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Boris Begovic *et al.*, *From Poverty to Prosperity: Free Market Based Solution*,

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Why have some countries grown rich while others remain poor? What are the main causes of poverty? What are the forces that can explain the path from poverty to prosperity? Explaining growth is the ultimate rationale of economic enquiry and it is hard to think of more fundamental questions for economists to answer. Questions like these have inspired a rather prolific genre of economic literature and *From Poverty to Prosperity* belongs to this field.

As the authors state in the introduction, the book is firmly based on a strong belief in the invisible hand of the free market and the personal responsibility of the individual for his/her welfare and prosperity. Given the CLDS's (a leading economic think-tank in Serbia) mission, this is certainly no surprise. While too much ideology too often clouds the facts, the authors successfully avoid pitfall of writing just another pro-market (cook)book. Many books on similar topics failed to present a comprehensive and interlocking overview of the various relevant issues, concepts and theories. The authors succeed in providing a clear and easy-to-follow book for anyone hoping to better understand free market solutions to seemingly many unsettled questions and unresolved issues.

What are the main qualities of the book? Among others, the writer of these lines noticed two. First, the book lays the topics in a systematic way centred on incentives and individuals. This is not often the case. Second, taking into account the diversity of topics, the book is concise, yet to support their views *From Poverty to Prosperity* has a lot of explanatory illustrations and purposeful digressions. These two qualities contributed to the third one – *From Poverty to Prosperity* is convincing.

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As the pendulum swings back to a tighter control and regulation of markets, to a larger role for the state, and consequently to a smaller and more constrained private sector, the timing for *From Poverty to Prosperity* couldn't be better. Indeed, from the Rust Belt states in the US to state-owned companies in Serbia requests for subsidies, tariff protection of "the core" industries and other forms of redistributive and protectionist policies are everyday gaining more support among the population at large. With respect to current crisis, *From Poverty to Prosperity* represents a useful reminder of the basic economic principles and sound economic policies that policy makers tend to sacrifice for some "higher interests".

In the first chapter, authors discuss several notions of poverty, poverty measurement, causes of poverty and the distribution of poverty around the world. The authors argue that the only relevant concept for considering poverty and the path is the absolute poverty. Unlike absolute, relative poverty represents a measure of economic inequality.

The authors also provide well founded criticism of the "human rights approach" to poverty. The second theme of this chapter is that the only sustainable way out of poverty is economic growth and not redistribution. If redistribution works at all, it works only temporarily, as in the long-run it removes incentives for wealth creation. While authors, based on latest empirical investigation as in Dollar and Kraay (2002), suggest that growth and poverty reduction go hand in hand, the relationship between inequality and growth is at least not that firm. This question maybe deserves more attention and I will get back to it later.

Chapter two, following Baumol's approach discusses the role of entrepreneurs and public policies that enable entrepreneurship to be productively allocated. Entrepreneurs must be rewarded for their success and if not, authors point to negative economic effects caused by redistributive policies and onerous tax system that lead to what Baumol (2007) calls "the evil twin of entrepreneurship" – unproductive activity. Authors seem to deliberately narrow their discussions not examining the differences in the types and respective roles of entrepreneurs in various systems. However, this is more than justified, as the centre of their investigation is the individual and both replicative and innovative type of entrepreneur share similar attitudes toward public policies analyzed in the chapter.

The underlying reasoning of chapter three is straightforward. The examination of the role of trade is persuasive and along with entrepreneurship authors regard it as the key explanatory variable of prosperity. Even though one of Adam Smith's most important insights was that specialization, and therefore trade was critical to growth and for enhancement of welfare, protectionism has been competing with the concept of free trade for centuries. Besides Bhagwati's three fallacies (infant industries in poor countries will collapse unless protected, the rich countries have more trade

barriers than the poor ones and agricultural subsidies in the rich countries prevent the poor from becoming successful agricultural exporters), authors add the fourth one – freer trade would lower wages in rich countries and protection remains necessary. All these fallacies remain to be a powerful justification of policy makers in defining their (protectionist) trade policies. Examples used in this chapter are especially revealing and help reader to understand the root cause of the problem.

Chapter four is devoted to the topic of foreign aid. It presents normative and positive analysis of foreign aid and provides analysis of the correlation between foreign aid and economic growth as well as the assessment of the link between foreign aid and institutions. Following recent research, authors argue that two most investigated poverty traps, those relating to low savings and low productivity, simply do not correspond to the facts (what Easterly in his *The White Man's Burden* calls “Legend Part One”). Furthermore, authors argue that the motives for granting aid do not have much in common with the economic growth of a country or with the reduction and elimination of poverty in that country (or as in Easterly's book second tale of the Legend). It is obvious that between Sachs's social engineering and almost missionary approach and Easterly's view that foreign aid is neither necessary nor sufficient to raise living standards, authors opt for the latter. This leaning is also seen in the conclusion to this chapter where authors, similarly to Easterly, advocate piecemeal intervention approach or as they put: “*The future of foreign aid, ..., lies in the abundance of different forms...aimed not at global goals but at small projects*” (p.118.). In some ways, the more interesting part of this section lies in the section devoted to the impact of foreign aid on policies and institutions of the recipient country. Authors' detailed analysis of incentive structures supported with depictions of donors' failures is indeed persuasive.

Chapter five analyses relationship between the rule of law (as an efficient protection of private property rights and as an efficient control of contract performance) and economic growth. Indeed, protection of property rights, as well as the burden of fiscal redistribution has long been viewed as growth related factors. This chapter provides first-rate analysis and review of the most recent contributions to the literature. However, the discussion is not limited only to the rule of law, the ways how to provide it, components and aspects of the rule of law, etc., the chapter also includes the examination of the significance of legal origin, relationship between political institutions and property rights, with incentives again as a key unifying theme. As correctly stressed by authors, the main precondition for successful institutional reform is the existence of strong and sustainable incentives to the authorities for that. In fact, as Sonin (2002) recently argued, the rich might benefit from shaping economic institu-

tions into their favour, as their ability to maintain private protection system makes them the natural opponents of full protection of property rights provided by the state. As a consequence in such an environment does not allow demand to drive development of new market-friendly institutions (such as public protection of property rights). To avoid such trap and to make an impact in terms of growth, political elites are often obliged to provide rents to key actors, which in turn allow them to create an institutional environment suitable for growth.

Chapter six discusses the relationship between public finance and growth. It starts with statement that there are needs, or public goods, which must be provided and financed at the government level (security, education, public lighting, etc.). The authors do not see government only as a night watchman (at least not the extreme view of it), but clearly state that out of four usual functions of the government (regulation, allocation, redistribution and stabilization) the focus should be on the provision of public goods, especially those that improve the investment climate including macroeconomic stability and on setting the clear limits with respect to the government role in compulsory redistribution.

Unlike other chapters that are mainly about growth, chapter seven is about redistribution. Authors argue for a very limited compulsory redistribution of income and for social assistance only when no other instrument or policy can be used. As they note the crucial features of good social assistance are that it is limited, well targeted, and includes incentives. Only individuals without choice should be the target of social assistance. It is economic growth, not redistribution, which can bring prosperity to citizens.

A book of this sort obviously provokes many points of discussion, but I would like to turn briefly to an overview of several points that I have questions about. The first concerns issues that are likely to call for additional investigation namely education/human capital and cultural aspects. However, the book does not appear to lose much focusing on the abovementioned topics, so I will rest my point. Some possible additions might be useful, e.g. as economists by their nature quite often tend to generalize issues, reader is probably not clear about the authors attitude towards “one size fits all” approach.

The most usual criticism of this sort of books is that the policy suggestions they provide may look impractical or politically infeasible. While the book is abundant not only with theoretical examination but with numerous examples as well, probably additional examination of several success stories could be beneficial. By that I mean cases in which government succeeded in creating and guaranteeing economic freedoms and in securing the ‘social’ contract between the political elites, the rent-seeking groups and the population at large. Thus, some sort of recognition that the

distribution of economic rewards is a subject that cannot be ignored when a country is trying to promote growth, if only because highly inequitable distributions of income can give rise to political pressures that inhibit or defeat growth. With this respect additional discussion on political economy of growth should be welcomed.

For those readers who have already been persuaded of the value of market-oriented reform, *From Poverty to Prosperity* may be preaching to the converted, but even they will find new or improved argumentation. However, the key readers should be policymakers. As noted by Baumol (2007), policymakers are like students who are given a mass of assorted facts to memorize but have no structure or context in which to place them. As a result, they quickly forget them when confronted with the everyday challenges of having to run governments and meet the unceasing and often conflicting demands of their citizens. For them this book provides both context and arguments how to run sound economic policies. Not only policymakers but unfortunately economists as well often forget basic principles and (for various reasons) support unsound economic policies. Whether they will benefit from this book remains to be uncertain, nevertheless there is a hope that this book will represent a precious reminder of the basic principles of economics. Last but not the least, this book could be used as an additional reference in several undergraduate and graduate courses.

Though one cannot stop the pendulum swinging to more state intervention, any effort of preventing it to move dramatically should be welcomed, and *From Poverty to Prosperity* is the notable one.