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Dambisa Moyo, Dead Aid, Farrar, Strauss and Giroux: New York, 2009

By

Jagdish Bhagwati
Senior Fellow in International Economics, Council on Foreign Relations, and
University Professor, Economics and Law, Columbia University

If you live in the affluent West, no public policy issue is more calculated to produce schizophrenia in your psyche, and cause conflicts to rage in your conscience, than foreign aid. The humane impulse, fueled by unceasing televised images of famine and pestilence (especially) out of Africa, is surely to give more aid. But a contrasting narrative works the other way. You have heard about "Emperor" Jean-Bedel Bokassa of the Central African Republic spending French aid on buying a gold-plated bed and about President Sese Mobutu of Zaire, a brutal dictator, securing French, Belgian and American aid and spending lavishly on chartering a Concorde from Air France for his personal travels and even building an expensive runway for it in his hometown Gbadolite. Or you have read the brutal expose of the extravagant lifestyles of the newly-independent elites in Africa, reminiscent of the Court of the Bourbons, by the famous French agronomist, Rene Dumont, writing in his disturbing book False Start in Africa in 1966.

Till now, this was largely a matter for Western intellectuals and economists to debate and divide over. Africans themselves were the passive objects in this exercise, just as the 1980s debate over America's Japan-fixation and consequent Japan-bashing was between Americans --- chiefly, myself and Gary Saxonhouse disputing vigorously the haste to judgment that condemned Japan as a wicked, "unfair" trader --- while the

Japanese themselves stood by silently. The African silence has finally been broken; and the credit goes to Dambisa Moyo. In an impassioned tract of 154 small pages, this young economist from Lusaka, Zambia, whose credentials are impeccable --- education at Harvard and Oxford, employment at Goldman Sachs and consultancy at the World Bank ---, moves firmly, taking no prisoners, into the anti-aid camp.

Her sense of outrage derives partly from her distress over Bono and Geldof, the ageing rock stars, and Angelina Jolie and Madonna among the mostly second-tier actors from Hollywood, "capturing" the profoundly complex debate over African developmental challenge, and more narrowly over the role of aid, to the exclusion of Africans with experience and expertise. She must be quoted for her words are both poignant and eloquent:

"Scarcely does one see Africa's (elected) officials or those African policymakers charged with the development portfolio offer an opinion on what should be done, or what might actually work to save the continent from its regression. This very important responsibility has, for all intents and purposes, and to the bewilderment and chagrin of many an African, been left to musicians who reside outside Africa. One disastrous consequence of this has been that honest, critical and serious dialogue and debate on the merits and demerits of aid have atrophied. As one critic of the aid model has remarked, 'my voice can't compete with an electric guitar'."

Equally, she distances herself with distaste from the academic aid proponents whose convictions are more obvious than their analysis, while dedicating her book to the earliest skeptic on aid, Lord Peter Bauer, who taught at a politically polarized Cambridge, England, when I was a student there in the mid-1950s, and was roundly dismissed as a conservative critic at a time when the trend in developmental circles was predominantly liberal (in the American, not the Manchester School, sense). This means, of course, that she virtually disowns one of her influential teachers at Harvard, Jeffrey Sachs (now my colleague at Columbia University): his technocratic, those-who-oppose-aid-are-morally-depraved approach cuts no ice with Moyo who can almost be heard saying under her breath that Sachs promises to do for Africa what he did for Russia. And she has won praise from the most enlightened African leaders as diverse as former UN Secretary General Kofi Annan and Rwanda's President Paul Kagame.

But her own analysis is largely driven by her legitimate frustration over the fact that Africa, chief among the developing nations of the world since Independence, has regressed. She brilliantly analyses how the special factors cited for this tragic situation are not as compelling as they appear. A plenitude of tribes, frequent civil wars, many landlocked countries, geography (contributing to disease) and history (explaining of lack of physical and social infrastructure) are indeed significant constraints but there is no iron law that dooms countries to the African experience and there are many examples where these constraints have not proven to be insuperable.

But when she then looks for "the" compelling cause of Africa's experience and predicament, it is difficult to conclude with her that aid is the single explanatory factor in the sad saga of gigantic failure despite unprecedented quantities of aid over the last many decades. In fact, most economic phenomena, whether successes or failures, do not have single causes.

While her analysis is more nuanced than her stark anti-aid conclusion, she also startles us with her prescription that African aid must be terminated within five years, a cold turkey treatment that is perhaps designed more for its shock value than actual feasibility in a world of prior commitments. Indeed, her cure for Africa's malaise sounds like the cure prescribed by a vet for dysentery: plug the beast up from behind. The dysentery will be "cured" but the beast will die.

But Moyo's indictment of aid is serious business. It also goes beyond Africa, drawing often on cross-sectional studies and anecdotes that range across many aid recipients in the postwar period. If she is right, even in broad brush, we need to take notice and ask Bono to sing but to leave development alone. But before we do that, and I have little sympathy for Bono and much for Moyo, it is necessary to understand at a deeper level than Moyo's why the hopes of the donors have often been dashed: why aid has been unproductive even if we do not buy into the darker view that it has actually been counterproductive.

Aid rests on two principles. One is that it is our moral duty to give it. The other is that it ought to be productive. Duty is different from the consequentialist ethic that defines the latter principle. Few will give charity and then withdraw from the scene because their conscience has been assuaged. In practice, those who give from a sense of duty are unlikely to continue giving if their charity leads to spending one's way into drunkenness rather than in a hand up from malnourishment.

So, from the beginning of the aid programs in the early postwar years, those who wanted the rich nations to give aid for development, have been conscious of two different problems that aid raises: first, how do you motivate greater aid flows; and second, how do you ensure that they are put to good use (this being called by the earliest aid proponent, the great pioneer of postwar development economics, Paul Rosenstein Rodan of MIT, the problem of "absorptive capacity"). A central problem with aid has been that the unceasing efforts to produce more aid flows have led to tactics that have undermined the efficacy of aid, virtually guaranteeing failures of the kind that Moyo is properly outraged about.

Aid was principally driven at the outset by a common sense of humanity that cut across national boundaries. Aid proponents in the 1940s and 1950s such as Gunnar Myrdal and Rosenstein-Rodan were liberals who felt that the principle of progressive taxation, which reflects redistribution within national borders, ought to be extended across nations. They felt that aid flows would be motivated by what might therefore be called cosmopolitan altruism. This led to aid targets such as that aid "should" be 1% of GNP. This corresponds to the tithe principle of giving 10% of your income to charity in the Catholic Church; or to zakat at 2.5% in Islam. How did the figure of 1% make it to the public agenda? Sir Arthur Lewis, the first Nobel Laureate in Economics for development economics, from St. Lucia, for whom I was one of the evaluators for the Nobel Committee, told me that the Labour Party leader Hugh Gaitskell had asked him what figure they should adopt and that Lewis had a student working on French Africa and that the French expenditures there seemed to add up to 1% of French African GNP which is how he thought of that as a target! In any event, it had a nice ring to it; and it was of course proportional, not progressive, taxation much like the tithe and the zakat. It would later be broken down into 0.7% for aid flows and the rest for private investment flows.

The problem was that this target remained at the level of altruism-inspired aspiration in international bureaucratic levels and in national political platforms. There was never any popular support, except in Scandinavia, that would connect the target to the actual aid flows. And so, the aid proponents started looking for "enlightened self-interest" arguments to motivate aid. If one could convince the legislatures and the public that aid would be to their own benefit as well, that might loosen the purse more than altruism whose rewards are in the other world. A story will illustrate the way enlightened self-interest can lead to aid. A rich man and a poor man are praying in church. The rich man says: "Dear Lord, my million dollar loan is coming due and I need the money". The poor man says: "Dear God, I need a dollar to buy some bread". So, the rich man pulls out his wallet, takes out a twenty dollar note and gives it to the poor man, saying: "Here are twenty dollars. Go out and buy as much bread as you want; but stop praying as I need the Lord's undivided attention".

Rosenstein-Rodan told me in 1956 how Senator John Kennedy, who bought into the altruism arguments, had told him that there was no way it could fly in the US Congress. So, the argument was invented that, if the US did not give aid, the Soviet Union would, and that the Cold War necessitated that the US put its oar into the aid water as well. In fact, the Aswan Dam in Egypt had gone to the Soviets; and more tellingly, when US Steel killed the idea of US financing of an Indian steel plant in Bokaro in President Kennedy's time, the Soviets had stepped in.

The only catch was that, if the Cold War was your rationale for giving aid, it was going to be given, even if it was meant for development, to unsavory regimes which pledged to be anti-communist. That these regimes liked gold-plated beds, Concordes, palaces, BMWs and Rolls Royces, fat Swiss accounts, and gruesome torture, was an unpleasant reality to be put up with. So, in motivating developmental aid flows by bonding them to the Cold War, the aid proponents were shooting themselves in the foot.

Yes, we got more aid, but towards what end? Besides, while the aid was spent on slef-enrichment by these regimes, the repayments often came out of the hide of the very people whom developmental aid was supposed to help. Moyo knows full well that much of the aid to Africa was spent thus. But she misses the underlying paradox, the irony, as to why this happened.

When the Cold War began to lose its salience, and aid flows were not holding up, the search began for other arguments which may work instead. The World Bank appointed two successive groups of prominent persons to deliberate on ways of expanding aid flows, the Pearson Commission in 1968 and the Brandt Commission in 1980. Astonishingly, the Brandt Commission, while emphasizing that there was a moral duty to give, fell back on an enlightened self-interest argument based on a Keynesian assertion that made no sense whatsoever: that raising global demand for goods and services through aid to the poor countries would reduce unemployment in the rich countries. But surely, if you spent the money in the rich countries, the unemployment would reduce yet more!

Other feeble arguments related to migration. If aid was given, illegal immigration would decline as wage differentials between the sending and the receiving countries would decline. But the constraint on illegal immigration currently is the ability to finance the coyotes who take you across the border. If incomes were to improve, the ability to pay coyotes would increase also, as would the numbers attempting illegal entry. The paradox of unanticipated consequences would kick in.

Arthur Lewis, who had been a member of the Pearson Commission, therefore despaired of both the altruistic and the enlightened self-interest arguments. I recall him remarking, half in jest, that we should simply hand over the job of raising aid flows to a Madison Avenue firm! Little did he know that this is exactly what would happen twenty years later: with the "Make Poverty History" campaign, festooned with the Live Aid concerts and celebrity overkill that many Africans have come to despise.

Of course, this has meant that we have now returned to linking aid to altruism. Aid targets have therefore returned to the forefront: though, even now the targets fail to generate the aid flows desired. The Arthur Lewis prescription has failed to generate the aid flows that are pledged by way of moral obligation. Thus, in 2008, there was a shortfall of $35 billion per year on aid pledged by G-8 countries at the Glenneagles summit in 2005, and the shortfall for aid to Africa was $ 20 billion.

But the real problem is that, as with other motivating arguments for greater aid flows, the problem remains not just competing claims for domestic expenditures but that many are not convinced even as they make pledges of more aid, especially for Africa, that aid does good rather than harm. The aid proponents today attempt to overcome this problem by linking the aid flow obligations to worldwide targets, in turn, for primary education, health and other laudable objectives endorsed and enshrined in the 2000 UN Millennium Development Goals (which correspond uncannily to the objectives set out in the Brandt Commission twenty years earlier). But the real question which Moyo and many thoughtful critics raise is whether aid is indeed the appropriate policy instrument for achieving these targets, leave aside that there is no rank-ordering of these objectives in terms of their payoffs and that they are simply a collection of feel-good and do-good objectives without any serious underlying analysis of their feasibilities.

And so we return to the old "absorptive capacity" question, which I called the "demand-determined" approach to estimating required aid flows (as distinct from the "supply-determined" flows, underlying targets such as 1% of GNP to be given as aid, which linked them instead to how much donors would be able to supply) that aid proponents must face: is it going to do any good, linking aid magnitudes therefore to how much aid could be absorbed and therefore could be effectively demanded by potential aid recipients.

Aid agencies, and policy economists advising them, had to situate their arguments for aid in the context of the prevalent thinking on what would promote development. The limitations of these developmental "models" were to play a role in undermining the efficacy of aid as successive shifts in developmental thinking underlined. But there was also a more crippling factor. The assumption that aid would indeed be used so as to produce development was a heroic one, and not just because corrupt dictators would divert it to nefarious purposes, but more often because, even in reasonably democratic countries, the incentives, which soon became the subject of "political-economy" analysis, were often the opposite of what the aid donors and policy economists had in mind. This is, of course, often the case: we recommend benign "optimal tariffs" to governments which then, under political pressure from lobbies, choose tariffs that actually produce malign outcomes. This turned out to be equally true for much of aid.

And, let me emphasize, these unforeseen and counterproductive consequences of aid were the subject of anguished and hostile commentary, not just from conservatives like Peter Bauer, but also from progressive economists such as Thomas Weisskopf of Michigan and non-ideological economists like the Nobel Laureate Ted Schultz, the agricultural economist at Chicago: it is simply ignorant and self-serving on the part of knee-jerk aid propagandists like Bono and Sachs to argue as if skepticism on aid is the preserve of Neanderthals on the right.

I should add that none of these critics of aid subscribed to the more radical notion that the malign effect reflected malign intent: though, interestingly, that aid could be a form of neocolonial embrace, aimed at continuing colonialism by other means, was also a thought that had surfaced in the writings of President Nkrumah of Ghana, a victim later of the CIA, and tangentially in the influential work of the eminent sociologist Hernando Cardoso who gave the world the <u>dependencia</u> thesis before turning some decades later into Brazil's globalization-embracing President.

The disconnect between the economists who thought that aid would advance development since it was being fitted into the most plausible current developmental thinking, and the political reality of aid giving and aid receiving which contradicted the assumptions that implicitly underlay the economic exercises, is best illustrated by a close look at the earliest developmental model that was widely used in formulating developmental Plans and estimating aid requirements. That model was associated with two world-class economists, Sir Roy Harrod of Oxford and Evsey Domar of MIT, both writing a decade apart because Domar, in flight from Russia <u>via</u> Manchuria, was unaware of Harrod's work. In hard science, if you arrive even a moment late, you have missed glory; economists, who are accused of being neither a hard nor a soft science, are smarter however. Properly they are more generous and give credit when the work is original, just as hard science earlier gave credit for the calculus to both Newton and Leibnitz.

In essence, the Harrod-Domar model saw development as defined by two parameters; How much you saved and invested (i.e. the savings rate), and how much you got out of the investment (i.e. the capital-output ratio) defined how much your income went up and hence your growth rate of income. The standard tool kit of the aid proponents therefore consisted in putting down a target growth rate of income (say, 5% per annum), assuming a capital-output ratio (say, 3 to 1), deriving therefore the required" investment rate (which would then be 15% of GNP). If the domestic savings rate (say, at 9% of GNP) falls below the required investment rate (of 15% of GNP), the rest of the savings would have to come from abroad: that means that foreign aid, assuming no other inflows of resources from abroad, would have to fill the difference (i.e. the aid would be 6% of GNP). If then we were to postulate that the aid recipient must make its own matching effort, as those using this approach did, over time the recipient would have to steadily raise its domestic savings, through fiscal policy, to eliminate the need for aid (i.e. the aid would then fall steadily from the initial 6% of GNP to zero). By increasing domestic savings, aid would have self-destructed eventually: a prospect that would also endear the program to those who were not into permanent redistribution a la the early liberals but wanted to see the "light at the end of the tunnel" in aid obligation.

The problem with this approach, widely used through the 1970s, was that the recipients were smart enough to know that , once the donors had bonded with the recipients into providing aid, the aid would perversely increase if there were domestic shortfalls which could always be put down to "political difficulties" . So, no matter that aid was predicated on increased domestic savings effort, it would lead to reduced savings: self-reliance would not be promoted. Giving aid was akin to catching a tiger by the tail: it was hard to let go. Besides, as Moyo recalls, the World Bank, which provided much of the multilateral aid flows, had a "moral hazard" problem: unlike the IMF, it was judged by how much it spent; and the recipients knew that well enough to emasculate most of the domestic-effort conditionalities that were attached in principle to the aid granted. This cynical reality is well illustrated by the hilarious account that my Oxford tutor, Sir Donald MacDougall, who had been adviser to Prime Minister Churchill during the War, told me about the meeting of potential Marshall Plan aid recipients. The head of each delegation got up and put out estimates of their projected budget deficits which translated into their aid requests. But the head of the Turkish delegation announced a sizeable surplus and refused to budge when Sir Oliver Franks of the UK delegation suggested that there was possibly a mistake in the Turkish calculations. So, Franks called an adjournment and then went to explain to the Turks that, if you wanted Marshall Plan aid, you had to show an impressive deficit. The astonished Turks replied: "But we thought that we had to show that we were in a sound position if we were to raise moneys abroad!" Franks explained that the rules had changed; and the Turks proceeded to claim an error in their earlier calculations, produce the required deficit, and became happy recipients of Marshall Plan funds!

Countless empirical studies at the time showed an inverse relationship between aid inflow and domestic savings. I believe that the adverse effects on domestic savings, while generally plausible, were overplayed because the simple-minded cross-country regressions on which they were predicated were a scientifically inappropriate way to get at the problem. These would become soon the bane of much empirical work, a favorite tool of three Harvard economists oft-quoted in the media: Dani Rodrik, Robert Barro and

Jeffrey Sachs; and this "Harvard Gang of Three" has been roundly criticized by many more accomplished scholars. In fact, for perhaps the country which received a large share of total aid and where acceleration of development was a serious business of the government from 1950, I and T.N.Srinivasan argued from more sophisticated modeling and estimation therewith that aid had indeed increased India's domestic savings. But what seems like a generally good case for aid's untoward effects in other countries, especially in Africa, cannot be ruined by the shoddy empirics of some.

These same problems of the mismatch between ex ante intentions and ex post realities cannot but carry over to the latest battles over aid, linked now to the "War on Poverty". Of course, the war on poverty is not a new invention; in fact, it was the main impulse for developmental planning even as the Second World War ended. How was it to be managed?

Today, many who were not present at the creation think that we neglected poverty and were into growth. But that misses the point that the latter was the way to get to the former. True enough, the developing countries saw their poverty rates increasing through the 1980s. But that was because the growth did not materialize! Why? Because the policy framework was excessively dirigiste, with knee-jerk intervention everywhere, fear of outward orientation in trade and rejection of direct equity investment (i.e. multinationals) among the principal pillars of economic policy. The result was predictably malign: growth rates in India and China, which specialized in poverty, were abysmal and failed to have an impact on poverty. After the liberal (or, if you are in the populist camp, "neoliberal" which sounds more sinister) reforms which really took off in early 19190s, the growth rates soared and finally, in two decades, the best estimates show that half a billion of the poor managed to move across the poverty line.

Both India and China, Moyo reminds us, did not owe this to aid inflows at all. True, India had used aid well; but its growth, and hence impact on poverty as well, was inhibited by awfully bad policies; and it was only when aid had virtually become minuscule as a steady diet for India, and when it was the economic policies that had changed dramatically for the better, that India succeeded hugely. The same goes for China.

The War on Poverty therefore requires as its central weapon, , if historical experience is to be the guide as it should be, not aid but liberal policy reforms that have delivered in spades. Aid may assist if it is effectively tied to adoption of the developmental policies that we now know offer promise and it is carefully channeled (as President Bush's Millennium Challenge Program sought to do) to countries that understand that development has much to do with adoption of the policies that have been tried and found effective, and little to do with gimmicks like the Millennium Development Villages that make it to the media but offer little. Enlightened African leaders have also put their energies into the NEPAD process which is aimed at checking the worst political abuses in Africa.

But the African experience points, at best, to caution and, at worst, to a warning to Africans that aid in the end, despite all these good intentions, is more likely to harm than help. And this is particularly so if we take seriously the likes of Bono who cannot have enough of it, always pointing to how aid falls below the arbitrary targets such as 0.7% of GNP while ignoring the immense probability that if they had their way and we were to pile on larger aid flows, the likelihood of aid being wasted and even feeding corruption increases immeasurably.

So, Moyo is right to raise her voice. She must be heard if we are to move Africa in the right direction. But whether we will depends on whether we can return the developmental agenda to the scholars who have learnt much from over a half century of developmental experience and the determinants of its successes and failures. This would mean, as its flip side, that we also return the celebrities, and their cronies, who are muddying the waters, to their singing and acting occupations, and effectively treat them with the indifference that they deserve.

Instead, we see that Bono is now a Contributing Editor of the newspaper of record, the New York Times, reminding one that when Tina Brown's new magazine, Talk, failed the only wry comment one could make was that the magazine's demise was to be expected as it was designed to talk about, not to be read. Moyo may shed a tear over this travesty. But, in the end, her words will prevail: for it is the rapidly growing numbers of young Africans like Moyo who will increasingly shape their nations' destiny, not singing troubadours from foreign lands.