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Why Development Economics is Failing the Poor

by Dalibor Rohac, February 26, 2014

More than a decade ago, William Easterly's book, *The Elusive Quest for Growth*, created a stir in the economics profession. A former economist at the World Bank, Easterly argued practically none of the fashionable, and typically aid-funded, fixes to the problem of underdevelopment—investment in infrastructure, education, industrial policies—had produced desired outcomes because development was a result of the institutions embedding markets and political processes.

Most economists agree that long-term development outcomes are driven by underlying institutions, rule of law, and respect for individual rights. While some recent publications, such as Daron Acemoglu and James Robinson's *Why Nations Fail*, have articulated the institutions-based view of development, very few authors have been willing to accept its practical implications. Easterly's latest book, *The Tyranny of Experts*, does exactly that. There are no silver-bullet solutions to poverty and underdevelopment. Instead of trying to find them, policymakers ought to simply respect individual rights—including the rights of poor people.

Part one of the book presents the intellectual history of development economics through the lenses of two conflicting approaches, personified by two economists who were jointly awarded the Nobel Prize in 1974: Gunnar Myrdal and Friedrich von Hayek.

Myrdal was an authority on economic development, epitomizing the top-down, technocratic approach, which saw development as an exercise in "social engineering" and a "purely technical analysis of a social policy question." In contrast, Hayek earned his reputation for the study of epistemic properties of markets. Markets and complex forms of social cooperation, he argued, were a way of deploying knowledge that was not available to anyone in its entirety. From Hayek's perspective, economic development was a result of the process through which individuals harness dispersed knowledge and put it to socially valuable uses—and not a result of clever policy fixes.

Hayek's views found little traction among development experts. If accepted, his ideas would leave them with relatively little to do. By the late 1940s, the dominant view on development accorded a large role to economic experts and their ability to tweak economic policies at will. But this "blank slate" view of development did not come out of nowhere. Section two of the book provides an account of the early history and politics of development economics, showcasing several skeletons in its closet.

In its early days, development economics was often linked with colonialism and racial prejudices. In the discussions in the 1930s, economic development was a novel justification for the British colonial presence in Africa. And after the 1924 Oriental Exclusion Act prevented Asians from naturalizing in the United States, expert-driven development in China was seen by many as a "neutral" and "scientific" way of easing the racial tensions created by the new immigration restrictions.

By shifting the emphasis from political questions to technical ones, the top-down approach appealed to autocrats, such as China's Chiang Kai-shek, as well as ambitious economists. "The horrible political situation in China seemed itself to be a huge barrier to development. Anyone mixed up in this politics would seem to be part of the problem, not part of the solution," says Easterly. However, "the technocratic mindset would allow Chinese economists to present themselves as neutral experts, no politics implied."

This precedent set the stage for the "political neutrality" of the World Bank and other development agencies, which enabled them to distribute development aid on seemingly technical grounds to unsavory regimes throughout the developing world—something that was seen as an important asset for the United States in the times of the Cold War.

But should we discard orthodox development economics altogether? Easterly's answer in sections three and four of the book is a resounding "yes." The technocratic approach ignores the role played by politics, institutions, and culture. Yet a large body of evidence shows that autocratic politics and collectivist values are associated with poverty. It is not then a stretch to argue that Western aid to kleptocratic governments is a hindrance to development.

Among other examples, Easterly cites the case of Ethiopia. Its fall in child mortality by 59 percent between 1990 and 2010 was praised by Bill Gates and Tony Blair and was identified as a triumph of "setting clear goals, choosing an approach, measuring results." The technocratic infatuation with Ethiopia led to an inflow of aid, used by the dictator Meles Zenawi for political purposes. That included blackmailing "starving peasants into supporting the regime and punishing opposition supporters by withholding donor-financed food relief."

Easterly also talks about international migration, which is illustrative of the extent to which development orthodoxy leaves poor people and their rights behind. Although strong evidence shows that migration is one of the most powerful antipoverty "programs" ever in existence—for instance, 82 percent of all non-poor Haitians live in the United States—the development community sees it as a problem, rather than a solution. The reason is, Easterly argues, that poverty reduction which occurs through the choices of individuals who decide to leave the territory of a state is of little consequence to the mindset which is focused exclusively on development within the territory of a state.

Using states—as opposed to individuals—as the relevant units of analysis has little grounding in social science. In development circles, good economic outcomes are almost always attributed to apt national policies. However, Easterly's now-classic paper, co-authored with Larry Summers, Michael Kremer, and Lant Pritchett, shows that differences in policies across countries cannot explain the differences in long-run economic development.

If orthodox development economics is irreparably flawed, as Easterly seems to think, what is the alternative? Embracing Hayek instead of Myrdal—using markets, technological innovation, and political accountability to generate, test, and scale up solutions to poverty and underdevelopment. After all, major economic success stories—most notably the rise of the West and of large parts of Asia—were driven by trial and error and by Schumpeterian creative destruction.

The Tyranny of Experts is a compelling book with an important message, which makes its few imperfections—such as the slight tediousness of the detailed historical anecdotes from New York City—seem insignificant. Instead of searching in vain for technical fixes, it is time for the development community to become a voice for economic, personal, and political freedom in the developing world.