

Book reviews

The Samaritan's Dilemma: The Political Economy of Development Aid, C.C. Gibson, K. Andersson, E. Ostrom, S. Shivakumar. Oxford University Press, Oxford (2005). 264 + xxi pp., index, \$35.00, ISBN: 0-19-927884-9

Free copies of *The Samaritan's Dilemma* should be sent to U2's Bono, Jeffrey Sachs, and all others who take the “gobs-of-cash-will-do-you” approach to curing world poverty. As an increasing portion of the development community now recognizes, sending oodles of money to poor countries does not make them rich and may even make them poorer. This important book explains why. The authors' discussion is clear, straightforward, and easy to understand, even for Bono.

The Samaritan's Dilemma points to two fundamental reasons why simply channeling more resources to developing countries is ineffective for relieving their plight: incentives and information. Consider first development aid's incentive problems. Even when bilaterally conducted, development aid confronts a terrifically complicated web of divergent actor interests. As the authors point out, for instance, any development aid process will inevitably involve the separate, often contradictory interests of citizens in the donor country, from whom the resources for foreign aid are extracted.

There are also the interests of the political representatives of these citizens, which are complex and numerous. These may include, for example, reelection, power, saving face, ideology, and altruism. Then there are the interests of those who work for the donor country's foreign aid agency. Within this agency (and there may be more than one), there are different interests in each layer of the organization. The agency head, for instance, has different people he or she is accountable to, and thus a different set of needs to serve than those at lower levels in the aid-agency chain. His or her motivations may include minimizing work load, maximizing bureaucratic budget, ideology, power, serving the interests of friends in the private sector who could be hired to service various aid programs, and of course benevolence.

Then there are the interests of the slew of contractors that the aid agency will inevitably hire to help administrate the projects it decides upon. And this is just on the donor side of development aid process. I have not yet touched upon the equally numerous, divergent, and interconnected sets of public and private interests at play in the recipient country. All of these development aid “players” will have their own motivations and attempt to direct the aid process at each of its stages—from the initial negotiation between donor and recipient country (yes, though often forgotten, aid involves a tedious negotiation process between at least two countries, and often more) to the various aspects of on-the-ground aid implementation.

There is a bottom line here: foreign aid is a viciously complicated, indirect, and messy process involving a multitude of different actors, all with their own set of motivations (not to mention understandings of what aid is supposed to be achieving). This complexity introduces the strong likelihood of “public choice problems;” at each stage of the development aid process, actors from employees of development agencies to politicians in recipient countries may take actions that benefit them personally, but do not promote and may even reduce the development prospects of impoverished countries.

Accessing critical information poses an equally daunting problem for development aid. A myriad of questions must be answered for development aid to have even a chance of working. For instance, why is country X poor, what kinds of reforms does it need, what kinds of investments might it require, who are the various stakeholders in the existing regime and how are they benefited by the status quo, who specifically needs what in each part of the country, how will aid interact with other variables such as recipient citizen incentives, recipient government incentives, the recipient country’s capacity for self-sustainability, and how can the donor evaluate project effectiveness? These questions constitute just a small fraction of questions that must be answered by a potential donor for aid to be effective.

Of course, this information is not held by any one individual or agency in either the recipient country or donor country. It often takes a localized character and in many cases may not be known to any one at all. Effectively designing aid, even if the various incentive incompatibilities pointed to above could be overcome, requires at least some information about each of the items identified above, along with many others. In short, development aid, like all other social undertakings, must, as Nobel Laureate F.A. Hayek (1945) indicated, solve the underlying “knowledge problem” that stands at the center of our ability to coordinate society effectively. Without somehow tapping into the fragmented information related to each stage of the development aid process, this process cannot be expected to work.

The Samaritan’s Dilemma is broken into four sections that deal with various aspects of each of these larger themes. Part one asks, “What’s wrong with development aid?” It raises some meta-questions about what development aid is, what it is trying to do, and in the most general terms, what obstacles development aid confronts.

Section 2, “Lays the Theoretical Foundations for the Study of Development Aid,” is one of my most favorite and least favorite parts of the book. It expertly elucidates the fundamental obstacles that successful development aid must overcome, namely, those pointed to above: incentives and information. The authors break these obstacles into a number of smaller, more specific problems, each of which falls under one of the two more general rubrics.

On the incentive side, the authors discuss public goods, the problem of free riding, and common pool resource problems. They also tackle the potential incentive perversity of charity, originally identified by Nobel Laureate James Buchanan (1975). This, of course, is the “Samaritan’s Dilemma,” from which the authors’ book derives its name. Each of these incentive problems are briefly but effectively discussed in the context of development aid.

On the information problem side, the authors consider the specter of missing and local information, moral hazard, principal-agent situations, adverse selection, and signaling. Hayek would be proud. Again, all are discussed in the context of development aid and with great insight.

Why then is this section also among my least favorite in the book? Before the superb discussions mentioned above, the reader encounters an unnecessarily complicated schemata and nomenclature the authors call the “Institutional Analysis and Development” (IAD) framework. The reader is treated to arrow-laden diagrams, discussion of how to “do institutional analysis,” and talk of “action arenas” and “Octangles.”

Perhaps others will disagree, but I did not find this introduction to the more substantive parts of the second section of the book useful. It did not, as I believe the authors intended, set up a general theoretical method of evaluating development aid in concrete cases, for later discussions in the book, and for real-world applications outside of the book. The pages that follow this quasi-methodological discussion in section 2 make perfect sense whether one has been “prepped” with the IAD framework or not.

The third part of the book considers incentive and information issues in the context of concretized development aid-related field work. The authors’ unique investigation examines the national development aid agency of Sweden, Sida. It highlights difficulties that tend to plague even the most well-run development aid agencies. They also consider incentive and information obstacles in the context of specific development projects undertaken in India and Zambia. The chapters in this section are excellent and apply the conceptual constructs developed in section 2 to concrete donor-recipient aid relationships. The resulting discussions are both interesting and informative.

The final section of *Samaritan’s Dilemma* considers policy implications of the foregoing analysis. I found the authors’ concluding remarks disappointing. I appreciate the need to produce constructive policy recommendations. As the authors point out, for better or worse, development aid is not going away anytime soon. Indeed, the absence of the very market mechanisms (prices, and profit and loss) responsible for development aid’s inability to solve incentive and information problems is also the reason it’s here to stay: aid agencies cannot go out of business. As the authors put it, “Development assistance will continue despite its problems because its funding does not depend on its sustainability. There are no institutions or market mechanisms that ensure the efficient delivery of sustainable aid” (pp. 224–225). If for no other reason than this, it seems reasonable to speak “practically” about how to best deploy development aid, even if the evidence suggests it is a net inhibitor of development in poor countries.

However, there is something to be said for a totally honest assessment of development aid and unabashedly following the logic and evidence regarding aid wherever it leads. The rather pronounced record of development-aid failure over the last 50 years points strongly to a specific “wherever,” albeit one Bono and Sachs would not admit: rich countries should stop transferring wealth to governments in poor countries that lack the institutional prerequisites to make transfers effective, namely, private property rights and “good policy.” Of course, countries with good institutions and policy do not need aid to grow; they do it by themselves. This, after all, is how today’s rich countries grew from subsistence to great wealth. And they did so without development aid. Once this is acknowledged, the role for effective aid shrivels away. Countries where aid will work do not need it, and in those that do, the absence of effective institutions prevents aid from working. Seen this way, there is no obvious scope for helpful development aid, which suggests that doing away with it altogether might be the most sensible prescription.

If the authors felt guilty about drawing this conclusion from their own work, they could have easily supported it by also drawing on the substantial work of William Easterly (2001, 2006) and many others, whom they draw on elsewhere in the volume and whose important work provides strong support for the view that, on balance, the impact of development aid over the last half century or so has been negative for impoverished countries.

After presenting an analysis suggestive of this reasoning, to say that a handful of milquetoast reforms will improve the effectiveness of aid (I will not recount the specific proposals here, but suffice it to say, they do not address the key incentive and information problems highlighted above) seems not only out of place, but also lets substantial air out of the political-economy balloon of development aid the authors so carefully inflated in the preceding chapters. Instead,

what might have served as a more powerful conclusion to the important lessons the authors teach us would be something more akin to the policy stance of the development economist, **Peter T. Bauer (2000)**, whose arguments in many ways complement those offered in *The Samaritan's Dilemma* and whose own work offered an unreserved condemnation of, and call to halt, foreign aid.

The Samaritan's Dilemma is a worthwhile read for anyone looking to pierce the heated and at times confusing debate surrounding development aid. Economists who do not specialize in development will find it full of excellent examples and useful analysis of the basic problems of the thorny aid process. Development specialists will particularly enjoy the interesting case study work on Sida. Even those who see ever-increasing rounds of foreign funds as the panacea for poverty stand to gain from reading *The Samaritan's Dilemma*. In fact, they probably stand to benefit the most from doing so. Such individuals should take it like a dose of much-needed medicine. It may taste bitter going down, but will do them worlds of good.

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Otto Neurath. Economic Writings. Selections 1904–1945, T.E. Uebel, R.S. Cohen (Eds.). Kluwer Academic Publishers, Dordrecht, Boston and London (2004). pp. 563–567, \$187.00, ISBN: 1-4020-2273-5

The 23rd volume of the Vienna Circle collection, a series of publications of the most important philosophers and scientists involved in that extraordinary movement which developed between the two World Wars in Vienna, makes available for the first time in English a large selection of Otto Neurath's economic writings.

Recalling his memories of the *Vienna Circle* and the *Mathematical Colloquium*, the mathematician Karl Menger (son of the economist Carl Menger) described Otto Neurath as “a man of