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A Chance to Lift the 'Aid Curse'

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Foreign aid, after years of disregard, is back in business. At the World Economic Forum in Davos, important policy sessions were eclipsed by B-grade actors indulging in aid-hugging histrionics. Then, Jacques Chirac tried to out-compete Tony Blair for acclaim as the true aid enthusiast by calling for a $10 billion annual fund to fight AIDS (a trifle cynically, I must add, because the principal financing proposed was the imposition of a Tobin tax on capital flows, an idea that is now defunct except among fringe groups). Separately, the tsunami relief pledges turned quickly into an international contest where different donors were keen to outbid one another. And most recently, Mr. Blair's Africa Commission has recommended a substantial stepping up of aid to that continent, marked by regress and crying out for support.

But even as aid proponents now ask for each OECD country to spend 0.7% of GNP on foreign aid, and for the bulk of it to be spent in Africa, there are many skeptics who argue that these targets are overambitious. These are not indifferent folk, morally defective; they include developmental economists familiar with the history of aid and Africanists with experience of the continent. Their worry is that the absorptive capacity in many of the countries where the substantially increased aid funds will be spent is limited. Yes, we can certainly increase aid flows, as the Blair Commission persuasively argues; but the question is whether we should raise them so widely, so quickly and so high.

The skeptics fear that greatly expanded aid will result mainly in waste. In fact, worse may happen: sharply accelerated aid may even become counterproductive, leading to actual harm. For those who believe in the "oil curse," i.e. that sudden increases in wealth wind up hurting a country through profligacy and corruption, it seems probable that corruption will overwhelm the aid recipients. Call it the "aid curse."

It is often suggested that plurilateral monitoring within Africa, to which nearly 25 countries have agreed as part of an African Peer Review Mechanism, will mitigate such outcomes. But that seems too optimistic when one sees, say, the inability of South Africa's President Thabo Mbeki to condemn his counterpart in Zimbabwe, Robert Mugabe; or the predictable difficulty that Nigeria, despite the remarkable leadership of President Obasanjo, faces in rooting out long-festering corruption. A danger is that the support for even modest aid could disappear as much larger sums are squandered, undermining the credibility of foreign aid as a policy.

Yet there is a paradox here: If we were to think of aid, more appropriately, as funds spent not just in Africa but for Africa, big donor targets such 0.7% of GNP might come to be seen as insufficiently ambitious. For while there are limits to what we can spend directly in Africa for Africa, the ability to spend money productively outside Africa for Africa is far greater—and if aid spending is re-conceptualised and implemented in this way, the 0.7% target could seem a paltry cop-out.

In practice, aid flows have reflected two principles: first, that aid must be a moral obligation which takes the form of a commitment commensurate with a donor's resources; and second, that the resulting flows must be used efficiently. When the aid is simply to provide consumption, as in a famine or flood, the requirement of efficient use is easier to fulfil than when investments are to be undertaken—though in some countries even the ability to distribute food and medical supplies has been hobbled by lack of local infrastructure and reasonable governance.

Aid has a long pedigree as a moral obligation. Just as the Catholic church collected a tithe at 10% of one's income, and the zakat in Islam took 2.5%, the aid community has always gravitated to targets for donors. The original target, 1% of GNP, was the idea of Sir Arthur Lewis, the economist who was adviser to Hugh Gaitskell, leader of the British Labour Party, who wanted a target for his party's political platform in the 1950s.

Meanwhile, many over the years have called for much larger aid flows than even 1% of GNP to address world poverty, among them the Soviet dissident Andrei Sakharov, who proposed a "tax on the developed countries equal to 20% of the national income"! In practice, however, even the 1% target was quickly reduced to 0.7% for official aid and 0.3% for private capital flows—providing comfort to the donors but violating commonsense, because aid, an unrequited flow of assistance, should not be confused with a mutual-gain commercial transaction such as private capital flows. But if the targets have always posed a problem, so has a key, related question: How is aid to be translated into political obligation? Of course, if the aid flows are wasted, it will be impossible to sell them politically. But even if absorptive capacities are assured, it has always been a problem to get politicians in rich nations to accept an aid commitment.

When Gunnar Myrdal and the pioneering development economist Paul Rosenstein-Rodan proposed in the 1950s that aid be given out of altruistic motives, this was considered to be pie in the sky. Ever since, the more practical aid proponents have sold aid as being in the enlightened self-interest of the donors. The Cold War helped for many years: If we did not assist poor nations, the argument went, the Soviets would take over. But aid proponents also turned to other, less compelling arguments. The Brandt Commission argued that aid spending would promote employment, ignoring the fact that there was no Keynesian unemployment at the time and failing to confront the obvious retort that domestic spending would do this even better, and at lower cost. No wonder the Commission was ignored.

Then, in the U.S., the case was made that if we did not help Mexico, “peso refugees” would stream in, ignoring the fact that a slight improvement in Mexican prosperity would only finance more attempted entries across the Rio Grande. The most recent bad argument for aid invokes the war against terror, in spite of compelling evidence that terrorists are not afflicted by poverty and illiteracy but come typically from the educated middle class.

Moral obligation is easy for cosmopolitan elites to assert. But it will simply not work if there is no strong empathy that bonds nations or communities across borders. Adam Smith, writing over two centuries ago, put the matter beautifully when he asked how “a man of humanity in Europe” would react to disaster in China: “If he was to lose his little finger tomorrow, he would not sleep to-night; but provided he never saw them, he would snore with the most profound security over the ruin of a hundred million of his brethren [abroad].”

But today, thanks to the Internet and the revolution in communications, pestilence and famine abroad are constantly before us; we no longer can snore our way through them. Witness our reaction to the recent South Asian tsunami. Finally, aid proponents sense there is Spring in the air, and that the political and ethical conditions are optimal for a leap forward into big aid. Yet unless the anxiety over absorptive capacity is resolved, we cannot capitalize on this changed sentiment. And that is where the conventional focus on aid—as only what is spent in recipient countries (rather than for them altogether)—needs now to be abandoned. The phrase “foreign aid” encourages this notion; it is time to revert to the older phrase, “development assistance.”

Much could be done for Africa abroad. Consider, for instance, the development of vaccines and cures for yellow fever, malaria and other diseases. Just as the British established the Institute for Tropical Medicine, the same approach could absorb with efficacy far more substantial public moneys today to win the war on disease in Africa.

One could compensate cotton producers who are opposing the removal of U.S. subsidies that undermine the exports of the four cotton-exporting African nations. Innovative research for African crops could be financed on an ample scale, with the same results as the Norman Borlaug-inspired Green Revolution in certain developing countries in the 1960s. A Gray Peace Corps could be established that deploys the senior citizens in our ageing society to spend periods in Africa, where they would alleviate the enormous shortages of skills that cripple African development. The possibilities are limitless.

The certain consequence of this rethink on development assistance would be that a target of 0.7% of GNP, which the “big aid” proponents seem to embrace, is not ambitious enough. With empathy for development now strong, and with our ability to devise and implement programs at home that would assist the poor nations, we should aim higher. Let us return to the original target of 1% of GNP—for a start. And above all, let us spend it right.