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U.N. Millennium Development Goals: Foreign Aid v. Economic Freedom

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This week, world leaders are reviewing the United Nations' Millennium Development Goals (MDGs) at a summit in New York. They should have the courage to admit to each other and to their constituents that although some progress has been made toward achieving the MDGs in the past decade, there is little evidence that this progress is the consequence of vast sums of tax dollars expended on Official Development Assistance (ODA, or foreign aid) by U.N. donor governments. In fact, foreign aid may actually impede the economic growth needed to achieve the MDGs.

The U.N.'s statist approach to development has led to the design of ineffective and sometimes wasteful development projects in Africa and elsewhere that generally do not address the underlying problems—corruption coupled with the absence of property rights and rule of law—even as they strengthen the corrupt regimes that are the main obstacle to progress.

No one disputes the desirability of achieving the MDGs[1] in the world's poorest nations: reducing poverty, hunger, infectious disease, and infant mortality, as well as access for their citizens to clean water, education, and a healthy environment. But those worthy goals cannot be realized through the U.N. approach. President Obama should examine the evidence (outlined below) and conclude that the failed, aid-centric paradigm to achieve the MDGs championed by the U.N. should be abandoned in favor of private-sector-led solutions that have a better track record in reducing poverty. The President should then seek to convince other heads of state at the summit to do the same.

Aid Strengthens Corrupt Regimes. Swedish development economist Fredrik Segerfeldt argues in a 2009 book analyzing the failure of foreign aid to lift people out of poverty over the last 50 years—despite decades of effort and the expenditure of at least $1.65 trillion by taxpayers in donor countries—that the corruption-related development problems in those countries cannot be resolved with foreign aid.[2]

One of the MDGs' main objectives is to require donor nations like the U.S. to increase official development assistance to 0.7 percent of their gross domestic product (GDP). For the U.S., this would be a huge increase. According to the Organization for Economic Cooperation and Development, the U.S. spent $28.7 billion on ODA in 2009—roughly 0.2 percent of GDP. If the U.N. had its way, U.S. aid would have been over $100 billion.[3]

By focusing on increasing ODA, the MDGs enable a culture of dependency and strengthen the governing regimes of corrupt elites by funding some level of social services that take a concomitant amount of political heat off of their own governments. These regimes also often devise ways to rake

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off a portion of the development assistance proceeds for their own enrichment and the perpetuation of their political power.

The chart below illustrates the symbiosis between foreign aid, dependency, and corruption in Africa. Countries with the highest dependency on foreign

The Connection Between Receiving Foreign Aid and Corruption

The chart below lists the 12 African nations with the largest share of their respective economies coming from foreign aid, and shows their ranks in the *2010 Index of Economic Freedom* and the Corruption Perceptions Index for 2009.

Country	Foreign Aid as Share of GDP (Annual Average)	***2010 Index of Economic Freedom*** (Rank Out of 179 Countries) — Most Free 1 / 90 / Least Free 179	Transparency International's ***Corruption Perceptions Index for 2009*** (Rank Out of 180 Countries) — Least Corrupt 1 / 90 / Most Corrupt 180
Guinea–Bissau	47%	167	162
Mozambique	31%	111	130
The Gambia	23%	118	106
Malawi	23%	122	89
Mauretania	21%	133	130
Burundi	21%	160	168
Rwanda	21%	93	89
Sierra Leone	20%	157	146
Zambia	20%	100	99
Burkina Faso	14%	90	79
Senegal	12%	119	99
Benin	11%	115	106

Source: Foreign aid as a share of GDP: Fredrik Segerfeldt, "First, Do No Harm, The Hippocratic Oath of Foreign Aid," Timbro: Stockholm Sweden 2009 (informal English translation provided to The Heritage Foundation by the author), at *http://www.timbrobokhandel.se/B%F6cker/563/g%F6r-ingen-skada.aspx* (September 1, 2010); Terry Miller and Kim R. Holmes, *2010 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2010), at *www.heritage.org/index*; Transparency International, Corruption Perceptions Index 2009, at *http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table* (September 21, 2010).

Chart 1 • WM 3020 heritage.org

1. United Nations Development Program, "Millennium Development Goals," at *http://www.un.org/millenniumgoals* (September 14, 2010).
2. Fredrik Segerfeldt, *First, Do No Harm: The Hippocratic Oath of Foreign Aid* (Stockholm, Sweden: Timbro, 2009) (informal English translation provided to The Heritage Foundation by the author), at *http://www.timbrobokhandel.se/B%F6cker/563/g%F6r-ingen-skada.aspx* (September 1, 2010).
3. Organisation for Economic Co-operation and Development, "ODA by Donor, 2002 to 2009," at *http://stats.oecd.org/Index.aspx?DatasetCode=ODA_DONOR* (September 17, 2010).

aid (e.g., Guinea–Bissau) have the lowest economic freedom and corruption scores. And the foreign aid strengthens corrupt regimes: It is probably no accident that in the last 30 years the average African leader has been in power three times longer than the leaders of the developed industrial countries.

U.S. Secretary of State Hillary Clinton reported recently that corruption costs Africa an estimated $150 billion a year and "scares away investment, stifles innovation, and slows trade."[4] She also noted that rule of law is vital to maintain a successful market, attract investment, and promote sustainable development.

Uneven Progress Toward MDGs. The U.N. Development Programme (UNDP) spares no expense to trumpet its successes, regularly churning out slickly produced progress reports with glossy photos of smiling aid recipients in developing countries. Yet as Ambassador Terry Miller of The Heritage Foundation points out, the plethora of UNDP reports never include the information most important to taxpayers: rigorous analysis linking the UNDP's programming to those happy outcomes.[5] In fact, there is little evidence that development assistance from the U.N. (or the U.S. or other bilateral nation) has contributed much to economic growth.

For instance, in a September 16 report,[6] the UNDP says the number of people in the world living on less than $1.25 a day has fallen from 1.8 billion to 1.4 billion in the last 20 years. But the countries singled out in the UNDP study as having made major gains in reducing poverty—China, India, Vietnam, and Brazil—did so by largely rejecting the UNDP development model. According to the UNDP Human Development Index, the poverty rate in China dropped from 84 percent in 1981 to 16 percent in 2005, meaning China's economic development lifted 635 million people out of poverty.[7]

India is another good example where economic growth—not foreign aid—has lifted people out of poverty. A report by Standard Bank said millions in that country escaped poverty when the size of India's middle class "quadrupled to almost 250 million" between 1986 and 2006.[8]

In both countries, ODA was a negligible factor contributing to their economic growth. The same holds true for the other countries at the top of the UNDP list: Brazil and Vietnam.

- Average of China's net ODA received as a percentage of GDP 1981–2008: 0.315 percent,
- Average of India's net ODA received as a percentage of GDP 1981–2008: 0.524 percent,
- Average of Brazil's net ODA received as a percentage of GDP 1981–2008: 0.04 percent,
- Average of Vietnam's net ODA received as a percentage of GDP 1989–2008: 3.9 percent.[9]

Problem: ODA Does Not Work. Dr. Russ Roberts of George Mason University reviewed the multidecade failure of development assistance programs to generate economic growth (and progress on those MDGs) in Africa. He calls it an "ideal test of Keynesian stimulus."[10] Unfortunately, foreign aid flunked the test.

Most African aid recipients have high unemployment rates, so according to Keynesian theory those

4. Hillary Clinton, "2010 AGOA Forum on U.S.-Sub-Saharan Africa Trade and Economic Cooperation," speech at the Ronald Reagan Building, Washington, D.C., August 3, 2010, at *http://www.state.gov/secretary/rm/2010/08/145647.htm* (September 1, 2010).
5. Ambassador Terry Miller, "The United Nations and Development: Grand Aims, Modest Results," in *ConUNdrum: the Limits of the United Nations and the Search for Alternative*, ed. Brett D. Schaefer (Lanham, MD.: Rowman & Littlefield, 2009), p. 209.
6. Press release, "Progress Toward Millennium Development Goals Is Mixed," Media-Newswire, September 16, 2010, at *http://media-newswire.com/release_1127504.html* (September 16, 2010).
7. United Nations Development Programme, "Human Development Indices, 2008," p. 10, at *http://hdr.undp.org/en/media/HDI_2008_EN_Complete.pdf* (September 14, 2010).
8. Ethel Hazelhurst, "India Shows Economic Growth Helps the Poor," Business Report, September 3, 2010, at *http://www.busrep.co.za/index.php?fArticleId=5630992&fSectionId=566&fSetId=662* (September 14, 2010).
9. World Bank, "Net ODA Received as a Percentage of GNI Data Set, 1960–2008," at *http://data.worldbank.org/sites/default/files/indicators/en/net-oda-received-percentage-of-gni_en.xls* (September 17, 2010).

available resources should have been mobilized. Dozens of dams, bridges, roads, and other infrastructure projects were constructed with funds from the international donor community.

But Professor Roberts reports that the foreign aid spending rarely generated any sustained prosperity. The money was spent and then it was gone—no multipliers materialized because the economies in the countries receiving the aid are fundamentally broken. They suffer from inefficient governments, corrupt practices, and stagnant labor markets. The influx of development assistance did not create economic growth; it merely stimulated rent-seeking behavior by the politically well-connected.

Research by New York University economist William Easterly finds that, while humanitarian aid has improved disease prevention in developing countries, foreign aid for African agriculture has been a failure (crop yields have decreased or stagnated over the past 40 years) and development assistance programs in general have not mitigated the effects of corruption. As a result, Easterly concludes, foreign aid programs often weaken governance.[11]

A Call for Free-Market-Led Economic Growth. The annual *Index of Economic Freedom* (published by The Heritage Foundation and *The Wall Street Journal*) measures a country's openness to competition, the degree of state intervention in the economy (whether through taxation, spending, or overregulation), and the strength and independence of a country's judiciary in enforcing rules and protecting private property.

The *Index* consistently finds that free markets and entrepreneurship are the keys to prosperity. The results of the 2010 *Index* demonstrate[12] a significant positive correlation between higher economic freedom scores and reduced poverty as measured by the UNDP Human Development Index as well as improved democratic governance and political stability as tracked by the Economist Intelligence Unit's Index of Democracy.

At the U.N.'s Millennium Development Goals Summit, President Obama should affirm Secretary Clinton's recent call for an end to corruption, a strengthening of the rule of law, and a return to the principles of economic freedom by all countries. He should lead his colleagues in a call for a complete refocus of development assistance away from the statist programs of traditional ODA and toward incentives for free-market-led economic growth.

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10. Russ Roberts, "Does Spending Create Prosperity?" Café Hayek, September 13, 2010, at *http://cafehayek.com/2010/09/does-spending-create-prosperity.html* (September 14, 2010).
11. William Easterly, "Can the West Save Africa?" National Bureau of Economic Research, 2008, at *http://www.nyu.edu/fas/institute/dri/Easterly/File/can%20the%20west%20save%20africa.pdf* (September 16, 2010).
12. Terry Miller and Kim Holmes, *2010 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2010). Correlation calculations by Heritage staff.