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Exposing the myth of Third World aid

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PERHAPS the most important question of our time is why the West's efforts to help the world's poorest people have been so disappointing and even counterproductive. In the past 50 years, we have spent \$US2.3 trillion on foreign aid, to disturbingly little effect. An important new book suggests this has had a lot to do with the arrogance of the "big push" approach favoured by many development economists and organisations such as the World Bank and the United Nations.

William Easterly is a professor of economics at New York University. He used to be a believer: for 16 years he was a research economist at the World Bank and worked extensively in Africa, Latin America and Russia. What changed his attitude was the growing amount of research showing the failures of aid, described in his book *The White Man's Burden* (Penguin in the US, not published in Australia).

Easterly says the \$US2.3 trillion hasn't achieved what it should have. This is because much of it has been given as part of a never-ending series of internationally planned and co-ordinated "big plans". He believes the alternative would be to encourage more market-oriented activities among the poor themselves.

Those, such as Bono, Bob Geldof and the economist Jeffrey Sachs, who still advocate the traditional approach he calls Planners, while those looking for a bottom-up alternative are Searchers. According to Easterly: "In foreign aid, Planners announce good intentions but don't motivate anyone to carry them out; Searchers find things that work and get some reward. Planners raise expectations but take no responsibility for meeting them; Searchers accept responsibility for their actions ... Planners at the top lack knowledge of the bottom; Searchers find out what the reality is at the bottom."

In effect he's saying that much foreign aid is delivered using a Soviet approach that Westerners would never dream of applying to their own economies. This might sound like a right-wing rant, but Easterly's book is full of data in support of his claims.

We often hear that the poorest nations are stuck in a "poverty trap" which prevents them from improving their standards of living. In fact, in the 50 years to 2001, the poorest 20 per cent of countries (excluding communist and Persian Gulf oil nations as special cases) on average increased their income by about the same amount as all other nations. Perhaps the most surprising finding in the book is that foreign aid appears to have had nothing to do with this: those nations that received below average aid improved as much as those that got above average.

The United Nations' Millennium Project to fight poverty argues strenuously that corrupt government in the Third World is not a major cause of poverty. Whether this is true is a growing debate in the aid industry. Drawing on the Polity IV research project on democracy, Easterly says there is actually a

significant correlation between democracy and long-term growth, and that "poor countries grow faster than rich countries if they have good government". Why then do Planners deny this? Because their big plans rely on the co-operation of Third World governments, and would not be feasible if those governments are dysfunctional.

Easterly goes further, arguing that aid can actually prop up undemocratic governments. He draws a comparison between aid and the so-called "oil curse", where countries in which natural resources contribute a large proportion of wealth are more likely to be corrupt. The reason is that access to such resources is controlled by the government. Insiders grab most of the resulting revenue and resist any move towards democracy or a free market because this would endanger their income. The political structure of the country and its economy become frozen.

Easterly says aid can have the same effect: "High aid revenues going to the national government [for example, the dictatorship of Cameroon gets 41 per cent of its revenue from aid] benefit political insiders, often corrupt insiders, who will vigorously oppose democracy that would lead to more equal distribution of aid. Systematic evidence in a couple of recent studies suggests that aid actually decreases democracy and makes government worse." One study found that aid was even more harmful to democracy than oil.

It's interesting to see how many of the things Easterly says are reflected in the experience of supporting Aboriginal communities with welfare. There, too, aid has often failed to achieve its major goals, and has propped up leaders who have siphoned off a lot of it to their own families and governed poorly, resisting any change that threatens their control.

They, like the dictators of the Third World, have been supported by the policies of white Planners, who are not responsible for the dismal failures of their plans and, on the rare occasions they're confronted with them, call for more of the same.

Easterly believes the time has come to abandon big plans and adopt a more humble range of approaches that involve much more feedback from aid recipients. We need to look at small things that work locally and see if they can be replicated elsewhere. One idea is for "development vouchers" as a way for the poor to tell us what they want most. But Easterly has no big plan of his own: he just thinks it's time for the post-colonial West to stop believing it still knows what's best for the Rest.

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