A comment on "The End of Poverty"

By Ioannis Glinavos

One of the main issues on the agenda of the coming G8 summit in July in Scotland this year is the fight against global poverty. On this issue the last book by Professor Jeffrey Sachs is bound to come under discussion. In 'The End of Poverty' Sachs proposes a way out of Africa's seemingly unshakable poverty and misery. The first half of the book reads like a biography or a list of the travels of the author in his global quest to allow efficient markets into the unorthodox economies of the world like Bolivia, Poland and Russia. The second half contains his proposal for a grand solution to Africa's development concerns.

Discussing his involvement in Russia, Sachs notes that it lasted from 1991 to the end of 1993. He was invited by Yegor Gaidar in November 1991 to work with his team in putting together a reform plan for Russia. This seems to address the debate over what exactly was Sach's status in Russia in the early nineties. Concerning the substance of his intervention he claims that he envisaged a greater role for government in the provision of public services despite the deregulatory thrust of 'shock therapy'. Even though Sachs has consistently tried to distance himself from what has become known the 'big bang' approach to reform, it remains that he was a dedicated advocate of rapid stabilization and liberalization, if not of immediate privatization. He declines the charge that he was peddling a ruthless form of laissez faire in Russia and concentrates in highlighting his efforts at mobilizing international assistance to help deal with the social disruption brought about by liberalization.

The author's assessment of Russia's path to free market democracy is not particularly enthusiastic. He admits that the Russian public became deeply demoralized and democratic reforms have stalled. Contrary to other commentators like Andrei Shleifer, Sachs does not see Russia as a 'normal country'. He blames the Russian's lack of interest in genuine and full scale reform on the disruptive influence of the Duma and on the West's failure to provide aid in crucial moments. He admonishes the lack of the creation of a stabilization fund at the start of the transition, the lack of a debt standstill or partial cancellation of debts and the lack of a real aid program. Finally he maintains that he was deeply opposed to the massive theft of state assets under the rubric of privatization.

The link between the Russian experience and the global fight against poverty is provided by the discovery that debt cancellation and foreign aid can make the difference between success and failure. The recent decision by the G8 to cancel the debt of 18 poor countries should fill Prof. Sachs with optimism that his suggestions are taking root. The thrust of his argument is that growth depends on investment which in turn rests on the availability of capital. The problem of Africa is that local capital and foreign investment are insufficient to breach the gap between current levels of investment and those needed to propel the continent out of the vicious cycle of poverty and underdevelopment. The unique and historic chance that he identifies in the new century is for the rich countries of the world to pool together and fill in the gap by aid. That way we are told that a development boom can sweep Africa and start the multilayered fight against disease, poverty, illiteracy and economic inefficiency. Of course the assumption is that such economic development will also feed into political reforms and assist democracy and transparent governance.

All this is very well, but there is a problem. In the case of Russia Sachs maintains that the reform 'recipe' was correct but it was implemented improperly resulting in the current criminally run economy and limited democracy. In the case of Africa, if we assume that the recipe is correct, there is no guarantee that it will successfully implemented. However the significant problem is not on the level of implementation but in the concept itself. The idea that aid can fill the gap between optimum and current investment levels is false. It is an idea that has been used for the last 50 years without success. Known in economic literature as the 'financing gap' approach, it has been the motivation behind aid programs to the developing world since the 1950s.

The reason why the idea that aid can boost development is false rests on the series of mistaken assumptions about development most commentators these days take for granted. For example there is a widely held belief that capital investments translate into expenditure on infrastructure and institution building that results in increased productivity, efficiency and eventually higher growth. In impoverished regions of the world like most of Africa however, capital injections are spent in servicing immediate consumption needs or get siphoned off due to corruption. Infrastructure development where it occurs usually serves the interests of the donors (through restrictions in the terms of the loans/grants) and growth (even when it picks up) usually fails to trickle down to the lower social strata (see further Easterly 2001, The Elusive Quest for Growth).

I would hate to burst Bono's bubble (the popstar sidekick of Professor Sach's) but Jeffrey Sach's book does not offer a new solution to world's poverty and in all probability will not help end it in our lifetime. Bringing Bolivia, one of Sach's early projects to mind, even early successes can rapidly become exposed as dire failures.

Ioannis Glinavos

Rm W4.11 Eliot ext.7983
Kent Law School
Eliot College
University of Kent
Canterbury, Kent
CT2 7NS

Visit my website at www.angelfire.com/ego/glinavos