BOOKS *in brief*

Mitchell A. Seligson and John T. Passé-Smith (editors)

Development and Underdevelopment

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Two vast and growing gaps in wealth—international and domestic—separate the world's rich and poor populations. The first is between industrial and developing countries; the second is between tiny minorities of the affluent and vast majorities of the poor in the developing countries themselves.

Starting from Simon Kuznets's seminal essay, this comprehensive anthology of classic and contemporary papers traces the thinking that has evolved on the subject of these international and domestic gaps between the rich and the poor. The views represented range from the so-called classicists, who suggest that the gaps will narrow once the process of industrialization has matured or anti-industrial cultural values are replaced by the necessary "industrial" values, to proponents of the view that the international system itself perpetuates the gaps and that only a major restructuring of the system will narrow them. Other perspectives focus on the behavior, responsibility, and political orientation of the state. Have domestic policy actions, such as rent-seeking behavior and urban bias, perpetuated the gaps? Is there a connection between democracy, on the one hand, and growth and inequality on the other?

The editors concede that definitive answers remain elusive. Their hope is that continued airing of the debate and the development of more sophisticated and precise research tools will lead the way to productive answers and constructive policy advice.

LETTERS

Getting better measures of environmental degradation

There is much that is thoughtful in the article by Andrew Steer and Ernst Lutz on "Measuring Environmentally Sustainable Development" (*Finance & Development*, December 1993). However, I find the handling of national income adjustment rather disappointing. The article asserts that if the environmentally adjusted accounts should indicate reduced or negative investment, a "careless interpretation might conclude that . . . the productive capacity of the economy had actually declined." The authors appear to think that "human capital formation and technological progress" can automatically be offsetting to environmental disinvestment.

The two issues, I submit, are separate and should not be confused. Environmental capital deterioration is certain to undermine sustainability, and a greater investment effort will be needed to counteract its effect on future income. Human capital formation, by convention, is left out of the national accounts for various reasons, one of which is that, if it is truly productive, it will be reflected through enhanced productivity in a higher GDP. By contrast, the loss of environmental capital, if not recorded, may take some time before it will reflect itself in income and product measurements. Anyhow, should not a proper comparison be made of the effect of both on national income, before such a summary judgment is made?

Besides properly measuring investment, there are other policy implications of failure to reflect environmental deterioration (especially natural resource depletion) in the national accounts. Without the adjustment we would not be able to know, for example, if an economy that is dependent on such resources is genuinely growing or merely living unsustainably on asset sales beyond its true income; whether the balance of payments is in surplus or deficit on current account (if exports contain environmental capital elements); and whether the exchange rate needs to be changed. The authors, by effectively saying "not to worry," are in fact depreciating the utility of adjusting the accounts—contrary to what they are ostensibly advocating.

Salah El Serafy

Andrew Steer and Ernst Lutz respond:

We gratefully agree with Mr. El Serafy's first sentence but have to disagree thereafter. He claims we think that human capital can automatically substitute for resource depletion. We do not, as our article makes clear. There are many situations where neither human nor fabricated capital can substitute for a loss of natural capital and, as we argue in the article, it is essential to analyze what is happening to each type of capital separately. Nonetheless, it is quite wrong to assert that depleting natural capital will always reduce the productive capacity of the nation. If Indonesia uses its oil wealth to invest in its children's education (as it has wisely done), with the result that fertility rates fall and productive practices become more efficient, few rational people would believe that the country is either poorer or less sustainable. The point we make is that if calculations on trends in a nation's aggregate capital stock are to be useful for policymakers, they must include human as well as natural and fabricated capital. The Environmentally Sustainable Development Vice Presidency of the World Bank is currently involved in an effort to make both sets of adjustments.

Mr. El Serafy's argument is that human capital formation can be ignored because, if productive, its presence will be reflected in future income. Of course! So, too, will changes in natural and fabricated capital. The belief that changes in human capital have a "quicker" impact on income than changes in natural capital is not necessarily true; nor is it relevant. What is relevant is that some human capital formation gets recorded in the current account of the national accounts, and some (knowledge breakthroughs) gets omitted altogether. When we assess trends in a nation's productive capacity, we need a complete picture.

None of this detracts from the vital importance of getting better measures of the high costs of environmental degradation, which was the main theme of our article and where we and Mr. El Serafy are in full agreement.