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Why Won't Giving Wipe Out Global Poverty?

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Over the years, I have had dealings with three Nobel Laureates. In 1982 I met F.A. Hayek during what I believe was his last tour to the United States. He was 83 and I was 24, and when I met him my eyes were full of stars. “You’re... *Friedrich Hayek!*” I said. “Ummm ... er ... we need you more than ever!” He smiled and I stammered, and I got him to sign a monograph he had written. Then we moved on.

With Milton Friedman, I exchanged letters and interviewed him for a 1990 piece I wrote in the *Wall Street Journal* about why you shouldn't give money to professorships of free enterprise and entrepreneurship. (Since I wrote this piece I changed my mind; I still think chairs of free enterprise are dubious but I now think entrepreneurship is an acceptable academic discipline.) He made the point that he was as opposed to chairs of free enterprise as he was to chairs of Marxism or Leninism; these professorships, he contended, violated academic freedom because scholars had to believe in capitalism to accept the position, and you shouldn't have to accept a particular doctrine as a precondition for teaching.

When I saw Sir Angus Deaton at the Cato Institute in 2013 he was two years away from winning his Nobel. But I thought he gave a very good lecture on the problems of economic development and happily bought his book, “*The Great Escape: Health, Wealth, and the Origins of Inequality,*” hoping to read it.

I've now finished Deaton's book and assure you that the Nobel committee made the right choice. Deaton is a forceful writer who has a great many things to say about how we should help poor people in the Third World. He is very much worth reading. In fact, I bet if you had a seminar consisting of the books he cites in his chapter on foreign aid, you'd be pretty well informed about the problems of giving money for development.

(Liberal arts types note: although Deaton is an economist, who teaches at Princeton, there is very little math or technical jargon here,)

Most of Angus Deaton's book is about how people in the world's poorer countries are living longer thanks to improved sanitation and other public health measures. But there are still hundreds of millions of people who are making less than a dollar a day. In 2008, he calculates, there were 800 million people making less than a dollar a day, with the average being around 78 cents. To top up the incomes of these desperately poor people would amount to \$220 million a year, or about 75 cents a day for every American. Currently public and private donors pay about two-thirds of this. Why not have a slight increase and wipe out global poverty?

The problem, says Deaton (borrowing a phrase from Jonathan Temple) is that you're engaging in a "hydraulic" fallacy—you assume that if you pour in aid it will go to where you want. But the economies and societies of the Third World are complicated, and aid often makes matters worse.

"If poverty is not the result of lack of resources or opportunities, but of poor institutions, poor government, and toxic politics, giving money to poor countries—particularly giving money to the *governments* of poor countries—is likely to perpetuate and prolong poverty, not eliminate it," Deaton writes. "The hydraulic approach to aid is wrong, and fixing poverty is nothing like fixing a broken car or pulling a drowning child out of a shallow pool."

For one thing, aid is fungible, and giving money to a bad country allows that country to spend more money on things the West doesn't like. Robert Mugabe's Zimbabwe has received over 10 percent of its budget in foreign aid for decades, and every dollar that the Zimbabwe regime doesn't spend on health or medicine is one more dollar available to crush the opposition. Aid also displaces indigenous development. Donating food wipes out markets for farmers, and giving money to bring in foreign nurses reduces the places nurses trained in a given country can work.

Donors occasionally try to reduce repression, but then a dictatorship turns to a competitor for its foreign aid. The worst example, Deaton says, is Mauritania, where Maaouya Taya, who ruled from 1984-2005, "gets the award for creativity." Taya said he was pro-Western but donors had qualms about supporting Mauritanian repression. Then Taya became one of the few Arab countries to recognize Israel, and he got all the aid he desired.

Far too often donors see what they want to see in a country that receives their gifts and ignores what is actually happening. Deaton summarizes James Ferguson's *The Anti-Politics Machine*, which discusses a spectacular failure in Lesotho in the 1980s. Lesotho's economy is largely based on its workers going to neighboring South Africa and laboring in South African mines. Canadian-funded development experts decided that Lesotho was an agricultural-based subsistence economy and spent large sums supporting non-existent subsistence farmers. The Lesotho regime then spent the grants expanding its power. "The agricultural projects designed for the imagined economy were about as likely to succeed as growing flowers on the moon," Deaton says. "In the end, there was no development or poverty reduction, only an extension of the state's monopoly of political control."

Finally, Deaton notes the moral compromises many aid givers make in order to keep the aid flowing. It's bad enough that donors have to pay off militias to get aid flowing. It's even worse when some donors allegedly help warlords bring in weapons as a precondition for allowing aid to be distributed.

Rather than money or goods, Deaton suggests that the West can supply knowledge. The Gates Foundation's effort to create an effective malaria vaccine is something he thinks is good philanthropy. So too are grants to improve Third World agriculture, such as those made by the Howard Buffett Foundation, including research into high-yield, disease-resistant crops.

Finally, he suggests that the West would be better to supply advisors rather than program officers. The World Bank, he suggests, has many smart people who could offer many useful suggestions if they were consultants to the poorer countries rather than mandarins.

Deaton concludes by saying that many students come to his office asking what they can do to make the world better, "I tell them to work on and within their own governments," Deaton

writes, “persuading them to stop policies that hurt poor people, and to support policies that make globalization work for poor people, not against them.”