# Book Reviews

*The Economics of Poverty Traps*
Edited by Christopher B. Barrett, Michael R. Carter, Jean-Paul Chavas
The University of Chicago Press: Chicago and London, 2019. 464 pages, $130.

The volume collects papers presented at an NBER conference on poverty traps held three years before its publication date, supplemented by invited commentaries. As noted in the introduction by the editors, all leading scholars in the field, poverty traps are circumstances characterized by a set of co-determining factors, a *self-reinforcing mechanism*, making poverty a stable and persistent outcome. In the time-honoured example, lack of income prevents adequate investment in health, and poor health in turn keeps productivity and income low (Mazumdar, 1959; Stiglitz, 1976; Dasgupta and Ray, 1986).

The established importance of early-life factors for adult health suggests the self-reinforcing mechanism may play out across generations, and one chapter (Araujo et al.) presents empirical findings on the impact of a cash transfer program in Ecuador, aimed at improving child health and education, 10 years after disbursement to explore this possibility.

Health is multidimensional, and whereas early studies focused on physical work capacity, recent literature builds on behavioural science to explore potential mental health mechanisms (Mani et al. 2013). Three chapters pursue this direction, mostly through literature reviews and modelling, looking at impaired cognitive function (Boswell Dean et al.), depression (de Quidt and Haushofer) and lack of aspirations (Lybbert and Wydick). Surprisingly, there is little coverage of biomarkers, despite bourgeoning research on the biology of human behaviors (e.g. Pollack and Wolfe, 2020; more generally Sapolsky, 2017). Preliminary findings for aspiration effects is not particularly encouraging, although another chapter (Macours and Vakis) presents evidence suggesting that lasting benefits of a cash transfer program in Nicaragua were concentrated among local leaders, such as program promoters and health workers, and those who interacted more frequently with them – pointing to motivational spillovers. A challenge for research on aspirations is to identify instances of "sticky" hopelessness facing *large* new opportunities, as pessimism might well be broadly adaptive for small ones – which are easily undone by bad luck. Large increases in the return to effort that fail to raise hopes in them might be rare, but nonetheless crucial. It would be useful to gain systematic knowledge of "natural" changes in aspirations during successful developmental experiences, to get a sense of which policy – if any – can provide functionally analogous stimuli.

Absent the self-reinforcing mechanism, poverty is "merely" transitory. But there is little comfort in painstakingly slow growth. Excessive emphasis on initial conditions versus dynamics easily feeds the expectation that unlocking a trap is just like pulling a trigger. This seems to have been the case of microfinance. After a comprehensive (if not systematic) review of the literature on asset grants and microcredit interventions, Buera and co-authors echo conclusions already drawn elsewhere: these interventions often increase income and consumption, especially among incumbent entrepreneurs, but mostly fail to cause self-sustaining capital accumulation and growth. They then show that the evidence fits a trap-free general equilibrium model in which microcredit improves the distribution of income by relaxing credit constraints, whereas one-time asset grants have no long-term impact, and temporarily decrease aggregate capital and productivity.

An alternative to this dispiriting conclusion is to consider that endowments and dynamics may jointly determine a more complex poverty trap. This intuition is presented in the introduction, and variously developed in three chapters by the editors and their co-authors. If paths of human and physical capital accumulation are modified by shocks, people can fall back into poverty, and existing interventions might have failed to be transformative at least partly because they targeted the current poor as opposed to the expected ones (Ikegami et al). Thomas and Frakenberg report detailed anthropometric panel evidence on the impact of two large shocks in Indonesia, the 1998 financial crisis and the 2004 tsunami, which indicate strong resilience of affected communities – perhaps due to bold government recovery programs. Differences in wealth and in the ability to deal with shocks to wealth can interact and generate multiple equilibria, as Santos and Barrett show in a striking application to livestock accumulation among Ethiopian pastoralists. Finally, Chavas provides a general theoretical framework to think about nonlinear stochastic dynamics and their identification in time series.

The book is dense and diverse in substance and method, nicely blends theory and empirics, and attains homogeneously high quality. It will be of interest to all economists and social scientists concerned by development issues.

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*The Myth of Economic Development*
By Celso Furtado
Polity Press: Cambridge, 2020. 111 pages, £14.99. Originally published in Portuguese as *O mito do desenvolvimento econômico,* 1974.

Celso Furtado was a Brazilian economist born in 1920 and was one of the most important intellectuals of his time. Nowadays, he is remembered as one of the main representatives of Latin American structuralism. Furtado worked at Economic Commission for Latin America and the Caribbean (ECLAC) alongside Raúl Prebisch, from whom he coined the center-periphery notion. On the one hand, the countries of the center are those that have a highly developed productive sector that allows them to lead the world market. On the other hand, the countries of the periphery are those that have not been able to develop an efficient productive system, so they enter the world market exporting raw materials and selling low value-added products.

The Myth of Economic Development was published for the first time in Portuguese in 1974 under the title *O mito do desenvolvimento econômico.* In 2020, the book was translated into English by Jordan B. Jones in commemoration of Furtado's 100th birthday. The Myth of Economic Development serves as a response to the Club of Rome report entitled The Limits of Growth (Meadows et al., 1972). Furtado argues that this study addressed essential issues regarding economic development that had previously been ignored by economists. For example, the report showed that the United States is increasingly dependent on natural resources from the periphery.

However, the report ignores the predatory use of these resources by developed countries. The main error of the Club of Rome study is that it assumes that the consumption trends of the United States will be adopted by the countries of the periphery as they develop. This assumption completely ignores the nature of underdevelopment (p. 58). While it is true that high-income individuals on the periphery can follow the consumption patterns of developed countries, they represent only a small minority of the population of underdeveloped countries which conventional economic theory fails to appreciate.

Throughout his life, Furtado ran against neoclassical economics. According to the author, this school of thought is ahistorical by nature and is unable to understand the situation of underdeveloped countries. The conventional economic literature establishes the assumption that the development strategy applied by the countries of the center during the industrial revolution can be replicated by the underdeveloped economies (p. 2).

Furtado takes up the thesis of Prebisch (2012) according to which the terms of trade of the world market disadvantage the countries of the periphery. According to Furtado, underdeveloped economies will never achieve a level of development similar to that of the countries of the center. Therefore, the economic development to which the third world aspires is a myth (p. 63). As the accumulation process evolves, the disparities between developed and underdeveloped countries widen.

While countries of the center increase their productivity through technological advances, in the periphery the production increases are usually the result of the expansion of their exports. This situation reflects the failure of the import substitution model (p. 12). On the other hand, the industrialization of the periphery is led by companies from center countries who move some of their production plants to underdeveloped countries to take advantage of cheap labor in these territories.

Furtado was also a pioneer in the financial analysis of underdevelopment. First, he identified that the issuance of debt securities in the United States facilitated the development of its financial system and the financing possibilities of US companies. In other words, the issuance of debt securities complemented the traditional forms of American corporation financing such as banking credit. Second, Furtado identified the dominant position of the dollar in the international monetary system, which would be analyzed later by other authors under the notion of the currency hierarchy (Bortz and Kaltenbrunner, 2017). Although Furtado's book was published 47 years ago, the author's views continue to be highly relevant today: the countries of the periphery have not yet been able to develop in the same way as the countries of the center.

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