Making Aid Work

The End of Poverty: Economic Possibilities for Our Time
By Jeffrey D. Sachs
Penguin.
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Reviewed by
Abhijit Vinayak Banerjee
Professor of economics and director, Poverty Action Lab, MIT

In an era when economists and policymakers seem all too willing to write off the world's poorest, Jeffrey D. Sachs has consistently been one of the most eloquent defenders of the view that something can and must be done for them. Over the last 20 years he has brought his considerable charm, formidable intellect and immense energy to the fight to keep aid flowing—even in the face of a widespread impression that the end of the Cold War removed, or so it appeared until 9/11, any purely functional reason to do so.

The most moving parts of *The End of Poverty*, indeed, are the early chapters describing Sachs' initial successes in obtaining more aid for Bolivia and Poland, and how in their optimistic aftermath he went for broke in Russia and failed. The experience convinced him there was a structural reason why more aid was not forthcoming: It was not simply a matter of asking nicely.

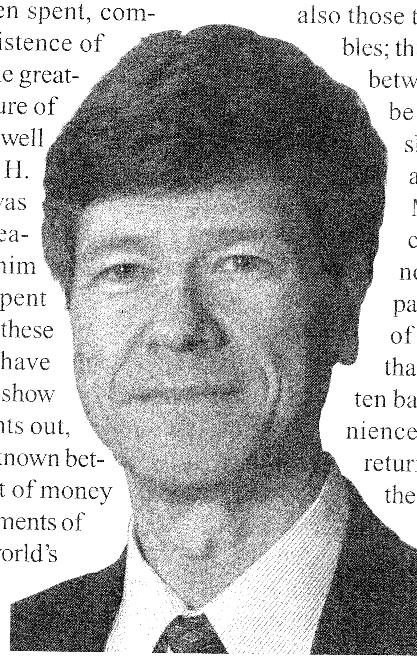
The book's most enlightening passages detail the difficulties of procuring aid. Sachs does not quite put it this way, but the trouble begins with the fact that recipients are not voters in the countries that distribute aid. It is probably true, as Sachs argues, that many taxpayers in rich countries want to do something for the world's poor. (The survey he quotes finds that 87 per cent of Americans want to give "food and medical assistance to people in needy countries.") But, at least in the U.S., aid clearly lacks the political resonance of a tax cut.

In April 1992, Secretary of State Lawrence S. Eagleburger told Sachs as much when he said that the ruble stabilization fund Sachs wanted for Russia would not be possible because the request came during an election year. And the one issue less politically salient than aid announcement is aid disbursement. Only activists like Sachs keep track of the fact that "not a single penny of the Millennium Challenge Account had been disbursed by late 2004."

Consequently, he suggests, the governments of rich countries find it convenient to make public commitments of (relative) munificence that are not meant to be honored. Despite repeated promises to raise the share of their gross domestic product (GDP) that goes to aid to 0.7 per cent (at the Rio Summit in 1992, at the Monterrey Consensus in 2002), the portion of aid coming from these countries is still around 0.2 per cent.

Nevertheless, most people in wealthy countries seem convinced that plenty of aid money is being handed out. Sachs cites a survey conducted by the University of Maryland in 2001 that found U.S. taxpayers, on average, believe that 20 per cent of the Federal budget goes into aid (although it is actually less than 1 per cent), and they were pretty much under the same impression in the early 1990s.

It is the belief that huge sums of money have already been spent, combined with the persistence of poverty, that poses the greatest danger to the future of aid. The concern was well articulated by Paul H. O'Neill when he was secretary of the treasury. Sachs quotes him saying, "We have spent trillions of dollars on these problems and we have damn near nothing to show for it." As Sachs points out, O'Neill should have known better: The total amount of money that goes from governments of rich countries to the world's poor in any given year is $50 billion; an endowment of $1 trillion would pay out that amount annually forever at a conservative interest rate of 5 per cent.



JEFFREY D. SACHS

Yet the notion that aid is a strategy that has been tried and has failed seems to have enormous influence, especially where it counts—among the economists, businessmen and policymakers who deal with developing nations. *The End of Poverty* can be read as an attempt to counter that view. Sachs' credo, which I largely share, is that "if we explain patiently and honestly to the taxpayers in the rich world that more money is needed and can be well used, it is much more likely to become available." Unfortunately, I could not persuade myself that this volume does the explaining well enough.

Especially striking is the complete absence of a discussion of the body of evidence purporting to show that aid has no effect on subsequent growth. That conclusion stems from what economists call cross-country regression analysis—essentially a way to compare growth in nations that receive more aid (as a fraction of GDP) with those that get less. Most such comparisons indicate that growth is not discernibly higher in the states collecting more aid.

I have never been a great fan of cross-country growth regressions, and it is easy to see how they could yield wrong answers. One might imagine, for example, that the nations receiving more aid are also those that have the most troubles; thus the lack of correlation between aid and growth may be caused by the fact that slower-growing countries attract greater assistance. Moreover, even if we were convinced that aid has not helped growth in the past, what should we make of that? It is well known that aid allocations are often based on political convenience rather than economic returns: Mobutu Sese Seko, the longtime dictator of Zaire and icon of Third World corruption, was once a firm U.S. ally and aid recipient.

Still, for better and mainly for worse, evidence from cross-country regressions has proven extremely influential. In the late 1990s and early 2000s, after one such study appeared to find that aid could foster growth in countries employing the "right" macroeconomic policies, the World Bank and the British aid agency accorded the view a central position in their statements about aid. The Millennium Challenge Account, the centerpiece of President George W. Bush's aid program, explicitly targets support to countries whose macroeconomic policies fit this finding. It subsequently turned out that the study's "result" was an artifact of the specific data and methods used, and we now seem to have returned to the idea that aid never works. The point is, in either case, that there are people listening.

Disputing this body of evidence should be central to the case Sachs is making. If I had to guess why he avoids taking it on, I would hazard it is because his case for why Africa deserves special treatment rests on similar cross-country regression analysis. Yet it is hard to see how his argument for aid is advanced by his stance. Sachs' declarations—concerning the direct effect of geography on growth, his central explanation for why Africa does so badly—are highly controversial, in part because they seem to depend on how we use the data. (There is an ongoing debate between Sachs and the Harvard-MIT team of Daron Acemoglu, Simon Johnson and James Robinson on this subject.)

In addition, economists are instinctively suspicious of geographical determinism. Take Sachs' insistence that it is crucial to be located on the coast. Many economists would note that Delhi and Zurich, Chicago and Vienna, are doing just fine. True, somebody had to build a highway (or a railroad or a waterway) to connect them to a port. But even in Africa only 1 per cent of GDP invested year after year would surely accomplish that. While the Ugandans, say, do need the cooperation of the Kenyans to gain access to the sea, the Kenyans can profit from that. After all, if Sachs is right, the Ugandans should be willing to pay a pretty hefty toll to be connected to Mombasa. Further, while coastal Africa might be doing a little better than the hinterland, neither is doing as well as, say, Bangladesh or Bhutan.

Sachs would probably respond that the issue is not simply being away from the coast, or any other single factor, but a combination of many factors. But do we only find all of them together in Africa? Then how would we know that the cause is not something else that is also common to most of Africa, such as the legacy of the continent's particularly brutal colonial experience?

MY POINT isn't that Africa does not deserve the help Sachs urges (I am all for it), but that it makes little sense to base the case on a theory that is both controversial and hard to test. Sachs might argue the advantage is it can tell us what needs to be done. I fear that is largely an illusion. Sachs' Big Five—the five key interventions that will rescue Africa—are hardly controversial: health, education, clean water, better agriculture, communication with the outside world. Someone else might have added credit, insurance and an efficient legal/regulatory system to that list, and the author would probably be happy to take them aboard. But the real challenge is not to convince people these are good goals, it is to assure them that we know how to use aid to produce progress on the ground.

Here Sachs misses what may be the strongest argument in his favor: We now have a far more sophisticated understanding of why well-intentioned policies go astray. At the core of recent research is an appreciation of how much the success of policy turns on making the right moves at every step. The Big Five may be the goal, but development cannot be conjured up instantly. Even if the money were there, the management capacity of the governments would prove a constraint. Choices would have to be made: Health first or agriculture? Roads or education? And within education, primary or secondary? If it is to be primary, should we focus on more teachers or computers? If the answer is teachers, how do we train them?

A growing body of carefully gathered microevidence can help with many of these decisions. Policy is increasingly becoming more a matter of science than an act of faith. But these advances, curiously, are not mentioned in Sachs' book. I still hope *The End of Poverty* persuades, but I am not convinced it will.

Politics of an Epidemic

Polio: An American Story
By David M. Oshinsky
Oxford.
342 pp. $30.00.

Reviewed by
Naomi Rogers
Associate professor of the history of medicine and of gender studies, Yale University; author, "Dirt and Disease: Polio before FDR"

IN 1949 the town of San Angelo, Texas, faced a growing polio epidemic. City officials began a "clean up filth" campaign, targeting the "wetback" and "Negro" sections. They bought two fogging machines and sprayed DDT twice a day to fight the flies and other insects believed (incorrectly) to be spreading the disease. Clorox detergent advertisements in local newspapers warned mothers, "It's the dirt you don't see that does the damage." Chiropractors promised that a "child's body correctly adjusted" would also prevent infection. By 1954 a polio vaccine developed by Jonas Salk and funded by the National Foundation for Infantile Paralysis (popularly known as the March of Dimes) was being tested in the world's largest clinical trial, involving 1.3 million American children. In Montgomery, Alabama, African-American children had to stand on the front lawns of local white schools to get their shots, and were barred from using the schools' bathrooms.

David M. Oshinsky's engaging history recounts the scientific victory over polio in the context of the Cold War years, a period he knows well. The early chapters cover familiar ground: the growing number of small epidemics, beginning with Vermont in 1894; the initial identification of the polio virus in 1908; and the development of a new field of virology led