

A Farewell to Alms

By Arvind Subramanian

When celebrities such as Angelina Jolie or Bono appear on screen both to highlight human tragedy and to show that something can be done to alleviate it, the heart melts and the purse strings loosen. But the stars, alas, aren't up on the economic literature. Research is increasingly questioning the benefits of foreign aid.

For a long time, aid-giving was a mission in search of empirical validation. Persistent underdevelopment in aid-receiving countries fostered doubts about whether the do-good impulse was doing permanent good. Validation seemed to arrive in the research of two World Bank researchers, Craig Burnside and David Dollar. They purported to show in the late 1990s that aid helped boost long run economic growth. It did so not everywhere and all the time but only where recipient countries followed good policies and had reasonable institutional environments for these policies to be effective.

Governments, nongovernmental organizations, donors, the press and civil society embraced this work with the hungry enthusiasm of the long-deprived. The research had the great virtues of plausibility and expediency. A finding that aid is unconditionally good would have strained credulity. And by linking aid effectiveness to policies, the research gave intellectual justification to donors' practice of imposing "conditionality" on recipient governments. Tough love had found its intellectual savior.

Unfortunately, the Burnside-Dollar findings did not hold up to further scrutiny, counterintuitive as that finding may be. Aid, after all, simply expands resources available to countries to build schools, hospitals and roads, and to pay teachers. These investments in human capital and infrastructure surely boost growth and improve living standards, the thinking went, even if there is some wastage of resources along the way through corruption or mismanagement. As researchers pored over the data, however, it became increasingly difficult to maintain that there was any systematic relationship in which aid was good for long run economic growth.

The problem is that development and long-run growth are less about resources

than about the environment for generating and sustaining private sector investment. Two key aspects of this environment are decent public institutions or governance—the essential "software" for running a market economy, for creating rule of law and protecting property rights—and incentives that encourage the private sector to export, especially manufactured products.

Aid, especially in large amounts, can damage governance and make an economy uncompetitive. Like natural resource revenues, it is manna from heaven for governments. When governments receive large oil revenues or aid, they have less incentive to be accountable to their citizens, and governance suffers. In theory, donors impose an alternate form of accountability. In practice, donors' motivations are sometimes a mixture of the murky (think of the U.S. and Pakistan post 9/11 or the West and Zaire's Mobutu several decades ago) and the mindless (in 2000-02, the Tanzanian government reportedly had to write a few thousand reports to donors every quarter). Even where motivations are honorable, recipients have infinite ways of circumventing donor conditions.

Aid can also have adverse effects on an economy's competitiveness. When foreign resources come pouring in and are spent domestically, wages tend to rise, especially for those in scarce supply such as managers, supervisors and entrepreneurs. Factories that export will find themselves becoming uncompetitive and go out of business.

In research with Raghuram Rajan, we find that in countries that received more aid, exportable industries systematically underperformed. And exporting manufactured goods has been the mode of escape from underdevelopment in many of the East Asian successes. Is it a coincidence that, with rare exceptions (Mauritius), there are no booming clothing industries—the launching pad for some of the East Asian miracles—in aid-addled Africa? This despite the fact that clothing is only minimally demanding of infrastructure and entrepreneurship, and despite the very favorable access that Africa has always had in Western markets for exports of clothing products.

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The new research findings have pro-

voled genuine soul-searching among aid practitioners on the need to do things differently. But a new line on aid, expressed most recently by the New York Times's Nicholas Kristof, goes something like this: So what if aid cannot do permanent good? The question is, can it do some good? Or, even if aid cannot promote livelihoods, can it save lives? If it can, aid for a set of well-defined objectives, such as improving health and education, should continue to flow, and even increase substantially. There is ample evidence that foreign assistance helps fight disease in poor countries, documented most vividly in the Center for Global Development's "Millions Saved: Proven Successes in Global Health." So, why not do more of the same?

Because the fact that aid can save lives does not mean that aid might not have some of the adverse long-run effects relating to damaging governance and making the economy uncompetitive. Better health could be accompanied by slower growth, and hence reduced prospects for long-run prosperity. Even if the trade-off is worth making, it needs to be acknowledged. Aid advocates evade this by thinking and acting as if the long-run problems caused by aid can be fixed independently. That rarely happens.

Aid advocacy leads to perhaps an even more serious problem. There is a limited stock of goodwill and good intentions in the rich world and the question becomes whether this stock is best harnessed by mobilizing more aid or by pursuing alternative actions that could have a bigger impact.

Consider a few: mobilizing more money

to provide incentives for greater research and development devoted to addressing poor country health and agriculture problems (the green revolution in Asia was made possible by research on high-yielding varieties of wheat, and Africa has not had a similar revolution of its own); making regulatory changes in industrial countries that can reduce corruption (for example, more rigorous enforcement of bribery and corruption by rich country officials and corporations) in poor countries, which could have a huge impact on economic performance; or allowing more immigration from the poorest countries which would have the virtue of directly benefiting the poor.

These solutions are seldom pursued with the zeal that they deserve, in part because they are more difficult to support politically, and because that zeal which is essential to overcome the difficulties gets diverted toward, well, calling for more aid.

Giving aid is like looking for the lost key under the lamp post because that is the easiest thing to do. But it is not obviously the most effective way that outsiders can help. When Ms. Jolie appears on the screen calling for more aid, she not only distracts our attention toward her obviously good looks, she may also be distracting our attention away from the search for more effective solutions to helping the poorest around the world.

Mr. Subramanian is a senior fellow at the Center for Global Development and at the Peterson Institute for International Economics, both in Washington.



David Klein

America's Religious Destiny

By Arthur C. Brooks

Recently the U.S. presidential campaigns have been turning to talk of the candidates' religious faith. Barack Obama proclaims a "personal relationship" with Jesus Christ. Democratic candidate John Edwards is on the religious offensive, speaking for Jesus himself when he tells an interviewer he thinks Christ "would be appalled" by our current policies regarding poverty and the war. Even the candidate who is arguably the least religious of the frontrunners—Rudy Giuliani—feels compelled to defend himself publicly on questions of whether he is "Catholic enough."

The salience of religion in our presidential politics perplexes Europeans, who generally see religion as a weird relic from the pre-scientific past. If Angela Merkel or Nicolas Sarkozy had made public statements during their campaigns about their personal relationship with Jesus Christ, it probably would have ended their political aspirations right then and there. As the head of a French think tank put it, "The biblical references in politics, the division of the world between good and evil, these are things that [Europeans] simply don't get. In a number of areas, it seems to me that we are no longer part of the same civilization."

This is now hyperbole. According to data from the 2002 International Social Survey Programme, an American is four

times likelier than a Frenchman to attend a house of worship regularly, and eight times likelier than a Norwegian. Europeans are more likely to disdain faith openly: In 1998, the average Dane was seven times likelier than an American to agree that, "Religions bring more conflict than peace."

Many secular Americans envy the nonreligious Europeans and look expectantly to the day our presidential candidates finally abandon once and for all tortured religious rhetoric and focus on the earthbound business of human politics. This is not just evident from the lawsuits challenging the constitutionality of public manifestations of religiosity. The free market reveals it as well—witness the best selling success of recent books that make the case for atheism and rail against religion in public life, such as Richard Dawkins's "The God Delusion" and Christopher Hitchens's "God is not Great."

Markets don't lie: Lots of Americans are obviously sympathetic. Yet in all likelihood religion will grow as a social force in American culture and politics over the coming decades. The reason: A secular nation needs secular citizens. And nonreligious Americans are outstandingly weak when it comes to the most efficacious way

to achieve this: by having kids.

If you picked 100 adults out of the population who attended their house of worship nearly every week or more often, they would have 223 children among them, on average, according to the 2006 General Social Survey. Among 100 people who attended less than once per year or never, you would find just 158 kids. This 41% fertility gap between religious and secular people is especially meaningful because people tend to worship more or less like their parents. According to data col-

lected in 1999 by Gallup, 60% of adults who were taken to church at least once per month as children grew up to attend at least this often; only 15% stopped attending as adults.

The demographic implications are even more profound for the political left, where a disproportionate number of secularists are located. Religious people who call themselves politically "conservative" or "very conservative" are having, on average, an astounding 78% more kids than secular liberals. Studies show that people are even more likely to vote like their parents than they are to worship like them. The secular left, therefore, has to rely on the tough slog of bringing people from the political and religious middle over to their

Why God will continue to play a strong role in U.S. politics.

views. The religious right simply has to keep having lots of babies.

In short, unlike Europe, there is no indication that the competitive market for souls will shrivel any time soon. And candidates likely will be demonstrating their religious credentials for many elections to come.

Mr. Brooks, a professor at Syracuse University's Maxwell School of Public Affairs and a visiting scholar at the American Enterprise Institute, is the author of "Who Really Cares" (Basic Books, 2006).

Pepper . . . and Salt

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"That radiator has a childproof cap?"