

[An international development policy that works](http://www.adamsmith.org/publications/economy/an-international-development-policy-that-works)

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Introduction

The Conservative Party's international development policy, outlined in its green paper 'One World Conservatism: A Conservative Agenda for International Development', and confirmed in its general election manifesto, fails to propose the radical policy overhaul needed to make the Department for International Development (DFID) an effective body. The party's commitment to bilateral development aid undermines other efforts to improve international development policy. In this briefing paper we argue that Conservative policy is flawed, and that a fundamental policy shift is necessary to ensure that a Conservative DFID is a positive influence on economic growth in the developing world.

Challenges

'One World Conservatism' points out three major problems with the current aid regime. These are that British international development policy is unaccountable to the public, that development aid is distributed arbitrarily, and that aid crowds out indigenous business and thus prevents long-term growth in developing countries.[1] These are good observations, but the green paper does not discuss the fundamental reasons why aid is deemed necessary in the first place. This is problematic: by taking the need for aid to the developing world as a given, the paper neglects the possibility that development aid is unsuited, or even counter-effective, to international development.

As Ghanaian economist George Ayittey argues, economic mismanagement in post-independence Africa has been a significant factor in the continent's failure to converge with the rest of the world.[2] African poverty has both contributed to and derived from the success of dictators like Mengistu, Mobutu and Idi Amin, whose regimes undermined private enterprise and wealth creation in their states. Bad governance is a significant cause of Africa's failure to converge with the rest of the world, and Britain's international development policy should acknowledge this.

What the green paper ignores is that development aid simply does not promote long-term growth, and in fact hinders it by creating perverse incentives that reward bad governance in Africa. In this report we evaluate Conservative Party policy on international development and propose a new approach to international development that recognises the limitations of central planning.

'One World Conservatism' proposals

The key proposals of the Conservative green paper are:

1. A commitment to the Millennium Development Goals' target of spending 0.7% of national GDP on international development aid annually.

Given the principle of diminishing marginal returns to investment, it makes little sense to determine the 'optimal' amount of aid in terms of the donor country as opposed to the needs of the recipient countries. The 0.7% target is an essentially arbitrary figure designed with public relations in mind and has little connection with the real needs of developing countries.

2. A commitment to lobby for the elimination of agricultural subsidies and protectionist trade barriers between the developing world and Britain.

This is an unequivocally good policy, and recognises that the only way to promote growth in the developing world is to liberalise trade between it and the developed world. In particular, the commitment to unilateral tariff reduction is highly commendable.

3. Establishment of an independent aid watchdog to monitor spending and the earmarking of 5% of aid money spent for anti-corruption measures.

There is no reason to expect that an independent aid watchdog would be successful, and similar measures implemented by the Labour government have been ineffective. The resources needed to monitor DFID spending in the developing world would be enormous, and it is likely that any watchdog would be toothless and simply give a veneer of anti-corruption measures to DFID projects.

4. Making aid contingent on performance results in recipient countries.

This is a good step, but it will not achieve much. As history and Britain's own experience with public service

DFID.

This 'X-Factor' approach to aid distribution aims to engage citizens with international development issues but raises the question, 'why have a DFID at all?'. The chief argument for the Department is that it can allocate aid money more effectively than private donations – if the Department wants to delegate decision-making to citizens themselves, it should take out the middleman by abolishing itself and allowing people to make voluntary donations to private charities.

6. 'Poverty immersion' schemes to send British DFID workers, gap-year students and other volunteers to work in African countries.

The developing world is not short on cheap labour, and gap-year students can hardly be said to have any expertise lacking in developing countries. Sending hundreds of people from the UK to African countries on 'poverty holidays' would be a waste of money and utterly unhelpful to recipient countries. It is also highly insulting to people in the developing world to suggest that their problems can be fixed by sending unskilled gap-year students and DFID bureaucrats to their countries.

7. Relieving the debts of the most indebted poor countries' governments.

Countries that are most indebted are the ones whose governments have been most irresponsible in their spending, so debt relief rewards the worst governments. This creates moral hazard by creating incentives for bad governance in the developing world.

The Conservative green paper identifies important problems in international development, but many of its proposals to fix them are misguided. With the exception of the party's admirable commitment to unilaterally reducing trade barriers, the Conservatives' proposals would result in a large amount of money being spent harmfully in the name of development.

Why development aid has failed

Britain's international development policymakers should heed the medical maxim *primum non nocere* – first, do no harm. The most important consideration for the next government's DFID must be to avoid making the situation in Africa worse than it already is.

Development aid has been central to UK development policy since decolonization in the 1960s. The purpose of this aid was to help recipients grow economically, but it has had the opposite effect – with few exceptions, African countries' economic performance has diverged from the rest of the world since the 1960s.[3]

Development aid has had damaging unforeseen consequences because it is a top-down solution. Development policies are conceived in European capitals, far removed from the places where they will be implemented. This often has tragic and ludicrous consequences, such as gifts of mosquito nets to African countries driving the indigenous mosquito net industries out of business.[4] William Easterly discusses a similar case of free mosquito nets being misused as wedding dresses, among other things.[5] Humanitarian aid can have particularly dangerous consequences, with food aid undercutting local farmers and prolonging famines.[6] Top-down solutions can never take into account the countless unforeseeable results of their actions, and frequently cause more harm than good.

Aid props up tyrannical governments who would otherwise collapse under the weight of their own imploding economies. Cash injections from the West, even if earmarked for worthy projects, are fungible and can be diverted to the military and corrupt projects. The 1985 famine that Live Aid was held to relieve was caused by the Ethiopian government's war against domestic opposition. Recent allegations suggest that the Ethiopian government and rebel groups appropriated the aid raised by the concert, exacerbating the famine in the long run.[7] These perverse consequences of a seemingly noble event like Live Aid demonstrate how easily aid money can be misused.

Africa in particular has suffered from governments that have implemented extremely harmful interventionist and collectivist policies (such as in Tanzania, Ethiopia and Zimbabwe) that have inhibited wealth creation. By rewarding poverty with aid, African governments have had no incentive to encourage growth in their own states and have become more dependent for money on the whims of Western donors than on the economic health of their people. They have thus had no incentive to promote wealth-creating policies in their own countries. The thinking behind development aid is economically misguided: businesses and entrepreneurs create wealth, not governments.

A development policy that works

1. Ending DFID bilateral development aid over the course of the next government.

The most immediate step that needs to be taken is to end all bilateral development aid from DFID to the developing world. This aid is not simply ineffective, it is harmful. It undermines local economic growth, encourages harmful government policies and props up bad regimes. Some money can be saved for emergency humanitarian aid for immediate help after natural disasters, the rest being refunded to the British taxpayer via tax relief. Opinion polls have shown that this would have popular support in Britain.[8]

2. Refunding aid earmarked for NGOs to taxpayers via tax relief.

While NGO-earmarked money is usually less harmful than bilateral aid, it is bizarre that the government should take it upon itself to choose which charities British citizens should support. Government charity crowds-out private donations, so a reduction in DFID expenditure would result in a higher private donation level.[9]

3. Reaffirming commitment to unilateral elimination of tariffs and agricultural subsidies.

The Conservative green paper gets it right on this key issue, and we applaud them for this. It is in everyone's interests for Britons to be able to buy cheap goods from poor countries, and this will allow developing countries to grow in a sustained way as they integrate themselves more deeply into the global economy.

4. Liberalizing visas for students from the developing world.

Currently it is exceedingly difficult for migrants from the developing world to acquire student visas to study in the UK. Those that do are legally barred from working part-time, meaning that only the very richest students from the developing world can study at British universities. Skills acquired in British universities can be highly valuable in students' home countries and help with long-term wealth creation, and liberalizing the student visa system would allow for a greater indigenous acquisition of high-quality education.[10]

5. Encouraging economic migration from the developing world to Britain, and facilitating remittances by opposing a 'Tobin Tax'.

While often blamed for much of the developing world's problems, the so-called 'brain drain' – the emigration of poor countries' brightest minds to rich countries – has in fact been one of the developing world's biggest assets. Immigrants from the developing world usually support their families at home in the form of remittances, which are an efficient wealth transfer between the developed and the developing worlds, and account for an estimated \$60 billion sent to the developing world each year.[11] The wages they earn in the developed world are much higher than in their home countries, and remittances allow them to transfer that wealth home. A 'Tobin Tax' would inhibit this wealth transfer and hurt the developing world, and must be opposed by a Conservative DFID.

Conclusion

The next government has an opportunity to overhaul Britain's current international development policies, many of which have failed. Although it may be politically expedient to continue the DFID's spending on development aid, this has a profoundly harmful impact on the developing world. The key to helping the developing world grow is not to repeat failed policies that rely on the state to create wealth, but to set its people free and unleash the ingenuity of the world's poor.

Endnotes

1. 'One World Conservatism: A Conservative Agenda for International Development', (London, 2009), p. 10.
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3. Alan Heston, Robert Summers and Bettina Aten, *Penn World Table Version 6.1*, (Center for International Comparisons at the University of Pennsylvania, PA, 2002).
4. Dambisa Moyo, *Dead aid: Why aid is not working and how there is a better way for Africa* (London, 2009), p. 44.
5. William Easterly, *The white man's burden: Why the West's efforts to aid the rest have done so much ill and so little good*, (Oxford, 2004), p. 12.
6. Roger Thurow and Scott Kilman, 'Farmers, charities join forces to block famine-relief revamp', *Wall Street Journal* (26th October, 2005), p. A1.
7. 'Ethiopia famine aid "spent on weapons"', *BBC News Online* (3rd March, 2010). Available from: <http://news.bbc.co.uk/1/hi/8535189.stm>. Accessed 14th April 2010.
8. 'Cut aid budget to spend more here, say Britons', *Metro* (8 February 2010), p. 13.

11. Peter Gammeltoft, 'Remittances and other financial flows to developing countries', *International Migration*, (40-5, 2003), p. 181.

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11. Moyo, Dambisa. *Dead aid* (London, 2009).
12. 'One World Conservatism: A Conservative Agenda for International Development', (London, 2009).
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