

THE MUNK DEBATES

# THE CASE **AGAINST** FOREIGN AID

JUNE 1<sup>ST</sup>, 2009

The reality of foreign aid lies not in the persuasive moral case for helping those in need, but in the efficacy of our efforts for do so. Put simply, the billions of dollars spent annually on international development have little positive impact, and may even exacerbate the very conditions they seek to address. Over the past 30 years there is remarkably little evidence that development assistance actually works.

The case for foreign aid suffers from three principle problems: It's core assumptions are flawed; it's history of implementation is problematic; and it has had egregious unintended consequences. Together they should make donor nations and development organizations fundamentally rethink the way in which they engage with the rest of the world.

## *1. Flawed Core Assumptions*

The entire foreign aid project is based around three false assumptions.

First, foreign aid, and those that preach its moral imperatives, has long suffered from a staggering intellectual hubris. Much as Edmund Burk decried the revolutionary zeal of the French revolution, critics of foreign aid have recoiled at the notion that aid planners can transform societies they don't understand. The world is a complex place, and positive social change is rarely instigated by bureaucrats a world away, implementing top-down technocratic campaigns.

Second, the rationale of foreign aid (as opposed to emergency humanitarian relief) is based on the preposition that financial aid can cause economic growth. Sadly the history shows otherwise. In fact, at an aggregate level, it is incredibly difficult to see any positive effect of aid on growth. While one study in the 90's found a slight correlation as long as the recipients country had solid monetary and trade policy (not generally

the case), a subsequent study showed no link at all, and in Africa between 1970 and 1995, as aid dependency grew, GDP per capita growth slowed. Of the 66 countries that have borrowed money from the World Bank for the past 25 years, a vast majority are as poor as they were when they took their first loan, and a third are actually worse off.

Third, and increasingly en vogue, is the assumption that all that is needed is a 'big push' of financial aid for countries to emerge from poverty. From Bono to Sachs, and Geldof to Blair, advocates argue that successful aid is a function of scale rather than strategy. A lot more of the same, they argue, will allow countries to escape the trap of poverty and put economies on the ladder of prosperity. This of course is not a new idea, and was urged in the 1950's and 1960's. Since then \$2.3 trillion has been spent on 'big pushes' with limited results.

## *2. A History of Implementation Problems*

Even if the grand plans of foreign aid technocrats were to work in theory, in practice most aid has been politically tainted, inefficient and based on false promises, further devaluing the entire exercise.

First, aid is seldom given out of pure altruism. The bulk of aid transferred from wealthy countries to developing nations over the past 50 years has come with significant strings attached – what it often called, 'tied aid.' Aid has been tied to the geopolitical political interests of the donor nation. This can range from US support for allied nations during the Cold War, to aid given in support of military objectives in Afghanistan, Iraq and throughout Africa. International organizations also have macro economic mandates, which are often tied to their lending. Emergency funds from the IMF and World Bank, for instance, are linked to a wide range of free-market policy prescriptions that many argue make up a new economic imperialism.

Second, foreign aid has too often proven egregiously inefficient. A large percentage of total aid money ends up in the hands of donor nation consultants, as technical assistance and transaction overhead costs. As Patrice Bemba, an official from the Democratic Republic of Congo Ministry of Finance has stated, "you cannot demand or expect us to produce results

or alleviate poverty when only 25 per cent of the donated money gets to us."

Third, the implementation of foreign aid agendas is too often based on false promises. And the promises are staggering: G8 nations regularly commit to aid increases they never implement, the United Nations plans to reach all 54 Millennium Development Goals targets, and economist Jeffrey Sachs even announced the "end of poverty" altogether by 2025, which he says will be "much easier than it appears." These ambitions, while laudable, miss the point, and when promises get broken, our commitments quickly appear empty.

### *3. Unintended Consequences*

Finally, in addition to failing in its stated objectives, foreign aid has actually had substantial negative effects.

As a large part of foreign aid is transferred from government to government, much of it never gets to its intended beneficiaries. Instead, it is absorbed by corrupt governments, used for personal enrichment, to strengthen military, to manipulate elections and to oppress citizens. Worse still, supplying money to corrupt governments is actually advocated by many aid proponents, seen as a lesser evil to giving no aid at all. As Peter Bauer has noted, all too often foreign aid simply turned out to be "transferring money from poor people in rich countries to rich people in poor countries."

Continued aid over long periods of time also created unintended structural behavior. Prolonged institutionalized food aid, for example, in the form of subsidized US crops being sold in Africa, undermines local production, making regions even more dependant on aid to divert famine. Per-capita food production in Africa has fallen in every year since the 1960s.

Finally, aid creates a dangerous moral hazard. It rewards anti-democratic governments, giving them little incentive to reform. In addition, it crowds out local entrepreneurship and leads to bloated bureaucracies. If a country's economy deteriorates, the level of aid they receive often increases. This is not a healthy incentive structure.

Foreign aid has not only failed, it has caused harm to the very people it was meant to assist. After 50 years of experimentation and trillions of dollars, it is high time we do the one thing we can to help: stop.