Book Review

***The End of Poverty: How we can make it happen in our lifetime,* Jeffrey Sachs, Penguin Books, 2005, 397 pp. ISBN: 0-141-01866-6 Price: £7.99 (paperback)**

In his latest book 'The End of Poverty' professor Jeffrey Sachs attempts to tackle issues of underdevelopment and global poverty in a book that reads like a cross between an autobiography and a travel guide. The Penguin paperback edition is addressed to anyone with an interest in current discussions on development and seeks to capitalize on the focus on poverty in the summer of 2005 (G8 Summit, Live8). To enhance its buying potential it also carries a foreword by the U2 singer Bono. The End of Poverty is an interesting book that presents elements of economic orthodoxy in an accessible and honest way through the eyes of one of the most famous economists of our time. A book so broad and ambitious however is by necessity too general to serve as a useful tool in advanced academic research. The need to appeal to a broader audience has perhaps pushed the author to making generalizations that gloss over the problems of using aid to deal with the incidence of global poverty. What is unfortunate about the book is that it gives the impression that the world's developing countries are just waiting for an academic messiah, someone with the correct qualifications and the adequate intellect to look at the problem, devise a solution and tell them what to do. It is simplistic to think that the problem of poverty is the result of a lack of decisiveness or a misunderstanding that can be cured by a 400 page book.

The main idea behind the drive to end poverty is a massive aid injection to be spent on infrastructure development and disease control in the developing world, along with the promotion of market reforms. The recent decision in the Gleneagles summit to increase aid for Africa could perhaps be seen as a victory for those, including Sachs, who have lobbied for more aid for development. William Easterly (The Elusive Quest for Growth, MIT Press 2001) and others like the Shell Foundation (Hoffman, K. Aid Industry Reform and the Role of Enterprise, Sept 2005) suggest however that more aid is throwing good money after the bad. The idea that the difference between available domestic capital and the capital capacity necessary to spark self sustaining growth is responsible for underdevelopment seems very close to the 'financing gap' approach thoroughly criticized in the development literature. Determining shortfalls in investment capacity and filling them with aid is hardly a new idea and it has not worked in the past (it has been the main theory behind development aid for the last 50 years).

Sachs does not share the pessimism of the doubters of a big-bang approach to development aid. At the end of Chapter 1 he sets our generation's challenge as ensuring that the international rules of the game in economic management are not unfairly set against the underprivileged. The way this unfairness becomes institutionalized he says is through inadequate development assistance, protectionist trade barriers, destabilizing global financial practices and poorly designed rules for intellectual property. It seems contradictory however to suggest that the lack of assistance and Foreign Direct Investment (FDI) is partly to blame for underdevelopment while criticizing the financial practices that make FDI possible. Of course what Sachs means is that the capacity of international investment to move rapidly from one country to the other is jeopardizing long term efforts to develop because highly movable capital seeks usually short term profits. This might be true, but the ability of multinationals to utilize developing countries' locational advantages (lower labor costs for example) is safeguarded by the ability of capital to flow freely. More controls on capital and financial practices would mean greater control over the actions of multinationals but they would at the same time probably mean fewer funds available for FDI.

Another concern is that Sachs wants to fight global poverty abroad without realizing there is extreme poverty at home. He states in the introduction that “extreme poverty no longer exists in today’s rich countries and is disappearing in most of the world’s middle-income countries”. Also for the author, poverty, where it exists, can even be beneficial. He boldly claims that the elimination of farm subsidies in Poland in 1990 resulted in dairy products being too expensive for the Poles to buy, which is fortunate as a diet rich in vegetables lowers cholesterol! Despite this, the author sets the aims for our generation on the theme of fighting poverty: meeting the Millennium Development Goals (MDG) by 2015; ending extreme poverty by 2025; ensuring that ALL poor countries can make reliable progress up the ladder of development before 2025; and achieving all this with modest financial help within current promises.

In the more theoretical part of the book (Chapters 2&3) Sash’s account of economic growth is drawn in general terms with sweeping statements like that “before the 18^{th} century there had been thousands of years with virtually no sustained economic growth”. Sachs also attributes the economic dominance of the west on long term increases in income due to technological innovation and not through exploitation of the poor. In other words the current difference in standards of wealth is the result neither of domination and exploitation of the colonial world nor of exploitation of the working class. This rather rose tinted and largely a-historical interpretation of global development leads Sachs to suggest that the benefits of technology can be shared by all regardless of status and origin. This would be interesting if the benefits of technology were not restricted through the use of strictly defined intellectual property rights (IPRs) which he advocated in Chapter 1. Of course the counterargument to this would be that IPR protection works to the benefit of all by ensuring that they reap the benefits of their innovations. On the other hand the reality is that multinationals across the world are racing to put their stamp on every piece of information, often taking away the benefits of ancestral knowledge and local custom and placing it behind the walls of property rights. Despite this, Sachs suggests that the lessons of innovation are available to all humanity, not just for the first individuals who discovered them.

The author has an interesting take on development that diverges from the normal neoliberal orthodoxy. While it is common with modern economists to see an absolute distrust of government and portray the state as a fetter to the efficient operation of the market, Sachs acknowledges the need for strong administration and the necessity of a development policy. His experience in Africa has changed what might have been at first a strict liberal approach to government intervention. He suggests that the problems of disease, good science, widespread education and critical infrastructure cannot be tackled only through the means of individualistic profit oriented market players. The need of state funding for this fundamental framework that allows the market to operate should not be ignored. Sachs devotes considerable time to explaining the role of government in setting the foundations for development. He makes and maintains a link between economic growth and the reduction of poverty. While however Sachs treats the incidence of poverty and underdevelopment like a malfunction of the free market system, he does not entertain the possibility that underdevelopment is intentional and instrumental to the working of the modern globalized economy. As a result he treats the anti-globalization movement as essentially misguided and ill informed of the benefits of markets and multinationals.

The book proposes a new task for the science of economics called clinical economics (Chapter 4). Sachs is right to suggest that the current attitude of the IMF and the World Bank to development has been short sighted and has focused on macroeconomic problems and austerity packages that have "tightened the belts of people too poor to own belts". On the other hand, the equation of economics with medicine and doctors with economic advisors is a dangerous one. Sachs suggests that development economics today is not like modern medicine but it should strive to be so. This notion is in line with the idea that economics is a science just like medicine and what is needed is a good doctor/professor/scientist to apply it. Sachs views the economy like the human body, a complex system subject to interpretation only by experts. The danger here is that the clinical approach to economic reform cuts out the people whom it is supposed to benefit. Making economic policy the result of scientific experiment and equating it with medicine takes away the rights of the people in question to have any input into the process of economic reform. Economic policy in other words becomes the field of 'experts' and follows the top down approach well known from post communist reforms in Eastern Europe. As the patient cannot challenge the doctor on diagnosis and treatment, the people of the developing countries are losing their democratic rights to influence changes in their lives. Equally if they do try to assert those rights, they are condemned as irresponsible and self destructive 'patients'.

Nevertheless, the parallel with medicine is useful when one considers that the way in which development policy is assessed is on the basis of inputs and not outputs. Whether a prescription or treatment is successful or not, should be judged on the basis of the effects it has on the health of the patient, not on the theoretical soundness of the advice. This is a self-evident truth that is more often ignored in development discussions. An example is the transition of former communist countries of Eastern Europe to free market democracy. The aim of the transition was democratic states with functioning free markets that would allow the people to benefit from growth, develop and attain the standards of western Europeans. However during the nineties, sight of this aim was lost and the input (creating a market) obscured the output (successful democracies). In this fashion, authors like Andrei Shleifer can declare the Russian transition a success based on the implementation of the reform agenda and not on the results of the reforms.

At the latter part of the book (Chapters 12 onwards) the author outlines his ideas on how to end poverty by recognizing the importance of agricultural inputs, investments in basic health, education, power, transport and communication services, safe drinking water and sanitation. The problem is that the promotion of these measures together can have contradictory results. For example the promotion of modern agricultural methods with better and more productive seeds means the purchase of seeds which raises the problem of how to pay for them in the first place. Also industrially produced seeds, protected by intellectual property rights, often cannot be used to raise new crops in the following season, multiplying the cost of seeding. Sachs places special emphasis on business capital, human capital, infrastructure, natural capital, knowledge capital and public institutional capital. This is all very well but the promotion of market enhancing reforms is usually undertaken (as in transitional states) in opposition to the operational capacity of the state. In other words, as business is strengthened the state is weakened. An example are the Russian reforms where marketization led to the complete destruction of the administrative capacity of the state (see Stavrakis P. "State Building in Post- Soviet Russia: The Chicago Boys and the Decline of Administrative Capacity" (1993) Occasional Paper 254. Kennan Institute for Advanced Russian Studies, The Woodrow Wilson International Centre for Scholars). In addition, structural adjustment packages as those promoted by the IMF and the World Bank in the nineties placed immense pressures on state finances and led to a reduction in public works and government services where applied. If the reforms suggested by Sachs are to happen in the orthodox way it would be unlikely to expect business to be strengthened and infrastructure and public institutional capital also to be enhanced. To his credit Sachs does recognize that economic freedom is not the solution to all development problems. He admits that not all shortfalls in growth can be explained by the absence of free markets and that the expansion of the market to health, education, social security and core infrastructure like water, energy, roads and rail is often a bad idea.

The main contribution of this book is to highlight the problem of underdevelopment and poverty worldwide and to motivate the west to do more about it even when it means contributing significant funds. What the book does not do however is to suggest something novel in tackling the problem. I am sure that 'The End of Poverty' will be well received and well read due to its fashionable presentation but in all probability it will not help in ending poverty in our lifetime.

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