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Fighting Global Poverty

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THE UNITED NATIONS has a history of proclaiming utopian goals, and the U.N. report delivered Monday under the leadership of Columbia University's Jeffrey D. Sachs could be viewed as part of this pattern. It is subtitled "A Practical Plan to Achieve the Millennium Development Goals." But many of these goals, adopted at a summit of heads of state in 2000, are themselves not practicable, despite significant recent progress. Between 1990 and 2002, the number of people in extreme poverty declined by 130 million; child mortality rates fell from 88 to 70 deaths per 1,000 live births; an additional 14 percent of the developing world's people acquired access to sanitation. But the U.N. goals include reducing the child mortality rate by two-thirds between 1990 and 2015 and halving the proportion of people without access to sanitation. This is unrealistic, and the United Nations should stop setting itself up for failure.

That said, the report rightly calls for a big increase in development assistance. It says that donors should give at least 0.5 percent of their gross national product, then scale that up to 0.7 percent by 2015. For donors taken as a whole, this would imply an immediate doubling in official development assistance; for the United States, it would mean a bigger jump, since President Bush's expansion of the U.S. aid budget has lifted it from 0.1 percent to 0.15 percent of GNP. The report advertises the quick wins that could be purchased with extra assistance, such as free distribution of malaria bed nets, the elimination of fees at schools and health clinics, and a drive to fertilize exhausted soils in hungry parts of Africa.

In practice, money cannot magically achieve these things; it has to be managed by the people of developing countries and often by their governments. It's fair to ask whether extra aid would actually accomplish its goals or whether it would merely stoke corruption. The large and inevitably contested economics literature on this question provides a reassuring answer; the prevailing evidence is that aid does boost growth and reduce poverty in countries with reasonably good institutions and policies. A new addition to this literature, by Michael Clemens, Steven Radelet and Rikhil Bhavnani of the Center for Global Development in Washington, makes an even stronger claim. The authors take out categories of aid that should not be expected to boost growth in the short term (disaster relief on the one hand; funding for long-term efforts such as environmental protection, education and health on the other) and then analyze the growth effects of the residual categories (aid for roads, ports, agriculture and so on). They find that the sort of aid that might be expected to boost growth actually did so quite a bit, and not just in countries with strong institutions and good policies.

So the case for extra aid is solid. It matters a lot, however, how the money is spent, because bad aid can actually entrench poverty. When aid flows into a country, it can drive the exchange rate up, harming the producers who are the only hope of long-term, self-sustaining development. This risk -- akin to the "Dutch disease" suffered by oil exporters -- needs to be managed. If the aid is spent on imports such as insecticide-treated mosquito nets or AIDS medicines, the inflow of foreign capital is neutralized and the exchange rate will not budge. Similarly, if aid is spent on projects that boost productivity, this gain can outweigh the handicap of a stronger currency. In Uganda, for example, poor roads push up farmers' costs by as much as 40 percent, so aid for road-building could deliver an enormous boost to cotton and coffee exporters.

In short, the Dutch-disease trap is only a trap if the aid is spent badly. That means aid needs to be focused on countries that use it well, with the caveat that even effective governments can't absorb too much external assistance. Cross-country analysis suggests that once aid accounts for more than 20 to 25 percent of gross domestic product, it often ceases to do good, possibly because flows above that level encourage officials to focus on their relationships with foreign patrons rather than feeling accountable to the poor of their own countries. Some "donor darlings" in Africa are already at or above this danger threshold. Aid to Ethiopia, Malawi and Rwanda represents about 20 percent of each economy, while the ratio for sub-Saharan Africa as a whole stands at around 6 percent.

In the past decade or so, much has been learned about how to deliver aid effectively. Donors should not dictate development programs from afar; they should support plans that enjoy political legitimacy in each developing country. Aid should be targeted at a long list of obstacles to growth; there is no silver bullet. The new U.N. report wisely endorses this conventional wisdom, while reminding the world that millions of people can be rescued from hunger and poverty if aid budgets are boosted. Despite its unfortunate utopian premise, it pushes in the right direction.