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Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development
Benjamin Powell (Editor)
Stanford, California: Stanford University Press, 2008 (452 pages)

The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It
Paul Collier
Oxford, United Kingdom: Oxford University Press, 2007 (205 pages)

These two recently published works are a must fit in any economist's library, as well as that of any layman interested in the ongoing problem of poverty. They address the question: Why have so many of the earth's nations escaped from the depths of poverty while so many other aspiring nations have been entrapped, being poorer today than they were at the moment of their decolonization forty years ago?

Benjamin Powell's compendium is a composite of thirteen highly convincing articles that demonstrate, from a free market point of view, that the unique royal path to development consists in freedom. Mancur Olson lays the theoretical base for the argument, showing how the older, accepted theory that growth depends merely on inputs of resources and technology and is impeded by overpopulation or lack of resources, fails to convince. On the contrary, the real test of progress lies in institutions and policies. Holcombe, Baumol, and Lawson place their collective finger on the right kind of entrepreneurial incentives and the factors that accompany unfettered entrepreneurship: private property rights, low marginal taxes, and less regulation, all of which promote the exploitation of ever-expanding growth opportunities.

This conclusion is remarkably illustrated by the history of Ireland, where the entrepreneurial environment was greatly improved after the 1987 reforms. All of the miracle-producing innovations came about by reducing the size of the government: a cut in inflation coupled with lowered expenditures in education, health, agriculture, infrastructure, military, public employment, government debt—all between 6 and 18 percent. With the governmental budget thus hemorrhaged, traditional Irish free trade polices, coupled with reduced taxation rates and the commitment not to backtrack, produced "tiger-style" growth in GDP, raising per capita increments from a measly 3 to as much as 9 percent and causing Ireland to rise in rank to among the top ten freest economies in the world.

Powell follows with four tragic cases of entrepreneurial failure and then with five cases of reform and success based on better institutions and better policies. The basic reference is Gwartney and Lawson's *Economic Freedom of the World Index*, as a thermometer of progress from poverty to riches, paralleling the route from servitude to freedom.

The second treatise comes from the pen of Paul Collier, a lifetime expert on the non-development of fifty-eight small countries, mostly in sub-Saharan Africa. In *The Bottom Billion*, he describes the tragedy of one-sixth of the world's population, newly released from the supposed shackles of colonialism and now mired in continuous descent to ever-increasing misery. Collier's style is homespun, convincing, even endearing, as he recounts how he and his associates learned to grapple with the multiple problems producing African misery—his studies always being reviewed and okayed by peer scholars.

Collier introduces four traps that have afflicted these mini-nations after their decolonization and proposes remedies for each classification: the conflict trap, wherein progress has been rendered ineffective by perpetual civil wars followed by an endless series of coups; the abundance of natural resources trap, which converts what should be revenues into fantasies and actually impedes the normal functioning of politics; the landlocked trap that isolates those nations whose geographical remoteness leaves them without hope of infrastructure; and finally and most commonly, the bad governance trap, the so-called vampire states, wherein growth is stunted by overbearing African leaders themselves.

Collier then explores the inherent difficulties by which each of these situations render growth infeasible. Collier is a statist, not a plugger for free market solutions, which distinguishes him from the authors recruited by Powell. It is not so much the institutions and policies of the entrapped nations; instead, it is the response of the political world—notably G8 nations, the World Bank, and the International Monetary Fund—from whence "might" come salvation. Policy changes have not been able to do the job where coup after coup undo anything positive that valiant, conscientious Africans had tried to accomplish. Impossible is private property and clean entrepreneurship in environments where crooks are installed to vitiate, embezzle, and destroy whatever good was left over from the hated colonialism and then proceed to socialize the remainder.

Two of Powell's dozen, however, see possibilities for free markets in Africa. George Ayittey proposes that Africa's indigenous economic system, wherein private property had once reigned, without state controls under the auspices of an extended family system and had been crushed out of existence by the independent governments, should be restored to its former preeminence. He labels the period 1880 to 1950, "the Golden Age of Peasant Property," laid waste by the repression and destruction of the statists. Scott Beaulier then shows how free market policies made little Botswana into "Africa's best-kept secret" until its more recent period of overarching government reduced the pace of the country's modernization.

Both volumes reject nation-to-nation aid but with a significant difference.

As Vargas Llosa sums it up: "In the past fifty years, rich nations have given poor nations as much as $2.3 trillion in aid (in today's dollars), and so far not one of the countries that has overcome underdevelopment has been a primary recipient of that money." Collier, on the contrary, while recognizing the historic futility of so many of the aid payments, sees as the only hope for the bottom billion a new kind of aid—not the historical inadequacies of what he labels as the "headless heart." "Aid," he argues rather convincingly, "does tend to speed up the growth process." He asserts this on the basis of his sympathetic, convincing studies. "A reasonable estimate" he concludes, "is that over the last thirty years [aid] has added around one percentage point to the annual growth rate of the bottom billion. This does not sound like a whole lot, but then the growth rate of the bottom billion over this period has been much less than 1 percent per year—in fact, it has been zero."

On the basis of such studies as he and his associates have made, he concludes that aid has significantly reduced capital flight. Aid revenues have actually raised growth, whereas oil and other resource revenues have lowered growth, though both are financial transfers to bottom billion governments. Even though forty percent of Africa's military spending is inadvertently financed by aid, aid still has an important, though minimal, role to play in breaking the conflict trap. Collier concludes that the way we have given "headless" aid must be changed. Donors are now learning when to pay, how to pay, and how to stop paying when the marginal benefits disappear. Payoffs for technical assistance, rather than outright grants, have returned as much as fifteen times their costs.

Aid agencies must reform their practices: even USAID has been distorted by congressional commercial lobbies. Yet, more and more aid is in the political works. In 2005, the Gleneagles G8 summit, promoted by Britain's Tony Blair, committed to doubling aid to Africa. Bush's Millennium Project is noted and criticized for its unique dedication to governmental contributions. The roaring question is: "Is there another viable alternative?" This author suggests that the a priori rejection of aid on the part of Powell and company demands reconsideration. It is probable that, with no aid, things would be even more disastrous for the bottom billion.

The best of Collier, in the opinion of this reviewer, is found not in his proposals for performance-directed aid, or his suggestion of discreet outside military support to sustain those societies that are recovering from internal conflict, or his conviction that Africa has arrived too late on the world globalization scene to be able to compete with China and India, which have now forged their own entrenched economies of scale. Rather his chapter, "Laws and Charters," provides a realizable project that could well warm the hearts of Powell's free marketers. International norms, Collier proposes, in the style of the Basel bank conventions, would outlaw the corrupt foreign bank deposits whereby "40% of wealth created in Africa is invested outside the continent" and "for every dollar that foolish northerners lent Africa between 1970 and 1996, 80 cents flowed out as capital flight in the same year, typically into Swiss Bank accounts, or to buy mansions on the Cote d'Azur." A second charter on the proceeds of the development of mineral resources, as illustrated by the success of the De Beers Group in the case of diamonds; a third on budget transparency; a fourth on how to standardize acceptable rules for investment; and yet another to normalize post-conflict situations, would round out the necessary reforms. These are very practical proposals and should occupy the talents of the economics profession.

Every economist worth his salt must consider as required reading the successes and dismal failures of development presented by Powell and Collier. It is an indispensable task for the modern economics profession to call a halt to the conventional nondescript claptrap that has served as development theory over so many decades and to provide the profession with tangible remedies, especially for the backsliding economies—one sixth of humanity. Yet, economists do not seem to read each other's works. For example, the free market hero on development has always been the late Lord Peter Bauer, "a lone voice in the wilderness," as Lawson states. He dedicated a lifetime of study to Asia and Africa to show how it is attitudes and policies that matter—and not foreign meddling. Collier has no reference to Bauer; of Powell's associates only four mention him (Lawson, Vargas Llosa, Dorn Shah, and Sane).

Going outside the profession, one has no excuse not to refer to the pride of place in the development of Western civilization on the part of the Catholic Church, as Deepak Lal notes in his introduction, referring to the accomplishments of two Pope Gregorys in the sixth and eleventh centuries. More recently and to the point, the social encyclicals of the Catholic Church, as updated by the recent publication of the *Compendium of Catholic Social Doctrine*, are probably the most common-sensical, nontechnical versions of what reforms could well be made in the modern economic world. The Church has occasionally miscued in the past, as in the case of an oblique adherence to fascism in 1931 and in suggesting foreign aid as a panacea in 1970. Yet, the Church's basic contribution is the doctrine of subsidiarity, promulgated by Pope Pius XI in 1931. This author contends that all the free market proposals made by Powell's economists are neatly summarized in subsidiarity, and most of Collier's insights are implied in the negative provisions of the subsidiarity principle: what the governments should not do, lest they destroy the entrepreneurial spirit. It seems that no economist has yet discovered this.

Subsidarity suggests, à la Powell, that maximum bottom-up freedom be given to the activities of the entrepreneur, his rights to private property, and independent decision-making. It instructs, too, that the ingressions of the state, à la Collier, be substantively limited to create the basic environment in which free entrepreneurs can successfully do their thing under a rule of law.

This is, then, a clarion call to the economics profession to get its development package rounded out, especially with reference to those bottom countries that are still mired in futility. Powell and Collier are both super, but still more is required for the greatest problems to be solved.

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Frugality: Rebalancing Material and Spiritual Values in Economic Life

Luk Bouckaert, Hendrik Opdebeeck, and Laszlo Zsolnay (Editors)

New York: Peter Lang, 2008 (322 pages)

Each essay in this important collection presents a comprehensive analysis of one aspect of the long and deep roots of frugality. Thus, under the heading entitled "Frugality in Spiritual Traditions," Luk Bouckaert leads us to distinguish the difference among rational, spiritual, and instrumental frugality. Each leads to substantially different modes of thinking and living. With the assistance of Rafael Esteban, we learn how negatively the "idolatry of consumption" affects the entire arc of development from the personal to the cultural and the communal. Francis Kadaplackal guides us to see man as a cocreator and thus returns to the frugal man a full sense of responsibility for his actions toward others and our planet. Laurie Michaelis reminds us that calls for the practice of frugality lie at the very core of the Quakers' concept of life, a perspective that accepts the usefulness of business as well as the duty to care for others, and naturally extends itself to work for a world of peace.

Under the heading "Frugality in Socio-Economic Perspective," Dirk Geldof places the issue of overconsumption into its proper context. By giving its due to the deep psychological meaning as well as the negative aspects of consumption, he becomes entitled to propose frugality as a positive alternative that reduces the risk of global ecological collapse, smooths the ongoing trade-off between wealth and well-being, and tilts the quantity of time spent earning money and shopping in favor of time spent improving the quality of our lives.

By linking frugality to luxury, Ronald Commers and Wim Vandekerckhove display the full spectrum of the long historical conversation about the morality of production by the many for the luxury of the few. After pointing out that the danger of capitalism lies in the "commodification of everything," they explore the possibilities of stakeholdership in the full context of the global economy.

Knut Ims and Ove Jakobsen, placing themselves into the organic worldview, make us clearly see that mainstream economics, tied as it is to the mechanical worldview, reduces human beings to atoms unconcerned not only with other human beings, with their society, and the world but even unconcerned with their own psychological well-being.