

7 Foreign Aid

A DEMOCRAT'S LOT IS NOT A HAPPY ONE. SHE MUST continually try to find better policy solutions to reward her large number of supporters. And yet her hands are tied. She has little discretion in her policy choices. Her pet projects must be subjugated to the wishes of her large body of supporters, and she can steal virtually nothing for herself. She is like a selfless angel, appearing to place the concerns of her people over her own interests. That is, until she turns her attention overseas.

When it comes to foreign policy, a democrat is prone to behave more like a devil than an angel. In fact, in targeting her policies at foreign governments she is likely to be little better than the tyrannical leaders who rule those very foreign regimes.

In this chapter we explore five questions about foreign aid. Who gives aid to whom? How much do they give? Why do they give it? What are the political and economic consequences of aid? And what do the answers to these questions teach us about nation building?

For any who were starting to think of democrats as the good guys, this will serve as a wakeup call. Most of us would like to believe that foreign aid is about helping impoverished people. The United States Agency for International Development (USAID), the primary organization for allocating US aid, advertises itself as "extending a helping hand to those people overseas struggling to make a better life, recover from a disaster or striving to live in a free and democratic country. It is this caring that stands as a hallmark of the United States

around the world." Making the world a better place for its inhabitants is a laudable goal for donors. Yet the people in recipient nations often develop a hatred for the donor. And recipient governments (and donors too) often have different views about what the money should be for. As we will see, democrats are constrained by their big coalition to do the right thing at home. However, these very domestic constraints can lead them to exploit the peoples of other nations almost without mercy.

The Political Logic of Aid

Heart-wrenching images of starving children are a surefire way to stimulate aid donations. Since the technology to store grain has been known since the time of the pharaohs, we cannot help but wonder why the children of North Africa remain vulnerable to famine. A possible explanation lies in the observations of Ryszard Kapuscinski. Writing about the court of the Ethiopian emperor Haile Selassie, Kapuscinski describes its response to efforts by aid agencies to assist millions of Ethiopians affected by drought and famine in 1972:¹

Suddenly reports came in that those overseas benefactors who had taken upon themselves the trouble of feeding our ever-insatiable people had rebelled and were suspending shipments because our Finance Minister, Mr. Yelma Deresa, wanting to enrich the Imperial treasury, had ordered the benefactors to pay high customs fees on the aid. "You want to help?" the minister asked. "Please do, but you must pay." And they said, "What do you mean, pay? We give help! And we're supposed to pay?" "Yes," says the minister, "those are the regulations. Do you want to help in such a way that our Empire gains nothing by it?"

The antics of the Ethiopian government should perhaps come as little surprise. Autocrats need money to pay their coalition. Haile Selassie, although temporarily displaced by Italy's invasion in the 1930s, held the throne from 1930 until overcome by decrepitude in 1974. As

a long-term, successful autocrat, Selassie knew not to put the needs of the people above the wants of his essential supporters. To continue with Kapuscinski's description:

First of all, death from hunger had existed in our Empire for hundreds of years, an everyday, natural thing, and it never occurred to anyone to make any noise about it. Drought would come and the earth would dry up, the cattle would drop dead, the peasants would starve. Ordinary, in accordance with the laws of nature and the eternal order of things. Since this was eternal and normal, none of the dignitaries would dare to bother His Most Exalted Highness with the news that in such and such a province a given person had died of hunger. . . . So how were we to know that there was unusual hunger up north?

Selassie fed his supporters first and himself second; the starving masses had to wait their turn, which might never come. His callous disregard for the suffering of the people is chilling, at least until you compare it to his successor. Mengistu Haile Mariam led the Derg military regime that followed Selassie's reign. He carried out policies that exacerbated drought in the Northern Provinces of Tigray and Wollo in the mid 1980s.² With civil war raging in these provinces and a two-year drought, he engaged in forced collectivization. Millions were forced into collective farms and hundreds of thousands forced out of the province entirely. Mass starvation resulted. Estimates of the death toll are between 300,000 and 1 million people. From the Derg's perspective the famine seriously weakened the rebels, a good thing as Mengistu saw it. Many of us remember Live Aid, a series of records and concerts organized by Bob Geldof to raise disaster relief. Unfortunately, as well intentioned as these efforts were, much of the aid fell under the influence of the government.³ For instance, trucks meant for delivering aid were requisitioned to forcibly move people into collective farms all around the country. Perhaps 100,000 people died in these relocations.

There is no shortage of similar instances, where aid is misappropriated and misdirected by the recipient governments. To take just one

prominent example, the United States gave Pakistan \$6.6 billion in military aid to combat the Taliban between 2001 and 2008. Only \$500 million is estimated to have ever reached the army.⁴ Nevertheless, aid continues to flow into Pakistani coffers. Given the stated goals of aid agencies, once it becomes clear that money is being stolen, one would expect them to stop giving. Alas, they do not.

Indeed, to dispel any pretense that donors are having the wool pulled over their eyes, it is worthwhile to consider the Kenyan case. In her book, *It's Our Turn to Eat*, Michela Wrong describes the exploits of an idealistic bureaucrat, John Githongo. He was appointed anticorruption czar by the new Kenyan president Mwai Kibaki.⁵ Given the notorious corruption of his predecessor, Daniel Arap Moi, Kibaki ran on an anticorruption ticket. International aid agencies began once again to lend to Kenya at attractive rates. When the IMF gave Kenya a \$252.8 million loan, the *Economist* reported that the finance minister was overheard whistling "Pennies from Heaven."⁶

Githongo quickly discovered that the government thought his agency's function was more to cover up corruption than to root it out. When he realized the corruption went all the way to the president, he made secret tape recordings, then fled to Britain and provided international organizations and banks documentary evidence of the corruption. He was not alone in his claims. The British ambassador to Kenya, Edward Clay, in beautifully florid language, described the corruption as ministers eating "like gluttons" and "vomiting on the shoes" of donors.

Although some years later the IMF and World Bank would eventually stop lending to Kenya, this was not the immediate reaction. Indeed, the international financial community shunned Githongo rather than the wrongdoers. His information was ignored and he became a pariah at development meetings. Banks and bureaucrats acted like people so desperate to eat at a restaurant that they continued to ignore the health department's warning that the kitchen was overrun by rats. Githongo now makes a meager living as a lecturer and consultant. Edward Clay became persona non grata in Kenya and was discreetly retired by the British government. Both Githongo and Clay effectively ended their careers by "doing the right thing."

It is hard to believe that aid agencies remain so naïve as to not understand how misused their funds are. Perhaps the truth lies in another aim of the USAID—"furthering America's foreign policy interests." Perhaps the United States is more interested in having a reliable ally in its fight against global terrorism and needs assistance combating Somali pirates in the Indian Ocean.

Against this harsh view, that aid is about recipients selling favors overseas, is the rhetoric of Kenya's first president, Jomo Kenyatta, who at his Independence Day speech in 1963, said:

We shall never agree to friendship through any form of bribery. And I want all those nations who are present today—whether from West or from East—to understand our aim. We want to befriend all, and we want aid from everyone. But we do not want assistance from any person or country who will say: Kenyatta, if you want aid, you must agree to this or that. I believe, my brothers, and I tell you now, that it is better to be poor and remain free, than be technically free but still kept on a string. A horse cannot choose: reins can be put on him so he can be led around as his owner desires. We will not be prepared to accept any aid that will tie us like a horse by its reins.⁷

As upright as this speech may initially sound, Kenyatta is in fact being disingenuous. Are aid agencies willingly throwing away money? Or are they getting something in return? We suspect that the key statement in Kenyatta's speech was "whether from West or from East." In spite of his idealistic words, he was covertly telegraphing that his government remained open to bids from both sides.

Political logic suggests that democratic donors are ready to turn a blind eye to theft and corruption when they need a favor. If you remember, Sergeant Doe of Liberia received over \$500 million from the United States during his decade in power. And the United States got a lot in return: "We [US] were getting fabulous support from him on international issues. He never wavered [in] his support for us against Libya and Iran. He was somebody we had to live with. We didn't feel that he was such a monster that we couldn't deal with him. All our interests were impeccably protected by Doe."⁸

With the end of the cold war, the United States had much less need for Doe's support. Only then did it find its moral scruples. In 1989 it published a report, which we quoted earlier but is nonetheless worth repeating:

[Liberia] was managed with far greater priority given to short-term political survival and deal-making than to any long-term recovery or nation-building efforts. . . . The President's primary concern is for political and physical survival. His priorities are very different from and inconsistent with economic recovery . . . President Doe has great allegiance to his tribes people and inner circle. His support of local groups on ill designed projects undercut larger social objectives.⁹

The truth is, foreign aid deals have a logic of their own. Aid is decidedly *not* given primarily to alleviate poverty or misery; it is given to make the constituents in donor states better off. Aid's failure to eliminate poverty has not been a result of donors giving too little money to help the world's poor. Rather, the right amount of aid is given to achieve its purpose—improving the welfare of the donor's constituents so that they want to reelect their incumbent leadership. Likewise, aid is not given to the wrong people, that is, to governments that steal it rather than to local entrepreneurs or charities that will use it wisely. Yes, it is true that a lot of aid is given to corrupt governments but that is by design, not by accident or out of ignorance. Rather, aid is given to thieving governments exactly because they will sell out their people for their own political security. Donors will give them that security in exchange for policies that make donors more secure too by improving the welfare of their own constituents.

The fact is, aid does a little bit of good in the world and vastly more harm. Unless and until it is restructured, aid will continue to be a force for evil with negative consequences—moreover it will continue to be promoted by well-meaning citizens who in making themselves feel good are blinded to the harm they are inflicting on many poor people who deserve a better lot in life.

Let's be clear, democrats act as if they care about the welfare of *their* people because they need their support. They are not helping

out of the goodness of their hearts, and their concern extends only as far as *their own* people—the ones from whom they need a lot of supporters. Democrats cannot greatly enrich their essential backers by handing out cash. There are simply too many people who need rewarding. Democrats need to deliver the public policies their coalition wants.

Autocrats, on the other hand, can richly reward their limited number of essential backers by disbursing cash. Money, which good governance suggests should be spent on public goods for the masses, can instead more usefully (from the autocrat's perspective) be handed out as rewards to supporters. And since private goods generate such concentrated benefits to the people who matter (and a good leader never forgets that *who matters* is all that matters), autocrats forsake the public policy goals of the people. It is not that they necessarily care less about the people's welfare than do democrats; it is just that promoting the people's interest jeopardizes their hold on power. Remember the story of Julius Caesar!

Herein lies the basis for making foreign aid deals. Each side has something to give that the other side holds dear. A democrat wants policies his people like, and the autocrat wants cash to pay off his coalition.

Suppose there are two nations, A and B, each with a population of 100 people. The leader in each nation has \$100 with which to buy political support. Suppose nation A is a democracy and its leader needs to keep fifty people happy in order to stay in power. In contrast B is an autocracy and its leader needs to keep five people happy. Suppose the people of both nations care about some policy initiative taken up by nation B. For instance, to take a common cold war situation, the policy might be nation B's stance towards the Soviet Union. The citizens in nation A prefer that B adopt an anti-Soviet stance. Suppose the value of such a stance to each of the people in nation A is equivalent to \$1. The citizens of nation B don't want socialism outlawed and they don't want their government to take an anti-Soviet stance. Indeed, since it is their country's policy at stake, let's assume that the people of B care about their government's policy much more than the people in nation A. To keep our example simple, suppose that if B takes the anti-Soviet

policy, then this is equivalent to a \$2 loss in welfare for each of the 100 people in B.

In nation A, the leader has \$100 to make fifty people happy. If he hands out the money to his supporters then each gets \$2. The leader in nation B has fewer people to satisfy. If he handed out all his money, then each of his five supporters would get \$20. Now, suppose the leader in B agrees to change to the anti-Soviet policy in exchange for cash. The essential questions are how much does B need and how much is A willing to pay to make this deal work?

The leader of B would only agree to trade policy for aid if it made his coalition better off. The switch in policy is equivalent to a \$2 loss for each of his supporters (and each of the inconsequential remaining 95 people in B who are not influential), because they don't like the policy. So the leader of B would never agree to the anti-Soviet stance unless the "aid" money he gets for doing so is larger than this loss. Since he has 5 supporters to keep happy, and each supporter suffers a \$2 loss, he needs at least \$10 in aid to offset the political cost of turning anti-Soviet. That is, an extra \$2 for each of his 5 essential backers is the minimum required to change B's policy to anti-Soviet.

The leader in nation A only "buys" the anti-Soviet policy if its value to his supporters is greater than the amount given up by each. Since the fifty coalition members in A value the anti-Soviet policy at \$1 each, the money they give up so that their government can buy an anti-Soviet stance from country B must be less than \$1 each. Otherwise, they prefer the cash to the policy concession. Since the policy shift is worth \$1 to each supporter in nation A and there are fifty member of the coalition, this means the leader in A would pay up to \$50 in "aid" to B's government to get B to become anti-Soviet.

Provided the aid transfer is between \$10 and \$50, the essential backers in both nations are made better off by trading policy for aid. This enhances the survival of both leaders. However, it makes each of the remaining ninety-five people in nation B—those not in the winning coalition—the equivalent of \$2 worse off. They are not compensated for the anti-Soviet policy that they don't like.

This example, while extremely simple, captures the logic of cold war aid flows. The United States provided Liberia's Sergeant Doe with

an average of \$50 million per year in exchange for his anti-Soviet stance. This aid did not provide for the welfare of his people, and is coincidentally close to the amount of money Doe and his cronies are alleged to have stolen during his decade in power. From the perspective of survival-oriented leaders, the rationale for aid becomes clear. When the cold war ended, the United States no longer valued anti-Soviet policies and was no longer willing to pay for them. Doe's government didn't have much else to offer the United States that American voters valued, so he was cut off. Without aid revenue, Doe could no longer pay his supporters enough for them to suppress insurgencies, and so he died a gruesome death at the hands of Prince Johnson.

For the reader who finds the above example too contrived, it is perhaps worthwhile to look at a recent failed United States attempt to buy policy. In the runup to the 2003 invasion of Iraq, the United States sought permission to base US troops in the predominantly Muslim nation of Turkey. Such basing rights would have improved the US army's ability to engage the Iraqi army. Although Turkey is allied with the United States through NATO, the idea of assisting a predominately Christian nation to invade a fellow Muslim nation was domestically unpopular in Turkey. During negotiations in February 2003, the United States offered Turkey \$6 billion in grants and up to \$20 billion in loan guarantees. Given Turkey's population of approximately 70 million, these aid totals amounted to about \$370 per capita.¹⁰

Turkey is relatively democratic. For a quick, back of the envelope calculation, let's suppose its leader needs the support of a quarter of the people. So the value of the United States offer works out to nearly \$1,500 per essential backer. This is a substantial amount (a bit over 10 percent of today's Turkish income per capita), but then the policy concession sought was very politically risky. Indeed, it might be useful for the American reader to think about how much compensation they would need before agreeing to allow foreign troops a base in the United States in order to invade Canada.

It appears that \$1,500 per person was not enough. After much back and forth, the Turkish government rejected the offer. They were holding out for significantly more money so we know there was a price at which the policy concession could have been granted, but it was a

high price. The United States was not willing to pay more and so the deal could not be struck. In the end, Turkey granted a much less controversial concession for a lot less money. The United States was allowed to rescue downed pilots using bases in Turkey.

Buying policy from a democracy is expensive because many people need to be compensated for their dislike of the policy. Buying policies from autocracies is quite a bit easier. Suppose Turkey were an autocracy and its leaders were beholden to only 1 percent of the population. Under such a scenario, the value of the US offer rejected by Turkey would have approached \$40,000 per essential backer. Thinking back to the challenge offered to Americans, while few might have sold out their northern neighbor for \$1,500, \$40,000 might start looking very attractive to many. It is probably not an accident that the US invasion of Iraq was launched from the decidedly very small coalition monarchies of Kuwait and Saudi Arabia.

The logic of how coalitions operate gives us a good handle on who gives how much aid to whom. Getting the people what they want helps democratic leaders stay in office. It is therefore no surprise that most foreign aid originates in democracies. The price of buying concessions depends upon the salience of the issue and the size of the recipient leader's coalition. As coalition size grows, the recipient leader needs to compensate more and more people for the adoption of the policy advocated by the donor. That means that the price of buying a policy concession rises with the size of the prospective recipient's group of essential backers. This creates an interesting dynamic.

As a nation becomes more democratic, the amount of aid required to buy its policy goes up. But because the price is higher, donors are less likely to buy the policy concession from it because it just gets to be too expensive. Poor autocracies are most likely to get aid, but they don't get much. Although they may have great needs, they can be bought cheaply. We have confirmed this relationship between coalition size, the chance to get aid and the amount of aid received (if any) in detailed statistical studies of aid giving by the United States and other wealthy democratic nations, namely the members of the Organization for Economic Cooperation and Development (the OECD).¹¹

Coalition size is not the only factor determining who gets aid or how much is spent on buying concessions from them. The salience of the issues at stake—what the policy concessions are worth—is an important determinant of how much aid gets transferred. Notice that in the formula we just described, need is not a significant factor. In fact, because an extra dollar is worth more to a poor country than to a rich one, needier countries are likely to get less aid, not more than the less needy among those receiving aid at all.

One extremely salient, and hence expensive aid for policy deal was the 1979 Egyptian-Israeli peace treaty. As part of this agreement, Egypt became the first Arab nation to officially recognize Israel. Israel and Egypt ended hostilities that had been nominally ongoing since the 1948 war (and had erupted into actual warfare in 1956, 1967, and 1973). As part of the 1979 deal, Israel withdrew from the Sinai Peninsula, which it had captured in the 1967 Six Day War and both sides agreed to the free passage of shipping through the Suez Canal. Peace between Israel and Egypt was of great importance to the United States. Beyond the strong domestic support for Israel, the United States was suffering the ill effects of oil shocks in the 1970s. The sharp rise in oil prices raised inflation and harmed the US and other Western economies dependent on oil imports. The United States, being desperate to avoid another oil crisis, underwrote the deal, thinking, perhaps, that doing so would help stabilize the situation in the region. As can be seen in Figure 7.1, the United States provided enormous economic incentives for the Egyptian president, Anwar Sadat, to visit Israel, attend the Camp David Peace Summit, and sign the treaty.

The recognition of Israel was an extremely unpopular policy shift in Egypt. This is why Sadat could extract so much from the United States. Unfortunately for Sadat it also led to his assassination in 1981. Fundamentalists threw grenades and attacked with automatic rifle fire during an annual parade. Although it officially recognizes Israel, the Egyptian government has done almost nothing to encourage the Egyptian people to moderate their hatred for Israel. In a BBC survey conducted nearly thirty years after the Camp David agreement was struck, 78 percent of Egyptians indicated that they perceive Israel as having a negative impact in the world, far above the average in other

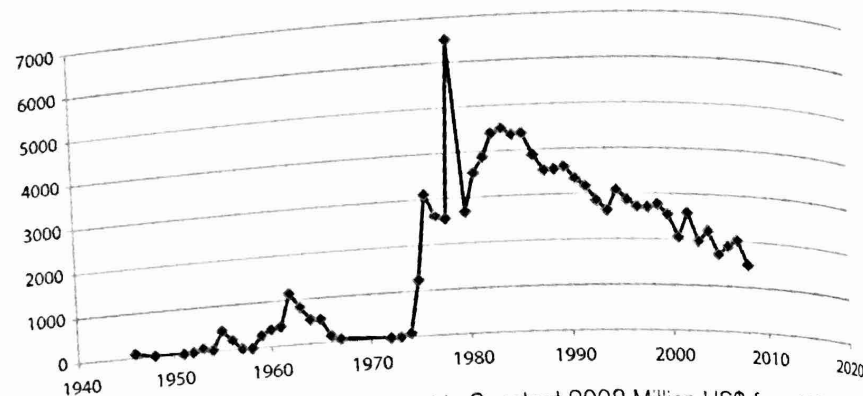


FIGURE 7.1 Total US Assistance to Egypt in Constant 2008 Million US\$ from USAID Greenbook

countries whose citizens participated in the BBC survey on this question.¹² Of course, changing the negative attitude toward Israel in Egypt would just reduce the amount of aid the Egyptian government could extract from the United States.

Recent movement toward a more democratic government in Egypt highlights the dilemma faced by democratic donors. Those who celebrate the prospects of democracy in Egypt and favor peace with Israel have a problem. As we have noted, the aid-for-peace-with-Israel deal could be struck exactly because the autocratic Egyptian leadership and its coalition were compensated for the anti-Israeli sentiment among its citizenry, a sentiment they helped preserve. With the *people* now in charge, it would be natural for Egypt to shift away from its peace with Israel. To prevent that, greater amounts of foreign aid will be needed than was true under the Sadat-Mubarak dictatorships. Given the significance of Israeli-Egyptian peace to American and Israeli voters, it is likely that the higher price will be paid. That leaves the question, will that greater aid be used to strengthen the military or improve the lot of ordinary Egyptians?

As with Egypt, US assistance to Pakistan is much easier to explain by looking at aid as a payment for favors rather than a tool for alleviating poverty. In 2001, the United States gave Pakistan \$5.3 million and Nepal \$30.4 million in aid. Pakistan's aid had been greatly reduced by congressional mandate following their test of a nuclear weapon in

1998. Yet, on September 22, 2001, US president George W. Bush lifted restrictions on aid. Pakistan received more than \$800 million in 2002. Meanwhile, Nepal, not on the frontline of the fight against Al Qaeda and the Taliban, received about \$37 million, just modestly more than their 2001 receipts. India, also not front and center in the battle against terrorism in 2002, received \$166 million from the United States, up barely from 2001 when they received about \$163 million. Poverty had not changed in any meaningful way in any of these countries between 2001 and 2002, but their importance to American voters most assuredly had.

Democrats are often perceived as being in the driver's seat and dictating terms to autocrats. However, as in other matters, they are often the ones who are constrained. They need to deliver the policies their backers want. If they try to cut back on the aid they give or impose strict conditions, then autocrats simply end the policy concessions.

Subsequent US relations with Pakistan offer clear evidence of this pattern of waning and waxing aid. As we saw, aid went up following the terrorist attacks of September 11, 2001, but then it began to taper as the war against the Taliban in Afghanistan seemed to have been won by 2003. Once Pakistan increasingly became a safe haven for the Taliban and Al Qaeda, everything changed. Pakistan now found itself in a tough spot. If the government opposed the Taliban who were infiltrating the Pakistani frontier with Afghanistan, they were likely to face a domestic insurgency. If they supported the Taliban they would face severe pressure from the United States. This dilemma offered an opportunity for Pakistan to make greater demands for US aid if Pakistan's government was to be induced to resist the Taliban. The demands were made but the US Congress balked at giving Pakistan more, noting that much American aid to Pakistan was diverted to uses not intended by the Congress. These uses include the disappearance of some money and channeling much of the rest by Pakistan to stave off what the Pakistanis perceive to be the greater threat from India than from Muslim fundamentalist militants.

The United States, disgruntled with Pakistan, did not initially agree to pay the higher price needed to get the Pakistani government to pursue the Taliban and Al Qaeda militants within Pakistan. What

was the upshot? As we have learned to expect, the Pakistani leadership ignored US pressure and began looking for ways to work with the Taliban. Aid is basically a pay or don't play program. The United States wouldn't pay and Pakistan wouldn't play.

By 2008, the government of Pakistan's leader Asif Ali Zardari, was paying only lip service to going after the militants. The Bush administration, lacking more aid to offer, proved unable to change Zardari's mind. In fact, the second half of 2008 saw only a perfunctory effort by the Zardari government to fight the militants. There was a brief military offensive against the Taliban, starting on June 28 and ending in early July, with precisely one militant killed. After that, although the Taliban aggressively pursued their own territorial expansion in Pakistan, the Zardari government mostly looked the other way. Rather than fight the militants, Zardari's regime made a deal with the Taliban in February 2009, paying them about \$6 million and agreeing to the imposition of Sharia law in the Swat Valley in exchange for the Taliban agreeing to an indefinite ceasefire. The ceasefire unraveled by May. By this time, the Zardari government seemed in trouble and the US government was fearful that the Taliban might take control of Pakistan altogether. In the face of such dangers, the price for aid had risen but so too had the desire in the United States to motivate the Pakistanis to try harder to beat back the Taliban.

Congress passed the Kerry-Lugar bill at the end of September 2009. It nearly tripled aid to Pakistan, increasing it to \$1.5 billion. Even then the Pakistani government balked at taking the greatly increased aid because the bill included requirements that the Pakistanis be accountable for how the money was used. Facing resistance from Pakistan, Senator John Kerry clarified that the bill was not designed to interfere at all with sovereign Pakistani decisions; that is, he essentially assured the Pakistani leadership that the United States would not closely monitor use of the funds. Shortly after, the Pakistani government accepted the aid money and greatly stepped up its pursuit of militants operating within its borders. By February 2010 they had captured the number two Taliban leader, but, as we should expect, they have also been careful not to wipe out the Taliban threat. Doing so would just lead to a termination of US funds.

The US government, for its part, is frustrated that even with \$1.5 billion in aid, Pakistan is not sufficiently motivated to beat back the Taliban. As a result, the United States has stepped up drone attacks and the use of the American military to pursue the Taliban within Pakistani territory, much to the public—but we doubt private—dismay of the Zardari government. This is all just the dance of the donors and the takers, the recipients looking for as much money as possible and the donors looking for a highly salient, costly political concession: the destruction of the Taliban.

Perhaps this is distasteful to those who would like to maintain the fiction that aid is about alleviating poverty. Naturally some aid is given with purely humanitarian motives, such as that given after a natural disaster. Yet it is hard to reconcile the large scale of aid flows to Egypt and Pakistan with idealistic goals. If aid actually helped the poor, then we might expect the people in recipient nations to be grateful and hold donor nations in esteem. Nothing could be further from the truth. In return for its "benevolence" to Egypt and Pakistan, the United States is widely reviled by the people in those two countries; and with good reason.

In 2002, Pew undertook a study of values and opinion in forty-two nations. One question asked about people's view of the United States. In Pakistan 69 percent of people reported an extremely unfavorable view of the United States. In Egypt the figure was 79 percent. In the other forty nations an average of only 11 percent of the people shared this extremely negative view of the United States. But then Pakistan and Egypt received an average of \$1.6 billion in economic and military aid from the United States in 2002, while the other forty nations averaged only \$97 million in aid. The pattern is borne out in detailed statistical analyses. People in nations receiving lots of US aid seem to hate the United States. Of course, much may have changed since 2002, and it would be fascinating to see whether our assessment continues to be borne out in future surveys.

Our account of aid may seem to paint the United States as international bad guy number one. But the United States is far from the only aid donor. While the United States is the largest overall donor, as a proportion of its economic size it gives relatively little, about 0.2 percent

of GDP. Scandinavian nations give over 1 percent of their economic output in foreign aid. Provided the policy rewards that a foreign power can provide to a democrat's supporters are worth more to the supporters than the rewards that could be directly purchased with the money, democrats support aid. Other nations and agencies buy favors too, if not perhaps on the same grand scale that the United States can afford. In fact, careful analysis shows that even the seemingly generous Scandinavians give aid in exchange for policy concessions rather than for altruistic reasons. They particularly like to use aid to gain trade concessions and prosocialist ideologies in recipient regimes.¹³

Aid agreements are notorious for being tied to conditions that help the donor. This means that the agreement often specifies how, and more importantly where, the money is spent. For instance, Germany might give a recipient money, but only if they use it to buy German tractors. This might seem an inefficient way to reward tractor manufacturers. However, international trade laws often forbid direct subsidies. Further, tied aid can bring future business, such as spare parts and service. Canada is notorious for high levels of tied aid, 60–75 percent of all its aid. Scandinavia and the UK claim to have the lowest levels of tied aid, but even there, informal tying is common. For instance, Denmark had allocated \$45 million to repair ferries in Bangladesh. Rather than repair the ferries locally, Denmark proposed taking the ships to Denmark and repairing them there at four times the local cost. Amid protest from the Bangladeshi government, Denmark decided to simply cancel the whole scheme so neither the Bangladeshis nor the Danes benefited.

Just as the United States buys security and trade concessions with aid, and the Europeans trade aid for business concessions, so too does Japan. Whales need to fear Japanese benevolence. American voters like pork. In contrast, Japanese voters like blubber, and Japanese leaders have been working hard to deliver. In 1986, the International Whaling Commission (IWC) instituted a moratorium on the commercial hunting of whales. While this ban was popular with the people of most nations, the citizens of Iceland, Norway, and Japan want to resume hunting. Currently the Japanese hunt a small number of whales through a loophole that allows hunting for scientific research. These

whales, of course, end up being eaten. The Japanese government buys votes on the IWC with foreign aid. Recently, behind Japan's efforts, the IWC's membership has swelled to include nations with no history of whaling. Some of these recent members, such as Laos, Mali, and Mongolia, are landlocked. Japan's efforts have been rewarded with growing support for the resumption of whale hunting.

The Impact of Aid

Example after example highlight the simple fact that aid is given in exchange for policy concessions far more readily and in far larger quantities than to reduce poverty and suffering. Following World War II, the rich nations seem genuinely to have thought they could free the world of poverty through their generosity. But no sooner did aid begin to flow than the politics of survival intruded on the noble goal of reducing misery. It should not be surprising that politics prevailed over benevolence. The record is unambiguous: foreign assistance has proven ineffective at alleviating poverty and promoting economic growth.

In the aftermath of World War II, Europe faced many challenges. Even the victors had suffered enormous human and economic losses. The United States launched a widespread relief program known as the Marshall Plan. Adjusted for inflation, the United States pumped over \$182 billion in economic assistance into Europe between 1946 and 1952. Britain was the largest recipient, followed by West Germany, France, and Italy.¹⁴ The United States's goals were to build stalwart states aligned against communism. To achieve these ends, the United States needed an economically strong Europe. States that were willing to combat communism and follow US-dictated economic plans got aid; those not willing to do so, didn't.

Over the entire postwar period, total US economic assistance was nearly \$1.3 trillion. Military aid over the same period was about \$650 billion. To give some perspective, together these economic and military aid packages are roughly twice the size of the 2009 US stimulus package and Troubled Asset Relief Program (TARP) funds put together.

The success of the Marshall Plan proved hard to replicate. Trillions of dollars have been pumped into developing economies, yet there is precious little to show for it if we measure performance by assessing improvements in the quality of life. As we've seen, aid has done virtually nothing to relieve poverty.

Among policy makers, this record has prompted a fierce debate about the efficacy of aid. For critics, it is all too easy to point to many aid-dependent states in Africa that are poorer now than they were at independence. The development community likes to counter that such a direct comparison is unfair and argues that, while aid-dependent nations have performed poorly, they would have done even worse without aid. This defense, while wrong, is a sensible argument that needs to be taken seriously.

We cannot simply condemn the aid enterprise just because nations that received aid performed so poorly. To understand why, consider the following provocative statement: *hospitals kill!* There is plenty of evidence to support this claim. The likelihood of dying is much higher for a person in a hospital than for a person who is not. Of course, most of us instantly see the error in the evidence. The people in hospitals are sick. Healthy people are not to be found staying in hospitals. But this kind of error from looking at statistics without thinking about where they come from is all too common.

A colleague of ours, Peter Rosendorff, organized a petition and appealed to the Santa Monica City Council to put a crosswalk at a dangerous junction near his former house. The City Engineer said that quite to the contrary, the city was planning to take out all the crosswalks because their study showed that pedestrians were more likely to get killed in crosswalks than anywhere else. The children of Santa Monica should be grateful to Peter. He took the time to explain that the result was not because crosswalks were inherently more dangerous but rather, they are where people cross the road.

Assessing the true impact of hospitals or a particular treatment or drug is difficult unless we understand who is being treated. The medical community uses randomized drug trials to test the efficacy of medicines. Patients are randomly split into two groups: half get the medicine being tested and half get a placebo. The effectiveness of the

drugs is determined by comparing the performance of the two groups. If, alternatively, the medicine is given only to the sickest patients, then even if it is an effective treatment the group getting the medicine might do worse than the group that did not. Likewise, if aid agencies target aid at those nations facing the most serious problems, then aid could appear ineffective even if it was actually working.

Ideally, to assess the effectiveness of aid, the international community should undertake controlled experiments, giving aid to some randomly chosen nations and withholding it from others. But since it is unlikely aid will ever be allocated in this way, economists need to use complex (and controversial) statistical procedures to adjust the results according to which nations get treated. Rather than delve into these convoluted procedures, we offer some simple evidence based on the United Nations Security Council (UNSC).

The UNSC is composed of five permanent members (the United States, Russia, China, Britain, and France) and ten temporary members. The temporary members are elected for two-year terms on the Security Council and they are ineligible to be reelected in the two years after their term expires. Election to the UNSC is highly prestigious and, as it turns out, valuable too. Unfortunately, its value comes at a cost: bringing hardship for the people in many of the countries that get elected. On average, nations elected to the UNSC grow more slowly, become less democratic and experience more restrictions on press freedoms than eligible nations that are not elected.¹⁵ For instance, during a two-year term on the UNSC, the economy grows an average of 1.2 percent less for nations elected to the council than for nations not elected. Over a four-year period (the two years on the UNSC and the following two years of ineligibility), the difference in growth averages 3.5 percent less for elected UNSC members, that is, nearly 1 percent per year. The effects are much stronger in autocracies than democracies.

The effects of council membership on growth are fascinating and should cause us to question why the UN is held in such high regard. They also provide an important piece of evidence about the impact of aid. Nations elected to the UNSC get more aid. A UNSC seat gives leaders valuable favors to sell in the form of their vote on the Security

Council, and the aid they receive results in worse performance for their economy. Recently there has been a profusion of studies that show that nations elected to the UNSC get financial rewards from the international community. They get more US and UN aid, better terms and more programs at the IMF, World Bank, and a host of other institutions.¹⁶ Membership on the UNSC gives national leaders a say in formulating global policy. Many leaders, particularly those from autocratic nations, appear to prefer to sell this influence rather than exercise it on behalf of their people's interests.

UNSC membership comes as close to a randomized test as we are likely to get. Although who gets elected is not random, it is unrelated to the need for aid. Indeed, population size appears to be the only systematic determinant of UNSC elections. African nations, in particular, appear to have adopted a norm of rotation. Nations are elected simply because it is their turn. The key point is that prior to their election, UNSC members behave no differently from other nations. But once elected they actually underperform. To return to the medical analogy, nations elected to the UNSC are not sicker than nations not elected. They get an extra shot of medicine (aid) and it makes them sicker (poorer, less democratic, and less free press).

UNSC membership gives leaders the opportunity to sell salient policy support. As we have seen over and over again, autocrats need to pay off their coalition. Aid provides the money to do so and that helps leaders survive. Further, aid encourages autocrats to reduce freedoms for two reasons. First, aid revenue means leaders are less dependent upon the willingness of people to work, so the leader does not need to take as many of the risks that arise from freedom, risks they must take when their revenue and worker productivity depends upon allowing people to communicate with each other. Second, the policy concessions are generally unpopular, so leaders need to suppress dissent. UNSC membership brings prominence and prestige to a nation. For an autocratic leader it also means more easy money. For the people of autocratic nations the UNSC means fewer freedoms, less democracy, less wealth, and more misery.

The historical record shows that aid has largely failed to lift nations out of poverty. It is perhaps ironic that while aid affords the resources

to alleviate poverty and promote economic growth, it creates the political incentives to do just the opposite. As Edward Walker, US ambassador to Egypt (1994–1998) succinctly put it, "Aid offers an easy way out for Egypt to avoid reform."¹⁷

An Assessment of Foreign Aid

So what are we to think of foreign aid? Is it good for policy, or just good politics?

It has certainly had its successes. Foreign aid, in the form of the Marshall Plan, lifted the predominantly democratic nations of Western Europe out of economic disaster. But the deck was stacked in the plan's favor. The United States wanted to promote an economically powerful bloc as a means of combating Soviet expansion. The plan therefore promoted economic growth. Democrats need policy success and so were happy to comply with US policy goals in exchange for substantial aid. Yet as we now know, subsequent aid donations have failed to replicate the success of the Marshall Plan.

What aid does well is help dictators cling to power and withhold freedoms. And yet, the quest to make aid work for the poor is phoenix-like in its ability to rise and rise again. Or, come to think of it, maybe, like Sisyphus, we just keep climbing the same hill only to fall down again.

Every decade or so, donor nations launch new initiatives to "get aid working." The most recent manifestation of this is the Millennium Development Goals. Set up by the United Nations Development Program and adopted by world leaders in 2000, this program sets poverty, health, gender equality, education, and environmental targets to be reached by 2015. For instance, the poverty eradication goals call for reducing by half the number of people living on less than a dollar per day. Commendable as such declarations are, saying you want to make poor people richer or at least less poor and actually doing so are completely different things.

Millennium Development Goals are not the first such declaration to end poverty. They were preceded by efforts to attain "self-sustained

growth" first, in the 1940s and 1950s through infrastructure development; then with the US P-4 program to make scientific and technological breakthroughs readily available to poor countries; followed in turn by John Kennedy's declaration that the 1960s would be the "Decade for Development." The goals, set back in the late 1940s, remain the same and scant evidence suggests that the world is closer to achieving those goals than it was in the 1950s or 1960s. William Easterly has discussed the hope and optimism that accompany these roughly once-a-decade initiatives. He laments that while each new plan says it will be different, they repeat the same errors of the past. He argues the bureaucracy involved in giving aid ensures funds are given in ways that impede rather than promote economic activity. Poverty persists.¹⁸

Still, we don't need to be completely pessimistic about aid. Our knowledge of how it works has greatly improved. For instance, we know that aid works much better in the presence of good governance (just as we know that more often than not it goes to places with bad governance).¹⁹ Proponents of development assistance point to the success of NGOs undertaking directed programs within nations. Some of these programs have produced wonderful successes. For instance, in 1986 the Carter Center started a plan to combat Guinea worm disease, a parasite transmitted via dirty drinking water that affected about 3.5 million people in seventeen nations across Asia and Africa. By 2009, worldwide infections had been reduced to about 3,000, mostly in southern Sudan.

Nongovernmental organizations (NGOs) have proven that they can effectively deliver basic health care and primary education. Yet harkening back to our discussion of public goods provided by small-coalition regimes, we can't help but notice that these benefits are precisely the kinds of public policy programs that even the most autocratic leaders want to initiate. NGOs are less successful at providing advanced education. Autocratic leaders in recipient states don't want people to be taught how to think independently enough that they could organize opposition to the government.

The successes of NGOs in promoting basic education, basic health care and sanitation, and other basic necessities—digging wells, elec-

trifying villages, making very small business loans (at what we would describe in the United States as usurious interest rates)—all point to a fundamental failing of aid programs and to the harm being done unwittingly by many NGOs and their supporters. It is a simple fact that aid money is fungible. This means recipient governments have nearly complete discretion about moving funds from one project to another. With direct government-to-government transfers it is easy to see why this is so. Autocrats want to provide private rewards for their supporters. NGOs don't typically want to help the rich get richer and so they provide funding for specific projects or do the work themselves. However, in practice, recipients are very skilled at converting aid into the kinds of rewards they want rather than the kind of rewards donors want them to provide.

The most sensible criterion for assessing aid's effectiveness asks not how much money is spent or even how many wells are dug, schools built, or villages electrified, but rather how many people are helped. NGOs count how much money they spend to evaluate their efficacy, but this is a flawed criterion. It encourages charities to help the easiest to reach and the more visible cases while ignoring the difficult and harder to reach people who might well be those in greatest need. Counting the number of people helped also encourages agencies to undertake work that the government would have otherwise done on its own. Remember that NGOs are most successful at providing basic public goods like primary education and basic health care—services even autocrats want. When aid funds are used to substitute for government spending, then few, maybe even no one, has actually been helped unless the government uses the freed-up money for other projects of benefit to the general population. Of course, they don't. They use the money to shore up their political position and the loyalty of their essential backers.

Cambodia is a case in point. Half of the Cambodian government's budget is made up of foreign aid. Rather than supplementing government programs, these donor funds are largely directed toward the bank accounts of government officials. Indeed, Cambodia ranks among the world's most corrupt nations. As USAID reports, "Donor funds have flowed into education and health, and some of these are passed on to

ordinary citizens. But, there can be little doubt a significant portion of funds earmarked for schools, teachers and textbooks, and for clinics, health workers, and medications are diverted."²⁰

That is, the funds intended for the people are diverted to rewards for Cambodia's rich. Often when NGOs provide aid, the amount of assistance is substantially less than the numbers reflect. Suppose an NGO provides basic education to 100 children in a village at a cost of \$100 per child per year, for a total expenditure of \$10,000. It sounds like 100 people are helped by the NGO, pleasing their donors and bringing in more money. The reality of how many are helped, however, is less clear. The government might well have paid to educate half of those children (or even all of them) itself, even if there were no expectation of aid. Nominally the agency helps 100 children. But in reality they help fifty children at twice the nominal cost and let the leaders abscond with \$5,000. Is this good? Well, yes, for the fifty extra children. Is it bad? Well, yes, for all of the people since the NGO is facilitating the government's opportunity to steal more money and the NGO is helping to further entrench a bad government in power to plague the people for many more years to come.

Even some of the simplest acts of charity have bad consequences that enhance government control and irresponsibility. To take a personal example, Alastair took his children on a tour of Kenya in 2009. One of the stops was at a primary school where they were encouraged to help paint classrooms. It seems like a nice idea to help out and many people enthusiastically grabbed paintbrushes, eager to brighten the classroom. Alastair objected on principle and went outside and taught some of the kids how to use a digital camera. Was he being a Grinch or was he encouraging better economic policy? From the economic perspective, having highly skilled tourists and their families paint classrooms is at best ineffective and at worst downright harmful.

Comparative advantage lies at the heart of economics. Everyone should specialize in what they are relatively good at and then trade their goods and services. This way everyone ends up with more than if everyone tried to do a little of everything by themselves. Consider the comparative advantage of Kenya relative to Britain, where most of the people on Alastair's trip were from. Education levels are low

in Kenya and there are lots of unemployed manual laborers. Kenya's comparative advantage is therefore in industries requiring lots of relatively unskilled labor. Indeed this is where it flourishes: Kenya is a huge exporter of flowers. It has a great climate for growing and lots of people to tend to the labor-intensive processes of growing, picking, and packaging flowers. The flowers are then flown to Western Europe for sale. In exchange, Europe exports goods that require human and physical capital to produce—pharmaceuticals, machinery, and computer software. Europe has a relative abundance of human and physical capital. It trades its capital-intensive products for Kenya's labor-intensive agricultural products and both nations are better off.

So what has this to do with painting school classrooms? Well, painting classrooms, while fun, deprived a local worker of a much-needed job. If educated westerners displace locals from manual labor jobs, then where can those workers possibly compete given the current distribution of skills and capital? How can they earn enough money to make a living, and perhaps send their children to school to acquire greater skills that will make them more competitive when they grow up? Rather than helping out, the wealthy tourists who took up paintbrushes made some worker worse off. Repeat that exercise thousands of times and in thousands of different ways and you can see how feel-good charitable acts can benefit the donor vastly more than it actually benefits the needy.

On a much larger scale, the means of aiding needy countries can be dramatically improved by taking stock of comparative advantage. For instance, agriculture is highly protected from competition in Europe and North America through price supports and subsidies. Agriculture was deliberately excluded from the postwar trade settlement established by the General Agreement on Tariffs and Trade (GATT) and its controversial successor, the World Trade Organization (WTO). This is because rural areas are disproportionately represented in some countries and so farmers tend to be the essential backers of leaders in many European countries. Allowing farmers from developing nations to compete on the basis of comparative advantage would go much further toward promoting economic growth than providing poorly targeted

and highly bureaucratized aid. Painting schools provides just one tiny example of how assistance, even when well meaning, undermines development. Bill Easterly's work shows that rather than this being the exception, it is the norm.

Aid Shakedowns

We started this chapter with an account of Haile Selassie's shakedown of donors. By now it should be clear that this practice is all too common, and reflects the logic of privately given aid. When private donors provide aid, governments must either strike deals with them so that the government gets its cut—that, after all, is the value of aid to a small-coalition regime—or, in the absence of such deals, they must shakedown well-intentioned private donors. Either way, the government must get its piece of the action or it will make it impossible for donors to deliver assistance. That, for instance, is what the Myanmar government did following the Nargis cyclone in 2008. They insisted on having United Nations aid delivered to the government or barred from the country. Why? Because, as we noted earlier, the military dictatorship wanted to use the aid to enrich itself by selling food on the black market rather than distributing it to those most in need. You might think this was the odd behavior of a horrible regime, atypical of the response of government leaders following natural disasters. Not so! Consider the case of Oxfam relief for Sri Lanka in the wake of the 2004 Indian Ocean tsunami.

Following a massive earthquake on December 26, 2004, a tsunami sent huge waves of water rushing inland, killing over 230,000 people across fourteen nations. Subsequent assistance totaled over \$14 billion. Yet even while the goal of aid agencies might have been to relieve suffering, many recipient governments took it as an opportunity to enrich themselves.

To distribute aid, Oxfam shipped twenty-five four-wheel-drive trucks to the region. The Sri Lankan government impounded the trucks and insisted that Oxfam pay a 300 percent import duty. For over a month (the first critical month after the tsunami) the trucks sat

idle and people went without food and shelter. Eventually Oxfam paid over \$1 million to have its trucks released.

Before giving to a charity many people like to assess how much of their donation goes to help people versus how much is spent on overhead. Oxfam America, for instance, gets three out of four stars from Charity Navigator, an organization that rates charities. Oxfam spends 6 percent of its revenue on administrative expenses and 14 percent on fundraising. The remaining 80 percent is spent on programs, that is, helping people. Unfortunately, 80 cents on the dollar is not the effective amount of help provided. Remember those trucks and the 300 percent import duty—if such cases are the norm (and they usually are) the actual aid benefit may only equate to 20 cents on the dollar. If even as careful a charity as Oxfam is being shaken down, then it makes us wonder what is happening to the rest.

It is virtually impossible to quantify how much aid gets diverted towards the recipient government's objectives rather than the donor's intended goals. However, we suspect this figure is huge. The fundamental problem is that recipient governments are not appropriately incentivized to fix problems. Consider the recent case of flooding in Pakistan in 2010. No one can blame the government for the rains, but they are very much accountable for the subsequent devastation. Over 20 million people were affected, 4 million made homeless, and nearly 2,000 died.

Following severe floods in the 1970s, Pakistan set up a Federal Flood Commission. On paper this agency has completed about \$900 million worth of dike construction. Of course the reality is very different. Irrigation and flood control are a source of graft, not public policy. And when the dikes are built, they serve the interests of the wealthy; that is, coalition members, not the people. As the floods swept downstream and threatened huge segments of the population, President Zardari, who is nicknamed "Mister 10 percent" for his alleged penchant to take that portion as his cut, acted as a good autocrat should. He ignored the problem, headed off to Europe for a high-profile tour and left his government to sacrifice the many to save the few. The government reinforced dikes to protect essential supporters while allowing flooding to continue in poor areas. Areas with ethnic

minorities and large numbers of opposition supporters were particularly likely to flood.²¹

Richard Holbrooke, the late US Special Representative for Pakistan, described the flood as "an equal opportunity disaster," but this is far from the truth. Beholden to a few, Pakistani leaders sacrificed the many. They reinforced barrages and dikes to protect the homes and farms of their supporters and ignored the plight of towns and villages. A local official acknowledges,

local government figures in the Sindh province conspired with prominent landowners to bolster the riverbank running through their property and others deemed important, at the expense of other regions, which were left vulnerable to flood waters. . . . It was not just incompetence on the part of the authorities to protect the poorest of the poor from potential floods; it was their deliberate intention that they should suffer if floods were to take place.²²

Obviously, from a good governance stance, this behavior makes no sense. But in terms of ruling for one's own survival, it is an ingenious move. Supporters were reminded of the consequences of being outside the coalition of essential backers. That is good for loyalty. And aid agencies rushed to give money. The UN Secretary General, Ban Ki-Moon described the flooding as the worst he had ever seen and called for massive foreign assistance. Many Pakistanis preferred to directly assist those affected, noting "we don't donate to the government because we know it's mainly a way for government officials to make money."²³ The international community was less careful. They gave Pakistan \$1.7 billion in the first three months. That equates to about \$83 per affected person. Presumably much of the money was siphoned off. It certainly was not used for efficient disaster management.

Pakistan was not the only nation affected by severe floods in 2010. Benin also faced historic floods that covered two thirds of the country. Although the absolute numbers were smaller because Benin is a much smaller country, in proportion to its size the scale of the disaster was very similar to that in Pakistan. Benin received much

less assistance, only about one twentieth of the aid per affected person. Yet despite this, its response has been widely praised. But then of course Benin is much more democratic than Pakistan. With a disastrous earthquake and tsunami having struck Japan in 2011 we are confident much the same pattern as in Benin will be repeated. Japan, a democratic country, will receive massive assistance as it should. It will use the money much more wisely than the nations affected by the 2004 tsunami.

It is easy to understand why Zardari did so little to minimize the impact of the flood on the masses, and, as some have suggested, he may have deliberately made things worse. He had strong financial incentives. As the magnitude of the disaster increased so did the amount of aid. His survival depends upon paying off the few rather than protecting the many. Aid incentivizes autocratic leaders to fail to fix problems. Had Pakistan implemented an effective flood-management program instead of just saying they had, then the people would have been much better off, but Zardari would have had no pretext to further fleece donors.

Similar incentives plague Pakistani assistance with the war on terror. Following the terrorist attacks of 2001, the United States repeatedly sought their assistance in fighting the Taliban and Al Qaeda and in capturing international terrorists—foremost of which has been Osama bin Laden, the leader of Al Qaeda who was believed to be hiding in the tribal regions of Northwestern Pakistan. Through 2008 the United States has paid Pakistan \$6.5 billion in economic and military aid for its assistance. If Pakistan had captured bin Laden and prevented the Taliban from operating in northern Pakistan, then the United States would have been very grateful. But it would also no longer have needed to pay Pakistan. As with effective disaster management that limits the number of disaster victims, capturing bin Laden would have ended aid to Pakistan's leaders, as his death may do now.

To understand how aid works, it is essential to take into account the incentives from the perspective of the leaders who enact policy. Unless aid is restructured to change these incentives, Pakistan has little reason to end insurgency and terrorism. Instead both will be allowed to rumble on and encouraged to expand if the West tries to cut

aid. Fortunately, in addition to identifying problematic incentives, our perspective offers the tools to restructure aid to create the incentives to fix problems.

Fixing Aid Policy

The *modus operandi* of the international community is to give recipient nations money to fix problems. A common argument is that the locals know much better how to address their problems than do far-away donors. That's probably true, but knowing how to fix local problems and having the will or interest to do so is quite another matter. This policy of giving money to recipients in anticipation of their fixing problems should stop. Instead the United States should escrow money, paying it out only when objectives are achieved.

Consider the problem of capturing Al Qaeda's former number two, Ayman al-Zawahiri. Suppose the United States thinks \$4 billion is a reasonable reward for his capture. Remember: to date the US government has paid \$6.5 billion without success. This money could be escrowed, say at a Swiss bank. Upon Zawahiri's capture, Pakistan could receive a payment of \$2 billion, with, say, an additional \$1 billion in each of the two subsequent years. The deal could perhaps be done more cheaply if we dispensed with the fiction that the money is for the Pakistani people and paid it directly to Pakistani leaders.

If aid took the form of a reward-in-escrow scheme, then Zardari would need to hand over Zawahiri to receive money. However, unlike the existing incentives, he could deliver without fearing that the money will dry up once his assistance is no longer needed. Zardari might prove unwilling or unable to capture Zawahiri for \$4 billion. However, if this is the case then the United States has lost nothing. He would certainly not be more likely to hand him over if all he has to do is pretend to look for Zawahiri to keep the money flowing. That, of course, is the way the current system works.

Undoubtedly there are many operational and procedural problems with implementing an aid-in-escrow scheme. And these problems would be even more difficult in terms of designing escrowed aid relief

for disaster management. Yet, it is better to tackle these tricky technical issues within a framework that incentivizes leaders to solve the donor's problem than to carry on with failed policies.

Nation Building

What, then, are the fundamental incentives for one institution to interfere with the institutions of another? Democracies often claim that they want to democratize other nations. They frequently justify both aid and military intervention on this basis, but the evidence that they actually promote democracy is scant. Those who defend such policies tend to cite Germany and Japan after World War II, but that was sixty or so years ago, and on close examination it took many years before these nations developed (or were permitted to develop) independent foreign policies. The reality is that in most cases democracies don't want to create democracies.

In 1939, US president Franklin Delano Roosevelt famously remarked about Anastasio Somoza García, a brutal Nicaraguan dictator, that, "He's a son of a bitch, but at least he's our son of a bitch." And herein lies the rub. Dictators are cheap to buy. They deliver policies that democratic leaders and their constituents want, and being beholden to relatively few essential backers, autocrats can be bought cheaply. They can be induced to trade policies the democrat wants for money the autocrat needs. Buying democrats is much more expensive. Almost every US president has argued that he wants to foster democracy in the world. However, the same US presidents have had no problem undermining democratic, or democratizing, regimes when the people of those nations elect leaders to implement policies US voters don't like.

Undermining democracy was the story behind US opposition to the Congo's first democratically elected prime minister, Patrice Lumumba. He was elected in June 1960 and he was murdered on January 17, 1961, just half a year later. Lumumba ran into difficulty with Western democracies because of the policies he adopted; not because he usurped power. He spoke out vehemently against the years of Belgian

rule over the Congo. In a speech during Congo's independence celebration less than a week after his election as prime minister, Lumumba announced, "Nous ne sommes plus vos singes [We are no longer your monkeys]." ²⁴ In an effort to remove Belgian troops and diplomats from the Congo and to defeat the secessionist movement in Katanga Province led by Moïse Tshombe, Lumumba sought Soviet military assistance. That was a big political error. The massive bulk of evidence today points to US and Belgian complicity in Lumumba's murder. Later the United States would become closely associated with the Congo's (that is, Zaire's) Mobutu Sese Seko who, unlike Lumumba, was neither democratic nor pro-Soviet. For a price (totalling billions by the time he fell out of power thirty-two years after his ascent) Mobutu was willing to back US policy. Democratically elected Lumumba was not and that meant he had to go.

Lumumba was not exceptional in his downfall at the hands of democratic leaders. Hawaii's Queen Liliuokalani was overthrown in 1893. Her sin? She wanted Hawaii and Hawaiians (no doubt including herself) to profit from the exploitation of farming and export opportunities pursued by large American and European firms operating in Hawaii. As these business interests organized to depose her, the United States sent marines ostensibly to maintain peace from a neutral stance, but in fact making it impossible for the Hawaiian monarch to defend herself. And then we ought not to forget the overthrow of democratically elected Juan Bosch in the Dominican Republic at the hands of the American military in 1965. His offense: he liked Fidel Castro. Or Salvador Allende in Chile, Mohammed Mosaddeq in Iran, or US opposition to the democratically elected Hamas government in the Palestinian Authority, and the list goes on. As we write these words, we see this policy of reluctance to promote democracy at work for the US in the Gulf. The United States has a long history of supporting useful autocrats. Indeed, US policy in that part of the world stands as a perfect example of the perils of democratization. The incipient democracies in the Gulf are unlikely to be positively inclined toward US interests, in part because of deep policy differences and in part because we've been funding for decades the oppression under which they were governed.

In case after case, the story is the same. Democrats prefer compliant foreign regimes to democratic ones. Democratic interventionists, while proclaiming to be using military force to pursue democratization, have a profound tendency to reduce the degree of democracy in their targets, while increasing policy compliance by easily purchased autocrats. ²⁵



Before this chapter you might have been under the impression that democrats were angels compared to their autocratic counterparts. This chapter has tarnished that image and there will be more tarnishing to come. But rather than deplore European and Japanese prime ministers and US presidents on principle, we need to pause for a moment and consider what they are doing and why.

Democrats deliver what the people want. Because they have to stand for election and reelection, democrats are impatient. They have a short time horizon. For them, the long run is the next election, not their country's performance over the next twenty years. However, as long as *we the people* want cheap gasoline and an abundance of markets in which to dump agricultural products, and we want that more than we want to see genuine development in poor countries, then our leaders are going to carry out our wishes. If they don't, why they'll be replaced with someone who will. That's what democracy is all about—government of, by, and for the people *at home*.

As a classroom experience, Bruce likes to ask his students how many of them want to help remove poverty in Nigeria or Mali. This idea produces universal support. And virtually everyone wants the government to provide aid to make it happen. Yet when push comes to shove, enthusiasm fades. For instance, he asks how many students are willing to give up their mobile phone service and have the funds sent to help Nigeria. Hardly a hand goes up. And when he asks about reducing their low-interest government loans that help pay tuition if the money goes to the world's poor, even fewer hands go up even though he reminds them that they are the world's incredibly rich "poor" and that they profess to want to help the world's truly poor. Not at their own expense!

Aid is a tool for buying influence and policy. Unless we the people really value development and are willing to make meaningful sacrifices towards those ends then aid will continue to fail in its stated goals. Democrats are not thuggish brutes. They just want to keep their jobs, and to do so they need to deliver the policies their people want. Despite the idealistic expressions of some, all too many of us prefer cheap oil to real change in West Africa or the Middle East. So we really should not complain too much when our leaders try to deliver what we want. That, after all, is what democracy is about.