

POVERTY'S BERLIN WALL MOMENT

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If you're a follower of the IPA on social media, you will have noticed we recently circulated this quote from U2 rocker and anti-poverty activist, Bono:

I'm late in realising that it's you guys, it's the private sector, it's commerce that's going to take the majority of people out of extreme poverty. And, as an activist, I almost found that hard to say.

Indeed, a number of events have occurred in 2015 making it a watershed year in the fight against global poverty.

The major development was the release of a World Bank report stating that one billion people had risen out of poverty since 2000. It also found that the percentage of people earning \$1.90 or less (according to purchasing power parity international dollar basis) will fall into single digits this year for the first time ever. The global poverty rate was 37.1 per cent in 1990.

As IPA Senior Research Fellow Dr Mikayla Novak wrote on the IPA's *FreedomWatch*, this growth is undoubtedly the result of greater economic freedom as more developing countries repudiate central planning, remove onerous regulation, engage in international trade and investment and place their economic ambitions in the hands of entrepreneurs in all shapes and sizes.

This view is supported by US think tanks the Cato Institute and the Heritage Foundation, both of whom produce indexes measuring global economic freedom. Both of these indexes have found economic freedom has been increasing globally in recent decades, and that countries that are freer are more prosperous.

In light of these extraordinary developments, the global development community can no longer ignore the absolutely central role that economic liberalisation plays in the alleviation of poverty. Along with the landmark World Bank report, was the awarding of the Nobel Peace Prize to Scottish economist Angus Deaton.

Deaton is a critic of foreign aid, believing it weakens the institutions necessary for growth. In his book *The Great Escape: Health, Wealth, and the Origins of Inequality*, he writes:

When the 'conditions for development' are present, aid is not required. When local conditions are hostile to development, aid is not useful, and it will do harm if it perpetuates those conditions.

He goes on to say:

[E]ven in good environments, aid compromises institutions, it contaminates local politics, and it undermines democracy. While Deaton wasn't awarded the prize for his views on foreign aid, and he is certainly not the first Nobel Laureate to take this view, his overtly dim appraisal of foreign aid means that being a foreign aid sceptic has officially 'gone mainstream'.

Deaton is certainly no great advocate of the free market. His economic views are centrist. But, as nominally the world's preeminent economist, his attacks on foreign aid mean that it is increasingly difficult to dismiss foreign aid sceptics as intellectual outliers or rabid ideologues. Indeed, Deaton's views confirm that the intellectual climate has changed.

The third major development to occur in the fight against poverty this year has been the advent of the Sustainable Development Goals (SDGs) by the UN. These goals will continue the work of the Millennium Developments Goals (MDGs) which ran from 2000 to 2015.

The final report of the MDGs, launched by UN Secretary-General Ban Ki-Moon, claimed they were 'the most successful anti-poverty movement in history'. In light of the huge market-based gains made in the preceding decades, rarely have emptier words been printed.

The SDGs will set the agenda for \$US2.3 trillion of foreign aid between 2015 and 2030. Whereas the MDGs were consisted of only 8 goals, the SDGs have spawned 169 targets. These targets are an extended wish list of the international development community.

There are many problems with the SDGs, but the main one is this—they are based on the belief that the solution to poverty is to expand the role of government in aid-receiving nations. This belies the fundamental truth that poor countries are poor because of (often authoritarian) government.

This intrinsic flaw in the SDGs reflects the economic theory on which foreign aid is based. The notion of foreign aid gained prominence post-WW2 when neo-classical growth theory held sway. This theory stipulates that growth is a technical problem that requires the right allocation of resources at the right time. Furthermore, this allocation is most efficiently achieved by government planning.

This theory is a product of the epoch in which it emerged. The world was still reeling from the Depression that was supposedly the fault of *laissez-faire* capitalism, the success of the planned wartime economies was fresh in the memory, and many in the outside world still believed the Soviet Union was growing at an enormous rate.

It is ludicrous that the international development community should base its multitrillion dollar agenda on such outdated economics.

To grasp the nettle provided by the huge gains made by markets in recent times, to ensure that 2015 is indeed a Berlin Wall moment for global poverty, a new agenda for foreign aid and charity must be established. It must challenge the SDGs and persuade donors to support market-based solutions to poverty.

The key acknowledgement of such an agenda must be that the vast majority of people will be lifted out of poverty in the course of taking part in free markets. Firstly, this can be done by removing the barriers that many face in taking part in free markets such as streamlining business registration and ensuring accessible property rights. Secondly, charitable organisations must work to develop markets that are beneficial to poor people. Good examples of this are microfinance and personal equity finance, as utilised by the Human Capital Project in Cambodia.

Equally important, the days of working through authoritarian governments—the very governments that are causing poverty in the first place —must end once and for all.

2015 has shown many in the development community what many readers of this publication have known for a long time: it is people and markets that will solve poverty, not governments and aid. Foreign aid and charity will never 'solve poverty' though they can make a worthwhile and positive



contribution around the margins. The momentum created by the events of this year must not be lost if we are to ensure that millions of people don't needlessly remain in a state of grinding poverty.