

# Transcript of Development Drums

## Episode 41 – The Great Escape

Host: Owen Barder. Guest: Angus Deaton

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### Owen Barder

Thanks for downloading Development Drums. My name is Owen Barder from the Center for Global Development. And my guest today is Angus Deaton, Professor of Economics and International Affairs at Princeton University. Professor Deaton is renowned in development economics for his careful analysis and use of data. And his book, *The Analysis of Household Surveys* is the handbook for every student and investigator using survey data. I am with Professor Deaton in Princeton to talk to him about his new book, *The Great Escape: Health, Wealth and the Origins of Inequality*.

Professor Deaton, welcome to Development Drums.

### Angus Deaton

Thank you. It's terrific to be here.

### Owen Barder

So your book is in three parts and we're going to take each in turn. The first is about health, which you've chosen as a dimension of well-being. The second is about money and inequality. And the third, perhaps the most controversial part, is about foreign aid and whether that's helping or not. So let us start with your discussion of money, happiness and well-being and that nexus of ideas. Tell us why they are different or why you've chosen to treat health differently from the way we look at money, for example.

### Angus Deaton

Okay. So I think of well-being as the central concept except it's not entirely clear what it is and different people have different views of what well-being is. So I would tend to take a Sen-like view of capabilities and so on. So there is a bunch of things that enable you to live the sort of life that you'd like to live. And that seems to me sort of the central concept.

In the book, I deal with two out of a whole bunch of those things that are really important and those two, I think, are very important. One is material well-being or money, as you put it. And the other is health and without being alive, you can't enjoy anything else very much and being sick obviously compromises everything. So I tend to think of those as the two of the most important components of well-being but they're certainly not the only ones.

### Owen Barder

So you drew an interesting and distinction between well-being and happiness.

### Angus Deaton

Right.

### Owen Barder

Which I wasn't expecting. It's – we often talk about the Easterlin Paradox the distinction that – the idea that people don't seem to get happier as they get richer. You are drawing a distinction between well-being and happiness as well.

### Angus Deaton

Well, potentially, I am. I don't think I really take a firm position on that. But I certainly don't commit myself to the idea that well-being and happiness are the same thing.

One of the problems with happiness is that there are many different kinds or measures of happiness. So there's a sort of short-term thing which is you feel really happy right now or you feel unhappy, or you feel bored or something. This is a sort of experiential short-term thing but the sense in which Easterlin is using happiness is much more some sort of view of how your life is going. And that's really different. So how your life is going is much more a cognitive thing that people reflect on and they think how their life is going. And it's different from being happy at the moment. So to give you an example, you could have an elderly relative whose funeral you've gone through and you're very sad. So you are not happy at all. But if someone asks you if your life is going well...

**Owen Barder**

Right.

**Angus Deaton**

...your life would be going very well indeed. So what relation those take to well-being in the Sen sense, or this broader sense, is not entirely clear.

**Owen Barder**

So well-being for you is more multi-dimensional?

**Angus Deaton**

Yeah, I think that people's life satisfaction or their evaluation of their life is probably fairly close to a broad measure of well-being and it responds to money, it responds to health, it responds to how many friends you have, how much time you spend with them, lots of things like that. But there are things that may not respond to it at all and I think that work still remains to be done. In particular, I mean these are the topics I don't really deal within the book which would have made the book much longer but I think civic participation and living in something close to democracy is very important. Education is incredibly important and I don't talk a lot about education.

**Owen Barder**

I was surprised you picked health as the kind of primus inter pares of different dimensions of well-being because certainly in a lot of surveys of poor people, they start off by saying that security, physical security, not getting killed when they go out at night comes high up and we, from the outside, tend to think of health as being what we would want if we were them. But that's often not true when you ask poor people in poor countries.

**Angus Deaton**

Yeah. No, I realize that and I have done some of that work myself. I mean I worked with Gallup who collect those data all over Africa, for instance. And it's something of a paradox meaning one of your colleagues at the Center for Global Development just wrote a piece on this, which is we switched aid much more towards health at a time when you ask people what they want and that's the opposite of what they want by and large.

**Owen Barder**

Right.

**Angus Deaton**

And I don't really know what to make of that. I mean I think after all, if you believe in aid which I really sort of don't, then I think the donors are entitled to have some say over how their money is spent. So I don't think we have to line it up with what people say. People might be wrong. I think one of the issues in Africa is probably that morbidity has been high in Africa for all of human history. Man and microbes co-evolved there and have co-existed for a very, very long time. And so it may just be seen as the background...

**Owen Barder**

Right.

**Angus Deaton**

...condition.

**Owen Barder**

The aspiration for tackling health in the same way.

**Angus Deaton**

Yeah. And there is not a realization that anything can be done about it let alone that governments can do anything about it.

**Owen Barder**

On the Easterlin Paradox itself, the idea that there isn't a strong relationship between money, income and...

**Angus Deaton**

Life evaluation, call it happiness.

**Owen Barder**

...life evaluation and some kind of well-being...

**Angus Deaton**

Yeah.

**Owen Barder**

...your recent work has suggested that it's a statistical artefact.

**Angus Deaton**

I think the most careful work, though they are clearly very oppositional about it, is by Wolfers and Stevenson and they are suggesting that Easterlin is just wrong. I mean that the data – that he is not handling his data properly. He is putting a huge amount of weight on China that Chinese data are comparable over time, their early data were drawn from the upper classes educated people, the later data from the whole population. So I don't really want to get into that argument but if I were to put my money on one of them being right, I'd put it on Wolfers and Stevenson.

**Owen Barder**

So you think there is quite a strong correlation...

**Angus Deaton**

Yes.

**Owen Barder**

...between the richer you are in terms of income, you are like – other dimensions of your...

**Angus Deaton**

Yeah. No, if you ask people's life evaluation and you do a plot across countries and I do that in the book. If you plot log GDP per head on one axis and you plot average life evaluation on the other, it's a straight line.

**Owen Barder**

Right. Okay. So you're not in the – there is much more important things to life than money camp.

**Angus Deaton**

Well, I am. No, no, no. Wait a minute, that's different.

**Owen Barder**

Go on.

**Angus Deaton**

Well, one of the most important things is health for a start. I mean for instance, if you are dead having any amount of money is not going to help you very much. So I am certainly – money is way, way, way too narrow.

**Owen Barder**

Right.

**Angus Deaton**

And that's sort of the one of the great attractions of the well-being things and why Easterlin is such a great pioneer in this, which is to say – and there is no difference between Sen and Easterlin on that issue which is we shouldn't be looking just at money because all these other things are important in their own right.

**Owen Barder**

Right.

**Angus Deaton**

And not just as means to attaining something else. So you might interpret some of what Jeff Sachs used to write for instance as saying the reason for focusing on health is because it promotes economic growth.

**Owen Barder**

Right.

**Angus Deaton**

Well, that may or may not be true. I don't think it's true but it may or may not be true. And – but there's a very good reason for being interested with health, completely independent of what's happening...

**Owen Barder**

So let's get on to health...

**Angus Deaton**

Okay.

**Owen Barder**

...and you have a very interesting diagram in the book that plots just as you've just described for well-being and income, health measured as life expectancy in this case against income. And you get a fairly regular relationship.

**Angus Deaton**

Yeah.

**Owen Barder**

And strikingly, I mean one of the things that isn't to me the obvious but when you look carefully at the axes, it is how big the global differences are both in income on the X-axis and health on the Y-axis. So there seems to be very large variations in health which are correlated with very large variations in income.

**Angus Deaton**

Correct.

**Owen Barder**

So why do we need to think about health separately from income if...

**Angus Deaton**

Because first of all the correlation is far from perfect. So there are lots of countries that have extraordinarily good health in spite of very low income and those have been part of the development discourse for decades. And there are other countries like the United States that have lousy health...

**Owen Barder**

Right.

**Angus Deaton**

...relative to its income level. So they're certainly not the same thing and for many people, those deviations from that curve is where the policy really is.

**Owen Barder**

Right, countries could be aspiring to get to that frontier in terms of...

**Angus Deaton**

Yeah. And also remember, correlation is not causation.

**Owen Barder**

Right.

**Angus Deaton**

And there are spectacular episodes in the history of health in which those two things do not go together. So one of the most important examples is China after 1975. I mean you get this enormous upturn in the economic growth and health sort of grinds to a halt and just basically because they completely reallocated resources.

**Owen Barder**

Right.

**Angus Deaton**

I mean another great example is immediately after the Second World War when the antibiotics and the germ theory of disease came to Africa, even in countries that were seeing no economic growth at all, there were big improvements...

**Owen Barder**

Right.

**Angus Deaton**

...in infant child mortality rates, for example.

**Owen Barder**

So I think let's try and explain the Sam Preston curve...

**Angus Deaton**

Yeah.

**Owen Barder**

...which you described in the book. So one of the interesting things is that where that curve is linking income and health has itself moved over time.

**Angus Deaton**

Right.

**Owen Barder**

So for any given level of income we now have higher levels of health.

**Angus Deaton**

Right. So...

**Owen Barder**

Than we would have done 100 years ago at that level of income.

**Angus Deaton**

Exactly. It's not clear that's moved up evenly over time. And people who've looked at sub-periods don't necessarily find as much. But that's what I was sort of saying. I mean the West Africa example is an example of that. I mean even though there was very little economic growth, you got big health improvements and Preston attributed that to technology. I mean I think that's a bit simple but nevertheless that seems a good start.

**Owen Barder**

Well, so let's say a bit more about what you think it is. So this is the improvements in health that you get irrespective of whether you've become rich. So this isn't because I am wealthy so I can afford a better doctor or more medicines or more surgery. This is something else that's changed in my environment. So either technology has changed, we know more or there are some other set of things that are determining my health like whether I have sanitation or...

**Angus Deaton**

Yeah, so that's the obvious thing. I mean I think certainly at low levels of income and historically in countries that are not rich, the major determinants of health had very little to do with medical progress.

**Owen Barder**

Right.

**Angus Deaton**

So I think that's something that's happening to us now and even now among us that's not all of it. So these public health things, things that you cannot do for yourself like clearing up swamps, vector control, understanding the germ theory of disease, sanitation, clean water, those things are just very, very important. And those are things and this takes us back to your question about the income side. Many of those things take income to make them happen but there is no guarantee that with income, they will happen because in many cases and sanitation being the – perhaps the primary example, you can't do this for yourself. This is something that requires collective action...

**Owen Barder**

Right, right.

**Angus Deaton**

...and that's the missing thing in a story that it's all income, sort of...

**Owen Barder**

Right.

**Angus Deaton**

...because either the government or in some form of people acting collectively have to do this thing.

**Owen Barder**

But you would expect that to be quite a strong relationship between having sufficient collective action to deliver, say, decent sanitation and having sufficient collective action to deliver a functioning economy ...

**Angus Deaton**

Yeah, I do.

**Owen Barder**

...enforcing contracts and...

**Angus Deaton**

I think that level of state capacity is very important for both those things.

**Owen Barder**

For both those things. So in some sense, the government is driving both an improvement in the economy and an improvement in public health and those are related but they might have a common cause rather than one cause than the other.

**Angus Deaton**

Yeah. Though it's not entirely clear whether we're talking about levels or rates of growth, here for instance you could tell a story in which state capacity is important for economic growth because it gives the legal framework in which innovation can take place and all that sort of things and state capacity is good for the level of health. And in fact, the data look actually more like that than they look on a level on level or changes on changes.

**Owen Barder**

Right.

**Angus Deaton**

When you look at the Preston curve, the first thing economists tend to think about is, there is a strong correlation here. Maybe it's really income that's driving health and people often go beyond that and say at low incomes, there's this very strong effective income, high incomes. It's not – it's much weaker...

**Owen Barder**

Right.

**Angus Deaton**

...and people go beyond that and tend to flatline the top and say there is relationship at all, although as soon as you go on a log scale, you can tell that's not true.

**Owen Barder**

Right.

**Angus Deaton**

But the correlation and causation issue is only part of why that's interesting. And I think another big part of that story is when you are thinking about well-being when you do it in multiple dimensions, you get a very much bleaker picture of global inequality than you get if you do it one thing at a time.

**Owen Barder**

Because all the different dimensions of inequality are highly correlated with each other.

**Angus Deaton**

Right.

**Owen Barder**

For one reason or another. And if...

**Angus Deaton**

And so like if you did education if you in a democracy, if you did all these other things...

**Owen Barder**

Say people who are deprived in one dimension are very often deprived in every dimension.

**Angus Deaton**

Yeah, so there is a sort of cumulative horror of being poor which is not captured by looking at income poverty, for instance.

**Owen Barder**

I want to ask about the inequality point in a second but can we just tease out, I didn't feel you nailed your colors to the mast, perhaps characteristically, about the extent to which technology and knowledge are driving the shift in the Preston curve and the extent to which this is social organization and collective action on things like sanitation. So how much are you buying the knowledge and technology diffusion?

**Angus Deaton**

I think I'd buy pretty totally into that. So I am sorry if that's not as clear in the book as I meant it to be. There are two things you have to be careful about though. One is you can't take as an exogenous force like manna from heaven which is dropping things on earth. And those things respond to things in the environment. So you can make a perfectly plausible case that the germ theory of disease which may be one of the greatest theoretical discoveries to benefit mankind would not really have been discovered without the cholera epidemic in the 19th century. So the need for something is a very powerful force for discovery. Of course, there is no guarantee.

**Owen Barder**

Right. And you still have to have this as highly rich enough to be able to invest in...

**Angus Deaton**

Well, it may not be. I mean washing your hands does not cost a lot of money.

**Owen Barder**

Right.

**Angus Deaton**

And in fact, when the sanitarians invested in hugely expensive sanitation works, they had no idea what they were doing when it was largely done irrespective of germ theory and it may not have been a very cost effective solution. They might have been much better cleaning up the water supply.

**Owen Barder**

Okay. So that then raises the question of why the poorest countries – if you think it has a lot to do with technology and knowledge then we're left with the conundrum about why poor countries aren't catching up faster.

**Angus Deaton**

Yeah. No, well, but I think we've already talked about the clue to that. So the science gives you the possibility.

**Owen Barder**

Right.

**Angus Deaton**

But some of that science can be very cheaply put into place like washing hands, for instance, all people quitting smoking. I mean it's not cheap but it doesn't require the government to do everything, I mean, it requires people to change their behavior and that can be very difficult and take a long time. But some of that knowledge requires complementary factors to be put in place and a lot of that is government capacity.

**Owen Barder**

So an example is, a vaccine may be very cheap but you need the network of health clinics...

**Angus Deaton**

Exactly.



**Owen Barder**

... with people who can administer the vaccine...

**Angus Deaton**

Right.

**Owen Barder**

... which isn't that expensive but requires a certain amount of ability of the government system.

**Angus Deaton**

Right.

**Owen Barder**

Is that your...

**Angus Deaton**

No, that's exactly what I was saying. I've been very influenced I think on this by some of the terrific work that's come out of the World Bank on health in India and around the world, the stuff that Lant Pritchett and Jeff Hammer and Jishnu Das and people have done. So you got this – you got a very lively private sector. You got actually pretty well-trained public sector in that you can't be a public sector doctor in India without actually formal medical degree. And yet both of those are completely a dysfunction, not completely but very, very poorly functioning.

**Owen Barder**

Right.

**Angus Deaton**

And partly that's because the state does not have the capacity to deliver healthcare itself through the public sector nor that there is sort of the capacity to regulate the private sector in a way that would make the private sector work in a pretty good way.

**Owen Barder**

Right.

**Angus Deaton**

That said, delivering healthcare is a really hard problem. We don't exactly do a great job of it here and in Britain where they probably do a better job, it's a perennial subject of complaint and the rest of it. So this is a really hard problem. So you don't want to say it's because these government are catastrophic. But I think those things and so the state capacity is a complementary factor in implementing the technologies. Now some of these technologies are just very easy. When hand calculators appeared they were all over India 10 minutes later. But if you invent a nuclear power station or something, they won't spring up all over India.

**Owen Barder**

Right. So – and just finally on health, on the inequality issue, in a sense is and this is the same with income what we are seeing is some countries making the great escape, they have the combination of technology and social infrastructure to implement that technology that is reducing especially child mortality and infant mortality. And other countries that don't yet or perhaps that have access to the technology but they don't yet have the institutions to implement it, and so you are getting a rise globally of health inequality.

**Angus Deaton**

It depends on how you measure it. But, yes, I agree with that statement in general. And the thing is if you're fixated on life expectancy which I think is a bit of a problem in the literature, then saving a child's life has a much bigger effect on life expectancy than saving an adult's.

**Owen Barder**

So on that measure, we should expect to see quite a big closing of the gap.

**Angus Deaton**

Yes.

**Owen Barder**

Because in rich countries we are now – we've pretty much saved...

**Angus Deaton**

All the kids.

**Owen Barder**

Very few kids die.

**Angus Deaton**

Yes.

**Owen Barder**

And what we are doing now is reducing morbidity for older people.

**Angus Deaton**

Right. But I've tried to avoid those convergence concepts because convergence is not a very well-defined object and I'd have to get more technical than I have in the book to explain exactly why that's the case. But for instance, you can have a world in which mortality rates are not converging across countries at all, but life expectancy is converging across countries. And there has been a tendency sort of on the right in global health to argue that there's being a massive reduction in health inequality around the world based on life expectancy. But if you did that on mortality rates, you wouldn't see them.

**Owen Barder**

So would that be putting words in your mouth to say that the issue is not the inequality between rich countries and poor countries but the fact that poor countries haven't yet implemented the known available technologies that would prevent children from dying.

**Angus Deaton**

I agree with the last part of the statement. Well, I agree with the sentiment, I think but I wouldn't want to be on record of saying that global health inequality is not a problem.

**Owen Barder**

Okay.

**Angus Deaton**

Because it clearly is a problem. I mean and that the fact that children are dying by the accident of where they are born seems to be a major scandal to me and something...

**Owen Barder**

Right.

**Angus Deaton**

...that the world ought to be better organized to do something about it.

**Owen Barder**

Right.

**Angus Deaton**

So I think it's a huge problem. If children were dying in poor countries and they die at the same rate in rich countries, you would say, okay, remember, there isn't anything that you can do about it.

**Owen Barder**

Right.

**Angus Deaton**

And if you go back to Britain before about 1750, the children of dukes and aristocrats died at about the same rate...

**Owen Barder**

Right.

**Angus Deaton**

...as the children of the ordinary people, and that's because no one knew any better, there wasn't any inequality.

**Owen Barder**

And it was really when they started to tackle smallpox.

**Angus Deaton**

Well, that's the argument. That's a controversial argument in the literature but that seems to me the best cases being made.

[Music]

**Owen Barder**

You are listening to Development Drums with me, Owen Barder from the Center for Global Development. My guest today is Angus Deaton, Professor of Economics and International Affairs at Princeton University. And we're talking about his book, *The Great Escape*. In the first section, we've been talking about health. And we're coming on now to a discussion about inequality of income. In the final section, we will be talking about Professor Deaton's views about what's wrong with foreign aid. If you enjoy this podcast, you may also enjoy the Global Prosperity Wonkcast hosted by my colleague, Lawrence MacDonald. You can find both Development Drums and the Global Prosperity Wonkcast on the CGD website, on iTunes and Stitcher and on all other reputable sources of podcast downloads.

[Music]

Let's move now from health to income...

**Angus Deaton**

Okay.

**Owen Barder**

...where this is the famous Great Divergence that in some parts of the world, incomes began to rise in the 18th century and moved very quickly and incomes in other parts of the world didn't rise very quickly. Now, what's your view about that kind of inequality? So is your view now that inequality around the world is increasing as because it's increasing between countries or is it that inequality is reducing as we see China and India closing the gap on north America and Europe?

**Angus Deaton**

So this is, I'm afraid, going to be a slightly complicated answer. But let me...

**Owen Barder**

Okay, that's what we want.

**Angus Deaton**

...restate the premise a little bit which is that Great Divergence is about sustained growth because there'd been growth before especially in periods in China, for example, when there was enormous prosperity for brief period of time and it was all was brought down often by politics and it could even be argued by inequality so that the people who were in charge choked off...

**Owen Barder**

Right.

**Angus Deaton**

...growth because it's threatened them and the Acemoglu and Johnson book tells that story very well. So it's this sustained growth and I don't think it was all that fast. I mean I don't know if you know the history of the studies of the industrial revolution but that history seems to be largely revising down the growth rates until there was almost nothing left. But nevertheless over a long period of time there obviously was this Great Divergence. I also think that Great Divergence is the roots or is the root of the global inequality that we see today. So then the second part of your question is the harder one which is what do we think is actually happening now. So we know that India and China are growing very fast. We know there a lot of people in India and China. So you get a very large chunk of humanity, about 2.5 billion people who are sort of moving up.

**Owen Barder**

Right. They're kind of moving from the back of the race towards...

**Angus Deaton**

...towards the middle, something like that. So I think those facts are all true, right? Now, when you want to put it together into some sort of overall measure of is the Pope right that world inequality is getting worse.

**Owen Barder**

He's infallible so he must be right.

**Angus Deaton**

Yeah, exactly. Or is the American Enterprise Institute right when it says global inequality is actually falling, I actually think that one of the points I try to make in the book is that the data on that are weaker than we think and making these international comparisons and in particular correcting for prices across countries is a much more hazardous and error-ridden process than people tend to give a credit for.

**Owen Barder**

So it's something more about that because I mean there are two parts. One is that it is conceptually hard to know how you compare consumption across people...

**Angus Deaton**

Right.

**Owen Barder**

... and the other is that it's, in practice, we don't have – we don't collect very good data even if it wasn't conceptually difficult.

**Angus Deaton**

No, I think we collect very good data actually. So I think it is the conceptual problems. So perhaps the deepest conceptual problem is if you imagine an Ethiopian peasant who lives on teff and you try to compare him with a Mexican peasant that lives on beans and rice, I guess. I mean if you get two sets of people who are living on orthogonal things, what basis do you have for comparing their standards of living. I mean you can convert it to calories or protein or something. But that only gives you a partial answer. So there's that thing that's underlying the thing.

I think in practice, there is something that is slightly more difficult and if I refer to the ICP that stands for the International Comparison Program that does these. Perhaps this is a tremendously well set up international statistical exercise that's very well governed and is full of terrific professionals and I should declare an interest, I am on one of the technical advisory groups. So but that also informs me and sort of like – as Veed Rillicas [ph] used to say that I think one of his articles begins with his quote, he says, my father would never eat meatballs at home because he knew what was in them.

**Owen Barder**

In them, right.

**Angus Deaton**

...and he would never eat them abroad because he didn't know what was in them. So it's a little bit like that. But here's I think the crucial problem. If you want to compare prices between one country and another, you want to compare the prices of comparable items. On the other hand, you actually want to compare the prices of things that people commonly use.

**Owen Barder**

Right.

**Angus Deaton**

So let me give you an example. I mean in the United States, if you wanted a men's shirt, and this does go down to this level of detail. I mean there are thousands of goods, it would be a shirt something like the one I am wearing or the one you are wearing. On the other hand, if you went to say Cameroon...

**Owen Barder**

Right.

**Angus Deaton**

...and you said, well, go and price a Brooks Brothers shirt.

**Owen Barder**

Right. It would cost a fortune.

**Angus Deaton**

It would cost a fortune and you would only find it in the store where aid workers shop or the ambassador shop, the expat shop essentially and it would be very, very expensive. On the other hand, if you said, okay, price of shirt in the United States and price of shirt in Cameroon, then the shirt in Cameroon doesn't look anything like the shirt in the United States, so you are not pricing comparable quality.

**Owen Barder**

Right, right.

**Angus Deaton**

So if you do it one way, which is to get the quality completely comparable, you overstate the price level...

**Owen Barder**

Right.

**Angus Deaton**

...in poor countries which makes them too poor. And if you do it the other way which is you just, say, buy a shirt, it's not comparable quality and then the price levels are too low in poor countries...

**Owen Barder**

In practice we do both and then average them, don't we?

**Angus Deaton**

Well, not really. They try to – they have had this long attempt to label goods as to whether they are representative or not and that has not been very successful and then some of those links depend – the regional work they do is probably sort of okay because they are roughly comparable goods, right, in Africa and so on. But when you're comparing Cameroon with Japan, for instance or Bolivia with Russia or something, it's a real stretch and those comparisons in the end really do matter.

**Owen Barder**

Okay. So these international comparisons are the reasons you've just given, very hard to do. You have a whole chapter about inequality in America.

**Angus Deaton**

Right.

**Owen Barder**

Which in a sense abstracts from the problem of...

**Angus Deaton**

Yeah, that problem has gone away.

**Owen Barder**

Right. And here you have an interesting description of what's been happening to inequality in America. Tell us a bit about that.

**Angus Deaton**

Well, a lot of things have been happening to inequality in America and it's really becoming a front burner issue as President Obama made the speech yesterday, or the day before, talking about this. And rightly I think it's attracting an enormous amount of attention. There is this huge increase in incomes at the very, very top of the distribution which has happened once before that we know about it. They have had before, but in the Gilded Age at the end of the 19th century also a period of great technical change followed by a whole bunch of people who got incredibly rich on oil and railroads and things like that, tobacco. And this sort of parallel between those two periods which is sort of interesting. And in the first period, it was sort of undone by the progressive movement essentially and you could argue that's beginning to happen here, I don't know.

**Owen Barder**

What do you have in mind, the Occupy Wall Street movement or...?

**Angus Deaton**

Well, no, I think it would be something broader than that. I mean it was – I mean this is not a – this isn't a book but it's an interesting topic just the same. The people who did a lot to undo it or who led the Progressive Movement were Teddy Roosevelt...

**Owen Barder**

Right.

**Angus Deaton**

...William Taft and later Woodrow Wilson and those are not Occupy Wall Street types. Though the Occupy Wall Street equivalents were there and were making a lot of noise and all the rest of it. So there were big redistributionists like Bryant and so on. And but it was people in the center...

**Owen Barder**

Right.

**Angus Deaton**

The Roosevelts were about as patricianist as you can get, they're from the Republican Party and all the rest of it. So that's a very interesting story.

**Owen Barder**

But you are sounding more optimistic now than I felt you would in the book.

**Angus Deaton**

Yeah.

**Owen Barder**

Because in the book you were very wistful about the possibility of the kind of toxic political situation of plutocracy taking over from the democracy; that as you have a concentration of economic power, you end up with a concentration of political power that makes undoing the inequality more and more difficult.

**Angus Deaton**

Yes. So I think that warning needs to be said and I think economists have tended to be a bit blasé about this and they say things like we understand the market, this is the market sort of. The market is giving rewards to all these new innovation. This is what we want. And I wouldn't go all the way which I was thinking about saying that all this inequality is bad but there are bits of that I think a very worrying.

**Owen Barder**

So let's unpick that a bit, because I mean one reason for inequality is that if part of the population – if the population is becoming richer and that happens to some people sooner than other people, then you get a kind of time effect where...

**Angus Deaton**

Right.

**Owen Barder**

You get a temporary rise in inequality.

**Angus Deaton**

And that's one of the big themes in the book.

**Owen Barder**

Right. And that's basically a good thing.

**Angus Deaton**

Right. It may not be temporary. I mean parts of it may be so, it could have big incentives to people to get educated.

**Owen Barder**

Right.

**Angus Deaton**

And lots of people get educated, it's a good thing. But there are lots of people who may not be qualified to get educated.

**Owen Barder**

Right.

**Angus Deaton**

So they lose out and that would be permanent.

**Owen Barder**

Unless we find some way of compensating in some other way as part of redistributing to them basically.

**Angus Deaton**

Yeah, but the mechanism itself would not just help them. You have to do something about that.

**Owen Barder**

But then there is an unhealthy kind of inequality with rent-seeking of various kinds where powerful people are able to essentially prevent economic change...

**Angus Deaton**

Right.

**Owen Barder**

... and capture rents themselves.

**Angus Deaton**

So there is two parts to that. One is the thing that Joe writes about a lot which is the misalignment of incentives so that the private and social incentives may be very different from one another. So you think if Steve Jobs gets rich, that's sort of okay because we want him to do all the goodies that he's done for us. On the other hand if Lloyd Blankfein gets rich we're much more suspicious.

**Owen Barder**

Right.

**Angus Deaton**

And you could argue it's just because we don't understand what Lloyd Blankfein does but my guess is that if you really understand what does on on Wall Street, a lot of it is not socially productive.

**Owen Barder**

And what's your sense of where we are with the growing inequality in Western economies today? Is a large part of this kind of the inequality you need to drive to create incentives to people to get better education and raise their productivity or is it large part of this sort of the kind of...

**Angus Deaton**

Well, I am not sure I would take a single thing and then parse it up. And one of the things I tried to say in the book is very different things are happening in different parts of the income distribution. So our obsession with the Gini coefficient or something is not terrifically productive and there's all this interesting work about polarization, for instance, this idea that a lot of the people who are poorly paid at the very bottom of the distribution are actually not outsourceable and they are not under much threat.

**Owen Barder**

Right.

**Angus Deaton**

And if you think of people who work in nursing homes, for instance, looking after the increasing population of old people, you can't outsource them...

**Owen Barder**

Right.

**Angus Deaton**

...and so their wages are relatively protected. But to come back to what we are talking about the rent seeking and all the rest of it, I think there are differences. So in this technology sector which is very competitive, you can think of it as a model of – through a model of tournaments, for instance, where people invent something, they get monopoly rents for a while but then something else comes and sweeps them away. The places where that doesn't seem to happen very much is in the financial sector where you really worry and the health sector...

**Owen Barder**



Right.

**Angus Deaton**

...and where the lobbying powers are enormous of both of those places. I mean I think both Steve Jobs and Bill Gates were very slow to build lobbying empires in Washington, for instance, whereas the healthcare industry and the military, of course, which has not been so much in the focus recently because it's fallen out of favour a little bit. But I think those are places where the market incentives are really very, very weak and where the social and private incentives are very poorly aligned with one another. And healthcare, we come back to this, again, it's just a very difficult sector to handle because you can't really let the market handle it. I mean you could outlaw insurance and let everyone just go into the market but we don't want that.

[Music]

**Owen Barder**

You are listening to Development Drums and my guest is Angus Deaton talking about his book, *The Great Escape*. In this final section, we will talk about Professor Deaton's argument in his book that aid is harmful and that donors should spend aid for developing countries but not in developed countries. You can find out who is coming up on Development Drums on our Facebook page. You can normally also suggest questions for me to ask future guests. Unfortunately, I have got to bring along my notes for this discussion with Angus Deaton and that means I don't have a note of the great questions that people suggested I should put to him. I hope that won't discourage you from suggesting questions for future guests.

[Music]

So this actually takes us quite naturally to the third section which is international inequality and foreign aid. And I'm going to ask you in a second to tell us what you think about foreign aid which is not complementary but is there parallel about the idea that globally we have a toxic political problem which is that wealthy nations are able in various ways to control the rules of the game in the same way as wealthy citizens are within United States or the United Kingdom able to lobby for rules that continue to benefit them everyone else's expense.

I mean part of what we do at the Center for Global Development is to think about how the trade rules work, or migration rules work. Do you think there is a global toxic politics that we should worry about?

**Angus Deaton**

Yeah. I mean, I – the parallel is certainly there and I very much like that part of the Center for Global Development's work which I think is very important and I am going to wrap that in a minute into what I think about aid. There is, however, a major difference and which is important in all sorts of ways between international and national. So within a nation, people are sort of bound together in a system to which they have both responsibility and which provides responsibility to them. So for instance, you could say that national inequalities are unjust in the sense that they violate the social contract. I have to pay my taxes. So if I don't get my day in court, I have to obey the laws. If I don't get my day in court, there is an injustice. If I don't get my fair share of this pie to which I am contributing willy-nilly, that's an injustice. None of that applies internationally because there is no overreaching international contract...

**Owen Barder**

Right.

**Angus Deaton**

...between nations. And I think that's a very, very important distinction.

**Owen Barder**

And is that a necessary fact that there is no international contract between us as citizens, I mean could there be or...

**Angus Deaton**

I don't think so. I think that would bring an injustice of its own which is that these peoples are too different for a global authority to be anything other than a tyranny. I mean...

**Owen Barder**

We do have some global social context. We haven't – we have a global contract on human rights, for example.

**Angus Deaton**

Yeah. But what does it mean? Not very much because there is no central authority that's been charged with this enforcement is the same with the Millennium Development Goals. I don't think they are quite hot air to use Tianser & Alexis' [ph] term. But there is – a lot of it is just posturing because no one is actually charged with implementing.

**Owen Barder**

But we do have, for example, World Trade Organization that does...

**Angus Deaton**

Yeah. Okay, so let me come back to that. So you have these international organizations which are sort of quasi things. But there is no central redistributive organ in the way that there is with a well functioning national government. So the power that you drew between toxic politics, I think, is right. But you can see these parallels going on, but I think they are different because of the lack of international contract in the way that there's a social contract. So I think that's very important. It's also very important when I come to think about aid because often people are argue – think that and this worried me a lot in writing it, that a lot of the right wing argument against domestic welfare is that it creates welfare dependence and that people if you look after them too well won't exert their incentives or whatever the problem is. I don't have a position on that, you could argue that until you're blue in the face but this is not what I am talking about here because this money is – what I am worried about is the effects of aid on domestic government and domestic governance and aid actually undermining this social contract between government and the people without which countries can't function. So that's my central government – my central argument about the problems of aid and it's nothing to do with this argument about creating welfare dependence for individual.

**Owen Barder**

So although there is this something of a parallel which is that governments in receipt of foreign aid don't have an incentive to do the things they would need to do domestically to...

**Angus Deaton**

Yeah, but that's government's right, not people.

**Owen Barder**

Not people, right.

**Angus Deaton**

So that's a huge difference.

**Owen Barder**

So this is something of a parallel with the resource curse idea...

**Angus Deaton**

Yes.

**Owen Barder**

...that the governments that can raise money without having to – have a relationship with their citizens, then don't govern in the interest of those citizens.

**Angus Deaton**

Why would they? Yeah.

**Owen Barder**

Right. So...

**Angus Deaton**

So I think that parallel is pretty exact.

**Owen Barder**

Is pretty strong. So you think that, that by giving aid that just...

**Angus Deaton**

Or giving this sort of aid, yeah.

**Owen Barder**

So aid from government to government, is that your – what do you mean by that sort or aid.

**Angus Deaton**

Okay. So we have to go back there but this is to do with you can spend a lot of money doing these international public good things which would make the world a much better place.

**Owen Barder**

Funding a new vaccine or making...

**Angus Deaton**

Yeah. So people say to me sometimes when I've talked about the book, if I would give you \$5 billion to help poor people in the world, would you just burn it? And I say, no, I wouldn't. If I am Washington, I would say, I would take the red line up to Bethesda and I'd start a whole new national institute of health within the system which would look at diseases like tuberculosis, malaria and so on.

**Owen Barder**

So aid for poor countries but not in poor countries.

**Angus Deaton**

Exactly. So that's Lagarde's distinction and I subscribe to that. So there is lots of things CGD is pushing for that I entirely agree with and that costs money. It would be rightfully classified as aid. And I am all for it. So that I am not against helping poor people in poor countries and I think you'd have to be out of your mind not to accept the moral imperative, I think it's incredibly strong. But it's the deleterious effects of giving money in. So let's say, and I think this is not as clear in the book as it might have been which is there is a very natural implication that if you could give money directly to the citizens, it would not be a problem.

**Owen Barder**

Right.

**Angus Deaton**

And I think that's wrong and I think giving money to NGOs or giving money, for instance, through people's cell phones...

**Owen Barder**

Right.

**Angus Deaton**

...to people. So when I was at the World Bank the other day my discussant argued and said, okay, now that we have the technology, we have all these biometrics, we can identify everybody, we can give them money directly and this problem of giving money to government goes away. So here's a counterexample to that. One of the worst situations of foreign aid in recent times is what happened in Goma.

**Owen Barder**

Right.

**Angus Deaton**

So you got all these Hutu murderers who are fleeing from Kagame into Eastern DRC and they are living in and around Goma. And so there's a big humanitarian emergency because they don't have food and water and all the rest of it, and they have their families with them and all the rest of it. So then aid agency both bilateral and NGOs and everything come in in huge numbers and it becomes clear after a month or two that probably about two-thirds of the money is going to rearm these guys, who are in training camps talking about eliminating Tutsis who they refer to as cockroaches and going back and finishing the job. So the aid agencies are financing mass murder, as such they were financing genocide. And pretty soon, the best of them go away. So MSF leaves first, though it was roundly castigated.

**Owen Barder**

That's Médecins Sans Frontières.

**Angus Deaton**

Yeah, and I think Save the Children and Oxfam eventually but there are new NGOs coming in huge numbers. So let's say that all these women and children had cell phones.

**Owen Barder**

And they were being given cash transfers.

**Angus Deaton**

And were being given cash transfers. You think that would solve the problem? No, for a minute, right? And the problem – and Duncan Green in his book about poverty and power talks about those too. The problem is that poor people don't have any power.

**Owen Barder**

Right.

**Angus Deaton**

So if you give them money in a situation in which they are under the control of a government or an army or someone else that doesn't have their interests at heart, it's less direct than giving it directly to the bad guys but they can get it.

**Owen Barder**

Right. So you are describing quite an extreme situation.

**Angus Deaton**

Yes.

**Owen Barder**

I mean that if you take a country – if you think of Rwanda today, in Rwanda itself, there's one point of view which I think is what you are articulating which is that providing aid to Kagame we make it less likely that Kagame will feel forced to enter into some kind of social contract with his citizens. Is that... and you think that would still be true if we were providing cash transfers to Rwandan citizens?

**Angus Deaton**

Well, I think that as you pointed out correctly, the Goma example is the extreme example. But as philosophers, do you take the extreme examples that illustrate a point and the point is the lack of control, right?

**Owen Barder**

Right.

**Angus Deaton**

So you have to argue on a situation by situation case how much. So if the government really has complete administrative control which of course it probably doesn't because of lack of state capacity that we talked about. It will certainly find ways of sucking those resources out of the people, right?

**Owen Barder**

Right. But will – isn't it, we call that tax, right? Won't that begin to create a social contract?

**Angus Deaton**

No, well, that the social contract is not – the social contract is you give me money and I'll give you services. The social contract is not those foreign NGOs give you money and you hand it over to me buddy. So which is what you've be talking about here. Now...

**Owen Barder**

Well, that's quite a subtle distinction.

**Angus Deaton**

No, I don't think subtle at all. I mean it seems to be sort of obvious if you've got a principal agent problem in which they guy in charge of sort of exploiting these guys...

**Owen Barder**

Right.

**Angus Deaton**

...and has them nailed to the participation constraint, as we used to say in the literature, then there is no way giving money to them is going to benefit them. One of the examples I gave is let's say someone comes and live next door, and they belong to some extreme weird American cult...

**Owen Barder**

Right.

**Angus Deaton**

...in which the men get everything and the women are just held to here, and they're given enough food so they can have sex with those guys but otherwise live a totally miserable life. Then, giving them some money...

**Owen Barder**

Right.

**Angus Deaton**

...is not going to do anything to resolve that situation. I mean another story is when the UNDP for the Nth year in a row declared that Sri Lanka, not Sri Lanka, Sierra Leone was the worst country in the world, was at the bottom of Human Development Index or something. There is a huge party...

**Owen Barder**

Right.

**Angus Deaton**

Right because it's guaranteeing that aid will come in for another year.

**Owen Barder**

But nonetheless so on the negative side of the ledger and this is very important and we can debate when and how it's important but let us accept that there is this at least significant risk that providing aid either to citizens or to governments will weaken progress towards an effective social contract between citizen and the state...

**Angus Deaton**

Right.

**Owen Barder**

...and that's an important part of the development process.

**Angus Deaton**

Yeah.

**Owen Barder**

On the other side of the ledger, we have great examples of how provision of aid has vastly improved people's well-being. I mean you can think of the number of people currently with access to anti-retrovirals...

**Angus Deaton**

Yeah.

**Owen Barder**

...very large numbers of people kids being vaccinated, for example, against easily preventable disease is a very large rise in childhood immunization.

**Angus Deaton**

Yeah.

**Owen Barder**

So these are huge well-being improvements...

**Angus Deaton**

Yeah.

**Owen Barder**

... for a large number of people.

**Angus Deaton**

Yeah.

**Owen Barder**

And you're very clear that as I hear you that the negative impact on the social contract outweighs...

**Angus Deaton**

No, I never said that. I didn't say that. I said that...

**Owen Barder**

Don't you have to think that to conclude that we should stop giving aid?

**Angus Deaton**

Well, yes. No, but I mean that you can't pick off a particular intervention and say this is the best intervention and you're arguing against stopping everything and therefore you're against stopping that.

**Owen Barder**

Okay.

**Angus Deaton**

I am talking about an average which is, I think, if we stopped the world would be a better place, that's not to say that you can't identify interventions of which the anti-retrovirals is probably the leading example where the net effect is positive.

**Owen Barder**

So just to be clear, would you go on paying for anti-retrovirals or not, if it were up to you?

**Angus Deaton**

I would not but only in the long-term. So here's the argument and it's important to get this right because you've identified a really good issue here which is that – so it's clear there's an immediately large benefit and you can identify other aid programs where that's true. It's also true that if you stop that now, a lot of people would die who would otherwise be live. You don't commit that to happen. The main thing to argue though is that the undermining is still there, right?

**Owen Barder**

Right.

**Angus Deaton**

Because countries should design their own health systems according to the preferences of their people and they should not be being dictated by the Gates Foundation of the World Bank or someone else who has their own priority. One example where this came home to me was there was a debate in a Canadian election, I am not absolutely sure about that, about a decade ago about whether Canadian aid should be used more for HIV and less for child health versus vice versa. This is not something that should be decided in Ottawa. So what I would do I think in the case of the HIV thing is I would say, if I were a dictator, which I'm not, we'll do this for another 10 years and at the end of 10 years, we won't do this anymore, right, so then – these people then have 10 years to agitate...

**Owen Barder**

Right.

**Angus Deaton**

...to work on that contract and my model for that is what happened in South Africa during Mbeki and afterwards which you get enormous action groups, you get people who are very angry, they pressed for this and so on. And then sooner or later, you finish up with the health system that the country wants because you can't really deny that. I mean you can once someone help service from the outside forever anymore than you can run their government from the outside forever. So the way I would deal with that problem is by giving this 10-year horizon and then encouraging people to the extent that you can encourage them to demand the sort of health service that they want.

**Owen Barder**

These are the people who, in your analogy, with the imprisoned wife with no power.

**Angus Deaton**

Yeah.

**Owen Barder**

And you are essentially saying to them, right, you have 10 years to figure out how to escape the shackles.

**Angus Deaton**

No, but I mean that I am saying here's that imprisoned wife with no power were giving her money, right,...

**Owen Barder**

Right.

**Angus Deaton**

...which is essentially being used the husband.

**Owen Barder**

Well, actually, in that case, we're giving them anti-retrovirals unless the husband himself has HIV...

**Angus Deaton**

Right.

**Owen Barder**

...then it's no use to them.

**Angus Deaton**

Right. So you can say you are doing her some good...

**Owen Barder**

Right.

**Angus Deaton**

...but on the other hand, he is taking a large part of the tax of it...

**Owen Barder**

Right.

**Angus Deaton**

So then you say we can't go on doing this forever because the moral imperative – any more than the Swedish government or Oxfam or MSF could stay in Rwanda. I mean that's not Goma. I mean they were helping those women and children but they just decided that the ethical downside of those was just too large relative to do this. So my compromise for this is to give a time period and then say we can't do this forever because in the end this has to come from within. But I wouldn't fight that too hard because here, if you want a modest proposal that would come out of my mind, what I would say is and you might even be able to get some international accord on this that no government in the world should get more than 25% of its government revenue from abroad, right?

**Owen Barder**

Okay.

**Angus Deaton**

That I think would make the world a much better place. And at the same time, I would spend a lot of aid money on doing the four things...

**Owen Barder**

Right.

**Angus Deaton**

...the things that CGD pushes.

**Owen Barder**

Right.

**Angus Deaton**

Let me just go back one more to the telephone thing. I also think that Kenyan example of the M-Pesa and this great thing that's currently the fad of all economists that you can give this money by telephone, I find it very amusing because Moy got rich by ripping off the telephone companies.



**Owen Barder**

Right.

**Angus Deaton**

And it's just a matter of time before they find a similar way of doing the same thing with the cell phone company. I mean why would you think the scheme is impervious to predation by predators who are in charge.

**Owen Barder**

But it may be more impervious.

**Angus Deaton**

Yeah, it clearly is.

**Owen Barder**

For example, the move towards budget support back in the 1990s...

**Angus Deaton**

Right.

**Owen Barder**

...was an attempt to try to find a way to give aid in a way that it was all consistent with the social contract. The idea was we'll give money to governments and they will then be accountable to their people for their public expenditure allocation choices. Now I think lots of people think that...

**Angus Deaton**

Well, I think that's stupid...

**Owen Barder**

...has been pretty disappointing, but it was an effort to...

**Angus Deaton**

But that's part of the story, right, because they learn to raise that money from people.

**Owen Barder**

Right. So they don't have tax at that point because the...

**Angus Deaton**

But who says they are acting in the interest of their people? I mean a lot of them are clearly not.

**Owen Barder**

But many of them are subject to election and there are other kinds of...

**Angus Deaton**

Yeah, there's a range of things.

**Owen Barder**

...domestic processes.

**Angus Deaton**

Yeah.

**Owen Barder**

Now, so the issue is, is there a way at all to provide aid in a way that either minimizes the harm to social contract or which actually helps sustain – helps accelerate it.

**Angus Deaton**

Well, I...

**Owen Barder**

Or is it by – as it were, by definition...

**Angus Deaton**

I think it's by definition.

**Owen Barder**

... not possible to do that.

**Angus Deaton**

Not by definition, it's by argument...

**Owen Barder**

Right.

**Angus Deaton**

... that just is – you can either have a social contract, and you can't have a social contract, but you can't have it both ways.

**Owen Barder**

I mean you accused me of arguing from extreme which was my...

**Angus Deaton**

Yeah.

**Owen Barder**

...antiretroviral and so I think you are also arguing from an extreme which is your Goma camps. There are lots of countries where there are governments that are more or less trying to do something for their people but they're not as effective as they should be. They're not moving as fast as they could be. They have constraints. I mean they have toxic politics too of they are having to deal with elites who are resistant to change and so on. Your question is in those context, if you take Ethiopia today, lots of problems with civil societies space and democratic accountability but also a government that pretty much does spend money when it gets it on educating poor people and improving the quality of their health and giving them access to water and food and a social safety net alone. They are running the world's largest safety net program. So in that context where, yes, you would like the government to change in a more democratic in a more accountable direction. But you also have a sense that when that government has money, they do spend it on things that improves people's well-being and are gradually building up healthcare systems and education systems and food security systems and so on.

**Angus Deaton**

I don't think the track record on this is very good. I mean I've heard this argument over and over and over again for 50 years. And you come back to the Barr thing, if the countries know what they are doing, they don't need aid and also aid is tiny. I mean if that argument were true in the 1950s or whenever Barr was arguing this, it's true in many, many times over now, because the aid numbers are so tiny relative to what's going on in the world except in a few African countries but that's where the harm – exactly where the harm is being done. And I think Ethiopia is a terrible example, the guy that died last summer or whatever. I mean it seems to me just a criminal, I think, any complicity with him was a disaster. I really do believe in human freedom and I think playing with these guys is just the worst possible thing that we can do as like playing with Mugabe, it's like playing with Mobutu and surely there is something, or the alternative is worse. But I'm just tired of this argument.

**Owen Barder**

But I guess this is an old argument to say we shouldn't try and affect these things from the outside, there is nothing – it's not our problem. We can't change...

**Angus Deaton**

Well it may get worse.

**Owen Barder**

Right. We're making it worse and we can't change a process that ultimately have – has to happen from within. So I am buying the premise that change when it happens will happen from within. What I am pushing against is the idea that sitting at the outside and saying what you guys really need is freedom and democracy and accountability and that ought to come – that ought to be given higher priority than spending money on health and education and water and food. Isn't a form of deciding from the outside how change happens, right? I mean you're essentially substituting your judgment for theirs, in this case for medicine.

**Angus Deaton**

No, I am not substituting my judgment for them. I am saying I don't want tax payers in my country to help this guy throw his opponents in jail and murder people and all the rest of it. I don't want to be complicit in that nor do I think we ought to be and also all of the things this contract we want we're undermining it all the time and we're slowing down the process which should happen. And I've heard...

**Owen Barder**

Does this mean we shouldn't buy oil from Saudi Arabia?

**Angus Deaton**

I think you could get very close to that argument, yeah.

**Owen Barder**

Okay. So I mean that's – because in that sense...

**Angus Deaton**

No, but then we're very close to. And I think we need those seriously debate about those sort of issues. I think buying oil from Saudi Arabia has done enormous harm to the world than done enormous harm to us and the consequence of fracking maybe that we may have the luxury to take that position. But I mean I do think there are various – I mean Thomas Pogge has written very well about those and my friend Leif Wenar in London and who is at Imperial College and he is writing a book – at King's College, yeah. That's right – and he is writing a book about this.

**Owen Barder**

Right.

**Angus Deaton**

And I think that's a debate we should certainly be having which under what circumstances should we buy commodities from regimes that we don't like. But that's very much the "for" rather than the "in". Because buying commodities from odious regimes is exactly the same as supplying aid in my way of thinking about what it does people. The thing about – I mean my sense of what's happening in the bank, for instance, and it's along the lines you were talking about is that having worked through these fads which came and go over time, they have actually at last come to confront the truth of the matter which is this is a political issue. This is not a technical issue. This is – you can't bypass this by doing healthcare and not worrying about them throwing his friends and enemies in jail. And so they are now thinking along the lines you were talking about which is how can we improve governance, how can we help them improve governance and to me, that's a nonsensical statement.

**Owen Barder**

Right.

**Angus Deaton**

I mean I think once you got to the heart of darkness in here, you should realize that this cannot be done and you got to sort of let them go on with it. On the other hand, I mean I can see that you might make arguments around the margins, so they are parts of governance at very low levels in which technical assistance might really work.

**Owen Barder**

Right.

**Angus Deaton**

I was talking to Jishnu Das the other day about it. Health clinic inspectors, for instance, that's something that you might be able to say, well, here is a really good way of doing that. Or you might make incentives work in the police force or so. I mean there are things like that where countries can clearly learn from one another and in my view of the world, I would convert the World Bank into a large consulting organization which would compete with McKinsey or Gallup or whatever to provide solutions to problems like that but it's got – the demand for that has really got to come from the outside.

**Owen Barder**

So last question on this and we will wrap up but I just want to press you a bit. I mean you've always struck me as being someone who is very careful with numbers with evidence and statistics and it feels to me that this section of the book is a kind of cry of exasperation about the aid industry that isn't as well evidenced as I would – as I associate with you.

**Angus Deaton**

No, I think that's a fair point. I think the question is though...

**Owen Barder**

It is an empirical question, right? There is clearly theoretical possibility that aid is doing harm to the government in poor countries.

**Angus Deaton**

I think it's one of these big questions in which empirical evidence is not likely to help very much. And I thought about that because what you say is exactly right. First of all, people have been running cross-country regressions up the kazoo...

**Owen Barder**

Right.

**Angus Deaton**

...and I thought about that stuff pretty carefully and I don't discuss it particularly in those terms but I do talk about it. So the bit about it that seems to me the most useful is just this fact that small countries get a lot more aid per capita than large countries and you don't see that coming through in anything positive.

**Owen Barder**

Right.

**Angus Deaton**

So that's a piece of empirical evidence. I think that's about all that's come out of that enormous literature...

**Owen Barder**

Right.

**Angus Deaton**

...which is otherwise – but you see, if you think about and also people have talked about the undermining argument in there are papers looking at that. But the trouble is sort of like these long-term questions, big questions like did provision of public pensions in the UK reduce savings, right?

**Owen Barder**

Right.

**Angus Deaton**

Now, that's almost empirically unanswerable because the lags are so long and there are so many other things going on. And if you think about an undermining government, it's a very long-term thing whereas if you think if you did this using regression analysis or however it's sophisticated and so on. It's so – it's one of these mechanisms that's so slow and slow undermining that you're not going to pick it up.

**Owen Barder**

But let me offer you an alternative hypothesis which is I think roughly where my a priori is, which is that internal physical processes matter, they are internal and there isn't much we can do about it from the outside either positively or negatively. And that if we want to use aid to promote improvements in social economic transformation then we're probably not going to succeed, and we're certainly not going to be able to demonstrate that we have succeeded, but we can demonstrate that aid makes a huge difference to people's well-being positively through things like providing them with anti-retrovirals or food.

**Angus Deaton**

No, but you are cheating. I mean you picked off and you're cherry-picking, right?

**Owen Barder**

No, no. I...

**Angus Deaton**

That was \$5 trillion that was being...

**Owen Barder**

I was in the middle of a long list, right, and giving people access to food or water or immunization.

**Angus Deaton**

How about Mobutu? How about Mugabe...

**Owen Barder**

We've spent a lot of money stupidly but we have unquestionably, I mean just the eradication of smallpox which was brought about by the aid industry has massively improved billions of people's lives and we have to count that positively. So if we think we are having roughly no effect on governance, your hypothesis is that we're having a negative effect, maybe but as you say, we don't have very good evidence for that. And then we have got this on the other side of the ledger, massively well-evidenced positive impact.

**Angus Deaton**

But you talk about – I totally disagree with that.

**Owen Barder**

We know for example...

**Angus Deaton**

You're cherry-picking the top things.

**Owen Barder**

Right.

**Angus Deaton**

No, but I mean I'm saying on average it has a negative effect or no effect at all.

**Owen Barder**

Right. But if you are an investor in a – if you are a venture capitalist investing in firms, right, and some of them were a massive success and some of them came to nothing...

**Angus Deaton**

Right.

**Owen Barder**

...you would still think that you were a successful investor.

**Angus Deaton**

No. But you said that you would – you're still cherry-picking.

**Owen Barder**

Right.

**Angus Deaton**

I mean you said some of them were a great success and some of them came to nothing. I am saying some of them are a great success, some of them came to nothing. And a lot of them were a total catastrophe for human welfare, so on average the rate of return is zero or negative.

**Owen Barder**

But the catastrophe is the thing for which we don't have good evidence, right? The successes we have good evidence on.

**Angus Deaton**

We have lots of good evidence.

**Owen Barder**

What are the...

**Angus Deaton**

Mugabe.

**Owen Barder**

But we don't know that we – so that is the area of disagreement which is do we know that Mugabe would have been any different if we hadn't been giving aid to Zimbabwe?

**Angus Deaton**

You don't really know that about HIV either and that is very much the leading case. I mean a lot of that was the Clinton administration, the Clinton Foundation pushing down the price of drugs that's not aid. That's much more for than it is in; the green revolution, which Jeff Sachs' favourite, is for not in. I mean I don't think even the success stories are so clear and there are many horrible disasters and you like the Ethiopians, I think, giving the money to whatever he was called...

**Owen Barder**

Meles Zenawi.

**Angus Deaton**

Yeah. It's just like – it's like having blood on our hands. I mean it's like the Iraq war. I mean it's a catastrophe. Read what Tony – read, what's her name, Michaela Wrong's book about Kenya and what Tony Blair was doing there. I mean these guys are whitewashing themselves for their sins with their own public. It's neocolonialism. I mean this is really horrible. It's ethically disgraceful. And I mean I think we're

just doing horrible things there. And the other thing one should read, I don't know if you know these books but there is this wonderful book by Jim Ferguson called *The Anti-Politics Machine* about Lesotho and that for me is the eponymy of what's going on there. I mean we got these so-called the experts coming in with some demented theory of how the country works which has nothing to do with the way the country works or the way what people want.

**Owen Barder**

It's an agricultural society, right?

**Angus Deaton**

Yeah, it's a dual economy or Jim Scott's stuff about *Seeing Like a State* and all these crazy schemes. I mean the – to me perhaps even bigger examples are McNamara, the great whizkid at the Ford Corporation and then he's come to run the Vietnam War as a technical problem. That's not a technical problem; it was a political problem and it was just one of the great catastrophes and then he comes and tries to run the World Bank and say, no wonder the aid industry doesn't work. So – and I guess the last one is this, the population control catastrophe. I mean that was being done by people who thought they were doing good and it will still tell you they're good. That would say exactly the same things you've just said that we brought down the population growth in India. We went out there and cut a lot of tubes, this is a great success. This is bullshit, this is just – it's all to do with us. We're just making ourselves feel better at the expense of poor around the world.

**Owen Barder**

Angus Deaton, thanks very much for talking to Development Drums. Thank you.

**Angus Deaton**

Okay. Very good.