

The Sachs VS Easterly Debate

Quiz - 1

1. What are the main arguments of Sachs about Poverty in Malawi and steps to counter poverty?

Jeffrey Sachs is a prominent American economist and academic, most known for his stance on the fight to end global poverty. His seminal work, 'The End of Poverty,' delves into the struggles faced by numerous nations due to poverty, while also proposing comprehensive strategies for its eradication on a global scale.

In his books, he uses the example of Malawi, a country in southeastern Africa, to facilitate his point about all the various reasons a country could find themselves in poverty.

- He mentions that the demographic landscape of Malawi is characterized by a scarcity of middle-aged individuals due to the devastating impact of diseases like AIDS and malaria, leaving the elderly and orphaned children as the majority. Food is also another concern because of meagre agricultural yields exacerbated by small farm sizes and soil depletion.
- Children and adults succumbing to malaria and HIV is tragically common because of the lack of healthcare facilities and drugs. While there are initiatives like Cipla, an Indian generic drug producer that offers affordable antiretroviral medications to impoverished nations, access to hospitals in the country is very limited. Sachs narrates an incident about a young child suffering from malaria and how her grandmother had to carry her to the hospital on her back. However, on reaching the hospital, they learnt that the drug was not available and

that they would have to come back the next day. While the grand-daughter managed to survive, Jeffrey rightfully points out that many are not as lucky.

- Intriguingly, Malawi's HIV strains remain susceptible to medication as they have not encountered widespread drug resistance, attributed to the nation's historical lack of access to such treatments. Sachs recalls how the doctors there are satisfied when their patients have access to the drugs at least once a week, which is not something to be proud of.
- Further, Malawi's economic landscape is dire, with incomes hovering around a mere 50 cents per person per day, equivalent to approximately \$180 per person annually. The convergence of climatic disasters, persistent disease burdens such as malaria and schistosomiasis, and the catastrophic AIDS pandemic paints a distressing portrait of the nation's plight. Surprisingly, Malawi upholds a multi-party democratic system, navigating the complex terrain of fragile democracy within an impoverished context. This is bound to come with challenges, as a nation grappling with pervasive mass diseases, famine, and climate shocks attempts to maintain the principles of democracy.

Africa and Asia, both developing continents, are so different in their current economic states and the several reasons for this is highlighted in the book 'Guns, Germs and Steel'. The author, Jared Diamond, offers an insight into how the major continents differ so much in their crop species, domesticated animals, disease ecology, transportation and other geographically related factors that aid in economic development. The success of Eurasia goes all the way back to the early 3000BC. Until then, it was the hunter-gatherer system that was prevalent, and people would live in smaller, nuclear groups and never restrict themselves to one place. However, the emergence of societies in Eurasia was not a coincidence since every form of development that occurred led to the formation of societies. Agriculture, herding and irrigation, which all developed independently in different parts of Eurasia, were monumental in this shift. The resulting social stratification, division of labour and dense populations led to further development of tools, states and writing. Thus, the book looks back at the history of the whole world and brings up reasons for Eurasia's head start and why Africa is so behind now: they didn't use make use of agricultural resources.

To drive his point home further, Sachs shows statistics of how one-sixth of the human population - almost 26% - live as Malawians. He implores affluent nations to extend their support to the poorer nations, drawing upon the principle that they themselves were once uplifted by the assistance of others on their journey. Thus, he believes that the solution to poverty is global aid.

- Sachs believes that aid can help fill the 'financing gap'. The financing gap refers to the difference between the capital investment that a country requires and what it actually produces annually. Aid and donation from countries that produce enough surplus can help bridge this gap, and help the countries focus on education, healthcare etc.
- He also argues that aid will help in capital accumulation which will lead to subsequent growth. Capital Fundamentalism is the idea that capital accumulation is central to the rate of economic growth. Sachs was a strong believer of this idea because growth requires investment, and if a country doesn't have enough savings, aid can help them reach their goal.
- Thus, while a lot of the developing world is trapped in the vicious cycle of poverty, globalisation and modest investment from developed nations could be the answer. Globalisation is important because countries are very interconnected in the present age and opening their markets to other countries could lead to better opportunities.

A famous quote by Jeffrey Sachs is "The world is not a zero-sum struggle in which one country's gain is another one's loss". He truly believes that this is a game in which every country involved is benefitted. John Maynard Keynes is another prominent economist who is in support of this idea. He wrote about the need for nations to help each other and the fact that diffusion of technology is the reason for economic growth. Even countries that aren't technology inventors themselves, can benefit from the manufacture and trade market that opens up because of technology. An example to support this is South Korea and Bangladesh. South Korea introduced the textile industry in Bangladesh, after import quotas were imposed on them by the Americans. This led to a huge boost in the economy of Bangladesh and they are still one of the leading producers of textiles and garments.

Adam Smith also makes points that support Jeffrey Sachs argument of global poverty. He says that specialisation of skill and how gaining mastery over a specific ability can prove useful. Division of labour is useful because now people can trade their skills for other useful services. However, he notes that this is only successful if there is a viable market and the skill is in demand.

Thus, Sachs brings up several case studies and uses Malawi as his primary example to come up with arguments for why global aid is the answer to the current poverty crisis in the world, and how the poor countries developing will not lead to the fall of the developed countries.

2. How did Easterly critique Sachs?

William Easterly is a former World Bank economist who worked as a senior advisor in the Macroeconomics and Growth Division. He is one of the most prominent voices in the debate against Sachs and their arguments are a fundamental part of understanding the current poverty debate in economics.

‘The Elusive Quest for Growth’ is the book authored by Easterly and it is a direct critique to all theories of how poverty can be remedied using foreign aid, investment in machines and fostering education. While he doesn’t say that these solutions will never work, he argues that they haven’t thought through how to practically apply economic principle in a real life scenario.

- In 1997, William Easterly authored ‘The Ghost of Financing Gap: How the Harrod-Domar Model Still Haunts Development Economics’. The Harrod-Domar Model states that the rate of growth depends on the quantity of labour and capital and that more investment in machines leads to more capital, causing more growth. Easterly completely opposes this idea and says that the model fails drastically in explaining the performance of investment and growth. He cites several research papers that show how the model declined years ago but is still being used by leading international organisations.
- The above models justified foreign aid from Western nations and organisations to fill the finance gap between savings and investments.

However, Easterly demonstrates that most aid did not go into investment in the years 1965-1995 and finds no statistical association between investment and growth. Aid fails because its implementation is not accountable to the people served and he says that in this way, the opinions and insights of the poor people are ignored.

- Easterly is a strong supporter of the Solow-Swan Model of economic growth. Using the model, Solow analyses how higher savings and investment does not have an effect on long-run economic growth, though it may increase the rate of growth and national income in the short run. He argues that for a stable long-term growth, we need to have technological progress in addition to physical labour and capital accumulation. Skilled labour and educated human capital are also another important factor in economic growth. Easterly is also a vehement opposer of capital fundamentalism (an idea that is central to Sachs theory) and he says that capital accumulation on its own cannot account for growth because poverty is not just low GDP but also hunger, child labour, gender bias and oppression
- Incentives to provide aid and to use technology is the solution, says Easterly. While technology creates traps for poverty there are also ways in which it could help break it. Technology responds to incentives and even if a technology exists there must be reasons to use it and innovate. Technology on its own is not enough. An example in favour could be the Romans who had the steam engine for so long but only used it to open and close doors. Poor people are doomed from the beginning because their matches and leaks come from other poor people. According to Easterly, governments can help overcome poverty traps by investing in knowledge and reducing taxes on goods and technology.
- He also argues that aid alone is not the answer because economic growth is very unstable and depends on several factors that are out of our control like climatic disasters, and poor initial economy. Aid could be ineffective if the government is corrupted and biased and it finances consumption and not investment.

Thus in conclusion, Sachs does not deny that the aid system has problems and Easterly agrees that the aid system does have some success stories and has worked in a few situations.

