THE END *of* POVERTY

Economic Possibilities for Our Time

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CAN THE RICH AFFORD TO HELP THE POOR?

t may seem highly imprudent to ask the rich world to take responsibility for helping the poorest of the poor to escape from the poverty trap. Not only is the task thankless and endless, it may also break the bank—or so the thinking goes. After all, haven't the rich world's own welfare programs proven to be too much to handle? Aren't the rich countries in enough of a fiscal mess with the problems that they have already taken on? How could the rich world possibly take responsibility for billions of people outside of their borders, in countries with rapidly growing populations? These are all reasonable questions. Happily, they have reasonable answers. The more one looks at it, the more one sees that the question isn't whether the rich can afford to help the poor, but whether they can afford not to.

The truth is that the cost now is likely to be small compared to any relevant measure—income, taxes, the costs of further delay, and the benefits from acting. Most important, the task can be achieved within the limits that the rich world has already committed: 0.7 percent of the gross national product of the high-income world, a mere 7 cents out of every $10 in income. All of the incessant debate about development assistance, and whether the rich are doing enough to help the poor, actually concerns less than 1 percent of rich-world income. The effort required of the rich is indeed so slight that to do less is to announce brazenly to a large part of the world, "You count for nothing." We should not be surprised, then, if in later years the rich reap the whirlwind of that heartless response.

There are five reasons why the level of required effort is, in truth, so modest. First, the numbers of extreme poor have declined to a relatively small proportion of the world's population. The World Bank estimates that some 1.1 billion people live in extreme poverty today, a bit less than one fifth of the world's population. A generation ago, the proportion was roughly one third. Two generations ago, the proportion was closer to one half. The proportion of the world's population still mired in extreme poverty is, relatively speaking, manageable.

Second, the goal is to end *extreme* poverty, not to end all poverty, and still less to equalize world incomes or to close the gap between the rich and the poor. This may eventually happen, but if so, the poor will have to get rich on their own effort. The rich can help most by giving the extreme poor some assistance to extricate themselves from the poverty trap that now ensnares them.

Third, success in ending the poverty trap will be much easier than it appears. For too long, too much economic thinking has been directed at the wrong question—how to make the poor countries into textbook models of good governance or efficient market economies. Too little has been done to identify the specific, proven low-cost interventions that can make a difference in living standards and economic growth. When we get practical, and speak of investments in specific areas—roads, power, transport, soils, water and sanitation, disease control—the task is suddenly a lot less daunting.

Fourth, the rich world today is so vastly rich. An effort to end extreme poverty that would have seemed out of reach even a generation or two ago is now well within reach because the costs are now such a small fraction of the vastly expanded income of the rich world. Especially for the United States, part of the solution to getting donors to honor their commitment to the world's extreme poor is to assign more responsibility to the richest of the rich, not the average taxpayers, but taxpayers with incomes at the very top of the charts. The rich can manage to pay for a significant proportion of what needs to be done, either through a modest increase in taxation or a burst of large-scale philanthropy commensurate with their vast wealth.

Fifth, our tools are more powerful than ever. Mobile phones and the Internet are ending the information famine of rural areas in Asia and Africa. Improved logistics systems now enable global industries to operate profitably in far-flung regions. Modern agronomic practices, including improved seed breeding, agrobiotechnology, and science-based management of soil nutrients, are restoring lands that were long degraded or opening new lands that were previously considered infertile. New approaches to disease prevention and control offer the prospect of breakthroughs in medical practice. It is true that these investments still reach only a small fraction of the poorest of the poor. At the core of poverty reduction lies the strategy of scaling up critical investments in infrastructure, health, and education, investments that have been rendered vastly more effective through rapid technological progress.

Here are some calculations of what it will cost to get the job done, and who should pay.

THE SIMPLEST CALCULATION

The first cut at the problem—the simplest but still eye-opening—is to ask how much income would have to be transferred from rich countries to poor countries to lift all of the world's extreme poor to an income level sufficient to meet basic needs. Martin Ravallion and his colleagues on the World Bank's poverty team have gathered data to address this question, at least approximately. The World Bank estimates that meeting basic needs requires $1.08 per day per person, measured in 1993 purchasing-power adjusted prices. Using household surveys, the Ravallion team has calculated the numbers of poor people around the world who live below that threshold, and the average incomes of those poor.

According to the Bank's estimates, 1.1 billion people lived below the $1.08 level as of 2001, with an average income of $0.77 per day, or $281 per year. More important, the poor had a shortfall relative to basic needs of $0.31 per day ($1.08 minus $0.77), or $113 per year. Worldwide, the total income shortfall of the poor in 2001 was therefore $113 per year per person multiplied by 1.1 billion people, or $124 billion.

Using the same accounting units (1993 purchasing power adjusted U.S. dollars), the income of the twenty-two donor countries of the Development Assistance Committee (DAC) in 2001 was $20.2 trillion. Thus a transfer of 0.6 percent of donor income, amounting to $124 billion, would in theory raise all 1.1 billion of the world's extreme poor to the basic-needs level. Notably, this transfer could be accomplished within the 0.7 percent of the GNP target of the donor countries. That transfer would not have been possible in 1980, when the numbers of the extreme poor were larger (1.5 billion) and the incomes of the rich countries considerably smaller. Back in 1981, the total income gap was around $208 billion (again, measured in 1993 purchasing power prices) and the combined donor country GNP was $13.2 trillion. Then it would have required 1.6 percent of donor income in transfers to raise the extreme poor to the basic-needs level.

THE NEEDS ASSESSMENT APPROACH

Except for humanitarian emergencies, direct cash transfers are rarely an attractive way to deliver official development assistance (ODA). Cash transfers can raise the poor above desperate income levels, but are not likely to unlock the poverty trap if they merely fill a consumption gap. To end the poverty trap, as I have explained, direct foreign assistance should be used for *investments* in infrastructure and human capital (through public services in health, nutrition, and education), thereby empowering the poor to be more productive on their own account, and putting the poor countries on a path of self-sustaining growth.

To estimate the costs of the investments needed to end extreme poverty, a straightforward approach with six specific steps has proven extremely useful for the WHO Commission on Macroeconomics and Health and for the UN Millennium Project. The key is to identify a core package of public infrastructure and social investments to meet basic needs and to end the poverty trap. These investments include roads, power, water and sanitation, health care, education, and the like.

This approach to costing these investments has the following six steps:

- Identify the package of basic needs
- Identify, for each country, the current unmet needs of the population
- Calculate the costs of meeting the unmet needs through investments, taking into account future population growth
- Calculate the part of the investments that can be financed by the country itself
- Calculate the Millennium Development Goals Financing Gap that must be covered by donors

- Assess the size of the donor contributions relative to donor income

These calculations will show the worldwide cost of ending extreme poverty. They are not meant to suggest that money in such amounts should automatically be levied on the rich and turned over to the poor. As I have stressed repeatedly, the actual transfer of funds must be based on rigorous, country-specific plans that are developed through open and consultative processes, backed by good governance in the recipient countries, as well as careful monitoring and evaluation. For these reasons, the actual flow of resources could, alas, be much smaller than the needs assessment will show. If areas of extreme poverty remain, it would not be because of a lack of donor will, but a lack of recipient-country ability to use donor support effectively.

THE PACKAGE OF BASIC NEEDS

The WHO Commission on Macroeconomics and Health identified 49 essential health services that constitute the basic package of health interventions. The UN Millennium Project expanded that list of health interventions and complemented it with interventions in other critical areas—food production and nutrition, education, infrastructure—to enumerate some 150 interventions or public services that should be universally accessible. The standards of need are minimum standards, consistent with the interpretation that lack of access to these interventions constitutes extreme poverty. These interventions include, for example:

- Primary education for all children, with designated target ratios of pupils to teachers
- Nutrition programs for all vulnerable populations
- Universal access to antimalarial bed nets for all households in regions of malaria transmission
- Access to safe drinking water and sanitation
- One-half kilometer of paved road for every thousand of population

- Access to modern cooking fuels and improved cooking stoves to decrease indoor air pollution

In the high-income countries, these and other needs are already 100 percent fulfilled, even for the relatively poor in those societies. This underscores the point that extreme poverty (a lack of access to basic needs) is very different from the relative poverty (occupying a place at the bottom of the income distribution) within the rich countries. In the middle-income countries, these interventions are also generally available for most, if not all, of the population.

To meet these needs for an entire population requires a decade or more of investments in physical and human capital. The next step of the analysis is to estimate the proportion of the population in each country that lacks access to the relevant service, and to propose an investment profile that closes the gap within a specific period of time. The UN Millennium Project calculated an investment profile to the year 2015 of sufficient scope to achieve the Millennium Development Goals. Of course, such calculations require intensive country-specific knowledge that can only be carried out with a high degree of accuracy within each country itself, but for the UN Millennium Project, and our purposes here, we can make some rough approximations.

For five developing countries—Bangladesh, Cambodia, Ghana, Tanzania, and Uganda—the UN Millennium Project calculated the costs of scaling up infrastructure and social services by the year 2015 to have a price tag of roughly $100 per person per year during the period 2005 to 2015. (All prices in the UN study were expressed in constant 2000 U.S. dollars). Since cost data were unavailable for some critical interventions,* the true needs are likely to be at least $110 or higher. For the rich world, with its annual income of some $27,000 per person per year, and government revenues of $7,000 per person per year or more, $110 is a very small sum. For the poorest countries, however, $110 per capita is a very large sum, equal to the income per capita of Ethiopia in 2001, and one third of the average income per capita of these five developing countries. Most of the services, moreover, are to be provided by

*The interventions that have not yet been quantified include: higher education; storage and distribution infrastructure for water and fuel; irrigation systems; ports and railroads; information and communication technologies; and specific investments in environmental sustainability.

government. But government revenues in low-income countries are generally around 10 percent of national income. For a country at $300 per capita, therefore, domestic revenues for the national budget might total around $30 per capita, less than one third of the cost of providing the basic package of infrastructure and social services.

Once the cost of the basic package is identified, the next step is to figure out who can pay for what. To at least a small extent, households themselves can pay out of household income for some of their basic needs, for example, through purchases from private-sector providers. The government can provide a larger fraction out of domestic public revenues. The rest constitutes the "financing gap" that international donors would have to pay. To allocate these proportions of the $110 per year, the UN Millennium Project made the following assumptions. First, it assumed that government revenues directed at poverty reduction could be raised substantially as a share of GDP, specifically by 4 percentage points as of the year 2015. Second, it assumed that for certain sectors—such as health and education—the basic package would be paid entirely by the public sector (using domestic revenues or donor aid) rather than by households. Third, it assumed that households could pay for part of their energy consumption, water supply, sanitation services, and investments in agricultural productivity, but with payments graduated according to household income: the households in extreme poverty would receive the services with full subsidy, the next richer group would pay a part of the cost, and the high-income households would cover their full costs.

Sharing the Investment Costs

Using this approach, the UN Millennium Project identified the total costs of meeting the goals and the allocation of those costs among the national government, the households (paying out of pocket), and the donors. The costs differ by region for two reasons. First, the needs differ. Second, the costs of meeting those needs differ. In general, a given package of investments is slightly cheaper to implement in poor countries because the costs of labor are lower.

With these assumptions, the findings for the five developing countries were the following: Of the $110 per person per year, households will be able to pay around $10 per person per year, whereas the government could be expected to cover another $35 per person per year out of budget revenues. The remainder, roughly $65 per person per year, constitutes the financing gap, which donors will have to finance.

When the same calculation is made for middle-income countries, the situation is completely changed. Countries such as Brazil, Chile, or Mexico are able to provide the complete package of services out of domestic resources. They do not need donor assistance to end extreme poverty, since they have sufficient domestic resources to accomplish the task. Of course, they may still have many extremely poor citizens, but according to this analysis, that is mainly because of the lack of internal efforts. China, too, is largely able to cover its needs. India is just straddling the divide, requiring a significant amount of help—roughly $4 to $5 per person per year—but it is an amount that will decline over time as India's rapid economic growth continues.

As a general matter, the middle-income countries are able to cover their own needs, whereas the low-income countries generally will require at least some modest assistance from abroad to meet basic needs by 2015. Although a precise costing on a global scale really requires a detailed country-by-country assessment, some rough extrapolations from a small number of detailed country estimates allow us to approximate the global donor effort required. A rough guess puts the donor needs until 2015 at around $40 billion for sub-Saharan Africa, and perhaps twice that, or $80 billion for the entire developing world. This estimate corresponds with an even simpler route to the number. With roughly 1.1 billion people in extreme poverty, and each requiring roughly $65 per capita in annual assistance, the donor price tag would be around $72 billion per year until 2015, in addition to costs for global initiatives such as vaccine development and for managing the large increase in assistance. The actual outlay of funds, to repeat, is likely to be lower since it would cover only those countries with sufficiently good planning and governance to justify the aid.

Table 1 shows the regional breakdown of the donor assistance to finance the investments needed to meet the Millennium Development Goals. This table makes clear that Africa and Asia remain the two epicenters of extreme poverty and the two regions where large-scale donor aid is still most urgently needed. Of course, individual countries in other regions are also found to require donor aid, so a calculation of this kind needs to be made on a country-by-country basis.

Table 1: Regional Breakdown of Annual Budget Support Required from Donors to Meet the MDGs

(in billions of 2003 US$)

	in 2006	in 2015
East Asia and Pacific	11.1	8.9
Europe and Central Asia	2.0	2.9
Latin America and Caribbean	0.7	1.3
Middle East and North Africa	0.9	1.4
South Asia	22.4	36.8
Sub-Saharan Africa	36.4	83.4
Total	**73.5**	**134.7**

Source: UN Millennium Project (2005).

The sector breakdown of the external finance needed for the investment program is shown in table 2, taking the case of three sub-Saharan African countries for these detailed calculations. The table helps to clarify where the foreign assistance should be directed: some 35 percent of total assistance should go to the health sector, 35 percent to energy and road infrastructure, another 15 percent to education, 2 percent to water and sanitation; and the rest to other components of the core package.

HOW MUCH TOTAL OFFICIAL DEVELOPMENT ASSISTANCE IS NEEDED?

Even if we know that around $70 to $80 billion per year would be needed within poor countries by 2006, it is still tricky to determine the total amount of development assistance that the rich world should provide to the poor for three reasons. First, a considerable proportion of official donor assistance is not for development at all, but for other purposes such as emergency relief, care and resettlement of refugees, geopolitical support of particular governments, and help for middle-income countries that have already largely ended extreme poverty. Second, of the portion of foreign aid directed to development, only a fraction of that aid currently comes in a form that can help to finance the intervention package. Much of the aid, for example, is technical assistance, which is not counted in the Millennium Project's cost estimates. Some aid is for cancellation of debts that were not being paid

Table 2: Sector Breakdown of ODA for the MDGs in Ghana, Tanzania, and Uganda

(in 2003 US$)

Ghana

	Over the Full Period 2006–2015			
Required Total External Budget Support	**Average per Year ($m)**	**Average per Capita ($)**	**Average % GDP**	**As % of Total Required Budget Support**
Hunger	74	3.0	0.9%	5.6%
Education	266	11.0	3.2%	20.2%
Gender Equality	40	1.6	0.5%	3.0%
Health	375	15.4	4.5%	28.5%
Water Supply and Sanitation	33.1	1.4	0.4%	2.5%
Improving the Lives of Slum Dwellers	16.0	0.7	0.2%	1.2%
Energy	115	4.7	1.4%	8.7%
Roads	154	6.3	1.9%	11.7%
Other	243	10.0	2.9%	18.5%
Total*	**1,317**	**54.1**	**15.9%**	**100.0%**

Tanzania

	Over the Full Period 2006–2015			
Required Total External Budget Support	**Average per Year ($m)**	**Average per Capita ($)**	**Average % GDP**	**As % of Total Required Budget Support**
Hunger	163	3.8	1.1%	5.8%
Education	327	7.7	2.1%	11.7%
Gender Equality	70	1.6	0.5%	2.5%
Health	920	21.7	5.9%	33.0%
Water Supply and Sanitation	52.5	1.2	0.3%	1.9%
Improving the Lives of Slum Dwellers	44.3	1.0	0.3%	1.6%
Energy	201	4.7	1.3%	7.2%
Roads	586	13.8	3.8%	21.0%
Other	424	10.0	2.7%	15.2%
Total*	**2,788**	**65.4**	**18.0%**	**100.0%**

Uganda

	Over the Full Period 2006–2015			
Required Total External Budget Support	**Average per Year ($m)**	**Average per Capita ($)**	**Average % GDP**	**As % of Total Required Budget Support**
Hunger	78	2.3	0.7%	4.2%
Education	222	6.6	2.0%	12.0%

Uganda (continued)

Required Total External Budget Support	Over the Full Period 2006–2015			
	Average per Year ($m)	**Average per Capita ($)**	**Average % GDP**	**As % of Total Required Budget Support**
Gender Equality	50	1.5	0.4%	2.7%
Health	634	18.8	5.6%	34.2%
Water Supply and Sanitation	25.9	0.8	0.2%	1.4%
Improving the Lives of Slum Dwellers	19.8	0.6	0.2%	1.1%
Energy	90	2.7	0.8%	4.8%
Roads	394	11.7	3.5%	21.3%
Other	337	10.0	3.0%	18.2%
Total*	**1,852**	**54.9**	**16.4%**	**100.0%**

* *Includes $10 per capita for large infrastructure projects, higher education, and environmental sustainability.*

Source: UN Millennium Project (2004)

anyway. While debt cancellation may be very important for enabling a country to regain access to credit markets, or to regain hope, it does not add to actual resource flows if the debts could not be serviced anyway. Third, there is need for direct assistance to support investments at the global level that are above and beyond the financial needs of specific poor countries.

To clarify the first reason, consider the following breakdown of current official development assistance: total gross foreign aid from all donors to all developing countries in 2002 was $76 billion (all numbers in 2003 dollars). Of that, $6 billion were debt relief grants, which do not correspond to any actual flow of resources. Moreover, developing countries paid close to $11 billion in loan repayments to rich countries, leaving a net flow of foreign aid of $59 billion. Of that amount, $16 billion went to middle-income countries. Of the $43 billion that went to low-income countries, $12 billion at the most were devoted to direct support of the government. The remainder consisted mostly of emergency assistance and technical cooperation, which mostly pays for expensive foreign consultants rather than local experts.

Roughly speaking, only $12 billion out of the $43 billion went to low-income countries in a form that could be deemed budgetary support, and thus helped support the package of basic needs interventions. For all developing countries, only around $15 billion of the $48 billion in net ODA flows in 2002 could be considered to be the kind of support for financing investments in basic needs. The remaining $33 billion reflects other considerations and costs that are not available for making the investments I have been discussing. Some go to emergency relief and technical cooperation that funds in parts the building of capacity. Other important needs are regional infrastructure and global research, which currently receive roughly $4 billion. Finally, the operating and other cost of bilateral and multilateral agencies account for $9 billion.

In addition to the $73 billion (rising to $135 billion per year in 2015) for the scaling up of basic needs at the country level, $48 to $54 billion will be required each year to finance other needs. These include the costs of running the aid agencies themselves, in essence, the costs for operating an international system of donor assistance. The UN Millennium Project estimated an additional $2 to $5 billion per year in such costs to increase technical assistance capacity of international and donor organizations plus an additional $1 to $3 billion in increased costs to bilateral donors. The added expenses reflect the increased operational responsibilities of the specialized UN agencies, the IMF and World Bank, the regional development banks, and the bilateral donors. There are also the costs of greater investments in global science directed at the needs of the poor, on the order of an estimated $7 billion per year by 2015.

If we put the pieces together and make further adjustments for poorly governed countries that won't qualify for aid and for rechanneling some existing aid, total global foreign aid would amount to something like what is shown in table 3. Net ODA flows in 2006 come to $135 billion per year (up from $65 billion) and increase gradually to $195 billion by 2015. Clearly, there is not a high degree of precision in these estimates. The exact costs of meeting the Millennium Development Goals cannot be determined until each country conducts its own detailed costing following the Millennium Project methodology. Still, the estimates show one compelling fact. The bottom line of about $135 to $195 billion per year for the period 2005 to 2015 is about .44 to .54 percent of the rich-world GNP each year during the forthcoming decade, significantly less than the 0.7 percent of GNP promised in ODA, which would be closer to an average of $235 billion per year (in constant 2003 dollars). *The point is that the Millennium Development Goals can be financed within the bounds of the official development assistance that the donor countries have already promised.*

Table 3: Estimated Cost of Meeting the MDGs in Every Country

(in billions of 2003 US$)	2002	2006	2010	2015
I. MDG Investment Needs in Low-Income Countries				
• MDG Financing Gap	12	73	89	135
• Capacity Building to Achieve the MDGs	5	7	7	7
• Grants in Support of Heavy Debt Burden	–	7	6	1
• Debt Relief to Poor Countries	4	6	6	6
Minus: Repayments of Concessional Loans	–5	0	0	0
Subtotal	*15*	*94*	*108*	*149*
II. MDG Investment Needs in Middle-Income Countries				
• ODA Provided Directly to Government	4	10	10	10
• Capacity Building to Achieve the MDGs	5	5	5	5
Minus: Repayments of Concessional Loans	–6	–3	–4	–6
Subtotal	*3*	*12*	*11*	*9*
III. MDG Investment Needs at the International Level				
• Regional Cooperation and Infrastructure	2	3	7	11
• Funding for Global Research	1	5	7	7
• Implementing the Rio Conventions	1	2	3	5
• Technical Cooperation by International Organizations	5	5	7	8
Subtotal	*10*	*15*	*23*	*31*
Estimated Cost of Meeting the MDGS in Every Country	**28**	121	143	189

Plausible ODA Needs to Meet the MDGs (in billions of 2003 US$)	2002	2006	2010	2015
Baseline ODA for the MDGs in 2002	27	27	27	27
+ Incremental MDG Investment Needs		94	115	161
– Adjustment for Nonqualifying Countries Due to Inadequate Governance		–21	–23	–25
– Reprogramming of Existing ODA		–6	–7	–9
+ Emergency and Distress Relief	4	4	5	6
+ Other ODA*	34	36	34	35
Total Indicative Net ODA Needs for the MDGs†	**65**	135	152	195
as % of OECD-DAC Countries' GNI	0.23%	0.44%	0.46%	0.54%
ODA to Least-Developed Countreis (as % of OECD-DAC Countries' GNI)	*0.06%*	*0.12%*	*0.15%*	*0.22%*
Absolute Increase in Net ODA Required (compared to 2002)		70	87	130
Difference Between Total Net ODA Needs and Existing Commitments		48	50	**74**

* Includes ODA that does not contribute directly to the MDGs and operating expenditures of donor agencies.

† This estimate does not include several important ODA needs, such as responding to crises of geopolitical importance, such as Afghanistan or Iraq; mitigating the impact of climate change; protecting biodiversity and conserving global fisheries; and so forth.

Source: UN Millennium Project (2005).

Assuming that high-income countries will meet the specific commitments they have already made to increasing aid, gross ODA volumes will need to rise by approximately $48 billion in 2006 *beyond* the level of existing commitments in order to meet the MDGs. I hasten to add that the donor countries should not plan to land short of their 0.7 percent commitment. Table 3's $195 billion estimate of net ODA flows in 2015 leaves out one potentially large expense: help for the poorest countries to adapt to long-term climate change that is under way and caused, in significant part, by the rich countries. With rising temperatures and ocean levels, changes in precipitation patterns, and an increasing frequency of extreme weather events, some highly populous parts of the developing world will require substantial assistance adjusting to climate change. Other kinds of ODA needs not yet foreseen will likely arise as well.

HOW THIS NEEDS ASSESSMENT COMPARES WITH OTHERS

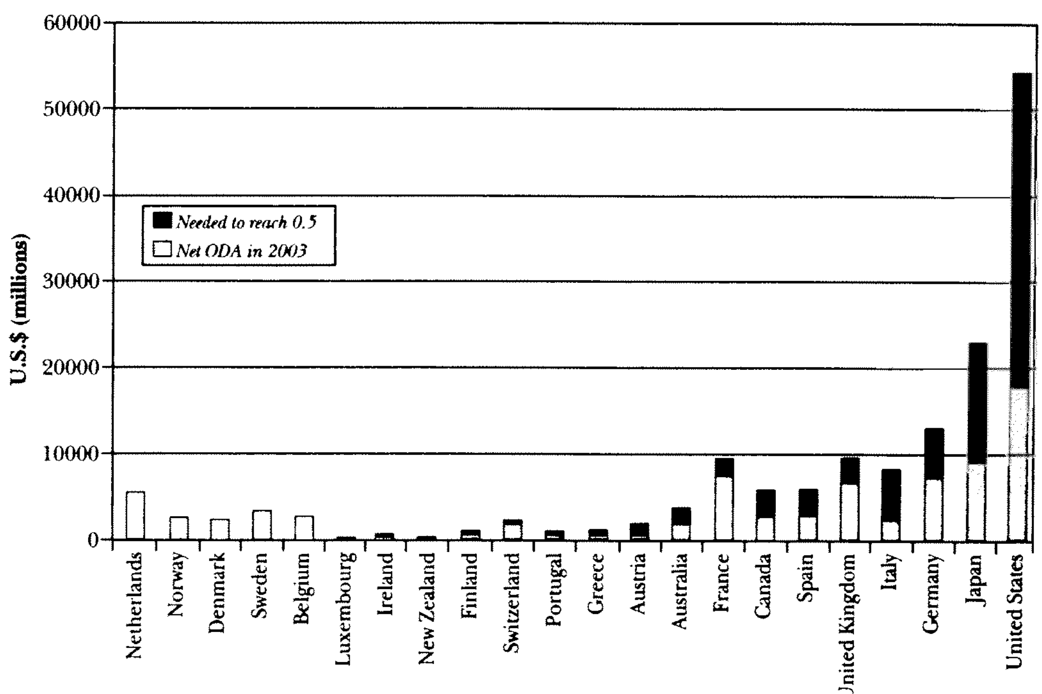
The UN Millennium Project is not alone in estimating the need for a doubling of ODA. Many estimates in recent years have converged around a similar level. In 2001, in the lead-up to the Monterrey Summit, a high-level commission chaired by former Mexican president Ernesto Zedillo estimated $50 billion per year, or a doubling of then-current official development assistance. The World Bank, using a very simplified methodology in the same year, also forecasted incremental aid needs at around $50 billion per year. In September 2003, the World Bank noted that low-income countries could immediately absorb some $30 billion per year of additional aid, given their absorptive capacity at the time, the concept we visited last chapter. In 2004, leaders of the UK and France called for a significant increase of foreign aid to achieve the Millennium Development Goals, roughly a doubling of ODA from 0.25 percent of donor GNP to around 0.5 percent of donor GNP. UK Chancellor Gordon Brown in particular has shown great leadership in proposing ways to coordinate such an increase among the donor countries.

WHICH DONORS SHOULD PAY?

Let's examine the implications of expanded aid on a country-by-country basis. Suppose that foreign assistance for *all* purposes will have to rise to 0.5 percent of donor income during the period 2005 to 2015, roughly $140 billion per year at today's GNP. To give a sense of what that would imply for each donor country, figure 1 shows the change in net foreign aid from today's level, assuming each donor in the Development Assistance Committee moves this year to 0.5 percent of GNP. For the G-0.7 (the countries already at foreign assistance or above 0.7 percent of GNP), this would mean a drop in funding (certainly not recommended!).

For the rest, it would mean a significant increase. The key point is that a few big countries would account for 90 percent of the increase. Of the total $75 billion or so rise in foreign aid (in 2003 dollars), 51 percent (roughly $38 billion) would be due from the United States. Japan would account for 18 percent (roughly $13 billion), and Germany, France, Italy, and the UK would account for 20 percent (roughly $15 billion).

Figure 1: Additional ODA Required to Reach 0.5% of GDP



Source: Calculated from OECD (2004).

The United States is the largest missing element in financing the Millennium Goals, almost half of the total foreign assistance shortfall.

The U.S. government has argued recently that development assistance from private U.S. citizens and the nonprofit sector (faith-based organizations, philanthropies, foundations, NGOs) makes up for much of the shortfall in official aid. The evidence at hand does not bear this out. The Development Assistance Committee of the OECD has compiled cross-country data on nongovernmental development assistance. The estimate for the United States is about $3 billion per year, an amount that raises the total U.S. development assistance from 0.15 percent of GNP to 0.18 percent of GNP, still leaving the United States at the very bottom of the donor list. The U.S. government also tried to argue, incredibly, that remittances of foreign workers in the United States back to their home country should somehow count as a form of aid. This is ridiculous. The remittances are the returns for work. They are no more a form of aid than are the remittances of U.S. profits from Mexico a form of aid from Mexico to the United States.

THE COSTS AFTER 2015

These calculations calibrate the needs through 2015 in order to achieve the Millennium Development Goals. The needs after 2015 would fall, quite significantly in many cases, and surely as a share of donor GNP. The reasons are straightforward, even if the post-2015 foreign aid needs cannot be calculated with any precision. By 2015, most of the developing world will have been freed from the poverty trap onto a path of self-sustaining growth. These countries will therefore "graduate" from the need for ODA to cofinance investments in basic needs. Extreme poverty will have been eliminated from China, and will encompass less than 20 percent of the population in India. In sub-Saharan Africa, the rate of extreme poverty will have declined from around 40 percent of the population today to under 20 percent.

Many of the key infrastructure investments will have been made, with massive improvements in roads, power grids, telecommunications, seaports, and airports. The extent of new investments needed to eliminate the remaining poverty will be much less than during the Millennium Development Goals phase. Although many public investments will still be needed, the key thresholds to operate infrastructure networks should already have been met.

As the rich countries continue to get richer, the share of the extreme poor in the world population continues to decline, and the income of poor countries rises so that they can cover more of their own needs, there will gradually be a declining need for foreign assistance. In the Millennium Project's calculation, the ODA needed to meet the Millennium Development Goals will be 0.5 percent of donor income in 2015. It will fall further in the following decade, and will therefore remain below the key political threshold of 0.7 percent during the entire period between 2005 and 2025.

CAN THE UNITED STATES AFFORD 0.7 PERCENT OF GNP?

The question is silly on its face. Can the United States manage an aid target that five other donor countries have already achieved, six more have scheduled, and all donors—including the United States—have promised "concrete efforts" to achieve? Of course it can, especially since I am speaking of much less than 1 percent of income. Think of it. To go from today's donor assistance level of 0.15 percent of GNP to 0.7 percent of GNP would be an extra tax of 0.55 percent of GNP. With U.S. per capita GNP rising by around 1.9 percent per year, the extra amount represents less than one third of a single year's growth of GNP. So, if the United States were on track to reach a $40,000 disposable income by, say, January 1, 2010, it would instead reach the same income on May 1, 2010, one third of a year later. This four-month lag in attaining a higher level of consumption would mean that a billion people would be given an economic future of hope, health, and improvement rather than a downward spiral of despair, disease, and decline.

People would hardly be weighed down by an extra 0.55 percent of income collected in taxes. But to make the increase in ODA truly imperceptible for the vast majority of Americans, the richest of the rich in the United States should be asked to pay their fair share to help the poorest of the poor in the world. Most of the world, including most Americans, does not appreciate how rich the superrich have become, and how disproportionately they have benefited from the economic and tax changes of the past two decades. The vast incomes of the superrich hit home for me a couple of years ago in the months preceding President Bush's 2003 trip to Africa.

Some months before the trip, the Internal Revenue Service issued a special report on the richest taxpayers of the year 2000. It turned out that the top four hundred taxpayers had a combined income of $69 billion dollars, or $174 million dollars per taxpayer. As President Bush prepared to visit Africa, I made a back-of-the-envelope calculation, shown in table 4, to confirm that the four hundred richest U.S. taxpayers had a combined income in 2000 that exceeded the combined incomes of four of the countries on Mr. Bush's tropical tour. The difference was astounding: the $57 billion in combined income of Botswana, Nigeria, Senegal, and Uganda in 2000 was the income of 161 million people, who average $350 in income per year, whereas the $69 billion was the income of four hundred individuals.

Table 4: Highest-Income Americans and African GDP

	Income in 2000 (GDP, in billions of current US$)	Population in 2000
Botswana	5	1,675,000
Nigeria	42	126,910,000
Senegal	4	9,530,000
Uganda	6	23,250,000
Total	57	161,365,000
400 Highest-Income Americans	**69**	**400**

Source: Internal Revenue Service (2003); World Bank (2004).

The IRS reported that the superrich had enjoyed a sizable reduction in their tax payments as a percent of their incomes during the 1990s, but the best was yet to come. Three tax cuts from the Bush administration in 2001, 2002, and 2003 vitiated much of the progressivity of the tax code. The tax reform package signed into law scheduled the phase out of the estate tax, dropped the top tax bracket, and cut rates on dividends and capital gains. Together these changes enabled rich U.S. taxpayers with annual incomes above $200,000 to reap 37 percent of the total tax cut with an average $19,000 in annual tax savings. Since the total tax cut was on the order of $220 billion per year, the tax savings of the households above $500,000 per year, equal to 22.7 percent of the total tax savings, amounted to around $50 billion per year, more than enough for the United States to pay its share of the MDG needs! The details on the tax cut are shown in table 5.

Table 5: Tax Savings by Household Income in the Bush Administration Tax Cuts

	Number of Tax-Paying Households (thousands)	Percent of Total Households	Tax Savings per Household ($)	Total Tax Savings in the Income Category ($ billion)	Percent of Total Tax Savings
Bottom 80 Percent					
Incomes less than $75,000	114,151	79.5	533	60.87	28
Top 20 Percent	**28,799**	**20**	**5,610**	**156.66**	**72**
of which: (income in '000s)					
Incomes between $75–100	11,395	7.9	2,224	25.34	11.6
Incomes between $100–200	13,281	9.3	3,905	51.86	23.8
Incomes between $200–500	3,339	2.3	9,012	30.09	13.8
Incomes between $500–1,000	527	0.4	27,150	14.31	6.6
More than $1,000	257	0.2	136,398	35.05	16.1
All	143,509	100	1,520	218.13	100

Source: Calculated using data from Gale, William G., Peter Orszag, and Isaac Shapiro. "Distributional Effects of the 2001 and 2003 Tax Cuts and Their Financing," Tax Policy Center. Available at: http://www.taxpolicycenter.org/publications/template.cfm?PubID=8888.

One of the stunning, and politically surprising, aspects of the Bush tax cuts is that they came after a generation in which the shift in income distribution had been immensely favorable to the superrich. The share of income of the top 1 percent of U.S. taxpayers soared from 8.2 percent in 1980 to 14.6 percent in 1998 (signifying, of course, that the income of the top 1 percent was 14.6 times the average income). The reason for this dramatic shift toward the rich is not really known. The surprise is that the political system amplified the shift through tax cuts that favored the rich, instead of offsetting these shifts through greater progressivity of the tax system and income transfers toward the poor.

Achieving 0.7 percent of GNP in official development assistance in the United States would hardly be a stretch. On the spending side of the budget, the United States spent as much in Iraq for two weeks of support for the war (about $2.5 billion) as it does for an entire year of economic development assistance in Africa. In its first two years, the Iraq war cost about $60 billion per year, roughly the same increment needed to reach 0.7 percent of GNP. The overall rise in military spending has been on the order of $150 billion per year, comparing fiscal year 2001 as President Bush came into office and fiscal year 2005, an increase of 1.5 percent of GNP.

Having made little headway with the Bush administration in advocating the promised concrete efforts toward 0.7 percent, I used the occasion of the Bush trip to Africa to appeal directly to the richest Americans for their personal contributions. Writing in *The New York Times,* I suggested that the superrich could apply their tax savings in recent years to the Global Fund to Fight AIDS, TB, and Malaria. "For individuals who already have all the earthly possessions that can possibly be amassed," I wrote, "could there be a better way to give meaning to vast wealth?"

The top four hundred richest taxpayers, I suggested, could give 10 percent of their 2000 income, or $6.9 billion. This would be enough to save millions of lives per year, for example, through the comprehensive control of malaria in Africa. Casting the net more widely, the top 0.1 percent of taxpayers, roughly one hundred thousand in all, could in effect return their tax cuts in the form of personal giving, for a sum of around $30 billion per year. I noted in the op-ed that Bill Gates had, in effect, already done his part, with a stunning gift of $23 billion (which has since been augmented) to establish the Bill and Melinda Gates Foundation. The Gates Foundation spends around 70 percent of its annual outlays on fighting disease in poor countries, and is making history in the process. Other extraordinarily generous philanthropists—among them George Soros, Rob Glaser, Gordon Moore, and Ed Scott—have acted similarly.

This is a noble start, but not yet the groundswell that the world needs. Real solutions will no doubt require a balance of philanthropy and taxation. A practical proposal would be the following:

A 5 percent income tax surcharge on incomes above $200,000 directed toward the U.S. contribution to end global poverty, which in 2004 would yield around $40 billion. That surcharge could be paid as a tax to support U.S. gov-

ernment efforts, or it could be directed by the taxpayer to a qualifying charity or philanthropy that has registered programs in support of the Millennium Development Goals.

There are powerful reasons to take these steps, both out of enlightened self-interest of the rich nations and out of a deeper human need at the individual level. We will look at both of those powerful reasons in a later chapter.

Sixteen

MYTHS AND MAGIC BULLETS

Everything up to this point is fine and good, except for one matter: it ignores the human factor. Take the case of Africa. Africa needs around $30 billion per year in aid in order to escape from poverty. But if we actually gave that aid, where would it go? Right down the drain if the past is any guide. Sad to say, Africa's education levels are so low that even programs that work elsewhere would fail in Africa. Africa is corrupt and riddled with authoritarianism. It lacks modern values and the institutions of a free market economy needed to achieve success. In fact, Africa's morals are so broken down that it is no surprise AIDS has run out of control. And here is the bleakest truth: Suppose that our aid saved Africa's children. What then? There would be a population explosion, and a lot more hungry adults. We would have solved nothing.

If your head was just nodding yes, please read this chapter with special care. The paragraph above repeats conventional rich-world wisdom about Africa, and to a lesser extent, other poor regions. While common, these assertions are incorrect. Yet they have been repeated publicly for so long, or whispered in private, that they have become accepted as truths by the broad public as well as much of the development community, particularly by people who have never worked in Africa. I use the case of Africa because prejudices against Africa currently run so high, but the same attitudes were expressed about other parts of the world before those places achieved economic development and cultural prejudices could not hold up. Napoleon famously declared, "History is a fable often told." The same can be said about much of development thinking.

MONEY DOWN THE DRAIN

Former U.S. Secretary of the Treasury Paul O'Neill expressed a common frustration when he remarked about aid for Africa: "We've spent trillions of dollars on these problems and we have damn near nothing to show for it." O'Neill was no foe of foreign aid. Indeed, he wanted to fix the system so that more U.S. aid could be justified. But he was wrong to believe that vast flows of aid to Africa had been squandered. It is no surprise that there is so little to show for the aid to Africa, because there has in fact been so little aid to Africa!

Contrary to popular perception, the amount of aid per African per year is really very small, just $30 per sub-Saharan African in 2002 from the entire world. Of that modest amount, almost $5 was actually for consultants from the donor countries, more than $3 was for food aid and other emergency aid, another $4 went to servicing Africa's debts, and $5 was for debt relief operations. The rest, $12, went to Africa. Is it really a surprise that we do not see many traces of that aid on the ground? If we want to see the impact of aid, we had better offer enough to produce results.

Since the "money down the drain" argument is heard most frequently in the United States, it is worth looking at the same calculations for U.S. aid alone. In 2002, the United States gave $3 per sub-Saharan African. Taking out the parts for U.S. consultants, food and other emergency aid, administrative costs, and debt relief, the aid per African came to the grand total of six cents. It's hardly shocking that Secretary O'Neill could find "nothing to show for it."

AID PROGRAMS WOULD FAIL IN AFRICA

Pessimism about Africans' ability to utilize aid is very deep, reflecting an amazing reservoir of deep prejudices. I have heard those prejudices for years and have come to expect them, always with sadness. Still, nothing prepared me for the amazing statements made by the new administrator of USAID, Andrew Natsios, a month after he took office in 2001. I had gone to Washington in the early weeks of the Bush administration to try to interest senior officials in a greatly expanded effort against AIDS in the developing world, especially Africa. I was propounding the idea, still highly controversial at the time, that antiretroviral treatment could be introduced effectively into a low-income setting. An enterprising *Boston Globe* reporter asked Mr. Natsios about these ideas. His answer stunned me.

Africans, he said, "don't know what Western time is. You have to take these [anti-AIDS] drugs a certain number of hours each day, or they don't work. Many people in Africa have never seen a clock or a watch their entire lives. And if you say, one o'clock in the afternoon, they do not know what you are talking about. They know morning, they know noon, they know evening, they know the darkness of night." He continued, "I'm sorry to say these things, but a lot of people like Jeffrey Sachs advocating these things [anti-AIDS drug treatment] have never worked in health care in rural areas in Africa or even in the cities."

This statement was extraordinary. The people of Sauri, Kenya, who arrived punctually at 2:30 P.M. for our Monday afternoon discussion, would have been chagrined to know how their lives had been compromised by such profound ignorance of a senior U.S. official. Not only did they know the time, they knew the nature of their predicament, whether it was the absence of anti-AIDS drugs or antimalarial bed nets, or fertilizers, or mobile phones. My colleagues and I battle these anti-African and antipoor attitudes regularly, even if they are rarely expressed in the unguarded terms that Andrew Natsios used. An argument on behalf of Africa must scale a sheer mountain of doubt before finding acceptance.

Corruption Is the Culprit

In the past, the overwhelming prejudices against Africa have been grounded in overt racism. Today the ever repeated assertion is that corruption—or "poor governance"—is Africa's venal sin, the deepest source of its current malaise. Both Africans themselves and outsiders level this charge. A senior human rights official of South Africa, speaking in full sincerity, stated the common view that "[poverty] is man made because poverty is the result of policy options that have been taken that impoverish some and enrich others. Inasmuch as poverty is man made, so also do I believe that poverty can be eradicated." Almost any account of African poverty these days begins with the same assertion: poor governance is the major stumbling block.

By almost any standard, Africa's quality of governance is low. Property rights are difficult to enforce, violence and crime are high, corruption is perceived to be extensive. Although there is an undoubted basis for putting an emphasis on improved governance, the focus on corruption and governance is exaggerated, and seriously overstates the causal role of corruption and poor governance in Africa's laggard growth performance. The point is that virtually all poor countries have governance and corruption indicators that are below those of the high-income countries. Governance and higher incomes go hand in hand not only because good governance raises incomes, but also, and perhaps even more important, because higher income leads to improved governance.

As a country's income rises, governance improves for two major reasons. First, a more literate and affluent society is better able to keep the government honest by playing a watchdog role over government processes. Newspapers, television, books, telephones, transport, and now the Internet, all of which are vastly more available in rich countries, enhance this watchdog function and empower civil society. Second, a more affluent society can afford to invest in high-quality governance. When governments are backed by ample tax receipts, the civil service is better educated, extensive computerization improves information flows, and the public administration is professionally managed.

Africa's governance is poor because Africa is poor. Crucially, however, two other things are also true. At any given level of governance (as measured by standard indicators), African countries tend to grow less rapidly than similarly governed countries in other parts of the world. There is distinctly slower growth in Africa even after controlling for the quality of governance. Something else is afoot; as I have argued at length, the slower growth is best explained by geographical and ecological factors. Second, Africa shows absolutely no tendency to be more or less corrupt than other countries at the same income level. There is no evidence whatsoever that Africa is distinctly poorly governed *by the standards of very poor countries.*

There is an easy way to check both claims. First, we can examine Africa's governance measures once we have controlled statistically for income levels. It turns out that some African countries are better than expected given their income; others are average, and some others are indeed worse. On average, however, Africa's governance is typical for countries at the same level of income. The ranking of performers is shown in table 1, taken from a study that my colleagues and I recently published. We see that Africa's well-governed countries (whose governance scores are relatively high given the country's income level) include: Benin, Burkina Faso, Ghana, Madagascar, Malawi, Mali, Mauritania, and Senegal. The poorly governed countries (whose governance scores are relatively low given the country's income level) include: Angola, Burundi, Democratic Republic of the Congo, Sudan, and Zimbabwe.

Table 1: Governance Ratings and Household Consumption in Tropical Sub-Saharan Africa

Country	Rating Based on World Bank Governance Indicators, 2002*	Rating Based in Transparency International Index, 2003*	Freedom House Rating, 2003	Household Final Consumption Expenditure per Capita, 2000 (1980 = 100)
Benin	Good	NA†	Free	98.9
Burkina Faso	Good	NA†	Partly Free	111
Ghana	Good	Average	Free	92.8
Madagascar	Good	Good	Partly Free	64
Malawi	Good	Good	Partly Free	111.2
Mali	Good	Good	Free	95.3
Mauritania	Good	Good	Partly Free	104.8
Senegal	Good	Good	Free	99.6
Cameroon	Average	Average	Not Free	102.5
Central African Republic	Average	NA	Partly Free	NA
Chad	Average	NA	Not Free	NA
Congo, Rep.	Average	Average	NA	80.5
Côte d'Ivoire	Average	Average	Not Free	78.2
Eritrea	Average	NA	Not Free	NA
Ethiopia	Average	Good	Partly Free	NA
Guinea	Average	NA	Not Free	NA
Kenya	Average	Average	Partly Free	100.7
Mozambique	Average	Good	Partly Free	79.4
Niger	Average	NA	Partly Free	NA
Nigeria	Average	Average	Partly Free	NA
Rwanda	Average	NA	Not Free	83.9

Sierra Leone	Average	Good	Partly Free	43.9
Tanzania	Average	Good	Partly Free	NA
Togo	Average	NA	Not Free	112.4
Uganda	Average	Average	Partly Free	NA
Zambia	Average	Good	Partly Free	47
Angola	Poor	Poor	Not Free	NA
Burundi	Poor	NA	Not Free	65
Congo, Dem. Rep.	Poor	NA	Not Free	45.1
Sudan	Poor	Average	Not Free	NA
Zimbabwe	Poor	Average	Not Free	88.4
Liberia	NA	NA	Not Free	NA
Somalia	NA	NA	Not Free	NA

** Determined from the residuals of a regression of countries' governance indicators or scores on income per capita (at purchasing power parity); countries with residuals more than 1 standard deviation above or 1 standard deviation below the predicted value are categorized as "good" or "poor," respectively, and those with residuals within 1 standard deviation as "average."*

† NA=not available.

Source: Sachs et al. (2004).

Comparing growth rates and the quality of governance, we find that better governed countries grew faster, but the relationship is not all that strong. There is a tendency for countries with low governance scores to grow less rapidly than countries with high governance scores, but there is a huge range of growth outcomes even among well-governed countries or poorly governed countries. The problem for Africa, however, is that African countries on average grow less rapidly than other developing countries at the same level of income and the same quality of governance, but in different parts of the world. To test this proposition, I have estimated the relationship between economic growth during 1980 to 2000 and the quality of governance during that period, using a large sample of developing countries. The statistical test also took into account the initial income of each country in 1980. The idea was to check whether African countries grew faster or slower than other developing countries once we had taken into account the quality of governance and initial incomes. The results are clear: African countries on average grew around 3 percentage points less rapidly than other developing countries at the same levels of governance and income. This slower growth is caused, in my opinion, mainly by Africa's adverse geography and deficient infrastructure.

A Democracy Deficit

Another charge leveled against Africa and other poor regions is the absence of democracy. As with corruption, we need to "unpack" the evidence step by step. It is true that after achieving independence, most African countries fell into an authoritarian mold, as did most poor and newly independent countries around the world. In southern Africa, white minorities in South Africa and Rhodesia imposed authoritarian regimes on majority African populations. By the early 1990s, however, a little-heralded democratic revolution was sweeping the continent. One by one the long-ruling (and often highly corrupt and incompetent) founding generation gave way to multiparty elections. By 2003, Freedom House had categorized eleven African countries as "free," twenty as "partly free," and sixteen as "unfree." Africa's share of free and partly free countries, 66 percent, actually stands above the average for non-African low-income countries in 2003, 57 percent (thirteen countries out of twenty-three non-African low-income countries ranked by Freedom House).

Democratization, alas, does not reliably translate into faster economic growth, at least in the short term. The links from democracy to economic performance are relatively weak, even though democracy is surely a boon for human rights and a barrier against large-scale killing, torture, and other abuses by the state. The point is not that Africa will soar economically now that it is democratizing, but rather that the charge of authoritarian rule as a basic obstacle to good governance in Africa is passé.

Lack of Modern Values

Many people take for granted that poverty and wealth are simply a reflection of societal values. One recent study attributed African poverty to a dislike of work, suppression of individualism, and irrationality; another study identified the main obstacles to Mexican American upward mobility to be "resignation of the poor [to poverty]," "low priority of education," "fatalism," and "mistrust of those outside the family." The idea that whole societies are condemned to poverty because of their values has a long history, but one that is seldom useful.

Virtually every society that was once poor has been castigated for being lazy and unworthy until its citizens became rich, at which point their new wealth was "explained" by their industriousness. Japan is a case a point, a society that was viewed as doomed to poverty when foreigners first arrived in the 1870s. The foreign press in Japan, such as the *Japan Gazette,* cautioned that Japan would never be rich because of the indolence of the society: "Wealthy we do not think it [that is, Japan] will ever become: the advantages conferred by Nature, with the exception of the climate, and the love of indolence and pleasure of the people themselves forbid it." Indeed, the same newspaper opined that economic reforms were bound to fail because of the deep corruption found in Japanese society: "The national banking system of Japan is but another example of the futility of trying to transfer Western growth to an Oriental habitat. In this part of the world principles, established and recognized in the West, appear to lose whatever virtue and vitality they originally possessed and to tend fatally towards weediness and corruption."

Early in the twentieth century, sociological theories in the tradition of Max Weber tried to explain the lower incomes of Southern Europe and Ireland relative to Northern Europe on the basis of supposedly static values of Catholicism versus entrepreneurial values of Protestantism. After midcentury, the Catholic countries began to grow very rapidly, especially after malaria was controlled. By now, Catholic Italy and Ireland have overtaken the Protestant UK in per capita income. Similarly, Weber and his followers hypothesized that East Asian societies with Confucian values, notably China, would be unable to achieve economic progress. Later, when China and other countries of East Asia began to grow rapidly, "Asian values" were invoked as the explanation for success, turning the argument on its head. When Asia had a temporary economic crisis in 1997, Asian values were once again attacked as the culprit, but this interpretation quickly faded when economic recovery came a couple of years later. India's poverty was explained on the basis of Hindu social rigidities and mysticism, until of course, India became one of the fastest growing economies in the world in the 1990s.

In the wake of September 11, Islamic societies have been categorized by some Western observers to be unfit for modernity. The charges of cultural failure are legion: irrationality, fundamentalism, extreme bias against women, antipathy to science. Yet some of the fastest growing economies in the world in the past decade have been Islamic. Between 1990 and 2001, average annual per capita growth in Malaysia was 3.9 percent; in Bangladesh, 3.1 percent; Tunisia, 3.1 percent; and Indonesia, 2.3 percent. These countries also made great strides in equality of girls' education and literacy.

Culture-based predictions of social change are fragile and often incorrect even in the most culture-bound areas of human behavior, such as fertility choice. Consider the Iranian revolution, which by standard arguments should have led to massive discrimination against girls and women and a delay in the demographic transition to low fertility rates. Instead, since the revolution, Iran has achieved one of the world's fastest transitions to low fertility, with its total fertility rate falling from 6.6 in 1980 to 1985 to 2.5 in 1995 to 2000. This achievement was the result, in part, of a tremendous increase in girls' participation in school and in female literacy. One interpretation is that religiously conservative fathers had more confidence in sending their daughters to school after the revolution. Iran was not alone in the education and demographic transitions. Islamic countries such as Egypt, Jordan, Morocco, and Tunisia have all experienced tremendous increases in girls' schooling and significant declines in total fertility rates.

Cultural arguments hold two main problems. Most important, cultures change with economic times and circumstances. The role of women in the labor market, household fertility choices, school attendance of children, and other critical areas of economic behavior change dramatically as societies shift from villages to urban centers, farming to industry, and illiteracy to literacy. What look like immutable social values turn out to be highly malleable to economic circumstances and opportunities. Although not all cultural values change so easily, values deemed to be inimical to economic development are rarely, if ever, unalterable features of a society.

The second main problem with cultural interpretations is that they are usually made on the basis of prejudice rather than measurable evidence. The arguments tend to be circular. People are poor because they are lazy. How do we "know" they are lazy? Because they are poor. Promoters of these interpretations rarely understand that low productivity results not from laziness and lack of effort but from lack of capital inputs to production. African farmers are not lazy, but they do lack soil nutrients, tractors, feeder roads, irrigated plots, storage facilities, and the like. Stereotypes that Africans work little and therefore are poor are put to rest immediately by spending a day in a village, where backbreaking labor by men and women is the norm.

When social scientists try to measure cultural attitudes related to work, child rearing, and education, stereotypes tend to collapse. In the World Values Survey, households around the world are asked the same questions in order to permit serious comparisons of cultures and values. The answers are eye-opening. When asked in 2000, for example, whether it is especially important for children to be encouraged at home to learn "hard work," 61 percent of Americans said yes, whereas 80 percent of Nigerians, 75 percent of South Africans, and 83 percent of Tanzanians responded affirmatively. This answer and others hardly demonstrated social values of laziness in Africa and other poor countries.

THE NEED FOR ECONOMIC FREEDOM

If good governance has become the dominant mantra of those looking for instant solutions to development problems, its closest rival is surely economic freedom. Once again, a basically correct insight—that market economies outperform centrally planned economies—has been taken to the extreme, and then used as a substitute for analysis. When communism fell and free-market reforms swept Eastern Europe, the former Soviet Union, and China, free markets were hailed as the victor in the long-running battle between markets and state planning. So far, so good. But free-market ideologues took the argument to extremes that are utterly unsupportable by evidence or good economic reasoning. First, they maintained that markets should rule every nook and cranny of the economy, not just the basic productive sectors of farms, factories, and service trades, but also health, education, social security, and core infrastructure like water, energy transmission, roads, and rail. Second, they argued that all shortfalls in growth can be accounted for by the absence of free markets. Aid, they posited, becomes superfluous, even dangerous (as a delay to market reforms). All that is needed is the will to liberalize and privatize!

The Heritage Foundation and *Wall Street Journal,* which joined forces to produce the *Index of Economic Freedom,* put it this way:

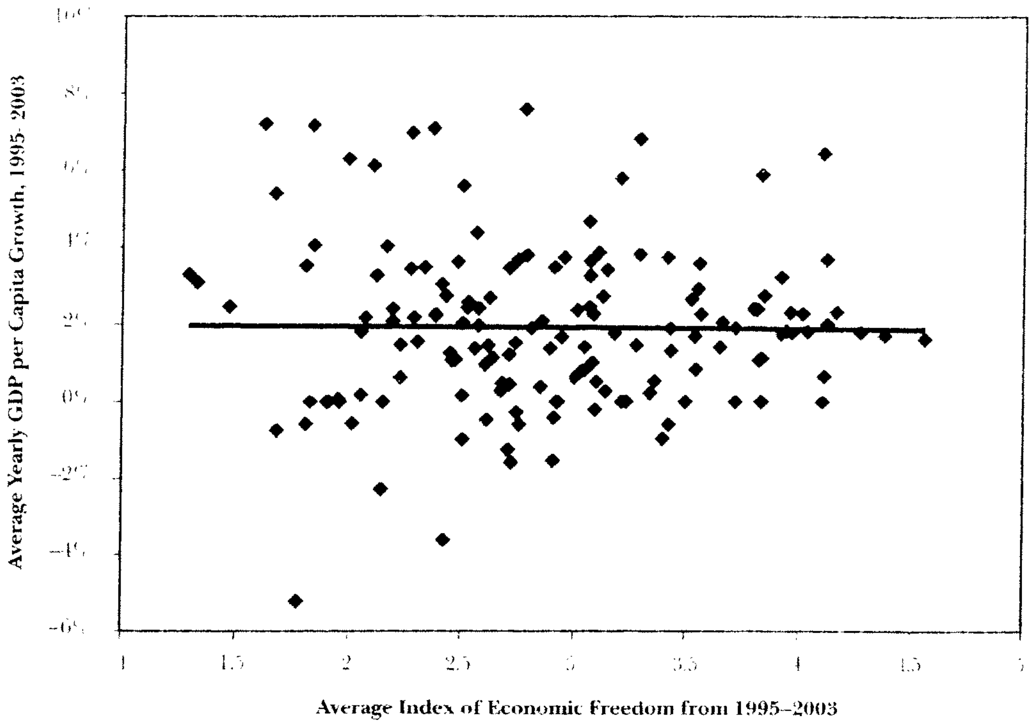
> [A]chieving economic freedom is like building a car. What is the most important component of the car: the powerful engine, the transmission, the seats, the steering wheel, the brakes, or the tires?

> The question defies an answer, because without any one of these components, the car is unlikely to reach the desired destination. In similar fashion, ignore any one of the 10 factors of economic freedom, and abundant prosperity is likely to remain elusive. For that reason, we often refer to the 10 factors of the *Index* as a "10-step plan to end dependency." The 10 factors provide a road map, and only by sticking to the highlighted route can a country achieve economic freedom, prosperity, and self-sufficiency.
>
> In fact, countries moving down the road map toward economic freedom have higher growth rates. As long as they keep progressing along the road map, their growth rate tends to be above the average for all countries. The faster they move (the greater the improvement in score), the higher the growth rate. Once countries decide to stop by the roadside or to retrace their steps, growth plummets. So the important message to the countries of the world is that they can help themselves just by starting to adopt economic freedom. The more economic freedom they adopt, the faster they grow or the longer they have superior growth. More growth in turn means that the average level of prosperity is increasing.

Here again is magical thinking. Economic development is like moving down a road: only one direction to travel, and the only question one of speed. The more economic freedom, as measured by a ten-part index, the faster the progress down the road. Any deviation from the straight and narrow, and growth collapses.

The prescription has the virtue of simplicity, and as philosopher Karl Popper would say, falsifiability. In other words, the proposition can be tested. Here is how. Let us look at the countries in the Heritage Foundation/Wall Street Journal index, and ask whether the central claim is merited. Does the index explain the rate of growth of the countries, so that those with high scores (meaning bad governance in the case of this index) see their growth rates "plummet"? Figure 1 shows the average value of the *Index of Economic Freedom* during 1995 to 2003 on the horizontal axis and the annual growth of per capita GDP during 1995 to 2003 on the vertical axis. A "line of best fit" shows the relationship between the index score and economic growth. If better governance translated directly into faster growth, then as one moves to the right of the graph we would see countries growing faster. This is clearly not the case.

Figure 1: Growth and Governance



[illegible]

Source: Heritage/WSJ (2004) [illegible] World Bank (2004).

Indeed, scoring well in the *Index of Economic Freedom* is not a ten-step plan to Nirvana, nor a very powerful explanation of differences in economic growth rates. There are many cases where the score on economic freedom is rather low, but economic growth is rather high, China being the notable case. On the other hand, there are many cases where the score on economic freedom is good, and yet economic growth is low, like Switzerland or Uruguay.

As for Africa, the same situation occurs as with governance. Africa grows less rapidly than would be explained by its score on economic freedom, indeed markedly so. As mentioned before, a formal statistical test of that proposition shows that African countries grew less rapidly than others at the same level of economic freedom, by about 3 percentage points per year. Once again, the factors of geography, disease, and levels of infrastructure, among others, none of which are captured in the "10-step plan" to prosperity, were taken into account. Economic freedom is definitely a plus for economic development, but alas, it is no magic bullet.

A Single "Mystery of Capital"?

Hernando de Soto, a Peruvian economist, has promoted and popularized one variant of the theme of economic freedom. De Soto argues that the security of private property, including the ability to borrow against land, represents the true "mystery of capital." The poor in most of the developing world hold their assets, such as housing and land, he says,

> . . . in defective forms: houses built on land whose ownership rights are not adequately recorded, unincorporated businesses with undefined liability, industries located where financiers and investors cannot see them. Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment . . .
>
> [The poor] have houses but not titles; crops but not deeds; businesses but not statutes of incorporation. It is the unavailability of these essential representations that explains why people who have adapted every other Western invention, from the paper clip to the nuclear reactor, have not been able to produce sufficient capital to make their domestic capitalism work.

De Soto is on to something interesting. His recent study, entitled the *The Mystery of Capital,* and his earlier study, *The Other Path (El Otro Sendero),* have helped to focus policy attention usefully on squatters' rights, on formalizing the informal economy, and reducing the transactions costs of contracting and gaining access to public services.

The problem with de Soto's analysis, however, is that it relies on a single factor—the lack of titles and deeds—to explain single-handedly the failures of development. The subtitle to *The Mystery of Capital* claims that the book will explain "Why capitalism triumphs in the West and fails everywhere else." The problem is that capitalism is *not* failing everywhere else. Many developing countries are growing rapidly, but others are stuck. Many that are growing especially fast, such as China and Vietnam, have certainly not solved the problem of titles and deeds! Many non-Western countries now at high-income levels, such as Japan, Korea, and Taiwan, followed distinctive pathways of legal development.

Most important, all single-factor explanations fail the scientific test of accounting for the observed diversity of development experience. Dozens of recent statistical studies have shown that difference in economic growth rates across countries depends on a multiplicity of factors: initial incomes, education levels, fertility rates, climate, trade policy, disease, proximity to markets, and the quality of economic institutions, just to name a few of the relevant variables. The real challenge is to understand which of these many variables is posing particular obstacles in specific circumstances—what I mean precisely by "differential diagnosis."

A SHORTFALL OF MORALS?

The AIDS pandemic has ravaged Africa as it has no other place in the world. This tragedy has also unleashed long-standing assumptions about sexual licentiousness and irresponsibility in Africa that have led many to presume that a crisis of culture and morality lies at the core of Africa's problems. If men are so unfaithful to their spouses, and family life has broken down to such an extent, what future could there be for Africa no matter how much aid is given? This is a tough question to broach in public, but it is asked repeatedly in private. It merits an answer, if only to better understand and thereby better control the AIDS pandemic. The answer is surprising, far from what is commonly supposed.

As I noted in chapter 10, the reasons for Africa's extremely high prevalence rates are not well understood or agreed. The simplest explanations just do not work. A common view is that Africans have more sexual partners, and therefore more risk of transmitting the disease. But here is the conclusion of a recent survey of the most careful epidemiological studies from *The Lancet*, a leading UK medical journal:

> Although sexual cultures do vary from region to region, the differences are not so obvious. Demographic surveys and other studies suggest that, on average, African men typically do not have more sexual partners than men elsewhere. For example, a comparative study of sexual behaviour found that men in Thailand and Rio de Janeiro were more likely to report five or more casual sexual partners in the previous year than were men in Tanzania, Kenya, Lesotho, or Lusaka, Zambia. And very few women in any of these

> countries reported five or more partners a year. Men and women in Africa report roughly similar, if not fewer, numbers of lifetime partners than do heterosexuals in many western countries.

There are many hypotheses, and few hard conclusions, about what can explain Africa's extraordinarily high transmission of the disease. Perhaps details of the sexual networks (such as the timing of having multiple sexual partners or the large number of African migrant male workers who are away from their families for long periods) account for some of the differences. The extent of male circumcisions may explain some of the difference (since circumcision seems to protect against transmission of the disease). The extent of other untreated diseases in the African population may be conducive to a faster transmission of AIDS. The viral type of HIV in parts of Africa may differ from the virus in other parts of the world. The fact is that nothing sure is known about the relative importance, or importance at all, of these possible factors. What is known is that the simple, broad-based attacks on African morals do not hold up to scientific scrutiny.

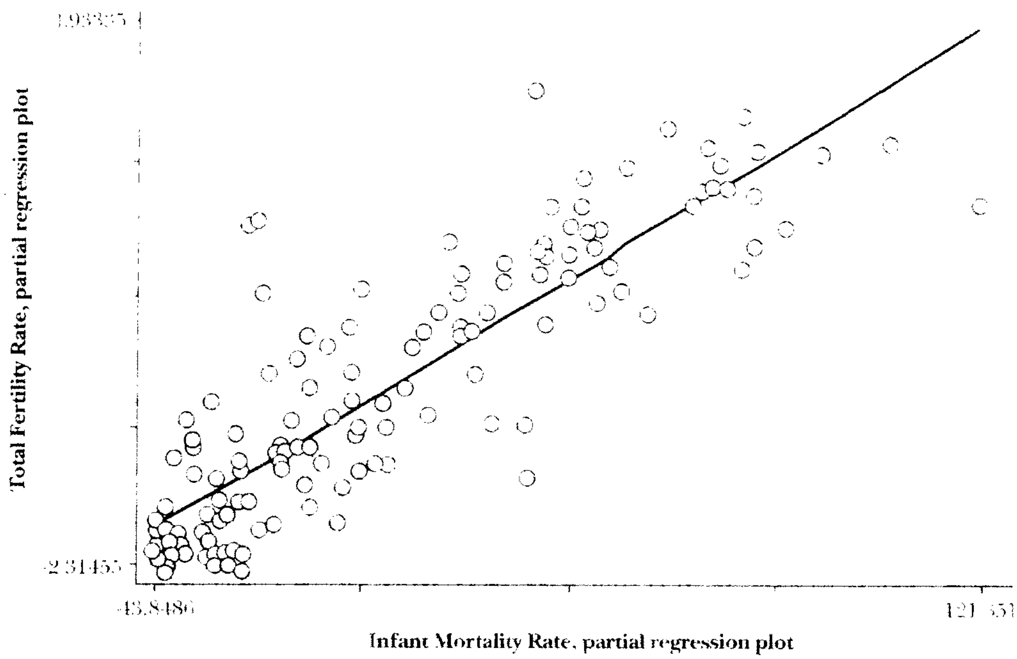
Saving Children Only to Become Hungry Adults?

I have been asked dozens of times if help for Africa would ultimately backfire in an even greater population explosion. Would greater child survival rates not translate directly into more adult hunger and suffering? Usually the questioner begins sheepishly, apologizing for what is to come. Then he or she explains that they do not want to sound callous, but that they really need to understand the issue. This is a very fair question. After all, Thomas Malthus asked almost the same one two hundred years ago.

The answer is that a concerted effort to end extreme poverty in Africa would be the best guarantor of ending today's population explosion, and doing so quickly, voluntarily, and in a way that empowers households to meet their personal objectives of human betterment. Poverty is the biggest risk factor in rapid population growth by far. Indeed, with a few exceptions in the Middle East, all of the places in the world where fertility rates remain very high—above 5.0—are in poor and largely rural countries. Fertility rates are the result of household circumstances. All of the basic factors that contribute to poverty tend to

Figure 2: Relationship of Infant Mortality Rate (X Axis) and Total Fertility Rate (Y Axis), 148 Countries, 1995 (partial-regression plot)

coef: .04065342, se: .00184397, t=22.05



Source: CMH (2001)

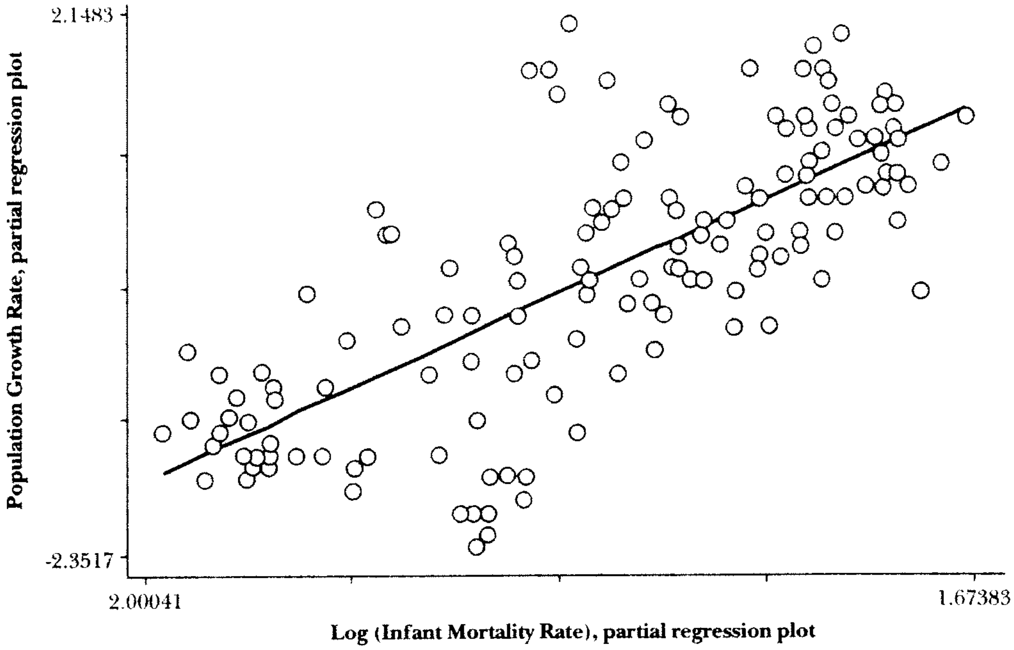
contribute to high fertility rates. High fertility rates, in turn, are a factor in causing the poverty trap.

As I have noted before, fertility rates depend on several factors. First, when children die in large numbers, households tend to have many more children to compensate for the risk. Because the parents are risk averse, and want to ensure with very high probability at least one surviving child (and often at least one surviving son), they overcompensate in a statistical sense. The places with a high child mortality rate tend to be the places with a very high total fertility rate, as shown in the scatter plot in figure 2. For 148 countries in the year 1995, we plot one point per country, showing the child mortality rate on the horizontal axis and total fertility rate on the vertical axis. The strong upward line shows the strong tendency of societies with a high child mortality rate to have a high total fertility rate as well.

Figure 3 shows that the total fertility rate more than compensates. In this figure, we plot the child mortality rate on the horizontal axis to compare with the total population growth rate on the vertical axis. In-

Figure 3: Relationship of Log (Infant Mortality Rate) and Population Growth Rate, 148 Countries, 1995 (partial-regression plot)

coef=.85216147, se=.06278833, t=13.57



Source: CMH (2001).

deed, the places with high child mortality rates also have high overall population growth rates, contrary to conventional beliefs.

Fertility rates come down as economic development proceeds. As more children survive, households "risk" having fewer children, confident that each child is much more likely to survive. As households move from subsistence agriculture to commercial farming and especially to urban life, they also choose to have fewer children. This is partly because children are no longer so valuable as farmworkers. As households obtain modern amenities such as piped water or well water close to the home or a cookstove that uses gas canisters rather than fuel wood, children are not needed to fetch the water and wood. As households put their children in school, the expense of raising each child rises. Households decide to have fewer children and to invest more in each of them. As mothers find improved economic opportunities out of the household and off the farm, the time expense of raising children (in terms of lost wage income) rises as well. And, of course, as households are able to obtain modern health services, including family planning and modern contraceptives, they are able to follow through on their changing desires about family size.

All of these factors explain why most of the world has achieved a marked reduction of total fertility rates and a sharp slowdown in population growth. This phenomenon has not yet come to rural Africa, where the enabling conditions—child survival, girls' education, women's job opportunities, access to water and modern cooking fuels, and access to family planning and contraception—are not yet in place. The investments to end extreme poverty in Africa (and elsewhere) are the very same investments that will produce a rapid and decisive drop in fertility rates in a short period of time.

A Rising Tide Lifts All Boats

Another pervasive illusion, held by the champions of globalization, is that remaining problems of extreme poverty will take care of themselves because economic development will spread everywhere. A rising tide lifts all boats, as the old expression puts it. If the rising tide is not lifting your boat, it is probably your own fault. The forces of globalization are sufficiently strong that everyone can benefit if they can just behave themselves.

In real geographical terms, the rising tide of globalization has lifted most economies that lie at the water's edge. Those societies are, quite literally, the places that have boats in the water. The free-trade zones that fueled the initial industrialization of Asia, for example, were all on the coastline. But a rising tide does not reach the mountaintops of the Andes or the interior of Asia or Africa. Market forces, as powerful as they are, have identifiable limitations, including those posed by adverse geography. Even worse, when economic progress does not reach a country, the economic conditions can worsen as population growth and capital depreciation (including the depreciation of natural capital) lead to falling ratios of capital per person.

Nature Red in Tooth and Claw

The last myth worthy of mention is the social Darwinist myth, often the modern economist's myth, which warns against soft-hearted liberalism on the grounds that "real life" is competition and struggle, of "nature red in tooth and claw" in Tennyson's evocative phrase. Social Darwinism holds that economic progress is the story of competition and survival of the fittest. Some groups dominate; other groups fall behind. In the end, life is a struggle, and the world today reflects the outcome of that struggle.

Despite the fact that much of free-market economic theory has championed this vision, economists from Adam Smith onward have recognized that competition and struggle are but one side of economic life, and that trust, cooperation, and collective action in the provision of public goods are the obverse side. Just as the communist attempt to banish competition from the economic scene via state ownership failed miserably, so too would an attempt to manage a modern economy on the basis of market forces alone. All successful economies are mixed economies, relying on both the public sector and the private sector for economic development. I have explained the underlying theoretical reasons why markets and competition alone will not provide efficient levels of infrastructure, knowledge, environmental management, and goods. Just as that is true at the national level, it is also true internationally. Without cooperation, a collection of national economies will not provide efficient levels of investment in cross-border infrastructure, knowledge, environmental management, or merit goods among the world's poor.

There is broad consensus on the case for public goods at the national level, even if there are heated debates on exactly where to draw the line between public and private activities. Even the most hard-nosed conservatives in the United States support public financing of education, medical research, and many kinds of health care. Public spending in the United States is around 30 percent of GDP when expenditures at the local, state, and federal level are combined, and there is no serious prospect of any real reduction in that proportion. Yet when it comes time for countries to spend on the international level, suddenly even 0.7 percent of GDP looks burdensome and highly controversial. The same arguments that have prevailed at the national level—making the case for a mixed economy—will sooner or later, and hopefully sooner, prevail in international relations as well.

Eliminating poverty at the global scale is a global responsibility that will have global benefits. No single country can do it on its own. The hardest part is for us to think globally, but that is what global society in the twenty-first century requires. The philosophy of the Millennium Development Compact, which was both developed and ratified globally, can serve as an underpinning to this international effort.

MAKING THE CASE FOR ACTION

I reject the plaintive cries of the doomsayers who say that ending poverty is impossible. I have identified the specific investments that are needed; found ways to plan and implement them; shown that they can be affordable; and addressed the counsels of despair who claim that the poor are condemned by their cultures, values, and personal behaviors. But will the world act? What, after all, is in it for the rich countries? Why should they care? When has the world ever acted simply because it's the right thing to do? These are the final questions of my inquiry.

Seventeen

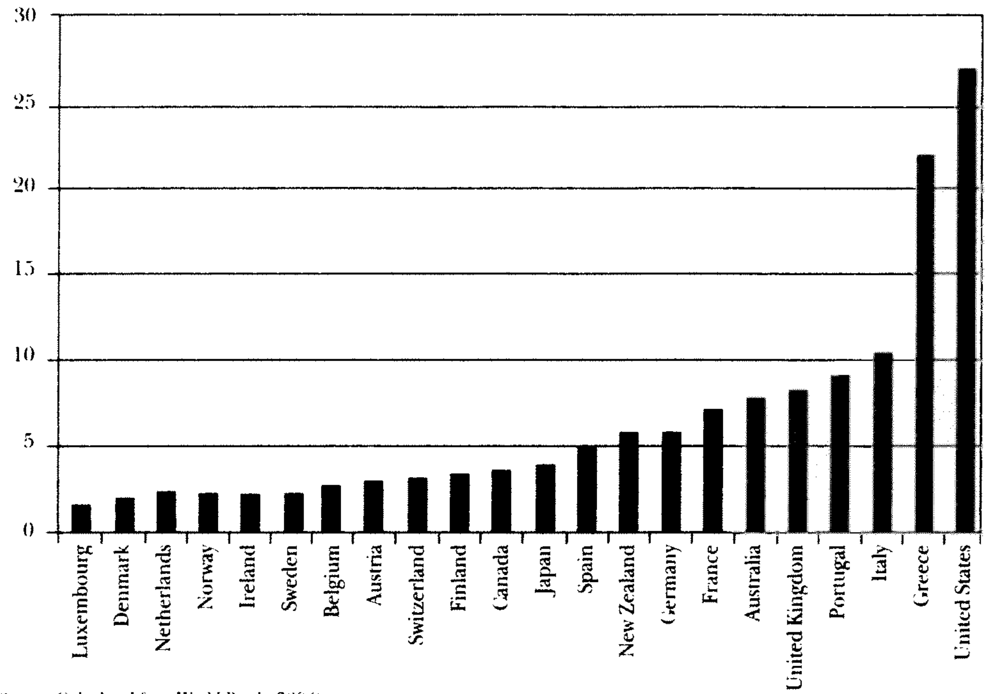
WHY WE SHOULD DO IT

Will the rich world act to help save the poor? The cynics say no. Why should we? Poverty is not our problem; it is theirs. What can the poor do to us, or for us? When has any country done anything out of altruism for others? How can we fight poverty when we have to fight terrorism? How can politicians ask the public to give more for Africa when the public is already feeling squeezed economically? These are questions I hear daily.

They are also particularly American questions these days. Many Americans do not see economic assistance as having much to do with their national security. For that they have put their faith in the military. The United States is spending thirty times more on the military than on foreign assistance in 2004, $450 billion compared with $15 billion. Only Greece comes anywhere close to that lopsided ratio, as figure 1 shows using the most recent available data for the year 2002 (before much of the current U.S. military buildup).

The American investment decision to back military rather than other approaches to international relations reflects several mistaken ideas. The first is that we are already doing all that we can do to help the poor. Public opinion research conducted over the past decade illustrates, time and again, that the American public greatly overestimates the amount of federal funds spent on foreign aid. In a 2001 survey, the Program on International Policy Attitudes (PIPA) at the University of Maryland reported that Americans, on average, believed that foreign aid accounts for 20 percent of the federal budget, roughly twenty-four times the actual figure. PIPA found essentially the same result in surveys in the mid-1990s.

Figure 1: Ratio of Military Expenditure to Official Development Assistant (2002)



Source: Calculated from World Bank (2004).

President Bush seems to make the same error. In a press conference in April 2004, he said that as "the greatest power on the face of the Earth, we have an obligation to help the spread of freedom. We have an obligation to help feed the hungry." Yet how does the United States fulfill its obligation? U.S. aid to farmers in poor countries to help them grow more food runs at less than $1 billion per year, perhaps $1 per subsistence farmer in the world. Mind you, $1 billion comes to one penny of every hundred dollars of U.S. national income. The United States gives another $800 million in food itself, which helps to feed individuals in a crisis, but does nothing by itself to solve the more fundamental problem of unstable and insufficient food production.

The second fallacy is a widespread view that the U.S. military can achieve security for Americans even in the absence of a stable world. It is the same mistake that led Americans to believe that the United States would be greeted as liberators in Baghdad, that the capture of Saddam Hussein would stop the Iraqi violence, or that one more assault against al Qaeda will end the terror. Whether terrorists are rich or poor or middle class, their staging areas—their bases of operation—are unstable societies beset by poverty, unemployment, rapid population growth, hunger, and lack of hope. Without addressing the root causes of that instability, little will be accomplished in stanching terror.

The third fallacy is the "clash of civilizations," the belief that the world is entering a war of cultures. For many in America this is a literal war, the war of Armageddon. Millions of Americans, though just how many is unclear, believe that we are approaching the "end days" of biblical prophecy. This millennial belief has returned in waves in American history, but never before with the United States as a nuclear and global superpower. It is terrifying for those of us who would rather use rationality than scriptural prophecy to determine U.S. foreign policy.

Hard evidence has established strong linkages between extreme poverty abroad and the threats to national security. Poverty abroad can indeed hurt us at home, and has repeatedly done so. To answer the earlier question, yes, countries do occasionally act altruistically, helping other countries to address their basic economic and social challenges. Indeed, they have done so for generations, as with the magnificent U.S. Marshall Plan. Foreign policy strategists have long recognized that acts of altruism—ending the slave trade, supporting countries in their independence from empire, extending assistance for reconstruction and development, providing humanitarian relief after natural disasters—are also acts of enlightened self-interest. That self-interest does not diminish such generous acts. Moral precepts, after all, are rules of behavior that establish a basis for cooperation and reciprocity on which civilization depends.

It is also wrong to suppose that politicians are punished for supporting such actions. There is plenty of experience to show that the broad public will accept such measures, especially if they see that the rich within their own societies are asked to meet their fair share of the burden. The problem in the United States has not been public opposition to increased foreign assistance, but a lack of political leadership even to inform the public about its importance, and to ask the public for greater efforts. Americans have shown an overwhelming willingness to "share at least a small portion of its wealth with those in the world who are in great need," reaffirming the American public's strong support for giving foreign aid in principle. The PIPA survey also found that 54 percent rejected the idea that foreign aid "should be strictly a private matter taken care of by individuals giving donations through private organizations." Americans understand what must be done and why it is a public duty. What they do not appreciate is how little the United States is in fact following through.

U.S. SECURITY AND GLOBAL POVERTY

As a general proposition, economic failure—an economy stuck in a poverty trap, banking crisis, debt default, or hyperinflation—often leads to state failure as well. The most comprehensive study of state failure, carried out by the State Failure Task Force established by the Central Intelligence Agency in 1994, confirms the importance of the economic roots of state failure. The task force defines state failure as a case of revolutionary war, ethnic war, genocide, politicide, or adverse or disruptive regime change. Failed states, in turn, are likely to create problems not only for themselves, but also for the rest of the world. Throughout history they have been seedbeds of violence, terrorism, international criminality, mass migration, refugee movements, drug trafficking, and disease. If the United States, Europe, Japan, and other high-income countries want to spend less time responding to failed states, they will have to reduce decisively the number of failed economies.

Americans would dearly love to believe that the United States can be an island of stability and prosperity in a global sea of poverty and economic failure. History, however, proves otherwise. The examples are legion. The rise of the Bolsheviks to power in 1917 took place in the wake of the economic collapse of wartime czarist Russia. The rise of Hitler in 1933 occurred in the midst of the Great Depression that affected Germany especially hard because of its large foreign debt. More recently, Yugoslavia disintegrated into regional war not only because of interethnic conflicts, but also because of an economic collapse and the descent of the former federal state into hyperinflation in the late 1980s. Slobodan Milosevic used the economic collapse to grab power. Iraq's declining economic fortunes and rising debt burdens following the Iran-Iraq war of the 1980s prompted, at least in part, Saddam Hussein's invasion of Kuwait in 1990.

I certainly do not want to commit the simplistic fallacy of attributing all political failures to economic crises. The shah of Iran was knocked from power in 1979 in the midst of an oil boom. Tracing the rise of Lenin or Hitler to power on the basis of economics alone would be fatuous. And 9/11 and al Qaeda's existence weren't caused by poverty per se, although state collapse in Afghanistan and economic crises throughout South Asia and the Middle East certainly played their roles. Yet in practice, economic failure abroad undoubtedly matters greatly and can translate into very large costs for the United States in many spheres.

The findings of the CIA task force are compelling: it counted all cases of state failure between 1957 and 1994 in countries of half a million people or more, and identified 113 cases of state failure. Of all the explanatory variables examined, three were most significant:

- Infant mortality rates, suggesting that overall low levels of material well-being are a significant contributor to state failure
- Openness of the economy, in that more economic linkages with the rest of the world diminish the chances of state failure
- Democracy, with democratic countries showing less propensity to state failure than authoritarian regimes

The linkage to democracy has a strong economic dimension, however, because research has shown repeatedly that the probability of a country's being democratic rises significantly with its per capita income level. In refinements of the basic study, the task force found that in sub-Saharan Africa, where many societies live on the edge of subsistence, temporary economic setbacks (measured as a decline in gross domestic product per capita) were significant predictors of state failure. They also found that partial democracies, usually in transition from authoritarian to fully democratic institutions, were particularly vulnerable to collapse. Similar conclusions have been reached in studies on African conflict, which find that poverty and slow economic growth raise the probability of conflict.

State failures abroad are important to U.S. security, since they often lead to U.S. military engagements abroad. State failures have repeatedly dragged the United States into foreign imbroglios. If we compare the dates of U.S. military engagement with the timing of state failures according to the task force, as in table 1, virtually every case of U.S. military intervention abroad since 1960 has taken place in a developing country that had recently experienced a state failure. (For the purposes of the table, "military intervention" includes any use of U.S. troops abroad, whether for direct combat, peacekeeping, evacuation of civilians, or protection of U.S. property.) In many or most of these cases, the linkages from economic collapse to state failure to U.S. military engagements are vividly clear.

Table 1: State Failures and Subsequent U.S. Military Involvement

(First date refers to U.S. military involvement, second refers to state failure; in chronological order by military intervention date)
Cuba (1962, 1956-1961)
Thailand (1962, 1957)
Laos (1962-1975, 1960-1979)
Congo (1964, 1960-1965)
Vietnam (1964-1973, 1958-1975)
Dominican Republic (1965, 1961-1966)
Congo (1967, 1960-1965)
Cambodia (1970, 1970-1979)
Cyprus (1974, 1963-1968, 1974)
Vietnam (1975, 1958-1975)
Lebanon (1976, 1965-1992)
Korea (1976, not applicable)
Zaire (1978, 1977-1979)
Iran (1980, 1977)
El Salvador (1981, 1977-1992)
Libya (1981, not applicable)
Lebanon (1982, 1965-1992)
Honduras (1983-1989, 1978-1990 state failure in Nicaragua)
Chad (1983, 1965-1996)
Liberia (1990, 1989-1997)
Zaire (1991, 1991)
Sierra Leone (1992, 1991 onward)
Somalia (1992, 1988 onward)
Bosnia–Herzegovina (1993, 1992-1996)
Somalia (1993, 1988 onward)

Source: The dates for state failure are taken from the State Failure Task Force data set; the dates of U.S. military intervention are taken from Ellen C. Collier, "Instances of Use of United States Forces Abroad, 1798-1993" (U.S. Congressional Research Service, October 7, 1993), located at http://www.history.navy.mil/wars/foabroad.htm

SINCE 9/11

The ideas that failed states threaten U.S. and European national security and that support for economic development is also support for national security are not wild-eyed left-wing propositions. They have become standard fare of strategic analysis. The problem lies not with the concept of linking poverty and national security, but with the follow-through. U.S. development policy in recent decades—in both Democratic and Republican administrations—can be measured more in sound bites than in assistance that is truly scaled to the size of the challenge.

Here is an example of the disconnect between foreign policy rhetoric and foreign policy follow-through. In a speech to the Inter-American Development Bank on the eve of the International Conference on Financing for Development in Monterrey, Mexico, President Bush said:

> Poverty doesn't cause terrorism. Being poor doesn't make you a murderer. Most of the plotters of September 11th were raised in comfort. Yet persistent poverty and oppression can lead to hopelessness and despair. And when governments fail to meet the most basic needs of their people, these failed states can become havens for terror.
>
> In Afghanistan, persistent poverty and war and chaos created conditions that allowed a terrorist regime to seize power. And in many other states around the world, poverty prevents governments from controlling their borders, policing their territory, and enforcing their laws. Development provides the resources to build hope and prosperity, and security . . .
>
> Successful development also requires citizens who are literate, who are healthy, and prepared and able to work. Development assistance can help poor nations meet these education and health care needs.

So far so good. Then, the president introduced a new aid program, the Millennium Challenge Account, that would increase U.S. annual aid by $5 billion per year:

> America supports the international development goals in the UN Millennium Declaration, and believes that these goals are a shared responsibility of developed and developing countries. To make

> progress, we must encourage nations and leaders to walk the hard road of political, legal and economic reform, so all their people can benefit.
>
> Today, I call for a new compact for global development, defined by new accountability for both rich and poor nations alike. Greater contributions from developed nations must be linked to greater responsibility from developing nations. The United States will lead by example. We will increase our development assistance by $5 billion over the next three budget cycles. This new money is above and beyond existing aid requests—is above and beyond existing aid requests in the current budget I submitted to the Congress.

The problem is the complete disconnect between the extent of the initiative—$5 billion more per year by the third year—and the needs of poor countries (on the order of $100 billion more per year between 2006–2015 to meet the Millennium Development Goals) and with the commitment of the United States to make "concrete efforts" to target 0.7 percent of GNP. The $5 billion represents less than 0.05 percent of U.S. GNP. Even more startling, not a single penny of the Millennium Challenge Account had been disbursed by late 2004.

Several months later the links of poverty abroad and security at home were enshrined in the new National Security Strategy of the United States of America:

> A world where some live in comfort and plenty, while half of the human race lives on less than $2 a day, is neither just nor stable. Including all of the world's poor in an expanding circle of development—and opportunity—is a moral imperative and one of the top priorities of US international policy.

The strategy committed the United States to the following actions to promote development:

- Provide resources to aid countries that have met the challenge of national reform
- Improve the effectiveness of the World Bank and other development banks in raising living standards

- Insist upon measurable results to ensure that development assistance is actually making a difference in the lives of the world's poor
- Increase the amount of development assistance that is provided in the form of grants instead of loans
- Since trade and investment are the real engines of economic growth, open societies to commerce and investment
- Secure public health
- Emphasize education
- Continue to aid agricultural development

It is hard to understand the disconnect between these insights—which are absolutely valid—and the lack of a commensurate financial commitment by the U.S. government. Part of it is simply the frequent mistake of assuming that the United States is doing more than it is. The National Security Strategy, for example, asserts that "decades of massive development assistance have failed to spur economic growth in the poorest countries," apparently without realizing that the aid flows have neither been massive nor scaled in any way to the levels needed to "spur economic growth." Of the limited aid that the United States gives, a large proportion of it goes to pay for U.S. experts (technical assistance) or for emergency relief and food grains rather than for long-term investments in infrastructure or education or health. The aid, in other words, is not only very small compared to U.S. GNP and foreign needs, but is given in a form that offers little long-term help. The pattern is not confined to the current Bush administration. It has been a feature of U.S. aid policy for decades.

Acting Because We Promised

American political leaders and the broad public rarely recognize that the U.S. government has repeatedly made international commitments to do much more than the United States is doing, and even less do they realize that the lack of follow-through carries an enormous foreign policy cost. In speaking to the United Nations in September 2002, President Bush said the following:

> The United States helped found the United Nations. We want the United Nations to be effective, and respectful, and successful. We want the resolutions of the world's most important multilateral body to be enforced.

Yet when it comes to the resolutions of the General Assembly, such as the Millennium Declaration, or to a series of agreements at UN conferences in the past twenty years, the United States often acts as if it were merely an innocent bystander, not a responsible government, much less a signatory. The 0.7 commitment is a case in point. The General Assembly voted on it thirty-five years ago, but U.S. officials long maintained that it did not apply to the United States. Nonetheless, the United States was a signatory of Agenda 21, the document adopted at the Rio Summit on Sustainable Development in 1992, which contained the following language in Chapter 33.13:

> Developed countries reaffirm their commitments to reach the accepted United Nations target of 0.7 per cent of GNP for ODA and, to the extent that they have not yet achieved that target, agree to augment their aid programmes in order to reach that target as soon as possible and to ensure prompt and effective implementation of Agenda 21.

A decade later, at Monterrey, the Monterrey Consensus, adopted by the United States and the other participating countries, stated:

> We urge developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of gross national product (GNP) as ODA to developing countries . . .

A few months after Monterrey, at the World Summit on Sustainable Development (WSSD) in Johannesburg, South Africa, the conferees agreed on the WSSD Plan of Implementation:

> Make available the increased commitments in official development assistance announced by several developed countries at the International Conference on Financing for Development. Urge the developed countries that have not done so to make concrete efforts towards

> the target of 0.7 per cent of gross national product as official development assistance to developing countries . . .

I had an interesting exchange one day in a roundtable discussion with senior U.S. State Department officials. One particular official was taking great umbrage at my outspoken advocacy of official development assistance. At one point, he postulated that the United States was against aid and, instead, was for the principles of the Monterrey Consensus. I was perplexed, and responded that the Monterrey Consensus commits us to urge all developed countries that have not done so—including us—to make "concrete efforts" to 0.7. He stammered, "But we are for the parts on private trade and investment!" This position is silly, of course, since the document was negotiated in its entirety with the intensive participation of the U.S. team. Much of the Monterrey Consensus champions the role of private-sector-led growth, but the document also skillfully describes why ODA is still needed in a world in which private capital flows swamp official flows:

> Official development assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with the least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilization over an appropriate time horizon, while human capital, productive and export capacities are enhanced. ODA can be critical for improving the environment for private sector activity and can thus pave the way for robust growth. ODA is also a crucial instrument for supporting education, health, public infrastructure development, agriculture and rural development, and to enhance food security. For many countries in Africa, least developed countries, small island developing States and land-locked developing countries, ODA is still the largest source of external financing and is critical to the achievement of the development goals and targets of the Millennium Declaration and other internationally agreed development targets.

The point is not to revisit the merits of the Monterrey Consensus, which are significant, but to stress that policy commitments of the signatories should translate into government action. The failure of the United States to follow up on the Monterrey Consensus has no direct political fallout in the United States, of course, because not one in a million U.S. citizens even knows of the statement. But we should not underestimate the salience that is has abroad, where the terms of the Monterrey Consensus are a matter of life and death not only for other governments but also for their populations. Spin as we might in the United States about our generosity, the poor countries are fully aware of what we are *not* doing.

Rebalancing Foreign Policy

A vote for foreign aid has often been described as the toughest vote for a congressman. How can a congressman's constituency understand the case for giving money away to others? In fact, these political risks are ridiculously overstated. Politicians throughout the rich countries routinely vote aid for poor countries, and are perfectly safe in doing so. Indeed, every other Western democracy has found a way to vote more aid as a share of GNP than has the United States, despite the fact that the other countries are generally far below the United States in per capita income. But the U.S. experience is also clear: the public will support the president when the president explains that an issue like this is in the vital interest of U.S. foreign policy.

I have already noted that the American people vastly overestimate the amount of aid now being given, partly because no president in memory has spoken to the public about what the United States is and is not doing. The same opinion surveys demonstrate that the public is ready to do more, assuming that a tight case can be made that the aid will accomplish its assigned purposes. The public expresses dismay about foreign aid being wasted, used to support dictators, or spirited away to secret Swiss bank accounts. And yet the PIPA 2001 survey showed that Americans were willing, and indeed thought it an obligation of their government, to alleviate hunger in other countries. When aid was described as "giving food and medical assistance to people in needy countries," an overwhelming 87 percent of respondents favored the United States providing this support. Interestingly, and notably, a strong majority of respondents also said they preferred to give aid through multilateral institutions rather than bilaterally.

The fact is that aid programs can be passed through Congress, but they require presidential leadership to build a national coalition. And the coalition tends to reflect various constituencies and concerns. Some part of the public supports the programs for national security reasons; others for long-term economic benefits (richer countries will make better trade partners); others because it is the right thing to do; and still others because of religious precepts. History again offers four cases of the politics of aid to help us understand how and why major aid programs have been adopted in the past.

The Marshall Plan

Beyond its humanitarian mission, the Marshall Plan was a comprehensive economic development plan meant to ensure Europe's economic stability and strategic security in the postwar era. The framers of the Marshall Plan were motivated by the lessons of World War I, when a Carthaginian peace so embittered parts of German society that it contributed, if only indirectly, to the political rise of Hitler. Following World War II, President Truman and other leaders who took up the reconstruction of Europe were determined not to allow such economic suffering to reoccur. They believed that without properly functioning international trade and markets, and with the Soviet threat looming on the east of the continent, America's own economic progress and security interests would be undermined.

Supporters of the Marshall Plan campaigned systematically to convince the American people of the soundness of the plan. Their success in selling the Marshall Plan included four key steps, among many others: (1) establishing a bipartisan congressional committee, led by Congressman Christian Herter (R-Massachusetts), which took a crucial trip to Europe to study the problem on the ground and report back to Congress; (2) forming a blue ribbon commission of financial leaders, led by Averell Harriman, which confirmed the financial wherewithal of the United States to support a program with the scope of the Marshall Plan; (3) engendering high-level Republican support for a Democratic initiative that kept the plan from being tied up in partisan politics; and (4) alerting Americans to facts on the ground, especially the Soviet advance on Czechoslovakia in early 1948, which convinced the public that if the United States did not help Europe, its security and economic gain could be undermined by communist subversion.

These four elements, together with the concerted leadership of President Truman and a public information campaign that made the facts clear to the American people, enabled the U.S. Congress to pass the Economic Cooperation Act of 1948, which embodied the Marshall Plan. During the life of the Marshall Plan, the United States provided more than 1 percent of GNP, on average, from 1948 through 1952 to rebuild Western Europe, around ten times the current effort as a share of GNP.

Jubilee 2000 (Campaign to Drop the Debt)

The drop-the-debt campaign is a more recent initiative that grew out of the realization that the world's poorest countries were suffering under the crushing weight of debt repayments to international and bilateral lenders. The campaign was a more extensive call for action that responded to the IMF and World Bank's Heavily Indebted Poor Countries (HIPC) Initiative, launched in 1996. The HIPC initiative itself was a recognition that the structural adjustment era had failed to deliver its promises of economic development and growth to the world's poorest nations. The Jubilee 2000 campaign sought to cancel the debts of dozens of the world's poorest countries.

The Jubilee 2000 campaign ran up against stiff resistance from the donor countries and the Bretton Woods institutions, which did not share the sense of urgency about debt cancellation. The movement attracted a wide coalition of religious groups and NGOs, initially in Europe and especially the United Kingdom. In the late 1990s, it became a mass social movement: during a 1998 summit in Birmingham, the movement's leaders presented a global petition, which twenty-two million petitioners in sixty countries had signed, calling on rich-world leaders to drop the debt of poor nations. Leading entertainers, including Muhammad Ali and especially Bono, campaigned for the movement. Pope John Paul II, who linked the campaign to the Jubilee celebration of the year 2000 and the biblical call from Leviticus for a fresh start for the indebted in a Jubilee year, gave the movement vast reach.

As an economic adviser to Jubilee 2000, and working closely with Bono, I got a chance to see the shaping of the political coalition that ultimately carried the day. Bono and I were told, in no uncertain terms, that debt cancellation could not pass the U.S. Congress. That was the initial view across the political spectrum, from the Clinton White House and Treasury Department to the Republican-dominated House of Representatives. What the conventional wisdom failed to understand was the broad support for debt cancellation among a wide range of Americans. Conservatives thought it inevitable because they had no illusion about the creditworthiness of the poorest countries. Liberals thought it was the right thing to do. Many in the public were eager to find a sensible way to support the world's poor. And perhaps most important at the end of the day, many conservatives who might otherwise oppose foreign aid joined out of religious motivation.

When the movement finally gathered steam in the United States, leaders of the religious right, particularly Spencer Bachus (R-Alabama) took up the issue. Bachus authored key provisions of debt relief legislation and helped to shape a bipartisan coalition that reached across traditional liberal supporters of foreign assistance and representatives of the religious right who viewed the debt issue in religious terms. The U.S. Congress approved a generous debt relief package, even if it did not deliver all that was needed. As in many circumstances, the successful campaign to drop the debt achieved perhaps two thirds of what is truly needed, but it was two thirds more than what was deemed possible before we began.

The Emergency Plan for AIDS

A third example of broad coalition building is the five-year, $15 billion President's Emergency Plan for AIDS Relief (PEPFAR). I have already described some aspects of the campaign to bring anti-AIDS drug treatment to the world's poor, including my participation on the Commission on Macroeconomics and Health. Once again, I was lucky to have a front row seat in the shaping of a political coalition that delivered a package of aid initially derided as preposterous.

I had recommended the idea of a $3 billion per year program to the Bush administration, and had the opportunity to brief National Security Adviser Condoleezza Rice twice in the early days of the Bush administration. I discussed both the need and potential for a major expansion of AIDS treatment, and argued that it had become practical and affordable with the availability of powerful medicines with rapidly declining production costs. On my first visit to the White House, I stopped by to see Larry Lindsay, a former student and colleague, and the new economic adviser to the president. He gave me a warm reception, and also some advice on my way out of the office. "Jeff," he said with a smile. "That was very interesting, and important work. But don't hold your breath for $3 billion per year."

It turned out that the winning coalition for AIDS relief looked a lot like the victorious coalition on the debt issue: liberals, the religious right, NGOs, and a broad public far more sympathetic to action than the political leaders suspected. Once again, Bono played a unique role in pulling the coalition together, not just as a celebrity and entertainer, but as a rare individual who could reach deeply into the hearts and minds of a remarkable range of individuals. One day I was driving home when my cell phone rang. It was Bono. "What are you doing?" he asked. When I told him that I was driving home, he said that I had better pull over. "What's up?" "You won't believe what just happened. Senator Jesse Helms just blessed me and the effort on AIDS." Bono and the senator had read scripture together, and Helms had committed to help push AIDS legislation through the White House and Congress. Bono brilliantly brought the AIDS tragedy to the attention of several key leaders of the religious right, and this in turn showed the White House that AIDS legislation was not a political trap, but actually a political boon.

In the end, the coalition was even more inclusive than usual. It involved experts from the public health and biomedical community. Dr. Anthony Fauci of the National Institutes of Health played a decisive role. It involved celebrities, religious leaders, liberals and conservatives. And, ultimately, the president. On the evening of the 2003 State of the Union address, I got a phone call from UN Secretary-General Kofi Annan. He said that he had just been alerted that "the speech would be particularly interesting on AIDS." I rushed to the TV, and listened in amazement as President Bush said the following:

> As our nation moves troops and builds alliances to make our world safer, we must also remember our calling, as a blessed country, is to make the world better.
>
> Today, on the continent of Africa, nearly 30 million people have the AIDS virus, including 3 million children under the age of 15. There are whole countries in Africa where more than one-third of the adult population carries the infection. More than 4 million require immediate drug treatment. Yet across that continent, only 50,000 AIDS victims—only 50,000—are receiving the medicine they need.
>
> Because the AIDS diagnosis is considered a death sentence, many do not seek treatment. Almost all who do are turned away. A doctor in rural South Africa describes his frustration. He says, "We have no medicines, many hospitals tell people, 'You've got AIDS.

> We can't help you. Go home and die.'" In an age of miraculous medicines, no person should have to hear those words.
>
> AIDS can be prevented. Anti-retroviral drugs can extend life for many years. And the cost of those drugs has dropped from $12,000 a year to under $300 a year, which places a tremendous possibility within our grasp.
>
> Ladies and gentlemen, seldom has history offered a greater opportunity to do so much for so many. We have confronted, and will continue to confront, HIV/AIDS in our own country. And to meet a severe and urgent crisis abroad, tonight I propose the Emergency Plan for AIDS Relief, a work of mercy beyond all current international efforts to help the people of Africa.
>
> This comprehensive plan will prevent 7 million new AIDS infections, treat at least 2 million people with life-extending drugs and provide humane care for millions of people suffering from AIDS and for children orphaned by AIDS. I ask the Congress to commit $15 billion over the next five years, including nearly $10 billion in new money, to turn the tide against AIDS in the most afflicted nations of Africa and the Caribbean.
>
> This nation can lead the world in sparing innocent people from a plague of nature.

When the president finished these remarks, both houses of Congress rose for a standing ovation. So much for the risks of asking for foreign assistance!

TIME TO ASK FOR THE CONTRIBUTION OF OUR GENERATION

Political leaders throughout the rich democracies will soon have to go to the taxpayers and voters once again to accomplish what might seem to be impossible today. They will have to secure public support for 0.7 percent of GNP in development aid and explain that this commitment might be required for another twenty years. They will have to explain why the safety of global society, the value of their country's solemn word, the lives of millions of impoverished children, and the meaning and moral worth of our civilization all depend on what they are requesting. And, if they are clever, especially in the United States, they will explain that 0.7 won't hurt very much after all, especially if it is funded with two big wallops. The first will transfer part of an overgrown military budge to the agenda of global security through economic development. The second will call especially on the richest of the rich—whose incomes per year are tens of thousands of times those of the poorest of the poor—to do their special part.

I believe that the richest of the rich can comfortably make such a contribution, and that they will understand that it will be a profound and meaningful demonstration of our generation's unique moment to secure global well-being.