

Book Reviews

William Easterly, *The White Man's Burden: Why the West's Efforts To Aid The Rest Have Done So Much Ill and So Little Good*, New York: Penguin, 2006. ISBN: 1594200378; pp.436.

Economics as a profession tends to rally around certain fundamental questions. Since the late 1980s the major puzzle has been why some nations are rich and others poor. In his essay 'Making a Miracle' published in *Econometrica* in 1993, Robert Lucas summed this up nicely by stating that:

Is there some action a government of India could take that would lead the Indian economy to grow like Indonesia's or Egypt's? If so, what, exactly? If not, what is it about the 'nature of India' that makes it so? The consequences for human welfare involved in questions like these are simply staggering: Once one starts to think about them, it is hard to think about anything else.

Indeed it is hard to think about anything else — \$2.3 trillion has been spent on foreign assistance since the Second World War, yet more than a billion people still live under conditions of extreme poverty (less than \$2 per day). How can it be that the well-intentioned efforts of the rich nations to address the problem of extreme poverty in the developing world accomplished so little in reaching that goal? This is the question at the centre of this book.

William Easterly burst into the public policy conscience in the West with his blistering indictment of foreign assistance programmes in *The Elusive Quest for Growth* (1999). Unlike PT Bauer before him (the leading critic of foreign assistance programmes in the post-Second World War period), Easterly was not an outsider to the international aid agency community. He was, at the time, a senior researcher at the World Bank. With the straightforward message that incentives matter, Easterly demonstrated the counter-productive nature of foreign assistance programmes through the period of 1945-1990s in Africa, Asia, Latin America, and East and Central Europe. Foreign aid does not result in increases in real productivity.

Instead, more often than not, it provides perverse incentives, which lead to 'white elephant' development projects, misallocations of capital and labour, and prop up ineffective and often corrupt political regimes.

In *The White Man's Burden*, Easterly takes the argument further, and in a new and interesting direction. Achieving improvements in real productivity requires not only incentive alignment, but also the acquisition and use of relevant information. While it is true that incentives matter, it is also the case that in order to act on those incentives, information is necessary.

Critical informational feedback loops must be employed so that economic actors learn and adjust their behaviour to realise the gains from trade. Development planning models traditionally presupposed that the relevant information was already in the hands of the government officials designing the path to prosperity. Easterly challenges that assumption.

The central analytical argument of *White Man's Burden* is that we must distinguish between planners and searchers, on the one hand, and top-down and bottom-up approaches to development on the other. Planners take the top-down approach, while searchers use the bottom-up approach. Easterly provides case after case in which the grand plans of the planners have gone astray and had unintended and undesirable consequences throughout the developing world, while the searchers (despite the sometimes horrendous obstacles they must face) have discovered amazing new opportunities for wealth creation, and thus have generated unintended, though desirable, social consequences. By using the local knowledge of economic actors and aligning incentives to the local context, bottom-up approaches out-compete the best top-down plans by the experts in the countries themselves and certainly out-perform the best laid plans of foreign experts in the international agencies in Washington DC.

This is a powerful book and it is perfectly timed to address the ambitious claims of those who, like Jeffrey Sachs, are proposing grand schemes to end world poverty. Easterly divides his analysis into five sections: 'Why Planners Cannot Bring Prosperity'; 'Acting Out the Burden'; 'The White Man's Army'; and 'The Future'. Each section comprises two or three chapters that provide a variety of examples taken from the developing world, including several nations in Africa, and each reiterates the basic point that searchers and the bottom-up approach provide the path to prosperity, whereas planners and the top-down approach, more often than not, generate perverse

incentives, gross inefficiency, and gangster politics. In fact, Chapter 4 is entitled 'Planners and Gangsters', while Chapter 5 is entitled, rather succinctly, 'The Rich have Markets, the Poor have Bureaucrats'. Easterly is a masterful writer, so his cases are vivid depictions of the problem under investigation. Consider the following:

- *To explain why you cannot plan a market.* 'So the West cannot design a comprehensive reform for a poor country that creates benevolent laws and good institutions to make markets work? We have seen that the rules that make markets work reflect a complex bottom-up search for social norms, networks of relationships, and formal laws and institutions that have the most payoff. To make things worse, these norms, networks and institutions change in response to changed circumstances and their own past history. Political philosophers such as Burke, Popper, and Hayek had the key insight that this social interplay was so complex that a top-down reform that tried to change all the rules at once could make things worse rather than better.' (p.100)
- *To explain why planners and gangsters become aligned.* 'Right now, foreign aid is caught in a nightmarish in-between world in which donors (1) take up much of the time of the government with attempts to impose 'good behaviour'; (2) insist that the government freely choose to behave; and (3) sometimes bypass government anyway to do the donors' project. ... This chapter's reading of the evidence suggests dropping the obsession with always working through the government. ... Some countries could have sufficiently functional democratic and effective governments so that the aid community could conceivably give the government a blank check. (However, we have seen how difficult it is for outsiders to determine just which governments are in this category.) For the rest, let political leaders and social activists in the West expose and denounce tyranny in the Rest, but don't expect Western governments or aid agencies to change bad governments into good ones. Today's system of foreign aid coddles (and probably worsens) bad government.' (p.157)
- *To explain why bureaucracies contribute to poverty.* 'In his 2005 book, *The End of Poverty*, Jeffrey Sachs called for a doubling of aid in 2006, then nearly doubling it again by 2015. ... The only problem is that aid volume is an input to development, not an

output. It seems strange that bureaucrats and politicians would focus on the input – total aid dollars spent. The Hollywood producers of *Catwoman*, which won an award for being the worst movie of 2004, would not dare to argue with moviegoers that the movie wasn't so bad because they had spent \$100 million on making it. We can understand the emphasis on aid volume only as reflecting the pathology that in aid, the rich people who play for the tickets are not the ones who see the movie.' (p.183)

Easterly writes forcefully that we must return to basics: accountability and incentives; feedback and information. 'Aid won't make poverty history, which Western aid efforts cannot possibly do. Only the self-reliant efforts of poor people and poor societies themselves can end poverty, borrowing ideas and institutions from the West when it suits them to do so.' (pp.382-83) The Planners have had their chances since the Second World War to provide the solution. They have failed miserably.

Easterly does not believe he has the answer: 'The only Big Answer is that there is no Big Answer.' (p.382) Instead, the 'biggest payoff will come from local Searchers who solve their own problems.' (p.383) The only path to prosperity is indigenous and not from foreign assistance programmes. The universal call for action that emerges from Easterly's work is that home grown experimentation, not elaborate plans from afar, is the best bet for poverty alleviation. Some organisations have already taken these lessons to heart. The one I know best at George Mason University is a project called Enterprise Africa! It revolves around a series of case studies that examine indigenous entrepreneurial activity and institutional adaptation to provide bottom-up solutions to poverty alleviation in Botswana, Rwanda, South Africa, Mauritius, and Namibia. Perhaps Easterly's next book will document similar private local initiatives that do work, and this will further support his case against much of the existing aid work that wastes so much, and which is, as he notes, the real tragedy that is so often ignored.

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