

UNCORRECTED TRANSCRIPT

THE BROOKINGS INSTITUTION

BROOKINGS GLOBAL YOUNG PROFESSIONALS PROGRAM
FEATURING BILL EASTERLY

6.7 BILLION SECRETS OF DEVELOPMENT

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P R O C E E D I N G S

MS. JAGADEESAN: Welcome everyone.

Hi, can everyone hear me? I know there are people in the back who are actually still getting their breakfast.

I want to welcome everyone here to Brookings and also to the Global Economy and Development Program. This is the third in a series of the Global Young Professionals Program. For those of you who have not been here before, let me tell you a little bit about the series. The Young Professionals Series is meant to have emerging leaders, up and coming leaders, in the field of international policy be exposed to Brookings and Brookings research and our senior fellows here. This is probably not the typical Brookings audience, but we are making an attempt to get to people earlier in their career paths and tell them about the research that we're doing in the hope that it informs and contributes to your work going forward.

As a research program, the Global Economy and Development Program focuses fairly broadly on the challenges and the opportunities presented by globalization. We have a specific focus on the rise of new powers, such of China and India; major challenges like climate change, trade policy; and also the fight against global poverty. And it's the issue of global poverty that brings all of us here today.

Bill Easterly really needs no introduction, and many of you probably have his books sitting on your bookshelves. His efforts to shed light on while we're still talking about development after so many years and after so many billions of dollars have been spent on development assistance, has made a real contribution and proven invaluable to the field of development economics. He's been a visiting fellow here at Brookings for the past year, and we're glad to have him here at Brookings and also glad to have him here today. In his other life, he's a professor of economics at NYU, joint with Africa House, and a co-director of NYU's Development Research Institute.

He's also a research associate of the National Bureau of Economic Research and a non-resident fellow of the Center for Global Development.

So Bill's two books -- which again I think you probably have either read or you're going to read -- that have caused such a splash: *The White Man's Burden: How the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, and also *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*, have really changed the development debate that people are having both in Washington and around the world. Bill has also co-edited three other books and authored more than fifty influential articles, including a recent op-ed in the *FT*, which I think everyone has at their tables today.

And lastly, on a personal note, according to Bill's own Web site, he is the eighth most famous native of Bowling Green, Ohio, where he grew up. And his website doesn't actually list the seven other Bowling Green, Ohio, natives, but if you really want

to know more, there will be a Q&A session at the end, so you can save that question.

Please join me in welcoming Bill Easterly.

(Applause)

DR. EASTERLY: Thank you, Raji, for that really kind introduction. It's really a pleasure to be with you here this morning. This is my favorite kind of audience -- well informed young people.

The topic today is "6.7 Billion Secrets of Development." It may take a while to cover them this morning, but Raji has generously given me 2½ hours for this lecture, so -- you're looking kind of nervous now, but --

So let me just start off right at the beginning with sort of a quick potted history of development economics for you. I started my career in the 1950s. I was actually three years old at the end of the 1950s, but I was kind of a precocious child. The thoughts in the 1950s was that poor countries were in a poverty trap of zero economic growth, and their big problems were excess population growth and there

was really a tremendous fear of the population explosion that lasted for a long time and is, to some extent, is coming back now in development. There's fears about hunger, illiteracy, high mortality, and the answer at that time was thought to be a big push of foreign aid -- to just give a very large amount of foreign aid to poor countries -- and the prediction was that this would give them a big push out of this stagnation of the poverty trap into sustained economic growth. Well, let's just check on how this worked out. This is what was predicted to happen by the advocates of the big push in the 1950s and '60s. This is a simulation because actually they had a very precise growth model, so we can -- I won't go into all the details of it, but basically the aid was supposed to cause growth and you could actually quantify how much growth should have come out of the amount of actual aid that this group of countries got. This is the group of countries that had the -- that are in the top quarter of having received the most aid from the 1960s through today. And this is what was predicted

to have happened to their growth. They should have had a lot of growth. And that's the prediction. What actually happened is a lot sadder. It's the blue line. That's what actually happened to their per capita income. Despite receiving nearly 20 percent of their income every year, year in and year out, as foreign aid, that somehow did not translate into economic growth, and so that was really a big, a big disappointment. So the prediction of the fifties' and sixties' development economists for growth really failed sadly to come to pass.

So then we had sort of the next wave of development thinking came about in the eighties and nineties. The whole sort of inward-looking state planning model was kind of really discredited by the failure, especially in Africa, of a lot of state enterprises. Then we had the success of the East Asian Tigers, which, you know, there were a lot of different interpretations of, but one interpretation was that they had really taken -- managed to take advantage of global markets because these were all

very export-driven successes rather than being --
relying on sort of inward-looking investment.

So -- and the sort of econometric studies of growth in the early 1990s really stressed sort of bad government policies as being the reason why there had not been more growth in poor countries. So at that time in the '80s and '90s, development experts agreed on what was called the Washington Consensus of Reformed Government Policies, involving privatization, liberalization, and these conditions were enforced by structural adjustment loans from the IMF and the World Bank and they were conditional on countries doing these reforms in order to get the loans. Well, how did that work out? Sorry to say the experts failed again. The prediction that structural adjustments and the Washington Consensus would lead to a rapid recovery of growth in Africa, Latin America, and the Middle East -- there was some -- the sort of most optimistic predictions is that these reforms would enable countries to emulate the East Asian Tigers. There was -- we sort of had a phrase when I was

working the World Bank research department to kind of summarize a lot of our research and hopes at that time in the early 1990s, and it was sort of like "Oh, if only" -- it's sort of like the song, the classic rock song, "I wish all the girls could be California girls." It was like "I wish all the developing countries could be South Korea."

And that was sort of, you know, what we hoped for. That if you reformed your policies to be like South Korea's policies, then you would get South Korea's growth of 6 percent per capita growth, which enables you to increase income by a factor of eight over 40 years. Well, not only did we not get South Korea's growth, we actually failed to get much growth at all in the countries that received structural adjustment loans. By and large, there was still stagnation in those countries that got the most structural adjustment loans, zero per capita growth.

And then another kind of sweet, generous kind of failure was that structural adjustment was applied to the transition in Eastern Europe in the

former Soviet Union, from communism to capitalism, and it was applied sort of all at once. That you need to do all the reforms all at once, right away; as soon as you give up communism, you need to immediately privatize, liberalize everything -- stabilize, privatize, liberalize, every "ize," and then you would, you know, immediately be successful in attaining capitalist -- a rapid transition towards capitalist prosperity. Well, unfortunately, both of these things failed. Here's what the path of income looked like in Latin America. This is what -- this is a graph that the critics of structural adjustment really love because the trend line that is the dotted red line is the trend of Latin America's per capita income from 1950 through 1980. And structural adjustments started in 1980. And 1980 happens to be exactly the point at which the blue line, which is actual per capita income of Latin America, diverged from the previous trend. So Latin America -- of course there was a debt crisis in there and there were lots of other explanations. So, you know, there were

lots of explanations for what went wrong in Latin America, but clearly structural adjustment failed to generate the kind of rapid recovery in Latin America that it had promised to the previous trend. And so still today in Latin America we're way below the previous trends. And so that's kind of -- if you think of the previous graph that I showed as kind of the failure of Africa, because a lot of the high-aid countries were in Africa, this is the sort of failure of the development experts in Latin America. And then here's the failure in the shock therapy cases, which, in deed, shock therapy turned out to be quite a shock. "The surgery was successful, but the patient died." This is the path of per capita income in the shock therapy cases that got a lot of structural adjustment loans. And, you know, the actual outcome was not a rapid leap towards capitalist prosperity, it was one of the worst recessions in economic history in the formerly planned economies of Eastern Europe and the former Soviet Union.

Okay, so now we're in the new millennium. We've had two rounds of failure of development experts, and now the development experts have split into kind of two groups. There's the sort of the main stream camp where now there's a lot of development experts that just say "We really don't, you know, we've tried all these things and now we just don't have a clue how to raise growth rates." That's a really startling admission, but that's -- I'll give you some quotes to back that up. And then there's the other camp, which I have trouble coming up with a good name for, so I kind of called them the starry-eyed camp. And that would seem to kind of like the kindest thing I could say about them. So this is the camp that is kind of centered at the United Nations, and it has, you know, some prominent economist associated with it whose name I can't remember at the moment, but it was actually a remarkable revival of the ideas of the 1950s. It was really reviving the idea of the big push all over again, saying poor countries are in a poverty trap, they need a big push of foreign aid. It

really sounded exactly like the 1950s. And then the -
- also kind of a heavy reliance on state planning
because there was this big campaign to attain the
millennium development goals for big improvements in a
lot of social indicators, and how is that going to be
accomplished? Well, you needed to do lots and lots of
public interventions that could only be, could only
work if they were very carefully planned to fit
together so that there was sort of a comprehensive
attack on all of the social indicators in such a way
that you could attain the millennium development goals
by the year 2015. So it's, in a way it's really 1950s
redacts. It's state planning plus a big push of
foreign aid all over again in the new millennium.

So let me give you some quotes from the two
camps. Here's the mainstream camp where there's been
sort of a total collapse of competence that we --
whoops, I forgot to turn off my cell phone -- there's
really been a remarkable loss of competence about our
ability as development experts to predict growth, to
say what will raise growth, how to increase growth --

and here I'm giving into temptation to brag a little bit that I was one of the first to confess to this lack of competence. The reason I feel okay about bragging about it is I don't think it's really that much of an honor to be kind of the first to confess total ignorance of what's going on. So I've -- and the book that came out in 2001, it talks about the panaceas that fail, the failure of development. And then at the same time, other people were starting to have the same thoughts. Arnold Harberger, who is kind of on the right, said there aren't too many policies that we can say with certainty affect growth. There was a group that gathered in Barcelona that included sort of all the world's most famous economists that said there is no single set of policies that can be guaranteed to ignite sustained growth. And then Danny Roderick says, you know, the experience of the last two decades -- which is, you know, exactly what I have just been describing to you -- has frustrated the expectations that we had a good fix on the policies that promote growth. In real life -- and then the

person that I personally revere the most, the wise elder statesman of all of growth economics, is Robert Solo, and he just says very bluntly in real life it's very hard to move the permanent growth rate. Now this is a man who has been studying growth for fifty years and he says it's just very hard to move the permanent growth rate. And when it happens, the source can be a bit mysterious even after the fact. When growth does happen for some reason, we don't know the reason. So this is a remarkable confession of ignorance by sort of all the most prominent economists in this field, that we really don't know how to raise growth rates.

And then, of course, there's this World Bank Growth Commission that just came out with a big report, which was this enormous report that they spent two years writing and consulted 300 academic experts and had 13 workshops and 12 conferences and spent -- had a total budget of \$4 billion -- not \$4 billion -- \$4 million -- sorry, I don't want to exaggerate, \$4 million -- and their answer at the end of the day was pretty much the same. We don't know how to raise

growth rates, although they said, you know, this rate -- if you read this report, it might help you somehow, you know, be an expert in how to raise growth rates. But it wasn't really clear how that would happen because the report said we don't know how to raise growth rates. So I never quite figured out that contradiction, but -- .

And then the starry-eyed camp -- well, this is -- they were much more positive and optimistic. They said we do know how to end poverty, we do know how to attain the millennium development goals. The only problem is we had already seen this movie and it didn't have a happy ending. We've already tried the big push multiple times, and like the graph I showed you, it hasn't worked.

And they also made an erroneous prediction in the other direction; that they kept insisting that poor countries were in a poverty trap. But by now, we actually have a lot of examples of countries that started out poor enough to allegedly be in a poverty trap, and yet have rapid growth. And so it looks like

-- now we know that the evidence for the poverty trap is not really there in the data. We have a lot of poor countries that have had growth. The most famous at the moment being India and China, but even South Korea, you know, would have qualified for a poverty trap as a diagnosis in the 1950s, and South Korea has since increased per capita income by a factor of eight and become an industrialized country, and has a carmaker, Hyundai, that has a greater market value than either GM or Ford. You know, this is not a poverty trap when you start out poor and, you know, forty years later you're a carmaker and an industrialized country. If someone had told you in the 1950s that Korea would one day have a carmaker that was greater than GM or Ford, people would have thought you were completely delusional. You know, this is just crazy, but it happened.

And meanwhile on the Millennium Development Goals, the news is not so good. We already know they're not going to be attained in many regions of the world, and the U.N. itself keeps issuing these

gloomy reports saying "They're not going to be attained and our plan is not working, but we should keep trying harder." And, you know, if you just think about it, the plan is very unlikely to work because we've -- this is also a movie that we've already seen. We've already seen lots of examples of state planning at work that had simpler objectives than the U.N. Millennium Development Goals campaign, and still failed ignominiously like, you know, it yielded us things like the \$4 million steel mill in Nigeria that has yet to produce a bar of steel. That's kind of the prototypical example of the outcome of state planning, to try to pick winners and to kind of force industrialization. So it seems even less likely that a big complicated international plan would work when we can't even get a national one -- one national plan to work at a time.

And so the news is not good on this. So far, this is very depressing, you know, we've seen generation after generation of development experts fail. So, does the failure of development experts

mean that the escape from poverty has failed? Well, here now we can switch to the good news part of the talk. The remarkable thing is that despite the failure of the development experts, this generation, fifty, the last fifty years, my lifetime -- I'm not saying the two are causally related, but then in my lifetime, poverty has decreased like never before in human history. We've had the greatest reduction in poverty in human history in the last fifty years.

And the population explosion did come to pass. Here's the increase in population in the world. So there was an enormous increase -- all these fears about population explosion, it came to pass. There was a population explosion and today we have 6.7 billion people. You might notice the link between the 6.7 billion and the title of this talk. I'll be coming to that in a second. And here is my heroic attempt to compress all the success stories into one graph. I just wanted to really hit you hard with how much success there's been. So I've put everything into one graph. This is a remarkable feat of

manipulation of the Excel program. If -- you know -- if I can't advise you on development, I'd be happy to advise you on Excel techniques. I'm really -- I am an expert in Excel, although I don't -- I no longer think of myself as a development expert, but at least I'm an Excel expert. So, the big black line is the rise in per capita income. And this is on the right-hand scale, so it's a log base to scale. So basically what it shows is that per capita income in the world has doubled over the -- since 1960 till today, per capital income has doubled despite the population explosion. You know, the whole Malthusian thing about the population explosion is everyone is going to starve, and per capita income was going to go down. But no, population did explode and yet per capita income doubled. And the effect on poverty of that is shown by the -- you know, the only defect of this graph is that I can't remember which color is which, but let me find the poverty line -- yep, the poverty line is the red line here, right here. We don't have data for the whole period, but we have enough data to say that over

the -- since 1970, poverty has been cut in half, global poverty has been cut in half. And if we -- you can do some very crude calculations back to the '50s and '60s and it would also show a huge reduction in world poverty. In 1950, there was a very large share of the world's population that was living on \$1 a day, and now in 1970, that was still 25 percent of the world's population living in the most extreme poverty, \$1 a day. And now that is down to less than 10 percent of the world's population is living on \$1 a day, just in the period from 1970 to the present.

And then, of course, we don't only care about material income, we also care about social indicators that measure, you know, things that have a dramatic effect on people's well being. So the green line is percent without access to clean water. That was 63 percent in 1970; it's declined to about 16 percent. This -- by the way, this graph on the left-hand side is a log, a log graph. So that's why the numbers look kind of weird on the axis, but they go from 3 to 4 to 6 to 10 to 16 to 25, 40, 63, and 100.

That's what happens with log graphs; that it blows up the increases at small numbers, and it compresses the increases at large numbers, so all these social indicators are in log terms. And the percent malnourished is the blue line. So the fear of the population explosion people that everyone would starve because food supplies would run out and there wasn't enough land to feed everybody, that also failed to come to pass, and so the percent malnourished has decreased. Now it's true we are in the middle of a big food crisis at the moment, but actually that's -- if you look at the data, the -- I mean it's tragic for the people who are now being affected by the food crisis. We never want to minimize, you know, the suffering of people who are being affected by the food crisis, but food prices -- you know, there's all this hysteria about food prices now, but food prices are still below their peak, below their previous peak. You know, food prices do fluctuate a lot over time. Commodity prices are very unstable and they do fluctuate a lot. And food prices are still below the

previous peak that was attained in the '70s. So, you know, it's a serious problem that we need to confront now, but it's not something that is something like historically unprecedented. This is something we've experienced before, and in the long run, even including the recent explosion in food prices, there is no upward trend in food prices. They're just fluctuations.

And the yellow line is an extremely important number, the percent of infants who die before they reach their first birthday, and that yellow line is also showing a dramatic decrease.

And then also education we have good news. The light blue line is the percent out of primary school, which is this number -- here's the infant mortality, here's the percent out of primary school, and both numbers have dramatically declined.

So we've had a lot of development success. So you would think that now we -- us development experts would finally have learned something, that we've had enough success that we should be able to

figure it out the secret to development by now. So I'm going to now tell you the secret to development. You're really lucky to have come this morning, because you have, you've been wondering all this time, what is the secret of development and now I'm going finally tell you what we finally -- we finally figured it out after fifty years. We finally figured it out that the secret of development is there never has been a secret of development, there never -- is not now a secret of development, and there never will be a secret of development. That's the secret of development, that there is no secret. Now this is kind of like some kind of Buddhist saying or something. The secret is that there is no secret. I'm going to try to convince you that this actually means something. Another way to say it is that, what has the evidence taught us? That success against poverty happened despite the failures of the development experts. So not everyone is brave enough or self-destructive enough to draw this conclusion, but I think there's a logical conclusion that you can draw from this experience.

Success happened despite the failure of the development experts; therefore, it follows logically, success does not require development experts. It follows, right? Success happened without -- despite the development experts totally failing to explain or predict what was going on, so success does not require development experts. So the failure of the development experts is not such a tragedy for the world's poor. It's a kind of a tragedy for the development experts, but it's not a tragedy for the world's poor. So what does it mean to say there is no secret to development? Well, it means that there are 6.7 billion secrets to development. The secret is something -- let's think about, what is the best system that we could use in the world when we have the development experts, who are trying to kind of direct the process from the top down, failing? What is the best system that we could substitute as an alternative when the top-down experts have failed? Well may be it's a system where creative individuals, all 6.7 billion of us today alive in the world, are free to

figure out our own answers for ourselves. You need a system with -- first I'll give you the Silicon Valley wording that "You need a spontaneous emergence of a self-organizing complex adaptive system with feedback." I really -- that's kind of one way to make ignorance sound really glamorous is to use Silicon Valley wording. But the more commonly known principle that we're just talking about is individual choice. That I think the radical revolution and development that has happened over the past fifty years is that we -- I've come to realize the importance of individuals, that individuals are not just anonymous masses that are going to be commanded by the top-down development experts, they're individuals that are rational, that are seeking to better their own lives, and they know much more about their own problems than the top-down experts do. And when you have a system of individual choice, then anyone who does -- who is dealing with a public or private problem has a strong incentive to solve that problem. Because not only do they solve their own problem, but in a system with individual

choice -- when you solve a problem, then you might be able to politically or economically sell it to everyone else who will freely choose your solution to the problem. That's the beauty of individual choice is that you have a test of what works, you have a feedback of what works from individual choice. That anytime anyone does find a solution, then that solution will be verified by everyone choosing to accept their solution.

And so this works for private goods where we have private markets to verify which solutions people like. When a private firm finds a solution to, you know, one of my most critical needs, which is to listen to classic rock music 24 hours a day, then they provide me with an iPod. And there are enough of us who want iPods that we've sold 10 billion iPods by now. I'm not sure if that's the exact number, but I'm just making that up.

And, of course, there are public goods that cannot be handled by the private market, and there are market failures that cannot be handled by the private

market. But when we have enough individual political freedom, then people are also -- have the freedom to make political choices to register their desire for the kind of public goods they want, the kind of public programs they want, the kind of fixes to market failures that they want. So political and economic freedom kind of allow individuals to figure out their own solutions from the bottom up, and that really -- it's really been the growth of political freedom and economic freedom that I think explains a lot of the development success that we have seen in both public goods and private goods.

Now some of you are thinking, "Oh, what about China? It's not democratic." That's the first thing everyone says whenever you talk about freedom and prosperity. Well, the key to this is to realize that this is -- we're talking about things that are long-run relationships. I think part of the mistake of those who are promoting greater individual choice was to promise that this would lead to an instantaneous increase in your growth rate. And we've

already seen that that failed to happen on a lot of occasions. And the reality is that there are very long and complicated lags between changes in systems or policies and growth rates. Also, growth rates are not really a very good indicator of success because they really just represent change, and they might just represent change from something that was horribly awful to something that is somewhat less awful today. The real indicator -- the real welfare indicator is the level of per capita income that a county has attained on average. The level of the standard of living that the members of a society enjoy, that's the real measure of success and welfare. And that is strongly correlated with political and economic freedom. So don't pay so much attention to growth rate. Let's look at levels of poverty and development and here the relationships are very clear and the data, and we also have lots of historical evidence, and we have lots of case study evidence, and lots of micro evidence that, you know, more -- a market that

allows for more individual choice is associated with greater prosperity in the long run.

And we're talking -- when we say -- you know, when you talk about market freedom or free markets or market choice, there's always these hackles that people -- that get raised when you've made -- oh, he must be an ideolog, you know, he must be one of those. You know, fringe right wing conspiracy types, and, you know, that's the suspicion because there have been a lot of crazy fringe right-wing ideologs that have pushed -- that have oversold free markets as being a solution to all human problems, and want to impose their own version of instantaneous free markets that a democratic society would never accept. So that's why it's so important to have democracy as part of the package. And, you know, so free market -- the free market slogan is sometimes used just to, you know, protect the interests of corporations or of rich people. So there is a lot of suspicion of the use of free market as kind of a slogan. It's not a slogan, it's just -- think of it as just allowing more

individual choice to people that choose their own careers, to choose their own products, to choose their own entrepreneurial adventures. And that kind of freedom of choice is associated with a lot more technological attainment and a lot more per capita income, higher standard of living, in the long run. And democracy is also associated with more -- with a higher standard of living in the long run.

Again, there are examples of, you know, rapid growth under autocrats, but that's not the -- growth is not a good indicator of success. Once again -- I want to keep insisting on that. The real indicator of success is the level of per capita income, and there the evidence is pretty overwhelming that rich societies are democratic societies. So you put these things together and it was clear the common element is you're just allowing a lot of individual choice, a lot of self-determination of individuals to figure out their own problems.

So here is the last chance for the development experts to have a role. So let's say some

development experts are just -- are persuaded by the argument that I just gave and they said, they're going to start telling the whole world dogmatically that free markets and democracy are the answer and only we development experts can tell you how to have free markets and democracy. So you still need us experts to create our idea of free markets and democracy for you; you still need us to implement that. Well, sorry, this was the last chance for the experts, but the historical and contemporary evidence suggests that things like democracy and free markets emerge from the bottom-up efforts of many individuals. There's this huge overemphasis, when we talk about institutions, as them being determined by the top down, by people passing laws, or by benevolent leaders or whatever, whereas if you look at the historical records, most of the evidence suggests -- of course there is some influence of leaders and laws on institutions, but most of the evidence suggests that the kind of institutions that support prosperity are really homegrown over a long period of time within each

society. And so they're not determined by the top down by experts. They grow from the bottom up, from the efforts of many individuals striving for better lives for themselves, striving for more freedom for themselves, that's how democracy and free markets evolve. And one way we know this is there have been over the last fifteen years a huge number of attempts by the aid agencies and the World Bank and the IMF to impose institutional change from the top down. And that has failed even more spectacularly than structural adjustment failed, than the big push of aid failed. This is the latest failure of foreign aid is that the delusion that you can impose institutional choice from the top down. Of course, we do have one relatively successful example of imposing new institutions from the top down, that's Iraq, of course. So I do want to allow some exceptions to the rule, but -- sorry, that was ironic, did you catch the irony in that? That was an ironic statement. I hope you got that.

So, I'm closing now with a statement from Friedrich Hayek who is someone that I think -- he was kind of dismissed for a long time as a right wing ideolog, which I think was really incorrect and unfair to Hayek because he really wasn't. He really saw this kind of expert -- the kind of failure of the development expert and the kind of case for the 6.7 billion development experts sooner than anyone else did. And so here's a representative quote I want to read to you: "If there were omniscient men, there would be little case for liberty. Liberty is essential to leave room for the unforeseeable and unpredictable." We've seen now that the growth rates that everyone makes such a big deal about are largely unforeseeable and unpredictable. "We want liberty because we have learned to expect from it the opportunity of realizing many of our aims. It is because every individual knows so little, we could also say because every expert knows so little, and because we rarely know which of us knows best." That's again a fatal blow at the presumption of

experts. "We rarely know which of us knows best, and because we rarely know which of us knows best, we trust the independent and competitive efforts of many to induce the emergence of what we shall want when we see it." Now this takes real intellectual self control to say that I'm not the expert who's going to impose the way things turn out, I'm just going to let everyone figure out their own solutions, and I'm confident that out of that will emerge something that we shall want when we see it.

So, one thing I always ask myself is why are development experts still so popular despite failing generation after generation? Now this is something I could never understand. And why are people who insist on sort of bottom-up individual creativity so unpopular? Well, I think you can understand it politically that a development expert who says "I have the answer" is really irresistible to a politician. You know, because a politician always wants to say "I have the answer to a tragic human problem." And also it turns out that the development experts that say "I

have the answer" are also very attractive to rock stars and Hollywood development experts, you know, like Madonna who is, you know, personally curing poverty in Africa by going around and adopting babies at random throughout African countries. It's gotten so bad that mothers start hiding their children when they hear that Madonna is coming to the village. So you know the development expert agenda has been remarkably successful in a P.R. sense. And so, you know, it's easy to understand when the advocate for free individuals is this guy Friedrich Hayek and the advocate for development experts are more glamorous individuals like Salma Hayek. You know, somehow the figure on the right just has a more successful P.R. campaign than the figure on the left. I don't totally understand this, but it happens. But despite the odds, despite the unpopularity of bottom-up answers and despite the popularity of development experts, freedom is spreading anyway. Here's the steady gradual increase in democracy throughout the world. The red is the countries that are not free,

the blue are the countries that are fully free, and the white are in between as rated by Freedom House. And, you know, the number of free countries is increasing, and the number of not free countries is decreasing. The same on economic freedom; that there's been a big increase in economic freedom throughout the world. And again, this is not going to show up instantaneously in growth rates, but it's gradually going to pay off on average in the long run. And so there's a lot of hope that the unprecedented global escape from poverty is going to continue, if it's in deed based on the creativity of individuals rather than the development experts.

But, of course, all of us still want to know what we can do to fight poverty. We can't be -- my idea of what a development expert is, is someone that has the presumption to think that, you know, you put them in a room with five other development experts and they can develop a plan for Burundi to climb out of poverty and attain prosperity by the year 2015. That's my definition of a development expert, and

that's crazy, okay? But there's still a lot -- saying that's crazy doesn't mean that all forms of expertise and academic -- all forms of academic expertise are useless. There's still lots of, you know, smaller problems that we can work on besides achieving extremely rapid growth in Burundi. There's lots of -- plenty of things that creative individuals who get well trained in academic expertise can do. You can be a social entrepreneur. There's a tremendous explosion throughout the world of social entrepreneurs that are finding creative solutions to poverty and to poor people's problems; a lot of them emerging out of the poor people themselves, poor people finding their own solutions as social entrepreneurs. There's tremendous hope from private entrepreneurs, entrepreneurs in markets, and the big lie about poor people is that they cannot be entrepreneurs. Any of you who have been to a developing country, just walking around you know that's not true. You've seen -- you see entrepreneurs all around you who are operating on a small scale, you know, making their lives better,

creating new products that other people with individual choice want. And, you know, if we are convinced that sort of individual initiative and creativity is really the real motive force behind development, then another role that one can play if you want to change -- if you want to gradually change, contribute to changing the tragedy of poverty is just to be an advocate for more individual freedom for all 6.7 billion individuals in the world today. That they have worth, that they have creativity, that they have a lot to offer, that they're -- our best soldiers in the war on poverty are the poor people themselves. It's their -- it's unleashing their political and economic creativity that's going to make the answer in the end.

Let me close this morning with a quote from Robert F. Kennedy on an answer to development. And today is kind of a sad anniversary; this is the fortieth anniversary of Robert F. Kennedy's assassination. And that was a real shock because he was such an inspirational and creative figure, and he

is one of my political heroes. Robert F. Kennedy basically said -- gave a long time ago the answer to development. The answer to development is you. You are the answer to development. You in the rich countries, you in the poor countries that are going to be social entrepreneurs and private entrepreneurs and campaigners for ideas that work. That's the answer to development; you are the answer to development. And Robert F. Kennedy said this, in somewhat more eloquent terms, and I'm going to close with this quote: He said "Each of us can work to change a small portion of events, and in the total of all those acts will be written the history of this generation. Each time a man stands up for an ideal or acts to improve the lot of others, he sends forth a tiny ripple of hope and crossing each other from a million different centers of energy and daring, those ripples build a current which can sweep down the mightiest walls of resistance."

Thank you very much.

MS. JAGADEESAN: Since we don't actually have much time, I'm going to go ahead and open this up for questions from the audience because I think that there's probably a lot of people out there who want to ask Bill some hopefully provocative questions. And I see a hand in the back. Want to stand up, say your name, and also where you come from before you start your question, that would be great.

QUESTIONER: Hi. My name is Jamus, and I work at 1818 H Street. Thanks for your talk. I really agree with you that individual choice often occurs within the larger strictures of political economic institutions, and ultimately one big goal that we have is to relax these constraints faced by individuals seeking to pursue their individual ends. The thing is that I guess I would like to challenge you that it's -- and what we should do is to just let it rip. And the reason why I say that is because we know that when we just let things rip, things often -- the way that these institutions evolve is often in the way that is inimical to individual freedom. For

example, we know that financial repression is more the norm in Latin America. In Russia, what we see as the rule of law does break down as an economy transitions and, likewise in Africa, conflict is often -- is very common throughout the continent. So, I guess I would just like to question whether it is true that what we should do -- that our role as development -- not experts, but development amateurs -- is necessarily to just say that we took a hands-off approach, but rather to understand the mechanisms that bring about these institutions to actually guarantee individual freedom. Thanks.

DR. EASTERLY: Yeah, I -- one thing I always have to clarify after a talk like this is that I'm not sort of anti-experts in general. I'm anti the development expert who has a presumption to think that they can transform a whole society by their greater -- by their birds-eye view of everything that goes into a whole society. I think that's ridiculous presumption and arrogance to think that. But when individuals make free choices, they do, you know, they do start

running across technical problems that need expert technical advice. You know, let's say that democracy campaigners are successful in, you know, overthrowing a dictator and moving towards a democratic system. Well, you know there is a role for people who know how to design elections and hold elections and how to write in, make electoral commissions work and make election observers work, and there's a lot of technical details there that you need expert advice on. So, you can, you know you can become expert in a lot -- the key to problem solving is to break a big problem down into lots of smaller component problems and, you know, experts can be successful specialists at solving a lot of the smaller component problems that underlie, you know, these big things that we're talking about here. So I think that's the answer to your question. I can't really give you anything more specific than that.

MS. JAGADEESAN: What I'm going to do because we're running a little bit out of time, I'm going to pull together two or three questions so that

Bill can probably answer them together. I think I saw a hand somewhere there.

QUESTIONER: My question was on the Washington Consensus. It's been a few years since I studied this, but as I understand it, it was a lot about free markets reducing state control and tariffs. So, is that -- it sounds like that's something you agree with, that we should -- that free trade is good, does that give individual economic freedom and if so, is that a success of the Washington Consensus?

DR. EASTERLY: Well, yeah, I think this is the -- you know there was this big sort of anti-market backlash that was caused by the over-promising by the advocates of the Washington Consensus because they said that the Wash -- if you adopt the Washington Consensus, that you will have an increase in -- an instantaneous increase in your growth rate. And that's just a gigantic over-promise, you know, that's -- we have no historical evidence to back that up. These, you know, free markets, free trade, deregulation, privatization, they pay off in the long

run. We don't know when they're going to off, we don't know how long it will take, but they pay off in the long run. And one reason democracy is so essential is that you need to -- it needs to be, you know, homegrown and democratically chosen. The other problem with the Washington Consensus is that it was perceived that it was imposed on countries by the World Bank and the IMF and the rich country G-8 from the top down. And that led to this kind of xenophobic populist backlash, which gave us Hugo Chavez and Evo Morales and Daniel Ortega and Robert Mugabe and, you know, that's the harm that is done when you combine, you know, overselling with coercion. That is sort of the ideal formula for creating a xenophobic populist backlash. But it doesn't -- it didn't discredit -- it didn't, when you really carefully look at the evidence, discredit the case for, you know, greater economic freedom because it does -- the evidence is that it pays off in the long run. And if we'd been realistic about that and let societies democratically choose their own paths towards more economic freedom,

then I think we would have had a lot happier outcomes. Sorry, I disobeyed your commandment to take several questions, but this time I'll try to restrain myself.

MS. JAGADEESAN: That's okay. I think there's two questions in the back. Why don't we combine those two.

MS. EVANS: My name's Laurie Evans. I'm with UNECLAC. And I've been reading a lot of your papers that you wrote on the correlation between foreign aid and growth, and you said that there really is no strong correlation between that. However, today you said that growth is not necessarily an indicator of success. And from the other graph that you show where you have this upper trend in education, downward trend in poverty, etc., to me it seems like those are the focus of aid projects is to increase education and improve health and whatnot. So to me it seems like foreign aid has been successful even though it has not improved growth rates. I'm just wondering what your thoughts are on that.

MS. JAGADEESAN: I think there's another question in the back; we'll combine that, too.

MS. LEE: Katherine Lee, Brookings. I have two questions. One, one could assert that the failure of the development experts planning in creating effective growth is a problem of implementation, not the actual planning results. So how would you respond to that? And secondly, stepping back even farther, do you have any counter factual information to show that these countries would have done better as opposed to worse given these experts' advice? You know, you show the blue line that shows stagnation, but how do you know that the countries wouldn't have done worse or even experienced negative growth without those plans by the experts?

DR. EASTERLY: Okay, anybody else?

MS. JAGADEESAN: There's two questions right up here and I think that's going to have to be the last two today.

MS. STEINBERG: Rachael Steinberg from the Grassroots Business Initiative. And I was wondering

if you see a role for development experts in social entrepreneurship and, if so, in what capacity?

MS. JAGADEESAN: And there's one more question here; it'll have to be the last question today.

MR. ZEFFER: Rahela Zeffer. How much would you agree with -- a lot of people in Pakistan, for example, would say if Pakistan just had a visionary leader and the elite, that our very wealthy paid taxes and things like that, they wouldn't even need foreign aid. They would be able to solve their own problems.

DR. EASTERLY: Okay. These are great questions. You're definitely raising the kind of things we need to discuss to address these issues.

So on aid and social indicators, could it be possible that aid was a success after all because of all these other successes on social indicators like education and health? This is something I've looked at and other people have looked at. I think -- first of all, let's give aid credit for -- there is one big success of aid I think that is pretty clear. And that

is the development of the aid agencies and kind of vertical health programs in the '60s and '70s to do sort of mass vaccination campaigns against diseases that were childhood killers, and not to mention smallpox, which was completely eliminated. That was a major success, and that was a success of foreign aid. I think that the case study evidence on that is pretty conclusive. So, you know, you always have to be kind of blunt when you're giving a talk, and then you start in the question and answer period you clarify everything. You know, so let's clarify that, you know, saying aid is a failure means it's a failure on an average. You know, it's -- we can only sort of talk about what happens on average most of the time as social scientists, but around the average, there will be some successes and there will be some even -- some cases where aid actually did harm and that, you know, -- then it sort of averages out to zero. So I think that the vaccination campaign is a clear example of success. But in the other social sectors, it's not that clear that aid was -- played that much of a role

in the success on social indicators. And the main way that we know that is that there are a lot of aid-intensive countries and there are a lot of other countries that were not aid intensive. And the progress on social indicators was just as great if not greater in the non-aid-intensive countries as it was in the aid-intensive countries. And when you, you know, sort of try to sort this out econometrically, you really fail to find any effective aid on these social outcomes.

On the counterfactual to experts, you know, that's a really valid point. You know, that we're getting into something more subtle here, which is that when experts sort of recommend big problems -- I'm sorry, sort of grandiose big solutions to big problems, one of the problems that it creates is that it's very hard to evaluate whether the grandiose -- what the effect of the grandiose big solution was to the big problem. It just turns out to be very hard to figure out, you know, with aggregate data what the effect was and think about what the counterfactual

would have been. But that sort of difficulty is in itself one good reason not to try to do big, big solutions. Because if you can't even figure out whether their effects are positive or negative and you're doing a big program, you know, that seems like really reckless and irresponsible to do a big program when you don't -- when you're not able to tell whether the effect is positive or negative. And for whatever it's worth, the econometric literature has heroically tried to figure out what the counterfactual would have been in the absence of structural adjustment or the absence of aid or the absence of experts or whatever, and generally the answer's pretty much the same as I implied by my quick recital of stylized facts, that we fail to find any positive effect of structural adjustment on growth. Some people even argue for a negative effect of IMF lending on growth, and that it just doesn't show up in the data when we do try and resolve these problems.

The social entrepreneur question, that's a great question. I think one way to answer this is

just reiterate what I said before, that any problem solving will sooner or later run into some technical problems that do require technical expertise. So I'm not, again, I'm not against experts in general. I'm against -- I'm sort of inventing this special category that calls themselves the development expert that I define to be someone who thinks that they can achieve development by themselves because of their great expertise, sort of from the top down, making, you know, expert recommendations to a visionary leader who will do what they say -- and I'll come back to the visionary leader next, in one second -- and that's the kind of expert that I'm saying has totally failed in development. And we should totally give up on that paradigm of looking for the big development expert who will advise the visionary technocratic leaders, but not on experts in general. Yes, social entrepreneurs who are trying to figure out how to deliver clean water to a village, you know, they require someone who has technical knowledge. You know, a new solution that has come along that is very promising, although

it's still too new to say for sure, is that people have realized that clean water doesn't necessarily have to require having a big, you know, water distribution system with lots of pipes going everywhere in the country to every rural area and delivering clean water. There are other technologies that we could use once we had some expertise to know what works. Water purification tablets are a very decentralized alternative to delivering clean water by pipe to everyone everywhere, and that's starting to be tested in the field by organizations like PSI here in Washington and they're had some success with water purification tablets. That suggests also another attribute -- I think another message that I want to imply by this talk is that part of the reason development experts failed so badly is that they assumed that they knew the answer in advance. And that's the exact opposite of the entrepreneurial mindset. The expert -- the development expert mindset is, you know, the answer in advance. I'm just going to plan and tell you the answer and it's going to

work. And they -- oh, I forgot the question about planning and implementation, I'm sorry. There's a very simple answer to that, which is planning by definition creates implementation problems that are unsolvable. If you try to do everything by top-down planning, that makes implementation impossible. It's only when you do sort of decentralized entrepreneurial stuff in the field that you find ways to solve implementation problems. You know we've tried for fifty years to solve the implementation problems of top-down planning; we've totally failed. So that's -- planning -- so say that implementation is the reason that planning sort of excuses the failure of planning, that's -- I don't think that's right, I think it's the implementation problem that caused planning to fail and there's no way that you can possibly solve implementation problems if you insist on top-down planning. There's too much coordination of different activities, of different organizations, that are just impossible to solve, and there's fifty years of evidence to show that.

So, anyway, the entrepreneur's attitude is just the opposite of the development expert's attitude. I don't know the answer in advance, you know, I thought the answer was going to be delivering clean water through water pipes to everyone in the country, but, you know, an entrepreneur keeps an open mind. What is the low-cost solution that can reach the most people possible on a fixed budget? And, you know, it might turn out to be something like water purification tablets that was totally unexpected. That's the beauty of individual creativity and initiative is that you find unexpected solutions. You know, almost all the technological breakthroughs that have given us our standard of living today were the result of individual creativity that was some combination of discovering things by accident. When you're looking for the solution to one problem, you by accident found the solution to a different problem. Or, you know, just a sort of intelligent focused search on something that you knew might work based on evidence from other related fields.

Okay, and then to close, the question on the visionary leader. This is, you know -- the visionary leader is like this -- one reason I'm suspicious of this sort of visionary leader idea is the key to development is that, you know, I read a lot of success literatures in different fields, you know, and there's this huge attachment to the visionary leader idea in every field where you start talking about success. You know, if you read the literature on why companies succeed, you know, all the bestsellers always say "Oh, it was the great visionary leader, the great visionary corporate leader" that explains why the company succeeded, you know. Or if you read military history, why did, you know, why did some army keep winning battles. "Oh, it was the great visionary general who is such a genius." If you read sports literature on why teams succeeded, "Oh, it was the great visionary coach that was such a genius that he put, you know" -- There's something suspicious about this constant recurrence of this visionary leader motif throughout all different kinds of success literatures. And I

think it really shows something about our psychology, you know, that we really -- you know we evolved in a setting where, you know, the leadership of our 30-man band when we were hunter gatherers in the caves was very important, and we're sort of very attached to the idea of this sort of heroic leader. And, you know, all Hollywood stories always involve some heroic individual who saves the day by their own, you know, individual heroism on behalf of the whole society that -- the heroic general, the heroic leader, or the heroic whatever. And I think this is just a myth, you know, that this is how success happens. I think it's -- it's really -- in development it's really pretty much circular reasoning, you know, that -- how do we know that so and so was such a great leader, and that he personally caused economic growth? Well, we know he was a great leader because there was high growth while he was in office. That's our only definition of who is a great leader. You know, so it's a perfectly circular argument. We know he was a great leader because there was high growth, and there was high

growth because he was a great leader. And that's pretty much the extent of the evidence that we have for the whole visionary leader idea. Now I will -- again, I'm overstating the criticism of the visionary leader paradigm. I think there are leaders that are better than others, and leadership does have some role, does have some impact, but I think it's vastly exaggerated in popular discussions of development for the reasons I've given. So, I think the answer's not visionary leaders, I think the answer is visionary creative individuals like all of you in this room this morning. Thanks.

MS. JAGADEESAN: I just want to quickly thank everyone for coming, and if you didn't grab some food, feel free to grab some on the way out. We plan to continue this series in the fall; we're taking a summer of recess essentially. But thank you to Bill and thank you to all of you for coming. Thanks.

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