

Sachs, Easterly and the Banality of the Aid Effectiveness Debate: Time to Move On

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Abstract

The debate over the effectiveness in foreign aid has existed for decades. Recently, it has come to the fore due to the prominence of work and subsequent publicity of Jeffrey Sachs and William Easterly. The debate these two carry out in the public eye is both sensational and polarized. However, an investigation of the academic literature in which Sachs and Easterly's arguments are rooted reveals just as much polarization. Dozens and dozens of studies produced over the past fifty years have assessed the relationship between foreign aid and growth through econometric analysis of cross-country (or "macro") data relating the two variables. These studies have consistently turned up inconclusive or contradictory results. At the same time, there is a growing body of research that seeks to determine when and why aid is effective by looking at projects and programs on a case-by-case (or "micro") level. This paper argues that the debate brought into prominence by Sachs and Easterly, the debate around macro-level data and the question of aid's effectiveness in general, is both empirically irresolvable and practically irrelevant. Indeed, it is time to move beyond the banality of the aid effectiveness debate.

"Jeffrey D. Sachs's guided tour to the poorest regions of the Earth is enthralling and maddening at the same time -- enthralling, because his eloquence and compassion make you care about some very desperate people; maddening, because he offers solutions that range all the way from practical to absurd. It's a shame that Sachs's prescriptions are unconvincing because he is resoundingly right about the tragedy of world poverty. As he puts it, newspapers should (but don't) report every morning, "More than 20,000 people perished yesterday of extreme poverty."

-William Easterly, A Modest Proposal, *The Washington Post*, 2005

Aid skeptics such as Professor William Easterly, author of the recent book "The White Man's Burden," are legion. Instead of pointing to failures, we need to amplify the successes — including the green revolution, the global eradication of smallpox, the spread of literacy and, now, the promise of the Millennium Villages.

-Jeffrey Sachs, Aid Skeptics are Wrong, in the *Los Angeles Times Foreign Aid Face Off*, 2006

Section One: Introduction

The above quotes are products of a recent phenomenon: the mainstreaming of the foreign aid effectiveness debate. In the past five years, Jeffrey Sachs and William Easterly have managed to take a debate academically rooted in regression models and econometric analysis to places such as Comedy Central's Colbert Report and the New York Times Bestsellers list. With Sachs adamantly pro-aid and Easterly adamantly anti-aid, they have sustained an ongoing dialogue in major mainstream newspapers for much of the past five years. In 2005 Easterly reviewed Sachs' book for the Washington Post (Easterly, 2005) and they have been throwing op-ed jabs at each other ever since. One respected commentator characterized such an exchange as "an escalating mutual hissy fit..." (Greene, 2009). Another has said that "William Easterly and Jeff Sachs make a

living by disagreeing with each other” (Barder, 2006). Without a doubt, these authors have managed to sensationalize the aid effectiveness debate.

Although not evident to the casual reader, the Sachs-Easterly debate is in fact a microcosm of an academic dispute that has been active for decades. Once one gets beyond the New York Times Bestseller Booklist, an array of research supporting both sides of the debate can be found. What one does not find is any conclusive evidence or progress. It seems that every second abstract or introduction comments on the inconclusiveness or lack of consensus around aid effectiveness (for example see Hansen and Tarp 2000, Doucouliagos and Paldam 2005, Bourguignon and Sundberg 2007, Roodman 2007, Arndt et. Al 2009, Mavrotas 2009). One author, commenting directly on the literature has said it “appears so inconclusive that there is not even consensus on whether there is consensus” (White, 2009).

This may seem to be an undesired state of affairs as most aid donors are eager for evidence that their donations are actually effective. For many, the decisions of where and how much to donate may often depend on expected or past effectiveness. As such, it would seem to be of much importance to resolve claims by aid critics such as Easterly that the 2.3 trillion dollars spent on aid in the last five decades has failed to reach the poor (Easterly, 2000; also see Moyo, 2008 on the wasting of one trillion in aid to Africa). Likewise, it would seem just as important to be able to economically verify claims by aid supporters such as Sachs that reaching the Millennium Development Goals would have required \$135-\$195 billion in aid between 2005 and 2015 (Sachs, 2005: 299). This paper however argues that such claims are neither empirically resolvable nor practically relevant. This will be demonstrated through an exploration of the vast literature around the aid effectiveness debate.

The question that motivates this paper is whether an acceptable middle ground between Sachs and Easterly can be found. However, the research reveals that no such ground exists and that finding one is not necessary. This paper proceeds in two parts: section two outlines the positions of Sachs vs. Easterly and supplements those positions with deeper research as found in the literature; section three reviews that literature in-depth, showing the Sachs-Easterly debate to be a microcosm of the intractable so-called “micro-macro paradox” and the need to move beyond the aid effectiveness debate; section four concludes.

Defining “aid effectiveness”

In a field where nearly everything is contested, at least there appears to be little disagreement around the meaning of “aid effectiveness”. Here, the definition of “aid” or “foreign aid” to be assumed comes from the Organization for Economic Cooperation and Development: “financial flows, technical assistance, and commodities that are designed to promote economic development and welfare as their main objective... [and] are provided as either grants or subsidized loans” (Radelet, 2006: 4). The qualifier “effective” will be defined in the simple fashion of Morissey (2001) as aid which has “achieved an objective”. These definitions are implicitly accepted across the field. What is (are) contested is the appropriate objective(s) to measure. The objective that dominates the literature is that of economic growth (i.e. GDP or income growth) for the recipient country. However, as Kenney points out there are a wide range of possible other objectives of aid, including: income growth for a specific segment of the population (e.g. the extreme poor); development of non-income areas such as education, health or democracy; or even political support or trade benefits for donor countries (2008: 331). When

“effectiveness” is referred to below it should be assumed that economic growth is the objective in question, unless otherwise noted. This is an unfortunate consequence of the breadth of the aid effectiveness literature and the limits of this paper.ⁱ

Section Two: Sachs vs. Easterly on the question ‘Is aid effective?’

This section introduces the major positions of both sides of the aid effectiveness debate by reviewing the cases of Jeffrey Sachs, William Easterly and the academic traditions they draw from.

Arguments that aid is effective: Sachs and other academic research

Jeffrey Sachs is perhaps the most well known and publically outspoken economist in support of aid. His arguments for aid’s effectiveness are well described in his book ‘The End of Poverty’ (2005). The arguments presented are multifaceted, but three core components of his case can be identified. First, Sachs establishes the moral case for aid by detailing the reach and severity of extreme global poverty. He does so with both macro level statistics and stories from real people he has met who are living within the constraints of extreme poverty. He does this so well that even his main opponent applauds him for it (Easterly, 2005). The second part of his case is the theory behind aid effectiveness, which includes arguments for the “poverty trap” and the “financing gap”. Sachs claims that the extreme poor are in a poverty trap whereby they are “too poor to save... and thereby accumulate the capital per person” needed to lift themselves out of poverty (Sachs, 2005: 56). The argument goes that growth requires investment (i.e. in capital) and investment requires saving. Saving, in turn, can only happen when an economic unit (whether an individual or country) has an income beyond that required for survival (Sachs, 2005: 246-249). As many individuals or countries have to dedicate all their income to survival, such growth often never occurs. Therefore, aid is effective because it helps ensure capital accumulation and subsequent growth (Sachs, 2005: 250).

The need for investment in infrastructure and human capital to propel growth is therefore central to Sachs’ theory behind the effectiveness of aid. At the country level, he argues that growth will not happen without government investments in schools, clinics, roads and so on (Sachs, 2005: 252). In theory, every country should be able to assess their development needs and determine the total costs required for these investments (Sachs, 2005: 273-274). If poor country governments are often unable to meet those investments, a so called “financing gap” between the capital investment a country needs and what they are actually able to provide opens (Sachs, 2005: 274-275). Aid, in theory, can fill that financing gap.

To supplement the theoretical basis for aid, the third part of the argument for aid effectiveness is anecdotal. Sachs gives many examples of aid successes, including the follow: the Rockefeller Foundation’s financial support of the Green Revolution in Asia; the spread of family planning since the 1950s as supported by the United Nations Population Fund; and the eradication of Polio as supported by organizations such as UNICEF, the World Health Organization and U.S. Centres for Disease Control and Innovation (Sachs, 2005: 259-263). Sachs uses these examples to support his case for aid by arguing that they are all examples of bringing development successes to scale. The logic goes that if a development project can be

found to work at the level of a single village, there is no reason that it cannot be replicated (or scaled) across an entire district, country or continent.

Although Sachs writes for an audience uninitiated in technical economic writing, all of his arguments are supported in the literature. Radelet et. al summarize this literature by identifying three economic arguments for aid. The first is the classical view (dominant before the '90s and very similar to Sachs' theoretical foundation): "aid will increase growth by augmenting saving, financing investment and adding to the capital stock". Second, it has been argued that aid that supports health and education may increase growth by increasing worker productivity. Thirdly, aid could "provide a conduit for transfer of technology or knowledge from rich countries to poor countries (by paying for capital goods imports or through technical assistance)" (Radelet et. al, 2006). Further, arguments can be made that aid influences policy and improved policy leads to better growth (Kenny, 2008: 332). Such a mechanism would work through donor "influence [of] local policymakers by providing financial resources, [influencing] policy debate and formulation, and technical assistance" (Bourguignon and Sundberg, 2007: 317). Beyond the theoretical background, other aid advocates have pointed to the recent successes of "Eritrea, Uganda, Ghana, Mozambique, Tanzania with GNP per capita growth averaging 4.8 per cent... arguing that such performance would not have materialized without the aid which averaged 22 per cent of their gross national incomes" (Piciotto, 2007: 3). Finally it should be noted that, in line with Sachs' approach, the greatest support for aid effectiveness comes from the "hundreds and thousands of studies which record the performance of small discrete development...interventions" (Riddell, 2007: 170). Such studies seem to show that most aid projects are successful in terms of their development objectives (Riddell, 2007: 179).

Arguments that aid is ineffective: Easterly and some other academic research

One of the loudest and most critical opponents of Sachs' stance on aid effectiveness is William Easterly. His book 'White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good' was released a year after 'The End of Poverty' and in many ways was an assault on Sachs' core logic and arguments. Central to Easterly's thesis is the idea that top down planning for development (the sort that is required to implement massive aid programs) simply does not work. This is well summarized by Duncan Greene who identifies two core components of Easterly's arguments: (1) aid fails because its implementation is not accountable or responsive to the people served, and (2) aid "creates perverse incentives [for bureaucrats] (e.g. promotion based on how much money you manage to disburse) that have little to do with development" (Greene, 2008: 359). These two arguments form most of the constructive part of Easterly's case. The rest is predominantly on attack on Sachs and other big aid supporters. As such, understanding Easterly's is best done through an understanding of his main criticisms of Sachs.

Easterly levels three major arguments against Sachs and other supporters of "the big push" (i.e. those who advocate a major increase in aid in order to propel impoverished nations out of the poverty trap). The first is a rejection of the poverty trap itself. According to Easterly, there is simply no empirical evidence that the poverty trap exists. The poverty trap is based on the premise that extremely poor countries will have little to no growth by virtue of their being poor. Easterly shows that from 1950-2001, the poorest fifth of countries increased their per capita income growth by a factor 2.25, while the richest four-fifths increased by a factor of 2.47 (Easterly, 2006: 38). He also argues that when the same analysis is done by breaking all

countries into halves based on how much aid they received “countries with below-average aid had the same growth rate as countries with above average foreign aid” (Easterly, 2006: 39). He cites a number of other statistical tests that he claims shows that economic growth is not “trapped” by poverty (Easterly, 2006: 40-41).

Easterly’s second argument is related to his first: he rejects the premise of Sachs and others that poor countries “have lousy growth... because of a poverty trap rather than bad government” (Easter, 2006: 42). Using index ratings of democracy and corruption¹, Easterly tests the causes of slow growth among 24 countries that had the worst democracy and corruption ratings in 1984. His tests reveal that from 1985-2006, “when we control both for initial poverty and for bad government, it is bad government that explains the slower growth” (Easterly, 2006: 43). In general, Easterly rejects the poverty trap because there is “no evidence that initially poor countries are at a [growth] disadvantage once you control for good government” (Easterly, 2006: 44). Aid therefore is to be judged ineffective because it is bound to be confounded by corruption and poor governance.

The third and final attack that Easterly levels at Sachs’ insistence on the effectiveness of aid is simply a reference to the academic research that shows that aid does not lead to growth. He begins by citing a 1996 paper by Peter Boone of the London School of Economics that found that aid finances consumption and not investment (Easterly, 2006: 45). Next he attacks a seminal paper (Burnside and Dollar, 2000) that found that aid contributes to growth in good policy environments. To substantiate his attack he references a study that he co-authored that discounted the Burnside and Dollar study (Easterly et. al, 2004). Easterly further supports his case by citing other studies that demonstrate there is a lack of evidence that aid leads to growth (Rajan and Subramanian, 2005). Here, Easterly is in the domain of the highly polarized and inconclusive “macro-level” research on aid and growth that will be examined in section three. While he does acknowledge that the literature is highly contested and inconclusive (Easterly, 2006: 44-45), he nevertheless uses it to discredit the case for aid effectiveness.

As with Sachs, there is much academic work that theoretically support Easterly’s arguments and includes more nuance than ‘White Man’s Burden’. Three major constraints on the possibility of aid being effective are: the fungibility of aid, the so-called Dutch Disease, and limited absorptive capacity (Riddell, 2007: 226-228). The fungibility of aid refers to the fact that recipient governments are not beholden to spend aid in certain ways: “An aid-recipient country could render ear-marked aid fungible by reducing its own resources in the sector that receives aid and transferring them to other sectors of the budget” (Feyzioglu et. al, 1998: 30). Dutch disease is a possible negative unintended effect of aid that causes upward pressures on the exchange rate of aid recipient currency and therefore a decline in relative economic competitiveness (Riddell, 2007: 227). This happens because of “a shift of production from tradable goods and services (such as food or textiles), towards non-tradable goods and services (such as teaching or health care)” (Barder, 2006: 12). The actual existence of Dutch Disease as resulting from aid has been strongly argued for by some (Rajan and Subramanian, 2005), while others have been more skeptical (Barder, 2008). A third reason to expect aid’s impact to be negative is limited absorptive capacity of recipient countries. This refers to the fact that recipient governments can find it difficult to use aid efficiently and effectively. Countries may not be able to properly

¹ The corruption index comes from the International Country Risk Guide and the democracy index comes from a research project at the University of Maryland (Easterly, 2006: 42)

“absorb” aid because of the macro-economic management challenges it presents, its undermining of institutions (e.g. by drawing talented staff away from institutions into the aid industry or by transferring political accountability from governments to donors) or their lack of resources (such as personnel or infrastructure) to implement the desired/demanded aid projects (Clemens and Radelet, 2003: 3-5).

Summary and Analysis: Sachs vs. Easterly

In their stripped down forms, Sachs will appeal to fans of Keynesian economics and Easterly will undoubtedly be supported by free-marketeers. Sachs makes a strong case that aid is needed and that governments have a role to play in provision and implementation, while Easterly makes a strong case that Sachs’ theory behind why aid works is completely unjustified. The case-by-case evidence showing that the majority of aid projects reach their objectives supports Sachs’ case. At the same time, there is something intuitively attractive about Easterly’s overall claim that aid planning is not accountable or responsive to people and needs on the ground.

The purpose in presenting Sachs and Easterly and their academic brethren in this section was to introduce both the content and character of the overall debate. In analyzing these two cases, it can be said that both authors treat their arguments hastily and polemically. Sachs seems to be operating in a framework (one that explains growth linearly) which, as Radelet explains, lost credibility with growth and aid effectiveness scholars in the mid-1990s (2006: 8). Easterly deserves an equal amount of criticism for the simple nature in which he treats Sachs’ poverty trap. He provides scant details on his statistical analysis, focuses on a definition of the trap based around zero or negative growth as opposed to insignificant or insufficient growth, and spends too much time trying to prove that countries are not “trapped”. The fact that they make such oppositional claims (e.g. as mentioned in the introduction, Easterly claims that \$2.3 trillion in aid has been wasted, Sachs’ that an extra \$195 billion will cut poverty by half) and continue to do so despite the other presenting counter arguments seems to suggest that they at times forgo science in the interest of advancing their causes and ideologies.

Perhaps their biggest mistake is their stubborn focus on their core messages and differences with their opponents. Sachs does not deny that the aid system has problems, and Easterly does not deny that aid can and has worked in at least some cases. However, because their dominant messages steer so strongly and consistently away from those ideas, one could read their books and feel such denials have taken place. Both could be more productive if they focused on areas of value to the aid system where they are close enough to agreement to engage in honest dialogue. For example, they could devote more attention to analysis of what successful aid projects have in common and what poorly planned projects look like. However, to paraphrase Duncan Greene, “[Easterly does not] want to muddy the waters by devoting too much attention to how it could be improved; [Sachs] is fearful of giving fuel to the enemy if he acknowledges the failings of aid” (Greene, 2010).

The next section considers the complex academic debate around the economics of aid effectiveness. As will be evident, the Sachs-Easterly debate is in many ways a microcosm of this broader academic research field. This supports the idea that the academic debate as a whole is plagued by the inadequacies that Sachs and Easterly’s engagement faces: it is too polemical, not empirically resolvable and produces little of practical value.

Section Three: Investigating the major studies and results of both micro and macro approaches to aid effectiveness

The micro-macro paradox

A recurring and often cited theme of this complex and inconclusive area of research is the so-called “micro-macro paradox.” Labeled by Mosley in 1986, the micro-macro paradox reflects the fact that the vast majority of micro-level studies (i.e. those focused on individual projects or programs) find aid to be effective, while a wide variety of macro-level analysis (i.e. econometric analysis of cross-national data sets) report aid to have negligible, no observable or negative impact. In other words, “many aid-funded projects report positive micro-level economic returns [and yet are] somehow undetectable at the macro-level” (Clemens et. al, 2004: 7). Since 1986, the presence of this paradox has fueled the polemics of the debate. Aid proponents like Sachs wish to claim that the paradox is resolved, while the Easterlys of the world consistently produce evidence that it is alive and well. An important note in relation to Sachs, Easterly and the micro-macro paradox is that their debate is carried out at the macro-level only (even Easterly agrees that effective aid projects can be observed on a project-by-project basis).

This section grounds the argument that the aid effectiveness debate is neither empirically resolvable nor practically relevant. This is because the debate centres on finding a generalized answer to the question “is aid effective?” This general question cannot be resolved by micro-level studies because they only provide understandings of effectiveness under certain conditions. The best they can show is that aid *can be* effective under certain conditions, policies or approaches. The general question also, as will be shown cannot be resolved by the macro-level studies as their attempt to find cross national evidence of aid’s effect on GDP is doomed to lack the fine tuning required to detect aid’s impact from a macro perspective. Also, given the value micro-level studies offer to those with a stake in the aid system or international development, the aid effectiveness debate is also practically irrelevant. If such studies do indeed show how aid projects can be made successful, the broader debate about whether aid impacts growth does not really matter. This section will make these arguments clear by considering the micro and macro research in turn.

Micro-level studies

Micro-level studies of aid effectiveness are those that evaluate the impact of specific projects, programs or policies (White, 2007: 191). Three examples of micro-level studies will be reviewed here. The first study is done by Cassen and Associates in 1994. They did an extensive analysis of a huge number of individual aid project evaluations delivered by a variety of agencies in multiple fields (e.g. food or education) in seven different countries (Cassen and Associates, 1994: 1). Specifically they looked at Bangladesh, Colombia, India, Kenya, Malawi, Mali, and South Korea. The evaluations were based on at least some of the following: return on investment (for profit generating projects), rate of return for the local or regional economy, impact on the welfare of identified groups, human capacity or institutional development, and the production of negative environmental, social or political side effects (Cassen and Associates, 1994: 87). A quick list of their results: credit and irrigation agriculture projects have had high success rates while area development and livestock projects have performed poorly; education projects have yielded good results in terms of physical outputs (e.g. schools built and numbers of enrollments) but weaker results in terms of post-school employment and drop-out rates; population (family-

planning) focused projects achieved great success as evidenced through declining birth rates; and food aid projects focused on increasing food security and improving nutrition have yielded unclear results (Cassen and Associates, 1994: 133). Overall, the study concludes that a majority of projects are successful in delivering their intended outputs and these contribute to economic growth in measurable ways (Cassen and Associates, 1994: 234). However, the effectiveness in terms of contribution to poverty reduction is much less satisfactory (Cassen and Associates, 1994: 234).

The Cassen and Associates study was very broad and deep in its analysis of aid projects in the seven chosen countries; however, it was not very specific. That is, it did not get into too many details about the processes leading to the observed successes, and it does not describe individual projects. Of course, there are many other studies which do provide such detail. A recent publication by Howard White, the individual responsible for the World Bank's Independent Evaluation Group (IEG) from 2003-2007, included four case studies with the specificity that the Cassen study lacked. Two of those studies will be examined here: education reform in Ghana and health and family planning improvements in Bangladesh.

In Ghana, an ambitious program of education reform starting in 1986 "shortened the length of pre-University education from 17-12 years, reduced subsidies at the secondary and [post-secondary] school levels, increased the school day and took steps to eliminate unqualified teachers from schools... [and] these reforms were supported by four World Bank Aid Programs" (White, 2007: 196). The study in question assessed the effectiveness of such programs at a "micro-level" by examining the specific projects and policies included and the outputs produced over time. The results of these reforms were, according to White, very promising. From 1986-2003: school enrollments have been steadily rising, illiteracy rates of students who had completed grade six had fallen from 63% to 19%, and school quality (measured in terms of usable infrastructure, available teachers materials and text books) has increased in poor and non-poor communities alike (White, 2007: 197). Some of the important processes that the micro-level analysis revealed include: building schools to reduce travel time increases enrollment and learning outcomes depend on school quality (e.g. textbook supply). The major policy finding is that soft ware (e.g. people and practices) in support for education is now stressed over hardware (e.g. books and buildings) (White, 2007: 198-199).

A second micro-study presented by White assessed the policies that lead to a 60+% drop in the fertility rate (from 7 to less than three) and a 68% drop in the under-five mortality rate between 1974 and 2004 (White, 2007: 200). While much of this was attributable to Bangladesh's GDP growth, White's multivariate analysis was able to reveal other findings: public-services were an important (and cost effective) contribution to the overall outcomes, interventions from several sectors improved health outcomes (but multi-sector outcomes were not necessary), and local evidence needs to be taken into account if resource allocation decisions are to be effective (White, 2007: 203).

The final example of micro level studies to be discussed is one that is currently gaining in importance throughout the development sector: randomized experimentation. The motivation behind randomized experimentation is "from a concern about the reliable identification of program effects in the face of complex and multiple channels of causality" (Banjee and Duflo, 2009: 152). Ideally, when determining if a program or project is effective, the evaluation would be able to identify how an affected individual would have fared in the absence of the project or program. To do this, pilot programs are delivered to a random selection of groups from a

potential population (e.g. of schools, communities, individuals, etc.) and another random selection from the same population is selected as the control group (Duflo and Kramer, 2008: 95). For example, three different studies using randomized experiments of education development projects in Kenya revealed the following: “improving access to textbooks from one per four or more students to one per every two does not affect average test scores... halving the teacher-student ratio also had no effect... however, a study of treatment for intestinal worms in schools in Kenya showed that a deworming treatment that costs 49 cents per child per year can reduce absenteeism by 25%” (Banjeree and Duflo, 2009: 153). Although they are new and still rare (Riddell, 2007: 169), randomized experimentations are judged to be among the “most rigorous and most reliable” ways of evaluating the effectiveness of individual project aid (Riddell, 2007: 191).

Conclusions from Micro-Level Studies

There are two important conclusions to be drawn from the three micro-level studies described. The first is that aid certainly can and does work. The second is that these studies do not attempt to answer the general question “is aid effective?” Rather, they assume that sometimes it is and sometimes it is not, and try to identify the conditions and policies which lead to more and less effective results.

Macro-level studies

Having established the first half of the micro-macro paradox, we now turn to the macro level studies. These studies are characterized by the polarization found in the Sachs-Easterly debate. In contrast to the micro-level studies, these studies explicitly do attempt to answer the question “is aid effective?” This subsection will give an overview of the discipline, identify some of the most contentious recent findings and draw conclusions by commenting on the limitations of the macro-level approach.

What *is* a macro-level study of aid effectiveness? These studies take aid as independent variable data and economic growth figures as dependant variable. Cross national data is collected from multiple aid-recipient countries and regression techniques, multivariate analysis and econometric models are used to determine the influence of aid on growth (Riddell, 2007: 222-223). In these studies, “the impact of aid on the level of national income, and the growth and distribution on that income, is taken as the main indicator of [aid effectiveness]” (White, 1992: 164). As has been stated, the literature is expansive, with one recent meta-study surveying 97 papers and 1 025 regressions (Doucouliagos and Paldam, 2005).

What has the research shown? Following a common trend in the literature (for example see Roodman 2007 or Arndt et. al 2009) the answer to this question begins with an overview of the history of the aid effectiveness macro-analysis field by summarizing a survey by Hansen and Tarp (2000). According to these authors, the aid effectiveness literature (AEL) has grown through three generations. The first generation of the AEL was based on a model of economic growth that assumed a linear development from aid to savings to growth. The studies tested whether aid lead to increased savings. These studies were generally overly optimistic in their results as their models did not account for the fungibility of aid (Hansen and Tarp, 2000: 378). In the second generation of AEL studies, the focus shifted to the connection between aid and investment. The underlying assumption here was that investment was a direct cause of growth and if the link between aid and increased investment could be demonstrated then aid effectiveness would be assumed to have been demonstrated (Hansen and Tarp, 2000: 382). These

studies generally concluded a positive link between aid and investment. The third generation of the AEL, and the one the field is immersed in presently, emerged in 1996 with the aforementioned Boone paper that found no link between aid and growth. The third generation is characterized by the use of more data from more countries, the consideration of policy and institution environments in the econometric models and the assumption that growth is non-linear (Hansen and Tarp, 2000: 385-386). The third generation has produced multiple (often contradictory) findings on aid effectiveness. A review of some of the most prominent third generation studies is where this paper now turns.

The (perhaps) seminal work in the literature is the 1997 study by Burnside and Dollar, republished in 2000 as 'Aid, Policies and Growth'. In this paper, they question the finding by Boone that aid does not contribute to growth by "[investigating] a new hypothesis about aid: that it does affect growth, but that its impact is conditional on the same policies that affect growth" (Burnside and Dollar, 2000: 847). The major finding of their study was that aid has minimal impact on growth, except in countries with good policy environments (Burnside and Dollar, 2000: 864). This was a very influential study and its results were confirmed by at least seven others by 2004 (Macgillivray, 2005: 3). Obviously it was a finding of much significance to aid agencies and policy makers in donor countries because it suggested that "it is crucial that foreign aid be distributed selectively to countries that have adopted sound policies" (Easterly et. al, 2004: 774).

As has been suggested from the throughout this paper, the academic literature is as polarized as the exchanges of Jeffrey Sachs and William Easterly. The responses to Burnside and Dollar are no exception. An early response agreed with Burnside and Dollar that aid does lead to growth, but disagreed with their main finding to the extent that they found that "the extreme view that aid only works in an environment of sound policy [appeared to be] wrong" (Hansen and Tarp, 2000: 394). In contrast, Easterly et. al (2004) rebutted Burnside and Dollar without making any general claims on the effectiveness or ineffectiveness of aid. By adding four more years to Burnside and Dollar's data set, it was found that their results did not hold (Easterly et. al, 2004: 775) and the claim that aid works better in good policy environments was called into question. The results of both these studies were theoretically and empirically supporting by Dalgaard and Hansen (2001: 37-38).

Beyond the debates about aid's effect on growth in relation to policy, the macro-level studies have produced numerous other findings regarding the conditions under which aid might be effective. Some of the more interesting findings regarding the recipient country conditions influencing aid effectiveness include: that aid has a positive impact on growth in democratic countries (i.e. those with an institutionalized check on governmental power) (Svensson, 1999: 293); that aid seems to have been far less effective in tropical climates (Dalgaard, Hansen and Tarp, 2004: F211); and that social capital (as measured by social cohesion) and institutional strength (as measured by transparency and corruption) enhance aid effectiveness and may account for aid effectiveness regardless of quality of policies (Lutz and Mavrotas, 2009: 521). An important area of study is the influence of donor policies on aid effectiveness. Two such findings as summarized by Minoiu and Reddy are that "untied aid is more growth effective than tied aid in countries with more "favourable" policy environments" (2007: 43) and that bilateral aid did not have an impact on growth before 1990, probably because aid was dominated by the geostrategic interests of a few large donors (2007: 43).

All of the research findings presented immediately above could have important policy implications for designing more effective aid. The problem is that for every study that claims that aid works better under certain conditions, there is another that claims that there is no evidence that aid and growth are correlated whatsoever. As another example that contradicts many of the findings reported above, Rajan and Subramanian did a study in 2008 only to find “little robust evidence of a positive (or negative) relationship between aid inflows into a country and its economic growth... no evidence that aid works better in better policy or geographical environments, or that certain forms of aid work better than others” (643).

Conclusion

This constant uncertainty and contradiction in the macro literature has been thoroughly criticized by many who feel that such macro-level analyses are a waste of time. In the words of Picciotto the “limits of cross-country regressions have become clear: they do not throw much light on the reality of aid” (2007: abstract). Riddell identifies as many six other prominent voices in the field who argue that there are more effective ways to measure aid effectiveness. These arguments are based on challenges such as methodological limitations, the failure to look at aid’s impact on poverty reduction or human development, and the failure to distinguish between aid intended for consumption (e.g. food aid) and development (e.g. education programs) (Riddell, 2007: 224). David Roodman goes a step further by criticizing these many cross country empirical studies for having conclusions that are highly contingent on the models and samples used (2007: 17-18). Roodman also explains that because aid is such a small factor for development and because it is so heterogeneous, it is not the sort of variable that can easily be studied by macro-economic tools. He concludes that “robust, valid generalizations have not and will not come easily... cross-country growth empirics have yet to teach us much about whether and when aid works” (Roodman, 2007: 18). This paper makes the same conclusion and goes still one step further: given the practical value of the micro-level studies, the macro-level studies and the debate surrounding the general question of aid-effectiveness should be abandoned altogether.

ⁱ For research that does measure effectiveness by looking at broader social or human development outcomes, see Burnside and Dollar 1998, Kosack 2003 or Gomanee et. al 2005

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