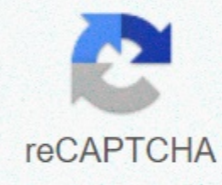




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William easterly the elusive quest for growth

Why economists' attempts to help poor countries improve their economic well-being have failed. Since the end of World War II, economists have been trying to figure out how poor countries in the tropics can achieve living standards approaching countries in Europe and North America. Attempts at remedies have included providing foreign aid, investing in machinery, promoting education, controlling population growth, and making aid loans as well as forgiving these loans on the condition of reforms. None of these solutions have delivered as promised. The problem is not the failure of economics, argues William Easterly, but the failure to apply economic principles to practical political work. In this book, Easter 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. Easter 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. 2001 book by William Easterly The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics AuthorWilliam EasterlyLanguageEnglishSubjectDevelopment EconomicsPublisherMIT PressPublication dateJul 1, 2001Pages400ISBN978-0-262-05065-4 The Elusive Quest For Growth: Economists' Adventures and Misadventures in the Tropics is a 2001 book by World Bank development economist William Easterly. At its publication, the book received recognition from such figures as Bruce Bartlett, Robert Solow and Paul Romer, and has since been widely quoted in the literature on economic development. Easter's main task is that the many measures to remedy extreme poverty in the Third World have failed because they have neglected individuals, businesses, governments and donors to respond to incentives. Thus, he argues that the failure of economic development in poor tropical countries is not the failure of the economy, but the failure to apply economic principles to practical political work. Inspired by the moral imperative to improve the lives of the poor, his recommendation is not to abandon the quest, but to improve the institutions of governments and international actors to create incentives that promote growth. [1] Panaceas that failed The first part of the book is dedicated to the various efforts after World War II to promote economic growth among poor tropical nations. Early efforts to promote investment and capital accumulation were based on the Harrod-Domar model, the Lewis model and Rostow's growth stages, which suggested that GDP growth would always be proportional to the share of investment in GDP, and that capital accumulation was factor for growth. These models justified large amounts of assistance from Western governments and intergovernmental organizations, to fill the financial gap between domestic savings and necessary investments. However, Easter shows that most of the assistance did not go into investments in the years 1965-1995, and finds no statistical correlation between investment and growth. As Robert Solow discovered in the late 1950s, it is not only investments in machines, but investments in ever-improving machines – technological progress – that improve worker productivity in the long run. Easter also discusses the failure of states to use education, family planning and debt forgiveness as a means of growing out of poverty. He points out that there is little incentive for a student in a poor country to value and invest in their own education if there is no future return for that investment. In more corrupt countries, they choose highly skilled to apply themselves to lobbying against the government and other activities that redistribute income rather than activities that create new value. In order for education to return on investment, society must have well-functioning institutions and markets that promote a requirement for skilled individuals. Easter also highlights the problematic nature of structural adjustment loan programs – assistance provided under certain conditions – which became very popular in the 1980s. Instead of initiating true economic reform, states simply pretended to adjust their policies. Because deficiencies would elicit increased loans and donors showed little interest in revoking aid, there was little incentive for states to improve their policies. Debt forgiveness regimes produced the same moral danger, as authoritarian governments considered forgiveness a free pass to continue stealing from the future of their people. Easter suggests that aid should be linked to past achievements rather than promises from political leaders, and that aid should increase with further improvement (similar to the incentive structure of the earned income tax credit). [2] People react to incentives The second part of the book outlines how the poor often see incentives to invest in their future. Bad luck, poverty traps and corrupt governments plague individual efforts to overcome poverty. Easterly argues that getting incentives right is not in itself another new panacea for development. It is a principle that must be implemented piece by piece, and remove the encrusted layers of vested interests with the wrong incentives, giving access to new people with the right incentives. [3] Easter writes that it is very difficult for poor people to break free from the poverty trap due to knowledge leaks and knowledge matching. Knowledge brings external benefits to a society (in that an idea is worth more to a society the more knowledge exists in it and it is worth when matched with others with similar expertise. This is an example of agglomeration benefits. When a society is full of knowledge and there are different disciplines, individuals have more incentive to invest in education. But if society is bereft of knowledge, individuals face little incentive to invest, or if they do, will likely leave the economy in a brain drain. According to Easter, governments can help overcome poverty traps by subsidizing investments in new knowledge, reducing taxes on capital goods and technology, and actively seeking private investment. According to Easter, the prime suspect in destroying incentives is the government. [4] High inflation, negative interest rates, black market premiums, high government budget deficits, restrictions on free trade, poor public services, corruption and arbitrary enforcement of property rights lower the return on private investment and create poor incentives for growth. However, good government can promote broad and deep growth when it holds itself accountable and energetically takes up the task of investing in collective goods such as health, education and the rule of law. Transparent institutions that promote these and other economic freedoms ultimately promote a productive society. [5] Critical Response Reviews of The Elusive Quest for Growth appeared in the Journal of Economic Literature.[6] The Economist, Journal of International Affairs, Review of Radical Political Economics and Development Policy Review. The Economist called it a refreshing, iconoclastic book that would leave its readers chastened, instructed and entertained. [7] One criticism emphasized that while incentives are tautologically critical to development, economists are far from agreeing on how major policies, such as liberalization of capital flows and liberalization of labor markets, affect incentives. [8] In the years following the release of Elusive Quest for Growth, Easterly became embroiled in a public debate with rival development economist Jeffrey Sachs about the role of foreign aid. [9] According to Abhijit Banerjee and Esther Duflo, Easterly has become one of the most influential anti-aid public figures, following the publication of two books, The Elusive Quest for Growth and The White Man's Burden. [10] References ^ Easterly, William. 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Retrieved 5 September 2010. ^ Banerjee, Abhijit and Esther Duflo, Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty, Public Affairs, New York, 2011, p.3 Extracted from A highly readable and iconoclastic treatment of the determinants of economic growth. Richard N. CooperForeign Affairs William Easterly knows his way not only around economics, but also around developing countries. He has written a hard-nosed book on the hardest problem of all: how to get the poorest countries on a path of sustained growth. Robert M. SolowInstitute Professor of Economics, Emeritus, MIT and Nobel Laureate in Economics Mouseover for Online Attention Data Why economists' attempts to help poor countries improve their economic well-being have failed. Since the end of World War II, economists have been trying to figure out how poor countries in the tropics can achieve living standards approaching countries in Europe and North America. Attempts at remedies have included providing foreign aid, investing in machinery, promoting education, controlling population growth, and making aid loans as well as forgiving these loans on the condition of reforms. None of these solutions have delivered as promised. The problem is not the failure of economics, argues William Easterly, but the failure to apply economic principles to practical political work. In this book, Easter 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. Easter 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. Out of pressure ISBN: 9780262050654 360 s. | 6 in x 9 in 4 illus. June 2001 \$36.95 T ISBN: 9780262550420 360 pp. | 6 in x 9 in 4 illus. August 2002 William Easterly is the author of The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics (MIT Press, 2001) and The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good. He is a professor of economics at New York University (Joint with Africa House), codirector of NYU's Development Research Institute, visiting fellow at the Brookings Institution, and Nonresident Fellow at the Center for Global Development in Washington, DC. A highly readable and iconoclastic of the determinants of economic growth. Richard N. CooperForeign Affairs It is impossible to convey the depth and scope of The Elusive Quest for Growth.Bruce BartlettThe Wall Street Journal William Easterly knows his way not only around economics, but also around the developing world. He has written a hard-nosed book on the hardest problem of all: how to get the poorest countries on a path of sustained growth. Robert M. SolowInstitute Professor of Economics, Emeritus, MIT and Nobel Laureate in Economics This is a brilliant, original work. It's simply the best book I know about economic development. The East writes with clarity, honesty and humor. And he is brave in his analysis of what went wrong with development policy followed by the World Bank.Sergio RebeloTokai Bank Distinguished Professor of International Finance, Kellogg Graduate School of Management, Northwestern University Every student who protests against free trade and every young economist who builds models for development should read this extraordinary book. Easter presents both the power of simple economic models of the development process and the painfully disappointing overview of official development aid. He writes beautifully and cares deeply about his subject. Paul RomerGraduate School of Business, Stanford University Curing emerging market poverty is on everyone's list of priorities along with peace on earth. But the success has been bleak. This powerful book can help cure the ignorance of people with clapping answers, do-gooders, the Seattle-Prague crowd and economists who have neglected to keep up with the evidence. Far from dry, the book takes you to the stage, gives you the local color, and challenges you to admit that many of your prejudices are just that - but in the process doesn't throw finances overboard. Brilliant! Rudi DornbuschFord Professor of Economics and International Management, MIT MIT