

Foreign Aid: Diagnosis without Direction

Nancy Birdsall*

The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good, by William Easterly. New York: Penguin, 2006, 448 pages. \$27.95 (hardcover).

I hate to admit it, but I liked this book. William Easterly is a professor of economics at New York University who earlier spent more than 15 years as a research economist at the World Bank. I knew him in his early years there and he was already original and independent. As a scholar he was devotedly evidence-based—that is, he let the results of empirical work speak for themselves. I imagine he liked surprising results best, seeing them as inspiration for new ideas rather than distractions to be buried in newly specified regressions. Easterly left the World Bank soon after the publication of his first book, *The Elusive Quest for Growth*. In that book he was critical of the World Bank and other well-intentioned institutions for their misguided efforts to help developing countries find the elusive growth elixir.

In his new book, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, Easterly is equally critical of the establishment, this time focusing on the failures of Western aid to make a difference in what he calls the “Rest” of the world. He also skewers nation-building in two chapters on colonialism and military intervention.

What I liked about the book is that besides being richly researched and accessible, it is clearly, indeed passionately, argued. Easterly grounds his argument in a rich and plentiful set of his own peer-reviewed journal articles, complemented by ample references to others' academic work. You don't need to buy the argument whole-cloth to enjoy the exposition.

Why do I hate to admit I liked the book? Because while I think Easterly's exposition of the aid system's problems is excellent, his recommended alternative is to go around rather than fix the system. Readers may conclude that if the round-about method is impractical, then the only good option is to reduce aid altogether. Yet the development community has been riding a wave of enthusiasm for increasing aid—for doubling or even tripling aid to Africa—in a movement supported by celebrities, politicians, and the U.S. evangelical community, in which Bono, Tony Blair, Bob Geldof, and Jeffrey Sachs have been prominent figures. This is the moment to try to channel that enthusiasm toward improving the aid system, not going around it. Both more and better aid, though hardly sufficient to end poverty in the world, ought to be on the policy agenda.

What exactly is Easterly's argument (which I like)? And what does he propose as an alternative (which I find insufficient) to the current aid system?

The argument starts with the simple point that markets don't work well in the absence of some elusive (to outsiders) social and political arrangements peculiar to each society. Before there

* Nancy Birdsall is the founding president of the Center for Global Development. Prior to launching the center, she served as Senior Associate and Director of the Economic Reform Project at the Carnegie Endowment for International Peace. Her work at Carnegie focused on issues of globalization and inequality, as well as on the reform of the international financial institutions. Birdsall spent 14 years at the World Bank, most recently as Director of the Policy Research Department, followed by 5 years as Executive Vice-President of the Inter-American Development Bank. She holds a Ph.D. in economics from Yale University and an M.A. in international relations from the Johns Hopkins School of Advanced International Studies.

are formal property titles and uncorrupted courts and bank supervisors (all of which come later in the elusive process of modernization), there are social institutions and customs at the ‘bottom’ of society which permit trade and implicit contracts between parties. In successful societies they evolve (“Bottom-Up Legal Evolution” is one of Easterly’s chapter subtitles).

But official donors, who are often not only outsiders but development utopians, don’t want to wait for evolution. They arrive in developing countries with comprehensive solutions (Millennium Development Goals) discussed at an endless series of conferences, and set out in thousands of pages of documents, further worked out in endless and feckless ‘coordination’ among themselves. Easterly identifies these official donors (the various agencies of the United Nations, the World Bank and the regional development banks, the International Monetary Fund, the bilateral aid agencies of the donor countries) as well-intentioned but fundamentally misguided top-down ‘Planners’. They are trying to plan the market (for example with comprehensive structural adjustment reforms and shock therapy), without understanding local realities—cheating, predation, ethnic and other rivalries—and the social and political institutions that are compensating (or not) for market imperfections. **They are trying to plan the reform of bad and incompetent government programs—but they get caught between the ideal of local ownership and the reality of some awful governments.**

Planners in every realm, these official donors, according to Easterly, favor big, comprehensive, visible projects rather than trying to solve narrow, immediate problems. In contrast to Planners are ‘Searchers’, who learn through trial and error in the field and concentrate on piecemeal improvements. Searchers work on a small scale and keep plugging away until they find a solution. Examples include Mohamed Yunus, who lost his own money on loans for irrigation tube wells to farmers who didn’t repay before he realized it was smaller loans to the truly poor that could work; and a Dr. Jana, who broke tradition and trained prostitutes to educate their fellow workers on AIDS prevention in Calcutta.

In an aid system that Planners dominate, Easterly makes a key point: official donors lack accountability for the effectiveness of the programs they offer the largely voiceless poor. They are unaccountable even to their own taxpaying supporters and independent observers since they often operate together and shared accountability equals no accountability. Without accountability donors have no incentive to install mechanisms for feedback from the poor they are trying to help, so they often blunder on, repeating mistakes.

Chapter by chapter, Easterly indicts the International Monetary Fund (Chapter Six, “Bailing out the Poor”); James Wolfensohn’s 1999 Comprehensive Development Plan (including “a checklist of 14 items, each with multiple subitems”); Jeffrey Sachs’s Millennium Project (13 reports from 10 task forces leading to a framework with 18 indicative targets for the eight MDGs, 36 recommendations, 17 Quick Wins, seven investment and policy clusters, and 10 problems to be solved in the international aid system); the World Bank’s disastrous neglect of AIDS prevention programs (prevention is not visible and sexual behavior is an uncomfortable issue); President Bush’s President’s Emergency Plan for AIDS Relief (PEPFAR) program to combat AIDS (the U.S. Congress restricted spending on prevention to 20 percent of the funds); top-down programs of property titling (“Titling Toward Confusion in Kenya” is a subtitle in Chapter Three); aid bureaucrats (ignoring tradeoffs, focusing on frameworks and aid volume instead of outcomes);— and to cite one example outside the foreign aid arena, the French and British legacy in the Middle East (“The British Palestinian triple-cross still causes the blood to flow today,” he mentions in a chapter on colonialism). Whew.

So what’s to be done to help the world’s poor? Easterly’s solution boils down to big donors becoming valiant searchers trying many piecemeal solutions, and specializing heavily with individual accountability for individual tasks. Donors should stick to getting observable things done (no more

big structural reform programs) and should be taxed on their expenditures, with the taxes financing independent third-party evaluations. (That idea is independently coming to fruition thanks to the nearly three-year effort of my colleague Ruth Levine at the Center for Global Development).

What's wrong with this picture? It's ironic: Easterly advocates small, piecemeal, and specialized programs—"It's easier to correct small mistakes," he claims—while calling for major surgery to the entire aid system. About fixing the aid system, he is not modest and piecemeal, but incredibly ambitious: End the existing official aid system and increase a thousand fold (at least) the number of individual, small experiments. That may be why cursory readers assume he is in favor of drastically reducing official aid, not really fixing it.

In fact, between the lines Easterly does propose incremental reforms. He notes that sectoral aid (to health, education, water and so on) sometimes works. But he never acknowledges that most official donors—including the World Bank, which he knows well—though run by Planners at the top level, have staff working in the spirit of Searchers on the ground, financing projects that operate at the sectoral level (PEPFAR on AIDS for example; UNICEF on childhood support; the World Bank on roads, and on, to use an example he applauds, "distilling practical knowledge on operating banking systems"). It is true that accountability for results and independent evaluation are too rare. But then let's fix that. He proposes vouchers the poor can use to buy services from competing aid providers. Good idea—but the aid community is already encouraging replication of the success Mexico has had with its Progres (now called Oportunidades) program of exactly that nature. And even that program requires some Planner to determine how to distinguish the poor, work out the distribution of the vouchers, and for some services, certify or regulate suppliers to minimize cheating and predation.

There is a bigger problem. The aim of aid, Easterly says, should be to make individuals better off, not to transform societies or governments. But between piecemeal change and transforming governments, there is a lot of ground. Surely some substantial portion of aid should support big, locally-owned public sector initiatives, and in the end, even the budget itself of decent national governments. Liberia today, with an outstanding new leader in President Sirleaf-Johnson, needs massive aid to rebuild roads and schools and to reconstitute its civil service. Admittedly aid Planners haven't always done well trying to get governments to 'own' poverty-reducing growth. But some new 'system' ideas are worth trying, such as the U.S. Millennium Challenge Corporation's targeting of aid to selected governments that have met key standards of honesty and sensible policy. Part of the challenge facing the aid community is to find ways to support good governments and encourage better ones, rather than sidestepping government altogether.

White Man's Burden is terrific on the nature of the problems with aid. But it starts by implying that the only solution is major surgery and a risky organ replacement. What about recommendations more in the spirit of moving to a healthy diet and more exercise—aren't these worth trying before risking the patient's life altogether? This book is a great read. I just hope readers are discriminating about the story it purports to tell.