young people. Chapter 2 explores factors affecting demand for higher education and the pattern of demand. Chapter 3 presents research on occupational aspirations, expectation and attainment. Chapters 4 to 6 present research on employer-supported training, career mobility and earnings and rates of return to education and training. Chapter 7 moves on to gauge the perception of the respondents in order to examine the ability of Malaysia's future workforce in adapting to the challenges posed by globalization, and examine whether the outputs of the educational system are imbued with the critical attributes needed to succeed in the global economy. The concluding chapter outlines the nature of globalization and its effects on the world of work, which is used as the backdrop against which the summary of the findings and policy implications for the development of education, knowledge and skills for the successful transition of youth through school-work transitions are presented.

This book examines the dynamics of youth in transition from education to work. Nagaraj, Chew, Lee and Rahimah defined their main starting point for the study in relation to education to work – that it sought to capture the experiences of young Malaysians as they move from (high) school to work through various pathways; and hope that the study generates crucial information for the formulation of appropriate policy strategies and programmes for education and the world of work. It is the culmination of a longitudinal study on (high) school-work transitions, drawn from three surveys that were carried out in 1989, 1992 and 1996. This study records the research findings of the fourth and final phase of the 1996 survey on the transition from school to work with the target population of 11,227. Of these, a total of 1,697 responses were received, representing a 15% response rate from the respondents of Survey I and Survey II.

The book starts with premises extracted from the strategies proposed by the Malaysian government pledging to emphasize the expansion of tertiary

education, particularly in the scientific and technical fields, and in research and development (see Malaysia, 2001, p. 134). The authors then identified three interrelated issues. The first issue deals with the question of whether the schools and higher or tertiary education institutions of this country can equip the future workforce with the right kind of skills to meet the challenges of globalization. Second, whether the strategies are implemented effectively and efficiently. The third discusses the implications of the globalized and fast-changing work environment on education, training, employment and labour market policies. The authors hypothesize that these three dimensions are all correlated with the strength of the association between education and first occupation; and that vocational specificity is also correlated with the strength of the association between vocational qualifications and entry to a skilled rather than unskilled manual occupation. The study examines the processes of formal schooling, labour market entry and career choice. It does this through a close look at higher education, occupational aspirations and expectations, employer-related training, career mobility, returns to education, preparedness of the output of the education system for the global workplace and policy implications; regarding school-work transitions.

The study was designed by tracing two samples of students through two major exit points, i.e. Form V and Form VI and identified their patterns from school to work, and school-work transitions; to examine those entering the labour market via vocational training/apprenticeship, and those entering via other routes like higher education; and to examine the factors that influence their employment patterns and career development. The study focused on the experiences of the respondents in the world of work and obtained information on variables relating to the entry process into the labour market after formal schooling, which includes job search, frequency and duration of unemployment and the development of occupational aspirations; information on occupational characteristics such as earnings, training and working conditions. The data collected was used to explore the destinations of the respondents three years after leaving school.

The book however, does not focus on the problems and effects of economic and labour-market segmentation on youth transitions. This somewhat limits the understanding of the personal consequences of economic hardship and the labour market squeeze, as these effects is visible in education choices and career decisions of individuals.

In spite of the shortcomings, the strength of the book is undeterred as a primer on school-to-work transition, which lies in the fact that it is a work that “walks the talk”. It combines the knowledge and strength of 16 authors who are all academics, comprising of researchers and experts in education, economics, statistics and management; all of whom provide a rich account of the programmes, policies and institutions (or the lack of it) in Malaysia

about school-to-work transitions. It is the first ever study in Malaysia that provides empirical evidence on school-to-work transitions, with emphasis on demography, gender and ethnicity.

The book is very timely and well-written and provides an excellent source of new knowledge for all stakeholders in education and policy makers who are committed to transforming higher education system to ensure that the orientation is in line with the global workplace. The book provides a good read and should be highly recommended to all public officials, but particularly, policymakers who are interested in furthering their understanding of education and to guide their actions as they struggle to improve their manpower planning, education planning and reform capabilities, as well as, labour market policies.

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