# Transcript of Development drums
# Episode 16 – False Economy

## Host: Owen Barder. Guests: Alan Beattie and Robert Wade

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**Owen Barder**
Thanks for downloading Development Drums Episode 16. This is Owen Barder in Addis Adaba. Today we will be talking to Alan Beattie, the World Trade Editor of the Financial Times, about his new book, which looks at why some countries have had more economic success than others. We will be joined by Professor Robert Wade from the London School of Economics.

Before that I'd like to remind you that you can download Development Drums free of charge on iTunes or from the Development Drums website at developmentdrums.org. I'd also like to thank the many people who have contributed suggestions, questions and ideas, both through the website and through our Facebook group. You can also follow Development Drums on Twitter and the user name Development Drums.

I'm joined by Alan Beattie who is the World Trade Editor of the Financial Times and the author of a new book *False Economy*. Alan, welcome to Development Drums.

**Alan Beattie**
Nice to be here.

**Owen Barder**
And by Robert Wade who is Professor of Political Economy at the London School of Economics, the LSE in London.

**Professor Robert Wade**
Thank you.

**Owen Barder**
Now Alan let's start with why you wrote this book and in particular there are several other books about why poor nations are poor, rich nations are rich, what's – what the difference is between them. You can think of *The Wealth and Poverty of Nations* by Landes, Jared Diamond's book, Dani Rodrik's book: *One Economics, Many Recipes*. What made you want to write a book that adds to that literature?

**Alan Beattie**
I think, I felt that despite what's been written already, there were a lot of myths that have been kicking around development, myths about the impact of trade rules, myths in particular about the impact of culture and religion and so on, on growth. And I kind of felt particularly trying to reach a wider audience that these were questions and myths that needed to be addressed. And the book is written in the series of kind of questions and interesting stories and thoughts and so on rather than that a big kind of chronological sweep. And some of them just literally came because somebody asked me a particular question, you know, one of the chapters which is actually about trade routes and supply chains is called Why Doesn't Africa Grow Cocaine and that was literally because somebody came up to me at a party once and said, you write about African development and stuff don't you? Tell me this why doesn't Africa grow cocaine given that they smuggle it. And I thought that is a very good question I'm kind of determined to go off and find out the answer.

**Owen Barder**
So the book draws on lots of different as you say kind of rather idiosyncratic questions, but you are also drawing on questions that seems to me where you want to challenge the conventional wisdom. There are

lots of ideas out there, that Protestants work harder than other religions or that Ghana can't export chocolate because of EU trade routes. So you seem to be wanting to pick out bits of received wisdom and challenge them. Is that part of your purpose?

**Alan Beattie**
Yes, I think that's true. I think one of the problems about development and development economics is that it's been very susceptible into the kind of monocausal explanation, you know, countries are poor because of X, whether X is a religion or because they're landlocked or they're tropical or whatever it is because they have oil and diamonds, so they're subject to the natural resource curse.

What I wanted to point out was things are actually a lot more complex than that and reducing everything to simple explanations doesn't really work. And I think actually what you've seen over the last few years in development economics is much more eclecticism and a kind of, a collapse of iron certainties about the way the world works which makes it a much more challenging but at the same time much more interesting field to be writing and thinking about.

**Owen Barder**
Your book has a flash on the front saying why countries succeed or fail and how things could be different, which rather offers the promise that there is going to be a recipe in here, and yet as you – as you have just said, actually your conclusion is that you don't know what the answers are and anyone who says they do you probably shouldn't trust. Now, so is your book intended to say in the end there are many different answers or there are no answers or what is it that…

**Alan Beattie**
I think what it says is there are broad lessons that we can draw. Cutting your country off from the rest of the world is generally a bad idea. All countries urbanize but some countries plan ahead for cities and don't try and force them. It's generally best to let your economy do what it turns out to be best at rather than forcing it down a predetermined path but then when it does show some specialism it can help if the government comes in and supports it. You know don't worry too much about religion and culture but watch out for people using religion and culture to kind of further their own ends. Yet these are very general lessons and they can be applied in many different ways.

And I think what I'm opposing is the idea of micromanagement that there is a standard very detailed model that can be applied to every single country. But certainly, the first chapter of the book compares the trajectories of the U.S. and Argentina. Anyway I think it's fairly clear to see how Argentina went wrong over the last decade and I'd feel quite confident giving Argentina some advise on what they should be doing now.

**Owen Barder**
Let's come to the specific recommendations in just a second. But I want to draw out two versions of the argument that says there is no single recipe for development. So one version of it says all countries are very different, they have very different circumstances and the idea that you can just sit in Washington and design a recipe that would work everywhere is wrong because there's so much variation across countries.

Another version of it, a different version of it says and these are not necessarily incompatible, that there is a lot of luck involved the problem isn't the countries differ across each other. The problem is that actually you don't know what's going to work, we don't know enough and a lot of it ends up with chance and you end up on a happy trajectory or you end up on an unhappy trajectory and that could just be coincidence or luck.

Now it seems to me that Dani Rodrik argues the first and he says you know you've got lots of different ways you can approach this. But in the end he ends up with his growth diagnostics and you crank a handle and you do some econometrics and you figure out what the right answer is for that country.

It seems to me you're saying something a bit different from him. You're saying actually a lot of this is to do with path dependence how you happen to end up here, whether you got lucky or not, how the different interest groups in politics played out within a country.

**Alan Beattie**
I'm not sure there's that much of a contrast as you make out because even path dependence isn't just to do with luck, it is to do with decisions which have been taken. If you take a decision even if it's centuries earlier and your country gets stuck in a particular way, yet it's harder to get off that path. You know, it's harder to leap on to a different path but it doesn't mean it's impossible. It doesn't mean that your kind of destiny is set from that point on, and the point I was trying to make by bringing in path dependence was what you might call the traditional kind of IMF-World Bank approach of turning up to a country and saying you should do x, y, and z, can be very difficult not just because countries are different but also because you have to take account of prevailing political circumstances in what is actually possible in that given country. And a lot of that will depend on how the country has got to where it is.

**Owen Barder**
Robert what's your sense of where the debate now is on how countries develop and in particular we will come onto the role of trade in this?

**Robert Wade**
Well, I agree that there has been a shift in the intellectual climate over the past, perhaps decade away from the conviction that there is a fairly standard recipe at a rather high level generalization the recipe that is we know as the Washington Consensus with its emphasis upon very low levels of inflation, in other words macroeconomic stability, privatization of all state-owned enterprises and very free trade and a number of other elements. I think there is now much more agreement than there would have been say 10 and 20 years ago that may give some very general orientations but it's not something that can be applied by an IMF or World Bank official getting off the plane in a country where they may have spent very little time and immediately begin to say what they think the government should do. There is much more uncertainty now than there was and I think one of the upsides of this dreadful financial slump is that it has raised the level of uncertainty.

That being said, one response to this uncertainty that you find in the literature comes from for example Bill Easterly and perhaps Alan you would yourself tend to agree with this response which is that because we don't know a formula for development, therefore the solution is maximum free markets, maximum openness for all economies which somehow rather is not treated as a formula but the reason – the logic is that this will increase the chances of discovery of new opportunities that can't be foreseen except by people who are very decentralized on the ground seeing things appear in front of them and ceasing the moment and so as I said this one response to this moving away from a standard formula is to actually go for a standard formula, though it's not called that, which is maximum free markets.

My own argument would be rather different. I would see a role for – a bigger role for the government as an orchestrator of a discovery process which is more coordinated than say Bill Easterly would imagine, which involves a stronger amount of government authority, not picking winners but coordinating a kind of an insider system of key business leaders, trade unions, and others in a long-term process of interaction about a national development strategy using markets.

**Owen Barder**
Now Alan, you have this phrase try to let your economy do what it's best at and support it where possible without trying to force it down a predetermined path.

**Alan Beattie**
Indeed I mean the classic example I would say just look at Africa. You know the African countries in general and I know it's – there is too much of a tendency to generalize with Africa but nonetheless we have fairly consistent patterns came out of colonialism saying we want to be industrial economies and they tried to built up many cases very similar industries, you know textile industries kind of basic manufacturing behind large tariff walls, in the classic import substitution model and that's what they determined they were

going to be industrial countries. That is what colonialisms have prevented them from doing, that is what they ought to be doing and in almost all cases it failed.

What I think would have been more helpful and I'm not a businessman and I have never lived in Africa or run a company in Africa but what I think might have been more helpful is to give a more degree of freedom to the economy and say what does it look like we are good at. Well, all of the things that kind of Africa has been generally good at is primary commodities. So how conceivably could we build on that, in particular how could we build a value chain based on that? It seems logical to me without being an expert that if you produce primary commodities, the next thing to do is to try and bring all that value chain in country in a way for example Botswana has been blessed with diamonds has brought more of the value chain of sorting and polishing and so on diamonds within country. It would seem logical to me that for Ethiopia or Uganda, more of the value chain of processing coffee should be brought in country. And if it turns that you are good at that, then fine you might well need some government intervention to help whether it's seed capital or infrastructure or training or whatever else.

But I think if the strategy you're following appears not to work, then you should be prepared to abandon it fairly quickly and I don't think historically a lot of developing countries have been prepared to abandon their cherished development plans particularly quickly.

**Owen Barder**
And this brings us naturally to the infant industry protection, argument and there is still a body of – there is an argument, isn't there, between those people who think that you need to build up industries behind some kind of protection whether it's of tariff barriers or quotas or restriction on imports and possibly some kind of government support or subsidy and those people who think that the result of that at least in some countries is that you end up and you give some examples in your book, Alan, of uncompetitive industries that stay uncompetitive because they are protected by the tariff barriers and never able to – they end up just sucking in resources from the state. And I think the question then is so what sort of government do – if you start down this path it's quite difficult to get off the – to get away from it. It's quite difficult to start creating infant industries and move away from them. So what would you say is now your – I mean this sentence could mean nothing or it could mean everything. This idea that you want to let your economy do what it's best at and support it where possible. What is possible and what is sensible for developing countries? Robert you would…

**Robert Wade**
I would move away from the framing that you just gave that is should the government support infant industries or not and I would refer to the actual practice in Taiwan which is the practice I have studied in some considerable detail. Of course, the Taiwan government did quite a lot of what you could call conventional industrial policy, that is it decided to create a steel industry, a petrochemical industry and so. These were big investments with a great deal of government initiative and that's part of the story but another very important part of the Taiwan story that is much more replicable in African countries for example, and other low income countries is quite different. The government established early on like in the 1950s what was in effect an industrial extension service, analogous to an agricultural extension service with something of the order of 100, 150 industrial engineers whose job it was to go out, visit factories, they were divided into input-output chains so somebody in the textile chain would go out visiting textile factories for several days a month and they would be doing two kinds of things: they would be bringing knowledge of developments in the international textile, market developments in textile machinery and so on to the factories but equally they would be taking knowledge that they had learned about production problems, production possibilities from the factory into the heartland of government where planning was being carried out and feeding then a more general process of discovery of new opportunities, but in a very micro kind of way.

This is not about picking winners. This is about having a core of people who are public officials engaged in sort of nudging private producers all the time to think about upgrading, going up the supply chain as Alan said, think about diversifying, think about making long-term supply contracts with subsidiaries of multinationals into Taiwan or in country that subsidiaries that are currently importing material that could be produced domestically if there was a long-term supply contract. This was the kind of thing done at the coal face that was going on in Taiwan for decade after decade. That I think is a very useful kind of function for a government to orchestrate and it's very different from the sorts of government interventions that Alan was reacting at. I am not sure that many governments have been doing these things that Alan says they were wrongly doing. I am not sure they have been doing them for the past let's say two decades. They were doing them. They were doing protection but they were doing protection very badly on the whole, but my point is you can do protection well. It's not so the debate should not be about protection, no protection. It should be about how to do protection well, how to do it badly.

**Owen Barder**
Alan, it's just a question of doing protection well.

**Alan Beattie**
Well, I think it's a question of doing development well, but I think protection, it depends what you mean by protection but if by protection we are talking about isolating or privileging local companies over imports, then I think that has always been a dangerous route and I think the most important thing about the difference between the East Asian experience and say the African experience or the East Asian experience and the Latin American experience is that not just in Taiwan but in other East Asian countries, although there was some state, there was quite a lot of states intervention to support industry. By the way you will find a lot of people arguing that, that didn't particularly help there's been work done that in Japan for example, the industry that grew the fastest were not those that received states intervention. But those that did were encouraged to exports and they were encouraged to compete on world markets. So there was actually a kind of – a check on whether they were actually working or not. That's not necessarily what I would call protection, I would call that encouragement in development but I wouldn't necessarily call it protection. And I think that's the important distinction between the way that industrial intervention industrial policy has traditionally been done and the way that government development policy might be done now.

**Owen Barder**
Let's move on more broadly to – I mean you asked the tantalizing question why does not Africa export cocaine? It does export cocaine. Why doesn't it grow cocaine? Tell us what your answer was to your friend who asked you this at the dinner party?

**Alan Beattie**
Once I'd gone and looked into it and talked at the UN Office on Drugs and Crime, what I really found was that it's essentially the same reason that Africa doesn't grind its own coffee beans or make its own cocoa beans into chocolate and so forth, it's just the lack of simple basic infrastructure, roads, ports and particularly political stability that enables supply chain to be built and maintained.

One of the kind of ironies of cocaine production is that because it's illegal, you need to buy off local politicians but then you need the kind of degree of political stability to be able to do that because coca as it turns out has, it's a shrub that require a kind of long life. It's not a quick growing thing and as Bob Dylan said to live outside the law you must be honest. So the reason that Africa exports cocaine but does not actually grow it itself is just largely simply because of those basic things which had held back all parts of its economies – lack of certainty over transport and infrastructure and politics and ports and paperwork.

And these are really boring things to talk about and it's very hard, I know, as a journalist, to interest a news desk in a story about the Zambian Bureau of Weights and Measures where I once spent a particularly fascinating morning. However, those things in reality are actually much more important than trade policy and evil subsidies most of the things about trade that dominate a lot of the debate.

**Owen Barder**
Would I be right in thinking that you're saying that the more kind of nuanced things you might do to support business and exporters and industry, the kind of things that Robert was talking about feel like they are, they come second after you get the basics right, after you get your ports working, your tax system working, your arrangements for registering a business, those kinds of things. Is that, am I hearing that there is a kind of getting the basics right problem that affects for example a lot of African countries.

**Alan Beattie**
Yes, I think that's absolutely right and if you just talk to people who try to do business, I mean let me give the coffee example, the first, to my knowledge the first plant in Uganda which actually roasts and grinds coffee, set up by a man called Andrew Rugasira. Having spoken to him about it, he says look it basically takes him a month to get things from Uganda to the port in Mombasa and that's because the roads are terrible. It takes days even to get across the Uganda border. These are kind of very basic simple things or at least they are kind of conceptually quite simple things and they may not always be very simple to implement, but unless those are in place then all the encouragement and kind of expertise and so on really can't help, you need to get the basic conditions for the business right before business can take place and this doesn't by the way mean sweeping away the intervention of the state at all. In fact in some cases it means that the state needs to provide these things which are not provided by the markets, which I think is one of the problems has happened in the past, but I certainly think there is not enough emphasis put on things like this because they are boring and they are not sexy.

**Owen Barder**
And yet they sound like – they sound like things that are quite cheap and quite straightforward to do and about which there isn't much disagreement about what needs to be done.

**Robert Wade**
Infrastructure is often expensive.

**Owen Barder**
Okay.

**Alan Beattie**
But sometimes they are financially cheap, I mean the World Bank study suggested that three quarters of the delays faced by companies in developing countries weren't actually to do with physical things like infrastructure, they were to do with things like corruption at customs and so forth.

Now, financially, a lot of these things like customs, the form and so on, may be cheap, politically they are very difficult and they are very expensive, and just as with agricultural policy in Europe and the U.S., this involves taking on entrenched elites, you know, working with the customs bureaucracy in many developing countries is a tough well organized elite which has done very well out of itself out of guarding the mountain pass and have done very well out of itself out of extracting bribes and so forth. Taking those people on is difficult.

One of the most interesting things I've found over the last decade or so was the study that in the aftermath of 9/11 there was a lot of talk that new security procedures and container screening and all the rest of it was going to throw sand in the wheels of globalization; it would slow transport down, it would mean everything is much slower. Actually what happened in the few years afterwards is a lot of ports actually speeded up. The reason for this as far as you can tell is that in any given country, there will generally be a fight between the reformers and the old guard, or you know, the clean hands and the dirty hands, and one of the things that the post 9/11 security considerations meant was it strengthened the hands of the reformers. Suddenly they have an external imperative. They can go and say sorry, we've got to computerize the custom system, we can't do it like that any more, because otherwise we can't export to any American port, so we have to do it.

And by strengthening their hand that enabled them to do things that they've known and lots of people know they should have been doing for – should have done a long time before but haven't been able to because of political constraints.

[Music]

**Owen Barder**
The book isn't just about trade policy and protection of industry, it's about a series of, as you said, interesting questions, and some of them are quite quixotic and counter-intuitive. One of them is about water – virtual water, which I think at some point in the book you say is the most interesting new idea that you've come cross. Tell us a bit about the answer – the question why does Egypt import so much of its basic food and what the answer is?

**Alan Beattie**
The answer to this is actually a fairly simple basic question of trade economics that goes all the way back to David Ricardo it's a simple question of comparative advantage. So growing grain is largely a question of water and so what Egypt is doing by importing grain from around the world is implicitly importing all the water that's used to grow it. So of course they could import thousands and thousands of tons of fresh water and then grow their own grain. Instead of what they do they import the wheat, and implicitly it's got this water embedded in it, and I just found this as kind of fascinating way of thinking about trade and thinking about the way the competitor advantage works, and the interesting thing about here is it's the free market that does it; no one has to intervene; you don't need any great team of international bureaucrats sending water around the world from wet places to dry places. It's just the action of the market that does it.

**Owen Barder**
Although it's an interesting example because as you know I live in Ethiopia and 85% of the waters of the Nile come from Ethiopia, and yet Ethiopia benefits relatively little from that and it passes down the Blue Nile to Khartoum, to Egypt, and Egypt has prospered, and Ethiopia hasn't. Now, this is an example of a market – of a missing market, isn't it, where Ethiopia isn't at the moment in a position to sell the natural asset that it has, the access to water, which at the moment is – and in fact there are teams of international bureaucrats, the Egyptian government has people stationed at Lake Tana, which is the source of the Blue Nile. So isn't there going to come a day when actually – explicit water trading is going be necessary where countries are going have to sell each other riparian rights, either in the form of some kind of tax or some kind of property rights over water?

**Alan Beattie**
Well indeed, I mean when countries that lie next to each other and sharing a similar – a common source of water as with the Nile, obviously that's the case. But in many countries around the world, you are quite right, one of the problems with water is it's not priced properly; there need to be better water markets than there are.

And even in single countries where the sort inter-country negotiation issue doesn't exist like Australia, and Australia has one of the more sophisticated water pricing policies in the world, still there is a gigantic misallocation of water within Australia, because the prices that are charged to farmers are far too low compared to the price that is charged for water in the cities.

So yes, absolutely, in order to make these markets work properly as with many markets as particularly in the market for carbon emissions and so forth, when there is an issue of the commons then there has to be an intervention, but I think this is largely confined to either issues within countries or the example you pointed out where one or more countries or one or states as happens with the U.S. in the Colorado River and so on, share a common water resource, and have to work out a way of allocating it between them.

**Owen Barder**
Another challenge that your book addresses which I thought was an interesting question to be asking at this time is why, whether and why Islamic countries grow more slowly. Tell us again why you address this question and what…?

**Alan Beattie**
This one was just because there is a lot of prejudice in my view that I heard expressed in the aftermath of September the 11th that Afghanistan is a failed state; that extreme Islamism arises because Islamic countries have failed to enrich their citizens sufficiently, and there is something intrinsic about the nature of Islam, which stops countries growing, and I thought, wait a second, I've heard this before. I've heard this – I've

heard that the socialist Max Weber argue this with regard to Protestantism, or a particular kind of Protestantism versus other religions, and I have it argued with regard to Confucianism, in East Asia and so on, and I simply didn't believe it was true.

And a very interesting paper which just looked at the numbers and pointed out that over the last half century it just isn't true. You can test it. This is not true that Islamic countries have grown slower than non-Islamic countries particularly when you compare countries which are otherwise similar like compare Muslim Malaysia with Buddhist Thailand, largely Buddhist Thailand with the Christian Philippines. You know, this is a Muslim country that's done the best.

So the issue really was then, okay, so why did the Muslim countries having been at the beginning of the second millennium, the first few decades, the first few centuries that the second millennium these wonderful huge trading empires span the world, why was it that they failed in that they shrank back?

My conclusion was it was nothing to do with the structure of Islam itself, these arguments about Islam forbidding the lending of money at interest and so when you actually look at it, there are plenty of ways of getting around it; it wasn't particularly strong. What it was more was a sense of the rulers of those particular countries not allowing laws to change, and using when necessary the rules of Islam, or distorting the rules of Islam in order to entrench themselves in power, and one of the historical reasons for this in my view was the Mongols; we can always blame the Mongols for these because the Mongols crashed in and instituted a whole series of kind of very authoritarian centralized top-down militaristic societies which happen to be Muslim.

Now, if you wanted to test this, what you need to do of course is find the country where the Mongols also came in and instituted their centralized top-down kind of form of government, which was a Christian country and say, has that grown as well. In fact we do have one; it's Russia. And the way that Russia has been governed and the way that Russia has been governed before communism and after communism as well looks to me a lot like these not particularly successful failed states where, not failed states, but these not particularly successful countries where entrepreneurship is not allowed to flourish where too much power is concentrated in the center and so I think it has a lot more to do with kind of historical bad luck, and temporal power of the kind of the people running the country rather than it has to do with the structure of the religion that happens to be popular in that country.

**Robert Wade**
And path dependence. You are implying very strong path dependence.

**Alan Beattie**
That's a very good example of path dependence. Once you get stuck on it, it's hard to get out of it.

**Owen Barder**
There is an assumption going on in your argument that autocratic top-down regimes tend to be less successful, but – and, and you can think of the problems, for example China had with an isolationist policy. But you can also think of quite good examples on the Korean generals and Singapore where actually quite autocratic governments and leadership has done quite well, at least in over a small period of time.

**Alan Beattie**
They are quite autocratic, but they fostered competition. I mean if you look at the Korean experience, it was certainly the chaebol, the big kind of industrial conglomerates, they were indeed – kind of grew up under the centralized regime. But they were allowed to grow and shrink and fail. And so when if you look at the kind of biggest companies in a one particular decade, they often had not existed at all in much smaller couple of decades before. So it's – so it is possibly difficult, but it is possible set in the early stages have been industrialization to run a country with a degree of authoritarianism and still allow competition between different companies. I don't think that happened for example in Russia.

**Owen Barder**
So it's less about democratic process versus authoritarian and more to do with whether rent seeking is allowed to take hold, whether interest groups are allowed to dominate the way the political structure works. Is that…

**Alan Beattie**
I think that's right, but I'd be cautious of suggesting that countries can continue to develop under an authoritarian regime. I think after a bit, or certainly after they get to more sophisticated economies it's increasingly difficult to run a country this way and it's increasingly important and democracy and particularly the freedom of speech and so forth, in post-industrial countries, I think are quite kind of essential to building information societies and societies based on that kind of advanced technology.

**Robert Wade**
And it's not just a matter of whether there is rent seeking or, as we say, corruption or not, or the degree of it; it's also very importantly a matter of how the revenue raised through corrupt means how it's used. Whether it's invested productively or it's invested in luxury yachts in Monte Carlo that makes a very big difference. And one thing that happened in East Asia was that, yes, there was actually a lot of corruption, as a lot of insider dealing, lot of rents accrued but particularly because the overall regime did as Alan said, emphasized competition as well as protection. It was a competition with combination that economists say you can't have, but they showed that you can have it. Protection plus competition. It meant that the rents on the whole were used productively to – in the form of reinvestment to spur national economic growth.

**Owen Barder**
Alan has a chapter of about some of these paradoxes of corruption, and in particular there is a somewhat simplistic two-dimensional idea that corruption is bad and will damage growth and lack of corruption and honesty in government is good and will be good for growth. And of course the example you gave is Tanzania, led honestly but without a lot of growth, and Indonesia, where there was quite a lot of corruption, but nonetheless much more economic success. And part of it is to do with this reinvestment story. Explain…

**Alan Beattie**
It is the reinvestment story, but it is also an efficiency story about whether corruption is run efficiently and how much is actually allowed to interfere in the business of daily life. I mean the situation in Indonesia under Suharto was that corruption pretty much became a tax. You pretty much knew what you were doing. Of course Suharto and his cronies would cream 10 or 15% off the top. But as long as you knew that was going to happen, and as long, as Robert points out, you get stuff back from it in terms of infrastructure, in terms of information about the way things are going and so on, then you can flourish reasonably well under that kind of – that form of corruption. The problem with countries like Tanzania is that there was a gigantic amount of corruption, not from the center, not from Julius Nyerere himself, who by all accounts is a very honest man, but he instituted huge numbers of local bureaucrats who were able to exploit local economies and he had no control over them. So it's a decentralized, disorganized corruption, which was also a very uncertain and it was just subject to the whim of whoever the local – the local bureaucrat happened to be. That was enormously damaging to growth.

So I agree, it's not just a simply a question of corruption or not corruption, it's the way it is operated and the way it happens. I mean my favorite story I think which I kick this chapter off is someone very senior in the Indian government once said to me. I was asking him why India got so much less foreign direct investment than China. And he said corruption. And I said, but China is well known as being corrupt, I mean the Transparency International Corruption measures for China and India are just about the same. And he said, yeah, the thing with China is there is only one party to bribe.

**Owen Barder**
Thanks for listening to Development Drums. I am Owen Barder, and I've been talking today to Alan Beattie, the author of *False Economy: A Surprising Economic History of the World*, published by Penguin Books, which I recommend as a very entertaining account of the complexities and difficulties of generalizing about why some countries become rich.

And I've also been talking to Professor Robert Wade of the London School of Economics.

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