A welcome shift from Barack Obama on foreign aid [1]

Written by **Sam Bowman** [2] | Friday 24 September 2010

President Obama?s speech to the UN yesterday [3] on the Millennium Development Goals (MDGs) is somewhat encouraging to those of us who object to the current global aid regime. In an uncharacteristically pro-market speech, the President accepted that the current system of target-based aid is broken and badly needs to be reformed. Though he praised the MDGs, Mr Obama accepted that the only way to raise the quality of life of the world?s poor is to allow their economies to grow, and to this end he pledged for a new emphasis on trade with the developing world. Mr Obama, and like-minded policymakers in the UK, should follow this logic to its conclusion and accept that we cannot engineer or create growth through the dumping of aid onto the developing world.

Currently, the global aid regime is focused on the MDGs, which set lofty targets for aid-recipient countries like providing their citizens with access to clean drinking water. These are very admirable objectives, but the approach is wrong. By trying to achieve a top-down implementation of specific economic and social goals, the development community has assumed that it has perfect knowledge of economies and incentive structures of the recipient countries. Politicians should recognise that they can no more engineer economies in the developing world than in their own countries.

The question of development is not how aid money can be spent in a way that effectively targets the needs of the poor, if indeed it can be spent effectively. (My own view is that it cannot but this is a separate question.) The top-down approach of the MDGs does not do this, and its bluntness risks distorting the economies of developing countries, further inhibiting their growth and exacerbating poverty.

A new focus on removing trade barriers between the developed and the developing worlds will avoid the Hayekian ?fatal conceit? of top-down planning that has proved to be unsuccessful and often counterproductive in reducing poverty in the developing world. Experience has shown us that planning has failed in our own economies, and it?s time we realized that the developing world is no different. The developing world?s road out of poverty is not aid, it is economic growth, and Mr Obama?s speech to the UN suggests that he is beginning to recognise this. Nevertheless, until he accepts that governments cannot manufacture growth by dumping cash, he has some way to go.

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