

Alleviating Poverty: Is Aid the Answer?

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I am very pleased that you have chosen to focus on poverty. This is one of the globe’s greatest challenges – right up there with climate change, terrorism, and nuclear proliferation. In fact, alleviating the conditions of poverty is part of the solution to those other great challenges of our day.

You have asked me, “Is Aid the Answer?” Let me begin my answer by quibbling over your use of words. The word “aid” as in “foreign aid” is passé. It is inappropriate language, even harmful to the task of alleviating poverty.

The terminology in use today is “international development cooperation,” and words do matter. This connotes a real partnership with the developing world. And, yes, if that partnership exists, development cooperation is very much a part of the answer – not the whole answer, but a part of the answer.

The other reason I dislike the word “aid” is that it reflects a widespread attitude in the West that assistance devoted to alleviating poverty is a “gift” from rich nations to poor ones. The gift mentality stands in the way of cooperation; it implies that a nation’s behavior is somehow being rewarded; and it creates an aura of conditionality that sends the message: *Made in the West*.

The other side of the “gift” coin is the problem of dependency. Development assistance is transitional. It can be a catalyst to reform and development, but it can never be a substitute for a nation’s commitment to its own development. Even the poorest nations should be investing a high portion of their own revenues on development. They should never become dependent on official development assistance (ODA).

So, where do I stand on the spectrum of opinion on development assistance personified by economists Jeff Sachs and Bill Easterly? Sachs wants to ramp up the volume of assistance and Easterly sees failure in traditional approaches and worries that more aid will inflate currencies and create dependency. Of course, each of these distinguished economists has a more complex position, but the titles of their books and articles lend themselves to simplistic interpretations. One, Sachs, likes to portray himself as the optimist. Easterly is the pessimist.

You can portray me as the realist – and I have the scars to prove it! Let me make five points:

1. An argument has been made that foreign assistance has been a failure over the past 50 or so years. Easterly has made that case in a typical economist’s fashion – he has measured economic growth rates and the accumulation of wealth against the investments that have been made. What he leaves out is the progress made in agriculture, infant mortality rates, availability of potable water, the increased accessibility of family planning, and other health and nutrition interventions. Yes, there has been some waste. That is inevitable when you are dealing with very difficult challenges. But the question should be “What would the world look like today had we not made the investments?” Carol Lancaster argues that a 70%

success rate is what a venture capitalist aims for. That is the success rate of foreign assistance. Not bad.

2. Second, much of the waste Easterly cites occurred because foreign aid – that is what it was called then – was both an experiment in the early days and a political tool during the Cold War. The first experiments with assistance involved concepts that were top-down, concepts like the “rising expectations” and “hierarchy of needs.” Our theorists paid little attention to the poor. The East-West conflict created a political competition when developing nations were pawns in a game that only incidentally included poverty alleviation. Authoritarian leaders in poor countries became quite adept at playing both sides while excluding their own people from having a meaningful role in development. There was no international consensus on the goals for development. Today there is. The U.N. Millennium Development Goals represent that consensus. Yet they will never be reached by 2015 if we continue on today’s path. As a UNDP report stated, the world is “heading for a heavily sign-posted human development disaster.” There should be no question that an increase in the volume of ODA is needed if these goals are to be reached as Sachs has suggested. However, that is only a part of the solution.
3. Cooperation on the ground is essential... participatory development works as Easterly suggests, but the people must be empowered to speak and act for themselves. Global goals can only be reached through local action. Development is not a top-down exercise, either globally or nationally.
4. The West and the developing nations too often are like ships passing in the night when defining the global agenda. For example, we look at the issue of security differently. We in the West see security as terrorism and weapons of mass destruction. Developing nations believe that the predominant security threat is poverty. They see the Millennium Development Goals as vital. We often seem to be paying only lip service to them, but have even been prepared in the past few years to abandon them to acquire leverage in negotiations to reform the U.N.
5. Finally, if we are going to give new impetus to the effort to alleviate poverty, we need to avoid sweeping denunciations of our past efforts. Easterly’s book The White Man’s Burden should be used as a critical analysis of what has gone before. But it is more likely to be used to justify doing nothing more.

Sachs’ book The End of Poverty is an effort to rally the international community and I commend him for that. However, advocacy should be grounded in today’s realities. One cannot simply gloss over these difficult issues without attempting to see the other side.

My preference is for books like Paul Collier’s The Bottom Billion and Steve Radelet’s Challenging Foreign Aid. These books contain policy prescriptions that are based on empirical data and solid analysis. They are grounded in practice.

But you came here to hear my views, not hear me cite the views of others. I believe that poverty is an enormous, singular threat that the international community ignores at its own peril.

I also believe that we are falling far behind in our efforts to deal with this problem despite recent major increases in the volume of assistance that is available. The international community

needs to get its act together and to organize around some basic principles. Let me share a few ideas:

1. Let's not make development such a mystery. Development is about making "land, labor, and capital more productive." The Development Assistance Committee of OECD describes ODA as the transfer abroad of public resources on concessional terms..., a significant objective of which is to bring about an improvement in economic, political, or social conditions in developing countries. So that is the "what." The "how" is more complicated. That is part two:
2. What we need is information and analysis for each developing country. This is a major challenge and not enough ODA resources is available to perform that task. I call it a "diagnostic," to borrow a medical term.

Let me use an analogy that may be more understandable to non-experts. What if you were a general – let's say the Chairman of the U.S. Joint Chiefs – and you were confronted with a new threat, weapons of mass destruction in the hands of a dictator in a poor country. You would want to know everything about the country: its terrain, its ethnic groups, its trade patterns, its regional allies, even its cultural habits.

Then you would want appropriate weapons systems, soldiers with the right kind of training, language experts, and, most importantly, good intelligence.

Then, after you got deeply involved against an asymmetric threat -- an indigenous terrorist group -- you would appeal for more troops. Maybe you would call it a "surge."

Then you would tell the public that you seek "victory." And anyone who doesn't buy this argument gets to be called a defeatist. That is my Iraq editorial!

Well, if poverty is as serious a threat to global stability as we believe it is, why shouldn't we have the best information possible about the countries and regions where it resides? Why shouldn't we have the best tools to fight it? Why shouldn't we have the "surge capacity" to defeat it? And what is wrong with aspiring to a victory over time?

Let's start with our diagnostic. My friend, Michael Fairbanks, developed an excellent tool for framing assessments of a nation's potential for wealth creation. He calls it the Seven Sources of Wealth:

1. Natural endowments (location, climate, forests, etc.)
2. Financial resources (savings, reserves)
3. Humanly-made capital (buildings, bridges, roads, power plants)
4. Institutional capital (rule of law, parliaments, courts, government departments, etc)
5. Knowledge resources (think tanks, universities, labs, patents, etc.)
6. Human capital (skills, educated workforce)
7. Cultural capital (attitudes, values)

All nations share these attributes to some degree. The first three are more easily measurable. In general, there are three things foreign assistance can help with as part of a "surge" against poverty in cooperation with solid partners in poor countries:

1. Human capacity: health care, family planning and education. Often poor countries can't afford these basic social services.
2. Attack the informal economy and corruption creating transparent and efficient micro-economic systems: banking systems that make loans to micro and small businesses; tax systems that are highly progressive and fair; commercial laws that eliminate arbitrary government behavior and encourage production and growth; customs and legal systems that facilitate exports and imports; legal protections for private property; create a rule of law culture.
3. Democratic institutions that enable citizen participation, fair representation even for minorities, and efficient, responsive government.

These things cannot be done easily and cannot be done by donors alone. But they, along with the Millennium Development Goals, provide the agenda for international development cooperation.

Unfortunately, unlike the general who can draw from a \$600 billion defense budget for his surge, donors have much less to draw upon – about \$75 billion is the total for the Western donors. And people are needed – development professionals. The U.S., for example, has fewer diplomats and development officers than our military has in its bands and choirs.

We not only need more money to fight poverty, we need more coherence in our policy approach.

The West spends about \$1 billion a year on agricultural development in poor countries while spending \$1 billion a day on various subsidies for its own agriculture sector. We need to open our markets.

Our finance ministries push stability and fight inflation through the IMF, but too little attention is given to providing the flexibility for development. Are we more interested in protecting western investment than in helping nations create jobs and growth?

We are at the tipping point. You have seen the statistics. This world cannot survive with half its people living in poverty. This condition of poverty is directly threatening the prosperity and relative stability the world has achieved in the past fifty years. We cannot put our head in the sand or just pass U.N. resolutions which we promptly ignore. It is time for a major global surge to alleviate poverty.

I am looking for young recruits. Who wants to enlist?