

William Easterly on How to Make Aid Effective, Beat Pessimism and What's Wrong with Bono

by Tim Ogden

William Easterly is today's leading critic of the foreign aid status quo. After 16 years at the World Bank, he became persona non grata in 2001 when he published *The Elusive Quest For Growth*, which frankly confessed, and proved by mountains of data, that the global establishment really had no idea how to promote economic growth in poor countries. Now professor of Economics at New York University and co-director of the Development Research Institute, he has gained recent notoriety with his 2006 book, *The White Man's Burden*, which in large part is a response to Jeffrey Sachs, leading proponent of increasing foreign aid, Bono, and the UN's Millennium Development Goals. Recently, he sat down for an interview for an interview with Beyond Philanthropy's (former blog sponsored by Geneva Global), Tim Ogden.

Ogden: One of the key points of your book, *The White Man's Burden*, is that there aren't easy answers to issues of development. Has it been difficult to deal with reviews that essentially complain, "He doesn't have any answers?"

Easterly:

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There's a bias towards the well-packaged, simple answer to an extremely complex problem. That sort of explains why get-rich-quick books sell so well: The tantalizing promise of a formula to succeed is what people want.

I'm trying to convince them that what they should want is not a pat answer, but the right one for each local circumstance. There's a lot of resistance to that, though.

Ogden: Do you find that the tendency to look for easy answers is more prevalent in the First World than in the Third World?

Easterly: Somewhat. I think people in the poorer countries know that development is extremely complex, and they're also not trying to find patronizing, easy answers offered by people who don't even understand their own societies.

Ogden: Despite the focus the aid community has had on doubling funding for aid projects it doesn't seem that the primary problem is, in fact, a shortage of money. For example, the international community provided far more money for tsunami relief than the UN estimated was needed. Yet all you hear about is the need for more money.

Easterly: I think that's the shocking thing about Jeff Sach's work [Columbia University economist and author of *The End of Poverty*]. He seems to have no idea about the problems of implementation. Or if he does, he's not letting on that actually 95 percent of the problem is implementation and five percent of the problem is raising the money.

Judith Tendler wrote a classic book in the mid 1970s about foreign aid [*Inside Foreign Aid*]. In it, she talks about the paradox of aid abundance, that when you actually work in an aid agency, you are awash with money. The problem is you can't give it away fast enough.

Ogden: Have you seen any noticeable, material changes in the aid world since your first book, *The Elusive Quest for Growth* [2001]. If we follow your methodology, we should be seeing results, right?

Easterly: [laughter] That's right, you should be holding me accountable. I endorse that. To answer the question, though, no. I think people like Bono and Jeff Sachs took things in the wrong direction. If anything, things have gotten worse.

What I see is the combination of NGOs, Bono and Sachs has kind of enabled the UN to take over the official aid business under the banner of the UN's Millennium Development Goals – it is a brilliant public relations move, but totally ineffective as a way to get anything done.

Now the World Bank and even the IMF, which are traditionally thought of as tough cookies to crack, are singing a UN tune, putting everything in terms of 'reaching the poorest people,' 'income redistribution,' 'tracking social indicators.' They are forgetting about the overall process of economic growth and development, which leads most other things to improve in the long run. Really, the United Nations Development Programme took over and ate the whole foreign aid industry.

Ogden: Do you have a theory as to why the Millennium Development Goals program has been so successful in attracting attention? Is it just because Bono is sexy, or that Jeff Sachs is a charismatic person?

Easterly: And let's not forget Angelina Jolie. I think there was a fortuitous confluence of events. There was an explosion of international NGOs calling for development with 'a human face.' That was a new phenomenon that probably had something to do with the Internet and the ability it gave the NGOs to market themselves and their causes. Then September 11th came along and the whole thing could be repackaged as, "we have to with one hand fight terrorists, and with the other hand do good things for poor people so they don't become terrorists." I think September 11th, the 'why do they hate us?' issue, is the single most important factor for the huge attention paid to the aid issue and the Millennium Development Goals.

Ogden: One of the positives of the Millennium Development Goals is they seem to have raised the profile of global poverty, particularly African poverty.

Easterly: Yeah, to be fair to Bono, Sachs and company, they have at least raised the profile of the whole issue enough that hopefully we can start debating how to make aid more effective than it is now.

Ogden: Referring back to any changes in the aid industry that you've seen: You've come to feel that things have gotten worse, that an opportunity has been hijacked. Are you hopeful that things will change? Are you an optimist or pessimist?

Easterly: Somewhere in between. I'm a realist about what actually happens: I'm willing to look at very negative evidence and accept the conclusions that evidence conveys. But when you see a lot of good things happening in other ways, there's some hope that good things can happen in foreign aid. You see gradual progress in the quality of American local government services. As far as development, you see a lot more countries growing because of their own efforts, home-grown economic and political reforms. More countries are becoming more market-friendly, more democratic because of political reforms. So there are positive trends out there.

One of my friends at Columbia Business School, Bill Duggan, has developed great insights I think, having spent his whole career in development. Bill says there's a counterpart to the Berlin wall in foreign aid, a sort of 'aid wall.'

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Behind this aid wall, people are still trying to do central planning, administrative top-down solutions to world poverty. Then on the side of the wall that doesn't get aid, actually a lot of good things are happening—homegrown democratization and economic growth. There's hope that a Lech Walesa [Founder of Poland's Solidarity Party and Nobel Peace Prize winner for his efforts in the peaceful overthrow of communism] can come along and energize the public, in both the rich and the poor countries, to bring the wall down and achieve positive change.

Ogden: On the topic of an aid wall and the central planning behind it: When I was finishing my degree, everyone was talking about the Asian tigers. They seemed to have an interesting mix of free-trade policies but internally planned efforts to compete in global markets. Most other top-down planned economies were exactly the opposite: you throw up the wall around the country and try to plan from inside it.

Easterly: I think the role of top-down planning in those economies is exaggerated. To attribute their success to planning, you would need to find some evidence that it was their planning that was responsible for this success and not something else. How do we sort out these issues? One way is cross-country comparisons: Do countries that do this top-down planning on average do better than countries that don't? The answer is no.

One area that my reading and research is taking me is to think that we really overemphasize the formal governments, leaders and institutions in the whole process of economic development and growth. They do obviously have some role, maybe even a big role, but I think it's incorrect to attribute the success of Singapore to Lee Kuan Yew [Prime Minister of Singapore from 1959-1990]. It's like attributing the success of a sports team simply to the coach. You want to personalize success, attribute it to an individual, because that's how we think and tell stories, as leaders and heroes.

Development is a lot more complex than that. There is very strong bottom-up development, even in those economies with strong, traditional leaders. There are economic dynamics ingrained in the social norms: the way that merchants behave with respect to each other, or how networks trust each other to fulfill business agreements.

There's a new wave of research in economics that's starting to pay more attention to that sort of thing, and I think it's going to be very influential in the future. These subtle, bottom-up social features are a lot more influential than we thought. Of course, no one has an easy explanation for how they work, or an easy policy recommendation. We don't know how exactly to influence trust in a market, which is probably a part of our bias against seeing it as an important factor.

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Ogden: One of the criticisms of injecting measurement into development efforts is that you can easily drive the wrong behaviors. Accountability often drives short-term planning, that may not ultimately yield long-term success. How do you inject accountability without encouraging short-term bias?

Easterly: I thought you were going to ask something worse, which is whenever you try to measure performance you open the door to clever operators that figure out how to game the system and make performance look better than it is.

Ogden: That's a very good question. I'll try to ask that next.

Easterly: I think there need to be both long-term and short-term checks. You want a short-term indicator that keeps track of how well people are doing in real time and that can also be used to correct behavior that's going in the wrong direction. And you also need periodic reality checks – what's working in the long-term? Are the short-term indicators reflecting something that pays off in the long run?

Ogden: Do you think that fungibility applies? That if international giving agencies focus on short-term goals, that frees up locals to care more about the long-term goals?

Easterly: That is one of the take-away messages that I hope to achieve with the book: Be modest and fix things that are fixable by outsiders. But know that much of the long term success will come from the locals. It's their lives, their region, their country. Get the aid agencies to make the roads work, to make the boreholes yield clean water, make the government regulations better so it doesn't take two years to start a business. You fix the obvious, fixable things. But then the locals can take care of the more subtle, and unique issues.