

Book reviews

THE WHITE MAN'S BURDEN: WHY THE WEST'S EFFORTS TO AID THE REST HAVE DONE SO MUCH ILL AND SO LITTLE GOOD

William Easterly

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Since World War II billions have been spent on foreign aid by the Western democracies in the attempt to lift the underdeveloped countries of Africa, Asia, Latin America and elsewhere from poverty. Yet over a billion people continue to live in conditions of extreme poverty – according to one estimation by the World Bank one in five subsists on less than \$1 per day in the developing world. Progress has been made since 1990, but those gains can be attributed to general economic growth and not foreign aid programmes.

P. T. Bauer was perhaps the most forceful critique of foreign aid programmes, and the strongest advocate for indigenous development by ground-level entrepreneurs in the developing world. Bauer began his assault on the grand planners of development in the 1950s and never relented throughout his career. He was in this regard a lone-wolf scholar. Professional opinion and public ideology cut against Bauer's judgment that market forces were the best poverty-alleviation policy. Bauer protested but billions in foreign aid continued to be spent. The problem was, as Bauer contended, that the billions in foreign aid produced perverse incentives, and enabled corrupt and oppressive governments to continue with exploitive and inefficient public policies.

For years Bauer was the only economist of note in the field of development economics to continually stress this point about basic economic incentives and the consequences of bad public policy conducted by unresponsive

regimes on the lives of billions. William Easterly's *The Elusive Quest for Growth*, published in 1999, changed that and in the process shifted the debate in development economics considerably in both the academic literature and the public policy discourse. Easterly's message in that book was simple and clear: incentives matter. As my teacher James Buchanan (winner of the Nobel Prize in Economics in 1986) used to say all the time to his classes: 'It takes varied reiterations to force alien concepts upon reluctant minds'. Easterly throughout *The Elusive Quest for Growth* demonstrates again and again how the failure of policy-makers to align incentives between donor countries and recipient countries, and among economic actors within recipient countries, and within bureaucracies within donor countries, results in the failure of foreign aid to be effective. The perversity of incentives explains why Keynesian investment gap theory failed to generate development, why human capital investments didn't work, and also why population control through condom distribution didn't produce the desired results either. In the abstract, more investment, more schooling and prudent decision-making on family size (all of which are positively correlated with economic growth in the Western democracies) are indicators of development. But of course like in all things economic, it depends on the specific context and the incentive structures that exist to channel self-interested behaviour in a manner which either promotes or hinders the division of labour and social co-operation. Too often in the developing world, as Easterly painstakingly demonstrates, the incentive structures due to foreign aid steer individuals into unproductive behaviour and thus the goal of poverty alleviation is not met.

But even if we aligned incentives perfectly there may exist significant problems with 'grand plans' to eradicate poverty. Think about it this way: in addressing the question of 'Doing the right thing' there are two questions which must be answered: (1) why should we do the right thing (a question of incentive alignment and compatibility), and (2) what is the right thing to do (a question of information and learning). Since Easterly's *The Elusive Quest for Growth* was published

several leading economists, private philanthropists, political activists, popular culture icons and political decision-makers have all turned their attention to the plight of the underdeveloped world. Health and human welfare concerns in the developing world, with the treatment of HIV/Aids at the top of the list, but also the low-cost treatment of malaria, have become topics of conversation in Hollywood, Washington DC and Downing Street. Sustainable development with concerns about the environment, questions of human rights and the phenomena of human trafficking in Eastern Europe and Asia, and the debilitating consequences of debt are all debated in classrooms, are the stated purpose behind concerts and warrant front-page coverage in the leading newspapers and periodicals. Bono, the lead singer of U2, has in recent years become as recognisable throughout the world for his tireless campaigning for third-world debt forgiveness as he has been for his jarring performances on stage. Bill Gates is now devoting his massive wealth to addressing the social ills in Africa. Sharon Stone is perhaps more concerned with providing malaria nets to the poor than in her performance in *Basic Instinct 2*.

As for economists, Nobel Prize winner Joseph Stiglitz has turned his attentions to raising concerns about IMF and World Bank policy and the social tensions and discontents (not the promise) that globalisation represents. But without doubt the economist who has ridden this wave the most is Jeffrey Sachs. Sachs has achieved almost rock star status with his globe-trotting efforts to end world poverty in a generation. Unfortunately for Sachs (and perhaps the world) there are these little issues of incentives and information that often makes the best laid plans of men go astray. And it is at this point that we turned to William Easterly again.

Easterly's new book *The White Man's Burden* tackles the ambitious plans of economists throughout the modern age to try to address the question of underdevelopment and why those efforts have gone repeatedly badly. As in *The Elusive Quest for Growth*, Easterly's message is straightforward and he stresses his main point through varied illustrations. The book develops, as I said

before, the argument beyond incentives and stresses that information is necessary as well. He divides the public policy discourse into two camps – the searchers and the planners – and he shows the relevant merits of the searches in eradicating social ills and the futility of planners to achieve their ambitious goals. Evidence in the book is drawn from not only the plight of underdeveloped countries in Africa, but also the efforts to build a market society in East and Central Europe since 1989. In the process the reader learns why you cannot plan a market economy, how it is that planners and gangsters come to be aligned, and why top-down approaches to development generate unintended and undesirable consequences, while bottom-up and indigenous processes of development actually work to raise the standard of living for the least advantaged in any society. Recent success stories, we are told, ‘are countries that did *not* get a lot of foreign aid and did *not* spend a lot of time in IMF programs’ (p. 345). The success is not due to global plans to end poverty, but due to homegrown efforts to align incentives, utilise local information and learn through market experimentation the best way to realise the gains from trade among the people.

Easterly’s main point is certainly consistent with the insights of P. T. Bauer that we started with. The evidence of our failed efforts through foreign aid is humbling, and Easterly does preach a more humble political economy. He doesn’t follow completely the Bauer line of the abolition of foreign aid – Bauer would insist that the most effective policy for poverty alleviation would be trade, not aid. Instead, Easterly calls for Western assistance that is humbled and chastened by the past experience, but can yet play a positive (though limited) role in alleviating world poverty.

In this vein Easterly concludes his book with some ideas about how Western assistance can be more incentive compatible and utilise feedback mechanisms for learning so that progress against extreme poverty in the developing world can indeed be made. This effort on his part is less persuasive than his dissection of the problems with the ambitious global plans for poverty alleviation. But it should also be said that this effort constitutes a very small part of the book, and his position is stated in a way which is more an invitation to study ways in which Western assistance could be more incentive compatible and incorporate local information and critical feedback loops into the process than a claim that he has in fact found the magic formula.

The reader is thus left with a simple and powerful message. The only true path to development is an indigenous one and in finding that path it is better to rely on the searchers than the planners. In stating this so clearly and in a manner that is guided by reason and evidence (as well as a deep compassion for the least advantaged in the world) William Easterly’s book is essential reading for all who are concerned with the issues of poverty throughout the world and what we can do about it.

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HAPPINESS QUANTIFIED: A SATISFACTION CALCULUS APPROACH

**Bernard van Praag and
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At one of the many conferences he contributed to, Milton Friedman – so the metropolitan legend goes – quoted an inscription engraved at the entrance of one of the Social Sciences buildings at the University of Chicago which recites: ‘When you cannot measure something, your knowledge is meager and unsatisfying’. The last three decades or so have witnessed a major scientific effort at extending our measures and notion of well-being, so as to encompass quantitative assessments of subjective information. Examples abound: Amartya Sen’s measure of achievements and capabilities; Social Choice Theory’s effort at axiomatising quantitative expressions of freedom of choice; Bruno Frey’s measure of happiness and satisfaction, and the recent attempts at the boundary between economics, politics and philosophy at giving a quantitative account of personal autonomy.

Happiness Quantified belongs to the subjective well-being measurement tradition. The authors, who are both exponents of the Leyden School that pioneered the economic analysis of subjective testimony, maintain that general satisfaction may be measured as a weighted average of domain satisfaction

(degree of satisfaction over various, relevant domains such as health, working conditions, private life etc., instrumental to the overall assessment) and show how beneficial to our understanding of social phenomena subjective testimony can be. By doing so, the book argues for a ‘roughly cardinal’ measure of happiness, where ‘roughly’ suggests that cardinalisation is achieved within intervals rather than on a continuous space.

The book is ideally organised in two parts. The former, Chapters 2 to 6, sets the methodological framework and argues that ‘we may deal with satisfaction as with other economic variables and that we may use them in econometric analysis in almost the same way as “objective” variables’. The latter illustrates how the methodology is applied to the measurement of satisfaction in a number of domains, ranging from the uncertainties about the future (Chapter 7), to the influence of norms and groups (Chapter 8), to health (Chapter 9), climate (Chapter 10), taxation (Chapter 12) and income inequality (Chapters 13 to 15). Some space (Chapter 11) is also devoted to a policy case – compensation for aircraft noise nuisance – to illustrate how the approach may be used in policy-making.

Adversed by formidable opponents, subjective testimony just started moving economists. Lionel Robbins’s work on interpersonal comparability in the 1930s, Hicks and Allen’s coeval demonstration that the law of demand can be derived without the assumption of cardinal comparability and the consensus on normative matters achieved by the *new welfare economics* after Samuelson and De Graaf have all made economists sceptical about the merits of subjective testimony. Any opinion one takes upon the authors’ effort in this book is then a standing for or against the economic analysis of subjective testimony and the idea that since substantive utility and preferences do not coincide, utility ought to be measured directly. Yet, in the light of recent advancements, the claim within mainstream welfare economics that utility and preference satisfaction coincide seems hardly tenable. Certainly not on philosophical grounds as the door to this avenue has been foreclosed by Amartya Sen’s important work on the foundations of normative analysis in economics and by his convincing rejection of revealed preferences. Nor on the basis of evidence since, as Frey and Stutzer expose, much behaviour in real life does not fit the analytical straitjacket imposed by exclusive concern with preference satisfaction in decision-making.