

Econ 340

Lecture 21

International Policies for Economic Development: Aid

News: Nov 25 – Dec 1

- World trade slows down -- WSJ: [11/25](#) | [Canvas](#)
 - Global trade shrank in September, continuing weak performance during the last year.
 - Trade had risen the previous two months, even though both were below the previous year, creating hope that weakness was reversing, but that seems not to be the case.
 - Trade between the US and China fell the most, but trade has weakened across much of the world, as global supply chains have been disrupted and business investment has been lower.
- China-US trade talks continue despite US support for Hong Kong -- WSJ: [11/28](#) | [Canvas](#) | NYT: [11/18](#) | [Canvas](#)
 - President Trump signed the Hong Kong Human Rights and Democracy Act passed by Congress supporting the protesters in Hong Kong, in spite of concern that this might disrupt the trade talks between the U.S. and China.
 - So far, however, although China denounced the new law as illegal interference in its own affairs, it has done nothing else to retaliate and the trade talks are continuing. Both China and the U.S. have said that the talks are nearly complete.
 - China sees it as in its interest to achieve a trade deal with the U.S., and therefore to keep concerns about Hong Kong separate from concerns about trade.
- US becomes net exporter of oil -- FT: [11/29](#) | [Canvas](#)
 - The US exported 89,000 more barrels of oil per day (b/d) in September than it imported, the first full month of positive net exports since the 1940s. A decade ago, imports exceeded exports by 12 million b/d.
 - Contributing to this were several things: increasing production from shale; end of a ban on crude exports in 2015; and fuel economy improvements in cars, limiting demand.
 - The net-exports number is dwarfed by gross flows in both directions: imports of 8.668m b/d and exports of 8.757m b/d. The US exports the light oil produced from shale and imports heavier oil from abroad, as its refineries are designed to process it.

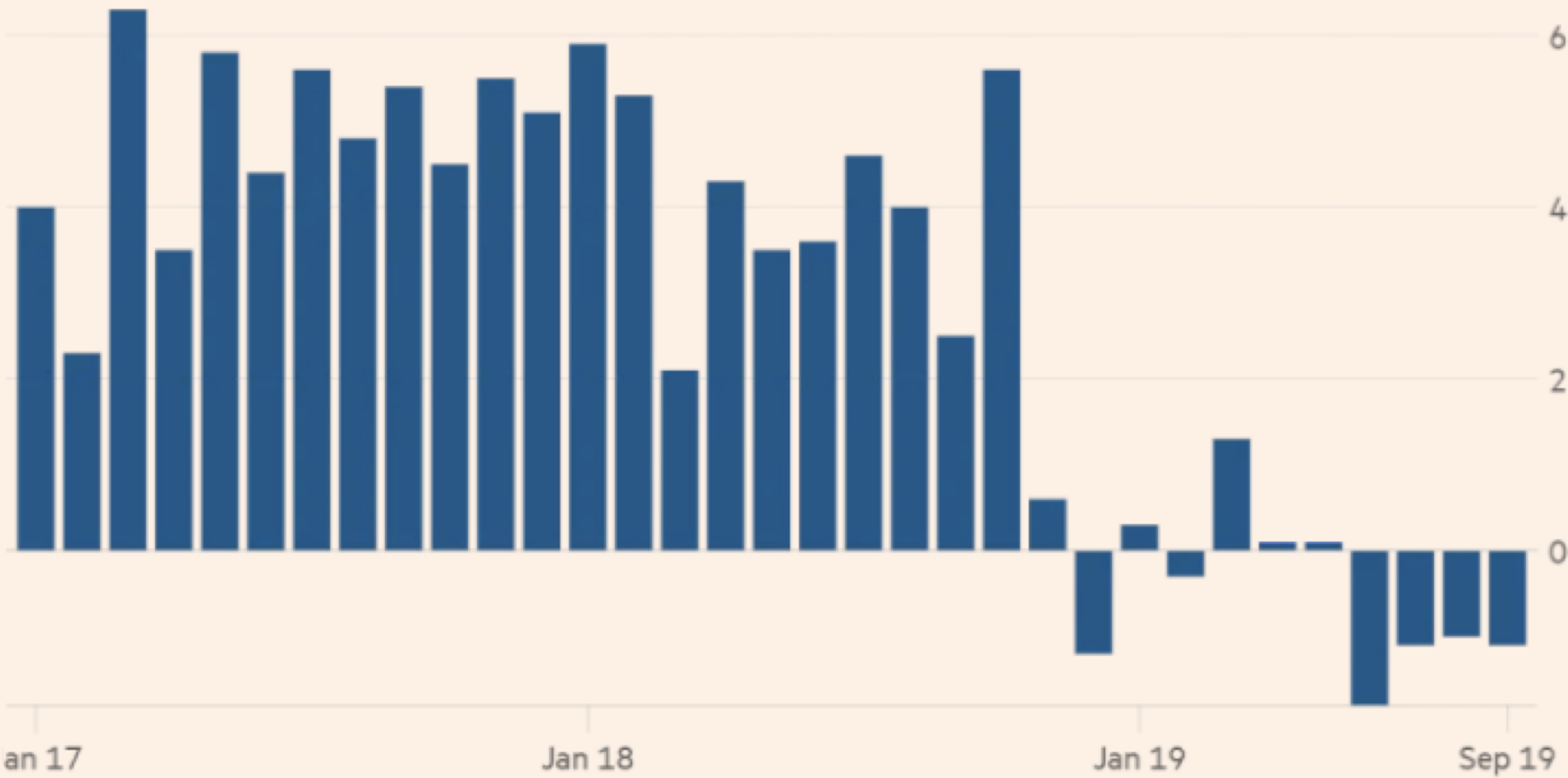
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Global trade has contracted

Annual % change

(These are year-on-year changes.)



Source: CPB Netherlands Bureau for Economic Policy Analysis

© FT

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US becomes a net oil exporter

Trade balance in crude oil and petroleum products, million b/d



Source: EIA

© FT

Announcements

- Slides are now posted for the remaining lectures
- Final class will be “Review”
- Slides include lists of terms and acronyms from each lecture that you may want to use in studying
 - See example from Lecture 1 on next slide

Lecture 1:

Overview of the World Economy

- Terms
 - Globalization
 - Openness
 - Gross domestic product
 - Regional trade agreement
 - Capital flow
 - Shallow integration
 - Supply chain
 - Emerging market
 - Beggar thy neighbor
 - Bretton Woods
- Acronyms
 - CIA
 - IMF
 - WTO
 - GATT
 - IBRD
 - FDI
 - RTA
 - NAFTA
 - SDR

Lecture 21

Outline: International Policies for Economic Development: Aid

- Why Should We Care?
- Who Gives Aid?
- Does Aid Work?
- Pros and Cons of Aid
- Policy Recommendations
- Where We Stand in Development

Why Should We Care about Poverty in Other Countries?

- Best reason: Morality, ethics
 - Need has been stressed by many
 - Example: Bob Geldof - rock star (is he still?)
 - Video series Geldof in Africa (2005)
 - Documented that “War, Famine, Plague and Death are the four horsemen of the Apocalypse and these days they're riding hard through the back roads of Africa.”
 - Organized “Live” concerts to promote aid to poor countries
 - “Live Aid” in 1985
 - “Live 8” in 2005 (ahead of G8 meeting)

Why Should We Care about Poverty in Other Countries



- Self interest (see Rice)

(Note: Rice is former US Ambassador to UN and was US National Security Advisor under Obama)

- Poverty abroad threatens US security

- Fosters conflict
- Terrorists take sanctuary in poorest countries
- Extremist groups win over populations by providing services

- Poverty breeds diseases, which may cross borders

- SARS, bird flu, swine flu, ebola

Why Should We Care about Poverty in Other Countries?

- Regarding conflict and poverty:

Rice cites study showing that probability of armed conflict within 5 years is

- 15% at per capita incomes below \$250
- 1% at per capita incomes above \$5,000

- Thus poverty alleviation is important for the world, because conflicts often extend outside of countries in which they begin

Lecture 21

Outline: International Policies for Economic Development: Aid

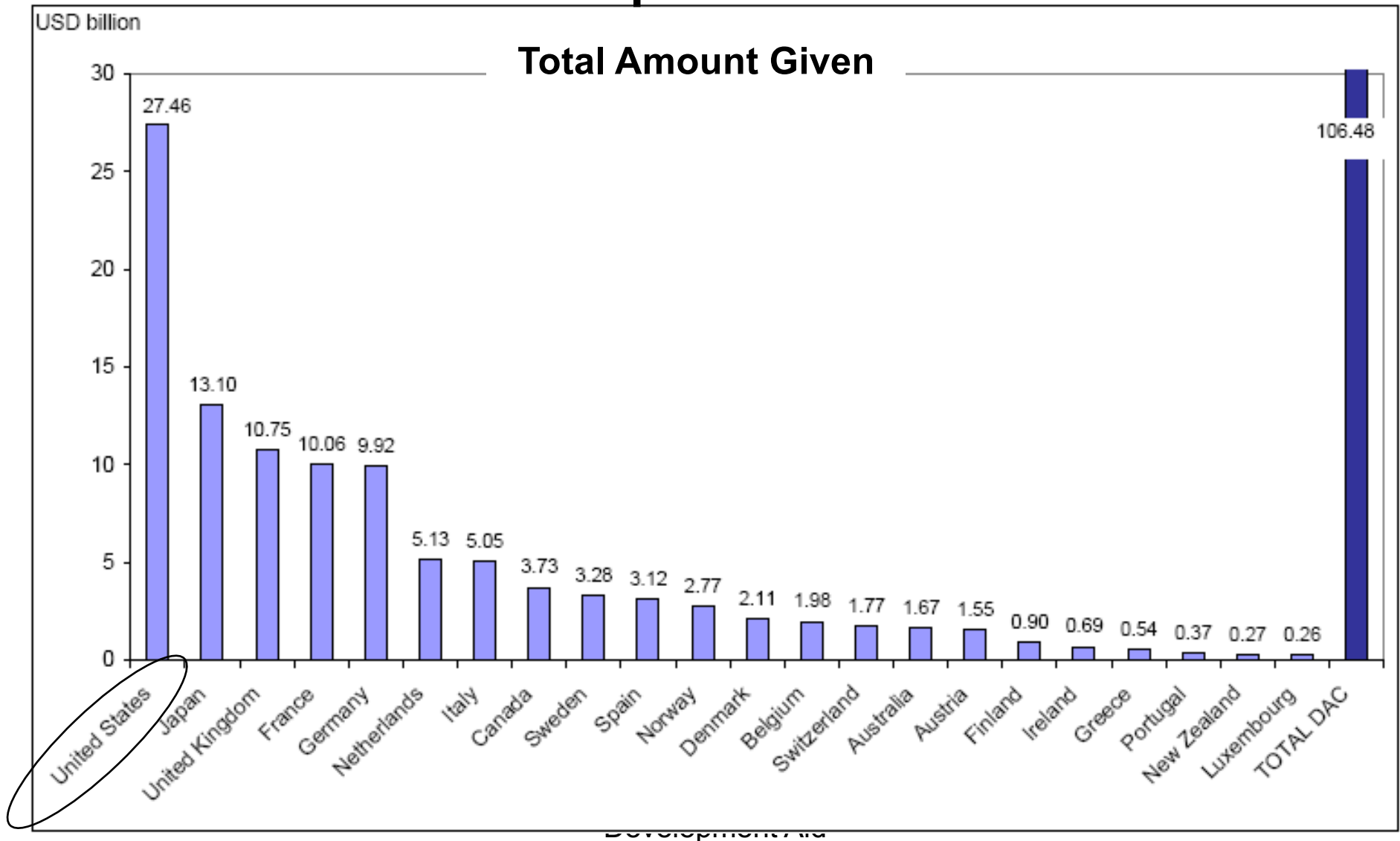
- Why Should We Care?
- Who Gives Aid?
- Does Aid Work?
- Pros and Cons of Aid
- Policy Recommendations
- Where We Stand in Development

Who Gives Aid?

- See Economics Focus article, “Gauging Generosity”
 - Regarding aid, specifically ODA (Official Development Assistance)
 - US gives more total aid than any other country
 - But in proportion to its size, US gives less per GDP aid than any other rich country
 - The top givers are the Scandinavian countries: Denmark, Norway, & Sweden
 - Also Luxembourg and Netherlands

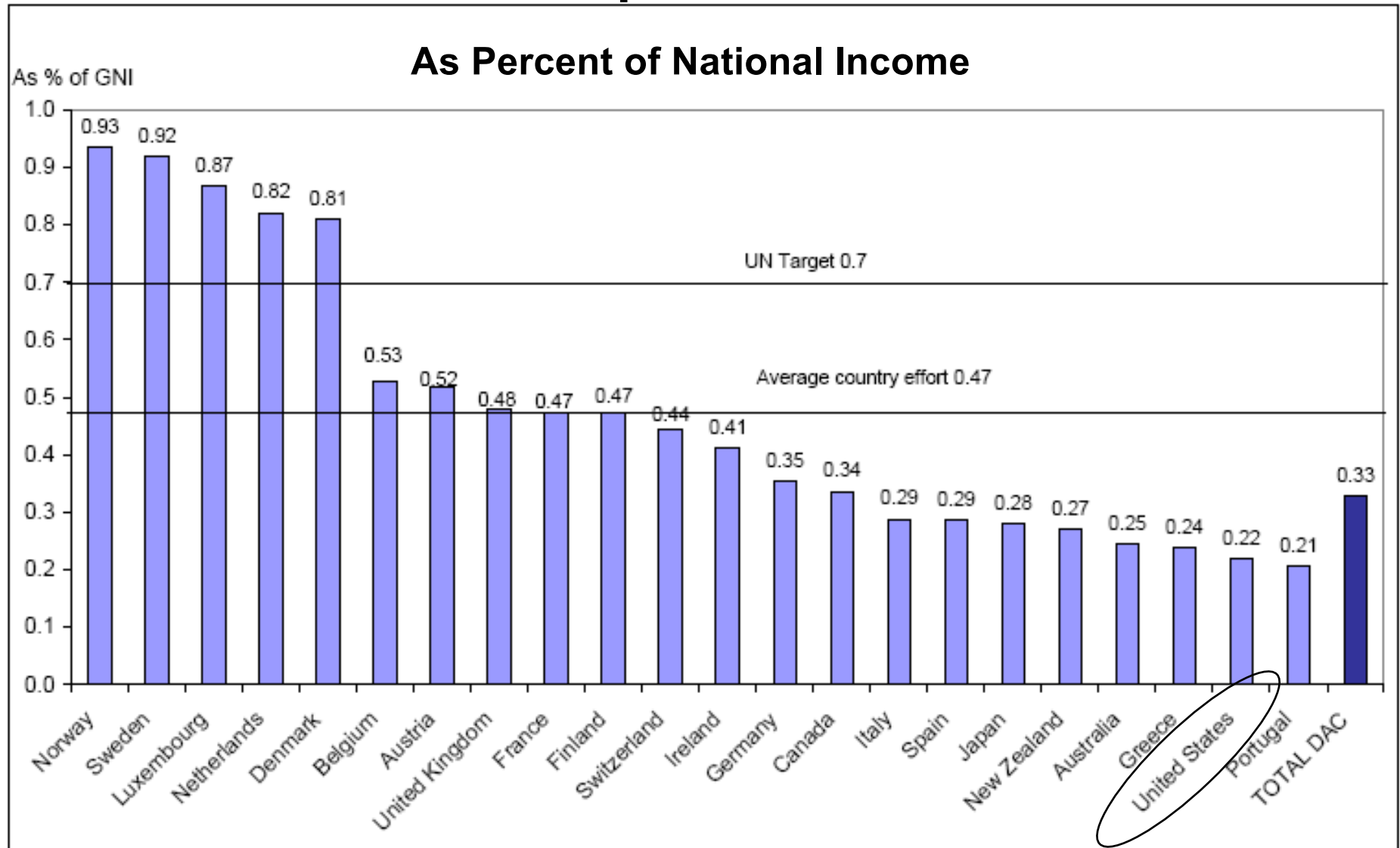
Who Gives Aid?

Net Official Development Assistance in 2005



Who Gives Aid?

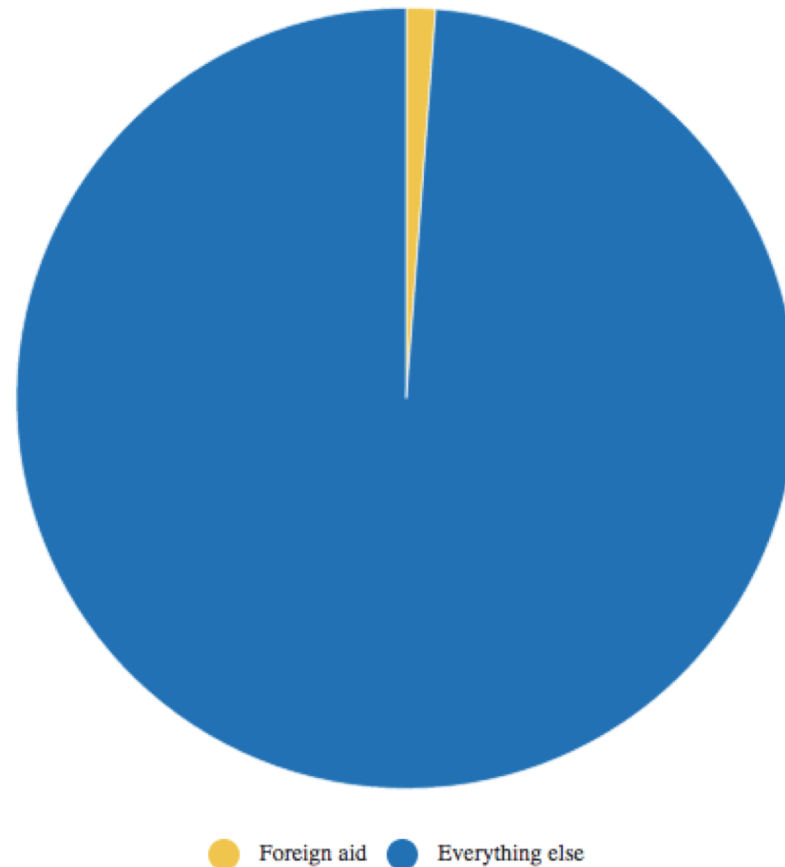
Net Official Development Assistance in 2005



US Foreign Aid in US Budget

Foreign aid as slice of total spending

Source:
Politifact



The U.S. State Department budget request for 2017 is about \$50 billion, including \$8.5 billion for health programs and \$5.8 billion in military assistance. The total U.S. budget is about \$4.15 trillion. Source: Office of Management and Budget

Development Aid

Who Gives Aid?

- But see also Schaefer on “American Generosity...”
 - These figures ignore private aid
 - But his figures say our private aid in 2000 was \$33.6 billion.
 - That would only about triple what we give, raising our contribution to 0.45%, still well below that of Norway.
 - Schaefer also says these numbers confuse “inputs” with “outputs.”
 - He notes that many countries have done poorly even with aid.
 - So, apparently, giving only little is not a shame if giving won’t do much good.
 - But see below for how aid may be targeted more effectively

Who Gives Aid?

- Several years ago, aid became a popular cause, pushed by Rock Star Bob Geldof
 - “Live 8” concerts, held all over the world, preceded the G8 summit conference in July 2005. Goal was to “Make Poverty History” by
 - Getting the G8 to commit 0.7% of GDP to aid by 2015
 - Eliminating agricultural subsidies
 - Eradicating disease

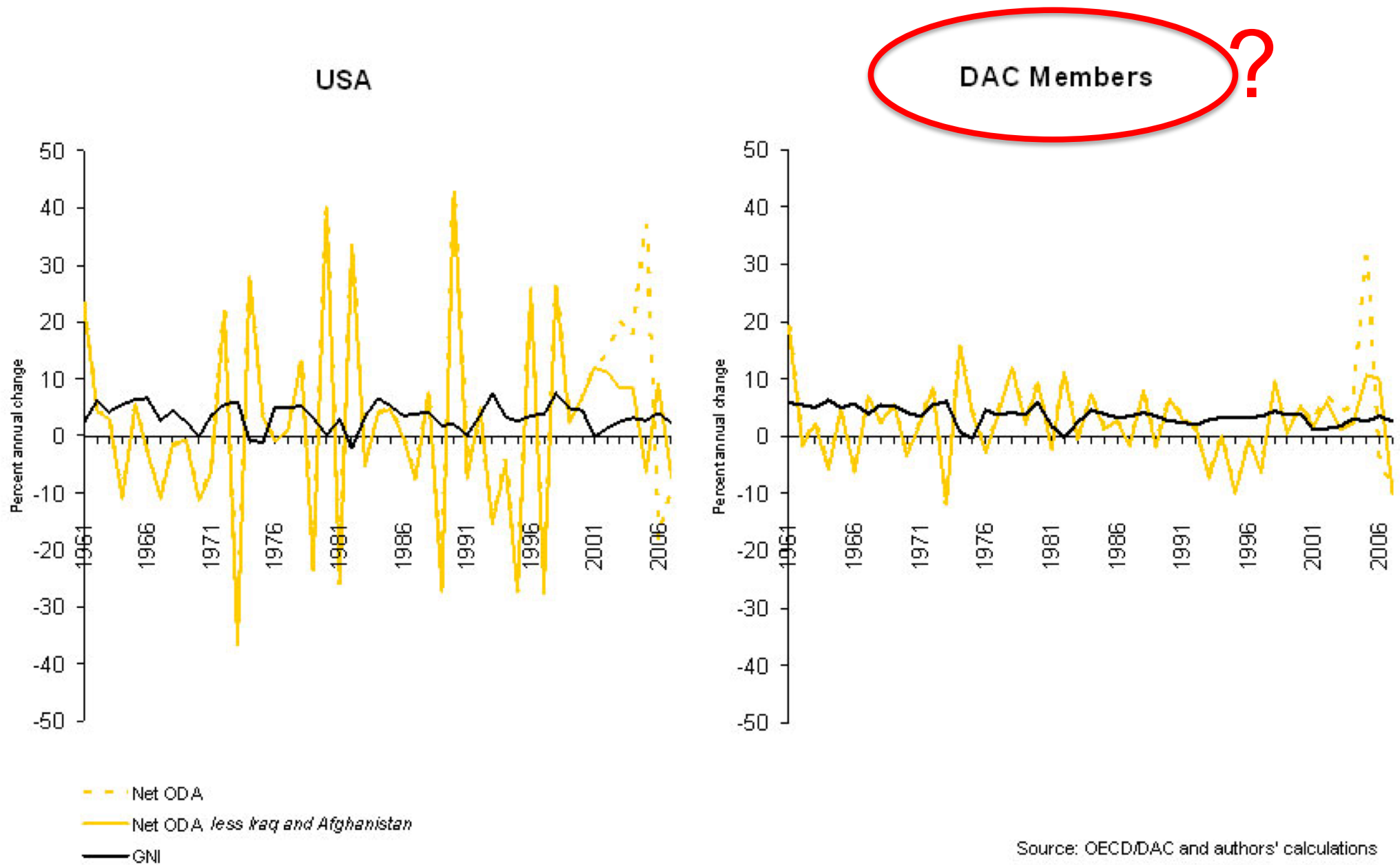


- Bob Geldof and stars at the Live 8 concert in Hyde Park, which he says helped change opinions.

Who Gives Aid?

- For most donors, aid does not fluctuate with income
 - Fluctuations in aid are larger than fluctuations in GDP, but due to other factors (political)
 - In other words, the timing of aid is not driven by need.

The Volatility of Aid and GNI



Who Gives Aid?

- DAC?

= Development Assistance Committee

– Group of the richer countries in the OECD

- 29 countries plus EU

– Members confer on providing aid to developing countries.

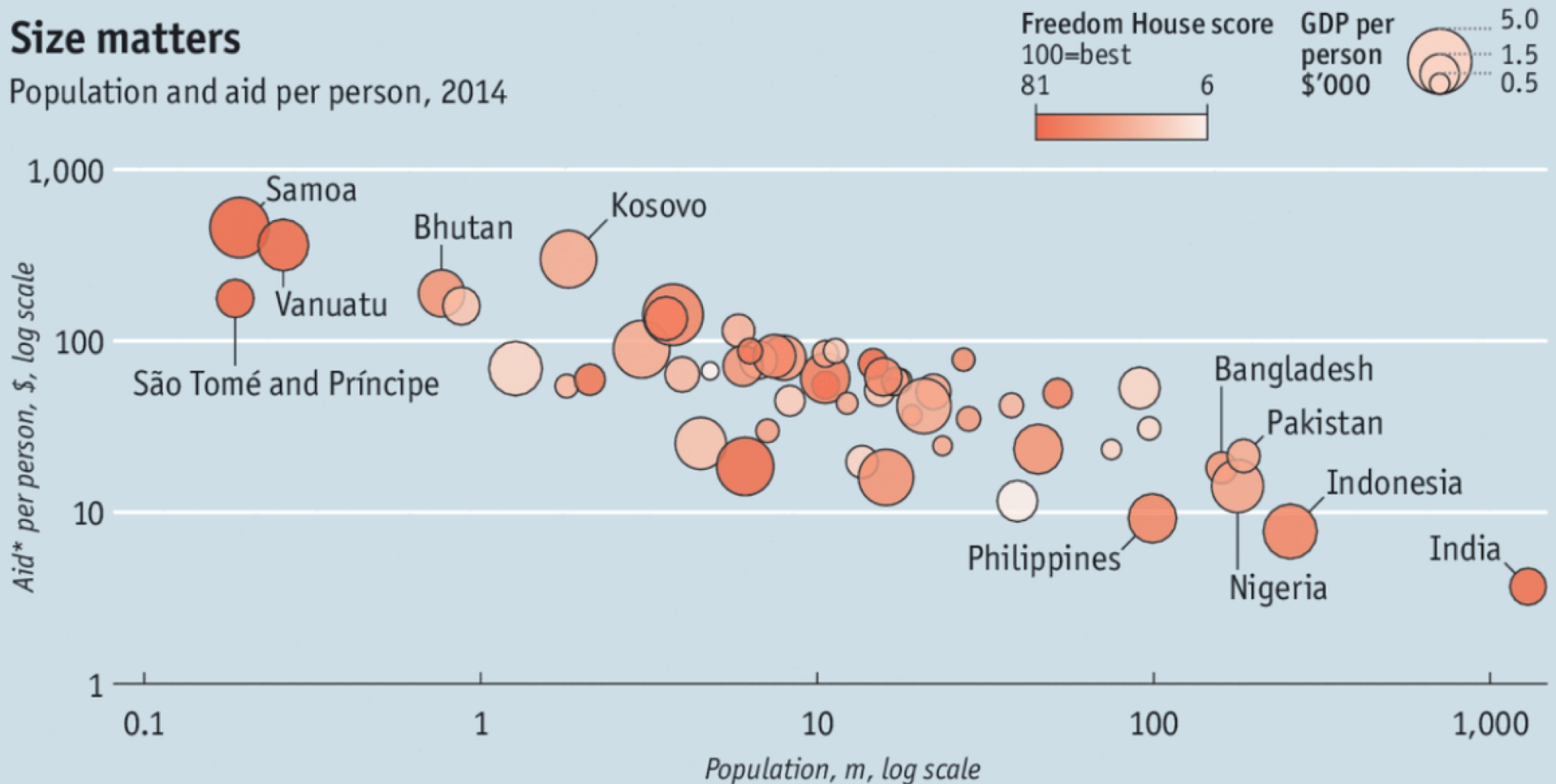
Who Gets Aid?

- See Economist: “Size Matters: Where does the aid go?”
 - Things that don't matter:
 - Being well governed
 - Being poor
 - What does matter:
 - Being small:
 - Big countries get the least aid relative to size
 - Small countries get the most

Who Gets Aid?

Size matters

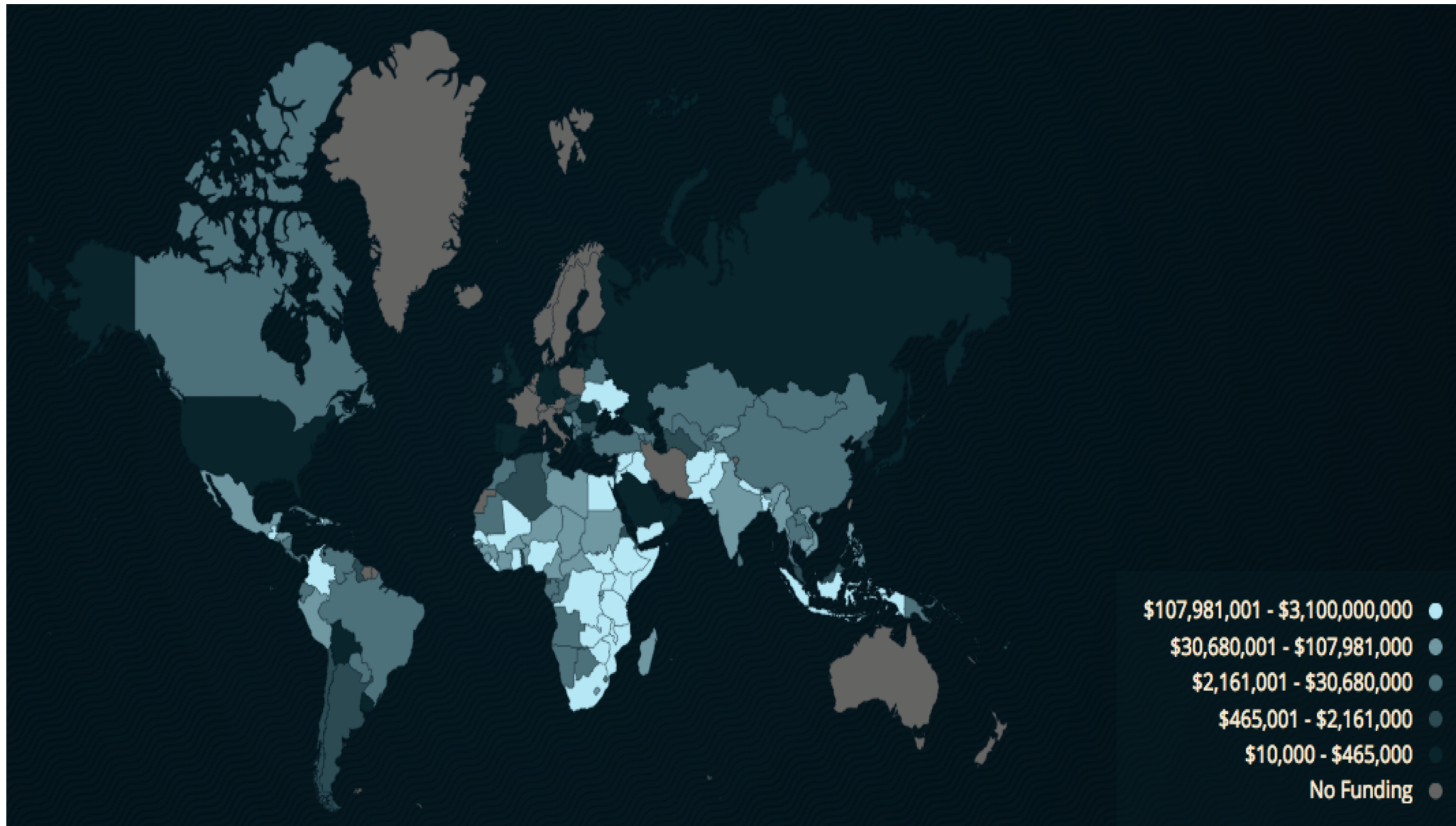
Population and aid per person, 2014



Sources: OECD; IMF; World Bank; Freedom House; *The Economist*

*Country programmable aid

Who Gets US Foreign Assistance?



Source: US State Dept.

Econ 340, Deardorff, Lecture 21:
Development Aid

This reports: Spent, 2018²⁷

Clicker Question

Which of the following is **not** one of the top five countries in terms of official development assistance as a percentage of national income

- a) Luxembourg
- b) Sweden
- ✓ c) United States
- d) Norway
- e) Netherlands

Clicker Question

What fraction of GDP should countries give as foreign aid according to the Live 8 campaigners?

- a) 0.2%
- ✓ b) 0.7%
- c) 2%
- d) 7%
- e) 12%

Clicker Question

According to the Economist article, “Size Matters,” which of the following types of countries tend to get the most aid per capita?

- a) Countries with large populations
- ✓ b) Countries with small populations
- c) Poor countries
- d) Countries with few natural resources
- e) Countries with good governance

Lecture 21

Outline: International Policies for Economic Development: Aid

- Why Should We Care?
- Who Gives Aid?
- **Does Aid Work?**
- Pros and Cons of Aid
- Policy Recommendations
- Where We Stand in Development

Does Aid Work?

- Not always: Many countries that have gotten aid have become poorer
- Most attempts to find evidence of a positive effect of aid on economic growth have failed
 - Rajan and Subramanian (not assigned) looked at experience of many countries over 1960-2000
 - They found no evidence that aid mattered for growth
 - Policies and institutions of countries did not matter
 - Type of aid did not matter
 - This does not mean that aid doesn't reduce poverty; they didn't look at that (they looked at growth)

Does Aid Work?

- Eberstadt and Adelman (assigned reading) review the track record of aid:
 - “...it has not been demonstrated that official development assistance makes a regular and predictable contribution to overall macroeconomic growth.”
 - “The [World] Bank’s evaluation unit found that its poverty reduction record remains problematic.”

Does Aid Work?

HIPC

- Economist, “Aid to the Rescue” 2014

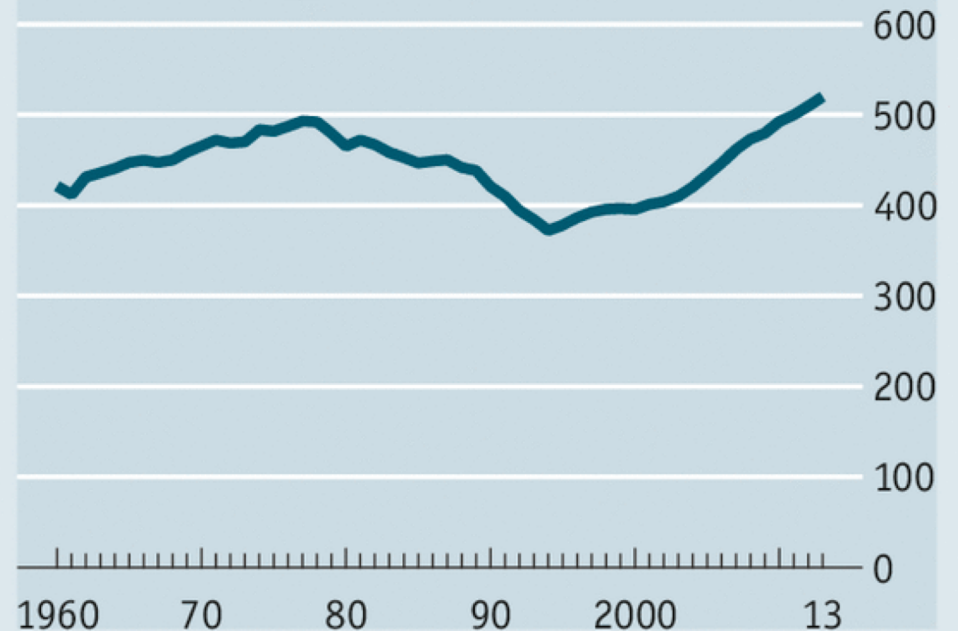
Less for more

Official development aid*
\$bn



Sources: OECD; World Bank

Heavily indebted poor countries†
GDP per person, \$



*From Development Assistance Committee members, 2012 prices and exchange rates

†39 mainly sub-Saharan countries, 2005 dollars

Does Aid Work?

- Economist, “Aid to the Rescue” 2014
 - Cites new work that does show positive causal link between aid and growth
 - Answering this question is hard because causation goes both directions
 - Study cited uses as “instrumental variable”: crossing the \$1,200 per capita income threshold where aid is cut off
 - But effect is small, and may not be worth the money spent, even though aid is still well below the target of 0.7% of GDP

Does Aid Work?

- Economist, “Aid to the Rescue” 2014
 - Reasons why aid may be harmful:
 - Fostering dependency
 - Propping up oppressive or incompetent regimes
 - Pushing up the value of poor countries’ currencies, thereby undermining the competitiveness of their exports

Clicker Question

Does aid help poor countries grow?

- a) Many studies fail to find evidence that it does
- b) One study finds a causal link from aid to growth
- c) The evidence is mixed
- ✓ d) All of the above
- e) None of the above

Clicker Question

What effect does aid to a country have on the value of its currency?

- ✓ a) Causes it to appreciate, hurting its exports
- b) Causes it to depreciate, hurting its exports
- c) Causes it to appreciate, hurting its imports
- d) Causes it to depreciate, hurting its imports
- e) There is no effect of aid on the exchange rate

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Pros and Cons of Aid

- Pro: Much is needed
- Con: Much is wasted

How Aid Is Wasted

- Example: Côte d'Ivoire (See Fraser Institute: "When Foreign Aid Doesn't")
 - Country was turned from being an economic miracle to a disaster by foreign aid
 - Grew at 8% a year for 35 years after World War II
 - Moved toward state control starting in 1960s
 - Foreign capital for development went to large "inefficient" projects benefiting the ruling class – hydroelectric plants, and new capital city
 - Health spending went mainly to the wealthy urban population
 - 50-80% of education spending on higher education, benefiting the wealthy elite, while 40% of children 6-12 do not attend school
 - GDP fell 4.3% per year from 1985 to 1994

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Policy Recommendations

- Jeff Sachs, famous advocate for greater aid (not assigned)
 - Steps out of poverty:
 - Boost food production to end famine.
 - Improve health conditions.
 - End economic isolation (thus trade, or more generally, what he calls “connectivity”)

Policy Recommendations

- Jeff Sachs
 - Standards for successful aid
 - Targeted
 - Specific
 - Measurable
 - Accountable
 - Scalable
 - Should support “triple transformation” in agriculture, health, and “connectivity”

Policy Recommendations

- William Easterly, famous aid skeptic (not assigned)
 - Critic of Sachs, and of aid as it is mostly done
 - What is needed, he says: CIAO
 - C = Customer Feedback
 - I = Incentives
 - A = Accountability
 - O = Outcomes
 - Existing programs, including those pushed by Jeff Sachs, have none of this (he says)

Policy Recommendations

- Easterly also has pointed out
 - Africa is doing better than the activists suggest
 - Bob Geldof's "Four Horsemen" -- War, Famine, Plague & Death -- are actually not common
 - e.g., annual war deaths have averaged 1 per 10,800 for 4 decades
 - Recent growth has been highest in Africa's history
 - Failure to meet the Millennium Development Goals is understandable, given the low start
 - Africa actually made good progress toward them

Policy Recommendations

- Improve developing country governments and policies
 - Importance of Economic Freedom
 - Millennium Challenge Account (see Roberts)
 - This is a US program begun 2004 that gives aid to developing countries only if they demonstrate the ability to use it productively with
 - Good policies
 - Responsible government
 - Needed because so much foreign aid has been wasted

Policy Recommendations

- What about Tied Aid and Food Aid?
 - Tied Aid: Money that must be spent on the donor's exports
 - Inefficient, since a developing country could usually get more value buying elsewhere
 - See Economist
 - Food Aid: Agricultural products given directly to countries
 - Products chosen to support farmers in donor country
 - Effect on competing farmers in LDCs can be serious
 - But see Levinsohn and McMillan:
 - In Ethiopia, the farmers are not poor, so food aid does help the poor

Policy Recommendations

- “Doing Business”
 - World Bank, each year, measures the ease of doing 10 different activities in each of 190 countries. Examples
 - Starting a business
 - Getting credit
 - Enforcing contracts
 - It publishes country rankings
 - This puts pressure on countries to improve



Business Planet

Mapping the business environment

[About](#)
[E-mail](#)
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[Link to this map](#)

Doing Business

Take a trip around the world to discover how easy (or difficult) it is to do business in 178 economies.

Click on color markers to learn more about each economy.

Economies marked with a star were the top 10 reformers on the ease of doing business in 2006/07.

Enjoy your trip!
Doing Business Team

Data profile:

- ◆ Year: 2007
- ◆ Economies: 178
- ◆ Objective: Provide objective measures of business regulations and their enforcement.
- ◆ Source: [Doing Business](#)

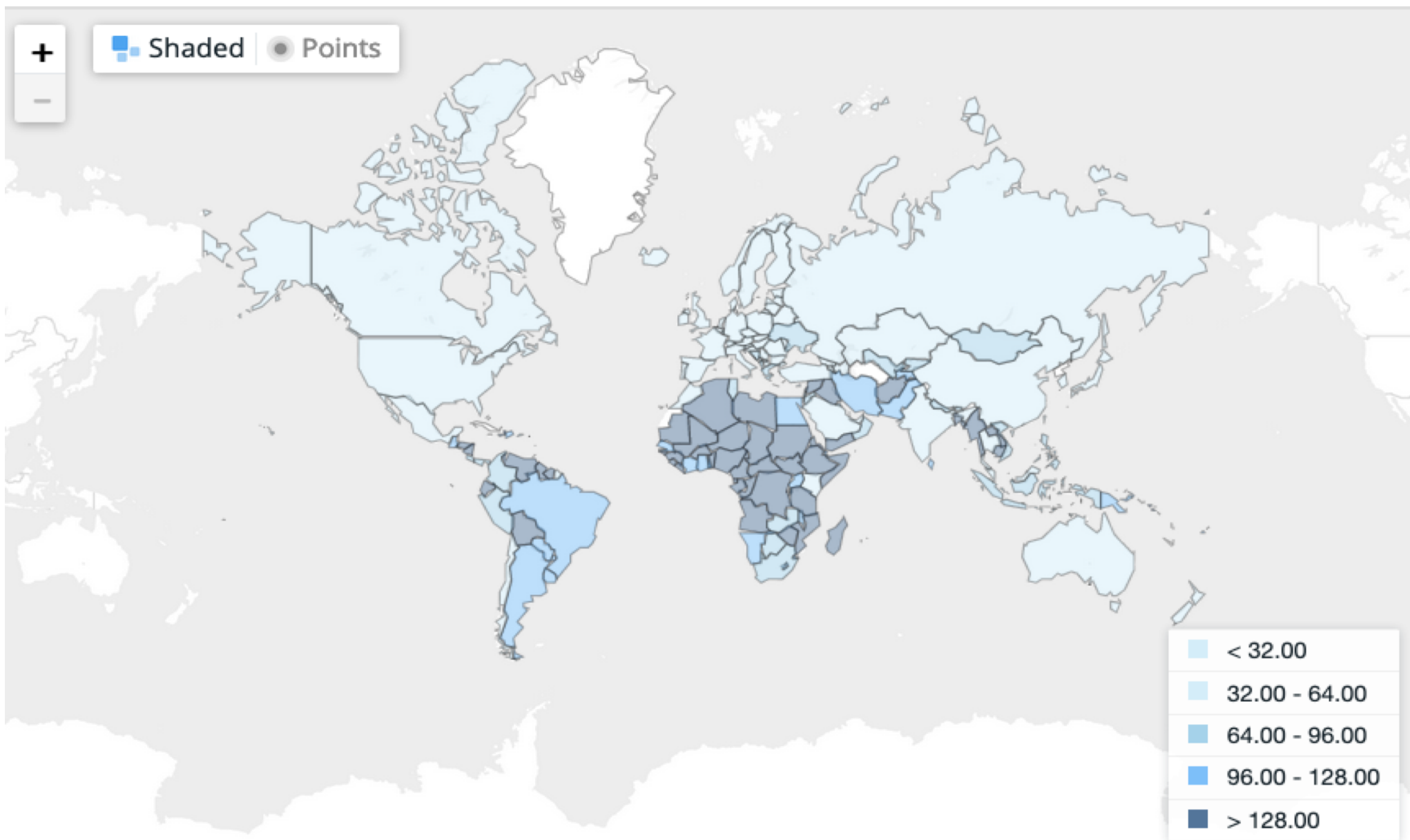
Disclaimer: This map is powered by Google Maps. Country borders or names do not necessarily reflect the World Bank Group's official position.



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Ease of doing business index (1=most business-friendly regulations) 2019



Source: World Bank

Econ 340, Deardorff, Lecture 21:
Development Aid

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Clicker Question

Who benefits when rich countries give food aid to poor countries?

- a) Farmers in both rich and poor countries
- ✓ b) Farmers in rich countries and consumers in poor countries
- c) Consumers in rich countries and farmers in poor countries
- d) Consumer in both rich and poor countries
- e) Taxpayers in both rich and poor countries

Clicker Question

On what continent are the largest number of countries that score poorly on the World Bank's Doing Business Index?

- a) North America
- b) South America
- c) Europe
- d) Asia
- ✓ e) Africa

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Where We Stand in Development

- Millennium Development Goals (MDGs)
 - 8 goals identified and agreed in 2005 by the United Nations to be achieved by 2015
 - Overall there was significant progress, and many countries achieved the MDGs
 - Many others did not, but many of them did make good progress

Where We Stand in Development

- The MDGs

1. Eradicate Extreme Poverty and Hunger
2. Achieve Universal Primary Education
3. Promote Gender Equality and Empower Women
4. Reduce Child Mortality
5. Improve Maternal Health
6. Combat HIV/AIDS, Malaria and Other Diseases
7. Ensure Environmental Sustainability
8. Develop a Global Partnership for Development



MDG Progress 2015

- Target met or excellent progress.
- Good progress.
- Fair progress.
- Poor progress or deterioration.
- Missing or insufficient data.

Goals and Targets	Africa		Asia				Oceania	Latin America and the Caribbean	Caucasus and Central Asia
	Northern	Sub-Saharan	Eastern	South-Eastern	Southern	Western			

GOAL 1 | Eradicate extreme poverty and hunger

Reduce extreme poverty by half	low poverty	very high poverty	low poverty	moderate poverty	high poverty	low poverty	—	low poverty	low poverty
Productive and decent employment	large deficit	very large deficit	moderate deficit	large deficit	large deficit	large deficit	very large deficit	moderate deficit	small deficit
Reduce hunger by half	low hunger	high hunger	moderate hunger	moderate hunger	high hunger	moderate hunger	moderate hunger	moderate hunger	moderate hunger

GOAL 2 | Achieve universal primary education

Universal primary schooling	high enrolment	moderate enrolment	high enrolment	high enrolment	high enrolment	high enrolment	high enrolment	high enrolment	high enrolment
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GOAL 3 | Promote gender equality and empower women

Equal girls' enrolment in primary school	close to parity	close to parity	parity	parity	parity	close to parity	close to parity	parity	parity
Women's share of paid employment	low share	medium share	high share	medium share	low share	low share	medium share	high share	high share
Women's equal representation in national parliaments	moderate representation	moderate representation	moderate representation	low representation	low representation	low representation	very low representation	moderate representation	low representation

GOAL 4 | Reduce child mortality

Reduce mortality of under-five-year-olds by two thirds	low mortality	high mortality	low mortality	low mortality	moderate mortality	low mortality	moderate mortality	low mortality	low mortality
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GOAL 5 | Improve maternal health

Reduce maternal mortality by three quarters	low mortality	high mortality	low mortality	moderate mortality	moderate mortality	low mortality	moderate mortality	low mortality	low mortality
Access to reproductive health	moderate access	low access	high access	moderate access	moderate access	moderate access	low access	high access	moderate access

GOAL 6 | Combat HIV/AIDS, malaria and other diseases

Halt and begin to reverse the spread of HIV/AIDS	low incidence	high incidence	low incidence	low incidence	low incidence	low incidence	low incidence	low incidence	low incidence
Halt and reverse the spread of tuberculosis	low mortality	high mortality	low mortality	moderate mortality	moderate mortality	low mortality	moderate mortality	low mortality	moderate mortality

GOAL 7 | Ensure environmental sustainability

Halve proportion of population without improved drinking water	high coverage	low coverage	high coverage	high coverage	high coverage	high coverage	low coverage	high coverage	moderate coverage
Halve proportion of population without sanitation	moderate coverage	very low coverage	moderate coverage	low coverage	very low coverage	high coverage	very low coverage	moderate coverage	high coverage
Improve the lives of slum-dwellers	low proportion of slum-dwellers	very high proportion of slum-dwellers	moderate proportion of slum-dwellers	moderate proportion of slum-dwellers	moderate proportion of slum-dwellers	moderate proportion of slum-dwellers	moderate proportion of slum-dwellers	moderate proportion of slum-dwellers	—

GOAL 8 | Develop a global partnership for development

Internet users	moderate usage	low usage	high usage	moderate usage	low usage	high usage	low usage	high usage	high usage
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Where We Stand in Development

- Sustainable Development Goals (SDGs)
 - 17 goals identified and agreed in 2015 by the United Nations to be achieved by 2030



Clicker Question

What institution was behind the Millennium Development Goals and is now behind the Sustainable Development Goals?

- a) The United States Agency for International Development
- b) The World Bank
- ✓ c) The United Nations
- d) The International Monetary Fund
- e) The World Health Organization

Next Time

- Outsourcing and Offshoring
 - Definitions
 - Effects
 - Facts
 - Policies