American Enterprise Institute for Public Policy Research

No. 2 • August 2007

Development Policy Outlook

The Triumph of Hope over Experience: A Marshall Plan for Sub-Saharan Africa?

By Deepak Lal and Sarath Rajapatirana

In the fifty years since gaining independence, sub-Saharan Africa has remained the poorest, most troubled, and most tragic region in the world. Its problems range from famine to the devastating diseases of malaria and tuberculosis and the scourge of HIV/AIDS. Former British prime minister Tony Blair called Africa's predicament "a scar on the conscience of the world."[1] It is therefore unsurprising that many leaders and activists have called for large amounts of new foreign aid for the region. Some argue that Africa[2] needs something like the Marshall Plan that helped Western Europe recover after World War II. But is the analogy apt?

Prior to World War II, the nations of Western Europe were among the most advanced in the world. The region had mature market economies, advanced infrastructure, and institutions of law and order. Until the emergence of Hitler and Mussolini, most of the nations were parliamentary democracies with well-established property rights.

But the war damaged Europe's infrastructure, industry, and agriculture. Food, fuel, and fertilizer were needed to deal with immediate shortages. One observer argued that "the economy teetered on the brink of disaster," with stagnating production, pervasive shortages, and runaway inflation.[3]

Sixty years ago this summer, on June 5, 1947, Secretary of State George Marshall, delivering the commencement address at Harvard University, outlined a U.S. response that became known as the Marshall Plan (MP).[4] The purpose of the plan was straightforward: to help Western Europe recover and rebuild after World War II.

No details or sums of money were mentioned by Marshall in his speech. The Economic Cooperation Act that President Harry S. Truman signed into law to implement Marshall's vision was designed as a temporary enterprise—"four to five years," in Marshall's words—to restore what had been previously achieved. There was no mention of the development of Western Europe, since it was already one of the most developed regions in the world. Reconstruction in Europe consisted of rebuilding and adding on to existing infrastructure and resurrecting some institutions that had decayed during the war. Some new institutions, such as the European Coal and Steel Community and the European Payments Union, were also created, but they were not planned at the MP's inception.

The Europeans were to create their own reconstruction plan and the United States would fund it. The job of the Economic Cooperation Administration (ECA)—the agency formed to administer the MP—was to boost Europe's economy, promote production, restore the currency, and facilitate international trade, especially with the United States.

The sixteen countries shown in table 1 on the next page were recipients of MP aid. The United Kingdom, France, and West Germany received the largest amounts. Together they received $13.2 billion ($103 billion in 2006 dollars). No country received funds that exceeded 2.5 percent of its GDP.

Deepak Lal (dlal@econ.ucla.edu) is the James S. Coleman Professor of International Development at the University of California, Los Angeles. Sarath Rajapatirana (sr@aei.org) is a visiting fellow at AEI.

Table 1: Marshall Plan Aid, 1948–51

Country	Funds Received (in millions of dollars)
Austria	488
Belgium and Luxembourg	777
Denmark	385
France	2,296
Greece	366
Iceland	43
Ireland	133
Italy and Trieste	1,204
Netherlands	1,128
Norway	372
Portugal	70
Sweden	347
Switzerland	250
Turkey	137
United Kingdom	3,297
West Germany	1,448

SOURCE: Martin A. Schain, ed., *The Marshall Plan: Fifty Years After* (New York: Palgrave, 2001), 120.

The Private Sector's Key Role

Even though the funds were provided by the U.S. government and disbursed by the recipient national governments, the decisions on where and how to use the funds were in the hands of the private sector. Earlier accounts of the Marshall Plan have neglected this important aspect of the plan.

The initiatives to use the funds came from private agents who applied to their national governments for the funds. The application was considered by the national government in consultation with the ECA, which made sure that the funds were for the purposes defined in the European Cooperation Act. The loans were processed by private banks that received deposits in local currencies set aside in special accounts for the importers and equal to the value of the goods imported. The three parties involved in the transactions were the European private importer, the U.S. private exporter, and the privately owned bank, which was the financial intermediary. After the emergency grants of food and coal were made, the rest of the aid took the form of loans to be repaid with interest and agreed-upon repayment schedules. Each national government lent part of its received funds to private industries using private banks.[5] The assistant secretary of commerce wrote that "most of the goods sent to Europe will be ordered directly from private business firms in the United States by importers in Europe. This way, the sinews and nerves of the intricate trading organisms will grow stronger with use."[6]

The MP was a flexible, mostly nonbureaucratic arrangement "owned" by the Europeans with a significant role for the private sector. It did not create a permanent bureaucracy, nor were the funds large. What "conditionality" the MP had related to maintaining price and exchange-rate stability. The MP was pro-market—a sentiment that ran counter to the views of many leading contemporary European intellectuals captivated by socialist propaganda. The MP created an environment in which markets would work well and property rights would become secure again. The funds alone did not make the difference in Europe's reconstruction.

Aid to Africa

In contrast to the success of the MP, aid to Africa over the fifty years since its independence has been a failure. As aid has increased, African economic performance has declined (see figure 1 on the next page). Many African countries have lower per-capita incomes today than they had in the 1960s.

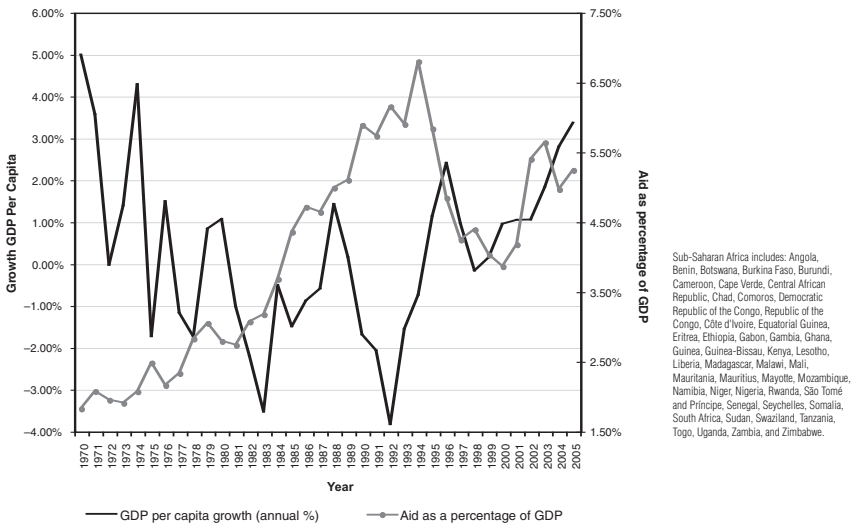
Official aid to Africa in the past twenty-four years was over $715 billion in current dollars. Aid disbursed over the past fifty years is closer to $830 billion.[7] Africa has received more aid than any other region in the world in the last fifty years, but it remains the poorest region in the world.

When the original aid programs were launched, African countries were among the poor countries of the world, but they were not necessarily the poorest. In fact, some countries in Africa had higher per-capita GDPs than current economic powerhouses like South Korea, Taiwan, and India. African countries are among the most well-endowed in the world. The continent has the largest oil resources in the world after the Middle East. It has abundant mineral resources, including bauxite and diamonds, and enormous land resources. These natural endowments attracted colonial powers during the scramble for Africa in the 1880s.

Weak political systems and corruption took their toll on Africa (see table 2 on page 4). Most African countries became independent in the early 1960s. All of them were potential democracies. Within a generation, however, most fell to authoritarian rule. Property rights suffered the same fate.

Ethnic fractionalization and corrupt rule have led to almost constant civil and regional wars in Africa. By 1998, a third of sub-Saharan Africa's forty-eight countries were involved in civil wars. By 1989, the region had 4 million officially recognized refugees and another 12 million people displaced in their own countries as a result of these

Figure 1: Foreign Aid and GDP Growth in Sub-Saharan Africa



SOURCE: World Bank, *World Development Indicators Online*, 2006, available at www.worldbank.org/data/onlinedatabases/.

wars. Per-capita income on the continent has stagnated and in some cases fallen below pre-independence levels.

Changing Rationale for Aid

Aid to Africa has followed the prevailing winds in development economics. The design of programs followed the popular conceptual frameworks of the times, from "poverty traps" to "big pushes" that could lead to "take-offs into self sustained growth." These concepts are theoretically weak and empirically unfounded. The projects and programs went through many cycles and forms as the donor community kept changing its view as to what should be financed and how it should be done. Consequently, there was little ownership of borrowing by African countries.

Prior to the 1980s, the development paradigms did not put much emphasis on market reforms like establishing open trade, welcoming private sector initiatives, and guaranteeing property rights. Even after the 1980s, when there were attempts by the multilateral banks—especially the World Bank—to do so, market reforms were not taken very seriously in Africa. Both sides seem to have paid lip service to them, but there was no actual shrinking of the public sector or movement toward open trading policies and price-based allocation of resources. This stands in contrast to Western Europe after the MP, where there was a clear movement toward market reforms, even though its speed and intensity differed by country.

Aid to Africa has been the largest for any region (see table 3 on page 5). It averaged 6.3 percent of GDP for all of Africa, but if South Africa and Nigeria (a large oil producer) were excluded, this proportion would double. This is in contrast to aid to Asia and Latin America. But even more important is the fact that these funds were largely given to the public sector, which often misappropriates aid. Foreign aid amounted to some 60–70 percent of government budgets between 1985 and 2005.[8] Public investment had low or negative returns, economic growth was low or negative, and debt repayment problems mounted. In addition, aid to Africa kept governments in power that ignored the general welfare of their populations and helped perpetuate poverty.

Comparison of the Marshall Plan and Aid to Africa

Politicians have long invoked the MP as a rhetorical device, clamoring for Marshall Plans in the Caribbean, East Asia, Egypt, and even in the Gulf Coast after Hurricane Katrina. British prime minister Gordon Brown has taken up the banner, calling during his chancellorship for a Marshall Plan for Africa.[9] Prominent figures such as Bill Gates, Bono, and economist Jeffrey Sachs have likewise swelled the ranks. Unlike past advocates, however, many of these new Marshall Plan proponents use the phrase literally and call for vast increases in aid.

It should be clear from the above that the European Marshall Plan and post-independence aid to Africa were responses to entirely different situations, so drawing parallels between the two is not justified. Some fifty years of accumulated experience about outcomes for Western Europe and Africa informs the contrast. Comparing the two ventures, the following factors stand out:

Initial Conditions. The initial conditions differed markedly between the two regions. Western Europe was a highly developed region with a well-endowed human resource base and strong political and legal institutions.

Table 2: Corruption in Africa: Governance Ratings Over Time

Country	Year Gained Independence from Colonial Power	World Bank Aggregate Governance Ratings, 2004[a]	Transparency International Corruption Perceptions Ratings, 2006[b]
Angola	1975	Very Bad	Very Bad
Benin	1960	Below Average	Very Bad
Botswana	1966	Good	Average
Burkina Faso	1960	Below Average	Bad
Burundi	1962	Very Bad	Very Bad
Cameroon	1961	Bad	Very Bad
Cape Verde	1975	Average	N/A
Central African Republic	1960	Very Bad	Very Bad
Chad	1960	Very Bad	Very Bad
Comoros	1975	Bad	N/A
Republic of the Congo	1960	Very Bad	Very Bad
Democratic Republic of the Congo	1960	Very Bad	Very Bad
Côte d'Ivoire	1960	Very Bad	N/A
Equatorial Guinea	1968	Very Bad	Very Bad
Eritrea	1991	Bad	Bad
Ethiopia	N/A	Very Bad	Very Bad
Gabon	1960	Below Average	Bad
Gambia	1965	Below Average	Very Bad
Ghana	1957	Below Average	Bad
Guinea	1958	Bad	Very Bad
Guinea-Bissau	1974	Bad	N/A
Kenya	1963	Bad	Very Bad
Lesotho	1966	Below Average	Bad
Liberia	N/A	Very Bad	N/A
Madagascar	1960	Below Average	Bad
Malawi	1964	Bad	Bad
Mali	1960	Below Average	Bad
Mauritania	1960	Below Average	Bad
Mauritius	1968	Good	Average
Mozambique	1975	Below Average	Bad
Namibia	1990	Average	Below Average
Niger	1960	Bad	Very Bad
Nigeria	1960	Very Bad	Very Bad
Rwanda	1962	Bad	Very Bad
São Tomé and Príncipe	1975	Below Average	N/A
Senegal	1960	Below Average	Bad
Seychelles	1976	Below Average	Bad
Sierra Leone	1961	Bad	Very Bad
Somalia	1960	Very Bad	N/A
South Africa	1961	Average	Below Average
Sudan	1956	Very Bad	Very Bad
Swaziland	1968	Bad	Very Bad
Tanzania	1964	Below Average	Bad
Togo	1960	Bad	Very Bad
Uganda	1962	Bad	Bad
Zambia	1964	Bad	Bad
Zimbabwe	1980	Very Bad	Very Bad

SOURCES: Central Intelligence Agency, *The World Factbook* (Washington, DC: CIA, 2007), available at www.cia.gov/library/publications/the-world-factbook/; World Bank, *Worldwide Governance Indicators: 1996–2006, 2007*, available at www.govindicators.org; and Transparency International, *Corruption Perceptions Index*, 2006, available at www.transparency.org/policy_research/surveys_indices/cpi.

a. The latest available year is 2004. In the World Bank Aggregate Governance Indicators, 0 is the mean score. Countries with scores from .5 to .99 are categorized as "good," 0 to .49 as "average," –0.50 to –0.01 as "below average," –1.00 to –0.51 as "bad," and less than –1.00 as "very bad."

b. In the Transparency International *Corruption Perceptions Index*, countries are rated on a scale of 1 to 10. The lowest score of any country in 2006 was 1.8. Countries with scores of 5.01 and above are categorized as "average," 3.77 to 5.00 as "below average," 2.53 to 3.76 as "bad," and 1.80 to 2.52 as "very bad."

Table 3: Comparison of Aid with Economic Indicators across Developing Regions, 2005

	Aid as a Percentage of National Income	Aid Per Capita	Aid as a Percentage of Capital Formation	Aid as a Percentage of Imports
Sub-Saharan Africa	5.54	43.90	27.35	13.41
South Asia	0.92	6.30	2.96	3.78[a]
Latin America & Caribbean	0.26	11.45	1.21	0.91

SOURCE: World Bank, *World Development Indicators 2006* (Washington, DC: World Bank, 2006), available at www.worldbank.org/data/wdi.
a. Figure is an estimate.

In Africa, when the colonial regimes departed, systems protecting property rights were either abandoned or emasculated by new African rulers. This was true virtually everywhere, from Angola to Zambia. Yet donors to Africa did not take into account political and institutional factors, presuming rather that foreign aid—particularly from multilateral financial institutions—was "neutral" with respect to the type of political system in place. In addition, very little institutional reform was attempted in African lending. Most bilateral lending was influenced by Cold War rivalries and by competition to enlarge spheres of influence rather than to support economic performance.

Different Purposes. The purposes of the MP and the lending to Africa are different: the former was for reconstruction, and the latter is for development. History shows that development is more challenging. Compared to Africa, many countries—such as those of East Asia—have had excellent records of development since the mid-1960s.

Premised on Different Concepts. The MP was not premised on "poverty traps," "big pushes," "filling financial gaps," "take-offs," or other questionable conceptual artifacts. Aid to Africa has been premised on these concepts and, what is more, they are being revived now to justify the quadrupling of lending to Africa. These concepts were flawed when they were first used in the 1950s, and they are even more flawed now.

Underwriting Peace and Democracy. The MP underwrote the movement toward continued peace and democracy in Europe by providing aid to West Germany and Italy and keeping the Communist East at bay. The MP's administrators did not let the French extract large amounts of compensation from the vanquished Axis powers as it had done after World War I. In this respect, the MP also ensured peace. In contrast, foreign aid to Africa was not designed to support democracy or keep peace. If anything, a large number of dictatorships were kept in power with aid. Aid also failed to prevent civil and ethnic wars from breaking out in Africa. Given the fungibility of money, African lending may have actually helped sustain conflict by enabling these governments to buy arms.

Closed- versus Open-Ended Programs. The MP was time-limited, operating for a mere three years from its first disbursement in 1948 to full disbursement in 1951. Conversely, lending to Africa has been open-ended, continuing for nearly fifty years. Nor did the MP create aid bureaucracies, as those created for Africa have perpetuated aid.

Policy Frameworks. The MP helped Western Europe restore capitalist economic organizations in war-mobilized Germany and Italy. The MP moved Western Europe toward liberal economic policies in trade, payments, and regulatory regimes, and away from the protectionism and statism of the 1930s. Many of the transfers made to Western Europe under the MP helped private agriculture and industry.

In contrast, lending to Africa had to be conditioned by government guarantees. Thus, African lending enlarged the public sectors of African economies. Moreover, lending to Africa, particularly structural adjustment loans, did not support as much reform as claimed. This was because loans were given for the same reforms over and over again, governments did not meet the conditions of loan agreements, large aid inflows created macroeconomic problems in African countries similar to those in oil-exporting Nigeria, and the loans did not produce the desired results—that is, they neither raised rates of return nor increased domestic savings rates.

Private-Sector Role. The roles of the private and public sectors were markedly different under the MP and lending to Africa. Analysts who want to draw a parallel between the MP and aid to Africa have failed to recognize the part played by the private sector in the reconstruction of Europe. Although public funding was involved, the private

sector determined most activities under the MP program. In stark contrast, the public sector has driven most foreign aid to Africa.

Ownership of Aid Programs. The MP was intended to be a European program and was therefore designed, implemented, and monitored by European policymakers. When asked, U.S. personnel provided advice from the sidelines, but Europe ran the program. The opposite is the case in Africa. Aid there has been led, designed, and determined by donors. African policymakers, at least in the beginning, accepted the design and advice partly because they did not have the manpower and skill to use the aid themselves and partly because these non-democratic governments were more interested in having the funds than showing results.

The Leadership Factor. Under the MP, donors had a limited role: provide the money and monitor payments from the counterpart funds unobtrusively. Automobile executive Paul Hoffman administered the ECA with the assistance of well-known academics like Charles P. Kindleberger, Walter Heller, and Walt Rostow. They were not career aid officials; Congress had insisted on an independent body to administer the MP on the U.S. side. They did not orchestrate the European program. Europe had capable leaders of its own, including Maurice Schumann in France, Ludwig Erhard in Germany, and Luigi Einaudi in Italy. But in Africa, foreign donors played the dominant role.

Lender and Borrower Incentives. MP and African lending operated under different incentives for both borrowers and lenders. Lending under the MP led donor and recipient interests and incentives to converge. Donors provided what the recipients needed, and incentives were aligned to balance demand and supply. By contrast, aid to Africa was mostly decided by donors and bureaucracies that perpetuated existing arrangements. Officials who made large loans in Africa were rewarded, so they had an incentive to escalate rather than diminish their lending. On the recipient side, beneficiaries did not expect to be held accountable for the funds, so they had little incentive to use the money effectively. In fact, much of the money transferred under aid disappeared from its intended recipient countries. Paul Collier has indicated that 40 percent of African wealth is held abroad.[10] Former Nigerian president Sani Abacha, for example, held up to $5 billion abroad as part of his private savings.[11]

It should not be surprising, then, that the outcomes of the MP and aid to Africa have differed significantly. The MP helped launch sustained growth in Western Europe, such that it remained above pre-war levels for two decades. Africa saw an entirely different outcome. As foreign aid increased, economic growth rates declined. Foreign aid did not lead to new investment, and investment did not lead to growth. Meanwhile, poverty increased, and social indicators remained dismal.

A Look to the Future

The MP did not operate the way some present-day advocates for Marshall Plans contend it did. The sums of money were not what mattered. It was rather a combination of supporting institutions, credible reforms, and movement toward democracy that allowed Europe to live in peace.

The advocates of a MP for Africa, on the other hand, emphasize the money. For example, at Gleneagles, Scotland, in July 2005, leaders of the G8 countries agreed to raise development assistance to Africa by $25 billion by 2010 and by another $25 billion by 2015. These amounts are over and above the present level of aid transfers to Africa, which is around $25 billion a year. Additionally, in early 2005, the European Union (EU) supported the call for countries to earmark 0.7 percent of EU GDP—$250 billion—for aid. Of this amount, half would go to the forty-eight countries in Africa.[12] If all this aid were actually given, it would amount to the staggering sum of $625 billion over and above what Africa has received in the last decade. The difficulty of using this amount of aid without feeding more corruption—creating macroeconomic problems relating to the absorption of the resources—cannot be met with rehashed 1950s theories of aid. These problems require a different approach from that put forward by MP enthusiasts.

While some leaders and analysts such as Brown and Sachs make claims to the contrary, there is little evidence that Africa has improved in any significant way in terms of economic management, institutional arrangements, or implementation and monitoring frameworks. There have been some improvements, to be sure. In the last ten years, two-thirds of African countries have had multiparty elections, previously a rarity in the region. But Africa still has the lowest score of any region in the Freedom House index for civil liberties.[13] Growth has recovered in a third of the countries in the past five years, mostly due to the recovery of commodity prices. But these are subject to cyclical fluctuations and do not guarantee long-term

growth. Without fundamental policy reforms and improvements in the institutional structures for assuring property rights that give the private sector more confidence to save and invest, African economic performance will remain low compared to that of other regions.

The proposed New Partnership for African Development (NEPAD) and its monitoring arm, the African Peer Review Mechanism (APRM), are good first steps toward policy reform and restructuring institutions to bring about greater economic freedom.[14] Experience to date with the NEPAD and APRM, however, is at best modest. They also suffer from the grand-plan approach and poor ideas from the past, such as greater support for regional trade when there is little scope for it, ambiguity regarding private foreign capital, and limited transparency in monitoring each other's performance.[15] In addition, the Africa Commission report (prepared mostly by African intellectuals and politicians under the leadership of Blair and Brown), argues for increasing foreign aid, rather than reducing dependence on it.[16] The Africa Commission report was the main document cited for the promise of increased aid at Gleneagles.

Instead of assuaging their collective guilt by transferring their taxpayers' money into aid programs, rich nations should keep markets for African goods open, allow foreign capital to flow freely, and let Africans find their own route to development. For too long Africa has been a theater for Western ideologues' pet panaceas, with disastrous consequences for long-suffering Africans. It is not as if Africa cannot develop: Botswana[17] and Lesotho,[18] to name two countries, show that Africa can produce spectacular growth.

The main lesson of the past is that aid should be modest, tailored to different countries' circumstances, and fully owned by the countries themselves. It is not enough to adopt the rhetoric and solutions of grand plans from the past. To do otherwise would be to subject Africa to even greater disappointment than before.

AEI resident fellow Mauro De Lorenzo is editor of the Development Policy Outlook *series. AEI editorial assistant Evan Sparks worked with Messrs. De Lorenzo, Lal, and Rajapatirana to edit this* Outlook.

Notes

1. Tony Blair, "Let Us Re-Order This World around Us" (speech, Labour Party Conference, Brighton, England, October 2, 2001).

2. For this article's purposes, "Africa" means the forty-eight countries of sub-Saharan Africa.

3. Barry Eichengreen, ed., *Europe's Post-War Recovery* (Cambridge: Cambridge University Press, 1996).

4. George Marshall, "The Marshall Plan" (commencement address, Harvard University, Cambridge, MA, June 5, 1948), available at http://usinfo.state.gov/usa/infousa/facts/democrac/57.htm (accessed July 27, 2007).

5. Thomas C. Blaisdell Jr., "The Foreign Aid Program and United States Commercial Policy," *Proceedings of the Academy of Political Science* 23, no. 4 (January 1950): 53–63.

6. Thomas C. Blaisdell Jr., "The European Recovery Program—Phase Two," *International Organization* 2, no. 3 (September 1948): 443–54.

7. $76.3 billion (in current dollars) was disbursed in 1960–79, $715.9 billion in 1980–2004, and $40 billion in recent debt forgiveness, reaching a sum of $832.2 billion. World Bank, *World Development Indicators 2006* (Washington, DC: World Bank, 2006), available at www.worldbank.org/data/wdi (accessed July 27, 2007).

8. Ibid.

9. Gordon Brown, "Words into Action 2005" (speech, UK Department for International Development and UN Development Programme, London, January 26, 2005), available at www.hm-treasury.gov.uk/newsroom_and_speeches/press/2005/press_09_05.cfm (accessed July 27, 2007).

10. Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It* (Oxford: Oxford University Press, 2007).

11. Transparency International, *Global Corruption Report 2007* (Cambridge: Cambridge University Press, 2007). See also David Blair, "£220bn Stolen by Nigeria's Corrupt Leaders," *Daily Telegraph* (London), June 26, 2005.

12. Adam Lerrick, "The Debt of the Poorest Nations: A Gold Mine for Development Aid," *International Economics Report* (June 2005), available at www.aei.org/publication22640/.

13. Freedom House, *Freedom in the World*, (Washington, DC: Freedom House, 2007), available through www.freedomhouse.org/template.cfm?page=15 (accessed July 27, 2007).

14. Richard Ilorah, "NEPAD: The Need and Obstacles," *African Development Review* 16, no. 2 (September 2004).

15. This is clearly demonstrated by African leaders' reluctance to censure Zimbabwean president Robert Mugabe, who has brought his country to ruin and sullied Africa's image. Mugabe was so emboldened by the public silence of African leaders at the March 2007 Southern African Development Community summit that he plans to run for reelection in 2008.

16. Commission for Africa, *Our Common Interest: An Argument* (London: Penguin, 2005).

17. Daron Acemoglu, Simon Johnson, and James Alan Robinson, "An African Success Story: Botswana" (discussion paper, Centre for Economic Policy Research, London, July 11, 2001).

18. Mats Lundahl, ed., *From Crisis to Growth in Africa?* (London: Routledge, 2001).

#22036