

# Some Thoughts

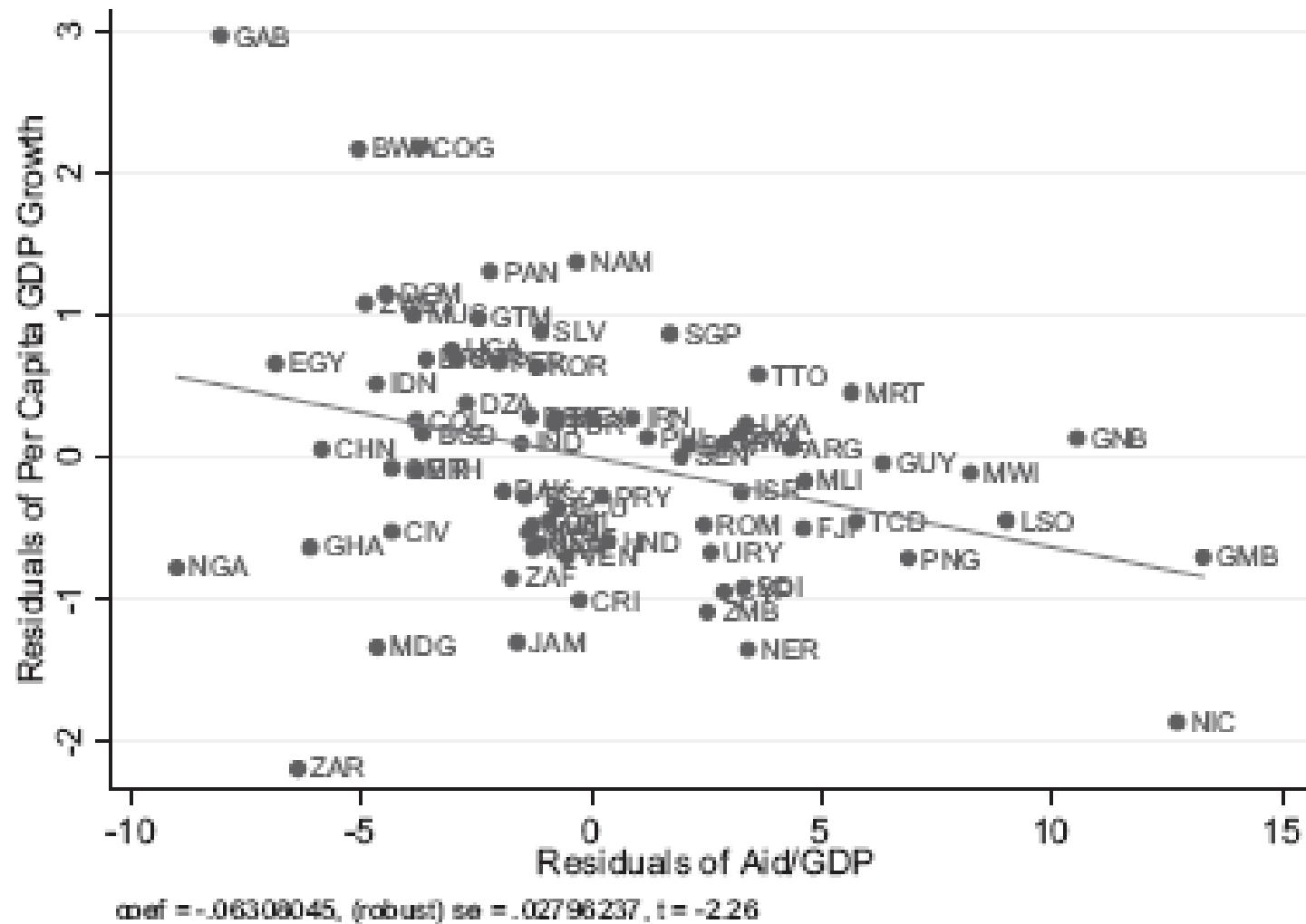
Geoff Bertram

- Aid can be good or bad in its effects on poverty and social/human development indicators
- But it is not generally good for growth in the macro sense, and it's sometimes harmful
- So celebrate the aid contribution to those HDI improvements in Melanesia, but don't move on to expectations about aid driving growth without more analysis
- Beware the nation state, and think about which bits of sovereignty are most productively shared; recall that many sub-national jurisdictions have very strong track records
- Remember that the basic needs of ordinary people can hinge on subsistence production, migration opportunities and remittances as much as on aid flows and governance issues

# Aid effectiveness?

- The macroeconomic evidence on aid and macroeconomic growth is discouraging, which means that more is not necessarily better and less is not necessarily worse.
- This means a lot of the lobbying effort around the MDGs is misdirected.
- Donor % of GDP probably does correlate to degree of global social responsibility but it's not a tight fit
- 30-50% of donor allocation of aid across recipients is explained statistically by donor self-interest and historical ties (inherited from colonial relationships)

FIGURE 1.—CONDITIONAL CORRELATION BETWEEN GROWTH AND TOTAL AID, 1960–2000



The figure plots the relationship between growth and actual aid, conditional on all the covariates. The slope of the line is the coefficient on aid in the OLS regression in column 1 of table 2.

Rajan, R.G. and Subramanian, A, “Aid and Growth: What Does the Cross-Country Evidence Really Show?” *Review of Economics and Statistics* 90(4): 643-665

Our central conclusion is there is no robust positive relationship between aid and growth in the cross section, and this despite the fact that our instrumentation strategy corrects for the bias in conventional (ordinary least squares) estimation procedures of finding a negative impact of aid on growth. This conclusion holds across

Rajan &  
Subramanian  
p. 660.

- time horizons;
- time periods;
- cross-section and panel contexts
- types of aid distinguished by
  - what it is used for (economic, social, food, and so on);
  - who gives it (multilateral donors, bilateral donors, good donors, and others);
  - who it is given to (those with good policies and institutions, and others);
  - who it is given to (those in the tropics and outside); and
  - how long it takes to have effect (contemporaneous versus lagged).

**The Effect of Aid on Growth: A Result Converging to Zero**  
Hristos Doucouliagos, Deakin University, Melbourne, Australia  
Martin Paldam, University of Aarhus, Aarhus, Denmark  
January 2008 p.6

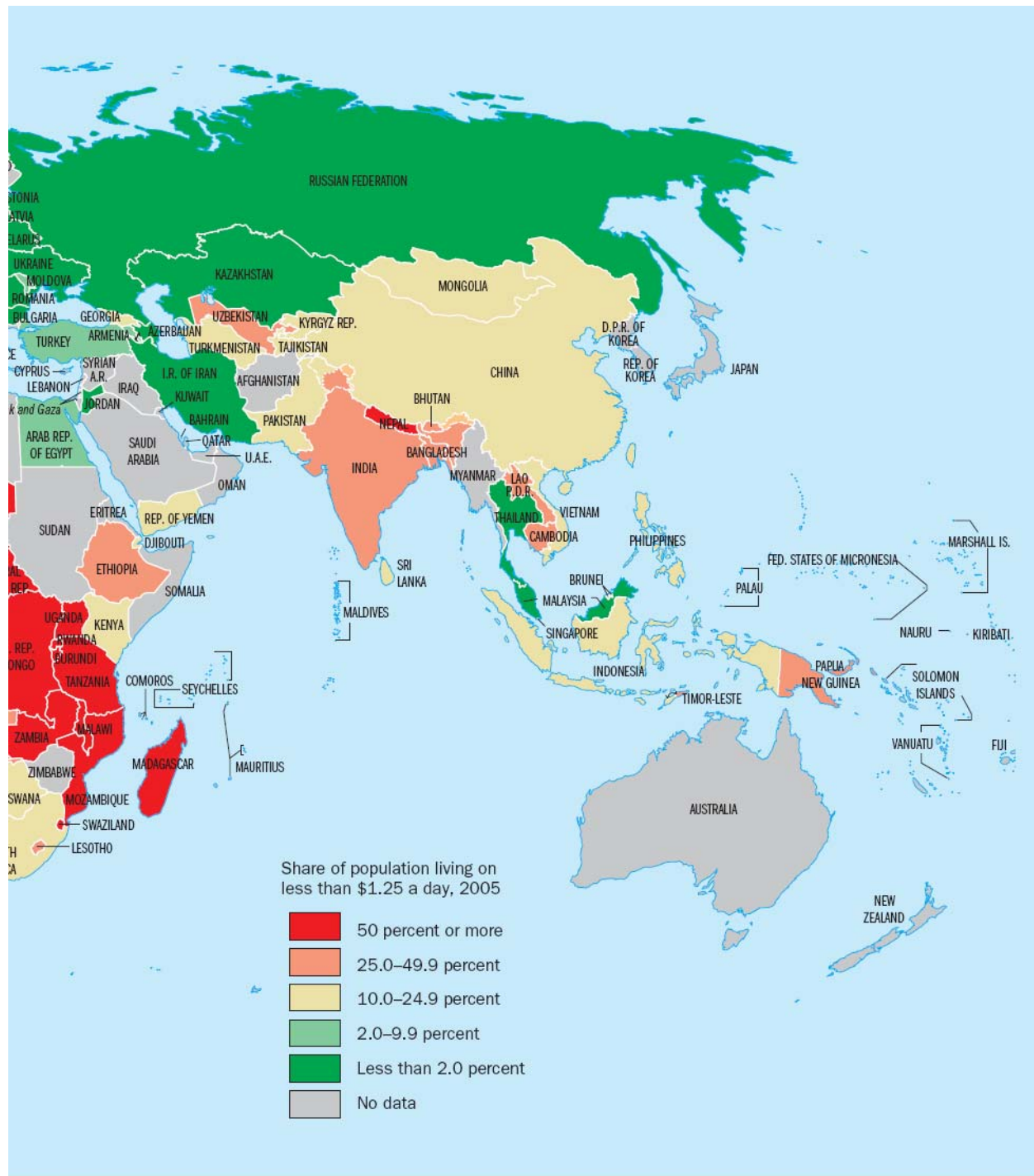
#### **4. Conclusion**

We employ meta-regression analysis to examine whether development aid contributes to growth. More than 100 papers have been produced, reporting over 1,200 estimates.

We have summarized the aggregate result as regards the effect of aid on growth using meta regression analysis. They show a striking pattern: The effect has remained insignificant, and as the amount of data and the number of estimates has increased, it has steadily declined. Consequently, we conclude that after several decades of intense research, it has been shown that aid does not have any effect on growth.

We consider also the effects of different components of development aid. Here the results are more promising. Our analysis suggests that researchers should refocus their attention away from aggregate measures of aid to more disaggregate ones. The marginal contribution of another aggregate aid/gdp on growth estimate is minimal.

- Poverty in the Pacific is conspicuously concentrated in Melanesian nation-states with problematic decolonisation and post-colonial histories
- PNG had Germany and Australia; West New Guinea had the Netherlands and Indonesia
- The next priority after improvement in Melanesia is protecting existing levels elsewhere in the face of global downturn



## World Development Indicators,

<http://siteresources.worldbank.org/DATASTATISTICS/Resources/WDI08supplement1216.pdf>

“Sharing of Sovereignty” (Collier) has a pretty good track record on income and basic services in the Pacific

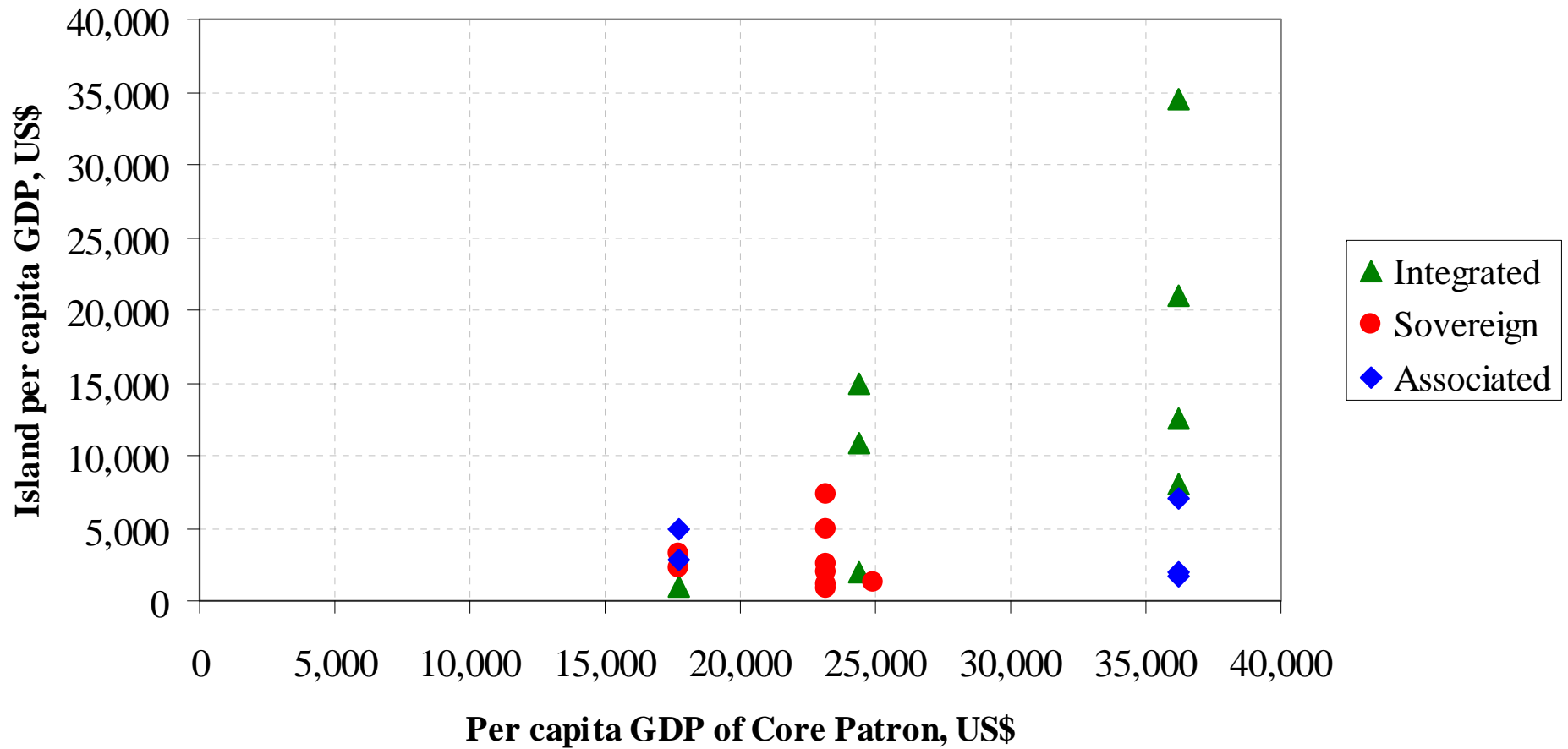
- Beware the nation state and the Westphalian thinking that underlies it
- Diplomats and international agencies are compelled to think in nation-state terms
- But development happens at a different level that does not necessarily coincide with national borders
- A ‘people’ can exist across transnational space without losing coherence and identity: diasporas are central, not peripheral, to relative Polynesian success in those HDIs, Melanesian problems, and Micronesian fragility

## Per Capita GDP/GNI by Political Status 2005: US Dollars

	All	Excl PNG	Excl PNG and Hawai'i
Sovereign nations*	1,193	2,433	2,433
In free association	3,782	3,782	3,782
Integrated	35,793	35,793	13,466
Region average	9,052	19,282	5,673

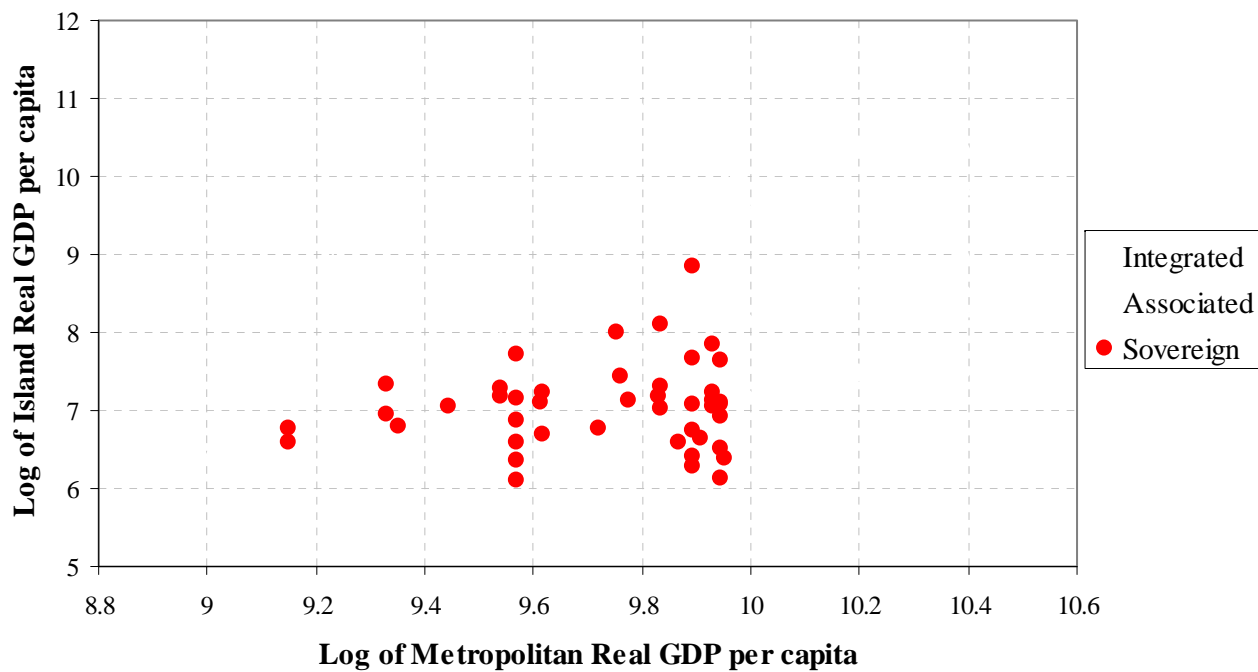
\* Excluding New Zealand.

## GDP per Capita in 22 Pacific Island Economies and their Metropolitan Patrons

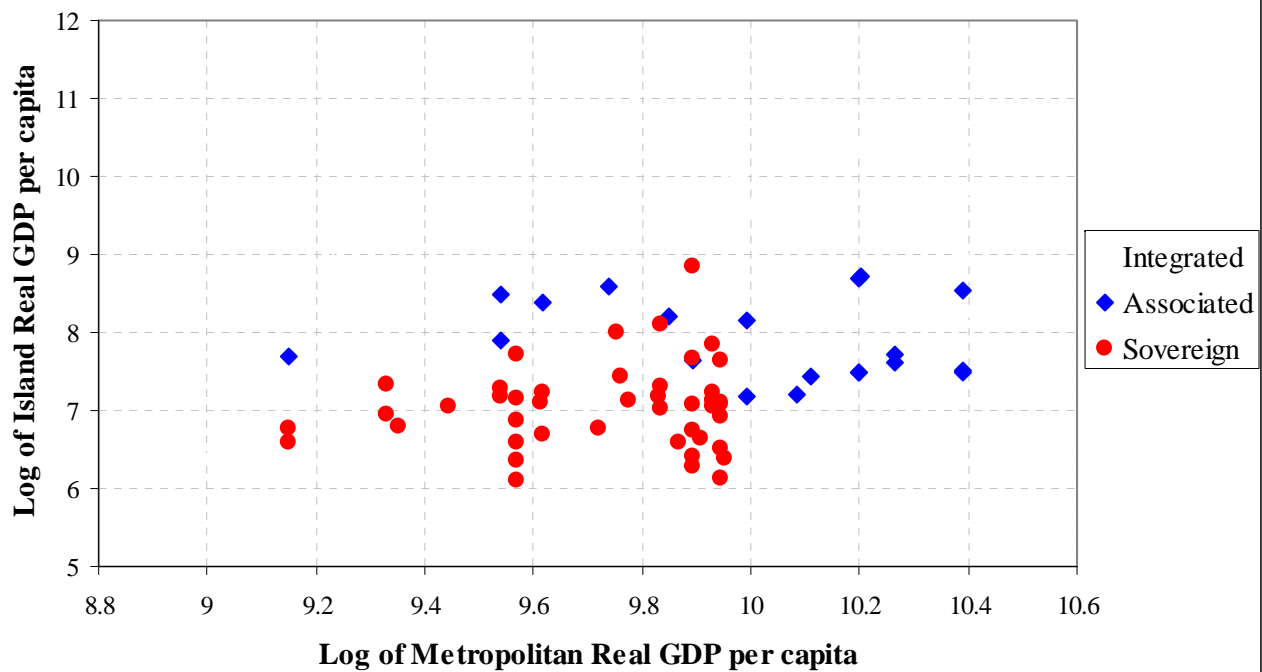


Geoff Bertram, "On the Convergence of Small Island Economies with their Metropolitan Patrons",  
*World Development* 32(2): 343-364, 2004

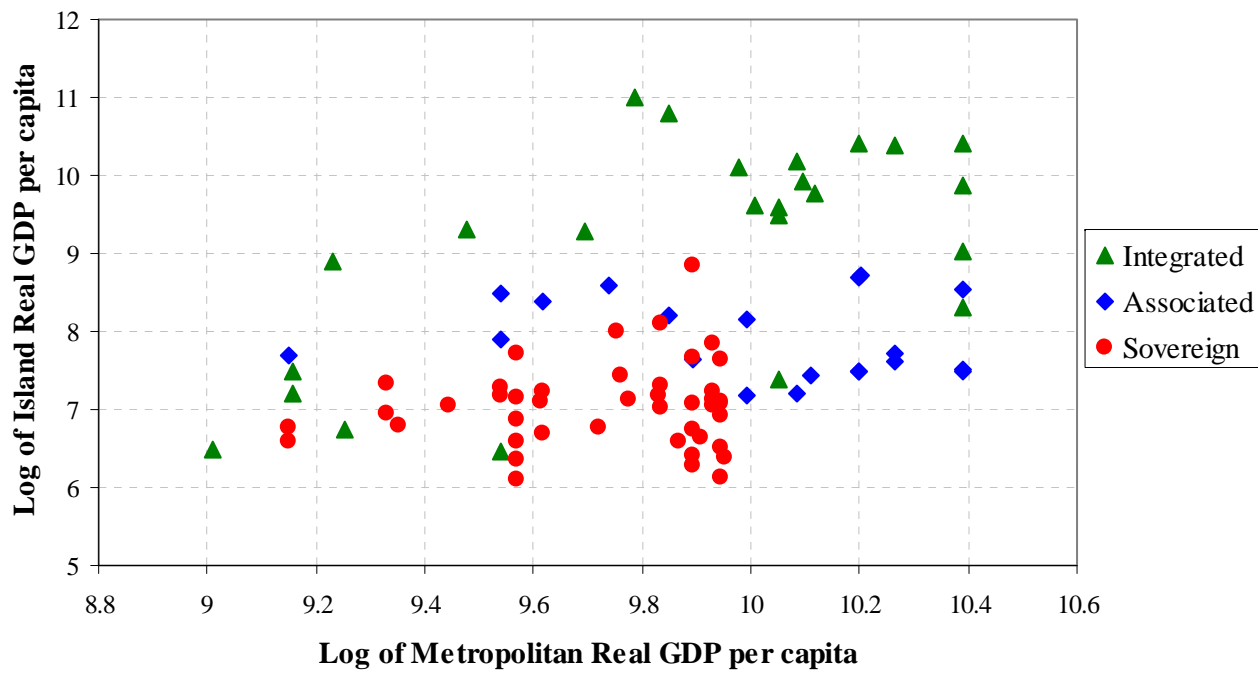
Relationship of Real Per Capita Income of Islands and their Metropolitan Patrons, Panel Data at Five-Yearly Intervals, Log Data



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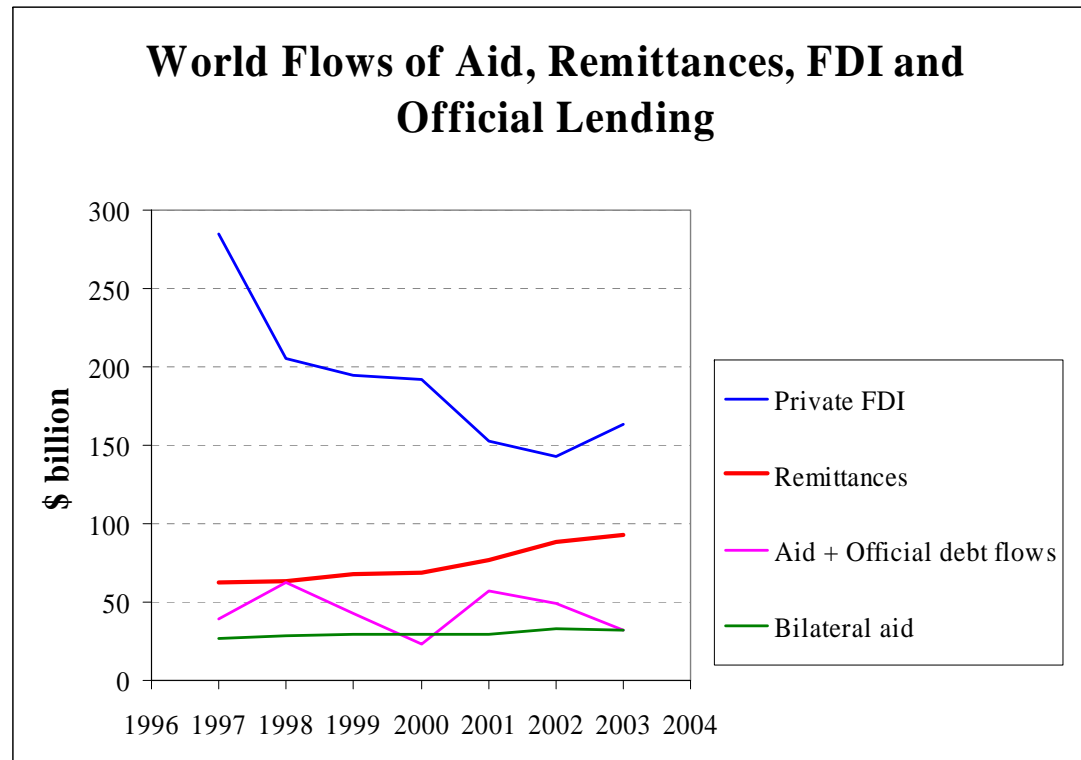
One major dimension of the nation state problem is the movement of peoples

- Hypothesis: Big diasporas tend to correlate to better HDIs
- One reason is the empowerment of ordinary people - because migration and remittances are decisions taken by the participants and largely uncontrollable by state apparatuses
- But crossing borders is a hassle unless facilitated

- New Zealand's "aid effort" relative to GDP looks puny against a lot of other rich countries,
- Yet its impact on living standards across its neighbouring island region is quite disproportionately great, because of New Zealand's role as a migration destination and the consequent flow of funds from the migrant diaspora to the home communities in the islands.
- An extraordinary feature of the New Zealand national accounts is that remittances are not separately identified and reported in the balance of payments statistics, with the result that blank cells turn up in the New Zealand row of the International Financial Statistics.

# Remittances are more stable and less pro-cyclical than aid

**Figure 2**



Source: World Bank, *Global Development Finance*, 2003 and 2004.

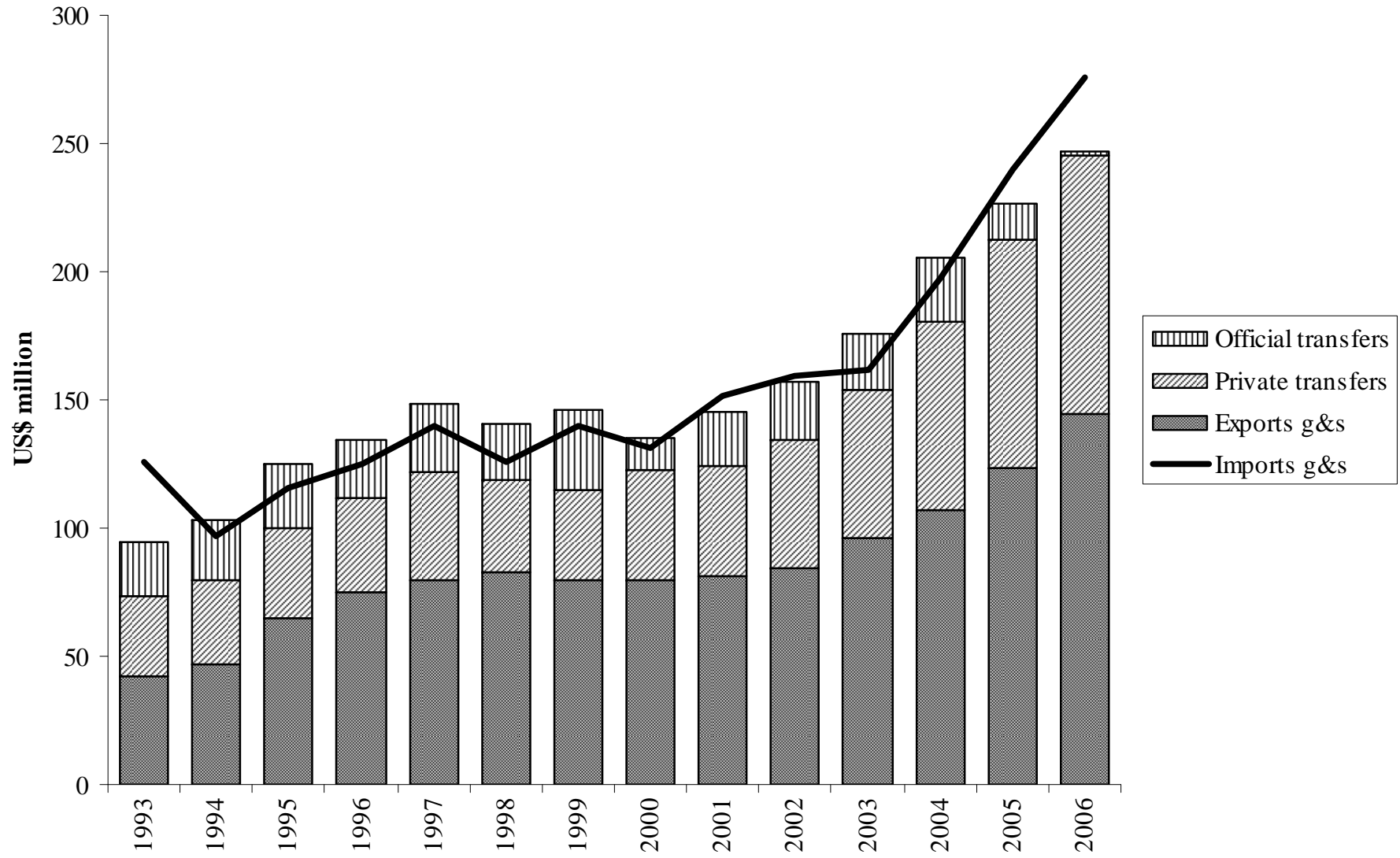
World Bank *Global Development Finance 2006* p.3 on remittances:

- Significant impact on poverty
- Associated with increased household investment in education, entrepreneurship and health
- Tend to be countercyclical and support economic activity in the face of adverse shocks
- Generate a steady stream of foreign exchange which improves country's creditworthiness.....

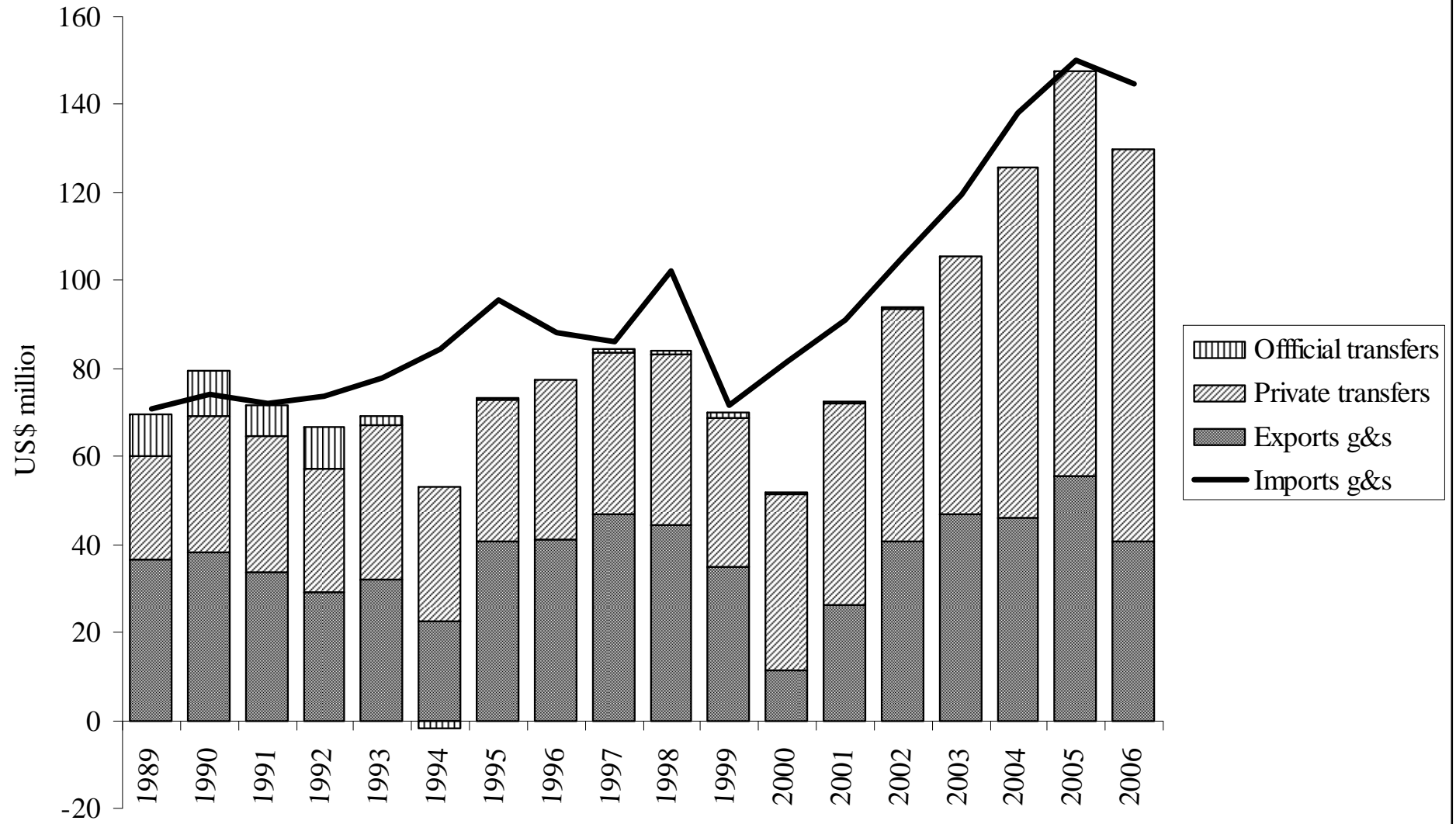
# Macroeconomics of aid and the balance of payments



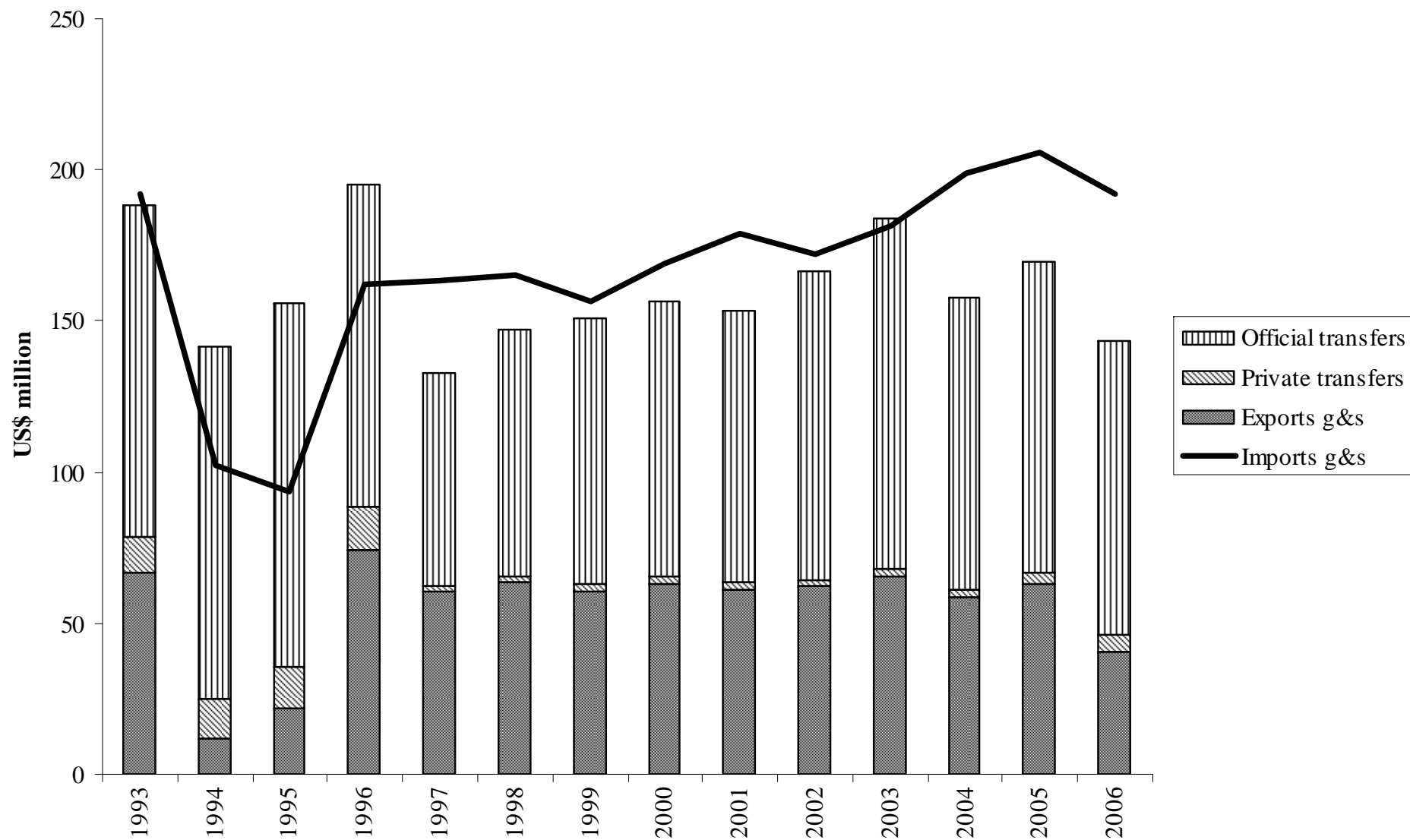
# Samoa



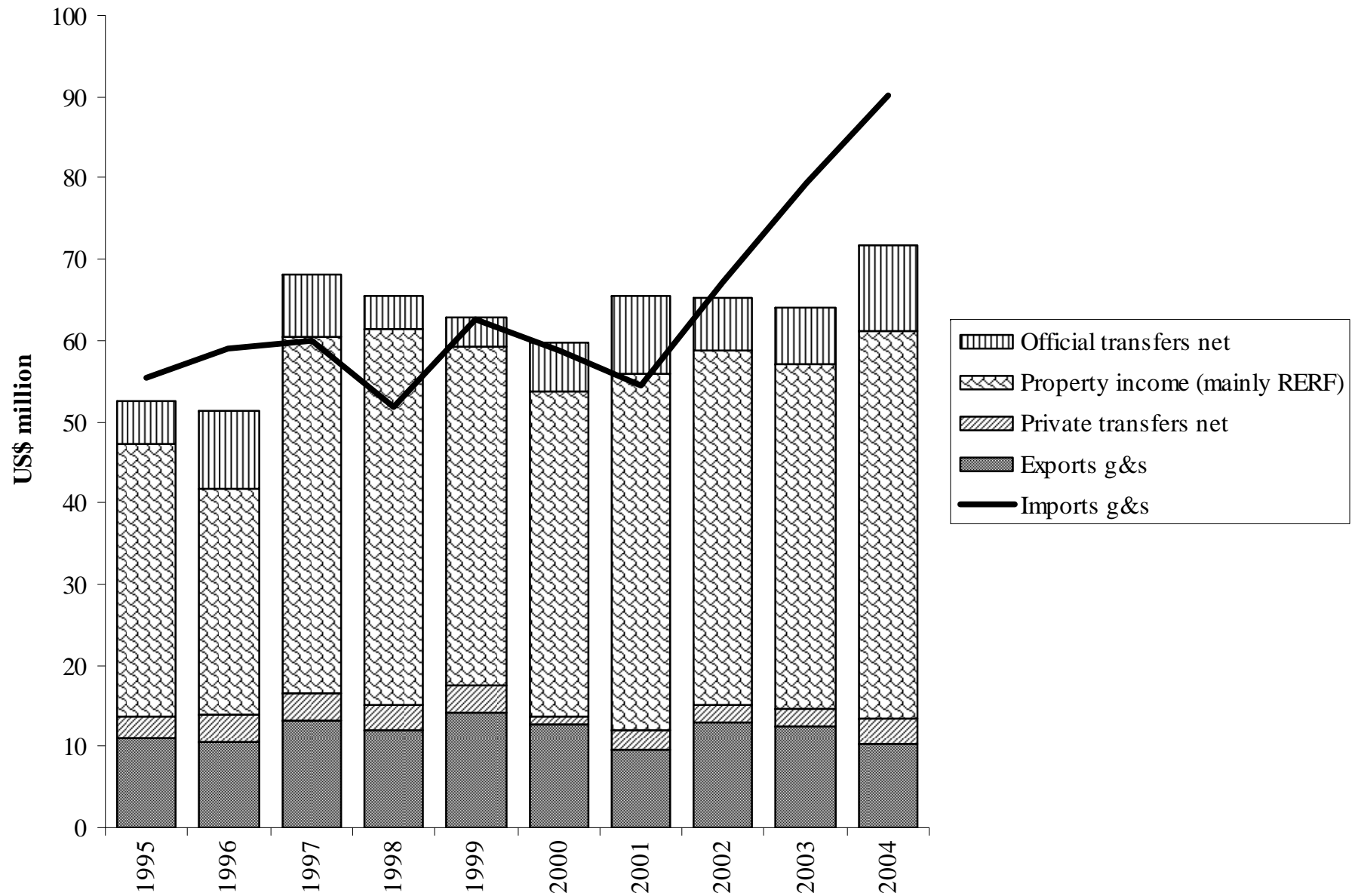
# Tonga



## Federated States of Micronesia



# Kiribati



# Fiji

