The Elusive Quest for Growth

by Augusto Lopez-Claros
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I have just finished reading a most extraordinary book: *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*, first published by the MIT Press in 2001 and recently issued in a paperback edition. The author, William Easterly, is a well-known economist among development experts, someone who, while at the World Bank for many years, wrestled with some of the most fundamental questions facing the economics profession, bringing to his writings through the years a combination of sharp analytical insight, deep familiarity with the relevant empirical data and, unusual for economists, a much welcomed sense of humour. I first met Mr. Easterly in 1995, when he visited me at the IMF office in Moscow. Having been obsessed over the years with the question of why some countries are rich and prosperous and others remain stuck in poverty and disease, it was perhaps inevitable that his attention would turn to Russia, then in the middle of one of the most protracted contractions of output in 20th century economic history. We talked at length. Sensing that his was a mind unwilling to be constrained by traditional mental categories or theories, we ended up talking about such things as the role of corruption in the development process, with me providing him with a number of interesting examples drawn from the Russian experience—such as the impact on the Russian budget of tax exemptions granted to "special" organizations, such as the notorious National Sports Foundation.

I last saw Bill Easterly (as he is better known) about a year ago in Moscow; we were both attending a meeting organized by Yegor T. Gaidar in his capacity as director of the Institute for the Economy in Transition. I was presenting a paper titled "Reforming the IMF" and Bill Easterly came to my defense during a lively session chaired by Yevgenii Yasin. Easterly understands very well the prominent role the international financial organizations have played during the last half century in promoting economic growth in the developing world and he expressed strong support (I am happy to say) for the core ideas in my paper. He cares enormously about what he calls the "elusive quest", that is, finding out the means by which "poor countries in the tropics could become rich like the rich countries in Europe and North America." He writes: "we care about economic growth for the poor nations because it makes the lives of poor people better; economic growth frees the poor from hunger and disease." Like Nobel-laureate Amartya Sen before him, Easterly sees poverty robbing people of the freedom to satisfy hunger, to achieve adequate levels of nutrition, to acquire remedies for treatable illnesses, to enjoy clean water, to be adequately clothed and so on. He sees poverty not merely as being characterized by low levels of income, but more broadly as involving the deprivation of basic capabilities that would allow the poor to more actively participate in the economy and the life of the nation. Tyranny, intolerance, the absence of economic opportunities, the misplaced spending priorities of governments which lead them to neglect the role of public services, and what Sen called the "over-activity of repressive states" represent all, in some form or other, barriers to successful development.

The main virtue of Easterly's book in my view is its brutal honesty. His willingness to examine the many panaceas pursued over the years by economists, particularly those "practicing economists" working for the main international development agencies. The list of fashionable ideas is long, but the objective results achieved on the ground have been distressingly disappointing. Fifty years after the first forays by development experts into sub-Saharan Africa, the continent remains mired in poverty and disease. Indeed, for many of the countries in the region income per capita in the late 1990s was actually *lower* than in the early 1960s, around the time they achieved political independence. A typical example is provided by Ghana which in 1964 had an annual per capita income of some $700, actually higher than that of South Korea. By the mid-1990s, South Korea's income per capita was 30 times larger than Ghana, whose own income per capita had actually fallen!

The targets pursued over the years have changed: in the early days it was thought that foreign aid should go to boost developing countries' investment in machines (capital investment). When this did not work the emphasis changed to fostering education. With no palpable results—in terms of growth—after more than a decade of significant gains in levels of primary education in the developing world, the new mantra became the control of population growth. This, in turn, gave way to giving loans to poor countries conditional on reforms and when this failed, to giving debt relief conditional on reforms. "None has delivered as promised" is Easterly's convincing judgement, expressed less as an opinion and more as undeniable fact, supported by the empirical evidence. Easterly identifies 12 countries which received 15 or more World Bank and IMF loans each from 1980 to 1994 and for which the median per capita growth was zero. Indeed, the only thing that seems to have changed was these countries' level of indebtedness to these organizations. Sound familiar? The provision of nearly $22 billion of IMF loans to Russia during 1992-98 coincided with a pronounced deterioration in living conditions for the Russian population. While some of this deterioration was inevitable, reflecting the gradual elimination of distortions and rigidities inherited from the Soviet era, it also reflected massive failures in economic policy and governance.

Easterly thinks that one key factor behind the disappointing results of development programs has been the failure of donor governments and development organizations to internalize the important economic principle that "people respond to incentives." Russia provides an interesting application of the failure to apply this principle. Sometime in the mid-1990s donor governments decided that it was imperative to support president Yeltsin's version of democracy and the introduction of a market economy. The Russian authorities quickly realized that the origin of these funds was strategic in nature, reflecting mainly the political interests of the donor countries and only secondarily the need to continue to promote economic reforms in Russia. They therefore calculated that there was no need to actually implement the reforms called for by the agencies through which these funds were being channelled, mainly the IMF. They were thus acting quite rationally: why do painful reforms if the money will come anyway? For their part, according to Easterly, donor organizations like the IMF have built in incentives for their staff to disburse large loans. Large loan disbursements are a source of prestige and good for the career advancement of the teams concerned "so the people in the country departments feel the incentive to disburse even when loan conditions are not met." Again: sounds familiar does it not?

Some of Easterly's best chapters are reserved for the treatment of "unorthodox" issues, such as the destructive role of corruption for economic growth. Easterly would argue that the exercise of political power must be guided by the need to improve the standard of living and well-being of the population. Adequate safeguards must be introduced to prevent the emergence of situations where ruling elites use power for personal gain rather than public benefit. Recent trends toward democracy and political pluralism should facilitate this task which, at a minimum, involves the periodic legitimization of governments through popular choice, making them thus more responsive to the needs of society. The issue of accountability is closely linked to that of participatory development. Unless people feel that they have a say on whom they are ruled by, they cannot be expected to fully support the government's development strategies and policies. Without such public support, even well-designed plans will in the end amount to very little.

Much is at stake here. Sen, the world's foremost authority on famines, has observed that "no famine has ever taken place in the history of the world in a functioning democracy, be it economically rich or relatively poor." They have occurred, however, in ancient kingdoms and contemporary authoritarian societies, in modern technocratic dictatorships and "colonial economies run by imperialists." Democracy and the greater political freedoms that it brings—including public discussion in an environment of freedom of expression—help foster an environment in which early preventive actions can be taken to avoid the emergence of those circumstances which make famine possible. More generally, Sen convincingly argues that those countries in which governments operate in an environment of political legitimacy tend to be much better at allowing the formation of vital understandings and beliefs among the population that directly impinge upon aspects of the development process; for instance, the notion that female education, employment and ownership rights exert powerful influences on women's ability to control her environment and improve her condition.

The potential benefits of an approach to development that seeks to incurporate the above mutually reinforcing elements should not be underestimated. To take an example: in an environment of accountability and political legitimacy, people will be far more likely to become active participants in the economy. A broadly shared sense of entitlement to economic transactions will then become an engine of economic growth. A growing economy will boost private incomes and enable the state to collect taxes out of which it will be able to finance expenditures, including in vitally important social areas, such as education. Higher levels of spending on education and health care have been shown to be associated with reductions in infant mortality and a fall in birth rates. Female literacy and improved schooling change women's fertility behaviour and end up having widespread implications for the environment, the pressures on which are often linked to rapid population growth. Conversely, it is possible to interpret the heartbreakingly disappointing fruits of economic development during the last half a century in terms of the absence of the above building blocks.

Easterly has written a book that is likely to occupy a privileged place in the literature on economic development. It should be required reading not only for students in universities and intelligent observers of the contemporary scene but, more than anyone else, government bureaucrats and officials in countries such as Russia, the bitter fruits of whose efforts long-suffering populations are required to endure.

New Times is the English edition of the Russian newsweekly magazine *Novoe Vremya*.
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