

Giving Til It Hurts

Increased aid ignores causes of African poverty: corrupt governments, lack of economic freedom

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At July's summit, the G8 nations pledged to double foreign aid to Africa to \$50 billion a year and forgave the debts owed by the fourteen poorest nations. While these efforts were made with the best of intentions, it is likely they will do more harm than good. History has shown that foreign aid is not enough to pull a nation out of poverty. Instead, reforms must be made to the system that perpetuates poverty.

There seems to be a widely held belief among rock stars and celebrities that we can "make poverty history" simply by pouring billions of dollars into poor countries. They reason that if the poverty doesn't go away, it is because more aid is needed. However, the relationship between foreign aid and economic success may be nonexistent.

According to the CATO Institute, over \$450 billion in foreign aid has been given to Africa since 1960, and from 1975 to 2000 GDP per capita decreased about 0.6 percent a year. In sub-Saharan Africa, GDP per capita fell from \$660 in 1980 to \$577 in 2002. Contrast Africa's experience with South East Asia's. In the 1975-2000 period, South Asia's GDP per capita increased by roughly 3 percent a year, even though it's foreign aid per capita was only one-fifth that of Africa.

The view that poor countries need massive capital inflows to advance ignores a surprising reality: that poor people are capable of accumulating capital themselves. Their problem is insecure title to their assets. Hernando de Soto has documented that poor people in third world countries are able to acquire real estate. Typically, their property titles are not recognized by the government, and they are not protected from expropriation of their holdings. Nonetheless, surveys of impoverished areas within Port-au-Prince, Manila and Cairo show that poor people own significant amounts of real estate. None of these poor is living in a mansion, but the millions of poor people, each with a small hut, add up to major capital. De Soto estimates extra-legal property owned by the world's poor people is worth \$9.3 trillion.

This figure does not show that the poor aren't really poor. They are. But they are not without resources. Their entrepreneurial instinct, their willingness to work long hours, and their ability to get by in an abject environment are assets that can be used to rout poverty. However, most of the world's poor are not able to pull themselves up by their bootstraps because of oppressive governments.

Even with the growth of “democracy,” Africa remains the most corrupt continent on Earth. The problem is so pronounced that Transparency International, a group that measures global corruption, estimates that Africa loses \$148 billion every year to corruption. The King of Swaziland is reported to have, in one year, spent twice as much buying a private jet than on the nation’s health budget. With officials acting in this manner, most Africans have come to view bribery and graft as a normal function of government.

Instead of funding oppressive kleptocracies by increasing aid, the G8 nations would better serve Africans by demanding reforms that promote economic freedom. Globally, increased economic freedom is greatly correlated to higher per capita incomes, greater economic growth, and lower levels of corruption, among other things.

Economic freedom is measured by a country’s legal structure and property rights, size and scope of government, monetary system, freedom of trade, and regulation of credit, labor and business. The Fraser Institute publishes yearly reports rating countries on economic freedom, .

From 1993 through 2002, the only group of countries experiencing an average decline in economic growth have been those in the lowest quintile of economic freedom. According to the most recent index, African nations make up 17 of the 25 countries in that group. These figures suggest that the reason foreign aid hasn’t worked is because African governments don’t promote and facilitate the accumulation of wealth and capital.

If G8 nations don’t begin to shift their focus from foreign aid to increasing economic freedom, Africa’s condition may only worsen. Noted Kenyan economist, James Shikwati, has made the plea, “for God’s sake, please stop [the aid].” He maintains that huge donations of corn and second-hand clothing do little to help the masses, and have made it impossible for African farmers and tailors to sell their goods at prices that cover costs.

The G-8 and Live Eight concerns about world poverty are well placed, even if their proposals are ineffective or counterproductive. The solutions are simple, effective—but hard for African leaders to accept. Any action which delays the necessary shift to economic freedom will sentence millions of Africans to lives of poverty.