Forbes

Sorry U.N., Countries Are Poor Thanks To Bad Policy, Not A Lack Of Cash

By: Doug Bandow

The Obama administration extolled its "leverage" from foreign aid to Egypt only to demonstrate Washington's complete political impotence. Now a new study has found that the United Nations' celebrated Millennium Development Goals have no effect on economic development.

It long has been evident that nations are poor because of bad policies, not inadequate cash balances. Which makes economic reform, not foreign aid, the key to growth. Unfortunately, politicians continue to take money from poor people in rich countries and give it to rich people in poor countries in the name of development.

In 2000 government leaders adopted the United Nations Millennium Declaration. Participants set a number of objectives—called the Millennium Development Goals—for reducing extreme poverty by 2015. The chief tool was expected to be foreign aid.

Along the way the UN established the Millennium Project "to develop a concrete action plan for the world to achieve the Millennium Development Goals and to reverse the grinding poverty, hunger and disease affecting billions of people." The U.N. staged summits, produced reports, and adopted "a global action plan." Tens of billions of dollars were pledged for the cause.

Few Americans would begrudge additional money for foreign assistance if the outlays actually reduced poverty. However, the record of more than six decades of financial transfers running in the trillions of dollars—from the U.S., other nations, the U.N., and other organizations, such as the multilateral development banks—is failure. Foreign "aid" turned into foreign hindrance, creating long-term dependency while reinforcing self-defeating collectivist economic strategies and subsidizing authoritarian political systems. The only correlation to growth turned out to be reform, which is discouraged when aid relieves the pain of failure.

Aid agencies eventually claimed to have learned from the past and developed new, smarter approaches to uplift the poor. Hence the Millennium Development Goals. The results, explained the UN, indicated "unprecedented progress" and "remarkable achievements."

Since 2000 total assistance from industrialized states alone has more than doubled, going from $53.9 to $125.6 billion last year. Although overall aid occasionally dropped—it was down four percent in 2012 over the year before—money from all sources for the least developed countries rose steadily, even in the midst of the 2008-2009 economic/financial crisis. Most LDCs are receiving significantly more money today than a decade ago.

Nevertheless, Angel Curria, Secretary-General of the Organization for Economic Co-operation and Development was concerned. "As we approach the 2015 deadline for achieving the Millennium Development Goals, I hope that the trend in aid away from the poorest countries will be reversed. This is essential if aid is to play its part in helping achieve the goals." The organization predicted that transfers would rise this year.

Not that the UN, OECD, or any national government believes its work will finish in 2015. So the UN is working on another set of objectives to be backed by even more money.

Last year the UN established a 27-member "High-Level Panel of Eminent Persons on the Post-2015 Development Agenda." In May the group issued a report intended to "stimulate debate over the prioritization that will be needed if the international community is to agree to a new development framework before the expiry of the Millennium Development Goals."

Although there apparently was debate over the details of the new objectives, there was no doubt about the U.N.'s development record. The report began: "The Panel came together with a sense of optimism and a deep respect for the Millennium Development Goals (MDGs). The 13 years since the millennium have seen the fastest reduction in poverty in human history." While economic growth and better policies also played a role, noted the group, "it would be a mistake to simply tear up the MDGs and start from scratch." The goal now is to "finish the job that the MDGs started" by "eradicating extreme poverty from the face of the earth by 2030."

That is a laudable objective. But no combination of U.N. standards and international monies are likely to achieve that result. It turns out the MDGs have not even reduced extreme poverty.

The U.N. simply assumes the benefits of its activities, rather like the term "foreign aid" itself. In fact, government-to-government financial transfers would more accurately be called "foreign hindrance." Three years ago, complained Ambassador Terry Miller, who served in various U.S. roles at the U.N. before joining Heritage: aid funding "creates strong constituencies for the current U.N. development system. Absent from the process is any real measurement of how U.N. development expenditures and activities affect the lives of the poor."

Dr. Howard Steven Friedman of Columbia University, also with the U.N. Population Fund, has helpfully provided just such an analysis. Earlier this month he published a working paper on the issue: "Causal Inference and the Millennium Development Goals (MDGs): Assessing Whether There Was an Acceleration in MDG Development Indicators Following the MDG Declaration." His conclusion was sobering: "The general result was that there was no trend in statistically significant accelerations in the MDG indicators after 2000. Rather the results for all four sets of reported analysis were consistent in that about half of the MDG indicators exhibited no acceleration or deceleration during the time period from 1992 to 2008 and about one-third exhibited accelerations BEFORE 2001. Contrarily, nearly all of the control indicators had no change (neither acceleration or deceleration) during the

Only one indicator, for debt relief, "had a statistically significant acceleration in progress in 2001 or after." Four—GDP per person employed, infant mortality rate, under-five mortality rate, and HIV prevalence—had statistically significant accelerations *before* 2000.

Friedman allowed the possibility that the announcement of MDGs could have reflected previous efforts which generated the latter four good results. Nevertheless, substantially increasing MDG-related activities still should have generated a boost. After all, as Friedman explained, "there was a demonstrable increase in the amount of donor funding for development following the MDG Declaration." He noted that real outlays for population programs alone jumped nearly five times.

Yet, concluded Friedman: "The data show clearly that the activities following the MDG Declaration did not provide an acceleration in most of the development goals. For the subset of MDG indicators that experienced an acceleration, the accelerations tended to occur before the MDG Declaration." Which means there is no evidence that the MDGs and the money behind them helped the world's poor.

If they served any purpose, it was as a political tool to loosen purse strings in industrialized states. In fact, Friedman observed that "The Millennium Development Goals succeeded at raising the global awareness of investing in development," and were followed by "a demonstrable increase in the amount of donor funding." The Heritage Foundation's Brett Schaefer was blunter: "the most useful aspect of the MDGs for the organization is not their impact on development, but rather the public-relations benefits of being able to claim a central role in the progress made in developing countries."

Lest that seem overly cynical, the U.N. refused to publish Dr. Friedman's analysis. Spokeswoman Vannina Maestracci said that the study "does not represent the United Nations or UNFPA's position."

Yet what to make of the fact that poor nations are doing better? Even Africa, which for many decades was racing in reverse, has been making significant progress. For this we can thank the marketplace, not structural economists, central planning, aid bureaucracies, government-to-government transfers, and the MDGs.

Dirigiste economics died amidst persistent Third World poverty, the collapse of communism, and exploding globalization. Socialism lost its allure as African and Asian nations could not feed their peoples. The India known for Gandhi and Nehru embraced the market. Communist China and Vietnam tossed Marxist nostrums overboard.

Nations entered an ever wider global circle of exchange, empowered by domestic economic reform and fueled by trade and foreign direct investment. For instance, developing states collected more than $700 billion in FDI last year. These funds fuel growth which gives poor peoples new and better economic options. The reform path was not always straight and simple, but it offers hope of a better life to those once seemingly trapped in a world of enduring poverty.

Of course, grave injustices persist in many of these lands. Those with influence continue to manipulate political systems to win economic favors. However, more often than not foreign aid turns into yet another resource for the well-connected to exploit. Aid encourages a further concentration of already dangerously centralized power.

Rather than hope more international communiqués and funds will eliminate poverty, Western states should reconsider policies which hinder developing countries from taking full advantage of the global marketplace. For example, protectionism, especially in agriculture, is a costly barrier. Trade agreements which attempt to impose unrealistically expensive environmental and labor standards on what remain poor societies is another. Political "aid" which strengthens regimes that, like Egypt, actively hinder economic and political reform also impedes development.

This doesn't mean that no assistance program can ever work. But even the most appealing of these initiatives—health care, for instance—will be most effective if the economy is growing and country is developing the ability to sustain new endeavors. Indeed, Friedman found that the MDGs did not accelerate even HIV treatment.

It long has been obvious that foreign aid is no panacea. Friedman's study reminds us that it is rarely possible even with the best intentions to reach into other nations and "fix" them.

Nevertheless, the cup again will be passed to cash-strapped governments to fund the MDGs, and whatever replaces them in 2015. Western peoples are generous when they believe their money is well spent. But their governments should stop wasting people's hard-earned cash when the only result will be to add to the fiscal tsunami threatening their children's future.