1. Introduction

The aid community is awash in plans, strategies and frameworks to meet the very real needs of the world’s poor, complete with cost estimates of “the need for aid”. This paper contends that these exercises make sense only in a central planning mentality in which the answer to the tragedies of poverty is a large bureaucratic apparatus to dictate quantities of development goods and services by administrative fiat. The planning mindset is in turn linked to discredited theories, such as that poverty is due to a “poverty trap”, which can be alleviated only by a large inflow of aid to fill a “financing gap” for poor countries. The aid inflow is of course administered by this same planning apparatus.

This is bad news for the world’s poor, as historically poverty has never been ended by central planners. It is ended only by “searchers”, both economic and political, who explore solutions by trial and error, have a way to get feedback on these solutions and then expand the ones that work, all of this in an unplanned, spontaneous way. Examples of searchers are firms in private markets; democratically accountable politicians; even non-democratic politicians who take a pragmatic, gradualist and experimental approach to policy making with local feedback; and front-line aid workers who adapt solutions to local demand.
2. The night of the planners

The desire of the international aid community to estimate “needs” itself reflects how planning has taken over foreign aid. The terminology of “planning”, along with its synonyms of “framework” and “strategy”, increasingly dominates aid discourse. The direct inspiration for this seems to be the Millennium Development Goals (MDGs) exercise. Lest this be thought an exaggeration, consider the following quotation from Jeffrey Sachs and the UN Millennium Project (2005) on how to assess aid needs for the MDGs:

“a needs assessment is a key input to... a policy plan.... The second stage of the planning process will be for each country to develop a long-term (10-12 year) framework for action for achieving the MDGs.... This MDG framework should include a policy and public sector management framework to scale up public spending and services, as well as a ... financing strategy to underpin the plan. The third stage of the planning process will be for each country to construct its medium term (3-5 year) poverty reduction strategy (PRS) based on the long term MDG plan. The PRS [poverty reduction strategy] is a more detailed, operational document, and should be attached to a Medium Term Expenditure Framework (MTEF).” (emphasis added)

It is perhaps understandable that aid officials would turn to complicated plans, strategies and frameworks in order to try to meet 54 Millennium Development Goals by 2015. (Some will object that there are only 8 MDGs. Apparently embarrassed at just how baroque the MDG exercise is, the designers of the MDGs have grouped the 54 goals, called “indicators”, into 18 groups of “targets”, which are in turn aggregated into the 8 MDGs.) Sachs (2005) and the UN Millennium Project (2005) offer a package proposal on how to achieve the 54 goals, comprising 10 key recommendations (which are actually 36 recommendations when all the bullet points are counted), “a bold, needs-based, goal-oriented investment framework over 10 years”, 17 Quick Wins to be done immediately, 7 “main investment and policy clusters” and 10 problems to be solved in the international aid system. In a 451-page main report with 3,300 pages of technical annexes, the Millennium Project proposes 449 separate interventions to meet the 54 MDGs by 2015. Sachs (2005, p. 285) recommends that the UN Secretary-General run the plan personally, coordinating
the actions of thousands of officials in six UN agencies, the UN country teams, the World Bank and the IMF.

The IMF and World Bank, for their part, are fervent advocates of free markets for prosperity, not statist strategising, but some unlucky countries are so poor that they face the requirement to engage in statist strategising anyway. This takes the form of a Poverty Reduction Strategy Paper (PRSP). The preparation of the PRSP requires planning that would overwhelm the most sophisticated government bureaucracy anywhere, much less the under-skilled and under-paid government workers in the poorest countries:

“The sector ministries prepare medium-term strategic plans that set out the sector’s key objectives, together with their associated outcomes, outputs, and expenditure forecasts (within the limits agreed upon by the Cabinet). These plans should consider the costs of both ongoing and new programs. Ideally, spending should be presented by program and spending category with financing needs for salaries, operations and maintenance, and investment clearly distinguished.” (Klugman, 2002)

If they have any time left after all this planning (not to mention time left after their meeting with the hundreds of donor missions that arrive every year to check up on the plan), they can also come up with a plan for those same donors, namely:

“an external assistance strategy in the context of the PRSP process that explicitly identifies the priority sectors and programs for donor financing... More detailed external assistance strategies can then be developed for key areas through sectoral working groups in which representatives of major donors and line agencies participate.... Agreeing on financing priorities for individual donors within the framework of a global external assistance strategy, rather than through bilateral agreements....” (Klugman, 2002)

At least the PRSP requirement is relaxed for failed states; it is thus limited to such peaceful, politically stable, abundantly staffed, well-governed poor countries as Cambodia, Democratic Republic of the Congo and Sierra Leone1.

The planning nightmare deepens further when we consider that each individual aid agency actor is offering its own plan, which it can disguise only by claiming that its plan is necessary for achieving the overall MDG plan. Thus we get such mixed-species curiosities as the World Bank’s 2003 Comprehensive Development Framework Progress Report, whose main title is Getting Serious About Meeting the Millennium Development Goals. The Comprehensive Development Framework (CDF), conceived by former World Bank President James Wolfensohn in 1999, must still be integrated into the MDG plan even though it has since been superseded by the IMF and World Bank’s PRSP plan. Not to be left out of the planning race, even such unrelated bodies as the World Trade Organisation offer an “Integrated Framework for Least Developed Countries” (IF), which of course will connect to everybody else’s plans. The IF should “incorporate [a] prioritized Action Plan (Action Matrix) into the country’s national development plans such as PRSP”\(^2\). The World Bank’s admirable report on excessive red tape for private business in poor countries, Doing Business, has yet to turn its attention to the Gordian knot of CDF/ PRSP/ IF/ MTEF/ MDG planning (see World Bank, 2005).

Who is motivated to implement all of these plans? Who will be held accountable if the plans fail? Apparently, nobody. The UN Secretary-General issued a progress report on the MDG plan for the UN World Summit in September 2005 (United Nations, 2005). Along with some successes in regions where foreign aid has little role (India, China and East Asia), the report recited a litany of failure\(^3\):

“In sub-Saharan Africa, which already had the highest poverty rate in the world, the situation deteriorated further and millions more fell into deep poverty” (p. 6).
“The decline in hunger is slowing” (p. 7).
“Almost half of all deaths among children under age 5 occur in sub-Saharan Africa, where progress has slowed owing to weak health systems, conflicts and AIDS” (p. 19).
“A safe, effective and relatively inexpensive vaccine has been available for over 40 years. Still, measles strikes 30 million children a year, killing 540,000 in 2002

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3. I am grateful to William Duggan of Columbia University, who has his own articulate take on the paradox of the UN’s highlighting failure while disavowing any responsibility, for calling this report to my attention.
and leaving many others blind or deaf. Global coverage of measles immunization has risen slowly, but is lagging in Oceania, sub-Saharan Africa and Southern Asia, where about a third of all children are still unprotected” (p. 20).

“There was no change in sub-Saharan Africa, where maternal mortality is highest” (p. 23).

“Forests are disappearing fastest in the poorest regions” (p. 30).

“The growth in the number of slum-dwellers is outpacing urban improvement” (p. 35).

The report documents that the MDG plan is failing. Yet it never occurs to the UN to take responsibility for the failure of the plan it conceived, sponsored and publicised. Instead, our attention is directed again to the question of “aid needs”: “If all new commitments are honoured, aid is expected to exceed $100 billion by 2010. Still, this falls short of the amounts widely considered necessary to achieve the MDGs.”

The IMF and World Bank’s reports on the MDGs obey the same logic of failure without responsibility. We are told first of failure (“For the poorest countries many of the goals seem far out of reach”) and then of the need to expand aid (“Many of the poorest countries will need additional assistance and must look to the rich countries to provide it”)

In other words, the aid community should increase further the scale of the plans that are currently failing. The reason for pointing out failure is not to hold anyone accountable, but to document the continuing “aid needs”, i.e. to give a rationale for further expansion of aid. The UN and the World Bank reports do not explain why the poor need more of the same thing that previously failed to address their needs.

The failure to meet goals could of course occur not just because of the ineffectiveness of the UN, the World Bank and other international organisations in delivering services to the poor, but also because the goals were too optimistic or depend on factors beyond the control of these organisations (this excuse is less applicable for something so measurable and feasible as measles vaccination). Far from absolving the aid community, however, this only raises the question of why so much

energy is devoted to a campaign (the MDGs) that creates no positive incentives for actors because it promises too much in matters that the actors cannot control. In its PRSP Sourcebook, the World Bank itself cautions poor countries against setting overly optimistic targets in the PRSPs for exactly this reason: “Most often [the PRSP targets] are overambitious; they are technically and fiscally unattainable, which defeats their role as effective incentives to action” (Christiaensen et al., 2002). The same document also warns: “it must be possible to disentangle the effects of poor performance by the implementing actors from the effects of external shocks”. While poor country governments are held to this standard, the international organisations that design the Millennium Development Goals are apparently exempt from these same sensible rules.

The international organisations also seem oblivious to the problem that multiple goals and multiple agents pose for the incentive structure facing aid agencies. Having multiple goals (54 in this case) is equivalent to having multiple principals. It is well known in principal-agent theory that having multiple principals weakens the overall incentives for the agent to deliver to any one principal. Indeed, the optimal strategy for each principal is to try to penalise the agent for effort towards other goals in favour of effort towards the principal's own goal. In the aggregate, all the principals’ incentives cancel each other out and the agent is left with little or no incentive. An agent with multiple tasks gets credit for doing some tasks and hence is not as motivated to complete any one task as an agent would be whose sole responsibility was that one task. To put this in everyday intuitive terms, a worker with multiple bosses can tell each one that he is too busy to work on that boss’s task because he is working on the other bosses’ tasks.

Having multiple agents creates the obvious problems of collective action and free riders. If everyone is to blame when something goes wrong, then nobody is to blame. Operating in the Bolivian mountains are the International Monetary Fund, the World Bank, the Inter-American Development Bank, USAID, the US Drug Enforcement Administration, the UK Department for International Development (DFID), just about every other rich country’s aid agency, many NGOs and Bono. These agencies jointly affect what happens to economic development in Bolivia, but none is responsible for a particular outcome. When something goes wrong in Bolivia, such as the economic and political crisis in 1999-2005, after years of effort by these agencies, which one is to blame? We
How to assess the need for aid? The answer: Don’t ask

... don’t know, so no one agency is accountable. This weakens the incentive of agencies to deliver results.

Introductory economics explains why cultivators with individual property rights (individual responsibility) get much better results than collective farms (collective responsibility). The Chinese economic miracle started with the realisation of this principle in the Chinese countryside. Jeffrey Sachs scorns these principles: “Although introductory economics textbooks preach individualism ... our safety and prosperity depend at least as much on collective decisions to fight disease, promote good science and widespread education, provide critical infrastructure, and act in unison to help the poorest of the poor” (Sachs, 2005, p. 3).

Of course, there are public goods, like those mentioned by Sachs, in which collective action problems must be solved. Rich societies do this through democratic accountability of individual politicians and bureaucrats to the voters. Voters want roads, so they vote for politicians who set up specialised ministries responsible for providing good roads. In rich country bureaucracies, the ministries of health, foreign affairs, treasury, defence, pensions and sports do not have collective responsibility for good roads. Rather, each of these ministries has specialised tasks in its own area for which it is accountable to the politicians, who are in turn accountable to the voters. That is why I can usually get a pothole in a road outside my house fixed with one phone call to a public official. Unfortunately, the foreign aid system has neither democracy, nor accountability to the poor beneficiaries, nor specialised responsibility.

The IMF and World Bank have many well-trained economists aware of introductory economics textbooks, yet they still produce documents with statements by their respective leaders like: “How to generate momentum? This report sets out an agenda spanning the responsibilities of all key actors” (IMF-World Bank, 2005, p. xi).

Instead of promoting individual agencies’ accountability for specific tasks, the aid community engages in such fantasies of collective responsibility as the following: “The Paris High Level Forum on Harmonization, Alignment, and Results brought together developing countries, bilateral donors, global funds, UN agencies, civil society, and international financial institutions to assess progress and chart the way forward, including through monitoring of agreed indicators of progress” (IMF-World Bank, 2005, p. 235).
With such fatal defects, why is the MDG exercise so widely embraced? The political economy of aid in the rich countries tends to reward grand gestures and utopian promises rather than piecemeal efforts to improve gradually the well-being and opportunities of the poor. The former attracts Bono, Angelina Jolie and Tony Blair; the latter attracts only hard-working front-line aid workers who toil in the field mostly unnoticed by the public and media in rich countries. In other words, rich country politics rewards those who make the largest promises, particularly in a situation where there will be only weak monitoring years later of whether the promises were kept (and even then the collective responsibility system will protect any one actor from being singled out to blame for failure).

More prosaically, the MDGs may appeal to many aid agencies because they offer some hope of answering the question in the title of this paper: how to assess the need for aid? Unfortunately, the models used to calculate costs from goals are themselves vestiges of the long-discredited planning mentality that dominated the early days of development economics, as discussed in the next section.

Even if it were possible to estimate costs from goals, however, this only begs the question of how the goals were determined. Millennium Development Goal 1 is to cut in half the proportion of people living in extreme poverty (as well as halving the proportion of hungry people, with six indicators altogether, so as usual Goal 1 is actually six goals). Why half? Why not cut it by two-thirds or three-quarters? Why does Sachs plan to achieve the end of poverty only by 2025, rather than 2020, or 2015? Even if we ignored the already fatal modelling problem, the only hope for pinning down “aid needs” is to pin down goals.

The PRSP Sourcebook that guides the IMF and World Bank PRSPs gives some crucial insight into what is going on with the Millennium Development Goals: “Mobilizing resources is without doubt a primary function of targets set by the international donor community such as the International Development Goals” (Christiaensen et al., 2002). There is something to admire in the World Bank so brazenly stating that the whole thing was circular all along: increased aid is required to reach the goals, and the goals are required to increase aid. Although this circularity destroys any last shred of hope of determining at what number the “aid needs” reach closure, mathematical indeterminacy is nothing compared to the public relations genius of the whole exercise.
3. The ghosts of models past

If Rip Van Winkle were an aid policy maker, he could have gone to sleep in 1955 and woken up in 2005 without too much discomfort. The same models that were used to justify foreign aid in the 1950s are used in 2005, unfortunately distracting attention from the real problems of creating incentives to make aid effective. These models give undeserved and spurious precision to “assessing the need for aid” today.

Three models, all of them now discredited in the literature, underlie the estimates of “aid needs”:
- The “financing gap” or “two-gap” model of aid, investment and growth;
- The “poverty trap” model of underdevelopment;
- The expenditure-to-outcomes model in health and education.

We will discuss each of these three models in turn.

3.1. The ghost of financing gap

One of the most widely cited papers estimating the costs of meeting the Millennium Development Goals is by three World Bank researchers (Devarajan et al., 2002). One has to feel some sympathy for the contortions these well-regarded authors had to go through to arrive at an estimate, which they say more or less explicitly that they do not believe themselves. The central exercise in the paper is to use the “financing gap” or “two-gap” model of aid, investment and growth to estimate aid requirements.

According to this model, economic growth is proportional to investment, which in turn is financed by domestic saving plus foreign aid. To reduce poverty rates by half (Goal 1 of the MDGs), one calculates a “required growth rate”, which in turn determines a “required investment rate”. If domestic savings is not adequate to finance “required investment”, then there is a “financing gap” – the difference between required investment and available savings. The role of aid is to fill the financing gap. (A variation on this model was the “two-gap model”, which included a foreign exchange gap in addition to the investment-saving gap.) The model predicted that investment would increase one for one with aid and that an increase in investment would have a predictable, stable, immediate effect on growth. Thus aid seemed to be a panacea for creating economic development. After the 1960s and 1970s, however, the
development economics literature discarded these simplistic predictions in the face of evidence to the contrary.

In case there is any doubt that this is exactly the model the authors are using, they say, “To estimate the additional ODA [official development assistance] needed to reduce poverty rates to half of the 1990 levels, we begin with a simple, ‘two-gap’ growth model in which growth depends upon the level of investment and the efficiency with which investment is turned into output” (Devarajan et al., 2002). In a footnote, the authors note that the gap model suffers from some defects, namely being outdated and wrong: “The workhorse development model of the 1960s and 1970s, the two-gap model has been criticized as being inappropriate for projections (Easterly [1999]) and for analyzing policies (Devarajan et al. [1997]) and poverty (Devarajan et al. [2000])”.

In other words, the authors themselves give no reason to believe in the model (including their own previous research). Nevertheless, the estimates they made on the basis of this lack of conviction became the benchmark for much of the discussion about “aid needs” for the MDGs. Coincidentally, their calculation was that aid should approximately double, the same increase that World Bank President James Wolfensohn had called for publicly before the paper was written (simultaneously embraced by Tony Blair, Gordon Brown, Bono and other dignitaries).

### 3.2. The poverty trap

The second model assumes that the poorest countries are in a poverty trap, from which they cannot emerge without an aid-financed “big push”, involving investments and actions to address all constraints to development, after which they will have a “takeoff” into self-sustained growth and aid will no longer be needed. This was exactly

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5. See discussion in Easterly (2001), Chapter 2.


7. This section is based on Easterly (2005).
the story that gave birth to foreign aid in the 1950s; it is exactly the story that the advocates of a massive aid increase are giving today⁸.

According to Sachs and the UN Millennium Project, among others, the big push of massive aid increases is supposed to get poor countries out of a “poverty trap”, which automatically prevents very poor countries from growing. As Sachs explains:

“When people are ... utterly destitute, they need their entire income, or more, just to survive. There is no margin of income above survival that can be invested for the future. This is the main reason why the poorest of the poor are most prone to becoming trapped with low or negative economic growth rates. They are too poor to save for the future and thereby accumulate the capital that could pull them out of their current misery.” (Sachs, 2005, pp. 56-57)

Sachs also argues that the poverty trap stems from increasing returns to capital:

“An economy with twice the capital stock per person means an economy with roads that work the year round, rather than roads that are washed out each rainy season; electrical power that is reliable twenty-four hours each day, rather than electric power that is sporadic and unpredictable; workers who are healthy and at their jobs, rather than workers who are chronically absent with disease. The likelihood is that doubling the human and physical capital stock will actually more than double the income level, at least at very low levels of capital per person.” (p. 250)

Under these circumstances, Sachs argues, “foreign aid ... would enable the economy to break out of the poverty trap and begin growing on its own” (p. 250).

We can check this story out. A statistical compilation by the economist Angus Maddison provides data on per capita income from 1950 to 2001 for 137 countries (we will exclude Communist economies and Persian Gulf oil producers as special cases). We rank countries according to their per capita income in 1950. Did the poorest countries in 1950 remain stuck in poverty over the next half century? The answer is no: the poorest fifth of countries in 1950 increased their income over the next five decades

⁸. The classic references are Paul Rosenstein-Rodan, Sir Arthur Lewis and Walt Rostow.
by a factor of 2.25, while the other four-fifths increased their incomes by a factor of 2.47. The difference in growth rates between the two groups is not statistically distinguishable from random fluctuation. We can statistically reject the notion that the growth rate of the poorest countries as a group was zero. When all periods are examined, only the 1985-2001 period fits the “poverty trap” story; we will return to this period shortly.

Table 1.

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<tr>
<td>Poorest fifth at beginning of period indicated</td>
<td>1.6%</td>
<td>1.9%</td>
<td>0.8%</td>
<td>0.5%*</td>
<td>0.2%*</td>
</tr>
<tr>
<td>All others</td>
<td>1.7%</td>
<td>2.5%**</td>
<td>1.1%</td>
<td>0.9%</td>
<td>1.3%**</td>
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<tr>
<td>Reject stable income for poorest fifth</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Fail to reject unstable income for poorest fifth</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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*Poorest fifth not statistically distinguishable from zero.
**Growth of all others statistically distinguishable from poorest fifth.
Sample: 137 countries. Statistical tests exclude 12 transition economies and Gulf oil states.
Source: Maddison.

Other statistical tests can be used to assess the poverty trap hypothesis. If this hypothesis holds, then the poorest countries should have stagnant income at a very low level. Income will fluctuate randomly around this level but will always tend to return to it. We can test whether low-income countries have stationary income in two ways: we can assume stationarity and see whether the data reject that assumption, or we can assume non-stationarity and see whether the data fail to reject that assumption. When we test for the stagnation of income over the subsequent half century for the poorest fifth of countries in 1950, we decisively reject the hypothesis of stationarity. When we assume non-stationarity – such as positive growth – the data provide no evidence against that assumption.

Perhaps it was aid that enabled poor countries to break out of stagnant income? If we break the sample in half into those poor countries that had above-average foreign aid and those receiving below-average foreign aid, we find identical results for 1950-2001 in the two halves, as with the above tests of stationarity. Over the 1950-2001 period, countries with below-average aid had the same growth rate as countries with...
How to assess the need for aid? The answer: Don’t ask above-average aid. Poor countries without aid had no trouble recording positive growth\(^9\).

Among the poorest countries, to be sure, there were individual countries that failed to grow. Chad had zero growth from 1950 to 2001. Zaire/Democratic Republic of the Congo actually had negative per capita growth over this period. Aid still has a role to play in helping those unlucky enough to be born into a stagnant economy.

The stagnant economies were offset by such success stories as Botswana, which was the fourth poorest in 1950 but increased its income by a factor of 13 by 2001. Lesotho was the fifth poorest in 1950, but increased its income by a factor of 5 over the half-century. Other success stories that were among the poorest in 1950 are China and India.

Let us keep looking for confirmation of the two main predictions of the poverty trap hypothesis: (1) that growth of the poorest countries is lower than other countries, and (2) that per capita growth of the poorest countries is zero or negative. The poorest did have lower growth in an earlier period, 1950-75, than the others. However, this was not a poverty trap, as their average growth during this period was still a very healthy 1.9 per cent per year (roughly the same as the long-run growth rate of the United States’ economy, for example).

There is no evidence of lower growth for the poorest countries in recent periods, such as 1975-2001 or 1980-2001. Their growth was disappointing – much worse than in the previous period – but so was growth in middle-income countries. The poorest fifth of countries at the beginning of those periods posted growth performance over the subsequent period that was statistically indistinguishable from the other four-fifths of countries. Only when the starting point is put at 1985 does there finally appear evidence that the poorest performed less well.

The evidence that Sachs (2005) adduces for the poverty trap is from this later period. Thus, from 1985 to the present, it is true that the poorest fifth of countries have

\(^9\) More systematically, a large literature on aid and growth fails to find a robust causal link from aid to growth or to investment. See Rajan and Subramanian (2005) for a survey of where this literature stands now, and for their own tests of the aid and growth relationships.
had significantly lower per capita growth (about 1.1 percentage points lower) than other countries. Even for this period, however, we reject the hypothesis that all of the poorest countries had stable per capita income from 1985 to the present.

The numbers in the table do not seem to add up: the poorest countries did not have lower growth in the whole period 1950-2001, but they had slightly lower growth in 1950-75 and much lower growth in more recent periods. The solution to the conundrum is that the identities of the poorest countries at the start of each period keep changing. It does not help the poverty trap story that 11 of the 28 poorest countries in 1985 had not been in the poorest fifth back in 1950. These countries were not stuck in poverty but rather declined into poverty, while others escaped. If the identity of the countries in the poverty trap keeps changing, it must not be much of a trap.

To make things worse, in the last decade the poorest countries were getting more foreign aid as a percentage of their income than in previous decades (as we saw above in the case of Africa). Foreign aid is supposed to be helping the poor countries escape from the poverty trap; hence the poorest countries in the recent decade should have been less likely to be stuck in poverty than the poorest countries in previous decades, which received lower foreign aid. (We test separately below for whether aid raises economic growth.) All told, the evidence of a poverty trap snapping shut on the poorest countries is not very strong.

Other scholars have also failed to find any evidence for a poverty trap\(^\text{10}\). Kraay and Raddatz (2005) studied the saving rate and found that, at low income levels, saving does not behave in the way required by the poverty trap hypothesis. The reasons why countries stay poor must lie elsewhere.

What about the lower growth and stagnation observed in poor countries in the 1985-2001 period? The UN Millennium Project and Sachs argue that it is the poverty trap rather than bad government that explains poor growth of low-income countries and the failure to make progress towards the MDGs. According to Sachs (2005), “the claim that Africa’s corruption is the basic source of the problem [the poverty trap] does not withstand practical experience or serious scrutiny”. Similarly, the UN Millennium Project

(2005) affirms, “Many reasonably well governed countries are too poor to make the investments to climb the first steps of the ladder”.

Why does it matter whether it is bad government or a technological poverty trap? The case for planning is even weaker if planners must deal with the complexities of bad government. Sachs (2005, p. 226) worries that, “If the poor are poor because ... their governments are corrupt, how could global cooperation help?” Unfortunately, whether poor country governments are corrupt must be determined by evidence, not by hopes for global cooperation.

Let us test bad government against the poverty trap as a story for poor economic growth. The earliest available rating on corruption is the International Country Risk Guide, which dates from 1984. We also have a rating on democracy for the same year from Polity IV, a research project at the University of Maryland. Countries that have the worst ratings on both corruption and democracy will be designated “bad governments”. While poor countries did worse, it is also true that the 24 countries with bad governments in 1984 had significantly lower growth from 1985 to the present: 1.3 percentage points slower than the rest. There is some overlap between these two stories, as poor countries are much more likely to have bad government. So which is to blame, bad government or the poverty trap? When we control for both initial poverty and bad government, it is bad government that explains slower growth. We cannot statistically discern any effect of initial poverty on subsequent growth once we control for bad government. This is still true if we limit the definition of bad government to corruption alone. The recent stagnation of the poorest countries appears to have more to do with awful government than with a poverty trap, contrary to the Sachs hypothesis.

3.3. The expenditure-to-outcomes model in social sectors

Returning to Devarajan et al. (2002), the authors of this paper also report an attempt to derive aid needs for the MDGs based on the costs of inputs to the health and education outcomes covered by the MDGs. Of course, it is one thing to estimate the cost of providing a health service as being, say, $1 per drug dose, and quite another to assume that an additional $1 of foreign aid will result in a drug dose being given to a sick patient. Much as they did with the “gap model”, Devarajan et al. explain that they see no reason to believe their own calculations: “empirical evidence from developing
countries suggests only a weak link between public spending on education and school enrollments, or between health expenditures and mortality or disease”.

The authors of the empirical works cited by Devarajan et al. (Filmer, 1999; Filmer et al., 2000), who are also World Bank researchers, point among other things to the results of a survey taken at government health centres in the Mutasa district of Tanzania. In the survey, new mothers reported what they least liked about their birthing experiences assisted by government nurses. The poor mothers-to-be were “ridiculed by nurses for not having baby clothes (22 percent) ... and nurses hit mothers during delivery (13 percent)”11. Owing to the insistence on working through governments, aid funds get lost in patronage-swollen national health bureaucracies (not to mention international health bureaucracies). In countries where corruption is as endemic as any other disease, health officials often sell aid-financed drugs on the black market. Studies in Guinea, Cameroon, Uganda and Tanzania estimated that 30 to 70 per cent of government drugs disappeared before reaching the patients. In one low-income country, a crusading journalist accused the ministry of health of misappropriating $50 million in aid funds. The ministry issued a rebuttal: the journalist had irresponsibly implied that the $50 million disappeared in a single year, whereas the sum had actually been misappropriated over a three-year period.

The same fallacy - that aid service costing implies aid service delivery - is at work in the Millennium Project’s Investing in Development (2005), Sachs’ The End of Poverty (2005) and the earlier Report of the Commission on Macroeconomics and Health (World Health Organisation, 2001). Each of these works contains elaborate costing exercises based on unit costs of multitudinous inputs, but each fails to address the issue of how countries will be motivated to deliver these inputs to the poor in such a way that they produce better outcomes. Devarajan et al. (2002) cite, as support for the estimates in their paper, the estimates of the Commission on Macroeconomics and Health, which are based on the same flawed methodology that their paper disqualifies on evidentiary grounds.

11. Filmer et al. (2000). Bureaucracies in rich countries where clients have little voice could be equally oppressive, such as the customs and immigration services in the United States. During the Clinton Administration, the US government tried to make various agencies more client-friendly. According to an anecdote recounted by John Nellis, the response of customs officials to this initiative was “we don’t have clients; we have suspects”.
4. Conclusions

The exercise of estimating “how much aid is needed” shows a planning mentality at odds with elementary principles of economics. That foreign aid by itself could accomplish the MDGs was always a delusion. Most of the hope for reduction of poverty and human suffering comes from the self-reliant efforts of the poor themselves in free markets. While aid community planners were dithering about whether to increase foreign aid by $50 billion for all poor countries, the citizens of just two large poor countries – India and China – were generating an increase in their income of $715 billion every year.

Aid can still do much good for the poor, but only when individual aid agents have the incentive to deliver tangible services for which they can be held accountable. The bad incentives created by top-down planning, collective responsibility and multiple goals can be replaced by individual accountability for aid agents, based upon independent evaluation of aid outcomes, which will motivate a search for what works in the field under the varied circumstances of each time and place.

The best aid plan is to have no plan. Just reward aid agencies for doing more of what works, and less of what does not work. It is not possible to say how much aid “is needed”. However, when the public in rich countries sees aid delivering the many things that do work to expand opportunities and reduce suffering for the poor, then public support for more aid will increase accordingly.
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How to assess the need for aid? The answer: Don’t ask

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