How to really aid development [1]

Written by **Tim Worstall** [2] | Saturday 3 November 2012

David Cameron is doing something very important at the United Nations. Well, as far as anything a politician ever does is important. He's talking about what is necessary to aid development in the poor countries. I thought it would be interesting to look at what a development expert thought about what Cameron was saying. Worth reading this in full if you're into this sort of thing. But here's the two highlights from my point of view [3]:

> It helps to remember: every economic marvel of its day?from the US to China to (dare I say) England ? were paragons of corruption. Few can match Tammany Hall or the Chinese Communist Party in their ingenious machinations. It?s not clear this is a hindrance to development. Taking the long view, corruption may even be part of the glue that keeps societies from falling apart in the midst of transformative economic change?like it or not, elites need something to compensate them for losing their influence, or the?re unlikely to let go without a fight. My feeling: Anti-corruption is a 20th century Anglo-American fetish, important, but nowhere near as important as political stability or basic property rights.

This would mean that all that lefty bleating about transparency, tax dodging and all the rest is, at the very most, a minor problem. And it gets better too:

> What?s astonishing to me is that the UN can spend two decades setting the world?s development agenda and never utter the words ?industrialize?, ?firms?, or ?exports?. This op-ed was no exception. I have not done the math, but here?s a conjecture: unless you are sitting on a billion barrels of crude, it?s practically impossible to become a middle-income country without an industrial sector. Simple arithmetic with national accounts should tell us the following: to get the GDP, wages, and consumption of a middle income country, you need to produce high-value goods and sell them to other countries. In most places, agriculture and minerals don?t cut it in terms of value-added production. ... What would I like to see? At the heart of the post-2015 agenda, a recognition that low income countries need industry first and foremost, and that this will require a radical rethinking of governance, trade and aid. Buying things other than corn and cotton from poor countries is part of the deal. In the midst of a rich-world depression, however, where jobs overseas are antithetical to re-election, poor countries are very much on their own where it matters most.

Why do I say better there? For this implies that that lefty bleating about tax dodging is really irrelevant. An industrial revolution is the only thing that we've ever found that substantially increases, permanently, the living standards of the average man or woman. Aiding the poor countries to industrialise is therefore the only way to permanently defeat poverty. And the way we can aid in that is by investing in those countries. We've got capital, they haven't, and capital is what is needed to drive industrialisation. Whether someone's dodging taxes on the profits made from such investments is a triviality compared to the importance of the question of whether capital is being invested or not.

As it happens, the gross (over) estimate is that $150 billion a year or so is being sucked out of poor countries through that tax avoidance, evasion and corruption sort of stuff. Much of which is to do with minerals and oil, not the more regular sorts of trade. Africa alone receives in some $500 billion of private sector investment each year. The numbers are working the right way to aid development.

And the final point, that the other part of such an industrialisation drive is that we should be willing to purchase the products is just as we've been saying here for years. The way to defeat poverty is to buy things made by poor people in poor countries.

It's worth considering the Chinese example. In 1978, at the end of the Maoist stupidities, China was as poor as the UK was in 1600 AD. A GDP of around $1,000 per capita: the average income in the $2 to $3 a day range. Yes, this is inflation adjusted and yes, it also takes account of price differences. Today that country is around where the UK was in 1948. They've done 350 years of economic development in 35 years. Wouldn't it be wondrous if the smaller population of Africa could manage the same trick in the next 35 years? Which they could of course: if they industrialised and if we bought what they produced.

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