Dead Aid: A critical review

Why aid is not working and how there is a better way for Africa
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1. Introduction

One day in the not too distant future the leader of an African developing country will receive a phone call from one of its aid-donors. He will be told that the flow of aid to his country is going to stop: that in the next five to ten years aid to his country will be gradually phased out until, at the end of the ten years, zero aid will be received by his country.

This is Damisa Moyo’s *Dead Aid* proposal – that foreign aid, with the exception of humanitarian aid, be phased out and replaced with a suite of alternative financing methods. Aid, according to Moyo, has failed. More than US$1 trillion of aid has been sent to Africa since the end of World War 2 and it has made the poor poorer and growth slower. Millions in Africa are poorer today because of aid and Africa is far worse off today than it was 40 years ago. According to Moyo, ‘aid is no longer part of the solution, it is part of the problem – in fact, aid is the problem’ (Moyo, p. 47).

This paper will provide a summary of *Dead Aid* and will provide a critique of its proposals, conclusions and recommendations. *Dead Aid*, I will argue, has an important message: that aid to Africa has at many times been ineffective, and in some cases has fuelled corruption and supported corrupt governments. However to suggest that aid is the *cause* of Africa’s failure to develop is incorrect. Furthermore to even suggest that there is only one cause, or even a substantially primary cause, for Africa’s failure to develop is also incorrect. I will show that Moyo’s argument rests on two assumptions, the latter of which is theoretically and empirically speculative: that aid causes corruption and that corruption prevents growth.

Finally, I will explore the aid-alternatives proposed by *Moyo*. I will conclude that they raise more questions than answers, are often analogous to aid, and simply fail to provide a convincing argument that developing countries’ can, and will, adopt these alternatives such that aid can be safely withdrawn.
2. Dead Aid: The argument

Moyo’s argument in *Dead Aid* proceeds in a logical fashion that can be broadly categorised into three components. First, she argues that aid has not worked in the past and will not work in the future. Second, she argues that aid is the cause of Africa’s poor development. Third she proposes that there is a better way to finance the development agenda. Let us consider each of these components in turn to see how they combine to shape her overall conclusion that aid has made the poor poorer, and growth slower, and how there is a better way for Africa.

2.1. Why aid has not, and will not work

2.1.1. The History of Aid

Moyo’s historical account highlights how the economic philosophies, beliefs and motivations that underlie the provision of foreign aid have changed repeatedly over time – often in a contradictory fashion.

Moyo begins her analysis with the Marshall plan where the economic philosophy of the day was to focus on infrastructure. However following the Marshall Plan aid took on a much stronger Keynesian flavour where the governments of developing countries were advised to be more interventionist and take control of their markets.¹ After the 1980s, however, public economic thinking became dominated by so called ‘Thatcherism’ or ‘Reganism’ where governments and excessive regulation were now seen as being the inhibitors of growth rather than promoters thereof. Developing countries were now being told that free markets, macroeconomic stability and structural adjustment, *not* government intervention, were the solutions to their developmental problems (Moyo, pp. 17-22).

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¹ Others refer to these 1950 - 1960 philosophies as import substituting industrialisation (Athukorala and Sen, 2002, pp. 6-7.)
By 1989 the Washington Consensus became the backbone of most development strategies which promoted fiscal discipline, tax reform, trade liberalisation, privatisation and deregulation (Perkins et al, 2006, p. 179). By the 1990s, however, while still embodying the core principles of the Washington Consensus, the donor community converged on the idea that good governance was the key: something that was lacking across much of Sub-Saharan Africa. Developing countries were advised that they needed strong and credible institutions, transparent rule of law and economies free of rampant corruption. Governance, according to Moyo, remains at the heart of foreign aid thinking today (Moyo, pp. 22-26).

Moyo’s historical account also considered the motivations behind aid and how they too have changed over time. She describes the motivations behind the Marshall plan as being largely economic – the desire of the United States to help its former trading partners rebuild their shattered economies. But come the Cold War foreign aid quickly became a political tool used by both the United States and the Soviet Union to win sides and support for their ideological standpoints.2 However following the 1973 oil crisis and the debt crisis that followed the focus of aid turned to providing basic commodities like food and clothing (Moyo, pp.23).

By the 1990s donor fatigue had begun to set in. For members of the public this was perceived as being a lack of action and, more importantly, a lack of aid. This saw the rise of what Moyo refers to as ‘Glamour aid’ which involved celebrities, concerts, fundraisers and calls for the cancellation of third world debt. This, Moyo argues, essentially saw the cancellation of years of aid-debt only to be replaced with a fresh swathe of new aid and thus the prospect of fresh debt all over again (Moyo, pp. 26-28).

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2 Examples are the United States funding Vietnam in the 1960s, Indonesia, the Philippines and Zaire in the 1970s and 1980s and the Soviet Union funding North Korea, Cuba and countries across Eastern Europe (Perkins et al, 2003, p. 533-534).
2.1.2. The future of aid

Drawing on these historical failures, Moyo argues that pro-aid arguments are typically based on historical examples that are not applicable to the problems faced by African nations. Moyo dismisses the suggestion that the success of the Marshall Plan and the so-called ‘IDA Graduates’ can be used to justify aid in Africa – arguing that these examples are not comparable. For the Marshall plan, aid was targeted at rebuilding countries that had an existing economy, existing policies and existing institutions whereas in Africa aid is trying to create these things from scratch. And for the IDA Graduates Moyo argues that aid flows to these countries were so small that they are hardly comparable to the massive amount of aid received by Africa since WW2 (Moyo, pp. 35-38).

There are other pro-aid arguments that Moyo dismisses as being outright inaccurate – conditionality is a good example. Often argued as a reason to increase aid, Moyo says that conditionality has failed miserably in the past. It has routinely failed to constrain corruption and bad government and is often blatantly ignored (Moyo, pp. 38-39) – a view which is shared by many other economists.\(^3\)

Having established that aid has been ineffective in achieving many of its goals, Moyo now proceeds to the next, and in my opinion, more controversial side of her argument: that aid is in fact the cause of Africa’s poor development.

2.2. Why aid is the problem

In chapter three, Moyo discusses a number of factors that are commonly attributed to Africa’s poor economic growth, namely: environmental and geographical factors, historical factors, the multi-ethnic nature of African countries, and governance and institutions.

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\(^3\) For example, Ravi Kanbur (2006) highlights that (1) it is often not clear what conditions are most appropriate in a particular circumstance, and (2) conditionality has rarely worked in the past.
Moyo discusses each of these different factors but essentially dismisses them, saying that: ‘while each [factor] is convincing, they do not tell the whole story’ (Moyo, p. 35). For environmental and geographical factors, for example, Moyo cites Switzerland and Saudi Arabia as being examples of landlocked countries that have been highly prosperous. Similarly for ethnicity and diversity factors, Moyo cites Botswana, Ghana and Zambia as being highly diverse countries that have nevertheless achieved economic growth.

Although Moyo concedes that Africa’s developmental problems are likely due to a confluence of factors, she makes clear that she considers aid to be the primary, if not sole cause of Africa’s poor development. She concludes by saying ‘while each of these factors may be part of the explanation in differing degrees... for the most part African countries have one thing in common – they all depend on aid’ (Moyo, p. 35).

2.2.1. How aid inhibits growth

Moyo refers to a number of studies which show a negative relationship between growth and aid. Over the past thirty years the most aid dependent countries have exhibited growth rates averaging negative 0.2%. According to Moyo aid promotes a vicious cycle whereby it chokes off investment, instils a culture of dependency and facilitates corruption (Moyo, p. 49).

Although Moyo discusses factors such as investment, savings and exports, (spending less than two pages in total on these other issues) her key focus is undoubtedly corruption. It is clear she believes that the primary problem with aid is that it encourages corruption and ‘that sustainable economic growth cannot occur when corruption is rife’ (Moyo, p.50). She argues that aid props up corrupt governments and provides them with freely usable cash. It reduces the need for a government to tax its citizens and thus removes the link of accountability over

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4 Botswana, for example, was the world’s fastest growing economy from 1970 to 1990 with a 7.9% growth rate (Perkins et al, 2003, p. 44n)
fiscal spending. It encourages rent seeking and scares off investment. Finally, she says, corruption increases the likelihood of civil war.

Moyo’s fundamental argument, therefore, is that aid encourages corruption and corruption, in turn, substantially reduces the growth prospects of a country. However in addressing this problem, Moyo gives us the Dead Aid proposal: a new model for financing development which she says improves economic growth, significantly reduces poverty and, above all, does not rely on aid (Moyo, p. xix).

2.3. **A world without aid**

The objective of the Dead Aid proposal is to have aid phased out over five to ten years and have it replaced with alternative sources of finance – the choice of which will be driven by the characteristics of the particular country. Moyo introduces the Dead Aid proposal through the Republic of Dongo – a fictitious country that has many of the typical characteristics of developing countries in Africa, including aid-dependency. She uses this fictitious country to explore where African nations might be in the future, depending on whether they continue with the aid-dependency model or move over to the Dead Aid proposal (Moyo, pp. 71-74).

2.3.1. **A capital solution**

Under this proposal, the development agenda is financed through international bond markets. Moyo argues that this is a feasible option for African countries because investments in developing countries often offer high returns and investors are always looking for the next best opportunity. Furthermore, investing in developing countries allows investors to diversify their portfolios and reduce risk by spreading their capital across both developed and developing economies. But most importantly, Moyo argues that participating in bond markets is self-reinforcing: participating in the bond market increases the country’s credibility which then encourages further investment and capital to flow into the country (Moyo, pp. 77-97).
2.3.2. The Chinese are our friends

This proposal is essentially one for Foreign Direct Investment (FDI), but focusing specifically on China. Moyo’s suggestions for attracting FDI are fairly typical: reduce red-tape, improve infrastructure, reduce corruption and improve legal and regulatory systems.\(^5\)

Moyo does, however, discuss some of the concerns surrounding the greater presence of China in Africa – concerns for human rights, suggestions that Africa may be getting a raw deal, and concerns that China is only seeking to benefit itself. Nevertheless she highlights that most African’s have a favourable view of China and that, in some ways, it is refreshing for African countries to deal with a foreign country in a straightforward economic manner, in contrast with the ‘nit-picking’ of the IMF. Her overall conclusion is that China offers a substantial potential for African countries in terms of both FDI and trade which is discussed below.\(^6\)

2.3.3. Let’s trade

Moyo shows a clear desire to move Africa away from being an exporter of commodities and move towards manufacturing and services.\(^7\) The key factor preventing this progress, according to Moyo, is poor infrastructure. Furthermore she fears that greater ties with China, particularly in relation to its demand for primary products, could solidify Africa’s status as a commodity exporter. Developing their infrastructure and diversifying their export base, therefore, is the key to utilising globalisation to enhance Africa’s economic growth.

2.3.4. Banking on the un-bankable

African’s still have limited access to credit and financial markets. Moyo discusses the successes of the Grameen Bank model in Bangladesh and the Kiva organisation in California.

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\(^5\) For example, see Perkins et al (2003, pp. 411-415) which similarly highlights macro and political stability, infrastructure and institutions and governance as key factors in attracting FDI.


\(^7\) She, in particular, refers to agriculture and oil. Many economists have shown that agricultural productivity is vital so as to facilitate the movement of labour from agriculture to the urban sector: see Eswaran and Kotwal (2006) p. 112.
Microcredit is an excellent resource for developing countries to improve growth at a microeconomic scale. Moyo therefore argues that microfinance should be more widely utilised in Africa, broadly along the lines of the Grameen model (Moyo, p. 132).

2.3.5. Remittances

Moyo provides figures on the substantial amount of funds that are remitted from African’s abroad to their families back home. She argues that there is a substantial scope for the flow of remittances to be far more efficient by removing middlemen and improving financial infrastructure. This will encourage a greater flow of remittances and will help ensure that these funds go to the indigent to whom it was intended so that it can make its way into productive uses (Moyo, p. 136).

2.3.6. Savings

The final proposed method of finance is through savings. Moyo argues that the problem is not so much an absence of cash but is rather due to inefficiencies in Africa’s financial markets which prevent savings from being efficiently invested. She compares the situation in India where it is estimated that $200 billion worth of untapped investment potential is privately held in gold by Indian firms and households (Moyo, p. 137). By improving Africa’s financial institutions any comparable latent resources in Africa can be unlocked and productively invested.

2.4. Summary

Each of these proposals, Moyo says, has been tried, tested and successful. The choice of finance options will depend on the individual country in question. Trade-oriented commodity-driven countries should look to boost trade with China while countries with credit ratings should turn to capital markets (Moyo, p. 146).
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Fundamental to the *Dead Aid* proposal is fiscal discipline and accountability. These options for financing the development agenda do not rely on aid. Furthermore they promote economic growth, credibility and confidence without increasing corruption. Moyo says the *Dead Aid* model is easy to implement but the political will is lacking. In many cases it is easier for Western governments to simply sign a cheque. For this reason Moyo argues that Western citizens need to hold their governments accountable for their tax-dollars and ensure that it goes into productive pursuits (Moyo, pp. 149-150).

But just how successful would these proposals be? Are they convincing enough to justify the phasing-out of aid altogether? And just how strong is her argument that aid has caused Africa’s poor development? The following critique of *Dead Aid* explores these questions and many other issues that arise in Dambisa Moyo’s reasoning and recommendations.

### 3. *Dead Aid*: The Critique

*Dead Aid* is broadly divided into two parts. The first part discusses the problems with aid and her justifications as to why it should be abandoned. The second part discusses her proposed replacements for aid – the *Dead Aid* proposal. This critique will follow this same general structure. First I will discuss the effectiveness of aid as a tool for economic development and I will contrast Moyo with a number of other authors. I will show that Moyo commits what I call ‘the single factor fallacy’: where she suggests that there is one single factor – notably aid – that is responsible for most, if not all of Africa’s development problems.

I will then show that Moyo’s argument that aid causes negative growth rests on two assumptions – that aid causes corruption and that corruption causes negative growth. I will show that these are not stable assumptions and that there is a substantial body of theory and empirical evidence to the contrary.
Finally I will show that Moyo’s proposed new methods to finance the development agenda are not convincing alternatives. I will show that her distinction between the development agenda itself and the *financing* of the development agenda is tenuous and that many of her recommendations are not dissimilar to aid in the first place. But more fundamentally the *Dead Aid* proposal simply does not provide a convincing argument that developing countries are able, or willing to adopt these new methods. This raises the question of whether aid can be *safely* withdrawn.

### 3.1. The effectiveness of aid

At the broadest level, simple correlation analysis does not reveal a clear relationship between aid and GDP growth (Perkins et al., 2006, p. 537). However the lack of such a correlation is far from determinative. First of all, correlation (or a lack thereof) does not suggest causation. The fact that countries receiving aid tend to be poor does not suggest that aid is causing that poverty, just as the presence of ambulances at car accidents does not suggest ambulances are responsible for those accidents (Easterly, 2006, p. 52). Second, there are numerous factors that affect both the provision of aid and a country’s GDP growth such that it is unsurprising that there is a virtually non-existent relationship between the two.

The lack of this relationship has laid the groundwork for the so-called aid debate. The effectiveness of foreign aid has been a hotly debated topic in recent decades and has consumed the time of many authors such as Collier, Sen, Stiglitz, Helpman and Hancock. With *Dead Aid*, Moyo has therefore entered into a long running debate. The two most prominent authors in this debate are undoubtedly Jeffrey Sachs – a strong advocate for increasing foreign aid and a leading thinker in the Millennium Development Goals (MDGs) – and William Easterly – a critic of ‘big push’ thinking who argues for a new, more specific and targeted approach to foreign aid.
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In *The End of Poverty* Jeffrey Sachs outlines a number of characteristics and circumstances that contribute to Africa’s poor growth but highlights the so-called poverty trap as being the greatest challenge in economic development (Sachs, 2005, p. 73). Essentially, his argument is that the only way poor households can increase their incomes and livelihoods is if they invest in capital. However such investment requires savings and, for people in these circumstances, there is no margin of income above survival that can be invested for the future. Hence these people remain in a vicious cycle of capital depreciation and subsistence living.  

This, argues Sachs, is where aid comes in. Aid provides the necessary savings that can be invested in capital thus allowing the household to generate income and begin saving for themselves. Without this aid, the vicious cycle of the poverty trap would never be broken (Sachs, 2005, p. 249). This is the reasoning which has helped form the basis for foreign aid to be increased to 0.7% of rich world GNP as per the Millennium Development Goals.

In contrast to the above, William Easterly is critical of the ‘big push’ thinking promoted by economists such as, and specifically, Jeffrey Sachs. In *The White Man’s Burden* Easterly frames the debate in terms of planners and searchers. He argues that planners are the Jeffrey Sachs’ of the world who seek to plan and revise whole economies. Searchers, on the other hand, are those that have knowledge of local conditions who identify and solve specific issues. Easterly argues that foreign aid has been dominated by planners and that aid has not worked because planners are pursuing unachievable utopian ideals (Easterly, 2006, pp. 3-8). He argues that aid workers based in Washington cannot plan a market and cannot plan a good government. Economic development and the creation of markets must be home-grown if they are to be successful. In light of this, Easterly says, aid agencies should get back to the basics.

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8 Sach’s argument is consistent with the Solow and Harrod-Domar models of economic growth in that it stresses the fundamentality of capital in the development process.

and only focus on providing vaccines, antibiotics, food supplements, fertilisers and infrastructure (Easterly, 2006, p. 368).

From Jeffrey Sachs’ *The End of Poverty* in 2005 to William Easterly’s rebuttal in 2006 we now arrive at Dambisa Moyo’s *Dead Aid* in 2009. While Sachs was a staunch proponent for increasing foreign aid, Easterly argued that aid in the ‘big push’ sense does not work and that it should instead be focused on specific, achievable goals. Moyo, however, has gone one step further. She argues that not only has aid not worked, but aid is in fact the cause of Africa’s development problems. The following sections will discuss how Moyo reaches this conclusion and will show that it is based on assumptions that are likely to be incorrect. But first I will explore the idea that there is any single or substantially-primary cause of Africa’s poor development.

### 3.2. *The Single factor fallacy*

In chapter three, Moyo considers the different reasons often put forward for the failure of many African countries to develop. She dismisses many of these factors by using specific country examples. In relation to geography, for example, she argues that Switzerland and Saudi Arabia are both landlocked countries which have been very successful economically (Moyo, pp. 30-31). Similarly in relation to the significant ethno-linguistic diversity of African countries she cites Botswana, Ghana and Zambia as examples of countries that have very diverse cultures which have nevertheless overcome these obstacles (Moyo, p. 33).

Moyo essentially argues that these factors do not explain Africa’s failure to develop. Instead, she argues, the reason Africa has failed to develop is because of international aid. On page 35 she says ‘while each of these factors may be part of the explanation in differing degrees, for the most part African countries have one thing in common – they all depend on aid’. She later says that ‘millions in Africa are poorer today because of aid’ and ‘a direct consequence of the
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aid-driven interventions has been a dramatic descent into poverty’ (Moyo, p. 47). Finally she says, in relation to aid, that ‘no surprise, then, that Africa is on the whole worse off today than it was 40 years ago... in the 1970s less than 10% of Africa’s population lived in dire poverty – today over 70 percent of Sub-Saharan Africa lives on less than US$2 a day’ (Moyo, p. 145).

The suggestion that foreign aid is the cause of Africa’s failure to develop is a very bold assertion indeed. In reply, Jeffrey Sachs commented that ‘[Moyo] seems to believe that Sub-Saharan Africa was economically prosperous and then was pushed into poverty by aid’ and described her assertions as ‘confused and ridiculous’ (Sachs, Huffington Post, 2010). What’s more interesting is that this assertion by Moyo - an assertion which is the crux of her whole book - is even at odds with the writings of other aid-sceptics, most notably William Easterly. At no stage in Easterly’s book did he suggest that aid was in fact the cause of Africa’s failure to develop. He merely suggested that aid was being wasted and was not achieving its objectives. In fact, as discussed earlier, Easterly explicitly states that there is still a vital role for aid to play in certain areas – what he calls ‘obvious goods’ (Easterly, 2006, p. 368).

Easterly states that ‘it does not follow that foreign aid should be eliminated’ and, in relation to any negative correlation between growth rates and aid recipients: ‘that although there is a negative association, I don’t think the increase in aid caused the fall in growth. Rather the fall in growth probably caused the increase in aid’ (Easterly, 2006, p. 45). This is wholly at odds with the assertion made by Moyo.

The reasoning behind Moyo’s argument is discussed in detail in the next section. The purpose of this section is to discuss the suggestion that there is one single cause for Africa’s failure to develop in the first place! As the passages quoted above show, Moyo is arguing that aid is the primary, if not sole cause of Africa’s failure to develop. This is a ridiculous assertion that has no empirical or theoretical support. Africa’s failure to develop is a complex and multi-faceted
issue that includes factors such as physical geography, governance failures, cultural barriers, politics, institutions, corruption, natural resources, demographics, the poverty trap, terms of trade, drought and climatic conditions, and trade barriers in developed countries (Perkins et al, 2006). As Collier and Gunning explain, the causes behind Africa’s growth are spread across domestic issues, external issues, policy issues and so-called ‘destiny’ issues like soil quality, rainfall and population density (Gunning, Collier, 1999, pp. 3-22). Numerous books, textbooks and studies have been conducted in the area of economic development in Africa and no credible works have ever suggested that there is a single, narrow cause for Africa’s failure to develop. 

So how, then, does she make this argument? How does she argue that aid is the primary, if not sole cause of Africa’s failure to develop?

### 3.3. **Aid as the cause of Africa’s failure to develop**

Although Moyo discusses some of reasons why aid is bad for economic growth, such as investment, inflation and exports (she spends less than two pages on these other issues), her key focus is undoubtedly *corruption*. Her argument follows an apparent, but unspoken train of thought: That aid increases corruption, and that corruption, in turn, causes negative growth. She considers these two assumptions concurrently without ever actually addressing them individually. Let us now consider each of these assumptions in turn.

#### 3.3.1. **That aid increases corruption**

Many authors have discussed the capacity of aid to increase corruption in developing countries - and there is a substantial body of theory and anecdotal evidence to support this assertion. Moyo argues that aid props up corrupt governments and provides them with freely

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10 Furthermore, for works that have suggested a single or at least primary cause that cause tends to be very broad, e.g. the poverty trap for Jeffrey Sachs whereby Sachs stresses that the poverty trap itself could be caused by any number of the factors discussed above – it is not a single, narrow cause.
usable cash to keep themselves in power through bribery and the financing of civil wars. The provision of aid also reduces the need for the government to tax its citizens which removes a vital link of accountability between the government and its citizens (Moyo, pp. 58-59). Moyo also illustrates how the fungibility of aid can prevent donor countries from putting in place measures to ensure their money does not go towards corrupt activities. If a donor conditions that its aid must go towards building infrastructure, then even if the host country abides by this condition it may nevertheless redirect the money it would have spent on infrastructure towards corrupt activities – something that would not have happened in the absence of aid (Warr, 2002, p. 8).

Many authors, including Easterly, Perkins and Collier, have also discussed the potential for aid to increase corruption. Perkins et al, for example, discusses how US aid to the Marcos regime in the Philippines, aid to the Central African Republic, aid to Haiti and aid to Zaire – all in the 1970s and 1980s – could very well have increased corruption in those countries (Perkins et al, 2006, p. 545). There are also a number of studies that have found a positive correlation between aid flows and corruption in developing countries – including the Alesina and Weder study\(^{11}\) referred to by Moyo. However, as explained below, such a simple correlation says little about causation.

### 3.3.2. That corruption causes poor economic growth

This assertion is much harder to substantiate. Moyo refers to a series of studies that show a positive correlation between corruption and economic growth (Moyo, p. 51). There are two key problems with these and other studies: (1) they only show a correlation and not causation; and (2) there are just as many studies that show the exact opposite – it depends on what variables you include.

\(^{11}\) Alesina, A, Weder, B. *Do Corrupt Governments Receive Less Foreign Aid?*, National Bureau of Economic Research, NBER Working Papers, 7108
The key problem with any alleged correlation between corruption and economic growth is that virtually all poor countries have governance and corruption indicators that are below those of the high-income countries (Sachs, 2005, p. 312). That is, corruption is almost always rampant in poor countries. Sachs argues that the two tend to go hand-in-hand and that causation goes both ways: although lower corruption may increase incomes, countries with higher incomes tend to demand lower corruption and better quality institutions. According to Sachs, the claim that corruption is the basic source of Africa’s problems does not withstand practical evidence or serious scrutiny (Sachs, 2005, p. 191). He found that African countries tended to have growth rates around 3% lower than other countries that had the same levels of corruption. At the end of the day, Sachs says, politics and corruption simply cannot explain Africa’s prolonged economic crisis (Sachs, 2005, 190).

This brings us to the second problem: that there are just as many studies that show the opposite! Studies conducted by Easterly revealed results in stark contrast to those undertaken by Sachs, perhaps unsurprisingly. Easterly found that when you control for both initial poverty and for bad governments, it is bad governments that explains the slower growth (Easterly, 2006, pp. 42, 43). Similarly Stephen Knack and Philip Keefer both found a positive relationship between economic growth and the rule of law (Knack and Keefer, 1997). But once again, on the opposite side of the argument, Svensson (2005) found that after controlling for all other growth determinants, corruption had no strong link to economic growth.

Regardless of the theory to which you subscribe, two things are clear: (1) a simple correlation does not suggest causation – this is one of the reasons we see such divided opinions; and (2) whether corruption reduces economic growth is far from a stable assumption. Indeed, in the same way Moyo dismissed the various other determinants of economic growth through

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specific country examples – such as geography – so, too, can we cite Bangladesh, India, Indonesia and Pakistan as being countries that enjoyed rapid economic growth despite rampant corruption.

3.3.3. Summary

My conclusion, therefore, is that any suggestion that there is a single cause or a ‘magic bullet’ to Africa’s developmental problems is almost certainly incorrect. Furthermore the suggestion that aid is to blame for Africa’s poor development rests on flawed assumptions. Not many authors would disagree that aid has the potential to increase corruption – and many could cite specific empirical observations of this occurring, particularly during the Cold War. However a blanket assertion that corruption necessarily causes poor economic growth is curious at best. This pulls Moyo’s entire argument into question.

3.4. The Dead Aid proposal

The Dead Aid proposal, which is found in the second half of the book, is in my opinion nowhere near as controversial as the first half of the book. Having argued that aid is the root of all evil, Moyo now provides the alternatives to replace it. The problem, however, is that her proposed solutions to replace aid, and thus help solve Africa’s problems, are simply not convincing alternatives.

Moyo states early on that the Dead Aid proposal is not about the development agenda but is rather about financing the development agenda (Moyo, p. 74). She proposes six alternative methods of finance: bond sales in capital markets, foreign direct investment, increased trade, remittances from overseas, unlocking latent savings, and microfinance.

There are three key issues with these aid-alternatives. The first issue is that some of these methods of finance are analogous to aid. This is particularly true for remittances which is
when an expatriate sends funds home from abroad. The only difference between aid and remittances is the source of the free money. To an extent, this is also true for any soft loans that are made to developing households – loans with such low interest rates and such high tolerance for default that they are effectively free money anyway.

The second issue is that Moyo’s distinction between the development agenda itself and the financing of the development agenda is a fairly tenuous one. In creating and implementing a development agenda most economists would recommend that a country engage in more trade,\textsuperscript{13} attract more FDI\textsuperscript{14} and create domestic bond markets – all things which Moyo suggests are methods of finance rather than part of the development agenda.\textsuperscript{15} This may seem like a trivial point. However Moyo has stated repeatedly in her book that she was not proposing a new development agenda, just new methods to finance it – perhaps trying to distance herself from the ‘big-push-planners’ like Jeffrey Sachs. In either case her distinction is tenuous.

The third and more fundamental issue is that Moyo fails to explain why developing African countries would be more productive with money they have to borrow than money that is free. That is, why would they be any better at managing money that comes through capital market loans than money that comes through aid? It is clear that the benefit she perceives from capital markets is that it re-enforces credibility. Indeed, Townsend highlighted how improvements in credit and the financial markets of Thailand could substantially increase growth – something that could be applicable to African countries (Townsend, 2006, pp. 357-364). However she fails to explain why African governments would be any better with

\textsuperscript{13} Many economists have found a strong, positive correlation between trade, openness and economic growth – with the exception of primary products and countries suffering from the so-called Dutch Disease (Perkins et al, 2003, pp. 738-739).

\textsuperscript{14} But note, however, that the fundamental issue is the productivity of FDI. Data shows that FDI focusing on resource extraction and FDI seeking to produce for the domestic market tend to be less successful than FDI aimed at producing manufactured exports for the global market (Perkins et al, 2003, p. 423).

\textsuperscript{15} For example, each of these are principles of the Washington Consensus (Perkins et al, 2003, p. 191).
borrowed funds than free funds. Why, in light of the substantial amount of debt accumulated by African countries over the years which led to the IMF and World Bank’s Heavily Indebted Poor Countries Initiative in 1996, would developing countries be better off with borrowed money rather than free money?

This leads me to my overall concern. The *Dead Aid* proposal simply fails to convince me that developing countries would be able *or willing* to move over to these proposed alternatives such that aid could be *safely* removed. As Sachs has discussed at length in his responses to this book, millions of African’s are currently relying on aid for their survival. Moyo’s proposal does not provide any evidence that her suggestions would work. Her book does not read like a practical blue-print for success. Instead she offers some very high level suggestions without any guidance as to how countries should adopt these alternatives and does not provide any case studies on how specific countries could implement these measures. Her proposal raises more questions than answers and does not provide the convincing foundation which is required for anybody to agree that aid should be removed and that it can be done so safely.

4. Conclusion

As the preceding pages have no doubt suggested, I am fairly critical of Dambisa Moyo’s *Dead Aid*. I have argued that her suggestion that there is a single cause, or even a substantially-primary cause for Africa’s failure to develop is almost certainly incorrect. Her suggestion that foreign aid is to blame for Africa’s problems rests almost entirely on her argument around *corruption* – that aid causes corruption and corruption prevents growth. I have shown that these assumptions are both theoretically and empirically speculative at best. Furthermore, as discussed above, her proposed alternatives to replace aid do not persuade me that aid should be stopped altogether.
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This book feels like it was written by somebody who had made a serious observation and had a clear message: that aid in Africa has not worked and that in many cases it simply funds corrupt governments. This is an important message for people to hear - it is just a shame that this isn’t a better book. The book feels as though Moyo wanted to make this important point but for some reason felt that she needed to exaggerate the fundamentality of aid to make it interesting. Rather than merely suggest that aid hasn’t worked and that aid can simply line the pockets of corrupt governments, she instead argues that aid is the *cause* of Africa’s poor development and recommends the highly reactionary response of ending aid altogether. To this extent, her work does not read as having the mature, intellectual and balanced approach that we are used to when we read works from authors such as Easterly, Collier and Sen. And it similarly lacks the practicality, empirics and evidence-based conclusions that we see when we read works by Sachs.

When it comes to producing a powerful and thought provoking book that questions the ideologies behind foreign aid, therefore, this book simply isn’t it – that accolade, in my opinion, would remain with William Easterly.
5. References


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