



THE QUEST FOR PROSPERITY
BY JUSTIN YIFU LIN
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REVIEWED BY DAVID A. PRICE

How quickly can Burundi reach Switzerland's level of development?" asks Justin Yifu Lin, former chief economist of the World Bank. His answer in *The Quest for Prosperity* is that it can happen swiftly indeed, within one or two generations — if the government follows the right policies.

It's not clear whether he means literally that Burundi's per capita GDP of \$275 can match Switzerland's \$83,073. But economic development has yielded surprises before: As Lin notes, development economists in the 1960s widely believed that African economies had better prospects for development than those of East Asia.

Two generations later, we know that what actually happened was the opposite. Influenced in part by Western development economists, postwar economic development in Africa, both above and below the Sahara, began as comedy — with the belief that Soviet planning was a good model for creating prosperity — and ended in tragedy. Many other countries worldwide adopted a similar model and fell victim to the same fate. "Instead of converging to the developed countries' incomes," Lin observes, "those in developing countries stagnated or even deteriorated, and those countries' income gap with developed countries widened."

Lin's project in this book is to glean lessons from the success stories, such as the fast-growing East Asian countries — among them the Republic of Korea, Japan, Singapore, and now the People's Republic of China — and from other countries that are now successfully developing, such as India and Chile. (To be sure, some of these countries, particularly China, India, and Chile, are developing highly unevenly, with large segments of their populations remaining impoverished.) His resulting framework is a synthesis of the so-called Washington consensus of the 1990s and early 2000s, which embraced free markets and eschewed central planning, with the postwar development model, known as structuralism. ("Washington" here refers to Washington-based development institutions rather than United States policy, though the two may overlap.)

Lin's "new structuralist economics" gives free markets a primary role in allocating resources, but also sees a necessity for national governments to pick industries and support them as a condition of rapid growth. In short, he wants the P word, planning, to be respectable again.

BOOKREVIEW

Putting Planning Back In

Some of the forms of targeted government intervention that he advocates are modest in scope, such as improvements to electricity, telecommunications, and transportation infrastructure that may be industry-specific. But he argues that policymakers should go further in view of what he regards as the externalities inherent in pioneering a new industry within a country. Pioneering firms, he writes, must "overcome issues of limited information about which new industries are consistent with the economy's latent comparative advantage."

Moreover, he contends, intervention is needed to bring about geographical clustering within an industry, which, in turn, yields agglomeration benefits such as information-sharing and a pool of specialized labor. "If industrial upgrading and diversification are left to random spontaneity, firms may enter too many different industries," he argues. "As a result, only a few sufficiently large clusters may emerge."

Lin's brief for industrial policy in the context of development economics raises much the same arguments, pro and con, that debates over industrial policy have dealt with since the 1980s. For Lin to convince the unconverted, he needs to accomplish three things, at least, and *The Quest for Prosperity* doesn't succeed at them. First, he does not show that the success stories in East Asia and elsewhere are success stories of industrial policy rather than success stories of liberalized markets or broad-based infrastructure improvements. It would take a detailed analysis to disentangle the effects of these influences, an effort that Lin does not undertake in his largely anecdotal narrative.

Second, Lin fails to establish that national governments can overcome "issues of limited information" where private investors and entrepreneurs cannot. He contends that a policymaker need only look at growing countries with comparative advantages similar to those of his own country, and with a higher per capita income, and target those countries' steadily growing tradable industries. But if it's that easy, why can't the private sector do it?

Finally, he does not make the case that national leaders can generally be trusted to favor selected industries on their merits rather than on the basis of cronyism or political appeal. He writes that government leaders and officials, in his experience, are "motivated by the genuine desire to do something good for their people." Perhaps so. But what would the corrupt ones do — confide in the World Bank that their real ambition was to send millions of dollars to their secret bank accounts?

Although *The Quest for Prosperity* might not convince the neutral reader, let alone the skeptical, it is a readable introduction to a moderately more interventionist perspective on development economics. **RF**