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CORPORATION**  
REDUCING POVERTY THROUGH GROWTH

# Transcript

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## Millennium Challenge Corporation hosts a meeting to discuss “The Future of Foreign Aid”

### Speakers

Ambassador John J. Danilovich,  
CEO, Millennium Challenge Corporation

Peter Boettke  
Professor of Economics,  
George Mason University

Bill Easterly  
Professor,  
New York University

Frederic Sautet

### Remarks

BOETTKE: My name is Peter Boettke. I’m a professor of economics at George Mason University and research director for the Global Prosperity Initiative at George Mason’s Mercatus Center.

I want to welcome you to this event today. Keep getting your lunch and just settle in and do that.

I’m going to just introduce the events and then introduce the speakers and then get out of the way on this.

The George Mason University Mercatus Center is an economic and social policy research center that has been located at George Mason for over 25 years.

The main idea behind the center is to provide a bridge between the academic community and the public policy community here on Capitol Hill. The way I like to put it is that we believe in trying to forge a dialogue between the cutting edge of academic research in the social sciences and the pressing demands of public policy.

And I want to emphasize something about that as we talk about this topic today, which is the dialogue aspect. What the Mercatus Center is focused on is encouraging dialogue on these issues and bringing certain economic principals to bear in the conversation, not necessarily a debate.

The Mercatus Center, at least if you have been exposed to some of their events, they don't follow a kind of "got you" kind of approach to debate in public policy nor the blizzard of cost-benefit analysis which takes place in Washington, D.C., all the time.

Instead, it's trying to take principals of social science, as worked out at the cutting edge of the academy, and trying to bring that to bear on the dialogue within the community of policy-makers.

One of our main areas of research, in fact, the defining area of research for the group is social change and, in particular, the question of the reasons of why some countries are rich and other countries are poor and probably more importantly in that, why some countries who were poor became rich, New Zealand, from the 1980s to the 1990s, or, let's say, otherwise countries that were very rich that, in fact, became poor, Argentina at the beginning of the 20th century, the middle of the 20th century.

Those are kind of the understandings and mysteries that we're trying to grapple with.

Our first project in that kind of issues of development was, in fact, a project with USAID. USAID brought us in to be involved with a project on teaching institutions to economic development policy-makers. So we ran a series of forums with USAID and started sending Ph.D. students into the field to actually live and do sort of economic ethnographies of countries that were either in underdeveloped states or transitioned economies.

And that research has led to several publishable things in academia and also led to various different policy papers that people can access.

And then the MCC was formed and Mercatus was involved in writing public commentaries and being involved in the discussions at the beginning about what are the criteria that people use, what might be the ways to measure these different things, and this dialogue continues.

So it's a great honor for us, I think, Mercatus, speaking from the Mercatus side, to be partnered up with MCC in events such as this.

So the topic for today is the future of foreign aid and I'm going to get out of the way very quickly here. I'm not going to go through elaborate introductions of these people, but the three people that we have up here are extremely qualified to address this issue and forge this dialogue on this issue.

Ambassador Danilovich is the chief executive officer of the MCC. He has been in that position since 2005. He will speak first.

Then he will be followed by Professor Bill Easterly from New York University. Professor Easterly is either what you would call famous or infamous for his position on exploring the problems that have existed in foreign aid programs up to the moment and the way in which that debate has been discussed, and he continues his -- is the author of "The Elusive Quest for Growth" and then, more recently, "The White Man's Burden." He will speak second.

It's the other way around. I'm wrong. When professors are wrong, it causes no great difficulties in the world.

One of my favorite books, by the way, is a book called "Why Economists Are Not as Important as Garbage Men" and the thought experiment which starts it is what if all the economists went on strike in New York City, what would happen. Everyone's life would just go on. But if all the garbage men went on strike, what would happen? Well, hell would break loose and so, therefore, economists are not as important.

So we can get things wrong all the time. So sorry. It's like an old "Saturday Night Live" thing, right?

Anyway, we'll just say first, second and third. So I already introduced the ambassador and the professor and now I will point to our first speaker, which is Frederic Sautet, who is one of the leading researchers in entrepreneurship and has a background, also, working in New Zealand on the issues of competition policy and at the treasury at New Zealand, and now is a research fellow at the Mercatus Center, where he also edits our policy series at the Mercatus Center.

So I will turn it over to the speakers. So I imagine Bill Easterly is first, is that right? Then Frederic Sautet and then the ambassador.

So let's go and I will shut up.

EASTERLY: Thanks, Pete.

I first have to apologize that it so happens that just before coming here, I went to the dentist. One of my unusual hobbies is recreational dentistry and the dentist kind of got carried away with a dose of Novocain that is in my mouth. So I can barely talk, but hopefully the words will come through.

The alternative hypothesis is that what appears to be a glass of water there is really something else.

But we're here today to talk about what has unfortunately been a sad subject, the history of foreign aid.

It's really two big tragedies that surround that, the history of world poverty, of global poverty. The first tragedy is, of course, just the fact of global poverty itself, that there are millions of people out there, one billion people live in extreme poverty, three billion people live in absolute poverty measured by earning less than \$2 a day.

So literally half of our global population earns less than \$2 a day. That's certainly poverty, by any reasonable definition.

And the poverty is not just low GDP, but it also shows up in very real life, real life consequences, such as the parents are too poor to give their children medicine.

So when children are sick with malaria, parents are literally too poor to afford the \$0.12 doses of medication that would prevent a child from dying from malaria, or babies are sick with dehydration due to diarrheal diseases, like cholera, and parents are too poor to be able to access or the governments are too poor to be able to deliver the doses of oral rehydration salts that would rehydrate a baby who is suffering from dehydration and save its life, and a packet of these salts cost all of \$0.10.

So for lack of \$0.10, a child is dying. That's indeed an enormous tragedy in our world today and that's the tragedy that all of you have already heard a lot about, I'm sure, because it's been very well publicized in the media. It's the focus of very energetic advocacy campaigns that call for more foreign aid.

But there's also a second tragedy that is much less well covered by the media and the second tragedy is that we have already spent, over the last 50 years, \$2.3 trillion, in today's dollars, in foreign aid and, yet, after all that, there were still one million children who died from malaria last year for lack of \$0.12 medicines.

There were still two million babies who died last year from dehydration for lack of \$0.10 oral rehydration packets.

So clearly there's some disconnect that is going wrong. The past volumes of foreign aid have not solved the problem that seemingly could be solved so easily and so cheaply, yet it has not been solved, and that is indeed a second tragedy and this, I think, is one of the great handles of our generation, that money meant for the most desperate people in the world is somehow not reaching them.

And we have other indicators that show the same general picture of great disappointment about the record of foreign aid. Africa is the most aid-intensive continent. It has now received, since independence, \$600 billion, in today's dollars, in foreign aid and, yet, over that -- this is the continent of Africa contains less than 700 million people and yet over the 42 years or more than 42 years now since independence, the growth of living standards in Africa has virtually been zero.

So the payoff of all that aid has apparently been zero, as far as generating any kind of sustained increase in living standards. That is, it's the payoff has been zero in terms of getting people out of extreme poverty into a higher level of income.

And so, again, that's a second tragedy of our world today, that not only is there the tragedy of global poverty, but there's also the tragedy of ineffectual efforts to address global poverty as embodied in the whole foreign aid establishment.

So what has been the response to this failure? Well, unfortunately, the response so far has been to pretty much do more of the same. Every campaigner out there on global poverty calls for a large increase in foreign aid.

The usual figure that they recommend is that we double the existing amount of foreign aid and this doubling is a number that has a very noble history in the history of foreign aid, because it recurs in every generation going all the way back to Walt Rostow, who had been advisor to John F. Kennedy.

He recommended to John F. Kennedy that he double foreign aid. The World Bank in 1973 recommended a doubling of aid. Again, in 1990, it recommended a doubling of aid.

The G-8 summit in 2005 recommended a doubling of aid. The Chinese held a conference on aid to Africa. They agreed to double their aid to Africa.

So there's something sacred about this number double, this exactly 100 percent increase in foreign aid that goes to poor people.

Even you guys, the U.S. Congress has increased U.S. foreign aid by 50 percent.

Actually, it bothered me a little bit that I thought I had discovered an iron law of kind of double, of 100 percent, and it kind of bothered me that there seemed to be an exception. But I had a conversation with one of you who explained to me that your congressperson thought that 50 percent increase was double. So that kind of relieved me and I'm pretty sure that my iron law of doubling is alive and well.

So we have everyone calling for just more of the same, for doubling foreign aid, enlisting even Hollywood movie stars in the cause, even rock stars like Bono and Hollywood movie stars who, when they're not personally alleviating poverty by traveling around Africa and adopting babies at random, they're also calling for the big increases in foreign aid.

So what exactly has gone wrong? Well, I think there's a one-word answer to what has gone wrong. So it's a word that the aid agencies try to capture themselves and say that they're aware of this, but really they're not.

The one-word answer is accountability. Nobody in foreign aid is ever held accountable for the results of their programs. What happens in foreign aid is the intended beneficiaries are poor people in a village in Malawi who have no ability to register their satisfaction or dissatisfaction with the aid reached them or not, with whether the \$0.12 medicines reached their children or not, whether the \$0.10 oral rehydration packets reached them or not.

Is there anyone here in the room who has taken a poll of villagers in Africa before deciding on advising your congressman how to vote on the next foreign aid bill? Is there anyone here who is systematically surveyed public opinion in poor communities around the world to decide how to vote on foreign aid?

No. The poor have no political voice in rich countries to influence the vote on authorizing foreign aid or not.

They have no market power to drive the foreign aid agencies out of business, if they fail to deliver on the product. If we have a private business that fails to deliver, if a Chinese company starts exporting toxic toothpaste, the U.S. consumers can do quite a lot about driving that company out of business by refusing to buy the toxic toothpaste.

But, unfortunately, foreign aid has no check. There are stories equivalent to the export of toxic toothpaste in foreign aid where there never was any correction because they were never publicized. There was no ability of the poor to complain that they were getting a shoddy product, even a bad product that made them worse off rather than better off.

The main aid campaign at the moment is a grandiose exercise called the Millennium Development Goals. This is a program to achieve lots and lots of different goals by the year 2015, the main one being to cut world poverty in half, but also including lots of other goals.

Is this a step forward on accountability? The defenders of the Millennium Development Goals campaign say that it is, because they're setting quantitative targets for all these indicators.

Does this actually hold anyone accountable? Does it hold anyone responsible?

Well, just think about the way the Millennium Development Goals campaign is operating. There are 52 official donors, aid agencies in the world, 52 different official aid agencies, counting all the national aid agencies from each rich country and all the multilateral agencies, like the World Bank and Asian Development Bank and African Development Bank and so on.

There are 52 different agencies, including all the U.N. agencies, who are all collectively responsible. Each one is assuming collective responsibility for 48 different goals.

Officially, only eight Millennium Development Goals, but when you read the fine print, there are actually 48 different targets that are supposed to be attained by the year 2015.

So just think about a chart. Just visualize in your head a chart where you have 52 agencies on one hand, with 48 objectives on the other hand, and the arrows are going in all directions on this chart. Each agency is responsible for all 48 and they're all collectively responsible.

With a maze of responsibility like that, is anyone responsible? No. That's the city secret of the Millennium Development Goals campaign is that it's the appearance of accountability, but when you read the fine print, nobody is individually responsible for any one result.

There's one message I want you to take away about what's gone wrong with foreign aid. It's exactly this. Nobody is individually responsible for any one result. Nobody is individually responsible for any one result.

So nobody takes responsibility if the \$0.12 malaria medications don't reach the dying malaria victims. Nobody takes responsibility for the two million babies who died from lack of oral rehydration salts.

With that system, we have a system that's -- unfortunately, it's the second tragedy and is likely to continue, that we will send aid money and yet it will not reach the victims of poverty and disease and illiteracy.

But there is hope despite this gloomy picture in two senses. One is that there are people out there who take a different approach than this kind of utopian world planning approach where we have some grandiose world campaign, like the Millennium Development Goals.

There are people out there who do focus on one specific task and take individual responsibility for that task and subject themselves to independent evaluation and accountability to see that they achieve the results. And so results are achieved and good things happen.

And I think that the other sign of good news is that as people observe successful examples like that, I think the political climate in rich countries is gradually going to change. We're not going to be content any longer with just grandiose empty promises for which nobody takes responsibility.

We're going to start demanding that there be results at the end of the day and that promises be kept, that someone take individual responsibility for keeping promises.

So to end this talk, let me just give you one example of a program that has taken this more constructive approach and has followed, and John is hoping that the example I give you is the MCC. But, you know, John is going to talk about that, so why should I talk about that? John knows a lot more about that than I do. So I'll let John tell you about the MCC.

The example I'm going to give you is a program in Mexico called Progresa. It was originally called Progresa. Now, since it's been successful, it's been renamed Oportunidades, which means opportunities in Spanish.

And this was a program started by a -- it was a homegrown program started by a Mexican economist. This is one economist that actually did something useful and this is one economist that may have been worth more than a garbage man in Mexico.

He came up with the idea that a way to address the education and health problems that affected Mexico's poor would be to create an incentive to parents to get their children good access to health and education.

So his idea was to give a cash grant to parents, conditional on them keeping their children in school, and that would be recorded whether the children showed up at school or not and then that would be a condition for the parent getting the cash grant, and, also, for taking the child to regular nutritional health checkups.

So this was done. The program was done on a pilot basis. There was not enough money to treat everyone in Mexico with this program. So there were some communities that were the subject of a pilot program and they were compared with the communities that did not receive the program.

And so you had here now an ideal opportunity for academics to evaluate the program and to the everlasting credit of Santiago Levy, that's the name this Mexican economist who came up with this program. He's now the chief economist at the Inter-American Development Bank.

He accepted independent evaluation, which is a radical idea in age. There's a lot of self-evaluation and self-monitoring in aid, but there's virtually no aid agency that will subject itself to outside independent evaluation of its programs and projects.

But Santiago Levy was willing to do this and, to make a long story short, the evaluation was positive. More children were in school under this program. They were healthier.

My favorite statistic from the evaluation is just that the children that were in the program were taller than the children that were not in the program and that's because height is an indicator of nutritional status and one of the important components of the health checkup was giving the children nutritional supplements.

So the children that were in the program were taller than those that were not. Alas, we didn't have this program when I was growing up in Ohio. So I didn't benefit from nutritional supplements. But the program was a success.

And there can be many, many more successes like that if we are willing to change the whole culture of foreign aid from one of operating without accountability, operating with impunity, making grandiose promises that no one is responsible for keeping, to a culture of achieving results for the poor, subjecting ourselves to inde-



pendent evaluation, so that, at last, we can end the great scandal of our generation, at last end the second tragedy of the world's poor.

Thank you very much.

(APPLAUSE)

SAUTET: I was supposed to actually talk about what works in development, but I wasn't sure exactly what to say. So what I'm going to give you is a few reflections on economic development in ten minutes, ECON development 101 kind of stuff, so that you can maybe reflect more on the problems that we're facing.

We're trying to change economies in a systemic way, not just little programs, but generate effects that have real lasting consequences.

The problem of economic development, as I see it, is twofold. On the one hand, we know what's going on in markets. We know exactly -- we have a good knowledge of the way markets work, the role of prices, conveying information. We know the role of entrepreneurs. We know a lot about markets and their limits, as well.

What we don't know is how to get there. The know-how aspect of development is really where there is very little knowledge. As you probably hear in my accent, I'm not from the U.S., I'm actually French, and one of my really big hobbies is cooking and, not surprising, officially, pastry, and so imagine you're looking at a cake that a pastry chef has made.

I'm not talking about one of those cakes you can buy at Giant. I'm talking the real character, the kind of stuff you can get when you go to a freestyle restaurant in Paris. This is a beautiful model, you have like bridges of sugar, whatever.

It's phenomenal. And when you look at the cake, you can understand or see what ingredients and, when you taste it, you can know what the ingredients are. You can know there is sugar, there is flour, there's probably eggs.

Let's assume that if you train your palate, you can get a good sense of what's in there.

Then how to get there, how to make the cake, how to make the pastry, that's a different story. And basically the idea of where economics stand today, we know what, but we don't know how. It's exactly the same thing.

We look at a cake, say, the U.S. economy. We know how it works and we know, by and large, we have a good sense of what the composition and makeup of the institutions are, but we don't know much how we got there exactly.

We have a whole history of things. There are lots of conjectures of what happened in the last 400 years, but to reproduce those like a pastry chef is a completely different story.

So that's really the main issue that economists face when they look at the issue of development.

To us another analogy, instead of a cake, think of a barstool and the barstool is an economy. So the barstool is a very good example that I like to use, because it's stands -- if you remove one of the legs, it falls. If one of the legs is shorter, it's not very comfortable.

I'm sure you all go to bars after work on Friday and you know about this. Well, the three legs of the barstool basically are the three main components of one economy, of an economy. The one component is the institutions that enable trade to the U.S., our property-wise contracts, tort law and all that stuff.

The other leg of the barstool is the institutions that enable innovation and entrepreneurship to take place, transfer savings from those who have the most savings to those who need to be financed, and these are the institutional -- the financial institutions.

And the third leg is the leg that basically fits the whole thing together. It's the cultural aspects. It's the belief system that people hold.

And unless you have the right belief system, like we have in the West, of people unbiased in the way they look at the future, if they don't see, for instance -- my field is entrepreneurship. One of the things I'm interested in is looking at entrepreneurship as a deviant kind of activity.

Why? Well, because you -- in some ways, when you're an entrepreneur, you break (inaudible). You introduce something that was not in the system and you make people uncomfortable and you sell them products or whatever.

But this, in some ways, has to be done where people expect that leniency, where people expect the emergence of novelties. So if you're in a very static society where people have very strong (inaudible) against that, this will not happen.

So one of the legs of the barstool will be shorter and the stool won't work.

So once you understand that the know-how is actually really the big problem, the next question to deal with is, "Well, what do we do?" Do we have the capacity to engineer change in a systematic way so that societies turn from poverty to riches?

Well, that's really the \$64 million question. And there was actually a British philosopher that has a fairly bad reputation, I guess, today, but his name was Herbert Spencer, in the 19th century. He was very much against colonization and he thought that there would be no way the West could colonize and (inaudible) the savages and

his view is, well, people that struggle in poverty, they have to struggle in poverty. Why? Because poverty actually contains the root of its own solution, that if people are poor, that they cannot bring new ideas to overcome their problems.

So the more we try to help them, the more we actually create, generate side effects that were unintended and they didn't get the cultural mode or in the (inaudible) make them think about the future in ways that are creative and so on.

Well, Spencer was put on the side as a weirdo, and probably he was a weirdo in some ways, but the Spenserian, I would say, hypothesis is an interesting one.

In this world, there is a lot of politics involved in development and surely coming up with (inaudible) solution is a difficult conjecture, it's still worth thinking, well, is this what we should do, meaning we should do nothing.

Well, yes, maybe. I'm sure John will tell us that there is something that could be done. But there is something that could be done. There are issues that we need to keep in mind that are very, very, very crucial and those issues -- there are more of the issues. I'm going to just give you two of them so that you can remember what I talked about.

The first one is what we would call the knowledge problem. And the knowledge problem is basically when you look at the way an economy works, in fact, an economy works because consumers and entrepreneurs have access or try to access as much as possible to the local knowledge that generates trade.

So what do people really need in their daily lives? What do they encounter in going to work? And all sorts of knowledge that makes the economy function, actually, taxes, local and very removed from the decision-makers or any planners that would look at the economy.

So the knowledge problem basically is a limitation on how much we can basically come as a surgeon and try to operate on an economy, because we are so far removed, as economists, from what really matters to make an economy function, that unless we have access to that local knowledge, not much can happen.

And it's interesting that there would be the example of Oportunidades, because Oportunidades, in my view, is exactly economists putting themselves in the situation where they have access or they try to access to that local knowledge.

What do children really need? What type of food do they need? They work with people directly. They don't have grandiose plans like the Millennium Challenge Corporation.

Now, whether or not these can be transformed into something that would become sustained and transforming in society is a different story and I don't have personally an answer to this.

But you have to start somewhere and starting with small programs that have access to that local knowledge is definitely one way to go and something that I would recommend.

The second thing I wanted to say is what economists call public choice problems and public choice problems in that situation is, well, delivering aid is not going to be neutral and what I mean by this is it's not because you say, "Well, we have to deliver aid and send money to someone," that this money is going to indeed end where it should end, but people are not going to have incentives to use the money in different ways, that agencies that are supposed to come up with projects are not going to come up with projects that are actually contrary to their long-term goals.

Also, to issues like this, we all know in Washington that aid is a very strong political strategic component or whatever and is used for other reasons than just helping poor people.

Well, this is the kind of problem that should never be ignored and there's actually a lot of work in the literature on the World Bank, for instance, and public choice problems. What is the internal dynamic of the World Bank? Are they really doing what they're supposed to be doing and if not, is bureaucracy having a life of its own kind of stuff.

So these two issues, the knowledge problem and the public choice problems, not to remain at the top of the agenda when we think in terms of developing aid.

So I will finish by reflecting on the MCC a little bit, because maybe we could say perhaps that the MCC is one which (inaudible) those two issues, the knowledge problem and the public choice one, and I would say that, in many ways, they are doing a really good job.

They are trying to influence the institutional structure by creating incentives that governments face and those incentives are changing, for instance, the number of days to set up a business and so and so forth, and this is good stuff. There's no doubt about it.

Especially if you think about the long-term goal of the MCC, which is eliminating poverty through growth, economic growth, no one would deny that this is basically the only way to go. So from that perspective, I'm on board.

But if you look at the -- you go back to the barstool that I was talking about before, basically, one could say that the MCC is only acting on two of the legs, trying to act on the leg which is the institutions, about trade, and the leg which is the institution about finance, and that's great. But still, if you only have two legs and the third one doesn't grow, the stool will be tilted.

And even more so, one could say, well, if you bring new institution in the country, even if you're trying to incentivize, are they going to stick? If there is no culture and the (inaudible) are biased in a way that it will be like an organism rejecting that new stuff coming in.

Well, maybe it won't stick because there is nothing to stick to. So I would conclude trying to be optimistic, but also the process, which is that there is a limit to how much we can socially engineer in terms of development and definitely, like Bill, accountability is one big issue, but a bigger issue is the state of reality and the state of reality is the knowledge problem and the public choice issue.

We don't know how to overcome those problems. So we're (inaudible) and maybe we should work into it so that we can create a solution that takes advantage of some local knowledge and minimizes the public choice issues.

(APPLAUSE)

DANILOVICH: It's always a pleasure to be on Capitol Hill. I enjoy coming up here to talk about the MCC and to spread the good news about all the work we're doing throughout the world. And I welcome the opportunity to be with you today to discuss the future of foreign aid and the role that the Millennium Challenge Corporation plays in that process.

Your interest is very much appreciated in the work that we're doing and I'm pleased to see so many familiar faces here.

Pete, in particular, I want to thank you and the Mercatus Center for partnering with us to make this event possible. Your collaboration in our work at the MCC has been much appreciated since our inception. It's been very valuable for us and it's an ongoing effort.

We can't really talk about the future of foreign aid without breaking through the traditional definitions on foreign aid.

When we say foreign aid, many think of this as a lifeline from those who have to those who need. For over 50 years, foreign aid has been defined by relationships of unequals, of donors and recipients of the developed world telling the developing world what's needed for their development, of doing for countries rather than having countries do for themselves.

In some instances, as was mentioned, assistance is driven by geopolitical strategic interests rather than the willingness of a partner within those countries to be committed to their own development and to doing the right things for their citizens, regardless of the politics.

Many well meaning donors have paved roads that can no longer be found on a map, lost for lack of up-keep. Before the Millennium Challenge Corporation builds a road, we insist that the partner countries shoulder the responsibility of keeping that road operational.

Over 50 years of experience shows that the old way, the old mindset, of delivering foreign aid has not graduated countries from their dependence on foreign aid. Poverty remains chronic and entrenched, economic growth and development elusive.

In light of these experiences, the Millennium Challenge Corporation was created to offer a new, different and innovative way to target development assistance.

It is a way to select countries as recipients of assistance, in a way, transparent and depoliticized, based on their sound policy performance which creates the most favorable conditions for the best use of our assistance.

It is a way that encourages country ownership by expecting countries to lead their own development processes, because aid is most effective when it engages countries in a partnership based on mutual responsibility and accountability rather than when it perpetuates a donor-recipient relationship on dependence. And it is a way that insists upon delivering measurable, tangible and sustainable results in the lives of the poor.

MCC is not the answer for every development need. Congress understood this when they created it by an act of Congress in January of 2004, with one mission -- to reduce poverty through sustainable economic growth.

We are not equipped at the MCC to tackle conflicts, famines or national and humanitarian disasters. We are not the right tool for countries unwilling to shoulder the hard work necessary for their own development.

We approach aid differently by insisting on those core elements that are absolutely essential for making economic growth and development sustainable and meaningful in the lives of the poor and in the lives of our poor countries that we deal with.

These core elements are, first and perhaps most important, policy performance. MCC's approach motivates countries to practice and continue practicing sound policies, because we reward aid based on good policy performance.

Our performance-based country selection process sets apart from others in the development field and offers a new way for delivering aid. As a result, governments are making improvements in governance, increasing investments in health and education, and creating pro-business conditions.

Even before a dollar of our aid is invested, even before the first shovel is turned, countries are seen improving their own policy performance, a phenomenon often referred to as the motivational MCC incentive effect.

In order to qualify and remain eligible for our aid, countries are incentivized to make reforms. That's why, for example, Madagascar reduced the minimum capital requirement for new businesses by 80 percent and saw a 20 percent increase in new business registrations and that's why El Salvador reduced the number of days to start a business from 115 to 26 and saw a 500 percent increase in business registrations.

Second, capacity-building. We place countries in charge of their own development and they are simply not accustomed to that. It challenges their resources and abilities. Yet, by insisting that partner countries consult with their own citizens and design and implement their own improvement and development programs, MCC strengthens institutions and jumpstarts critical thinking about what policies are necessary to ensure sustainability well beyond our period of investment.

The measure of our success is not whether MCC can design and implement compacts, but whether partner countries themselves can design and implement compacts.

That's how we see Ghana now using the MCC's process, the ones that we have introduced in the country, that led to its compacts to evaluate non-MCC funded activities within the country.

Similarly, Mozambique is applying the skills and expertise of the core team that worked on drafting its compact to other government processes unrelated to the MCC.

Third, transparency. MCC is the only donor that currently ties eligibility for assistance to performance on a transparent and public control of corruption indicator. Passing this corruption indicator is the only hard hurdle, the mostly must pass indicator that we have to qualify for our funds, and it creates a powerful incentive for our countries to adopt tough anticorruption laws.

So many of our countries have implemented dramatic anticorruption reforms. Zambia, as just one example, is using the anticorruption threshold program to establish integrity committees or internal watchdog units and to develop codes of ethics at key institutions to fight corruption.

To reduce corruption in the broader management of trade, a centralized and single window process has been launched.

Fourth, gender. In keeping with MCC's gender policy, women, alongside men, must be involved throughout every stage of MCC's assistance from compact development through implementation. The participation of all of a country's citizens is central to sustainable development.

That's why MCC advocated for and welcomed the groundbreaking policy reform in Lisutu to confer equal-to-equal legal status on married women. That's why MCC welcomes the greater participation of women in Jordan's recent municipal elections, when the law was changed to allocate 20 percent of council seats to women candidates.

And, fifth, private enterprise. MCC's investments succeed only to the extent that they offer and foster continuing economic activity, whether by a farmer in her field who now invests because she has title to her land, or by a local or international company who invests because of the improved business climate created by reforms motivated by the MCC.

The finance minister of Indonesia says the real draw of MCC eligibility is not just the money, but the good housekeeping seal of approval, which sends a powerful signal to private investors that conditions are ripe in MCC countries for investing and doing business.

By insisting on sound fiscal, monetary, regulatory and trade capacity-building policies, MCC creates a pro-business and pro-investment environment. We anticipate the day when our aid can be replaced with self-sustaining investment-driven growth.

The country-driven consultative process insists that governments work hand-in-hand with the private sector to identify challenges and opportunities growth. Addressing these issues can bring results.

In Nicaragua, for example, MCC has already helped attract over \$9 million in new investments that will create almost 1,200 new jobs in the country's northwestern region.

MCC's core elements, capacity-building, policy performance, transparency, gender issues and private enterprise engagement, require that our partner countries make difficult decisions and take direct action, and this is not easy.

Some argue that the countries we work with are already the winners and we are not making a difference. With the levels of poverty in Burkina Faso and Mali and Lisutu, to name just a few, I beg to differ with that assessment.

MCC works with some of the world's most impoverished countries and this makes pushing the tipping point to sustainable development that much more challenging and that much more meaningful once accomplished.

Countries are not used to MCC's demands and high expectations, but that's why, given all of these challenges, we intentionally disburse funds based on readiness, only as countries meet performance benchmarks. We can speed up disbursements by speeding up the readiness of our partner countries and we intend to do that.

But countries need time to build their capacity to fully respond to the rights and the rigors of MCC's new approach and by building their capacity, they are building the institutions and implementing the policies to make their development sustainable well beyond the period of our investment, and we are seeing results already take root.



To date, we have signed compacts with 14 partner countries in Africa, Central America, Eurasia and the Pacific, totaling near \$4.5 billion. Our 15th compact, with Mongolia, has been approved for \$285 million and will be signed here in Washington on October 22. And our 16th compact, with Tanzania, has also been approved by the board for \$698 million, which we are hoping to sign in the coming months.

Depending upon available funding, we anticipate an additional two compacts in 2008, which means that MCC will provide compact grants to 18 countries for a total of about \$6.4 billion by the end of FY '08.

Another 17 countries have approved threshold programs totaling over \$360 million. We are asking the right questions to pinpoint what will make development sustainable.

Are MCC eligible countries maintaining and improving their policy performance? Are countries consulting with their citizens and presenting well designed programs that will transform the lives of the poor? Is project implementation being done in an effective and transparent way? When completed, are the projects delivering the desired results?

The answer to each of these questions, even though we are only 3.5 years old, is yes, yes, yes, and yes again. I've visited with poor farmers in the fields of Madagascar in Central America who are learning new techniques and accessing new markets to make the successful transition to greater quantity and improved quality crops, which translates to higher profit and more income for their families.

I've handed out land titles in Nicaragua and Madagascar, many to women. With clear land title to their land, the poor are able to use their property as collateral and for credit to expand their farming operations.

I have toured infrastructure projects in Georgia and Benin, which are enabling the flow of energy to homes and businesses and the flow of goods to markets. I've attended classes of one of our 132 girl (inaudible) schools in Burkina Faso, funding made possible, where more than half of the girls in that country do not attend school. And we know there's a strong correlation between the education of girls and the sustainable development of a country.

We urge members of Congress to fully fund MCC to continue building on these early successes. Drastic funding cuts would damage our relationship with countries making significant reforms to partner with us and would undermine our ability to respond to proposals which we have encouraged.

MCC is working in partnership with our countries to reduce poverty around the world and, to be successful, we need Congress to work in partnership with us.

As the "Washington Post" July editorial about the MCC stated, "It is too early to start slashing a program that has been in business for only three years and still deserves a chance to show what it can do."

Helping partner countries escape dependence on foreign aid by making their own capacity for poverty reduction through economic growth is what sets MCC apart as an innovative model. Our approach proves to U.S. taxpayers that their money is put to good use and it delivers tangible results that are transforming the lives of the poor, stimulating growth and fostering stability and security.

And our model will continue to be a viable part of any discussion about the future of foreign aid since our approach promotes the very conditions where aid can be most effective.

I want to thank you very much for your interest in what I've had to say today about the Millennium Challenge Corporation and I look forward to answering your questions.

Thank you very much.

(APPLAUSE)

BOETTKE: Before we open it up, let me make two quick comments that I feel compelled to do.

Two or three years ago, I was at a very high level academic discussion of development economics at the London School of Economics and a very famous economist, I won't mention his name, after the frustrations of the kind of arguments that Professor Easterly was giving, simply said that foreign aid was a cheap way for us in the West to feel good about ourselves. We shouldn't focus on the results, because it's a cheap way.

But the problem with that line is that it's not so cheap if we focus on the costs of the poor themselves, as Bill Easterly reminds us. So it's not an issue of using the old model and trying harder. It's an issue of fundamentally changing the process of what we are doing when it comes to aid.

And that is where the dialogue must begin. It's not an issue of us trying to do better what we used to do. We have to fundamentally reorient what it is that we're doing and, in that regard, I do think that the MCC has, in fact, embraced that challenge.

It's not trying to do the same old things just harder. It's actually trying to change things.

One of the most important of those ideas, which I do think starts a dialogue on this issue of accountability, is the idea of policy ownership, the idea that the recipient countries have to buy into the process. Otherwise, the aid doesn't go there, which is a very important point.

The second point is also the local initiatives, as you were just talking about, the ideas of getting these local initiatives, which I think are important.

And that leads to my second point, which is I wouldn't have used Herbert Spencer. I would have used P.T. Bauer. He's probably just as obscure to figure. But P.T. Bauer is probably the most important development

economist in the period right after World War II and he always used to argue that the standard way in which we thought about the development problem was wrong.

The reason is that we bought into an idea of a circle of poverty. Poor countries are poor because they're poor and one of the things that Bauer pointed out was, "Well, we all were poor once, too, and we're not anymore."

So how did that happen? Now, let's start the explanation. And the reason why it happened was because small scale trading was allowed and one of the things that Bauer points out is when you engage in small scale trading, you actually learn habits of the mind which, in fact, are essential for development.

And, again, this is going to go back to things that you just mentioned there, which is think about what has been successful in development. Microfinance, small scale trading, that's what that is, or codification, land titling, these kind of things in which you embrace local entrepreneurs. And third, opening up avenues of trade and, also, allowing immigration and the power of remittances.

These are all local incentivized institutions that, in fact, have been very, very effective at trying to lift people from states of poverty into better states.

And I think that if we focus on those issues in the dialogue, we make a lot of progress. And then what is it that MCC is doing to actually tap into those local initiatives and incentivize the people and have accountability? And I think that that is the major dialogue that's going on.

Now, I'm going to open it up. I will get out of the way so you can direct your comments directly to whatever speaker it is that you would like to talk to. Hopefully, we'll have lots of questions.

I guess I'll have to call on the name, right? I'll call out.

STAFF: If you could, just wait for a microphone, we'd appreciate that, since we're recording it. Also, if you could fill out that blue sheet before you head out, we'd just appreciate your thoughts on today's program.

But with that, if you have a question, please just raise your hand.

AUDIENCE MEMBER: Thank you. Ambassador, I was wondering, your organization has shown some very important interim results, has never received all the funding you've sought and the prognosis for receiving all the funding you've sought in the future I don't think particularly better.

How will you make the difficult choices that you will face as far as prioritizing among existing compact countries and prioritizing among countries that are ready to graduate from threshold status to full compacts if you don't have all the resources you request? What sort of criteria will you use?

DANILOVICH: Very good question and you clearly have put your finger on something which is a major preoccupation for us right now. In fact, when I said I like coming to the Hill, I do like coming to the Hill. I spend an extraordinary amount of time up here. I feel I should get a little room somewhere with a cot in it so I can sleep here and be ready to go around to the congressmen and senators the next morning to make the case for MCC funding.

I think at this point, we've got to be realistic about what we can achieve in the FY '08 cycle. By that, I mean in various times in discussions about the MCC in years gone by, the figure of \$5 billion was out there. At other periods of time, there were other figures. We have been operating for the last year on a continuing resolution from '07, which was roughly \$1.75 billion.

In the last two years particularly and within the last 3.5 years, we have established a body of work, which I referred to in my remarks. We now have 14 signed compacts. We have 16 that are approved. We'll have 18 by the end of the year. Let's call it \$5 billion into '08, let's call it \$5 billion, a little bit more.

We have a substantial body of work that now needs to be implemented. We are working on that. We have, in fact, just undertaken a significant internal reorganization to focus on that effort so as to implement, which includes disbursements, our compacts now that we have a body of work, we have the car, we have to now turn the engine on.

Congress has, somewhat disingenuously, from time to time, thought that, "Well, we have given you so many budgets for the last three years, so you have \$5 billion and you haven't disbursed it yet." That is exactly the way they set us up and that's exactly what I refer to in my remarks.

We only disburse based upon performance. That's accountability, that's security for the taxpayer. That puts the focus on the country ownership. The countries have to pay attention to the program which they created to solve their own problems and which they have to implement. We are not going to do it for them.

It's all about country ownership. They have to rise to the occasion. Somebody referred to this as "grownup aid." You have to take responsibility for your actions.

Where we are with regards to the amount of money we may receive this year, that puts us in a very awkward position, having incentivized countries to undertake reforms and almost all have taken significant reforms. I mentioned that this is not an easy program. It's not an easy program for countries to belong to. They have to change themselves tangibly, not just with regards to a law.

They have to implement the laws. They have to enact the legislation. They have to follow through on it. They have to maintain their criteria for performance on what are really, frankly, by our standards, fairly rudimentary things, but they're the starting point, they're where we have to start.

Frederic referred to the days to start a business, the cost to start a business. They're relatively simple, but difficult things for countries to start doing. But when they do that type of thing, when we have incentivized and motivated those reforms, they have risen to the occasion so that they could become eligible.

We now have a number of countries in the pipeline. We're going to have to tell those countries, for which we will not receive adequate funding, that although we will continue in the process of discussing their proposal with them, and these discussions, they're not one-page thought papers. They're huge encyclopedic agreements that we have with countries.

It's a business plan. It's a business project. We'll continue doing that, but, in fact, in New York two weeks ago, to a number of countries that who were in that process, I had to very clearly explain, and I hope that they very clearly understood, that through no deception on my part, I had to make it clear to them that we would not be able to award them a compact in the next 12 to 15 months because we simply didn't have the money.

We have the money for Mongolia, to go through the figures with you. We have the money for Mongolia, which is out of '07 money. For '08, let's say we get \$1.8 billion, which was the House figure. That will allow us to do the three countries that are already clearly going to come up in FY '08. They are Tanzania, Namibia and Burkina.

If we get less than that amount of money, we will have to shave those figures. That's also difficult to tell a country, "We've seen your proposal, we've discussed it, we've done the due diligence, we've gone back and forth on it, we've spent many months, both of us, going back and forth, making sure that it was going to be a proposal that could ultimately be implemented, and now that we're almost there, we have to slash it by 10, 20, 25 percent, because the funds are not there."

That does not address those countries who are probably going to become candidates or possible countries in FY '08, such as the Ukraine, Moldova, probably Jordan, and maybe one or two others, and those countries are simply going to have to wait, because after we deal with the first three countries, the first three happen to be African countries, after we deal with the first three African countries, we will not have any funds left to award any further compacts in FY '08.

We will continue discussing, we will continue negotiating, we will continue doing due diligence. We have a selection board meeting on the fourth of December, where we select those countries that are either renewed as eligible or newly eligible countries, for their funding.

It puts us in a bit of an awkward position and, also, many heads of state have called and said, "Well, if you don't get your money, what happens to us? Do we still get our money?" Again, that's the way Congress set us up.

When we sign the compact, the money is committed. It's theirs. It's not there to give a little bit to you and a little bit to them or somebody else in the hope that, at the end of the day, the money that you were promised is still available. It's secure for you once the compact is signed.

Despite the low figure that we think we are receiving, at \$1.8 billion, that constricts our activities for the remaining 12 to 15 months of this administration, there has been a generally positive response. In fact, I would almost say unanimously positive response to the MCC on the Hill.

The reaction has been this is a good program. It may have been part of this administration. However, we believe in it. The new Congress wants to take ownership of it. Nita Lowey, on the House Operations Committee, has been very positive about the MCC, both in committee and on the floor.

We very much appreciate her support. She's visited a number of countries. She's seen what the MCC is accomplishing in these countries.

So she knows firsthand, she's seen it with her own eyes, what can happen with the MCC. But for the moment, it puts us in a somewhat awkward position. We can deal with the countries we can deal with in FY '08, but we've made it clear to those others that although we'll continue, we will not be in a position, unless we receive more funding, which I think is unlikely, to go further with those countries.

BOETTKE: The gentleman right there.

AUDIENCE MEMBER: Ambassador Danilovich, as you know, a lot of people on the Hill are very impatient to see results from the compacts. I'd like to know in what ways are you measuring the results and at what point, what stage can we actually expect to see the results for this experiment.

Is it three years into a compact or five years, at the end, or do we have to wait ten years?

DANILOVICH: The impatience that we all feel for results is something that I share, but, you know, I'm not a farmer, but I grew up just outside of San Francisco, in the delta, in that area where there's a lot of farming, and harvests have a cycle. Programs have a cycle.

We are now beginning to see, with our early countries, results. Nita Lowey and others from Congress who have been out in the field in those early countries are now beginning to see the results of those crops, of those new harvests, of increased quantity, of increased quality, of new types of crops that have greater domestic markets, as well as international markets.

So already, as we proceed into the implementation of our earlier countries, we are beginning to see the results in Madagascar, in Central America, in Nicaragua, in Honduras, in Georgia, in Armenia. Those countries are already beginning to show that the programs are working, that the results are being achieved, that micro-financing, land titles are having the effect that we had hoped that they would have, that -- you know, you say

things sometimes and you wonder if it sounds a bit peculiar when you talk about geranium plants in Madagascar, but geranium plant production in Madagascar, done in a new way, which we are sponsoring, in partnership with cooperatives there, is producing newer, higher quality geranium oil which is used for an already established market for soap and perfume.

That's happening already. That's what was supposed to happen. That's what it said on page 76 of the compact agreement was going to happen on this date, on this month, and, at that point, we're then able to give further disbursements, the next \$10 million, the next \$20 million.

And so in response to your question, in year one, things go a little bit slower, but in year two they speed up and in year three there's a big ramp-up in activity as the disbursements increase, as the results show themselves.

So it's only natural in a process of evolution that these things take time. We hope, optimistically, that within the five-year period of our program, that those results will be achievable. That certainly gives us a very specific timeframe for results, for performance, for benchmarks, and for these achievements.

Is it going to happen in five years? It doesn't happen in our own country in five years. It's probably not going to happen in our MCC countries.

But at least for the moment, it gives us a frame in which we can operate. I'm also hoping that, with Congress, we can get an authorization to either have simultaneous compacts, meaning that a country is doing well, built on its implementation and on its criteria performance, that we can give them a compact in year three or four to keep it going and to have longer compacts beyond the five-year period time.

The results are beginning to show themselves and they will increasingly do so with the dawning of each new day.

AUDIENCE MEMBER: (OFF-MIKE)

DANILOVICH: We don't enter into any of these compacts or any of these specific components, the individual components of the compacts unless we can discover and have an economic rate of return which is going to be achieved at various points throughout the compact implementation.

And we monitor that very closely to make sure that that can happen. So whether it's cassava in Nicaragua or the geraniums in Madagascar or the roads that we're doing in Georgia and Armenia or the irrigation or the land titles, with regards to microfinance, ownership of land, the using of collateral, we monitor that as we go along, not at the end of the program. It's too late by then.

We need to make sure we're being successful as we go along and, if we need to, of course, it's a question of turning the money on and off, if it's not working (inaudible) which is a great force that we have, a great source of accountability that we have, but also making sure that the results are also being shown there.

As with any business, you set up a business and you hope you're going to make eight percent or 15 percent, you may make 20 or you may make three, you may have made a mistake in your calculations. But calculations are done in good faith and we hope to hit those targets, hopefully do better, over the time of the compact.

AUDIENCE MEMBER: You talked about the fact that you're holding these governments very accountable for their things and my question is, is there any sort of nationality requirement for who actually performs the contract in terms of U.S. business and if not, do you have any worries about backlash for not using American businesses as opposed to a Chinese company or anything like that?

DANILOVICH: We do not have a "buy America" clause. It's open to international competition, international standards. It's open procurement. It's all on the Web site. It's transparent.

In many post-Colonial countries, for example, in Africa, it is French or English companies who have been in those countries for a long time who normally end up being the main contractor. We'd like to see the subcontractors being national industries, that acquire the capacity, acquire the know-how, the field of expertise to become the main contractors eventually.

American companies we meet with here regularly. We encourage them to be involved in the process creation, in the compact creation. If they don't get in at the beginning or if they do get in at the beginning of the whole process, they have a better chance of knowing exactly what the country is going to be doing and to be part of that process.

If they are not at the beginning, we encourage them to work on parallel programs in a country that will achieve the same objective alongside ours. If we part of a development in a certain region, we would like them to do the rest of it. We encourage private sector development.

We had a meeting this morning in the office, 130 people came, with regards to Morocco. We signed an agreement there on August 31. It's an outstanding compact, with some really good (inaudible) to it. They're all good, but there are some that are more proactive than others with regards to, I believe, economic stimulation.

I gave a speech to encourage all of the 130 people representing various companies, many of them American, but many of them international, to get involved in this process with Morocco, with the compact development, to go forward.



In post-Colonial countries, in Georgia, some of the most -- there's lots of Turkish bidding that goes on in Georgia because of the Turkish proximity to Georgia and their expertise in doing certain things.

But our competitiveness, our procurements are an open playing field, so we can get the best quality of work for the best price.

BOETTKE: Before we go on, can I just say something directly in response to the gentleman back there about development and what not. What I think you always have to watch out for is aggregate statistics, not (OFF-MIKE) but a lot of times, they can confuse what's going on in development. (OFF-MIKE) which the value of the input was measured rather than the value of actual market output.

And so you get the bloated picture of something that's supposedly growing, but actually it turns out it's not really there. And so what you have to look at is the sort of microeconomics of development, not the macroeconomics of development, and that's much harder to measure, as such, in these kind of quick and easy measures and it takes longer to look at that.

But like the Mercatus Center, we've been doing a project for the last several years called Enterprise Africa and what it does is it does detailed case studies looking at entrepreneurial solutions to poverty alleviation. It doesn't provide you this sort of giant macro number, but it actually gives cases in which things have happened where they've reduced the cost of doing business in a country and you see more activity going on and you see people making this small scale -- this is the big point about Bauer, is that it's this small scale trading that gives you the habits and values that enable you to get more scale trading, higher and higher, and then eventually graduate into a more advanced commercial life.

And that's sort of what you're hoping to do is give people opportunities to get on the economic ladder and climb up it and that's a harder thing to measure in terms of what is their macroeconomic growth rate this year than actually how much economic activity are we seeing developing in that country.

AUDIENCE MEMBER: In the discussion, the future of foreign aid, it's sort of (inaudible) that the largest U.S. aid agency isn't represented here. And I was wondering, from the entire panel, what role, if any, USAID has in the future of aid or other classic aid organizations.

EASTERLY: Well, Ambassador Danilovich's agency is charged with giving aid to countries with good policies and institutions. So by process of elimination, I guess that means USAID gives aid to countries with bad policies and institutions.

USAID is very much I the traditional mindset of aid agencies. So it's got a lot of changing to do to catch up with the criticisms and the new knowledge that has surfaced as people are critically surveyed and what has happened in aid.

AUDIENCE MEMBER: Thank you. Dr. Easterly, you mentioned accountability. That was sort of your touchstone. Is that accountability -- can that be created by current foreign aid agencies? You mentioned Progres, which sounded like it started from one person's idea, probably a not-for-profit, maybe a little bit of outside funding.

Poverty, endemic poverty is a big problem. So one of the frustrations is could you actually institute many of these foreign aid agencies, maybe you can, maybe you can't. Could you address that?

And my second question, are they even capable of doing so? Even if they are not, how do you take small programs, and Dr. Sautet mentioned, translate them into systemic, more systemic than just that local area?

Thanks.

EASTERLY: I think the existing aid agencies, they do respond to political climate. So I hope one useful thing Congress can do is have a -- in the very, very long run, that the ideas of economists have influence on the political climate that just says bad economic ideas like Marxism and socialism had a huge effect on the wellbeing of many people around the world, huge negative effect.

More constructive ideas, like pre-markets and in foreign aid, the idea of accountability for results can have a positive effect on what the politicians decide should be the status quo and what the voters demand of politicians should be the status quo.

So we really need to change the political climate of moving from a status quo, which right is pretty much as Pete described it, as we're so happy about foreign aid because it makes us feel so good about ourselves, to one where we take -- we'll only feel good if we can get some evidence that the aid money is actually reaching the poor and is actually alleviating constraints and tragedy in the lives of the poor.

So I'm hopeful that, in the long run, I'm an optimist, that I think that there can be a change in the political climate that would lead then the official aid agencies to change their behavior. I think the reason they're stuck in dysfunctional behaviors is because the political environment allows them do so.

As far as whether you can aggregate up from very small programs to big ones, I think there's two answers to that. One is, remember, our whole economy consists of a lot of small programs, but in a decentralized way, they have achieved a very remarkable result of making us all rich and comfortable.

And there can be many, many social entrepreneurs, political entrepreneurs in aid that each have their own little tiny program, but in the aggregate, they can do quite a lot of good.

The only qualification, I would say, is that we should not necessarily expect of aid that aid is going to be the main force that causes the end of poverty or causes other countries development. Aid has to be humble

about what it can achieve. They can only fix those problems that are fixable by outsiders and not all problems are fixable by outsiders.

So a lot of the future of development and of poverty relief is going to come from poor people themselves. The best ally in the war on poverty, as Frederic mentioned, is the resourcefulness and ingenuity of poor people themselves.

So that's the hope, that on top of the modest things that aid can do, it will really be poor people themselves that end their own poverty.

BOETTKE: We have time for one more question.

SAUTET: Your question is actually one that, in fact, making the most, how do you go from local entrepreneurship to something that is more systemic.

You can find entrepreneurship in all sorts of conditions. I mean, Soviet Russia had people operating in markets all over the place and we were finding gain from trade and going forward with that.

So the idea that there is entrepreneurship, if you document small programs or projects that work, that, in my mind, is not necessarily enough. So it's great to have those, but you find those in all sorts of crazy circumstances, as well, and it doesn't mean anything in terms of the long run health of an economy.

I'm not sure I agree with Bill that that (inaudible) many, many small projects and, taken together, it works. The question is when you look at poor countries, those projects don't seem to go beyond certain scale, don't seem to really take off or don't seem to be producing the (inaudible) that is meaningful. And the question is why.

Part of the answer, in my mind, is we should go back to the analogy with the cake. The ingredients have a life of their own. They have biased beliefs. They have all sorts of things that make them uncontrollable and that's the conundrum of social engineering really, and I'm not sure what we can do about this.

BOETTKE: Last question.

AUDIENCE MEMBER: Ambassador, since economics is about incentives, what incentives do the countries that the MCC works with have to participate and meet the standards of the MCC given that, if you use Dr. Easterly's numbers, there's 52 other organizations that they fall over themselves to help a country, with no accountability?

What's special about what MCC offers to these countries?

DANILOVICH: Bill's right. Countries have a vast array of possible countries that they can -- or international organizations that they can accept money from.

I think the little twist about the MCC that makes it different than any other program is there is this what has come to be called the good housekeeping seal of approval. It means that a country is a good government, with good governance, is doing the right things for its people, for the right reasons, and, in so doing, they then get what is, frankly, a fairly significant amount of money, very concise, as we've gone from one to 14 to 16 to 18, but several hundreds of millions of dollars.

And if they make the changes to become good governments by these criteria, then they get this grant. That also acts as inducement for foreign direct investment on the part of companies who will do a risk analysis and say, "Well, this is an MCC country. MCC has this report card that has these indicators and it means they're doing good things." (inaudible) the rights and civil liberties.

But a company is making an assessment to simply say these countries are doing the right things according to the MCC, who has political, economic and social indicators, and certainly in the economic freedom category, which is important for business, they're doing the right things for fiscal accountability, et cetera.

And so, therefore, amongst all the other factors that are taken into consideration, geographic location, access to markets and all the rest of it, I'll use the MCC's good housekeeping seal of approval as another form of validation that my investment in this country, whether it's Chiquita bananas in Mozambique or Dole Food Company somewhere else, as a marker, as an incentive for moving into the country.

So countries undertake -- I mean, the finance minister in Indonesia was very nice to say it's not about the money. It is about the money, but it's also about the fact that in addition to getting the money, that you are standing up and shining, so to speak, as a good country, as an MCC country, which is different than accepting money from some other international organization.

Also, the study, by the way, of the number (inaudible) actual government organizations, in France, the Japanese, and others have been to us and we've been to them and we've talked, because they're interested in what this model of foreign aid with accountability really means and what the criteria are, and some of them are taking other considerations.

Gordon Brown and Douglas Alexander, in recent weeks, have referred to using criteria for foreign aid, aside from just need. In other words, perhaps taking into account some of the MCC criteria.

BOETTKE: Well, thank you very much, Ambassador, Professor Easterly, and Dr. Sautet. And thank you for all of you staying with us.

(APPLAUSE)

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