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By William Easterly

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Upon joining the World Bank in 1985, I was assigned to work on a topic called "resource mobilization." Too embarrassed to admit that I had no idea what resource mobilization meant, I eventually discovered that the term was office shorthand for "mobilizing" donors to deliver foreign aid aimed at increasing investment in developing nations. This military metaphor echoes the multilateral financial institutions' jargon of dispatching "missions" to oversee projects and advise policymakers in member countries.

Such martial imagery seems appropriate for the long-standing war among economists over whether decades of foreign aid have done any good. In a controversial study published last year in the *American Economic Review*, World Bank economists Craig Burnside and David Dollar found that, on average, foreign aid has failed to foster economic growth in recipient nations, except in special cases when governments implemented particularly supportive macroeconomic policies, such as low budget deficits and openness to trade. Similarly, Peter Boone, an economist with the investment firm of Brunswick UBS Warburg and formerly a professor at the London School of Economics, argued in 1994 that aid has boosted neither investment nor growth in a significant manner. In fact, aid-intensive African countries experienced zero per capita economic growth and falling investment during the last two decades—even while foreign aid as a percentage of their total economies expanded. Such findings resonate with fatigued donor nations that have "mobilized" hundreds of billions of aid dollars but have seen few results.

Yet, every finding by an economist generates an equal and opposite finding from another economist. In a recent article in the bimonthly *Journal of Development Economics*, University of Copenhagen economists Henrik Hansen and Finn Tarp challenge the prevailing aid pessimism. The authors contend that foreign aid does produce big payoffs but shows diminishing returns: The larger the total aid flows to a particular country, the smaller the impact of each additional dollar. With this shift in methodology, the Burnside and Dollar results are reversed, and foreign aid appears to spur faster economic growth regardless of government policies. Moreover, Hansen and Tarp show that aid promotes growth by increasing domestic investment in developing countries. Apparently, good ol' "resource mobilization" was right all along.

Well, not quite. Yet another article, by World Bank economist Lant Pritchett (currently on leave at Harvard University), and appearing recently in the quarterly *Journal of Economic Growth*, further challenges the benefits of foreign aid. Pritchett argues that much of what governments officially record as "investment" fails in reality to create any useful machinery for production. He recalls visiting an aid-financed factory zone in Tanzania full of "rotting hulks with little or no workable machinery and with the few workers who still bothered to show up standing around listlessly." Similar stories abound: A nuclear power plant built in the Philippines under the Marcos regime carried a $2 billion price tag yet never even opened; the World Bank–financed Morogoro Shoe factory in Tanzania cost some $40 million but has never produced at more than 4 percent of its peak capacity; and a $5 billion Ajaokuta Steel factory in Nigeria produces very little steel but has generated abundant payoffs (around $2 billion) to former Nigerian officials. Anecdotes aside, Pritchett concludes that as little as 8 percent of the official measured growth of machinery and equipment in Africa during the last 30 years translated into actual machinery and equipment, with similarly aid-intensive South Asia showing a meager 9 percent figure.

It seems ironic that World Bank economists rank among the harshest critics of traditional foreign-aid programs. This attitude likely reflects the move in recent years by the World Bank, other international organizations, and donors away from traditional foreign-aid programs and toward supporting homegrown reform packages carried out by governments with proven policy track records. This shift, however, remains far too slow. The concept of "resource mobilization" should have died on the battlefield long ago. FP

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