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Fighting Global Poverty, Three Ways

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Abstract

This article provides a critical assessment of three ambitious books (Sachs's *The End of Poverty*, Bhagwati's *In Defense of Globalization*, and Easterly's *The Elusive Quest for Growth*), each of which seeks to (re)frame debates over poverty, development, growth, globalization, and more. The insights and shortcomings of these three books remind us that the status quo is not working and that a rich understanding of globalization and development requires a serious consideration of alternative visions of each.

JEL classification: O10, F02, I32

Keywords: Sachs; Bhagwati; Easterly; globalization; extreme poverty; development

In 2001, 1.1 billion people—nearly one-fifth of the world's population—lived in “extreme poverty,” that is, on less than a dollar a day. Another 1.5 billion people lived in “moderate poverty,” that is, on cash incomes of between one and two dollars a day (Chen and Ravallion 2004). One might reasonably question the precise meaning of these numbers, but there is no denying that they capture something essential: despite our awesome capacity to produce stuff, billions of people have barely enough, and often too little, to survive. This is a great human tragedy, for sure, and it is also a glaring failure of economic theory and practice. So what has gone wrong? And what is to be done?

The answers to these questions depend, in turn, on a series of basic, if difficult, political-economic questions with which economists have struggled for a long time. What are the causes of growth and stagnation? What are the appropriate roles of the market, the State, and international institutions in promoting shared prosperity? How should we understand the relationship between and among the world's rich and poor countries?

These are among the issues taken up in three ambitious books, which are the focus of this article: Jeffrey Sachs's (2005) *The End of Poverty*, William Easterly's (2002) *The Elusive Quest for Growth*, and Jagdish Bhagwati's (2004) *In Defense of Globalization*.

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Each of these books is a grand (and sometimes grandiose) effort by its author to (re)frame debates over poverty, development, growth, globalization, and more. The results are mixed.

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Jeffrey Sachs has made a career of superstardom, first in academia (he was a full professor at Harvard at age twenty-nine), then in economic rescue missions (he has been a conspicuous and controversial consultant to dozens of nations-in-crisis during the past quarter century), and now as director of Columbia University's Earth Institute and an advocate for the U.N.'s Millennium Development Goals (MDGs). His friends include Bono, Angelina Jolie, George Soros, and Kofi Annan. He has also accumulated a long list of detractors from across the political and theoretical spectra.

The End of Poverty is a spirited effort—part analytical argument, part moral plea—by Sachs to persuade readers that it is both possible and urgently important to reduce the extent of extreme poverty dramatically in the relatively near term. The persistence of extreme poverty, in Sachs's view, is in large part the responsibility of "the West": our economic models have been too narrow, and our governments have been too stingy. The good news, according to Sachs, is that we can get it right with relative ease.

Sachs argues that extreme poverty is a "trap." Because of resource limits, the extremely poor, and their governments on their behalf, are often unable to make the investments necessary to escape this poverty trap. "When people . . . are utterly destitute . . . (t)here is no margin of income above survival that can be invested for the future" (56). But there is hope: "extreme poverty is a trap that can be released through targeted investment . . ." (287), and these targeted investments ought to be financed by substantial increases in economic aid and debt forgiveness. "(E)nding the poverty trap will be much easier than it appears" (289).

Sachs argues that extreme poverty is, as a rule, a consequence of factors beyond the control of the poor and their governments. The specific impediments to prosperity vary from case to case (disease, an ungenerous climate or physical landscape, debt, overpopulation, and political and social unrest, to name just a few), but the implication is clear: extreme poverty is not primarily the consequence of corruption, ill-advised government policies, backward cultural practices, bad choices, or bad incentives. Indeed, much of Sachs's energy is devoted to rebutting the increasingly commonplace view that aid and other extramarket interventions are bound to fail largely because States and international institutions are generally wasteful and often corrupt. "The biggest problem today is not that poorly governed countries get too much help, but that well-governed countries get far too little" (269).¹

The End of Poverty includes a resounding trashing of "(t)he past twenty years of development practice," which in Sachs's view "was based on a simplistic, even simpleminded, view of the challenge of poverty" (81). Sachs does not pull his punches: "today's development economics is like eighteenth century medicine, when doctors used leeches to draw blood from their patients, often killing them in the process" (74). In short, "development economics needs an overhaul" (74).

1. Sachs is also adamant, by the way, that underdevelopment is not the result of "exploitation." "The Colonial era," he reassures us, "is truly over" (50).

“The structural adjustment era” has been a “disaster” because the ruling *junta* of development economics (most notably the International Monetary Fund [IMF], the World Bank, and the U.S. Department of the Treasury) has placed too much faith in the power of markets while failing to acknowledge the essential role of States and other institutional actors in promoting growth (81).

The misguided policies of the IMF and others have failed in part because they prioritize the interests of the powerful (rich country governments, multinational corporations, and financial capital) at the expense of the poor: “creditor governments that controlled the IMF were setting debt policies according to the wishes of major international banks rather than the dictates of good macroeconomic policy and . . . the needs of extremely poor countries” (101).

And so, Sachs argues, reducing extreme poverty requires a fundamental change in approach by “us,” that is, economists and rich country governments. We need to provide more aid and a clearer understanding of the impediments to growth. Sachs provides alternatives on both fronts. He devotes much of the book to elaborating and defending the MDGs, which call for increases in aid—0.7 percent of GDP from each of the world’s richest countries—to reduce extreme poverty, fight disease, fund education, promote gender equality, improve maternal health, ensure environmental sustainability, and (believe it or not) much more (211–12). Sachs also outlines an alternative development economics that he calls “clinical economics.” The “standard tools of economics,” Sachs contends, are too narrow, too abstract, and ultimately inadequate. “Clinical Economics,” Sachs argues, “should train the development practitioner to hone in much more effectively on the key underlying causes of economic distress, and to prescribe remedies that are tailored to each country’s specific conditions” (79).

The End of Poverty is ultimately a mixed bag. Sachs provides a compelling narrative about extreme poverty and a persuasive rebuttal to the resurgent notions that poor countries have themselves to blame and that aid only encourages their bad behavior. On the other hand, *The End of Poverty* is much longer than it needs to be, mainly because Sachs devotes nearly half of the book to chronicling his efforts to save Russia, India, Bolivia, and several other nations-in-crisis. This part of the book offers a few illuminating anecdotes, but on balance it is a distraction from Sachs’s more interesting project. I, for one, find the quest to enrich the world’s poor much more compelling than the quest to manage Jeffrey Sachs’s legacy.

Finally, many of Sachs’s most important arguments—for aid and the MDGs, for example—are less tight than they could be. A reader who is persuaded that aid is wasteful and that corruption provides an insurmountable impediment to aid-led development is not likely to be unpersuaded by this book.

Still, despite its flaws, this is an important book because it is written by Jeffrey Sachs, superstar. When Sachs speaks, people are more likely to listen, and so this book just might help to transform the discussion about development, poverty, and aid.

*

William Easterly, a professor of economics at New York University after a long career at the World Bank, tells a very different story about development and poverty in *The Elusive Quest for Growth*. The problem, as Easterly sees it, is not a shortage of aid; nor is the problem that we (economists) do not know how to promote development. The

problem, rather, is that aid, credit, and other resources have been squandered in predictable ways because the development establishment has too often ignored the “basic principle of economics,” that is, that “people respond to incentives.” The “quest for growth” in “the tropics” has failed not because of a shortage of aid but because of its predictable misallocation.²

We economists have too often peddled formulas that violated the basic principles of economics. The problem was not the failure of economics, but the failure to apply the principles of economics in practical policy work. . . . (W)e need reminding that people do what they are paid to do. If we do the hard work of ensuring that the trinity of First World Aid donors, Third World governments, and ordinary Third World citizens have the right incentives, development will happen. If they don't, it won't. (xii)

The middle section of the book provides a survey and critical assessment of some of the “panaceas that have failed” to promote growth: development aid, IMF lending (with “reform”), debt forgiveness, capital investment, education, and family planning. Why did they fail? Bad incentives! Aid, credit, and debt forgiveness do not encourage saving, investment, or growth; they encourage corruption, rent seeking, and counterproductive government policies. Education provides little payoff for the typical citizen of a poor country; those who manage to get an education are likely to emigrate or apply their skills to rent seeking, which is often “the only profitable activity” (73). People respond to incentives.

This book is at once maddening and enormously interesting. Easterly is a skeptic and a contrarian, and he is prone to provocative overstatement. He is also a smart, creative fellow, and his commentary on development and growth is likely to challenge a reader—regardless of his or her theoretical predisposition—to reassess his or her position on a variety of meaningful issues.

One problem with *The Elusive Quest for Growth* is that it is organized around a rhetorical sleight of hand that, in my view, undermines the book's power. By framing his story as he does, Easterly suggests that the difficult questions he raises, and *his* conclusions, are essentially an elaboration of the “basic principle” that people respond to incentives, rather than an elaboration of his particular understanding of the world. Development economists of virtually every sort agree with Easterly's basic premises, to which he returns over and over (and over): the alleviation of poverty requires growth, and growth requires that we get the incentives “right.” The interesting, important, and terribly difficult questions are these: what are the “right incentives,” and once we figure this out, what does this imply about policy? Does liberalizing capital flows facilitate access to capital, or does it invite capital flight, currency crises, and macroeconomic instability? Do loosely regulated labor markets lead to full employment or chronic bouts of Keynesian unemployment and intolerable inequality? Does fiscal and monetary “discipline” promote long-run growth (by stabilizing prices and encouraging savings and investment), or are investors likely to be repelled by sluggish demand and social unrest? And so on and so on. Those who disagree with Easterly about these and other matters have generally not “forgotten” that “people respond to incentives”; they simply have a different vision of how the economy works.

2. See Easterly (2006) for a detailed presentation of Easterly's critique of development aid.

Easterly's story about development and growth is often terrifically engaging. But his mantra that "people respond to incentives" is a distraction; indeed, it is a virtual tautology. Similarly, Easterly's careful discussion of the impediments to development is undermined by his suggestion that development is, ultimately, quite simple: "if we . . . have the incentives right, development will happen" (xii).

The second half of *The Elusive Quest for Growth* is especially interesting, in part because it makes it clear that "getting the incentives right" is bound to be enormously difficult. Easterly covers a lot of interesting ground in these few chapters, including excellent chapters on the ways in which luck and social conflict might affect the prospects for growth.

Easterly argues that technology is the key determinant of growth, and "technology has some strange features" (146). In particular, technological knowledge exhibits increasing returns (and so the creation of new knowledge is positively correlated with the stock of knowledge), and furthermore, "(t)echnology reaches its potential when highly skilled individuals *match* with each other" (146). This story (which is rooted in the influential work of Paul Romer, Robert Lucas, and others) implies that the returns to knowledge, skill, and capital tend to be higher in places where knowledge, skill, and capital are already abundant (150–51).

The implications of all of this are quite fascinating, and quite discouraging. Markets appear to encourage a clustering of capital, knowledge, and skill. At the other extreme, there is a tendency for poor areas to fall into vicious cycles of cumulative poverty and stagnation: low concentrations of capital, skill, and knowledge tend to be associated with low rates of return to each and thus low rates of investment in each (150–52). A person who lives among people with few skills is less likely to make the sacrifices necessary to accumulate knowledge and skills because the expected payoff is low.

This story is compelling and important per se. But notice that this story suggests an important exception to the idea that is so central to economic theory since Adam Smith, that is, that markets encourage people to act in ways that promote efficiency and growth. In Easterly's words, "the market left to itself will not necessarily create growth. Laissez-faire policy may well leave the economy, or some parts of it, in a vicious cycle" (155). And so, however much some economists (including Easterly) might distrust government and its ability to get the incentives right, in this case (and others) there is apparently no alternative. "Overcoming the bad luck and initial poverty that trap the poor," Easterly concludes, "often requires direct government-created incentives to grow out of poverty. . . . Making sure that growth happens often requires conscious government effort to supply health, education, and infrastructure services" (143).

Although Sachs and Easterly disagree about a number of important issues, they each recognize the importance of "poverty traps" and the need for government intervention to help the poor out of these traps. It is not surprising that Sachs emphasizes "targeted investments," whereas Easterly emphasizes "government-created incentives." Nor is it surprising that, because of his considerable faith in the State, the United Nations, and other extra-market institutions, Sachs's story is much more hopeful than Easterly's, if not necessarily more persuasive.

*

Jagdish Bhagwati's *In Defense of Globalization* is an attempt to make a forceful, accessible case for "globalization." Its most explicit message is quite simple: globalization is almost entirely good, and its critics are quite wrong. Bhagwati argues that globalization is good for workers (in rich and poor countries alike), good for women, good for the poor, good for children, and good for immigrants. Globalization is also good for the environment and democracy, and it provides new cultural opportunities for all. And what is more, many of the most vilified institutional manifestations of globalization—multinational corporations, free trade agreements, and sweatshops, for example—are good. The "beliefs and allegations" of globalization's critics are, on the other hand, "little more than rubbish" (5).

Bhagwati is determined to make a bold case for globalization, and he is equally determined to discredit the "antiglobalization movement" once and for all. And yet Bhagwati's book is full of intriguing qualifications and caveats that belie his declarative conclusions. Globalization *is* good, but it has "downsides." And it turns out, these downsides are, in many cases, precisely that which the protesters are protesting!

A key problem, in my view, is in the way that Bhagwati (and many others) choose to frame the argument—globalization: for or against? "Globalization" is a terribly elusive, vague idea. It can, first off, take many forms: neoliberalism, the Bretton Woods system, and nineteenth-century colonialism could each be described as episodes of "globalization." And furthermore, economic globalization has many dimensions (trade, short- and long-term capital flows, migration, the diffusion of technology and ideas, and economic aid), and each of these may affect national cultures, the prospects for democracy and national sovereignty, and much more. And finally, "globalization" represents a direction along a continuum, not one of two possible choices. All of this suggests that we would do well to refrain from using "globalization" as if it describes a single coherent process or outcome.

And so it is not clear what it means to be for (or against) globalization. Most critics of globalization-as-we-know-it do not advocate banning international economic relations.³ They advocate globalization of a different kind. And although Bhagwati's criticisms of status quo globalization do not go nearly as far as some, it turns out that he advocates a globalization of a significantly different kind as well.

The essence of Bhagwati's defense of globalization is quite simple and familiar: international trade and investment promote higher incomes, and this creates better opportunities for virtually everyone: the poor, women, children, wage workers, peasants, and governments. Bhagwati reminds the reader of Adam Smith's most powerful insight: the selfish pursuit of profit can promote the greater good.

But on the other hand, *In Defense of Globalization* is full of important qualifications. Bhagwati is, for example, deeply critical of the IMF's enthusiasm for financial liberalization: "The freeing of capital flows in haste . . . can put nation-states at serious risk of experiencing massive panic-fed outflows of short-term capital funds, which would drive their economies into a tailspin. . . . The proper analogy for capital flows is playing with fire" (8). Indeed, in Bhagwati's view, the Asian financial crisis of 1997–1998 "was a product of hasty and imprudent financial liberalization . . . under foreign pressure" (199).

Bhagwati also believes that multinational firms and banks have contaminated policy through their self-serving lobbying efforts: "A prime example of such harmful lobbying in

3. See, for example, Stiglitz (2002), Pollin (2003), Rodrik (1997, 1999), Chang (2002), and Chang and Grabel (2004).

recent years has involved intellectual property protection (IPP). The damage inflicted on the WTO system and the poor nations has been substantial" (182). Bhagwati also recognizes the significance of the "Wall Street-Treasury Complex," a "loose but still coherent group of Wall Street firms . . . and the political elite in Washington . . . in the spirit of C. Wright Mills's 'power elite,'" which exerts its powerful influence on international economic policy (205). Finally, Bhagwati argues that those who are displaced and otherwise harmed by trade liberalization ought to be compensated generously and that this compensation ought to come primarily from the World Bank and the corporate sector (235).

So then, Bhagwati is skeptical about liberalizing capital flows; he believes that multinational corporations and financiers exert too much influence over international economic policy, and he believes that the corporate sector ought to finance generous trade adjustment assistance. It is not obvious to me that this is a *defense* of globalization as we know it. It strikes me as the basis of an appealing critique.

I do not want to overstate this point. Bhagwati is a staunch advocate of free trade, and he rejects the notion—commonplace among globalization's critics—that globalization has enhanced the bargaining power of capital relative to workers and nation-states. But it seems to me that Bhagwati—like most of globalization's critics—is advocating a different vision of globalization, a vision that acknowledges that stability, efficiency, and equity require the active management of globalization.

One final issue deserves a comment: Bhagwati's shrill criticism of the antiglobalization movement. "If the stake-wielding proponents of hard-core anti-global attitudes . . . extend their hand across the divide," Bhagwati warns, "it is not to shake your hand, but to wrestle brutally with it" (29). Bhagwati refers to antiglobalization activists as know-nothings, ignoramuses, nihilists, and liars, and he accuses them of immorality.

Bhagwati's tone is more strident than some, but his attitude toward globalization's "discontents" is not unusual. Dani Rodrik (1997) writes that "(e)conomists' standard approach to globalization has been to emphasize the benefits . . . and to overlook the social tensions that may result. A common view is that the complaints of NGOs or labor advocates represent nothing but old protectionist wine in new bottles" (3).

The oversimplification of these issues is unfortunate because it inhibits our ability to imagine and construct a more efficient, democratic, and fair global economy. One important contribution of Jeffrey Sachs's book is that by raising fundamental questions about the adequacy of development economics, it has the potential to expand the conversation about development, globalization, and poverty (74–5). Those of us who are interested in articulating alternative forms of globalization can benefit from the work of Sachs and other skeptical "mainstream" economists—including Joseph Stiglitz, Amartya Sen, and Dani Rodrik—both because they have substantive contributions to make and because their stature adds legitimacy to the notion that we have to find a better way.⁴ Sachs and others make it a bit more difficult to dismiss critics as "know-nothings."

4. It is worth contrasting Bhagwati's reaction to "globalization's discontents" with that of Joseph Stiglitz (2002): "Until the protesters came along there was little hope for change and no outlets for complaint. Some of the protestors went to excesses; some of the protestors were arguing for higher protectionist barriers against the developing countries which would have made their plight even worse. But despite these problems, it is the trade unionists, students and environmentalists—ordinary citizens—marching in the streets . . . who have put the need for reform on the agenda of the developed world" (9).

We can, of course, also benefit from the work of economists who are not especially sympathetic to globalization's critics. Bhagwati—his dismissive tone notwithstanding—makes a compelling case for the potential benefits of globalization and an equally compelling case for a globalization that differs from the status quo in important ways. And we certainly can learn from Easterly's book, which although occasionally maddening is very rich.

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These three books do not lend themselves to simple summary statements, but they do share at least one notable characteristic: a tendency to overstate their cases, often undermining the subtlety and persuasiveness of their arguments. Is this a coincidence? Probably not. Readers are surely attracted to bold claims such as “a plan to end poverty!” “aid hurts the poor!” or “globalization is good and its critics are all wrong!” It is surely difficult for authors and their publishers to resist sacrificing some nuance for some flash. It turns out that scholars respond to incentives too.

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