

ESSA 2009

“A methodological manifesto, or why things that can't be measured matter”

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John Ashmore, 8 Sept. 2009

Outline

1. Outline views on foreign aid and 'mainstream' view
2. Build principal-agent model of donor-recipient relations

Political economy critique. Why *all* analyses flawed:

3. Unhistorical and 'apolitical'
4. Structural politics matters: recipients not just hindered by incentives

Conclusions:

- > Economics perpetuates structural politics
- > Economists need political education to resist this

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1. Stances on aid and reform

1. **Aid can help**
Sachs (2005), 'The end of poverty'
Cancel debt, aim for MDGs via PRGs
2. **Aid can help, but needs to be higher 'quality'**
Burnside and Dollar (1998, 2004)
Give to countries with good institutions
Birdsall (2007): Don't hurt the middle classes
Radalet (2006): Decreasing returns to aid
3. **Aid unworkable**
Easton (2002, 2007)
'Planners and searchers', debt cancellation bad
Moyo (2009), from Bauer (1981)
Aid is inflationary, volatile, anti-market, DAD!

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The new global consensus

Rogerson et al. (2004) identify new global consensus from 2002 Monterrey Conference on Financing for Development...

- Increased volume and quality of aid
- Improve performance-based aid-giving criteria following from the broad recognition of past failures of conditionality
 - US's Millennium Challenge Account (MCA)
- Include partnership approaches to poverty alleviation

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The mainstream view

Agency theory, or why donors too generous:

Principal (donor):

faces the 'Samaritan's dilemma'

Agent (recipient):

is corrupt or has poor governance

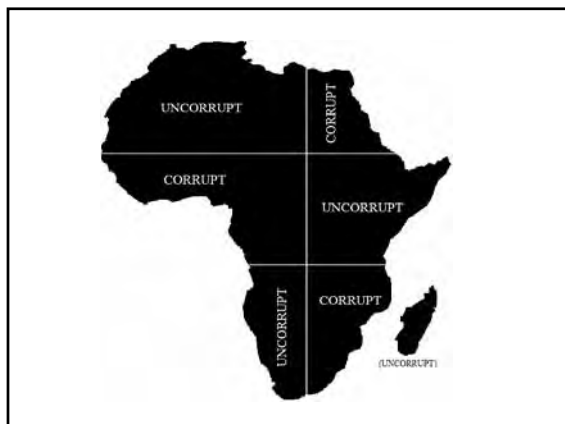
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2. Model for clarification

Assumptions:

- 2 regions only: 'the West' and 'Africa'
- West gives aid for development, tries to align incentives for this (**principal-agent model**)
- African government officials utility maximizers of 2 types:
 1. Corrupt (utility from propping up regime)
 2. Uncorrupt (utility from development)
- Aid works when properly used
- Use of aid hard to observe due to fungibility

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Outcomes of the model

- Corrupt countries, who tend to be poorest, fail to develop through aid as they misuse it
- West keeps giving aid due to its conscience
- Uncorrupt countries (with good governance/institutions) develop slower, due to **negative externalities**

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‘Solution’

Ex-post conditionality (MCA) tried:

West pools aid and only gives it to uncorrupt countries

Outcome:

Success, as corrupt country incentives aligned with donors’, as they have to reform governance to receive rents

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Political economy critique

Model is biased, as:

- Unhistorical and ‘apolitical’. The victim is blamed and donor politics ignored – therefore neoliberal
- Structural hindrances to development ignored - linked to poor countries’ lack of ‘power over’

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3. Donor and structural politics

Aid goals:

(1) Dev.; (2) Security; (3) Commercial

Truman (1949):

Aid to resist ‘false philosophy’ of communism, to “...strengthen freedom-loving nations against the dangers of aggression.”

Now: security (still) prevails

- Israel, Egypt
- Iraq, Afghanistan

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4. ‘Power over’ vs. ‘power to’

Mosse (2005) did comparative study on decentralization

Followed attempts to empower village councils:

- Madhya Pradesh (MP) - failed
- Andhra Pradesh (AP) – worked

Pointed to importance of ‘power over’ vs. ‘power to’

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The role of economics

Mainstream economics **perpetuates** the problem by ignoring structural factors entirely.

- Economics (knowledge) is a carrier of power (Foucault 1989), and entrenches elites

BUT, Foucault noted that within systems of domination, there are pockets of resistance...

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Economists of the world unite!

You have nothing to lose but your ideology

1. Need to recognize the problem. Much like with sexism
2. Need to educate ourselves politically, to teach others, and overcome how econ is taught
3. Reshape the world's power structure (long term goal) for the poor. E.g. reform UN

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Thank you, and goodnight...