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# The World Bank and the persistence of poverty in poor countries

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A review article: The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics, William Easterly, MIT Press, 2001, pp. 1–342. ISBN: 0-262-05065-X. Hardback

**Abstract**

William Easterly has written a book about why extensive development assistance over the course of decades failed to alleviate poverty in poor countries. As an economist at the World Bank, Easterly observed how resources and advice provided by the Bank failed to improve the lives of the poor in poor countries. Easterly considers different explanations for the development failures. He places the blame for persistence of poverty in poor countries on governments and political elites, who use their poor as hostages to personally benefit from aid resources and debt relief.
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## 1. The absence of growth and persistence of poverty

The World Bank is a development institution that provides resources, technical assistance, and policy advice to governments in countries where substantial parts of the

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population are poor. The mission of the World Bank is to end poverty in the poor countries of the world. William Easterly devoted some two decades of his life to this mission as an economist at the World Bank and has written a book about why the efforts of the World Bank have been largely unsuccessful in helping the world's poor.

Easterly begins in Chapter 1 by setting out the correlation between growth and alleviation of poverty. He then explains in Chapter 2 how the Harrod–Domar growth model provided the analytical foundations for the World Bank's aid programs. This model predicts that future growth depends on present investment. The model allows a target rate of growth to be set and the external aid required to achieve the growth rate to be determined. Once the target growth rate is set, economists at the World Bank can calculate the resources necessary for the growth target to be achieved. The aid fills the gap between domestic investment and the total investment required to achieve the growth target. Easterly points out that the larger a country's resource gap for achieving the intended growth target, the more resources the country requires to achieve the target, and governments in poor countries could therefore maximize aid resources received by lowering their domestic savings effort, so as to create a larger financing gap that required more aid resources. The Harrod–Domar model therefore penalized countries that had high domestic savings rates: there was moral hazard, since governments could manipulate the good intentions of the World Bank. The Harrod–Domar growth model continued to be used when it was apparent that the model was ineffective in predicting growth:

> We IFI (international financial institution) economists used the financing gap approach even when it clearly wasn't working.

Easterly notes specific cases, for example,

> Total GDP in Guyana fell sharply from 1980 to 1990, as investment was increasing from 30 percent to 42 percent of GDP, and while foreign aid every year was 8 percent of Guyana's GDP. This was no triumph for the financing gap approach.

After this lack of success,

> another World Bank report in 1993 argued "Guyana will continue to need substantial levels of foreign capital inflows ... to provide sufficient resources to sustain economic growth (p. 36).

The World Bank's strategy was persistence:

> That didn't work, so let's try it again (p. 36).

Easterly points out that the Harrod–Domar model is a formalization of a Stalinist growth strategy that predicts that economic growth will follow from mobilization of resources for investment. He notes the irony that the model was applied to determine development assistance for the transition economies that in the 1990s were seeking to escape the legacy

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