
Development economics is one of several sub-fields within the discipline where the relation between theory and policy is intimate, and the feedbacks often immediate. This is due partly to the fact that the building of theories of development, which started only in the late 1940s, was motivated by a real-world policy problem – the decolonialization of a third of the world’s population and the strong desire of the newly independent nations to catch up with the richer ‘West.’ The connection between economic theory and development policy has been further strengthened by the fact that so many of the policymakers and policy implementers in the development field have been trained as economists.

William Easterly has long been one of the many who have simultaneously formulated development policy and reflected on the lessons learned from policy experiments for the field of development economics. For many years, he worked for the World Bank, most recently as senior economic advisor to the Development Research Group. He is now with the Institute for International Economics, in Washington.

Easterly’s book offers a concise, but very rich, review of successive preoccupations and follies by development economists and the enormous waste of resources that took place when policymakers took the economists’ advice. This ranged from the repugnant (extra loans and loan forgiveness to corrupt and inefficient governments) to the well intended, but equally wrong (the early emphasis on huge infrastructure projects; over-investment in higher education in countries where the resulting skills had little marketability). Easterly argues that the problem was not a failure of economics, but a failure to apply economic principles to practical policy work. This seems disingenuous. I recall my first class in development economics, circa 1963, in which a distinguished economist, using texts authored by several other distinguished economists, taught theories that are in retrospect howling lunacy. To be charitable to both development economists and to policymakers, we have learned over the past several decades that development is a complex business, and one where learning takes place slowly and at great cost. My professor in 1963 was not doing bad economics, but was simply unaware of the complexities of real contexts for economic development.

However, Easterly does make a convincing argument that development theory has too often neglected a basic economic principle-policies will only work if they create incentives for individuals to take self-rewarding action. To the extent that many past development theories, often conceived at a macro-economic scale, neglected the individual, one might indeed find the field of development economics periodically guilty of neglecting one of the field’s own basic principles.
Among the most useful contributions of the book is a set of original calculations that Easterly uses to test relationships hypothesized in various development theories – among them, the relation of investment to GNP growth, education to growth, and debt relief to subsequent borrowing. These offer instant tests of the predictive power of postulates that have dominated development economics, and that have had an enormous influence on development policy, especially at the multilateral development banks. Most of the theories are found wanting.

Although most of Easterly’s empirical tests are quite comprehensible, and are accompanied by footnoted data sources (many publicly available), it is not always clear how one might go about duplicating his analysis. Nor does the book present detailed calculations for each empirical test-information that is appropriately excluded, given the book’s length and target audience. It would have been very useful, however, had Easterly included a few pages of appended material on his general approach to making calculations (e.g., choice of time period, exclusion of outliers, treatment of missing observations). More helpful still would have been the address of a website containing relevant data and exhibiting the empirical tests he performed, in detail.

Three of the book’s 14 chapters deal explicitly with institutions. Easterly takes a political economy approach to such issues as the origin and effects of government corruption, exchange controls, and ethnic group competition for power and government favor. As with the chapters on economics, each point is subjected to an empirical test. One fascinating table shows that ethnically (linguistically) diverse societies not only have greater probability of civil conflict, but also have poorer public services, such as roads, electricity and telephones. ‘For the government to supply a public service,’ Easterly argues (p. 271), ‘interest groups have to agree on what kind of public service they want … ethnic groups that are in different regions will want roads in their region and will place little benefit on roads in the other groups’ regions.’ An empirical test based on another measure of subnational group formation (e.g., religion, labor unions, existence of a group that almost always enjoys political dominance) may well have produced a different result. Nonetheless, Easterly has laid down a gauntlet of empirical testing for those who would make a contrary assertion.

One of the most interesting items in Easterly’s long list of factors possibly influencing economic growth is simple luck, whether good or bad. Luck for countries are random elements that make growth in one period have little or no correlation to growth in a subsequent period. Easterly offers statistics showing that countries doing well in one decade did surprisingly poorly in later ones. This may be due to diminishing returns to ‘good’ policies, inability to maintain them over time, or random elements (luck) that cause reversion to the mean. Easterly even proposes a ‘parlor trick’ in which you ‘announce to your friends that you are sure that country X is going to have a fall in growth’ and at the same time ‘announce also that country Y is going to have an increase in growth.’ The trick, Easterly explains, is to pick country X from those with very high past