role within the discipline. For those interested in studying or researching the topic, I recommend this book as an excellent way to begin. For those already with some knowledge of the area, I also recommend it as a comprehensive, focused and up-to-date summary of the field.

Michael Smith
University of Sydney


This is a racily written, highly readable book that reads like a detective story. It is about a dismal subject, which however, is not correctly identified by its title. It is not about economists', but, more specifically the World Bank’s elusive search for growth. Interspersed with anecdotes and personal autobiography, Easterly – now a former World Bank official – has, with wit and honesty, shown up the continuing intellectual shallowness of the economic advice offered by the institution he has worked for since the mid 1980s. Although most of his strictures will not be revelatory to those of us who in our misguided youth worked at the World Bank, it is important for the public debate on international financial institutions that this worm’s eye view from the inside now be available. I hope it will be widely read.

This being said, it is fair to ask: what is its scholarly content? Does it advance our knowledge of the economics of developing countries? Here I must confess an interest. For people of my age and persuasion there is little new in what Easterly says. The critique of ‘development economics’ he provides in the first part of his book, and which during the McNamara–Chenery years was the intellectual basis of the World Bank’s advice, does not go beyond that in a little book I wrote in 1983 (Lal 1983; 1997; 2002) which has acquired some notoriety if not fame. This is not even mentioned. Nor is the more substantial book by Ian Little (1982). Similarly, there is no mention of the large World Bank financed comparative study on the Political economy of poverty, equity and growth that Hal Myint and I wrote (Lal and Myint 1996), which is directly relevant to Easterly’s subject, and which presages most of his policy conclusions, whilst providing a more robust political economy explanation for why growth has been elusive in the land-abundant continents of Latin America and Africa (as compared with the labour-abundant economies of Asia). Following the practice now common among the young, Easterly ignores relevant past work on the subject, except that of the most recent fad. This may be forgivable in a travelogue but incomprehensible in a scholarly work published by a University press.

Apart from these gripes, I have some serious doubts about the methodology underlying the substantive parts of this book, and thence on some of the panaceas Easterly offers. To be sure, no classical liberal economist will find anything surprising about Easterly’s central tenet ‘people respond to incentives; all the rest is commentary’. Similarly, his castigation of past and current panaceas of international financial institutions – capital fundamentalism based on the Harrod-Domar model (Ch. 2), education (Ch. 4), population control (Ch. 5), adjustment assistance (Ch. 6), debt forgiveness (Ch. 7) – though not new will still be music to their ears because of the author’s provenance.

But, serious doubts remain about the cross-section statistical studies on which Easterly by and large relies to slaughter these sacred cows, and to support others that he favours. As Solow (1994) has rightly noted, whatever one thinks of the ‘new’ growth theory, an international cross-section regression is not a ‘a confidence inspiring project. It seems altogether too vulnerable to bias from omitted variables, to reverse causation, and above all to the recurrent suspicion that the experiences of very different national economies are not to be explained as if they represented different “points” on some well-defined surface’ (p. 51). Particularly if the ‘points’ of observations are such disparately sized countries with an equal weight in the sample as Chad, Malawi, India and China, and when there are serious and fundamental questions about the quality of the underlying national accounts data (see Srinivasan 1994). Nor, as Levine and Renelt (1992), showed are the regressions robust, and their main message ‘is not that nothing matters, but that policy matters. [But] the data cannot really tell which policy is bad’ (Sala-Martín 1994, pp. 742–3).

This is particularly worrying for Easterly as his strong conclusions about particular policies are based largely on these cross-section regressions. Easterly is clearly in thrall to the burgeoning cross-section regression studies using the Kravis–Heston–Summers data set. Most of the empirical studies he
cites (many of which are his own and with numerous collaborators) in support of his claims are of this statistical variety. But I, with many others, have grave doubts about the relevance of the theory, and the robustness of these cross-sectional studies. Given this fragility, there is no escape from the longitudinal historical study of a large number of countries. That is, of course, what the Lal-Myint study attempted. (Also see Harberger 1984).

The most worrying part of Easterly's book, however, is his wholesale swallowing of the 'new' endogenous growth theories. In his chapters on increasing returns and creative destruction he illustrates the abiding fault of many 'development economists', and particularly those at the World Bank, who are impressed by the latest theoretical models, and assume that these have practical relevance, with dire consequences when they are applied (see Lal 1983). Thus, by swallowing the mathematical models with increasing returns that generate all sorts of traps, he reinvents another version of the famous Rosenstein-Rodan model based on the Pareto-irrelevant pecuniary externalities. But all these theories of vicious and virtuous traps are old hat and moreover have been empirically exploded (see Little 1982 and Bauer 1976). While, Rodan wanted coordination of investment in a planned 'big push', Easterly's big idea for alleviating poverty runs as follows: 'If everyone was able to agree in advance that they would make investments until they reached a skill level above the poverty trap threshold, then they would get out of the poverty trap. Unfortunately, the market does not make this coordination on its own, and so poverty persists' (p. 169). There then follows a whole list of dirigiste panaceas, completely out of keeping with the tenor of the rest of the book.

The trouble with the 'new' growth theory is that, it has not rethought the foundations of the theory – in particular the concept of the 'aggregate' production function. It is not much more, as Solow has rightly noted, than the standard neo-classical theory 'with bells and whistles', with the fashionable AK model just being another version of the Harrod-Domar model. A much more enlightening but sadly neglected 'endogenous' growth model that attempts to rebuild the production function foundations is by Scott (1989). This is also applicable to actual countries, as Scott shows for OECD countries and Lal-Myint do for their sample of 25 developing countries. Despite Easterly's title, economists (but presumably not those at the World Bank) do now know as a result of 50 years of experience how growth is generated. The answer is banal. It depends upon the rate of investment and its efficiency, where the latter is crucially dependent on policy (in particular trade policy). These policies in turn are the classical liberal package, and what needs to be explained, if growth in so much of the world remains elusive, is why this well-known package is not universally adopted. For that one needs to know the economic history and political economy of these different countries. Cross-section regressions will not provide the answer. The World Bank, for the 'rent-seeking' reasons Easterly notes, has resisted a wholehearted endorsement of this package. The 'new' growth theory seemingly provides the Bank another play at global dirigisme. While, its current stance, endorsed by Easterly, is for its 'aid' to be given only to the successful countries that have good policies. But, with burgeoning privatized capital markets open to the successful, why would they need the World Bank's 'aid'? Easterly, thus displays the very quality that has led to the elusive search for growth at the World Bank and by so many 'development economists' – an unhealthy and unworldly respect for the latest current academic fashion. Thus, while I would commend this highly readable book – whose conclusions are by and large sound – to the general reader, I have serious doubts about its scholarly acumen.

REFERENCES

Making Modern Economics, by Mark Skousen (ME Sharpe, Armonk, N.Y., 2001), pp. 495

The 2001 Higgins Memorial Lecture was delivered by Mark Skousen. It was quite a performance. Skousen danced along with his wife to tunes representing the great economists, recounted stories from his CIA days, and told how he had taken up the task of writing a book to counter the influence of Heilbroner's *Worldly Philosophers*, after being frustrated by Murray Rothbard’s failure to deliver his own counter-blast, and with Rothbard’s low view of Adam Smith. (Rothbard’s incomplete two-volume work has been recently published by Edward Elgar.) After all, Skousen’s Mormon relatives felt Adam Smith was a Godly man because he was a friend of capitalism (American style, of course). Skousen’s really serious argument for capitalism, though, was a graph with an upward sloping line — no labels of axes in sight — which was briefly whisked across the overhead projector by Skousen’s wife.

At least I knew reviewing the book would not be dull reading! Skousen avoids recent arguments among historians of economics over Whig approaches to history versus contextual approaches in favour of his own totem pole approach. This is best explained by Fig. (B) on page 8, which shows a totem pole with Adam Smith serenely looking out across the landscape from top, and rather sour looking Keynes and Marx down the bottom. Skousen adds ‘today’s histories of economics lack a running thread of truth, a consistent point of view which allows the student to realise when an academic scribbler is heading off the straight and narrow path (p. 6)’. We are never left wondering where Skousen stands. Smith is selected as the book’s hero and reference point because he ‘advocated maximum economic freedom, in the microeconomic behaviour of individuals and the firm, and minimal macroeconomic intervention by the state (p. 7). Although Skousen’s agenda is very upfront the remainder of the book is by no means predictable. The Austrians and the Chicago school emerge later as subsidiary heroes, and the twentieth century development of American economics receives more attention than most other histories of economic thought. Just at the point when one starts to feel it is getting a bit predictable Skousen’s boxes and biographical snippets enliven the book. For instance ‘Famous Economists’ Signatures: Can You Tell Which One is the Pessimist?’, ‘Phrenology’ (i.e. examining skulls to determine character), ‘Why Did Marx Grow Such a Long Beard?’, ‘The New Palgrave: A Marxist/Sraffian Plot?’ etc. There is lots of gossip about economists’ sex lives and personal finances, lots of photos (including Skousen at the tomb of his hero Adam Smith). And never a dull moment.

The book is written with students in mind. But should it be recommended for a course in the history of economic thought? I’m not sure. The standards of evidence and argument are not for student historians of thought to emulate, but it does a great job of raising issues and generating interest in the big questions of economics. It would be a better book to give beginning students of economics, and I’m sure would do more for enrolments in upper level economics programs than the current first year textbooks used in most Australian universities. There is actually a lot of economic theory in a history of thought book like this one, and students taking a first year course based on the book would not go away ill equipped for higher level studies. And students dissatisfied with Skousen would then take upper level units in the history of economic thought to do this properly.


Paul Oslington
Australian Defence Force Academy,
The University of New South Wales