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BOOK REVIEWS

***The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics.* By William Easterly.** Cambridge, MA: The MIT Press, 2001. Pp. xiii + 342.

This is an important, controversial, unusual, and accessible book. It has already received a lot of public attention, and it is destined to be an influential and enduring contribution to the development economics literature.

The book is important because there is arguably no topic more critical than understanding why so many of the world's poor remain poor, and why a fortunate few countries have "grown out of poverty" in the post-war period. William Easterly has worked for many years in the world's pre-eminent international development agency (like it or not, that is what the World Bank is). He has been one of the leading intellectual thinkers in the bank, and has published widely in the top economic journals.

The book is controversial because it has hit the headlines, with major write-ups in the world's most influential newspapers, including the *New York Times* and the *International Herald Tribune*. It is written by a World Bank insider who is critical of donors' development efforts, moreover coming at a time when the bank itself is in a state of flux bordering at times on turmoil.

The volume is accessible because it exhibits an all-too-rare capacity among economists to write with a wider audience in mind. The author demonstrates an uncanny knack in distilling complex theory and analytics for a general audience.

Finally, it is unusual for features noted below, especially its structure and writing style.

If the book has two key messages, they are that "people respond to incentives" and that "growth is good for the poor". These might appear awfully obvious to mainstream economists and to the general community in well-managed, fast-growing economies. But it is surprising how widely these messages have been ignored by governments in poor countries and by international development agencies.

The book consists of fourteen chapters, all but the last followed by an "Intermezzo", and is organized into four sections. The first and last chapters and these Intermezzi portray the human dimensions of poverty in the Third World. The two substantive sections look at "Panaceas that Failed" and "People Respond to Incentives". The "panaceas" refer to theories and recipes for rapid growth, which in the author's view, have failed to live up to expectations.

The first substantial chapter looks at the disappointing record of international development assistance. In aggregate, it is very difficult to discern a statistical relationship which demonstrates that aid has made a difference. Then Easterly switches to the micro, looking at Ghana, a country full of hope on the threshold of independence (and often likened to Malaysia), but whose per capita income is now little different from that of 1950. The author also attacks the "financing gap" literature, which became popular with the Harrod-Domar growth models, and later with the work of Rostow in the 1960s. This "gaps" literature had largely dropped out of academic discourse by 1980, but we are told here that it lived on in international agencies, and was employed to justify aid programmes.

While the author's story in these two chapters is a largely negative one, it needs to be emphasized that in countries with sound economic policies — that is, much of Southeast Asia until recently — well-run aid programmes can make a difference. Perhaps more could have been made of this point.

Continuing this demolition of an "inputs" approach to growth, Easterly revisits "Solow's Surprise: investment is not the key to growth". The proposition that investment alone is no guarantee of growth is, of course, widely accepted in the academic literature, but it, too, has apparently not percolated through some international financial institutions. There is also a useful, sceptical discussion in this chapter of the total factor productivity (TFP) literature, including a recounting of the astounding Young-Krugman allegation that Singapore recorded zero TFP growth for its first twenty years or so of independence. As Easterly aptly reminds us, the principal problem in separating out the contributions to growth of capital and technology is that the two variables are interrelated. That is, capital accumulation is both induced by, and facilitates, technology progress.

The next "panacea" under the spotlight is education. This has always been a high priority in development thinking, in furthering both equity and efficiency goals. However, Easterly argues that the empirical evidence supporting the view that education *on its own* is growth-promoting is rather weak. Since 1980, there has been an explosion in educational achievement in the Third World. In Asia, it has translated into higher growth, whereas in Africa, by and large, it has not. There are, moreover, plenty of outliers, of good education but indifferent economic performance (in East Asia, the Philippines is the major standout), and the reverse. Hence the author concludes that "education is another magic formula that has failed to live up to expectations" (p. 78).

On population policy, the author supports the generally accepted view, admittedly still controversial in some quarters, that "development is the best contraceptive". That is, he challenges the notion that controlling population growth is an essential prerequisite for successful development. Alarmist and Malthusian views have been greatly overstated, and in the empirical cross-country research on the determinants of growth, population growth practically never appears as a significant determinant (see p. 90ff.). Moreover, population growth is slowing almost everywhere. This is not to say, however, that sensible, low-key family planning programmes — as in Soeharto's Indonesia — are not worthy of support.

Is conditionality in development programmes feasible, and does it work? Easterly points to some successes in Chapter 6, but the more common outcome is failure. There is a depressingly large number of countries which have continued to receive large aid flows in spite of fundamental policy flaws. Tables 6.1 and 6.2, for example, document two such flaws co-existing with large flows: very large black market premia for foreign exchange and severely negative real interest rates (the majority of offending recipients is in Africa; no East Asian country makes it onto the list). We thus have the "revolving door" syndrome, in which yesterday's mistakes (and often key actors, on both sides of the fence) are covered up, and then often repeated. Ironically and regrettably, more attention is being paid to this issue just as real aid flows are declining. As an aside, the author argues that if conditionality is to be introduced into aid programmes, past performance should be given a higher weight over future promises. More controversial is the argument that developing countries should be induced to, in effect, enter an "aid contest" by bidding for aid flows, presumably on the basis of their historical record and ironclad future commitments.

On the related and now very topical issue of debt forgiveness, the author expresses scepticism, while recognizing the case for it in certain circumstances, especially where there is reasonable assurance of a durable improvement in the policy framework. In the popular literature, anybody seen to be opposing such an initiative appears awfully niggardly. Yet, Easterly correctly points to the obvious moral hazard problems — countries will be tempted to bet on a likely forgiveness deal, and therefore behave more recklessly than would otherwise be the case. The moral hazard problems extend to some staff in international agencies, he alleges, since it can be a convenient means of covering up past mistakes. It is also important to understand how the debts were accumulated in the first place, and whether history will repeat itself. Finally, debt forgiveness does not offer much by way of reward to those prudent developing nations, mostly in East Asia, who have borrowed carefully and repaid promptly.

Switching to the broad theme of incentives in Section III, the focus is less on what has not worked and more on what is needed for development success.

In tales of increasing returns (Chapter 8), the author draws attention to how technology and know-how can diffuse quickly across international boundaries in the right environment. This illustration draws heavily on the well-known example of the Bangladesh garments industry, though many other case studies could also have been used. On page 155, the author hints at, but does not develop, a case of industry policy and selective intervention. A short chapter follows on "Creative Destruction: The Power of Technology". The latter contains some useful snippets of information (including a memorable 1940s quote from the chairman of IBM that "there is a world market for maybe five computers"!), though it doesn't pretend to offer a comprehensive survey of the issues.

A chapter entitled "Under an Evil Star" contains a number of amusing and insightful observations. The author reminds us of the capacity of eminent economists to get things spectacularly wrong in the realm of forecasting. The famous are not spared in this exercise. There is Gunnar Myrdal's observation about Singapore's potentially explosive problems (as Easterly notes, the most "explosive" feature of Singapore since the mid-1960s has been its growth rate!). Chenery and Strout in the early 1960s expected India to grow faster than Korea for the period 1962–76 (in fact Korea grew more than three times faster). A book extolling the great success of economic development in the Ivory Coast (based on a pet theory about low statutory taxes) was released just as its economic fortunes went into a tailspin, with per capita income declining by 50 per cent in a little over a decade. In a thoughtful gesture, those of us who work on Southeast Asia and did not see the 1997–98 economic crisis coming — that is, practically the entire academic and business communities — are spared!

More generally, this chapter makes the important point that luck, good or ill, plays a larger role in countries' economic fortunes than is generally acknowledged. Economists' pet theories, even when they are broadly correct, can only explain so much. Easterly also correctly cautions us against short-term perspectives and assessments. Growth is a long-term process, and getting out of poverty requires decades — not years — of solid economic performance. There is also a short, pointed discussion of the vulnerability of poor people, of how close they live to disaster, and how this affects their behaviour.

Chapter 11 contains a litany of disasters under the title "Governments Can Kill Growth". The usual suspects are all cogently and persuasively presented, including large fiscal deficits, misaligned (black market) exchange rates, negative real interest rates, inward-looking trade strategies, and punitive tax regimes. A related chapter looks at corruption and growth, confirming the now general view that there is a mixed but mostly negative association between the two. Also, included is a useful discussion of the various shades of corruption, and policy and institutional reforms to tackle the problem.

In "Polarized Peoples", Easterly castigates economists who "leave out politics". Returning to the tragedy of Ghana, for example, he refers to one piece of high-quality economic analysis which does not contain a clue alluding to the fact that the country "was run by corrupt military bosses and its politics were torn apart by ethnic divisions. Nowhere do we find a clue that trade restrictions … were pretexts for thievery through the buying and selling of import licenses, licenses that were sometimes awarded to the girlfriends of the military strongmen" (p. 257). Without a more sophisticated political economy understanding of countries, the author argues, development agencies and academic economists alike are unlikely to make much progress.

In addition, the politics is likely to be especially poisonous when it relates to issues of inter-regional (or ethnic) inequality. More generally, as the author argues, inequality is almost invariably inimical to rapid economic development, for a variety of reasons. Here, too, we have one of the reasons for East Asia's rapid economic growth: the benefits of growth have generally been reasonably evenly distributed.

This is not a development textbook. The author does not lay out a detailed set of principles and practices of the "how to do it" variety. I suspect that he would anyway be sceptical of such an exercise. So, although the book will be widely read, one would hesitate to recommend it as a text for a development economics course. Rather, it is likely to be very useful as significant supplementary reading, introducing a healthy dose of agnosticism into such a course, and to the academic world of elegant theorizing.

It is not unfair to say that the author is better at saying what not to do than what to do. Indeed, his cautionary tales are sometimes devastating. Perhaps this focus is understandable. Sensible development policy is not exactly rocket science. There needs to be prudent macroeconomic policy, domestic prices should be more or less in line with those in international markets, social policies need to ensure that the benefits from economic growth are widely distributed, there needs to be a functioning financial sector, priority needs to be given to physical infrastructure, and investors need to basically trust the commercial and legal architecture. The greater the deviation from these fundamental tenets, the less likely is development successful. Economists tend to be especially interested in great successes or real disasters. Sitting inside the World Bank and witnessing first-hand many disastrous projects, it is perhaps understandable that the author has focused more on the negative than the positive. Yet one cannot help wondering sometimes whether, to the extent that the book is designed as a development text, it might have been useful to reweight the emphasis, drawing in particular on the success stories in East Asia.

The volume is very U.S.-oriented in its literature citation. For example, in the extensive 20-page bibliography, I could detect only a couple of references to the work of scholars in East and Southeast Asia (and similarly for other developing regions). Perhaps this is inevitable: the United States is where most of the action is. But it is a bit of a pity that there is not more reference to scholarship from the "periphery".

It should be noted that there is not much material on Southeast Asia: Singapore receives an occasional pat on the back, as do Malaysia and Thailand. This minimal attention should be interpreted positively, since the author focuses primarily on the problem cases. The economic crisis of 1997–98 also receives little attention, as do the technical macroeconomic and finance issues which partly underpinned it.

Finally, one cannot help but comment on the author's unusual writing style. In much of the book, he has deliberately written for a general audience, at the level of comprehension of, say, the *Wall Street Journal*. It is analytically rigorous but eschews mathematics. There are relatively few tables and figures. There is an Intermezzo after each chapter, asides which attempt to portray the everyday life of poor people in poor countries. Easterly refers to the fact that "we economists trek the tropics trying to make poor countries rich"; how he drank a "fly-infested lassi" in Pakistan, but declined an invitation to eat because he didn't want to consume the poor's already meagre food supplies. It's all a matter of taste, literally and figuratively!

All in all, this is an important, passionate, and readable volume which deserves to be widely read.

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