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Principles of Economic Growth. By Thorvaldur Gylfason. Oxford: Oxford University Press, 1999. 188 pp. £40.00 hb, £19.99 pb.

There is no dearth of textbooks on economic growth, but this one is special. Gylfason combines his encyclopedic command of the literature with lucidity of expression, resulting in a non-technical and easily accessible overview of the theory of economic growth.

The first chapter sets the stage for subsequent analysis by examining the growth performance of four groups of countries over the past quarter of a century. It demonstrates that not only economic systems but also policies and institutions are relevant for growth. The countries within each cluster have one thing in common: their economies have developed differently despite similar initial conditions. Chapter 2 traces the roots of the theory of growth to the work of Adam Smith and his followers and covers more recent contributions, in particular those of Harrod-Domar and Solow. This is followed by a detailed overview of the two main theories of economic growth: the new endogenous growth theory and the neoclassical theory of exogenous growth which followed the work of Solow. Comparing the two models, Chapter 3 concludes that qualitatively the models are similar; in both cases, growth depends on saving, efficiency (including technology), and depreciation, However, unlike with the exogenous theory, the linkages between the variables are implicit in the endogenous theory. This chapter also clarifies why the quality of investment plays such an important role in the determination of the growth rate of countries. Low quality investments, such as old Soviet-style investments in mammoth projects with high rates of depreciation, not surprisingly failed to generate much growth for the former Soviet Union and East European economies. In other words, the quality of investment projects matters just as much as their quantity.

Perhaps the best part of the book is Chapter 4, which begins by arguing that there are no grounds for assuming that poorer countries will automatically catch up with richer ones. The second part of the chapter, which might have been better written as a separate chapter, demonstrates that economic growth also depends upon a number of other factors, many of which can be affected by economic policy and most of which also affect economic efficiency, which itself is a significant determinant of growth. These are liberalisation (free trade), stabilisation (stable prices), privatisation (support of private enterprise), the education and health of the population, and geographical variables (natural resources endowment, distance from the equator, ratio of coastline to land area, etc.). An explicit discussion of the direct and indirect impacts of these variables on economic growth would have enhanced the exposition of this chapter - as would a treatment of the effects using expansion methodology a la Casetti. Chapter 5 discusses the linkages between unemployment and economic growth, but nowhere in the book is there a discussion of the large literature examining the nexus between foreign aid and economic growth. I also find Gylfason´s laconic statement that ´Economic growth is important. It is actually hard to think of other things that might be more important´ (p69) somewhat surprising, when compared with the alleviation of poverty and the promotion of health, education, democracy, and human rights.

This delightful monograph is not only easy to read but covers many historical events of the twentieth century and the people who have shaped them. (There are brief biographies at the end on key figures ranging from Idi Amin to Harry Truman.) Gylfason has obviously been careful to make the book accessible to a wide audience. For this reason, all the algebra that is found in the body of other books on economic growth appears in this monograph´s ten appendices. Therefore, although the work breaks little new ground, it sends a logical message: growth is determined to a large extent by economic policies and institutions, and is therefore within our reach.

Mak Arvin

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Gylfason, Thorvaldur: *Principles of Economic G*rowth. Oxford University Press, Oxford, 1999. 178 pp. + index. ISBN 0 -198-77614-4.

This very readable book is aimed at an audience interested in policy implications of economic theory rather than its technicalities, such as business school students, social scientists without much formal training in economics, and policy-makers. The main text is supported by technical appendices for those who are not satisfied with being served results and prescriptions but would like to see the formal logic from which they are derived. The book is therefore suitable as a textbook for advanced, undergraduate courses on economic growth and policy. For the graduate student the book is useful as supplementary reading.

The introductory chapter sets the stage by comparing some success stories and less successful cases. The exponential growth of Thailand is contrasted with stagnant Burma. Botswana had a lower GDP per capita than Ghana and Nigeria in 1970 but later became one of few success stories of Africa, with a GDP per capita six-seven times higher than the other two countries in 1995. The difference between Madagascar and Mauritius has developed in a similar fashion. The need to understand the causes and mechanisms of economic growth speaks for itself.

Chapter 2 is an introduction to, and an overview of growth theory. It starts with Adam Smith as the first growth theorist-for where does "the wealth of nations" come from if not from economic growth? More follows on other informal growth theorists: Mill, Marshall, Marx, Schumpeter and Keynes. Formal growth theory is traced back to the overdeterminate model of Harrod and Domar, which Solow rendered determinate by making the capital-output ratio endogenous. But this made the savings rate irrelevant for long-term economic growth. The circle is closed by endogenous growth theory where technological progress and economic growth again become dependent on the saving rate.

Chapter 3 is in many ways the core of the book. This is where the two mainstream theories of economic growth, the Solow model and endogenous growth theory, are compared and contrasted. The presentation of endogenous growth theory relies heavily on the story of learning by doing (or learning by investing, as it has also been called) for empirical support, but research and development as well as Lucas´s human capital model are also invoked. Simple and innovative diagrams are used for comparing the implications of the two strands of growth theory with respect to changes in parameters such as the savings rate, but one may doubt whether the reader will really understand these techniques without reading the relevant mathematical appendices carefully. This chapter concludes more positively for the relevance of Solow´s growth theory than has been fashionable for a while: after all, it takes decades to come reasonably close to the steady state, and in the meantime economic growth is indeed endogenous and dependent on the savings rate.

Chapter 4 begins by discussing the convergence hypothesis at some length and concludes rather negatively with respect to convergence between rich and poor countries on a global scale. The scatterplot of GDP per capita for all countries of the world in 1992 and 1970 looks convincing enough, but what are we to make of success stories like the Asian Tigers, China, Chile, and perhaps now India? The rest of this chapter is only indirectly about growth; it deals with various ways of increasing efficiency: liberalization, privatization, and reducing inflation. This treatment is entirely within a static framework, but the implication for growth is that more would be saved and invested after a once-and-for-all gain in efficiency, for any given savings rate. The efficiency gain of liberalization and privatization is shown to depend on the formula $e = mc^2$, known from a different context and with a different interpretation, but this is, of course, too good to be generally true, dependent as it is on a specific form of the transformation frontier. The magic formula nevertheless conveys the simple truth that the efficiency gain from abolishing price distortions, which liberalization and privatization as discussed in the book essentially are all about, increases progressively with the magnitude of the distortion, due to the concavity of the transformation function. The treatment of inflation and growth is unorthodox in that the inimical effects of inflation on growth are traced to the substitution between real and financial capital and the distortion of their relative prices, but the existence of other channels is acknowledged.

Chapter 5 addresses reforms and growth. It begins with a curve shoving the development of real GDP per capita in Uganda after Idi Amin overthrew Milton Obote. This diagram serves the purpose of showing the magnitude of man-made economic disasters. It just so happens that a few pages later there is a similar curve for Russia. The dip in the curve for Russia is at least as great as that for Uganda after Amin. Was Boris Yeltsin a catastrophe of a similar magnitude for Russia? The curve for Russia serves as an uncomfortable backdrop for the basic thesis of the book, which is that markets, privatization, and liberalization are good for economic efficiency and growth. While it is not difficult for find fault with the type of market solutions implemented in Russia, one might think that they nevertheless would represent an improvement over the system of Soviet planning. That superiority seems either non-existent or long in coming.

Each of the chapters begins with a couple of quotations. One is taken from Paul Krugman, to the effect that development economics faded away because the leading lights in the filed failed to turn their insights into clear-cut models that could serve as the core of an enduring discipline. Could there be something wrong with the disciplinary approach? The problems are still with us. Perhaps their complexity is too great to lend itself to clear-cut models. Gylfason´s book is firmly anchored within the discipline of economics but the focus is on insight rather than formal analysis. Even so, many a reader will wonder how much further we have come to understanding the difference between the stories of success and failure with which the book began. That notwithstanding, it is to be hoped that "practical men" who are usually "under the influence of some defunct economist" as Keynes put it, will find time to read this insightful book: they might then come under the influence of a highly functional one concerned with improvement of the human condition, both through economic growth and through a fair distribution of its fruits.

Rögnvaldur Hannesson
Norwegian School of Economics and Business Administration
NO-5045 Bergen, Norway