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JUSTICE, AID AND POVERTY: A SHORT SURVEY OF THE LITERATURE[1]

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In this session, dedicated to 'Charity and justice in the relations among peoples and nations', we accept the idea that international justice calls for an increase in aid to the poorest countries. This round table is meant to study how the increase should be patterned so as to implement as well as possible a just reduction in poverty. That is a wide-ranging matter to the clarification of which a short survey of the literature may contribute.

The first two parts of this paper will essentially consider a literature that existed before the Millennium Goals were chosen. Their titles will respectively be 'What would international justice require?', 'Poverty, aid and economic growth'. The literature of the last decade, which was particularly rich, will be the subject of the third and fourth parts, respectively on 'Foreign official aid and poverty' and 'Funding the Millennium Development Goals'.

1. What Would International Justice Require?

Philosophy has often closely examined what justice should be. But our concern in this round table is to reach operative proposals. Attempting to survey fundamental debates between philosophers would be misplaced.[2]

[1] Contribution to the round table 'International Justice and Aid. Do we Need some Scheme of Redistribution of Income at the World Level Along the Lines of What Most Countries Have at the National Levels?' in the XIII plenary session of the Pontifical Academy of Social Sciences, 28 April 2007. Une version française est disponible sur le site de l'Académie http:/www.vatican.va/ roman-curia/pontifical.academies/index.htm.

[2] On other occasions, notably in E. Malinvaud (2004), I approached fundamental philosophical issues. For that matter we should not overlook that philosophy countains

We shall rather consider, directly and in turn, justice according to the humanist philosopher Paul Ricoeur, the application of justice in law, and the application of justice in international relations.

1.1. *Justice According to Paul Ricoeur*[3]

This philosopher takes a strong position against the idea that principles of justice could be derived from rational reasoning only. He points instead to the relevance of a teleological perspective inspired by the sense of justice rooted in the minds of men and women who yearn for meaningful lives, with and for others within just institutions.

What matters is first to appeal to *practical wisdom* in judging each context in itself. It is also the emergence of an ethic in the process by which argumentations and convictions are exchanged between persons and progressively improved, up to the point where *considered convictions* might have a fair degree of universality. Ricoeur then concludes: 'the skill of conversation in which the ethics of argumentation is put to the test of the conflict of convictions makes up one of the faces of practical wisdom'.

Social scientists have a natural role to play in Ricoeur's scheme. They seldom claim to dictate what institutions and social policies ought to be. Their role is rather to reflect on social realities and to present evidence showing what the positive or negative effects of institutions and policies are likely to be. The argumentations in which they are involved, in relation with the demands addressed to them, help the formation of considered convictions in the citizenry.

important elements fostering the social doctrine of the Church. This was asserted many times by John Paul II, particularly in the long section entitled 'The Church's interest in philosophy' (nn. 57-63) in the Encyclical *Fides et Ratio*. He there recalled that Pope Leo XIII had devoted entirely to philosophy his Encyclical Letter *Aeterni Patris* (1879) and that, as a result, the studies of the thought of Saint Thomas and other Scholastic writers had received new impetus. John Paul II also stressed 'the intimate bond which ties theological work to the philosophical search for truth' (n. 63).

[3] I am referring here particularly to P. Ricoeur (1992) and to Study 9 which follows Study 7, on the inner reflection of each person on his or her aims, duties, obligations and rights, and Study 8, on the interpersonal relations inspired by solicitude and norms of reciprocity. Study 9 deals with the institutions which mediate such relations within a society, aim at justice and enforce legal obligations.

1.2. *Application of Justice in Law*

All social scientists may now benefit from occasionally referring to the three volumes of the *Palgrave Dictionary of Economics and the Law* (Macmillan, 1998, London). These volumes are relevant in particular for the discussion in our round table, because they lead readers to reflect on the application of justice.

In the entry on *Justice,* A. de Jasay begins with: 'The concept of justice informs our sense of justice'. The first part is entitled 'Findings and judgments', the second 'Constituent principles' with the subheadings 'Responsibility', 'Presumption', 'Convention'. We perceive continuity with the thought of Ricoeur and a distance from the two principles stated by Rawls (1971) (see below).

The dictionary well exhibits three important distinctions in the constituting of law: (i) common law and written law; (ii) legal justice and social justice; (iii) render unto each 'his own' or 'according to his needs'. I shall say no more about the first distinction. But the second leads us to refer to the entry *Social justice* where we find the two relevant definitions. For legal justice: 'exercise of impartiality in enforcing the system of rights and duties by which a basic level of order in society is achieved'; for social justice: 'ensuring that each individual is given his due, not in terms of a claim to just conduct on the part of others, but as an assigned share of society wealth'. This induces us to refer to the entry on *Equity,* but it turns out that the entry is focussed on the 'juridiction of equity', which I understand to be a historically distinctive feature of some English courts.

There is no doubt in my mind that the drive for fighting against poverty belongs to social justice applied to those most suffering from destitution. But the above third distinction brings into conflict two sensitivities which clearly appear in the philosophical literature. The second one goes back to Roman law and to the principle of *Suum cuique* heading the fourth part of the entry on *Justice.* The principle in question literally translates from Latin as: 'to each his own'. It states the existence of a private property right, understood as one form of personal liberty. Now, various authors maintain that the latter has prime importance. Rawls (1971), in particular, gave primacy to his first principle of justice requiring 'the most extensive basic liberties'. The second principle, presented as subsidiary, states that justice must also insure 'the most restricted social and economic inequalities'. Among those who strongly argued for the primacy of liberty I may mention the philosopher Robert Nozick and the Nobel prize economist Friedrick Hayek.

I may also remind academicians that, in our second plenary session, labor and employment law was examined thanks to the contribution of

Thomas Kohler, who compared the German model, as a continental European prototype, to the (US) American model. German law was meant to protect the weaker party in the employment contract. American law took its inspiration from liberal anthropology. So, concerning collective bargaining, the legal schemes entail minimal state intervention in the ordering of relationship because they rely on market mechanisms to shape the results.

1.3. *Application of Justice in International Relations*

International justice appears as a major theme in the program of this session. But my role is not to provide here a synthesis of what can be found in this volume. I shall rather first draw attention to the dilemma of international justice, as exhibited in earlier sessions of the Academy. Secondly, I shall make a few comments inspired by my reading of other articles of the book.

Over much of the twentieth century there has been an important widening and deepening in the scope of the international legal order. However, it would be hard to argue that justice was the predominant concern.[4] Historically, the main mode to create order was through bilateral treaties: equal sovereign states pursuing their respective national interests would bargain and in principle come to some form of transaction. However, in actual fact, the interest of the strong was often imposed on the weak. Appearance in the twentieth century of multilateral agreements rooted, in each case, on a certain world view somewhat mitigated the risk of imbalance. But the major states of North America and Europe still frequently imposed their rule on lesser states, leaving the latter with little or no margin for negotiation.

The development of international organizations led to search for an orderly international community, which, however, suffered many setbacks. More or less constraining international norms progressively replaced some of the national norms. This was by and large beneficial. But we could not accept without reservation today the claim that international normality would meet the requirement of justice. Moreover, we must acknowledge that it is now common to speak of a crisis of multilateralism.

One often hears about a 'global governance'. But it is undertaken only in a tentative, incomplete way, and it has to put up with a high degree of national disharmonies. Elements of a civil society spread beyond national borders, but they poorly interact with national governments and inter-

[4] See J. Weiler (2004) and H. Zacher (2005).

national organizations. Behind such a lack of mutual adaptability transpires the frequent disagreement between value systems, each one claiming universality.

Who, such being the case, can define the content of international justice? In this volume M.A. Glendon gives an answer, which is particularly suitable for the gist of this paper: 'In recent decades, the Catholic Church has become the single most influential institutional voice for the voiceless in international settings, speaking out on behalf of the poor, the vulnerable and the marginalized'.

We shall also remember that, in his address to the Academy, H.H. Benedict XVI brought our attention to 'three specific challenges facing our world, challenges which...can only be met through a firm commitment to that greater justice which is inspired by charity': environment and sustainable development, our conception of the human person, the values of the spiritual goods. About the third challenge, the Pope explains that dialogue between the peoples of the world, now coming into much greater contacts, will 'promote understanding...of true human values within an intercultural perspective'. This is consonant with Ricoeur's practical wisdom leading to 'considered convictions which might have a fair degree of universality'. Indeed, the role of practical wisdom is manifest in postures taken by a number of authors in this volume, such as M. Ramirez underscoring the role of the practice of global solidarity, L.E. Derbez Bautista pointing to unfairness in the practice of international finance, or J. Diouf speaking of the right to water as a matter of international justice.

2. Poverty, Aid and Economic Growth

Let us now move on into the main subject of this paper.

2.1. *What is Poverty of the Human Person? How Can It Be Measured?*

Introducing his article on the subject, A. Atkinson (1987) writes: 'Concern for poverty has been expressed over the centuries, even if its priority on the agenda for political action has not always been high. Its different meanings and manifestations have been the subject of study by historians, sociologists and economists. Its causes have been identified in a wide variety of sources, ranging from deficiencies in the administration of income support to the injustice of the economic and social system. The relief, or abolition, of poverty has been sought in the reform of social security, in intervention in the labour market, and in major changes in the form of economic organization'.

Precise answers to the two questions posed above would require more analysis than will be found here. But the questions should already suggest what may be the main stakes. In the context of this round table, attention is naturally confined to countries of the Third World, where poverty is acute and seems to be more easily identified than in developed countries, in which such notions as 'conditions of living' permit wide ranges of interpretations.[5]

However we must keep in mind the distinction made by Atkinson between a *minimum level* of consumption or income, a kind of subsistence level, and a *right* to have at least a given share of the total amount of resources available in society. This second concept refers to a statistical distribution of the levels of consumption or income in that society. We then say that the first measure is 'absolute' and the second is 'relative'. Referring to the proportion of people living below one 1990 dollar a day, the particular Millennium Goal which most concerns us here, has chosen an absolute measure of poverty, whereas poverty indicators quoted for developed countries were often chosen as relative. Let us still note at this point that, in section 3.1., other Millenium Goals will be mentioned, which may also enter into the numerical description of poverty.

2.2. *Why Should We Talk About Growth?*

There are two reasons for doing so: facts and history of ideas. On the one hand, economic growth usually goes hand in hand with the gradual reduction in poverty. Since growth factors have been much studied in economics, what is known about them in such or such country already gives information about poverty, although imperfectly.

On the other hand, a large amount of literature has been published since the end of the 50s dealing with the effects of foreign aid on the growth of little-developed countries. This literature fostered a long debate and so makes up a useful background for appraising the relevance of recent contributions.

The literature had emerged at the very time when a sense of disillusionment was appearing in relation to the slow take-off in some assisted countries, to the absence of any take-off in others, and to what was perceived about aid use. A parallel was drawn with the luxurious life of some ruling

[5] See B. Nohan and C.-T. Whelan (1996) and for France S. Ponthieux (2003).

leaders, or with the spread of corruption along aid distribution channels without caring about their best use. Or again with aid allocation which turned out to benefit only an elite or which went into poorly worked-out projects, the materialization of which might then turn out to be useless in practice. Some economists explained that aid had pernicious effects because it could prevent the natural development of entrepreneurship and could have the harmful effect of leading to overvaluation of the currency, thus handicapping exporters of home products. What had been happening in the Netherlands since the tapping of natural gas reserves (the 'Dutch disease') was presented as illustrative.

Of course, such pessimistic diagnoses were not unanimously accepted. They were not accepted for instance by H. Chenery and A. Strout (1966) who, in their modelling of aid effects, believed to be building on a solid theoretical basis. The latter had indeed been widely distributed by well-reputed development economists like Sir Arthur Lewis (1954).

However neither factual data nor analytical principles to process them were well established at the time, whereas they would progressively emerge later. In fact we shall have the chance to see that such data and principles do not remove all difficulties. Nevertheless a methodology was going to mature for testing the effectiveness of the various forms of aid.

We must also recognize that something still stands today to be remembered out of the early criticism. W. Easterly (2003) in his pages 36 to 38 quotes aberrations to which some institutions in charge of distributing international aid still recently succumbed.

2.3. *Impact of Aid on Growth Through Investment*

Published in 1960 a book by W. Rostow was for a time very popular among economists. According to the author economic development began with a period of take-off, following stagnation, when society began to build up capital. Once under way, growth would go on almost automatically. Many then accepted the thesis that foreign aid would serve as a release mechanism.

In their model Chenery and Stout accepted the idea, moreover assuming that aid would fully go to investment. Domestic saving would be proportional to the growth rate. International trade would sooner or later generate a surplus, which would progressively substitute for aid. Notwithstanding the restrictive character of the assumptions so made, the model proposed a reasonable framework for thought. It could even lend itself to computations, at the time when economic planning was fashionable and investment was made mainly of industrial equipment and transport infrastructures.

2.4. *A Larger Vision of Growth Factors*

During the three following decades, the growth factor concept was enlarged in two successive stages. First, great importance was recognized to 'human capital', hence to education and health. The goal was no longer only to finance imports, but also to train teachers and doctors.

There would be little reason to stress this point, except for a blame often addressed to the structural adjustment programs imposed by IMF or the World Bank: particularly in the poorest countries, these programs often turned out to mean drastic cuts in the budgets allocated to education and public health. There may be a lesson for us to draw today: we should not neglect to think about humanitarian aid, which also directly concerns human capital.

Starting in the decade of the 1980s a number of economists took the habit to include, among possible growth factors of a country, its institutions, which may either stimulate or hinder growth. I need not dwell on the fact that, since that time, market economies were recognized as definitely more favourable to growth than tightly controlled economies. On the other hand, within the category of market economies, performances widely differ and depend on the forms of regulations ruling the various markets, as well as on the quality of the governance applied by private and public agents.

Claiming to present all the economic literature dealing with the various aspects quickly alluded to above would be misplaced in this commentary. It will be better to now draw attention to what has been published recently.

3. Literature of the Last Decade. Foreign Official Aid and Poverty

The literature devoted to our subject is rich. It takes advantage of rapidly increasing data collection in poor countries, of the progress of data analysis methods and of the multiplicity of research projects, which could be conducted with a good level of objectivity. Nevertheless debates did not vanish, as applied econometrics faced difficulties, the diagnosis of which remains somewhat uncertain.

Section 3.1. will outline the recent trends in absolute poverty compared with the Millennium Goals. Section 3.2. will explain how enrichment of databases and deepening of the econometric methology to analyse them has opened new fields for research. Section 3.3. will examine how income redistribution may contribute to poverty reduction. Section 3.4. will single out a category made of those aids which may be assumed to stimulate growth in the short run. Section 3.5. will bring to the fore the fundamental difficulty of the evaluation of long run effects of aid policies. Section 3.6. will deal with the poverty reduction agenda.

3.1. *Trends in Absolute Poverty Compared with the Main Millennium Goal*

For a good reason, T. Besley and B. Burgess (2003) wrote: 'Obtaining reliable measures of poverty requires household surveys about the distribution of income or consumption that are comparable across countries' (p. 4). They pointed out that, over the last twenty years, the World Bank Research Department has conducted a systematic operation for that purpose, covering in the year 2000 about 88 countries which, out of a total of 158 low and middle-income countries, represented about 89% of the total population of the developing world. That data source led to evaluate at 29% in 1990 and 24% in 1998 the proportion of people who, in those countries, were living with a purchasing power below one dollar a day (at a constant real parity of the dollar).

These two proportions much varied from one region of the Third World to another. They amounted to 48% and 46% for sub-Saharan Africa, to 44% and 40% for South Asia, as against for instance 17% and 16% for Latin America, 15% and 10% for East Asia and the Pacific (excluding China). It so appeared that the last of the large regions quoted here was on the right track to meet the Millennium Goal of cutting in half, between 1990 and 2015, the proportion of those living below one dollar a day. On the other hand, strong acceleration after the 1990-98 period was required for the same goal to be met by sub-Saharan Africa or Latin America. Urgency of such an acceleration is one of the reasons which motivated organizers of this Session, notably for this Round Table.

Moreover we should not limit our discussion to just one of the Millennium Goals. Hence, I must quote three other neighbouring goals. Concerning education: achieving universal primary education by 2015. Concerning health: from 1990 to 2015 reducing by half the proportion of people without access to safe drinking water, by two-third under-age-five mortality, by three-quarters maternal mortality; and also reversing the spread of HIV/AIDS. For the environment: ensuring environmental sustainability.

3.2. *Enrichment of Data and Analytical Methods*

In order to reply to those economists who had stood as detractors of foreign aid (see 2.2. above), other economists have more recently chosen an opposite stand, while recognizing some part of truth in the former arguments. They claimed and sometimes proved that the strength of these arguments had been overstated. International aid would have sustained poverty reduction and growth in some countries and avoided worse outcomes in others. Some supporters also believe that many failings of aid have more to do with donors than recipients, especially since much aid is given to political allies with little concern for sustaining development.

It is not surprising that, after fifty years of experience, it has now become possible to issue a more qualified assessment and to analyse the impact of aid more meticulously, depending on the various motivations and contexts surrounding it. Indeed, the means now available to research on aid are much more extensive and appropriate than those available in older days.

In the first place, factual information has been much enriched. Today research has access to large data banks, the content of which admittedly has a variable reliability from one country to another, but a reliability that overall keeps improving.

Various typologies were set up, for instance about the quality of public or even private governance in aid-receiving countries. This is how G. Burnside and D. Dollar (2000) were led to the conclusion that foreign aid had a positive impact in those developing countries which were well managed, with sound fiscal, monetary and trade policies, but that aid had no significant impact in countries applying loose policies (the conclusion was however subsequently disputed, as we shall see in section 3.5.). In another example, the idea according to which donor organizations knew what would be useful for recipient countries does not seem to stand, given the testimonies of those who are operating on the spot, who report little apparent relation between political statements and what they observe.

Some particular aid programs were closely analysed as such: notably those responsible for the 'Green Revolution', or for the compaign against river blindness, or again for the fight against some epidemics and some local practices detrimental to health.

In the statistical studies applying econometric methods and aiming at giving global diagnoses, it is now common to make some relevant distinctions. For instance a separate treatment is applied to humanitarian aid after natural disasters, which simultaneously cause growth to fall and aid to increase, hence generate a negative correlation between aid and growth.

In the same studies models are refined so as to better accord to some characteristics of reality. For instance, when aid is found to have, on average, a positive impact on growth, it may also have decreasing return, that is: aid may be less and less beneficial on average as its volume increases, a fact which does not appear if a linear model is used.

It would be misplaced for me here to display the various categories of econometric techniques used today in order to take full advantage of the available data. Each category has its proper field of application, because of the nature of both the data and the models suited to the investigated phenomena. The reader just needs to know that econometrics has become a demanding craft and that he or she should rely on econometric publication which are recognized as reliable.

Let us now look at the available results. It so happens that, in each one of the two following sections, they will be fairly clear. But the outcome of the long section 3.5. will be more difficult to formulate.

3.3. *Redistribution and Poverty*

Everything else being equal, in particular mean purchasing power, a redistribution policy which decreases inequality of individual incomes in a country would lessen the poverty indicator defined in section 3.1. Besley and Burgess measured the phenomenon, choosing as an inequality indicator the standard deviation of the statistical distribution defined for the logarithm of individual real income. They first noted that their inequality indicator had higher values in Latin America (around 1.0) than, say, in South Asia (around 0.6). They next evaluated how much a redistribution policy would lessen the proverty indicator in their regions of the Third World. For instance they noted that a reduction of one standard deviation in their inequality indicator in sub-Saharan Africa would cut the poverty indicator of that region by more than half.

From their computations these authors drew two conclusions. 'First, finding feasible means of achieving redistribution must be a priority...Second, attention must be paid to the distributional impact of growth. Growth that reduces inequality will have a larger impact on poverty. This in turn leads to a focus on specific drivers of growth that can directly benefit the poor'.

3.4. *Short-Run Effects of Some Types of Aid*

In their systematic study of impacts of foreign aid on growth M. Clemens, S. Radelet and R. Bhavnani (2004) considered aid flows to 67 countries between 1974 and 2004. They at first divided aid into three categories: (1) Aid for disasters, emergencies and humanitarian relief efforts (including food aid); (2) Aid that might affect growth but indirectly and over a long period of time, if at all (such as aid to support democracy, the environment, health or education); (3) Aid that plausibly could stimulate growth in four years (including budget and balance of payments support, investments in infrastructure, and aid for productive sectors such as agriculture and industry). Their focus is only on the third group, which accounts for about 53% of all aid flows.

Presenting their results concerning the effect of aid after four years, the authors state that they do not mean that even aid of the third group is always beneficial everywhere. In the wrong circumstances it can, for instance, help centralize the power of autocratic despots. Aid does not work equally in all countries, far from that. Some aid has been wasted and aid quality could be much improved.[6] 'The big story, however, is that donors' collective, overall aid portfolio has had positive returns'.

'Even at a conservatively high discount rate, at the mean, a one dollar increase in short-impact aid raises output (and income) by 1.64 dollar in present value in the typical country...We find that higher-than-average short-impact aid to sub-Saharan Africa raises per capita growth rates there by about half a percentage point over the growth that would have been achieved by average aid flows'.

3.5. *Measuring Long Term Effects: A Challenge for Econometrics, but Perhaps Also a Relevant Lesson*

Speaking of development is to take the stand of a long-term perspective: say twenty years rather than four. Hence, we cannot be relieved by an assertion about short-term effects, however valuable it may be. But neither can we ignore possible delusions: many factors are capable of interfering in the long run, and in principle they should be all considered simultaneously in order to reach fully convincing results. In other words, econometricians were facing a serious challenge, which did not prevent them from trying. Now, since the year 2000, signs have accumulated showing that, on average, long-run effects of policies and institutions, of foreign aid in particular, might be more perverse than beneficial.

[6] W. Easterly, who is known as a skeptic economist about the utility of foreign aid and the (2003) article of whom deserves mentioning, went some steps in the direction of the three authors when he wrote in his conclusion: 'Improving the quality of aid should come before quantity. This step is difficult but not impossible'.

In order to appraise the difficulty we may first refer to a comment made by Easterly *et al.* (2004) on the article by Burnside and Dollar (2000). Their comment just amounted to show the weakness of the empirical evidence about the idea that aid would stimulate growth in countries applying good fiscal, monetary and trade policies: as a matter of fact shifting four years ahead the period on which Burnside and Dollar had established their conclusion (no longer 1970-93 but 1974-97) was sufficient to reverse the sign of the dependence of the growth rate on the variable characterizing the conjunction of foreign aid and quality of policies.

Still more disturbing are the results reached by R. Rajan and A. Subramanian (2005.b) who, after other econometricians, made a systematic investigation about the association between foreign aid and growth after ten, twenty or thirty years, and reached the conclusion that no robust relation emerged. Indeed, the dominant result was rather in the direction of aid slowing down growth. Similarly, for the aid category identified by Clemens, Radelet and Bhavnani (2004) as having short run beneficial effect, no such effect was discerned in the long run.

Facing these econometric results two main standpoints seem to emerge, which I shall impute, for shortness, respectively to Rodrick and Rajan-Subramanian.

Since the end of the 1990s, Dani Rodrick has been insisting on the idea that no useful conclusion can be drawn from econometric analyses of data covering a large sample of developing countries. Such analyses aim at finding a general model, complex if necessary, that would give a good account of the factors of development. In Rodrick (2006), where he speaks highly of a recent book (Work Bank, 2005), this economist makes a plea for a different approach motivated by the concern for development policy advising. Prudence and an empirical spirit would be required for finding the proper development strategy, adapted to each country at each stage of its history. Three steps should come into play: first analytical diagnostics about the most important constraints blocking economic growth; then a creative and imaginative policy design focusing on the market failures and distortions associated with the constraints; finally an appropriate set of institutional reforms. The four countries with which Rodrick illustrates such an approach give an idea of the diversity of the means that might have to be used. Call for foreign aid is not particularly stressed.

The standpoint in Rajan-Subramanian (2005.a) is quite different, namely to aim at explaining why econometric analysis may uncover perverse effects of foreign aid and why countries should adapt their policies accordingly.

To reflect about what may be obtained from this standpoint we must first realize how serious is the econometric approach used by the authors in their paper (2005.b). The latter aims not only at presenting important new results but also at comparing them with what was obtained earlier by other econometricians. The data cover all developing countries which received foreign aid since the last world war and for which data are available (209 countries in total). Most results concern comparisons of performances achieved by the various countries, then analysed with various sets of explanatory variables (between 61 and 81 countries). Comparisons are made between an initial and a terminal year (a span of forty years between 1960 and 2000; thirty years between 1970 and 2000, twenty years between 1960 and 1980, or between 1980 and 2000). Some results come from the analysis of panel data (jointly featuring various countries and various periods, each one made of five successive years; 581 observations in total). The most commented findings bear on growth achieved between the beginning and end year, as a function of the amount of aid received, of the quality of institutions, of the geographical location, of changes in terms of trade, of political stability, as well as of a number of characteristics of the condition of the country at the beginning of the period. Some results distinguish between various aid categories: social, economic or food; supposed to have short- or long-term impact; multilateral or bilateral.

Which conclusions follow from this bulky investigation and some earlier ones made on the same issues? There are many. Given our present interest, the most important conclusions are set forth as follows: there is hardly any proof of a robust relation according to which the amount of aid would have an impact on growth; on the longest period (the forty years between 1960 and 2000) such a relation would rather imply that aid harmed growth; there is virtually no evidence that aid works better in better institutional or geographic environments, or that certain kinds of aid work better than others. After recognizing that their results were disappointing, the authors wrote: 'One explanation may simply be that the effects are too small to be detected against the background noise, at least using the standard cross-sectional technique'. But they do not want to stop at that.

In their (2005.a) paper they ask two questions: 'What offsets the undoubted benefits of additional resource flows to a resource-poor country?...Why do countries with better policies or governance not seem to use aid any better?' A priori one can hardly help thinking that aid should have favourable long-term effects. The authors, however, propose two explanations.

(1) 'Even though aid resources are initially additional to the budget, eventually the country becomes more lax on raising tax revenues, and more aid is necessary just to keep the country on even keel. If that aid is not forthcoming, and if the country's tax raising mechanisms have atrophied, all the short-term beneficial effects may dissipate over the long run as it creates a culture of dependency'. Rajan and Subramanian report their intention to write another paper providing econometric tests of this first explanation. Hence they limit their (2005.a) paper to the second explanation.

(2) The large windfalls coming from aid and their associated spending have an insidious effect, not directly discernible on any single aid project. It is a macroeconomic effect deteriorating the country's competitiveness, for instance because of an increase in the exchange rate of the country's currency. That is the famous 'Dutch disease' already mentioned above in section 2.2. The authors validate this thesis with two complementary empirical observations. They show that labor-intensive industries, those that should have the higher competitiveness, grow relatively slower in countries with high aid inflows. They also show that overvaluation of the real exchange rate and aid are positively correlated across industries, with the relationship becoming stronger over time.

However, the authors do not want, to be misunderstood and interpreted as dissuading donor and recipient countries from practising foreign aid. Rather, they say that economists should know the existence of channels through which aid can have effects that offset possible benefits. They should pay careful attention to how much aid can be handled to begin with, to how the aid should be delivered and spent, finally to how macroeconomic management should be conducted in receiving countries. By the way, a question naturally comes to mind: why is it that we do not speak of a Norwegian disease? Norway did receive large windfalls with the extraction of energy resources from the North Sea.

3.6. *What Could Be Expected from Microeconomics in the Preparation of the Agenda for Reducing Poverty?*

The macroeconomic results, which were just surveyed, are too recent to claim that the debate on aid efficiency is closed. The debate is all the more important as there is already too much cynicism surrounding the thesis according to which nothing can be done for efficiently fighting poverty in the Third World. Well then, how far did responsible economists get when facing this quite real challenge?

Let us first refer to the closing section, entitled ‘A realistic vision for foreign aid’, in Easterly (2003). Here are some quotes.

‘How to achieve a beneficial aggregate impact of foreign aid remains a puzzle. Aid agencies should set more modest objectives than expecting aid to “launch the takeoff into self-sustained growth”. Aid agencies have misspent much effort looking for the Next Big Idea that would enable aid to buy growth...There is no Next Big Idea that will make the small amount of foreign aid the catalyst for economic growth of the world’s poor nations...The goal is simply to benefit some poor people some of the time’.

Easterly ends his paper describing how a trip to Ethiopia had given him the opportunity to visit a project led by a British NGO called Water Aid and run entirely by Ethiopians. He was glad to see that some aid dollars did reach some very needy people some of the time.

The recommendation expressed by Besley and Burgess (2003), summarizing their examination of various aspects of an agenda for reducing poverty, is not so different. They worry about the possibility that bald assertion, intuition and ideology dominate the debate, whereas a more directly empirical approach, specific for each case, ought to prevail. They write: ‘It is unlikely that cross-country data will be the main vehicle for progress on’ issues of liberalization, privatization or education... ‘There is need to square macro and micro facts that may sometimes be at variance with one another’. ‘Empirical approaches based on subnational data provide the most credible base for economists to influence the debate about global poverty reduction. The evidence-based approach to policy has proven effective in industrial countries, and its expansion to the developing world is long overdue’. This recommendation may be made precise in various fields.

So investment in education can be used to attack poverty both by encouraging economic growth and as a method of redistribution to the poor. But it is critical to understand how education expansion can be achieved, with the proper incentives faced by different providers. From which appears the relevance of a large amount of recent literature filled with evidence borrowed from micro-social and -economic observation.

Similarly, another type of literature, developed particularly for the Indian continent, tackles the issues of understanding the difficulty of the poor to have access to credit and of circumventing that difficulty in practice. There remains a gulf between the broad macro results that link credit and output, and those results that come from looking at the micro level.

It is also critical for the developing world to find the means for an enterprising spirit to prosper. Increasing evidence shows that land rights are, for poor farmers, an important element that may promote both equity and efficiency. Obtaining property rights over land in urban areas can also help poor households to gain access to credit, increase labor supply and improve productivity. But unintended negative consequences can also be identified. Emphasis is then placed on the role of social and business networks where contractual enforcement through formal means is imperfect.

All these considerations and others are exposed in the second half of the paper by Besley and Burgess, with important references to the literature.[7]

4. Funding the Millennium Development Goals

4.1. *The Challenge*

A substantial part of the literature of the last decade about the Millennium Development Goals concerned the sources from which the necessary transfer of resources by wealthy countries to poor countries could be drawn. A major reason for concern was the importance of the required transfers. Although a number of countries made public commitments to increase aid as a porportion of national income and there was a noticeable rise since 2001, serious doubts existed as to whether the required amount of financing would be forthcoming.

It was indeed quite substantial, meaning that year after year many donors would have to push up their official development aid (ODA). Given the intentions a sizeable shortfall remained from the cost of the UN Millennium Project. And some intentions would not be realized because of pressures on public budgets in donor countries. The conclusion was thus clear: if the goals were to be achieved within the 2015 time horizon, alternatives to the common ODA had to be considered. Already in September 2000 the UN General Assembly had asked for 'a rigorous analysis of the advantages, disadvantages and other implications of proposals for developing new and innovative sources of funding'.

This request was not ignored. Indeed, proposing innovative taxes for international purpose had been in the air since the 1970s when J. Tobin argued for taxing international currency flows, and again since the 1990s

[7] Actually, knowing the living conditions of the poor in poor countries is a quite valuable research subject, which would deserve examination in a longer paper (see in particular A. Banerjee and E. Duflo, 2007).

when the idea of taxing environmental externalities was seriously discussed. So, shortly after the UN general assembly, a research group under the leadership of A. Atkinson was organized by the UN from WIDER (World Institute for Development Economics Research – Helsinki). Its report was published in 2004. Simultaneously the UK Treasury worked out estimations of necessary extra funds and a proposal for collecting them (see UK Treasury, 2003). In France under the leadership of J.-P. Landau a group of personalities also published a report in 2004 on new international contributions for development.

4.2. *New Sources of Development Funding*

In his contribution to this volume J.-P. Landau asks the question: can the Millennium Goals be achieved under the current system? He then explains why the answer is positive: 'In order to fight poverty and to reach the Millennium Goals we do need some resdistribution schemes which, although not exactly along the lines of the ones implemented at the national level, would reproduce some of their basic elements, such as a permanent structure of tax and transfers'.

Atkinson (2006) also concludes that there are many possible alternatives to ODA, each of which could make a significant contribution to funding the Millennium Goals. But, each proposal for alternative sources of finance raises questions. 'What would be their economic costs? Is there a double dividend from energy tax in that they would contribute to reducing global warming as well as raising development funding? What are the political obstacles to these measures being adopted? Do they require unanimity among the world's rich countries?'

The two lists of sources precisely examined in Atkinson, ed. (2004) and in Landau (2004) overlap to some extent but are also complementary. For our reflections we can focus on three possible sources:

(1) Global environmental tax, that is tax on goods or services generating environmental costs, such as a tax on hydro-carbon fuels according to their carbon contents, or indirectly via a tax on airline travels.

(2) The 'Tobin tax', which would bear on foreign currency transactions, covering a range of transactions to be defined (spot, forward, swaps, derivatives, etc).

(3) The International Finance Facility proposed by the UK Treasury, where there would be a guarantee of long-term development aid, allowing additional money to be leveraged from the international capital markets.

4.3. *Global Public Finance*

In order to address for any specific proposal such questions as those listed above from Atkinson (2006), we can now draw on a new nascent field: global public finance. Today public finance, or public economics, are still commonly taught as meant to be applied in a national context. But the proper context, in order to find out now what could be the impact of tax and government spending, is one of international competition and factor movements. The analytical apparatus has to be reconsidered and is now being reconsidered. Atkinson (2006) argues that it is meaningful to place in this new light two main questions about ways of funding the Millennium Goals.

Firstly, who will pay? i.e. who will bear the ultimate burden of a new tax? Consider for instance a carbon tax. People tend to think immediately of the impact on the fuel and transport costs to be paid by households. But such costs are also paid by productive sectors and passed on to the buyers of their products or services. Eventually a burden may well fall on developing countries: for instance if the tax increases the cost of remittances made by emigrants. In order to figure it all out, global public finance has to determine the ultimate market equilibrium, that is, to use a proper economic model, which has a good chance to be contested, then improved.

Secondly: will there be a second dividend? At first sight there seems indeed to be a bonus, which can be used for financing development: a carbon tax meant to slow down global warming will raise some revenue, the same is true of the tax proposed by Tobin in order to reduce volatility on financial markets. But we also understand that, if the initial objective is well met, the bonus can be small. When looking at raising revenue, we would like instead to tax an activity that is relatively unresponsive to the tax. So, there is a serious risk of overrating the double dividend argument.

4.4. *The Role of Subsidiarity*

Funding the Millennium Goals cannot avoid political considerations, and we saw in section 1.3 how far we now stand from an ideal international justice. Actually, it would be totally unrealistic to entertain the project of a general world system of tax and transfers. But on the specific project concerning us here, we can make progress without unanimity. Flexibility in the conception of the funding system gives it a better chance of implementation. For instance the proposal of an International Financing Facility is not undermined by the idea that some countries would not participate. That would simply reduce the scale of the operation. And in so far as the scheme offers a new financial product, those not participating may lose out.

Lessons can be learned from the experience of the European Union, where subsidiarity in the administration of common policies has a substantial role. If a global tax were to be introduced in order to fund the Millennium objectives, it would even be conceivable that participating governments agree on their tax liability but retain freedom to decide how the revenue ought to be raised.

* * *

This survey of the literature about the way to reach the Millennium Development Goals has naturally stressed the intellectual side of the challenge. But it should not hide its political side for both rich countries, which have to select the appropriate form and volume of their aid, and for poor countries, which in any case will have to be the main protagonists of their own development.

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