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# The Failings of Foreign Aid and Our Obligation to Consume

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THE FAILINGS OF FOREIGN AID AND OUR OBLIGATION TO CONSUME

Presented to

the Department of Philosophy  
of the University of New Orleans

In Partial Fulfillment

of the Requirements for the Degree of  
Bachelor of Arts, with Honors in Philosophy

by

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## Abstract

In his well-known 1972 article, "Famine, Affluence, and Morality," and in subsequent books, Peter Singer argues that we can and should prevent the needless suffering and death of the global poor by giving to foreign aid. This call for charity and assistance is mostly uncontroversial. However, foreign aid's effectiveness is highly contested among the aid literature. As the first part of this paper shows, all aid encounters inefficiencies, with the major problems being diversion of funds and perverse incentives. I look at each of these in turn, concluding that most aid is ineffective and sometimes even harmful—with the possible exception of short-term humanitarian aid. Consideration of aid evaluation and emerging forms of aid like microfinance and unconditional cash transfers provides no solution to aid's problems. In the second part of the paper I consider potentially superior methods for preventing the suffering and death of the global poor. Free trade, open immigration, and increased consumption all seem like promising ways to alleviate poverty and grow developing economies, but only increased consumption of disposable luxury goods fulfills Singer's obligation for the individual to prevent bad things from happening. To show that this idea stands, the rest of the paper will focus on increased consumption's relation to manufacturing, so-called sweatshop labor, economic growth, and alleviation of poverty. Finally, I will address potential limitations and objections to my approach, concluding that consumption of disposable luxury goods is the best way to fulfill Singer's obligation to aid the global poor.

Keywords: *Singer, foreign aid, manufacturing, consumption, obligation, aid, development*

## **1: The Issue**

Senseless suffering and untimely death are unfortunate realities for billions of people living in extreme poverty worldwide. In 2011, around 17% of the world's population lived on less than \$1.25 a day (World Bank 2014). Recognizing that these people are suffering due to no fault of their own, many relatively affluent people feel that they have a strong moral obligation to help the global poor. In "Famine, Affluence, and Morality," and subsequent books, Peter Singer argues that we can and should help the global poor through giving to foreign aid. This call for charity and assistance is mostly uncontroversial, but as we will see, foreign aid's effectiveness is highly contested in the aid literature. Despite this contention, Singer's conception of aid's positive impact is widespread. As Leif Wenar remarks,

[the] empirical thesis that small sacrifice can bring great benefit is . . . implicit in many public appeals for charitable contributions. . . [and] also explicit in almost all analytical moral theorizing about our duties to distant others, as it has been since Peter Singer's classic 1972 article on famine relief (2003: 291).

My purpose in this essay is to first show that Singer and his followers' claims about aid's effectiveness are mostly wrong and, as a result, we may not have an obligation to give to foreign aid. Second, I will explore alternative methods by which the individual might most effectively fulfill Singer's obligation to prevent the needless suffering and death of the world's least well-off.

## **2: Method and Presuppositions**

For this paper, I will assume that we do have an obligation to the global poor and that we should prevent bad things from happening to them. What I am challenging is Singer's claim that we can most effectively fulfill this obligation by giving to foreign aid. To challenge Singer and those sympathetic to his position, I will first look at the foreign aid literature in order to evaluate the effectiveness of different types of aid. As we will see, all aid encounters inefficiencies, with

the major problems being diversion of funds and perverse incentives. I look at each of these in turn, concluding that most aid is ineffective and sometimes even harmful—with the possible exception of short-term humanitarian aid. I end this discussion of the aid literature by looking at the potential benefits of aid evaluation and emerging forms of aid like microfinance and unconditional cash transfers.

Next, I consider potentially superior methods for preventing the suffering and death of the global poor. Free trade, open immigration, and increased consumption all seem like promising ways to alleviate poverty and grow developing economies, but only increased consumption of disposable luxury goods fulfills Singer's obligation for the individual to prevent bad things from happening. To show that this idea stands, the rest of the paper will focus on increased consumption's relation to manufacturing, so-called sweatshop labor, economic growth, and alleviation of poverty. Finally, I will address potential limitations and objections to my approach, concluding that consumption of disposable luxury goods is the best way to fulfill Singer's obligation to aid the global poor.

### **3: The Text's Argument**

Peter Singer's argument for why we as individuals should be doing more to help the poverty-stricken peoples of the world through foreign aid proceeds from the following four claims:

- (1): Suffering and death from lack of food, shelter, and medical care are bad.
- (2): If it is in your power to prevent something bad from happening, without sacrificing anything nearly as important, it is wrong not to do so.
- (3): By donating to aid agencies, you can prevent suffering and death from lack of food, shelter, and medical care, without sacrificing anything nearly as important.
- (4): Therefore, if you do not donate to aid agencies, you are doing something wrong. (2009: 15)

While Singer is open to alternative solutions to poverty like population control, "Famine, Affluence, and Morality" makes it clear that he views foreign aid as the most effective method of poverty alleviation. For Singer, there is no doubt that we can alleviate poverty with foreign aid (242). He is confident that "expert observers and supervisors ... can direct our aid to a refugee in Bengal almost as effectively as we could get it to someone in our own block" (232). His later books, *Practical Ethics* and *The Life You Can Save*, reinforce this belief in foreign aid, citing many charities and forms of aid that will be discussed in the following section.<sup>1</sup> He does a better job of acknowledging aid skeptics in these books but insists that "some degree of uncertainty about the impact of aid does not eliminate our obligation to give" (2009: 124). If foreign aid and the organizations Singer mentions are in fact the most effective ways to alleviate poverty, and we accept premises one and two of his argument, we should be donating much more money and living drastically different lives. However, Singer seems to underestimate the skeptics' concerns and the degree of uncertainty involved in foreign aid. We will evaluate foreign aid's effectiveness in the next section, but first we need to qualify Singer's argument.

#### **4: Analysis of the Text's Argument**

One crucial component of Singer's argument that is not explicitly stated is whether we should focus on preventing immediate suffering or long-term suffering. This ambiguity is important to resolve since some methods of poverty alleviation sacrifice immediate reduction in suffering in order to reduce more suffering in the long run. Implicit in the premises stated above is that we should do what most effectively reduces immediate suffering. Perhaps Singer thinks that immediate poverty alleviation measures lead to the most effective reduction of suffering over time, but this possibility is not addressed explicitly in his writing. The closest he comes to

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<sup>1</sup> Including microfinance, GiveDirectly, Population Services International, and randomized control trials.

acknowledging the importance of preventing more suffering over the long run is when he states, "[If] the best means of preventing famine, *in the long run*, is population control, it would then follow ... that one ought to be doing all one can to promote population control" (1972: 240, my emphasis). Unfortunately, Singer does not expand on this idea here or in subsequent books. If we were to accept Singer's argument without any further qualification it could result in a situation where the affluent of the world are perpetually subsidizing the global poor. Educating people, improving institutions, strengthening economies, providing infrastructure, and other factors that reduce poverty and suffering all require time and resources that cannot be used for immediate reduction of suffering. I think Singer and most readers would agree that education, infrastructure, increasing the livelihood of the global poor, and reducing more suffering over time is preferable to reducing some suffering immediately. Therefore, Singer's argument would benefit from a fifth premise:

- (5): It is better to reduce more suffering and death over the long run than to immediately reduce some suffering and death now.

With this addition, I believe we have a strong argument for helping the global poor. Now we will examine Singer's preferred method for disbursing this obligation: foreign aid.

### *Types of Foreign Aid*

To evaluate Singer's claim about aid's effectiveness in premise three and determine whether it reduces the most amount of suffering and death in the long run, we first need to identify the different types of aid, what they aim to accomplish, and what challenges they face. Humanitarian aid and development aid are the two main types of foreign aid. Humanitarian aid is aimed at saving lives and alleviating suffering immediately, typically in response to disasters and outbreak of disease. Some humanitarian aid, such as providing clean water, food, shelter, and



basic medical treatment seems to accomplish this goal short-term because success is simply a matter of increasing outputs. Because of this simplicity, even aid skeptics such as Christopher Coyne concede that "humanitarian action can alleviate short-term suffering through the delivery of direct relief goods" (2013: 20).<sup>2</sup> Inefficiencies exist in all foreign aid, but they are limited by the nature of short-term humanitarian aid and the duration of its assistance.

Unfortunately, short-term humanitarian aid often turns into long-term humanitarian aid, which almost always does nothing to improve conditions.<sup>3</sup> Ethiopia is a prime example of the failings of persistent humanitarian aid. Ever since the devastating famines of the early 1980's, Ethiopians have been receiving food aid. Rather than provide a short-term stepping-stone to stability, this humanitarian aid has created long-term aid-dependency, an autocracy (Easterly and Freschi 2010b), and decreased average income from \$190 in 1984 to \$108 in 2005 as farmers lost local markets to food aid (Jamieson 2005: 157). The disturbing part is that most aid organizations in Ethiopia know the harmful effects, but ignore them and continue the same practices anyway (Easterly and Freschi 2010b). In such cases, humanitarian aid glosses over the "underlying causes of global poverty" (Jamieson 2005: 157). Not surprisingly, to waste money in this manner "while not addressing the sources of poverty can be truly disastrous" and does not fulfill the obligation to prevent bad things from happening (Vossen 2013: 5).

Development aid, in contrast, is aimed at these "underlying causes" of poverty and suffering: failing institutions, economic policy, political policy, oppression, poor infrastructure, etc. In theory, this is the type of aid Ethiopia needed. While the Ethiopian famine of 1984 seemed like a natural drought, it was in fact caused by a political failure. During the Ethiopian

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2 For instance, widespread vaccinations and inoculations can be very effective, such as the World Health Organization's initiatives in the 1950's and 60's that led to the dramatic decline of various deadly infectious diseases, including the eventual eradication of smallpox in the 80's.

3 For multiple accounts of how long-term humanitarian aid fails, see Jamieson 2005: 157; Easterly and Freschi 2010b; Leif Wenar 2011: 15; and Vossen 2013: 4.

government's conflict with secessionist tribes, the tribes were forcibly resettled. Most scholars agree that this resettlement was the cause of the famine because of the logistical nightmare and resource drain resulting from forcibly resettling hundreds of thousands of people to areas without infrastructure (Rieff 2005). Similar political struggles were the cause of suffering for many Hutu refugees in Zaire between 1994 and 1996, and the expulsion of the Kosovar community from Serbia in 1998 and 1999 (Jamieson 2005: 156). In these cases, humanitarian aid is not helpful because it does not address the real cause of suffering.

Unpredictable and unpreventable natural disasters do occur, so there will always be a place for short-term humanitarian aid, but development aid has better potential to prevent harm moving forward. Perhaps because of this potential for good, most aid comes in the form of development aid. Development aid receives at least seven times the amount of funding that humanitarian aid receives.<sup>4</sup> Therefore, foreign aid's effectiveness largely depends on development aid's effectiveness, which is why most examples I will use involve development aid.

Finally, it should be noted that although official state-led aid outweighs private aid,<sup>5</sup> they face similar problems. I use examples of both types in order to show that aid problems are universal and that neither type effectively discharges one's obligation to prevent bad things from happening to the global poor.

### *Fund Diversion*

Perhaps one of the most pressing problems in foreign aid is when funds are diverted from

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4 Humanitarian aid accounts for about \$18 billion a year (Development Initiatives). "Official development assistance from OECD countries in 2009 totaled about \$137 billion" which does not account for non-OECD and private development assistance (Coyné 2013: 200-201).

5 For 2011, private philanthropic aid totaled about \$59 billion, official aid totaled about \$130 billion (Hudson Institute 2013; OECD 2012).

the intended recipients by corrupt institutions.<sup>6</sup> Resource diversion perpetuates and aggravates bad institutions and captures a significant portion of aid. The figures are astonishing. As of 2010, dictators alone were receiving one third of all international aid (Easterly and Freschi 2010b). Even more can then be diverted by other government officials. In a case from Uganda, local officials siphoned 87% of the money from public education grants over a four-year period (Reinikka and Svensson 2004). Some aid does not even leave the donor country. For example, the U.S. Agency for International Development (USAID) admitted in a 2002 report that 80% of their funds go directly to American firms. Of the money that leaves the country, little of it goes to the poorest nations, instead going to relatively well-off countries like Russia, Bosnia, Iraq and Israel (Jamieson 2005: 159-160). Other donor countries are not much better: "in 2001 roughly 40% of all international aid flows were tied to providing ... benefits to donors" (Jamieson 2005: 159). Recalling that state-led aid outweighs private aid, one realizes that the majority of aid is being diverted to "[serve] commercial interests at home or [buy] political allies abroad" (Andrews 2013). And even when aid is reaching its target, it is very likely *not* going to someone who desperately needs it. Of all the world's development aid, "only 19% ... goes to the 43 least developed countries" (Jamieson 2005: 160). Furthermore, the aid that reaches the least well-off areas still may not be preventing bad things from happening and helping the poor because of additional hurdles like perverse incentives.

### *Incentives*

Perverse incentives represent another significant concern for foreign aid. Until these

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6 The result is that often only a small fraction of aid reaches the intended recipient. While the same happens with luxury goods—only a fraction of the profits are received by the laborers—the consumers also derive pleasure from receiving their expected products. When foreign aid is diverted, the donors do not receive their expected products: the global poor receiving 'x' amount of services, money, aid. The other aspect, the benefit to the poor from a manufacturing job, will be addressed later.

perverse incentives are recognized and reformed, aid will fail (Easterly 2001: 24; Jamieson 2005: 160). This reformation process will be difficult to enact because both the donors and recipients have damaging incentives to maintain the current system (Jamieson 2005: 160). Governmental donors have strong incentives to continue aid because it greatly benefits themselves in direct payouts and political favors. Following incentives to maintain their department in Rwanda, the French government coolly "continued to aid the Hutu government of Rwanda even after the [Hutu led] genocide [of Tutsis] had become public knowledge" in 1994 (Easterly 2010a). Aid organizations also have strong incentives to continue aid projects because they "literally exist to give aid; organizational incentives push aid bureaucrats to keep the money flowing, to keep their field offices open, and secure their own jobs" (Easterly and Freschi 2010b). Haiti hosts about 10,000 foreign aid groups, and while institutional problems are probably at the root of Haiti's struggles, perverse incentives are limiting potential progress: "[As] Haitians themselves explain, most aid agencies spend much of their energies trying to justify their own existence rather than helping Haitians help themselves" (Goldberg n.d.). Population Services International (PSI) is another organization trying to justify its existence through providing mosquito nets in Madagascar, an activity which has resulted in a perversion of the Malagasy's incentives<sup>7</sup>. PSI is encroaching on a useful Malagasy government mosquito net project and thereby eliminating incentives for citizens to be invested in their domestic government; this result in turn eliminates incentives for the government to remain accountable to the people and provide public services (Wenar 2011: 22).

Recipients, both individual and governmental, are just as susceptible to these perverse incentives. Governments can use aid to bolster their national budget and retain political power,

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<sup>7</sup> Malagasy: a native or inhabitant of Madagascar

such as in our previous example of Ethiopia, where aid is perpetuating the country's extractive economic and political institutions. Ethiopian officials refuse aid to intended recipients who do not support the current government; the officials thereby create incentives—with aid money—to support the repressive government that is perpetuating poverty, which the aid money was intended to alleviate in the first place (Easterly and Freschi 2010b). In other cases, governments are incentivized to take actions that they would not otherwise take. For example, just as Mauritania was about to lose foreign aid, they officially recognized Israel as a country (one of the few Arab nations to do so), knowing that this action would guarantee future aid from the pro-Israel West (Andrews 2013).

Aid can even replace good incentives with bad ones as with the financing gap approach—which provided money to underdeveloped governments, hoping for future economic growth. The project granted money according to government savings: the less money a government saved, the more money it was granted. This policy eliminated incentives to save and invest money, resulting in aid money being spent only on consumption goods (Easterly 2001: 39). The financing gap approach on balance failed to catalyze economic growth: only 1 of 138 countries met the project's economic growth goal (Ibid).

Aid affects the incentives of the innocent as well. In many countries with conditional aid, the impoverished often willfully stop working, injure themselves, or contract diseases in order to receive aid. David Schmitz exemplifies this 'tragic commons' using the same theme from Singer's classic drowning-child scenario:

Tragic Commons: [Let's say] a baby is drowning in [a] pool beside you. You can save the baby by a process that involves giving its family \$100. If you do not save it, it will die. You save the baby. A crowd begins to gather. Seeing what you have done, two onlookers throw their babies into the pool. The babies will drown unless you give each of their families \$100. More onlookers begin to gather, waiting to see what you do. (Schmitz 2008: 148)

In this example, families were incentivized to put their children at risk of death! The wrong incentives can create manipulation of the system, bad actions, and bad consequences. If we can figure out how to control for unintended and harmful incentives, our aid will have a much better chance of really reaching those who need it. However, as decades of failed aid programs show, it is not clear that we know—or can know—a foolproof method for controlling incentives.

### *Evaluation*

One might say that the shortcomings of foreign aid could be addressed by a call for better evaluation—more studies and better methodology. Indeed, it makes little sense to donate vast amounts of money without accountability and knowledge of aid's efficacy. As we have seen, there is good reason to believe that much of the foreign aid being given is ineffective or even harmful to the societies receiving it. Therefore, we are morally obligated to find a better solution for preventing harm, and it seems reasonable to think that better evaluation will create better aid solutions.

Unfortunately, evaluation itself faces problems. Even controlling for bias, perverse incentives, and error, evaluation is not an efficient or simple way to correct aid programs because aid programs are context-specific. Evaluations that show positive results can be misleading, as results often lose efficacy when placed in different environments. Abhijit Banerjee and Esther Duflo, strong advocates for randomized control trials (RCT) and aid evaluation, recognize that "a single experiment does not provide a final answer on whether a program would universally 'work'" and therefore many trials differing in kind and location would need to be conducted in order to improve the efficacy of aid (Banerjee and Duflo 2011: 14). RCT necessitate large scale evaluation of aid programs which is costly and will still not guarantee aid's effectiveness because

of scaling problems. For example, "one [farming village] can increase [its] productivity, but if all do so, the prices of the crops will fall, and what is profitable for one may not be profitable for all" (Deaton 2013: 293). RCT projects may show good results on the small scale but this success guarantees nothing, because "perfect project evaluation can coexist with aid failure for the country as a whole" (Deaton 2013: 293). Beyond these issues, the particular projects of "aid agencies lack a standardization that would make meta-analyses of their impact on welfare [even] possible" (Wenar 2003: 294). So even the call for more evaluation cannot be seen as the solution to the problems of traditional aid. Perhaps what we need are new types of aid, like microfinance and unconditional cash transfers.

Microfinance has been around for hundreds of years, but only in the last twenty years has it come to the forefront in developmental economics. Microfinance seeks to empower women, facilitate entrepreneurship, and alleviate poverty through the granting of small loans. Groups such as the Grameen Bank and ACCION International have popularized this system, leading many in the aid community to tout microfinance as the most promising way to end poverty. However, once one looks past the heart-warming anecdotes and optimistic press releases, one can see that microfinance faces serious challenges and on the whole does not seem to be accomplishing its goals. Just as with traditional aid, "almost all impact evaluations of microfinance suffer from weak methodologies and inadequate data" (Duvendack 2011: 4). Of the data that have been gathered, recent meta-analyses have indicated that microfinance has failed to empower women (Vaessen et al 2014), had an insignificant impact on microenterprises<sup>8</sup> and poverty (Awaworyi 2014), and in some cases even increased poverty and reduced levels of educational attainment (Rooyen et al. 2012: 2259). Until there is better empirical evidence

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<sup>8</sup> Microenterprises are typically understood as small businesses with less than ten employees and a small amount of capital.

showing the positive result of microfinance, we should be cautious to pursue it and would do well to look for alternatives.

An even newer alternative is the unconditional cash transfer (UCT) scheme. Similar to microfinance, UCT programs have received a lot of positive media attention. The only organization consistently and comprehensively using UCTs is GiveDirectly, which began public operations in 2011 in Kenya and has recently expanded to Uganda. Since its inception, this organization has consistently ranked among the top charities that GiveWell<sup>9</sup> and Singer recommend. Indeed, GiveDirectly may be the most promising method of foreign aid because it avoids the pitfalls of traditional aid outlined above: fund diversion and perverse incentives. Administrative costs are extremely low (5-10%), payments are sent directly to recipients by cell phone,<sup>10</sup> and there are no conditions attached to the payments. The main problem with GiveDirectly is not its performance *per se*, but rather the lack of data on its impact. Before making any substantial contributions, we need to know whether the UCT scheme is a long-term solution to empowering the global poor to innovate and advance their economies, or simply a way to sustain a slightly improved form of poverty. While we wait for more conclusive evidence, the search for alternate methods for alleviating poverty should continue.

With so much uncertainty, perhaps we should simply push for aid reform and focus primarily on humanitarian giving. In fact, most of the programs that Singer discusses are focused on humanitarian giving. And this focus makes sense, for we saw at the beginning that short-term humanitarian aid can actually be effective in alleviating immediate death, suffering, and disease. Bad things will still happen though, as providing food, water, shelter, medical and other humanitarian aid will not get rid of poverty, it will only make poverty more bearable (Narveson

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<sup>9</sup> A non-profit that evaluates aid organizations and ranks them yearly on efficiency and efficacy.

<sup>10</sup> Kenya and Uganda have been ahead of the curve in regards to cell phones: 68% of Kenyans and 50% of Ugandans use their cell phones for making or receiving payments (Pew Research Center 2014: 1).



2004: 343-344). Reform would not truly be preventing bad things from happening in the first place, nor would it would be reducing the amount of bad things from happening in the future. If we can find a method that raises the poor *out* of poverty and adverse conditions, then that method would prevent even more bad things than humanitarian aid and therein would lie our stronger obligation.

### *Alternative Methods*

In light of this information about foreign aid, it is apparent that Singer's third premise largely fails. Most of foreign aid is highly ineffective and the aid that does work—short-term humanitarian aid—is only useful during disasters and does little to raise the poor out of poverty and truly prevent bad things from continuing to happen. So if foreign aid is not an effective way to prevent harm for the global poor what *can* we do to help?

Chris Coyne, Angus Deaton, Michael Clemens, Lant Pritchett, and others have highlighted the great potential for the poor in open immigration.<sup>11</sup> Michael Clemens estimates the gains from removing global migration barriers could be in the range of "50 to 150 percent of world GDP" (Coyne 2013: 190-191). These gains would not only help the emigrating individuals and the receiving countries but also the poor families and friends left behind. Much of the wealth gained by those who migrate is sent back to their home country in form of remittance, which is much more effective than aid and is given in larger amounts (Coyne 2013: 190-191; Deaton 2013: 323; World Bank 2011: 4).<sup>12</sup> Although much more modest in potential gains, Deaton, Coyne, and Narveson also support trade facilitation and elimination of all trade barriers. The Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) has estimated that trade

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<sup>11</sup> Clemens and Pritchett's views are summarized in Coyne 2013: 189-190.

<sup>12</sup> In 2009, remittances from OECD countries totaled \$174 billion, while development aid from OECD countries totaled \$134 billion (Coyne 2013: 200-201).

liberalization in conjunction with trade facilitation could have worldwide gains of more than \$550 billion, or about .8% of world GDP (European Commission 2006: 2). These estimated gains from open immigration, trade facilitation, and free trade are extremely attractive because they hold great potential for the world's poorest *and* the world's richest.

Unfortunately, the individual cannot do much to change these policies. Opposition to free trade and open immigration is deeply engrained in public and political opinion. A significant change in policy would require a social movement with many decades of activism and education. What I am interested in is what the individual can do right now to most effectively fulfill Singer's obligation to prevent bad things from happening and aid the world's poorest. I believe the way to fulfill this obligation is through increased consumption—specifically, increased consumption of disposable luxury goods. This type of consumption increases the demand for manufacturing<sup>13</sup>—thought by many leading economists to be one of the greatest tools in alleviating poverty and a key to economic growth. Increased demand for the goods that manufacturing produces will increase the amount of factories and manufacturing work available in poor countries, which will benefit the poor and developing countries through increasing returns to scale, higher wages, and improved working conditions.<sup>14</sup> I will now explain why consumption must be of disposable, luxury goods, to show how this consumption helps the poor, to look at historical and current examples of this idea at work, and to address some important limitations and potential objections to my argument.

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13 The production of finished goods from raw materials.

14 As the world advances, new methods of escaping poverty may arise and may in fact already be working. Tourism and growth of the service sector may be a way to escape poverty as well as focusing on manufacturing. If so, there may be an obligation to buy luxury services or go on vacation to the world's poorest countries. However, due to the paucity of examples and relevant literature on countries that have sustainably escaped poverty in these ways or done so more efficiently than manufacturing-led growth, I limit the present discussion to manufacturing.

*Definitions and the Case for Manufacturing*

Luxury goods can generally be understood as items that are inessential for daily life, i.e. most of the items that people in the developed world buy. However, to be more precise, the use of luxury goods (otherwise known as superior goods) in this paper will follow the standard economic definition. Luxury goods are those for which demand increases more than proportionally as income rises (elastic). Contrast these goods with necessity goods, for which demand increases proportionally less than income (inelastic). The rising demand for luxury goods and consequent increased consumption of them provides increasing benefit for the poor, since most manufactured goods benefit from cheap labor at some point in the supply chain. This increasing benefit is why I stress luxury goods as opposed to necessity goods for which demand declines as wealth rises. People in general want more and more clothes, cars, or computers of higher quality as they get richer; they rarely, if ever, want more and more strawberries, water, or grains. A focus on luxury goods is also purposefully prejudiced against the purchase of private real estate, water rights, and services, all of which do not provide as much benefit for the poor in general. Land and water rights bought in America will have no effect on those suffering in Burundi, especially when that property is left undeveloped. Services tend to facilitate fewer exports and tend to have slower productivity growth than manufacturing industries (Chang 2010: 94). No other type of purchase positively affects the poor as much as the purchase of luxury goods.

That these goods are disposable or expendable is also of importance. Disposability guarantees that more products will need to be produced to fulfill demand.<sup>15</sup> This higher demand

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15 The additional waste will not likely be a problem. Nations that have a considerable amount of waste from buying disposable goods are necessarily wealthy. In wealthy nations, the population has enough time and money to start caring about the environment. Recycling programs, environmental awareness, environmentally-friendly products then arise and begin the process of lowering rates of pollution. North America, Europe, and Japan have begun this transition and even countries like China are now starting to address environmental hazards following

will cause an increase in manufacturing capacity, specifically in poor countries where the labor is cheapest. Expansion of manufacturing will prove to be an important part of this argument and the global poor's escape from poverty.

Consumption of disposable luxury goods is the best way to help the poor because it avoids all the inefficiencies and unintended consequences of foreign aid, while utilizing a system—manufacturing and industrialization—that has already raised most of the world out of extreme poverty.<sup>16</sup> Many leading economists—aid believers and skeptics, on the political right and the left, free market capitalists and Marxists, old and new—agree that manufacturing is the key factor in economic growth (Kaldor 1996; Krugman 1997; Marx and Engels 1998; Sachs 2005; Reinert 2007; Powell 2008; Banerjee and Duflo 2011: 226-230; Kenny 2013). Erik Reinert and Nicholas Kaldor argue that *all* rich countries became rich due to a strong manufacturing base (Kaldor 1996: 56-57; Erik Reinert 2007: 24). Paul Krugman claims that "the growth of manufacturing—and of the penumbra of other jobs that the new export sector creates—has a ripple effect throughout the economy" that is a "big improvement over the 'previous, less visible rural poverty'" (Krugman 1997). Even Jeffrey Sachs, a strong foreign aid advocate, recognizes that manufacturing is "the first rung on the ladder out of extreme poverty," as "virtually every poor country that has developed successfully has gone through these first stages of industrialization" (Sachs 2005: 11-12). Not only do many contemporary economists recognize the importance of manufacturing, historical figures and economists since the 1500s, such as

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industrial and manufacturing revolutions. This idea is keeping in line with historical trends and may be following the environmental Kuznet curve. Nonetheless, increased industrialization may increase pollution in developing countries without the environmental regulations or resources to combat environmental degradation. The pollution haven hypothesis posits that factories will set up in the countries where labor and resources are cheapest, which often comes at the cost of environmentally sound practices (Levinson). I do not have a robust reply to this objection, except to say that it seems preferable to struggle with pollution and climate change than to struggle with extreme poverty.

<sup>16</sup> Recall that in 2011, only 17% of the world's population were still living on less than \$1.25 a day (World Bank 2014).

Henry VII, Friedrich List, Antonio Serra, Philipp von Hörnigk, Alexander Hamilton, and Abraham Lincoln have also recognized manufacturing as a means for countries to become rich (Reinert 2007).

Such strong and respected support for manufacturing sounds reputable, but these pronouncements are coming from wealthy economists that benefit from cheap-labor manufacturing and never experience the work conditions or paltry pay of manufacturing work. Many in the international community deplore manufacturing in the poorest countries. They call manufacturing plants 'sweatshops,' boycott companies that use so-called sweatshop labor, and campaign for better working standards and higher wages. Are they not justly worried that manufacturing is exploiting the poor? Perhaps, but there are very few better alternatives available to the world's poorest and manufacturing does not make the poor any worse off in the long run. In fact, it seems that an increase in manufacturing is often the best thing that can happen to the poor.

Manufacturing and industrialization are so important for the poor in the developing world because they provide stable jobs and above-average pay, relative to the specific country. While many factories have deplorable conditions and the wages may not seem fair, one has to assess the situation relatively. In the case of the world's poorest, it is either these factory jobs or scavenging through refuse barefoot (Krugman 1997; Kristof 2009), or prostitution (Skarbek et al. 2012: 541), or leaving one's country to work thousands of miles away from family and friends (Manfred 2014), or relying on capricious weather for a year's pay (Banerjee and Duflo 2011: 135). The stability of factory work is something that the poorest themselves view as desirable. In their research, MIT economists Esther Duflo and Abhijit Banerjee have found that the poor's most commonly desired ambition for their children is a government job. This ambition reflects a

desire for stability, as government jobs "tend to be very secure" and relatively well paid (Ibid: 227). The poor are right to desire these jobs, for "in fact, stability of employment appears to be the one thing that distinguishes the middle classes from the poor" in the poorest nations (Ibid). Unfortunately, government jobs are hard to procure and so many of the world's poorest are self-employed in subsistence farming, street vending, and other informal sector work.<sup>17</sup> Factories can fill this "stability" gap.

Working in one of these factories can be much better than self-employment because of the stability but also because of higher wages. Benjamin Powell and David Skarbek have shown in a study of ten countries<sup>18</sup> that sweatshop "workers are better off than most people in their countries" (Powell and Skarbek 2004: 9). Although they could not account for the informal sector, which typically has the lowest wages, "average apparel industry wages [still] equal[ed] or exceed[ed] average income per worker in 8 of 10 countries" (Ibid: 8) Furthermore, as manufacturing grows, manufacturing's increasing returns to scale and high productivity growth raises wages throughout the economy, regardless of sector (Reinert 2007: 144-145; Chang 2010: 99). Wages do not tell the full story though: manufacturing work carries significant non-monetary benefits unaccounted for by Powell and Skarbek's data. Subjects of Skarbeck et. al.'s additional research in El Salvador overwhelmingly reported improvements in working conditions, location, benefits, and schedule compared to previous work (Skarbek et al. 2012: 548). And unlike informal work, sweatshop workers also have the possibility of experiencing wage increases and improvements to working conditions as the sweatshops increase standards in response to economic growth. More skilled work may become available as well. Increasing

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17 Informal sector work is unregulated work typically in agriculture, street vending, and family businesses. See Kenny 2013 for a description of and statistics about informal sector work.

18 Bangladesh, China, Costa Rica, Dominican Republic, El Salvador, Haiti, Honduras, Indonesia, Nicaragua, and Vietnam (Powell and Skarbek 2004).

standards has actually become a problem in China: Chinese working standards have risen so high that some manufacturers cannot afford to disburse any more benefits and so are moving to countries with cheaper labor. This transition reflects a similar trend that the wealthiest nations have all taken: industrialization ends and employment in manufacturing declines as the economy expands into more service sector employment. As long as China can find other economic drivers, this transition will represent a milestone, not a setback.

### *Historical Precedent*

Just as we evaluated current studies on manufacturing and sweatshop labor to confirm the opinions of economists about manufacturing's benefits to the poor, so too can we look back throughout history for examples of manufacturing as a necessary condition of economic growth and a means of poverty alleviation. The modern economy, built on industrialization, manufacturing, and export-led economies, began in 1485 with the rise of Henry VII in England. Henry VII initiated strict policies in order to transform England from an exporter of raw materials into a manufacturer and exporter of textiles (Reinert 2007: 80). This started England on a path of growth that has continued to this day. England was the first European nation to make a concerted effort towards manufacturing, and because of this effort, they led the continent (and the world) economically for hundreds of years. While other policies and factors contributed to England's great successes, the catalyst and driving factor remained manufacturing.<sup>19</sup> Soon after England's foray into manufacturing, other European nations soon began emulating England by adopting policies that emphasized manufacturing. Venice and Holland were the quickest to rise to prominence. As they had little arable land or natural resources, these city-states could only

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<sup>19</sup> Which eventually led to the rise of the United Kingdom's post-industrial service industry that dominates their economy now.

progress by importing raw materials and "harnessing the increasing returns to scale offered by manufacturing activities" (Reinert 2007: 7). They rose to power using the same policies as England, but their unique geographic conditions show that manufacturing is key to economic growth.

Likewise, the United States of America from the very beginning stressed manufacturing and industrialization. When Alexander Hamilton, the first Secretary of the Treasury, created policies for the nascent nation, he used policies very similar to Henry VII and Friedrich List,<sup>20</sup> and heeded Adam Smith's observation that "only manufacturing nations win wars" (Reinert 2007: 25). The United States continued to "protect [and cultivate] their manufacturing industry for close to 150 years" as it grew into a world superpower and transitioned into post-industrial employment (Ibid).

In recent times, South Korea has gone from one of the poorest nations in the world in the 1950s to the 13th largest economy in 2013 (CIA 2014). Between 1945 and 1953 Korea became a case study for a failing, aid-dependent state.<sup>21</sup> At this time, foreign aid comprised most of their government budget. Industry growth was not steady, due to the debilitating liberation from Japan's rule and the subsequent civil war (which led to the split from North Korea). The US tried to control the sinking economy with price controls, rationing, and food aid, but these interventions were unsuccessful. Shortly after the war and the reconstruction, South Korea began to grow its economy rapidly as money was channeled into industry and other important areas like education and infrastructure. Over the next 60 years, various political leaders and economic policies changed, but investment in industry and focus on a strong manufacturing base remained

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20 "The theories of German economist Friedrich List . . . were the main inspiration for the European nations that followed England's policies and path to industrialization" (Reinert 2007: 81).

21 Much of the information in this section on South Korea comes from a National Bureau of Economic Research volume titled "Foreign Trade Regimes and Economic Development: South Korea" (Frank et al. 1975).



constant. This focus on manufacturing opened the economy to foreign investment and economic growth, spurring a massive increase in social welfare. Over the last 60 years, similar commitment to manufacturing and industrialization has radically improved GDP and social conditions in China, India, Taiwan, Singapore, Thailand, and Hong Kong as well, countries with varying political and economic institutions.<sup>22</sup> These countries exhibit the fact that not only can nations still grow rapidly from an emphasis on manufacturing, they can grow faster than ever before because of easy access to advanced technologies, markets, and ideas from developed nations—what is called the advantage of backwardness. So after all this time, from 15th century England to modern day South Korea, manufacturing remains key.

### *Conditions and Objections*

Despite all the emphasis on increased manufacturing and the increased consumption of disposable luxury goods, more consumption does not imply fiscal irresponsibility or eschewing investment. Care should be taken to invest and save enough, so that the individual, and society, can continue to sustainably consume at the current or higher rate in the future, thereby continuing support of the poor through manufacturing and international trade. Poverty is likely to continue to be a problem for some time, and even when extreme poverty is eliminated, there may remain compelling reasons to continue high levels of consumption (such as raising everyone to a certain standard of wealth). Until being poor becomes a choice and not merely a condition of where one is born, our obligation to help the poor through consuming more disposable luxury goods remains strong.

But what about disasters, emergencies, and outbreaks of disease? Increased

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<sup>22</sup> Though they all seem to ignore recommendations from the Washington Consensus and IMF.

manufacturing and its concurrent economic gains will certainly better equip nations for disasters, emergencies, and outbreaks of disease, but until all countries escape extreme poverty, short-term humanitarian aid will still be the better option in response to disasters. Short-term humanitarian aid might actually be a fixed aspect of our moral obligations to prevent bad things from happening, as even developed nations like America benefit from assistance during disasters such as hurricane Katrina. Therefore, short-term humanitarian aid should be prioritized over consumption, but short-term humanitarian aid by no means precludes or replaces consumption. Required funds for humanitarian relief are modest and should not have a large effect on the individual's consumption. For example, United Nations Humanitarian Chief Valerie Amos requested only \$12.9 billion for the seventeen known humanitarian disasters in 2013 (UNOCHA 2013). In 2012, all private aid contributions totaled about \$59 billion (Hudson Institute 2013). So the estimated \$12.9 billion could easily be fulfilled by current private aid expenditure with ample money left over for consumption instead of donations to ineffective long-term humanitarian and development aid.

This solution will not be a quick, universal upending of global poverty. Increased consumption of disposable luxury goods is not a panacea for global poverty. Rather, increased consumption of disposable luxury goods provides what I, and many economists, regard as an essential factor in economic growth: manufacturing. There are, in fact, many other factors that contribute to the wealth of nations. I focus on manufacturing because it appears to be essential but more importantly because it is a factor that the individual can affect through spending habits. Other factors leading to a nation's prosperity seem to be largely out of an individual's control. For example, the foreign investment typically necessary for manufacturing requires some kind of political and economic stability. So unstable nations such as Nepal and Somalia are unlikely to

directly benefit from an increase in the consumption of luxury goods. However, if history is any guide, stable countries with increased manufacturing and economic growth will provide enticing incentives for unstable or struggling nations to change—either for the government to maintain power or for the people to revolt in hopes of experiencing the prosperity of their neighbors.<sup>23</sup> Such government-led change happened during "South Korea's industrialization in the 1960s, and China's industrialization in the 1980s" (Sachs 2012: 143). Both of these countries had an authoritarian government that was struggling to maintain itself; their adoption of market- and manufacturing-friendly initiatives served to recoup some stability.

The shortcomings of consuming more disposable luxury goods may also be met by open immigration as mentioned earlier. If there are no barriers for oppressed peoples to re-establish lives in foreign states, perhaps all failing states except those most isolated would crumble due to mass emigration. In spite of these potential shortcomings of the consumption approach, the call for more consumption of luxury goods will, at the very least, not cause more harm—which is more than what can be said for foreign aid.

## **5: Conclusion**

The first step in fulfilling Singer's obligation to prevent bad things from happening is to do no harm. We saw that foreign aid can and does cause harm by creating dependencies, supporting dictators, even incentivizing unemployment and spending frivolously. In contrast, increased consumption of luxury goods adds no harm to the poor. Concerns about exploitation of workers and the reinforcement of inequalities are understandable, but in fact, the increased

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<sup>23</sup> In fact, this is precisely what has prompted many countries to emulate England ever since the 1500's when England became the first nation to capitalize on manufacturing as the key to economic growth. For more on England's development policies and the nations that emulated England, see chapter two and three of Reinert 2007.

manufacturing from consumption actually makes the poor better off through stability, higher wages, and improved working conditions. The second step in preventing bad things from happening is to make positive progress towards eliminating the cause of most suffering: poverty. Foreign aid may be able to alleviate poverty in specific situations, but there are no universal answers for aid—what works in Mozambique often has little effect in Indonesia. More often than not, aid seems to have no relation to a country's growth.<sup>24</sup> Manufacturing, however, has a strong historical precedent of raising the poor out of poverty, such that nearly every country that is now wealthy has become so through a growing manufacturing sector (Reinert 2007: 24; Kaldor 1996: 56-57).<sup>25</sup> Once these countries escape poverty, feeding the starving, caring for the sickly, addressing disasters, and other social services become easier and easier for the people and country to provide for themselves. Empowering the global poor prevents much more needless suffering and death in the long-run than does foreign aid. If we are to take seriously Singer's argument, the course of action that seems to best fulfill our obligation to prevent bad things from happening to the global poor is increased consumption of disposable luxury goods.

Increased consumption is appealing because of these advantages over foreign aid but also because it is easy to accomplish. Most people reading this paper or living in the developed world have the means to consume more luxury goods. And not only will they be attaining more goods and raising their level of happiness, they will also be fulfilling their moral obligation to prevent bad things from happening to the global poor and accelerating the eradication of poverty.

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24 Sometimes the correlation is even negative, as with Africa over the last fifty years where "growth *decreased* steadily while aid *increased* steadily" (Deaton 2013: 285).

25 The only exception that I have found, other than small island nations, is New Zealand, which developed through an agricultural sector that to this day comprises more than 60% of New Zealand's economy.

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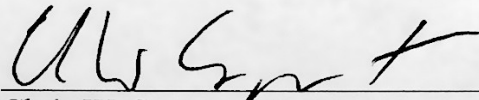
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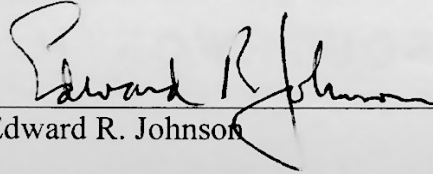
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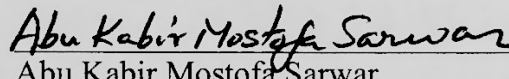
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