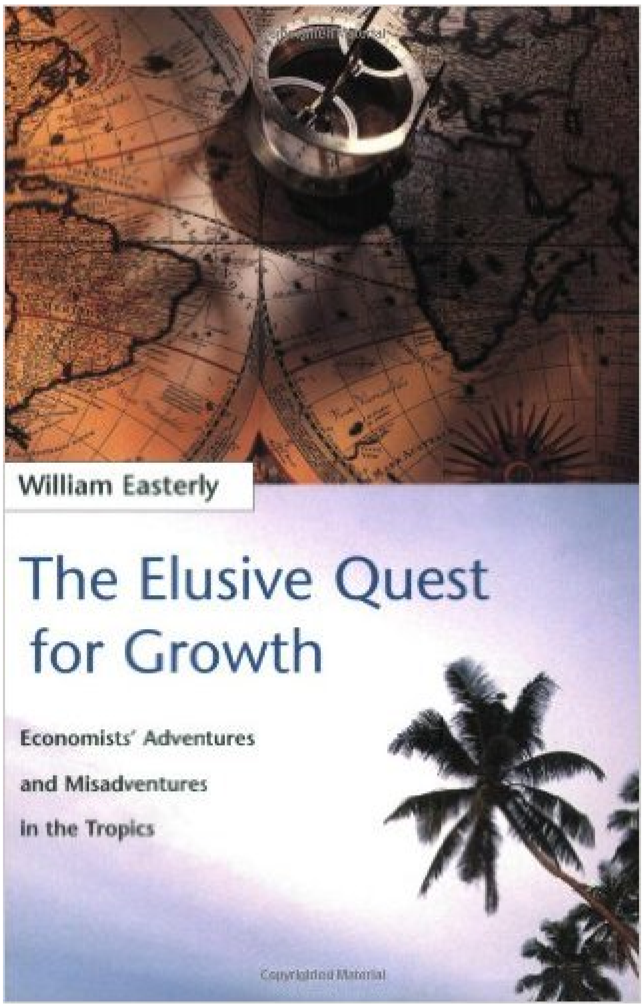
The Elusive Quest For Growth: Economists' Adventures And Misadventures In The Tropics



Synopsis

Since the end of World War II, economists have tried to figure out how poor countries in the tropics could attain standards of living approaching those of countries in Europe and North America. Attempted remedies have included providing foreign aid, investing in machines, fostering education, controlling population growth, and making aid loans as well as forgiving those loans on condition of reforms. None of these solutions has delivered as promised. The problem is not the failure of economics, William Easterly argues, but the failure to apply economic principles to practical policy work.In this book Easterly shows how these solutions all violate the basic principle of economics, that people -- private individuals and businesses, government officials, even aid donors -- respond to incentives. Easterly first discusses the importance of growth. He then analyzes the development solutions that have failed. Finally, he suggests alternative approaches to the problem. Written in an accessible, at times irreverent, style, Easterly's book combines modern growth theory with anecdotes from his fieldwork for the World Bank.

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Customer Reviews

For 5/6ths of the people of Earth, life is a daily struggle for basic needs: food, shelter, medicine. Infant mortality rates are high, women are oppressed, and individuals have limited opportunities to improve their lot.William Easterly is a Senior Advisor in the Development Research Group of the World Bank. In his first book, he asks why trillion dollars of foreign aid to the countries of the "third world" since WWII have caused essentially no improvement in the quality of life for the people in these countries. I found the writing lucid and the many real stories of poverty and corruption both emotionally powerful and insightful.Emphasizing a key mantra of economics -- people respond to incentives -- he details the long list of foreign aid tactics that have failed: capital investment (machines, factories, roads), education, birth control, loans, and loan forgiveness. Not that any of the tactics are bad, but rather they are ineffectual in a country lacking key social, political, and economic infrastructure.Easterly then describes in detail the factors at play in driving growth: increasing returns (Leaks, Matches, Traps), creative destruction through technology, luck, governments kill growth, government corruption, and class and race conflicts.Easterly shows that achieving economic growth is very difficult, but he does a great job of identifying the key systemic issues that poor countries must address.Perhaps surprisingly, Easterly’s model applies equally well to the economic disparities that exist within countries, even "rich" countries like the United States.

The Elusive Quest for Growth, by Bill Easterly, a senior advisor in the research department of the World Bank, is a must read for anyone interested in global development. Its appeal lies in its unprecedented reach and candor in surveying the assumptions and theories underlying the development assistance provided by richer countries and international agencies to poorer countries. Easterly’s conclusion is that the emperor (the international aid industry) has almost no clothes. While one can quibble with the specifics of some of his analysis, the overall effect is a compelling, authoritative book that makes it impossible to avoid facing the fact that the current aid framework needs a radical overhaul. The aid industry has spent about 1 trillion dollars over the last forty years, and the returns have been disappointing. Fortunately, Easterly points the way toward the beginning of a new wardrobe. There’s bad news and good news. The bad news is that nearly all of the theories that drive the design of aid programs are not borne out by the experience to date. Most fundamentally, the formal mathematical models underlying the macroeconomic analyses of organizations such as the World Bank and IMF are built on two plausible but wrong assumptions. The first of these is that investment drives growth. Unfortunately, the record shows that investment only drives growth in those few cases where it is made in conjunction with appropriate technology, know-how, and a sound overall economic policy environment. The second wrong assumption is that aid increases investment. Extensive analysis indicates that most governments simply consume rather than invest the aid they receive.

This is surely the most important book published in the field of development economics for many years. The author, who is Senior Adviser to the Development Research Group at the World Bank, is highly familiar with economic theory and empirical research, and is able to expound his knowledge in an engaging and jargon-free manner.Easterly's aim - in which he succeeds brilliantly - is to show the self-defeating nature of most conventional prescriptions for development, notably foreign aid, investment in technology, education, population control and debt forgiveness. Against all these chimeras - many, if not all, of which, are desirable in their own right in some circumstances - he poses the economic common sense of provision of incentives. The argument is complex but two of Easterley's observations are especially worth noting.The professional (and almost always economically-untrained) development lobbyists are fond of arguing that what they tendentiously call the neo-liberal consensus ignores the poorest. Easterley demonstrates that this is untrue, citing the work of David Dollar and Aart Kray of the World Bank, who have found that global poverty is attributable, rather, to lack of growth. Using statistical techniques to isolate the direction of causation, these analysts find that a 1 per cent increase in per capita growth in the developing countries causes a 1 per cent rise in the incomes of the poor.Secondly, debt cancellation has become a fashionable cause for development lobbyists and the Churches - unaware, apparently, that the idea has been tried for at least 20 years (I recall it very well from my time at the Debt and Capital Markets Group at the Bank of England in the 1980s) and has resulted in a self-perpetuating cycle of bad lending.

Introduction to Modern Economic Thought