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ARTICLES

BOOK REVIEWS

The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics

William Easterly. 2002. Cambridge, MA: The MIT Press. ISBN: 0–262–55042–3. $14.95 (paper).

Reviewed by John Stapleford, Eastern University.

And in the seventh month I rested. I had completed my book, including a fine chapter on a Christian perspective of "Debt Relief for Less-Developed Countries." I had talked with major players in the Jubilee 2000 movement both in the United States and the United Kingdom. I had looked at the latest World Bank data. I had read with great enthusiasm the Spring 2000 dialogue in *Faith & Economics* on the issue. I was satisfied. And then along came William Easterly. Easterly has torn my comfortable Christian policy position apart.

Easterly's hardback edition of *The Elusive Quest* came out in 2001. The only addition to the paperback version in 2002 was an addendum to the prologue. There were two items of note since the publication of the hardback. First, Easterly's mother had gotten email. Second, the World Bank told Easterly to leave their employ. Now if that doesn't make you want to read a book on developing country growth, I don't know what will!

The book is divided into three parts. First is a short section detailing some of the desperate conditions in the developing world (the problem). Second is a section on policies that have failed (be ready to have your ox gored). Third is a lengthy section on what might work given the fact that "people respond to incentives" ("…all the rest is commentary"). Easterly's hypothesis is that economists have failed in their attempts to facilitate economic growth in developing countries because they have "peddled formulas that violated (this) basic principle of economics." It is a microeconomic view of macroeconomics that proposes that econometric relationships among aggregates falls short as policy if one does not take time to view the world through the self-interested lens of the actors involved.

Easterly has traveled extensively in developing countries for the World Bank and is able to share vignettes in the first chapter and throughout the book that allow the reader to experience the harsh realities behind the grim statistics. As a Christian, what struck me most in the vignettes is the prevalence of the principalities and powers active amid the grinding poverty. In Berat on the Egyptian Nile, for example, as many as three-quarters of the children die in infancy or childhood. Mothers buy amulets from the village sorceress to ward off trachoma and other endemic diseases. Berat has a strong tradition of male domination and violence. To preserve the family honor a father held his unmarried pregnant daughter's head under the water at the village well until she drowned. While not highlighted by Easterly, many of his stories pose a strong case for transformational development (see Myers (1999), particularly chapters three and five).

In the second part of the book Easterly has the affrontery to test empirically the performance of the major economic growth panaceas typically applied to developing countries. The results are not pretty. For example, the Harrod-Domar (Lewis, Rostow, Chenery, Stout) hypothesis that GDP growth is proportional to the share of investment spending in GDP does not fare well. For decades these models encouraged billions of dollars of aid and low interest loans to fill the gap between required investment and a developing country's savings. Easterly's analysis finds no statistically significant relationship between aid and investment, nor between investment and growth. The causal force is not investment, but technology; and often the personal incentives do not exist for technology to be adopted (e.g., secure property rights, patents). Personal incentives in most developing countries tend to direct aid toward spending on consumption goods, not investment. Domestic savings is not encouraged by aid because a country with lower savings has a higher financing gap and so gets more aid.

Capital is not the panacea. From 1960 through 1985 Nigeria and Hong Kong increased their capital stock per worker 250 percent. Over the same time period output per worker rose 12 percent in Nigeria and 328 percent in Hong Kong. Similarly, Easterly finds no correlation between schooling growth and GDP growth (in a country with extensive government intervention the activity with the highest return to education may be lobbying the government for favors). What about birth control? There is no significant inverse relationship between population growth and GDP growth, and no association between slowing population growth and raising per capita output growth. Development is the best contraceptive.

Careful examination shows that structural adjustment policies have not created the right incentives for either borrowers or lenders to generate economic growth. Easterly finds that adjustment policies are followed as "often as the Ten Commandments." Since official lenders care about the poor, recipients have little incentive to reduce poverty. In fact as income begins to rise a country receives less aid rather than more. Similarly, debt relief goes to those highly indebted poor countries (HIPCs) whose irresponsible government policies overvalue currencies, continue to mismanage funds and generally disregard the poor. Over almost a decade debt forgiveness to HIPCs was $33B and new borrowing was $41B from the very organizations that provided the debt relief (e.g., the World Bank). Per capita income of the typical HIPC declined over the same time period. Not an encouraging result for Jubilee 2000 proponents.

Where then should policy focus? Easterly argues for personal incentives that facilitate the creative destruction process (Shumpeter), encourage the adoption of new technology and knowledge spillovers, and allow investors to retain the returns on their risk. The power of vested interest groups should be curbed (the Luddites). Too often governments in developing countries curb the personal incentives for growth through “high inflation, high black market premiums, high budget deficits, strongly negative real interest rates, restrictions on free trade, excessive red tape, and inadequate public services.” Corruption, particularly when decentralized among multi-ethnic groups, significantly increases the costs and risks of doing business. Prosperity is denied to countries where the powerful elite keep particular ethnic groups poor and uneducated. Straighten out the personal incentives for investment and innovation and macroeconomic growth will follow.

Does Easterly have a point? Has he struck a chord? All one has to do is to read the World Bank’s *World Development Report 2005* to see how significantly Easterly has changed the conceptual framework of those concerned with the economic growth of developing countries. The World Bank may no longer want to employ Easterly, but they certainly are listening to him. As for me, hopefully there will be a second edition of my book where I can set matters right!

References

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