Plan for the week

1. Foreign aid
2. Leif Wenar
   1. The donor’s question
   2. What is to be done?
3. Optimism: Jeffrey Sachs and Bill and Melinda Gates
4. Pessimism: William Easterly and Dambisa Moyo
5. Gender and poverty: Kristof and Wudunn
Midterm in Section on Friday Feb. 14?

1. Yes
2. No

55%
45%
Foreign Aid

- Since 1980: $2.3 trillion dollars in foreign aid.
- Includes both humanitarian aid (acute emergencies) and development assistance (ongoing development.)
- What does aid actually do?
Leif Wenar

- Chair of Ethics at King’s College London
- Focuses on natural resources and international justice
- Wenar.info
“The average number of deaths from poverty each day is equivalent to 100 jumbo jets, each carrying 500 people (mostly children), crashing with no survivors. From a human perspective, severe poverty should be the top story in every newspaper, every newscast, and every news website, every day” (Wenar, p. 2).
“Those who feel the tremendous moral urgency of severe poverty must decide how to act without the confidence of knowing that their actions will help the poorest, and must accept that the action they take may not only help, but might also harm, poor people in other countries. Accepting these unfortunate realities will require a change in moral reasoning about poverty” (Wenar, p. 2).
The Donor’s Question

- How will each dollar I give in aid, or each hour I give in time, affect the long-term well-being of people in other countries?
- “Good intentions are not the issue: the Donor’s Question is about effects” (Wenar, p. 8).
- Singer argues for sending money to NGOs (of which there are between 20,000 and 40,000) and campaigning for increased foreign aid. Wenar raises problems for each alternative.
1. Coordination and aggregation

- What is done by the combination of NGOs may not be the best overall for the society in question.
- NGOs do not coordinate. They duplicate effort. The net pattern produced may be counterproductive. Examples:
  - Distribution of aid can depend on distribution of roads, rather than distribution of need.
  - Aid organizations want to be where the news cameras are.
Wenar’s Iron Law of Political Economy: “Resources tend to flow toward those that have more power; or, to put it the other way around, the less powerful people are, the harder it is to get resources to them” (Wenar, p. 11).

Ugandan example: 13% of the money for schooling went to schooling (Wenar, pp. 10-11).

Money seems to lead to corruption: Afghanistan went from 49th to 2nd as money flowed in.
3. Unintended Economic Effects

- The “Dutch Disease”: Influx of outside money can increase wages and prices and make the economy as a whole less competitive.

- Massive increases in primary export revenue
- Temporary appreciation of the exchange rate
- Exports become more expensive to the rest of the world
- Exporters of non-oil products produce less
- Reduction in the income and employment of the non-oil export industries
4. Government Effects

Amartya Sen
Winner of Nobel Prize in Economics; Thomas W. Lamont University Professor and Professor of Economics and Philosophy at Harvard University; senior fellow at the Harvard Society of Fellows; distinguished fellow of All Souls College, Oxford; and a Fellow of Trinity College, Cambridge.

Famines result from failures of the political system, not from food shortages. They don’t occur in democracies with an active opposition and freedom of speech and of the press. (Sen, Development as Freedom)
More Government Effects

- Increased money flowing into a government allows that government to buy security for itself.
- This may lead to negative consequences for the inhabitants of that society:
  - The government is focused on the foreign donors
  - The government may use the money to purchase security for itself, directly, so as to kill those opposed to it

![Figure 1](image)

**Figure 1**

ALLOCATION OF FOREIGN AID BY CLASSIFICATION OF RECIPIENTS BY FREEDOM HOUSE

Share of aid going to dictatorships (“Not Free”) and democracies (“Free”) and those in between (“Partly Free”)

Source: Easterly and Williams (2010), using democracy classifications from Freedom House.
Government effects

- Among a few of those who have benefitted from foreign assistance:
  - Paul Biya, Cameroon, $35B, 1982 – present
  - Idriss Deby, Chad, $6B, 1990 – present
  - Lansana Conte, Guinea, $11B, 1984 – 2008
  - Yoweri Museveni, Uganda, $31B, 1986 - present
So: what is the net result?

Change the picture: not a choice between $100 in our pocket or a saved child, but a choice between $100 in our pocket or a complicated series of consequences – some of which will be good, and others quite awful.
Two Modest Conclusions

1. It is likely that some aid will make some people in other countries worse off than they would have been, even in cases where the aid is beneficial overall (that is, even when overall it helps more than it harms). [Wenar, p. 14]

2. It is very difficult for affluent individuals to make reliable estimates of the overall effects of their aid donations or campaigning. [Wenar, p. 15]
What follows?

- **Not** that we should do nothing: but rather than we ought to understand ourselves as acting in a complex world.
- We **do** have obligations; these obligations, though, are significantly more complex than those Singer allows us.
Jeffrey Sachs

- Earth Institute, Columbia University
- Economic advisor to Russia after 1989 – coined concept of “shock therapy” for conversion to capitalism
- Co-creator of the UN Millennium Development Goals (2000 plan to halve world poverty by 2015, eliminate it by 2025).
Reasons for optimism

- We now have some knowledge about what makes poor countries wealthy; we’ve seen poor countries develop.
- We have the beginnings of a clinical economics – on an analogy with medicine.
- The task is to jump-start countries until they are able to compete in the global economy – at which point development is no longer needed.
How to end poverty

1. Increase transportation infrastructure, to allow easy access to ports
2. Increase use of fertilizing, to increase crop yield
3. Increase public health investment, including bednets and deworming, to increase labor force capacity
4. Incentivize responsive governance

This will be expensive, requiring roughly a doubling of the global aid budget – but it will, in the long run, save money.
“By 2035, there will be almost no poor countries left in the world” (Gates Letter, p. 6)
The Gates Letter Identifies Three Myths

Myth #1. Poor countries are doomed to stay poor.

Main counterexamples: Asian “Tigers” (Taiwan, Singapore, Hong Kong, and South Korea) and BRIC countries (Brazil, Russia, India, and China).

In the past 50 years, more than 1 billion people have been raised out of poverty.

How would Schmidtz reply?: The success stories are not due to Aid. They are due to governments that made their countries attractive economic partners and enabled their citizens to compete in global markets.
Myth #2: Foreign Aid is a Big Waste

The Gates Foundation’s focus on improving health outcomes has had many successes:

- Smallpox has been eradicated worldwide.
- In 25 years the number of polio cases worldwide reduced from 350,000 to less than 400. and since 1988 the number of polio-endemic countries has been reduced from 125 to 3.
- 11.2 million cases of TB have been detected and treated.
- In Africa measles has virtually been eliminated as a killer of children.
- There are many more successes.
Myth #3: Saving Lives Leads to Overpopulation

When we reduce child mortality and make contraception available, families voluntarily have fewer children, because they can be confident that those they have will survive.

So Aid can do some good—especially Aid with measurable health outcomes, but is it effective in eliminating or alleviating chronic poverty? Sachs and the Gateses says “Yes”. William Easterly and Dambisa Moyo both disagree.
When Will Extreme Poverty Be Eliminated (< 1% of world population)

1. By 2025
2. By 2035
3. By 2050
4. By 3000
5. Sometime after 3000
6. Never
William Easterly

- Professor of Economics, New York University
- Author of *The White Man’s Burden: Why the West’s Efforts to Help the Rest Have Done So Much Ill and So Little Good*
- See his response to the Gates Foundation Annual Letter at Nyudri.org
How much do we really know?

- Sachs’s proposals presume we know a very great deal about what will happen in very complex systems. In fact all the history we have is very specific, and might not translate.

- The difference between “utopian social engineering” and “piecemeal democratic reform” (from Karl Popper)

- Which does Sachs represent?

- Which does Easterly favor?
Planners and Searchers

- **Planners** have an answer that works for all countries, and they’re going to apply it.
- **Searchers** believe there are no such answers – that any intervention must earn its status as something worth doing.
- Planners, Easterly argues, have generally been damaging to the world; our record with grand planning has not been good.
“Spending $2.3 trillion (measured in today's dollars) in aid over the past five decades has left the most aid-intensive regions, like Africa, wallowing in continued stagnation; it's fair to say this approach has not been a great success” (Easterly, p. 2).
• **Development** has become an ideology: it has its own rituals, its own norms, its own institutions – and it does not brook any disobedience.

• We have reason, though, to be more cautious than we have been about imposing the norms of development upon others.
The Danger of “Grand Plans”

“The danger is that when the utopian dreams fail (as they will again), the rich-country public will get even more disillusioned about foreign aid. Sachs rightly notes that we need not worry whether the pathetic amount of current U.S. foreign aid -- little more than a 10th of a penny for every dollar of U.S. income -- is wasted. Foreign aid's prospects will brighten only if aid agencies become more accountable for results, and demonstrate to the public that some piecemeal interventions improve the lives of desperate people”(Easterly, p. 4).
Piecemeal Reform Has Brought Successes

“Vaccination campaigns, oral rehydration therapy to prevent diarrhea and other aid-financed health programs have likely contributed to a fall in infant mortality in every region, including Africa. Aid projects have probably helped increase access to primary and secondary education, clean water and sanitation. Perhaps it is also easier to hold aid agencies accountable for results in these tangible areas” (Easterly, pp. 2-3).
Dambisa Moyo

- Born in Zambia
- Bachelor's Degree in Chemistry and MBA in Finance from American University in Washington, D.C.
- Master's Degree from Harvard's Kennedy School of Government.
- Doctorate in Economics from Oxford University.
- Named a Young Leader by the World Economic Forum
- Author, *Dead Aid*
Moyo does not question the value of humanitarian aid or emergency aid in a crisis

- Her argument is not directed against NGOs (e.g., the American Red Cross) who provide aid in response to a crisis such as an earthquake or tsunami.
- Nor is her target the other charitable work done by NGOs on particular problems (such as the Oprah Winfrey Foundation).
- “I am sympathetic to the argument that we can provide band-aid solutions by stepping in and perhaps giving a girl a scholarship to go to school.”
- Moyo’s target is the vast sums regularly transferred from governments or governmental institutions (such as the World Bank) to governments.
10. Corruption. Dictators have stolen hundreds of millions of dollars.

9. Bureaucracy. In Africa it can take up to two years (and many bribes) to get a business license.

8. Inflation. Aid money is one of the causes. (It’s a lot of money.)

7. Debt burden. “What is the point of giving debt cancellation or debt relief and then just subsequently adding on new debt? It just perpetuates the cycle” (Moyo, p. 6).

5. Aid allows government to abdicate their responsibilities. They don’t have to worry whether the domestic economy is healthy or not. “They spend their time courting donors” (Moyo, p. 7).

4. Aid is an open-ended commitment. 97% of the budget in Ethiopia is aid-based.

3. Aid kills off entrepreneurship. 2% mobile phone penetration in Ethiopia. (Average in Africa is 30%.)

2. Civil wars. More than anywhere else in the world.

Non-disaster aid has not led to growth, but to the absence of growth. 10% of Africa was below poverty line in 1970s; 70% is currently below the line. Why?

1. Foreign aid has allowed African leaders to **abdicate responsibility** for their citizens’ security and prosperity. The “speakers for Africa” tend to be outsiders like Bono.
The Aid Curse

Foreign aid has encouraged authoritarian governments who rule by force or by manufactured consent, by offering a new kind of resource (the Aid privilege) as a prize to those who gain power.

“There are factions constantly trying to capture the state because that's where the money is” (Moyo, p. 8).

It is not an exaggeration that for many African countries, Aid has been a curse. (You should be able to explain the analogy with the resource privilege and resource curse.)
Governments are not accountable to their citizens

- “The fundamental problem with these large aid flows going into Africa, it is the fact that it disenfranchises Africans. Africans have no voice. Africans cannot hold their governments accountable” (Moyo, pp. 8-9).
- Once in office, African leaders are rarely voted out. Why is that?
“I would remind everyone that—and I'd like to paraphrase President Obama from his inaugural speech—despite all the problems and the questioning and the concerns about the capitalistic model, it is still the best model for delivering wealth, and we should not forget that. It is unprecedented.

“Now, that doesn't mean that we shouldn't regulate it more, or perhaps be a bit more thoughtful in the manner in which it is implemented. But let's not throw the proverbial baby out with the bathwater. I think there are a lot of good things that happen. And let's also not forget that it has been over 300 years that you have had a system that has worked” (Moyo, p. 9).
What Does Moyo Think Should Be Done?

- **Stop development aid.**
- Forget trade agreements. Rich nations are not going to open their markets on fair terms to poor African nations.
- Trade with countries that need African products (e.g., China).
- Encourage entrepreneurship and foreign capital investment. Promise a business license will be processed in two weeks. Foreign capital investment does need to be regulated, so that it won’t be exploitative.
- Regional integration. Make it possible to travel freely with a single currency.
• If borrowing is necessary, borrow on the bond market. “If African governments borrowed money from the international capital markets and claimed to investors that they were going to invest it in productive activities to grow the economy and then pay back the interest and the principal and then spent the money on keeping themselves in private jets or whatever and did not use the money productively, the market would shut down on them” (Moyo, p. 11).

• Micro-lending (Muhammed Yunus). It is self-sustaining; it is not aid. Yunus raised $1 billion in nine months from Bangladeshis to lend to Bangladeshis.
“You are not going to get good leadership, because the people who are really highly qualified, smart Africans, who would do a fantastic job in transforming the economy, don't want to work in a place laden with bureaucracy and corruption” (Moyo, p. 11).

Paul Kagame, president of Rwanda, would say: "You cannot expect me to encourage Rwandans to be entrepreneurial and innovative in a place where they actually are completely burdened by an aid culture, where they have no incentive to actually do anything, because somebody is underwriting their business“ (Moyo, p. 12).
Doubts about Moyo’s prescription

- This is taking an enormous gamble: that the withdrawal of aid would lead to good governance. What if it doesn’t?
- As for development assistance: even Easterly would agree that there are some things we can do for piecemeal improvements—so why should we not do those things?
- There are some promising new ideas that are working.
Nicholas Kristof and Sheryl WuDunn

- Husband and wife journalists
- Founders of half the sky movement
- Halftheskymovement.org
Amartya Sen’s Discovery of A New Kind of Gender Gap

- 100,000,000 Missing Girls and Women (Sen 1990 NYR; updated in 2003 to 120,000,000).
- Recall that Alison Jaggar drew our attention to global discrimination against women. This is one especially severe form of discrimination.
- Two most significant variables for eliminating this gender gap: female literacy and female participation in the labor force.
- These same two variables are also significant factors in reducing family size and thus the threat of overpopulation.

(Amartya Sen, *Development as Freedom*)
Another Surprise: Education of girls leads to economic development

- How does this work?
  1. Direct effects – market participation
  2. Delayed age of first childbirth
  3. Fewer children, with greater attention on each
  4. Earnings potential leads to voice within the marriage

  If we educate girls, then we make women better off today and we improve the life prospects of the next generation.
How do you enable girls to get an education?

- Possible interventions:
  - Building schools
  - Feminine hygiene
  - Iodize salt
  - Free lunches
  - Pay the mothers
  - Deworming
  - Scholarships

- All have had some success.

For $100, how many additional child-years of schooling can you cause? (Aims experiment in Africa)

- Parental interviews: 20.7 years
- Deworming: 13.9 years
- Primary school uniforms: .71 years
- Merit scholarships for girls: .27 years
Other Effects of Female Empowerment

- Tostan is an educational organization that began in Senegal. Educating women has led to the elimination of female genital cutting (FGC) in half the villages in Senegal that traditionally practiced it. FGC will be eliminated from Senegal within the next 2-3 years. Tostan is now operating in many other African countries.

- Micro-lending. Muhammed Yunus won the Nobel Peace Prize for founding the Grameen Bank in Bangladesh, which makes micro-loans, primarily to groups of women.
Even here, though, there is no one-size-fits-all solution

There is no one single solution for how to make families willing to send their girls to school; gender is a complex fact in every society.

“While empowering women is critical to overcoming poverty, it represents a field of aid work that is particularly challenging in that it involves tinkering with the culture, religion, and family relations of a society that we often don't fully understand” (Kristof and Wudunn, p. 177).

Kristof and Wudunn emphasize how hard it is to design an intervention that works, because it must be carefully attuned to local circumstances. What is the Casava Example and how does it illustrate this lesson?
Don’t Forget the Successes

“In 1960, 20 million children died before the age of five. By 2006, that figure had dropped below 10 million, thanks to campaigns for vaccination, sanitation, and oral rehydration to treat diarrhea” (Kristof and Wudunn, p. 178).

“Some 1.5 million people once died annually from smallpox; since it was eradicated in 1977, about 45 million lives have been saved” (Kristoff and Wudunn, p. 178).
What Is The Best Use of Aid Dollars if the Goal is to Reduce or Ameliorate Poverty?

1. Dehydration packs
2. Mosquito nets
3. Schools for girls
4. Micro-loans
5. Fertilizer
6. Immunizations
7. Other Alternative
8. No Good Alternative.