



CASCADE POLICY INSTITUTE

# CASCADE COMMENTARY

January 2006

No. 2006-1

## Summary

International commitments to increase foreign aid to African nations ignore the causes of poverty in those countries: corrupt governments and a lack of economic freedom. So long as those problems aren't addressed, foreign aid will fail to improve the situation.

Word count: 613

***“Instead of funding oppressive kleptocracies by increasing aid, the G8 nations would better serve Africans by demanding reforms that promote economic freedom.”***

813 SW Alder Street, Suite 450  
Portland, Oregon 97205  
(503) 242-0900  
[www.cascadepolicy.org](http://www.cascadepolicy.org)

## Aiding poverty in Africa: Giving ‘til it hurts

by *Bruce Smith and Bill Conerly*

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. 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, but from 1975 to 2000 GDP per capita decreased by 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 Asia's. In the 1975-2000 period, South Asia's GDP per capita increased by roughly 3 percent a year, even though its 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. 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 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.

-over-

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 closely 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 G8 and Live Eight concerns about world poverty are well placed, even if their proposals are ineffective or counterproductive. The real solutions are simple, effective—but hard for African leaders to accept. Any action that delays the necessary shift to economic freedom will sentence millions of Africans to lives of poverty.

---

*Bruce Smith is a research intern and Bill Conerly, Ph.D, is chairman of the board of Cascade Policy Institute, a Portland-based free market think tank.*

***“The reason foreign aid hasn't worked is because African governments don't promote and facilitate the accumulation of wealth and capital.”***

Attention editors  
and producers

*Cascade Commentaries* are provided for reprint in newspapers and other publications, with credit given to author(s) and Cascade. Contact Cascade to arrange print or broadcast interviews on this commentary topic. Electronic text files are available online at [www.cascadepolicy.org/cctext/](http://www.cascadepolicy.org/cctext/).

Please contact:

Jon Hadley  
Production Manager  
Cascade Policy Institute  
813 SW Alder Street, Suite 450  
Portland, Oregon 97205

Phone: (503) 242-0900  
Fax: (503) 242-3822

[www.cascadepolicy.org](http://www.cascadepolicy.org)  
[jhadley@cascadepolicy.org](mailto:jhadley@cascadepolicy.org)