Record: 1

Title: Banned Aid: Why International Assistance Does Not Alleviate Poverty: Review Essay
Author: Bhagwati, Jagdish
Author Affiliation: Council on Foreign Relations and Columbia U
Source: Foreign Affairs, January-February 2010, v. 89, iss. 1, pp. 120-25
Publication Date: January-February 2010
Abstract: As the Zambian economist Dambisa Moyo argues, the concept of foreign aid is flawed--not just because corrupt dictators divert aid for nefarious or selfish purposes but also because even in reasonably democratic countries, aid creates perverse incentives and unintended consequences.
ISSN: 00157120
Publication Type: Journal Article
Availability: http://www.foreignaffairs.org/
Update Code: 201010
AN: 1132698

Persistent link to this record (Permalink): http://ezproxy.cul.columbia.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=eoh&AN=1132698&site=ehost-live&scope=site

Cut and Paste: <A href="http://ezproxy.cul.columbia.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=eoh&AN=1132698&site=ehost-live&scope=site">Banned Aid: Why International Assistance Does Not Alleviate Poverty: Review Essay</A>

Database: EconLit with Full Text

Full Text Database: Readers' Guide Full Text Mega (H.W. Wilson)

Review Essay

Banned Aid Why International Assistance Does Not Alleviate Poverty

Jagdish Bhagwati

Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa. BY DAMBISA MOYO. Farrar, Straus & Giroux, 2009, 208 pp. $24.00.

If you live in the affluent West, no public policy issue is more likely to produce conflicts in your conscience than foreign aid. The humane impulse, fueled by unceasing televised images of famine and pestilence in the developing world, is to favor giving more aid. But a contrasting narrative has the opposite effect: Emperor Jean-Bedel Bokassa of the Central African Republic used Western aid to buy a gold-plated bed, and Zaire's dictator, Mobutu Sese Seko, spent it on personal jaunts on the Concorde. Such scandals inevitably lead many to conclude that most aid is wasted or, worse still, that it alone is responsible for corruption.

These debates have largely been the province of Western intellectuals and economists, with Africans in the developing world being passive objects in the exercise—just as the 1980s debate over the United States' Japan fixation, and the consequent Japan bashing, occurred among Americans while the Japanese themselves stood by silently. Yet now the African silence has been broken by Dambisa Moyo, a young Zambian-born economist with impeccable credentials. Educated at Harvard and Oxford and employed by Goldman Sachs and the World Bank, Moyo has written an impassioned attack on aid that has won praise from leaders as diverse as former un Secretary-General Kofi Annan and Rwandan President Paul Kagame.

Jagdish Bhagwati is Senior Fellow in International Economics at the Council on Foreign Relations and University Professor of Economics and Law at Columbia University. He served on the UN secretary-general's Advisory Panel on International Support for the New Partnership for Africa's Development from 2005 to 2006. For an annotated guide to this topic, see "What to Read on Foreign Aid" at www.foreignaffairs.com/readinglists/foreign-aid.

Moyo's sense of outrage derives partly from her distress over how rock stars, such as Bono, have dominated the public discussion of aid and development in recent years, to the exclusion of Africans with experience and expertise. "Scarcely does one see Africa's (elected) officials or those African policymakers charged with a country's development portfolio offer an opinion on what should be done," she writes, "or what might actually work to save the continent from its regression.. .. One disastrous consequence of this has been that honest, critical and serious dialogue and debate on the merits and demerits of aid have atrophied." She also distances herself from academic proponents of aid, virtually disowning her former Harvard professor Jeffrey Sachs, whose technocratic advocacy of aid and moralistic denunciations of aid skeptics cut no ice with her. Instead, she dedicates her book to a prominent and prescient early critic of aid, the development economist Peter Bauer.

Moyo's analysis begins with the frustrating fact that in economic terms, Africa has actually regressed, rather than progressed, since shedding colonial rule several decades ago. She notes that the special factors customarily cited to account for this tragic situation—geography, history, social cleavages, and civil wars—are not as compelling as they appear. Indeed, there are many places where these constraints have been overcome. Moyo is less convincing, however, when she tries to argue that aid itself has been the crucial factor holding Africa back, and she verges on deliberate provocation when she proposes terminating all aid within five years—a proposal that is both impractical (given existing long-term commitments) and unhelpful (since an abrupt withdrawal of aid would leave chaos in its wake).

Moyo's indictment of aid, however, is serious business, going beyond Africa to draw on cross-sectional studies and anecdotes from across the globe. Before buying her indictment, however, it is necessary to explore why the hopes of donors have so often been dashed.

THE CHARITY TRAP

Foreign aid rests on two principles: that it should be given as a moral duty and that it should yield beneficial results. Duty can be seen as an obligation independent of its consequences, but in practice, few are likely to continue giving if their charity has little positive effect. Beginning in the years after World War II, those who wanted the rich nations to give development aid to poorer ones had to address the challenges of building domestic support for greater aid flows and ensuring that the aid would be put to good use. But their unceasing efforts to produce higher flows of aid have led aid advocates to propose the use of tactics that have ironically undermined aid's efficacy, virtually guaranteeing the kind of failures that understandably trigger Moyo's outrage.

At the outset, aid was principally driven by a common sense of humanity that cut across national boundaries—what might be called cosmopolitan altruism. Aid proponents in the 1940s and 1950s, such as Gunnar Myrdal and Paul Rosenstein-Rodan, were liberals who felt that the principle of progressive taxation— redistribution within nations—ought to be extended across international borders. This led to proposals such as those to set an aid target of one percent of each donor nation's gnp, playing off the Christian principle of tithing (giving ten percent of one's income to the church) or the Muslim duty oizakat (which mandates donating 2.5 percent of one's earnings to the needy).

How was the one percent figure arrived at? According to Sir Arthur Lewis, the first Nobel laureate in economics for development economics, the British Labour Party leader Hugh Gaitskell had asked him in the early 1950s what figure they should adopt as the United Kingdom's annual aid obligation and Lewis had settled on one percent of gnp as a target because he had a student working on French colonies in Africa, where French expenditures seemed to add up to one percent of gnp. Such a target, of course, implied a proportional, rather than a progressive, obligation, but it had a nice ring to it.

The problem was that the one percent target remained aspirational rather than practical. Outside of Scandinavia, there was never much popular support for giving away so much money to foreigners, however deserving they might be. So aid proponents started looking for other arguments to bolster their case, and they hit on enlightened self-interest. If one could convince Western legislatures and voters that aid would benefit them as well, the reasoning went, the purse strings might be loosened.

In 1956, Rosenstein-Rodan told me that then Senator John F. Kennedy, who bought into the altruism argument, had told him that there was no way it could fly in the U.S. Congress. A case stressing national interest and the containment of communism was needed. And so the argument was invented that unless the United States gave aid, the Soviet Union would provide it and, as a result, the Third World might tilt toward Moscow. In fact, the Soviets had already funded the construction of Egypt's Aswan Dam, a project the United States had turned down. The only catch was that if the Cold War became Washington's rationale for giving aid, it was inevitable that much of it would end up in the hands of unsavory regimes that pledged to be anticommunist— regimes with a taste for gold-plated beds, Concordes, fat Swiss bank accounts, and torture. By linking aid payments to the Cold War, proponents of aid shot themselves in the foot. More aid was given, but it rarely reached the people it was intended to help.

FROM ALTRUISM TO SELF-INTEREST

When the Cold War began to lose its salience, the search began for other arguments to support aid. The World Bank appointed two successive blue-ribbon panels to deliberate on ways of expanding aid flows, the Pearson Commission, in 1968, and the Brandt Commission, in 1977. The group led by former West German Chancellor Willy Brandt, although emphasizing that there was a moral duty to give, fell back nonetheless on an enlightened self-interest argument based on a Keynesian assertion that made no sense at all: that raising global demand for goods and services through aid to the poor countries would reduce unemployment in the rich countries—an argument seemingly oblivious to the fact that spending that money in the rich countries would reduce unemployment even more.

Other feeble arguments related to immigration. It was assumed that if aid were given wisely and used effectively, it would reduce illegal immigration by decreasing the wage differentials between the sending and the receiving countries. But the primary constraint on illegal immigration today is the inability of many aspiring immigrants to pay the smugglers who shepherd them across the border. If those seeking to reach E1 Norte or Europe earned higher salaries, they would have an easier time paying "coyotes," and more of them would attempt illegal entry.

Lewis, who was a member of the Pearson Commission, therefore despaired of both the altruistic and the enlightened self-interest arguments. I recall him remarking in 1970, half in jest, that development economists should simply hand over the job of raising aid flows to Madison Avenue. Little did he know that this is exactly what would happen 20 years later with the advent of the "Make Poverty History" campaign, supported by Live Aid concerts and the sort of celebrity overkill that many Africans despise. Of course, this has meant the revival of the altruism argument. Aid targets have therefore returned to the forefront of the debate, even though they are rarely met: in 2008, there was a shortfall of $35 billion per year on aid pledged by the g-8 countries at the Gleneagles summit in 2005, and the shortfall for aid to Africa was $20 billion.

One of the chief reasons for the gap is not just miserliness but a lack of conviction that aid does much good. Aid proponents today try to overcome this doubt by linking aid-flow obligations to worldwide targets for the provision of primary education and health care and other laudable objectives enshrined in the 2000 un Millennium Development Goals (which are uncannily reminiscent of the Brandt Commission's proposals). But the question Moyo and other thoughtful critics properly insist on raising is whether aid is an appropriate policy instrument for achieving these targets.

[Image Omitted - Rights Not Included Per Publisher's Instruction]

And so one returns to the old question of what Rosenstein-Rodan termed "absorptive capacity": How much aid can be absorbed by potential aid recipients and transformed into useful programs? Arguments that aid can and should be used to promote development seem reasonable but have run into problems—not just because corrupt dictators divert aid for nefarious or selfish purposes but because even in reasonably democratic countries, the provision of aid creates perverse incentives and unintended consequences.

The disconnect between what development economists thought foreign assistance would achieve and what it has actually done is best illustrated by a close look at the earliest model used to formulate development plans and estimate aid requirements. The model was associated with two world-class economists, Roy Harrod of Oxford and Evsey Domar of mit. In essence, the Harrod-Domar model used two parameters to define development: growth rates were considered a function of how much a country saved and invested (the savings rate) and how much it got out of the investment (the capital-output ratio). Aid proponents would thus set a target growth rate (say, five percent per annum), assume a capital-output ratio (say, 3:1), and derive the "required" savings rate (in this case, 15 percent of gnp). If the country's domestic savings rates fell below this level, they reasoned, the unmet portion could and should be financed from abroad.

Economists also assumed that aid recipients would use fiscal policy to steadily increase their own domestic savings rates over time, thus eliminating the need for aid entirely in the long run. With such matching efforts by the recipients to raise domestic savings, so the logic went, aid would promote growth and self-reliance.

The problem with this approach, widely used throughout the 1970s, was that although aid was predicated on increased domestic savings, in practice it led to reduced domestic savings. Many aid recipients were smart enough to realize that once wealthy nations had made a commitment to support them, shortfalls in their domestic efforts would be compensated by increased, not diminished, aid flows. Besides, as Moyo notes, the World Bank—which provided much of the multilateral aid flows—faced a moral hazard: unlike the International Monetary Fund, which lends on a temporary basis and has a "good year" when it lends nothing, the World Bank was then judged by how much money it disbursed, not by how well that money was spent—and the recipients knew this.

PAVED WITH GOOD INTENTIONS

Similar problems involving the mismatch between intentions and realities are present in today's battles over aid. Now, as before, the real question is not who favors helping the poor or spurring development— since despite the slurs of aid proponents, all serious parties to the debate share these goals—but rather how this can be done.

Many activists today think that development economists in the past neglected poverty in their quest for growth. But what they miss is that the latter was seen as the most effective weapon against the former. Poverty rates in the developing countries did indeed rise during the postwar decades, but this was because growth was sporadic and uncommon. And that was because the policy framework developing countries embraced was excessively dirigiste, with knee-jerk government intervention across the economy and fears of excessive openness to trade and foreign direct investment. After countries such as China and India changed course and adopted liberal (or, if you prefer, "neoliberal") reforms in the last decades of the century, their growth rates soared and half a billion people managed to move above the poverty line— without question, the greatest and quickest progress in fighting poverty in history.

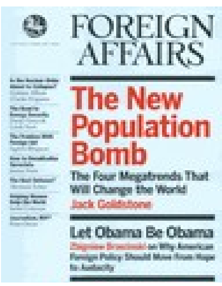
Neither China nor India, Moyo points out, owed their progress to aid inflows at all. True, India had used aid well, but for decades its growth was inhibited by bad policies, and it was only when aid had become negligible and its economic policies improved in the early 1990s that its economy boomed. The same goes for China.

If history is any guide, therefore, the chief weapon in the "war on poverty" should be not aid but liberal policy reforms. Aid may assist poor nations if it is effectively tied to the adoption of sound development policies and carefully channeled to countries that are prepared to use it properly (as President George W. Bush's Millennium Challenge program recently sought to do). Political reform is important, too, as has been recognized by the enlightened African leaders who have put their energies into the New Partnership for Africa's Development (nepad), which aims to check the continent's worst political abuses.

But unfortunately, despite all these good intentions, if the conditions for aid's proper use do not prevail, that aid is more likely to harm than help the world's poorest nations. This has been true in the past, it is true now, and it will continue to be true in the future—especially if some activists get their wishes and major new flows of aid reach the developing world simply because it makes Western donors feel good.

Moyo is right to raise her voice, and she should be heard if African nations and other poor countries are to move in the right direction. In part, that depends on whether the international development agenda is set by Hollywood actresses and globetrotting troubadours or by policymakers and academics with half a century of hard-earned experience and scholarship. In the end, however, it will be the citizens and policymakers of the developing world who will seize the reins and make the choices that shape their destiny and, hopefully, soon achieve the development progress that so many have sought for so long.

COPYRIGHT INFORMATION



Title: Banned Aid: Why International Assistance Does Not Alleviate Poverty
Source: Foreign Aff 89 no1 Ja/F 2010 p. 120-5
ISSN: 0015-7120
Publisher: CFR, Inc.
D/B/A Foreign Affairs, 58 East 68th Street, New York, NY 10021

Image rights not included per publisher's instruction.

Source: Foreign Affairs, 20100101, Vol. 89 Issue 1, p120, 6p
Item: 1132698

Back