

CAN OPEN & DEMOCRATIC MARKET ECONOMICS INCREASE HUMAN DEVELOPMENT IN EASTERN EUROPE?

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“В НАШЕЙ РОДИНЕ У НАС НЕТ НИКАКОЙ СВОБОДЫ, А В НАШЕЙ СВОБОДЕ У НАС НЕТ РОДИНЫ”¹ – CAN OPEN & DEMOCRATIC MARKET ECONOMICS INCREASE HUMAN DEVELOPMENT IN EASTERN EUROPE?

EXECUTIVE SUMMARY

Our half-century long experiment with development aid has produced flawed results, at best; this is especially true of development efforts in Eastern Europe, the Balkans, and the former Soviet Union. Economist Charles Wheelan captured the central theme of development aid criticism with an old joke:

A peasant discovers that many of his chickens are dying, so he seeks advice from a priest. The priest recommends that the peasant say prayers for his chickens, but the chickens continue to die. The priest then recommends music for the chicken coop, but the deaths continue unabated. Pondering again, the priest recommends repainting the chicken coop in bright colors. Finally, all the chickens die. ‘What a shame,’ the priest tells the peasant, ‘I had so many more good ideas.’²

Yet the problem may lie in dogmatic implementation of development ideology rather than core substance. There is a strong case to be made that capital markets and development projects, which allow individuals and societies the freedom to choose their destinies, are not the problem, but instead the bureaucratic and paternalistic approach historically used to implement such programs. As the *New York Times* very bluntly put it, “the West is not stingy. It is ineffective.”³ Confusing the failed implementation of top-down development plans with the failure of well-regulated capital markets to increase human capabilities “threatens to kill sensible, moderate steps toward the freer movement of goods, ideas, capital, and people.”⁴

¹ *Ex-communist Europe: Home thoughts from abroad, and vice versa*, ECONOMIST (Feb. 11, 2014), <http://www.economist.com/blogs/easternapproaches/2014/02/cee-emigres-return>, (“In our homeland we have no freedom, and in our freedom we have no home.”... That used to be the poignant mantra of the diasporas from the captive nations of east and central Europe in the cold war era.”).

² CHARLES WHEELAN, NAKED ECONOMICS: UNDRESSING THE DISMAL SCIENCE 313 (2010).

³ Virginia Postrel, *How to solve the foreign aid conundrum*, NEW YORK TIMES (March 17, 2006), <http://www.nytimes.com/2006/03/17/arts/17idle18.html?pagewanted=all>.

⁴ William Easterly, *The Weak Link*, FOREIGN POLICY (June 11, 2007), http://www.foreignpolicy.com/articles/2007/06/11/the_ideology_of_development?wp_login_redirect=0.

From a human development perspective, the lingering inefficiencies of socialism and communism were further exacerbated by the West's externally organized development aid methods imported from decades of work in the third world. Unfortunately, methods that evolved in sub-Saharan Africa translated poorly to Eastern Europe, where education levels were frequently on par with those of Western donor countries when the Iron Curtain fell. Moreover, "recipient cultures were not habituated to the ways of aid donors who were accustomed to trampling, fairly unimpeded, over the sovereignty of their local partners; and donors had little if any on-the-ground experience in the countries in question."⁵

Not too surprisingly, views of democracy and capitalism in Eastern Europe and the Former Soviet Union have soured since the fall of the Berlin Wall in 1989.⁶ Nonetheless, World Bank findings indicate that since the disintegration of the Soviet Union, "where [economic] growth has been positive, poverty has declined, and where it has been negative, poverty has increased."⁷ Therefore, outcome focused efforts to improve capital markets and promote economic growth while fostering self-determination and individual freedoms are nearly certain to reduce regional poverty and increase human capabilities.

It is ironic that, after the collapse of communism and the failure of Stalin's "five year plans," the West attempted to fill the resulting vacuum with Central Planning-esque⁸ development aid of strikingly similar structure. The common denominator of communist economic policy was a "focus on quantity rather than quality or profit. The measure of success was the level of production rather than personal consumption."⁹ Interestingly, the West adopted an analogous view focused on the quantity of aid money rather than the quality of such aid or the profit of human development. Re-imagined, Eastern Europe's

⁵ Thomas Carothers, *Western Civil-Society Aid to Eastern Europe and the Former Soviet Union*, E. EUR. CONST. REV. (1999), <http://carnegieendowment.org/1999/09/01/western-civil-society-aid-to-eastern-europe-and-former-soviet-union/4hv6>.

⁶ *Confidence in Democracy and Capitalism Wanes in Former Soviet Union: Twenty Years Later*, PEW RESEARCH GLOBAL ATTITUDES PROJECT (2011), <http://www.pewglobal.org/2011/12/05/confidence-in-democracy-and-capitalism-wanes-in-former-soviet-union/>.

⁷ WORLD BANK, GROWTH, POVERTY, AND INEQUALITY: EASTERN EUROPE AND THE FORMER SOVIET UNION, at 81, <https://openknowledge.worldbank.org/bitstream/handle/10986/7287/34043.pdf?sequence=1>.

⁸ SHARON L WOCHIK & JANE L. CURRY, ED., CENTRAL & EAST EUROPEAN POLITICS: FROM COMMUNISM TO DEMOCRACY, 54 (2011) ("In practice, ...the Communist Party leadership controlled all social and economic organizations and made all major decisions about the economy.").

⁹ *Id.*

development aid and development-targeted loans could mitigate external risks, while shifting responsibility for transparency and efficiency to the beneficiaries and promoting accountability.

Rather than carpet-bombing poor countries with general development aid, we ought to play to the strengths of our “dynamic financial system [which allocates] investment resources to those private uses where they would get the highest return”¹⁰ by investing in individuals. Data suggests we should consider focusing resources on small, context-sensitive projects with measureable benefits. In short, “[a]id could seek to create more opportunities for poor individuals, rather than trying to transform poor societies.”¹¹

Some barriers to human development in Eastern Europe, like graft and lack of transparency, may seem obvious but others, like “soft currency” exchange risk, and the far-flung implications of underdeveloped or red-tape-laden property rights, are less intuitive. These less intuitive barriers exacerbate existing corruption and increase the overall cost and risk of doing business. Therefore, three dramatic changes to the existing system are likely to increase transparency and improve the efficiency and efficacy of future development efforts in Eastern Europe: I) reallocate external risks to international financial institutions and aid organizations, which have the capacity to mitigate those risks; II) assign project execution responsibility to beneficiaries with a hands-off, results-focused approach; and III) increase accountability by supplementing traditional impact evaluations with real-time information from crowd-sourcing and social media.

I: REALLOCATE EXTERNAL RISK

In business, risk is typically borne by the party least able to refuse, but to incentivize economic development in emerging markets external risk ought to be shifted to the party best able to manage that risk. The private sector tradition of passing on the cost of external risk to poor individuals and small businesses does not encourage capital market growth, and subsequently, does not promote human

¹⁰ William Easterly, *The Poor Man’s Burden*, FOREIGN POLICY (Jan. 5, 2009).

¹¹ CHARLES WHEELAN, NAKED ECONOMICS: UNDRESSING THE DISMAL SCIENCE 313 (2010) (quoting William Easterly).

development. In contrast, international aid organizations and development banks are in a unique position to mitigate certain types of external risk through hedging.

As globalization increases, businesses often have the choice between borrowing money in local currency or foreign currency. However, a third option, taking on synthetic local currency (i.e. hedged foreign currency) debt, shifts risk to those most able to mitigate it: international financial institutions and aid organizations. This allows businesses to enter capital markets that otherwise would not have the option, thereby increasing opportunities and choices of individuals. External risks, like exchange rate volatility and government expropriation, can be reallocated to increase individual capabilities and facilitate financial inclusion, with little additional exposure to international financial institutions and aid organizations.

II: ASSIGN EXECUTION RESPONSIBILITY TO BENEFICIARIES

Assigning responsibility to beneficiaries for the successful execution of externally funded projects promotes true systemic change, increases human capabilities, and respects the internationally recognized right to self-determination. Outcome-specific contingencies for development loans and aid funding undermine corruption and inefficiency by encouraging transparency and fostering the rule of law. In other words, beneficiaries ought to be responsible for risks they are best positioned to mitigate, through efforts like pressuring governments for policy changes, refusing to facilitate corruption, and promoting industry transparency.

Thus, although considerable criticism has surrounded proposals to adopt a “Cash on Delivery”¹² model of development aid in Sub-Saharan Africa, this tactic has the potential to work well in the former Soviet Union. Promoting a “culture of results” would allow citizens to determine the most appropriate means for achieving transparency and giving the general population access to the legal system. Results-

¹² *Cash on Delivery*, CENTER FOR GLOBAL DEVELOPMENT, <http://www.cgdev.org/initiative/cash-delivery-aid>; see also NANCY BIRDSALL ET AL., CA\$H ON DELIVERY: A NEW APPROACH TO FOREIGN AID (2011), http://www.cgdev.org/sites/default/files/1423949_file_CODAid_SECOND_web.pdf.

based aid holds particular promise for crystallizing existing extra-legal contracts and agreements and incorporating extra-legal agreements into the evolving legal infrastructure, which is crucial to its success.¹³

The over-arching theme of Cash on Delivery Aid—fully handing over decision-making responsibility to the recipient—“demonstrates a post-ideological humility regarding how to achieve development.”¹⁴ In the context of the former Soviet Union, there is widespread recognition that development aid must decline relative to domestic resources as components of GDP. Therefore, development funding that catalyzes the evolution of accountability between citizens and their government is certainly a step in the right direction.

III: PROMOTING ACCOUNTABILITY AND MEASURING RESULTS

Since development banks and international aid organizations don’t have traditional shareholders, different strategies must be adopted to offset accountability deficits. Accountability consists of two crucial, independent components: 1) ensuring promises are fulfilled and 2) confirming that the desired outcome was achieved. Established methods of independent audits and project reviews can remedy this accountability deficit to some extent, but relying solely on independent impact evaluations is problematic in terms of both cost and feedback delay.

Over the past decade, however, social media has emerged as a potential supplemental check on aid organizations and international financial institutions. In addition to allowing aid organizations to monitor the reach and impact particular projects, social media has the potential to facilitate participatory democracy and civic engagement. Social media is a powerful tool for disseminating information, catalyzing movements, and influencing protest cycles. Yet it remains to be seen whether aid agencies and international financial institutions will fully harness social media’s power to engage, include, and crowd-source the knowledge, opinions, and feedback of local populations and beneficiaries. This new

¹³ HERNANDO DE SOTO, THE MYSTERY OF CAPITAL (2000).

¹⁴ *Id.*

accountability potential is further supported by the fact that levels of Internet penetration in regions of Eastern Europe are increasingly correlated with perceived levels of corruption. “[T]he more people with access to internet in a particular country, the less corrupt that country is perceived to be.”¹⁵

Moreover, social media has been used to map everything from “NFL Fandom”¹⁶ to the number of regular Amtrak riders in a given region¹⁷ and the particular dialect of Twitter users around the world,¹⁸ so mapping the reach or success of a specific aid project would not be a stretch. Unlike its traditional ancestors, social media is uncharted territory and as a result, the ethical boundaries and established paths to success are still evolving. Despite this, social media presents a unique opportunity to involve beneficiaries in the process of self-determination, which increases human capabilities, while holding international organizations accountable on a continuous basis.

CONCLUSION

To summarize, the international model for development aid is broken. Although GDP is an imperfect measure of progress, it can, in combination with tools like the Social Progress Index and the United Nations Human Development Index, provide insight and context with which to evaluate the successes and failures of development efforts thus far. The time has come to abandon the Central Planning-esque philosophy that more money must mean more human development. Instead, it is prudent to embrace proposals to use aid money purposefully to foster human development and self-sufficiency.

Shifting external risks like volatile exchange rates and government expropriation to international financial institutions and aid organizations with the capacity to mitigate such risks, will remove a serious barrier to entry for individuals and small businesses. At the same time, taking a hands-off approach and

¹⁵ STUDY ON THE ROLE OF SOCIAL MEDIA FOR ENHANCING PUBLIC TRANSPARENCY AND ACCOUNTABILITY IN EASTERN EUROPE AND THE COMMONWEALTH OF INDEPENDENT STATES: EMERGING MODELS, OPPORTUNITIES, AND CHALLENGES 7 (UNDP 2011).

¹⁶ Facebook Data Provide the Most Accurate NFL Fandom Map Ever Created, DEADSPIN, <http://deadspin.com/5979970/facebook-data-provides-the-most-accurate-nfl-fandom-map-ever-created>.

¹⁷ Amtrak: the Map that Shows the Real Problem, ECONOMIST, Jul. 18, 2014, <http://www.economist.com/blogs/gulliver/2014/07/Amtrak>.

¹⁸ Matthew Arcilla, Twitter Study Maps the ‘Superdialects’ of the Wired World, GMA NEWS (Aug. 14, 2014, 6:43 PM), <http://www.gmanetwork.com/news/story/374858/scitech/socialmedia/twitter-study-maps-the-superdialects-of-the-wired-world>.

giving beneficiaries responsibility for project execution creates a sense of ownership and promotes legitimate systemic change within recipient countries. Finally, augmenting traditional impact evaluation techniques with informal social media audits can improve feedback and allow real-time changes to be made during the life of a project at a reasonable cost.

In short:

[Eighty-five] years ago, a depression changed the way we think about poverty. It took decades for the world to recover and to remember that if people are given freedom, they will prosper. Now, in the wake of another massive meltdown, the fear that shocked us into depending on government to fix poverty is spreading once again—and threatening to undo many of the gains we've made.¹⁹

Capital markets are not the silver bullet for poverty in Eastern Europe and the former Soviet Union, but failed development aid, and the resulting animosity towards capital markets, should not be confused with failure of capital markets themselves.

¹⁹ William Easterly, *The Poor Man's Burden*, FOREIGN POLICY (Jan. 5, 2009).

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INTRODUCTION

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It is often said that, “[i]f the developing countries had a dollar for every proposal to change the ‘international financial architecture’, the problem of third-world poverty would be solved.”³

As former World Bank economist, William Easterly, argues, however, the problem may lie in dogmatic implementation of development ideology rather than core substance:

Like all ideologies, Development promises a comprehensive final answer to all of society’s problems, from poverty and illiteracy to violence and despotic rulers. It shares the common ideological characteristic of suggesting there is only one correct answer, and it tolerates little dissent. It deduces this unique answer for everyone from a general theory that purports to apply to everyone, everywhere. There’s no need to involve local actors who reap its costs and benefits. Development even has its own intelligentsia, made up of experts at the International Monetary Fund (IMF), World Bank, and United Nations.⁴

¹ *Ex-communist Europe: Home thoughts from abroad, and vice versa*, ECONOMIST (Feb. 11, 2014), <http://www.economist.com/blogs/easternapproaches/2014/02/cee-emigres-return>, (“In our homeland we have no freedom, and in our freedom we have no home.’... That used to be the poignant mantra of the diasporas from the captive nations of east and central Europe in the cold war era.”).

² CHARLES WHEELAN, NAKED ECONOMICS: UNDRESSING THE DISMAL SCIENCE 313 (2010).

³ *Reforming the sisters*, ECONOMIST (Feb. 15, 2001), <http://www.economist.com/node/507360>.

⁴ William Easterly, *The Weak Link*, FOREIGN POLICY (June 11, 2007), http://www.foreignpolicy.com/articles/2007/06/11/the_ideology_of_development?wp_login_redirect=0.

Easterly goes on to point out that:

The ‘one correct answer’ came to mean ‘free markets,’ and, for the poor world, it was defined as doing whatever the IMF and the World Bank tell you to do. ... So, one of the best economic ideas of our time, the genius of free markets, was presented in one of the worst possible ways, with unelected outsiders imposing rigid doctrines on the xenophobic unwilling.⁵

Thus, there is a strong case to be made that capital markets and development projects, which allow individuals and societies the freedom to “choose their destinies,”⁶ are not the problem, but instead the bureaucratic and paternalistic approach historically used to implement such programs.

As the *New York Times* bluntly put it, “the West is not stingy. It is ineffective.”⁷ Easterly convincingly proposes there are really two tragedies of the world’s poor. The first is well known: “that so many people suffer so much for lack of inexpensive remedies.”⁸ The second is the tragedy in which the West spent trillions of dollars in foreign aid over the last five decades without managing to alleviate the suffering or provide the requisite inexpensive remedies.⁹ Confusing the failed implementation of top-down development plans with the failure of well-regulated capital markets¹⁰ to increase human capabilities “threatens to kill sensible, moderate steps toward the freer movement of goods, ideas, capital, and people.”¹¹

⁵ *Id.*; see generally Christopher Kilby, *The political economy of project preparation: An empirical analysis of World Bank projects*, 105 J. ECON. DEV. 211 (2013) (discussing the probability of favoritism by the World Bank when approving project financing for geopolitically important or well-connected countries).

⁶ William Easterly, *The Weak Link*, FOREIGN POLICY (June 11, 2007), http://www.foreignpolicy.com/articles/2007/06/11/the_ideology_of_development?wp_login_redirect=0.

⁷ Virginia Postrel, *How to solve the foreign aid conundrum*, NEW YORK TIMES (March 17, 2006), <http://www.nytimes.com/2006/03/17/arts/17iht-idlede18.html?pagewanted=all>.

⁸ *Id.*

⁹ *Id.*

¹⁰ See generally ANEEL KARNANI, FIGHTING POVERTY TOGETHER: RETHINKING STRATEGIES FOR BUSINESS, GOVERNMENTS, AND CIVIL SOCIETY TO REDUCE POVERTY, 185 (2011) (addressing government intervention and regulation of capital markets).

AN IMPERFECT MEASURE OF PROGRESS

“Success” in the former Soviet Bloc, and the developing world, is still frequently equated with increased Gross Domestic Product (GDP). GDP is a useful, but misunderstood, indicator. In 1968, Bobby Kennedy observed that “[GDP] measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile. And it can tell us everything about America except why we are proud that we are Americans.”¹²

GROSS DOMESTIC PRODUCT (GDP)

In the 46 years since Bobby Kennedy’s speech, use of GDP as shorthand for national welfare has not diminished. Created “to measure economic activity during the Great Depression, GDP quickly became the defining measure of national progress. GDP growth is how we tell whether a country is improving, and GDP per capita has become the definitive measure of the standard of living.”¹³ In reality, “GDP measures only output, and makes no claims on the quality of that output, let alone on subjective concepts such as social progress or human happiness.”¹⁴ As Steve Landefeld, who calculates GDP for the United States at the Bureau of Economic Analysis, explains:

[GDP] was designed to do exactly what it does today, which is to pull together all the diverse pieces of economic data, …some of which are going up, some of which are going down, some of which double count one another — into one comprehensive and consistent picture of what is happening to the economy.¹⁵

¹¹ William Easterly, *The Weak Link*, FOREIGN POLICY (June 11, 2007), http://www.foreignpolicy.com/articles/2007/06/11/the_ideology_of_development?wp_login_redirect=0.

¹² Bobby Kennedy, N.Y. Sen., Address at the University of Kansas (Mar. 18, 1968), <http://www.jfklibrary.org/Research/Research-Aids/Ready-Reference/RFK-Speeches/Remarks-of-Robert-F-Kennedy-at-the-University-of-Kansas-March-18-1968.aspx>.

¹³ Michael E. Porter, *Better Measuring a Country*, *Boston Globe*, Jan. 12, 2014, <http://www.bostonglobe.com/opinion/2014/01/11/porter/XQHHPo1gDtuOjgNDotzDMP/story.html>.

¹⁴ *GDP: An Imperfect Measure of Progress*, BLOOMBERG VIEW (Jan. 30, 2013), <http://www.bloombergview.com/articles/2013-01-30/gdp-an-imperfect-measure-of-progress>.

¹⁵ Robert Smith, *Why GDP Is Like GPA*, NAT’L PUB. RADIO (Oct. 28, 2011), <http://www.npr.org/blogs/money/2011/10/28/141807689/why-gdp-is-like-gpa> (Robert Smith interviewing Steve Landefeld, the man in charge of calculating GDP at the U.S. Bureau of Economic Analysis).

“GDP is not bad — it just measures what it measures, and what it measures is limited.”¹⁶

MEASURING HUMAN DEVELOPMENT AND SOCIAL PROGRESS

Accordingly, a growing number of economists have questioned whether GDP is sufficient to measure human development and the success of nations.¹⁷ In the aftermath of the 2008 financial crisis, economists Joseph Stiglitz,¹⁸ Amartya Sen,¹⁹ and Jean-Paul Fitoussi argued: “If we have the wrong metrics, we will strive for the wrong things.”²⁰ Even Simon Kuznets, the economist who invented Gross Domestic Product in 1937,²¹ made it clear at the time that GDP was only a limited economic lens through which to assess progress. “‘The welfare of a nation,’ he wrote..., ‘can scarcely be inferred from a measurement of national income.’”²²

Thus, the need to provide a better measurement has been widely recognized. The United Nations Human Development Index (HDI) was formulated for this purpose nearly 25 years ago, but the HDI relies on “a limited number of indicators, one of which is GDP.”²³ Such limitations make the HDI an

¹⁶ Porter, *supra* note 13.

¹⁷ Elizabeth Dickinson, *GDP: A Brief History*, FOREIGN POLICY (Jan. 2, 2011), http://www.foreignpolicy.com/articles/2011/01/02/gdp_a_brief_history, (Economist Moses Abramovitz [became] one of the first to question whether GDP accurately measures a society’s overall well-being, cautioning “we must be highly skeptical of the view that long-term changes in the rate of growth of welfare can be gauged even roughly from changes in the rate of growth of output.”).

¹⁸ *Id.*, (In 2009, “[t]he French government released a report, co-authored by Nobel Prize-winning economist Joseph Stiglitz, that calls for an end to ‘GDP fetishism.’”).

¹⁹ *Id.*, (regarding the creation of the UN human development index in 1990, “U.N. economist Mabbub ul Haq convince[d] future Nobel laureate Amartya Sen to create ‘an index as vulgar as GDP but more relevant to our own lives,’ as Sen remembers it.”).

²⁰ JOSEPH STIGLITZ, AMARTYA SEN, & JEAN-PAUL FITOUSSI, MISMEASURING OUR LIVES: WHY GDP DOESN’T ADD UP (2013).

²¹ Dickinson, *supra* note 17.

²² Porter, *supra* note 13.

²³ *Id.*

“incomplete guide to the societal challenges and opportunities that countries — rich, poor, and emerging — face in the 21st century.”²⁴

This information void led to the development of the Social Progress Index,²⁵ which aims to be “the most inclusive and ambitious effort ever attempted to measure social progress comprehensively.”²⁶ The idea originated as part of a World Economic Forum movement “to increase the impact that social entrepreneurs, business leaders, and policy makers can have in the world.”²⁷ Because the Social Progress Index is based exclusively on social and environmental inequality indicators,²⁸ it is intended to complement, rather than replace, GDP.²⁹

²⁴ *Id.*

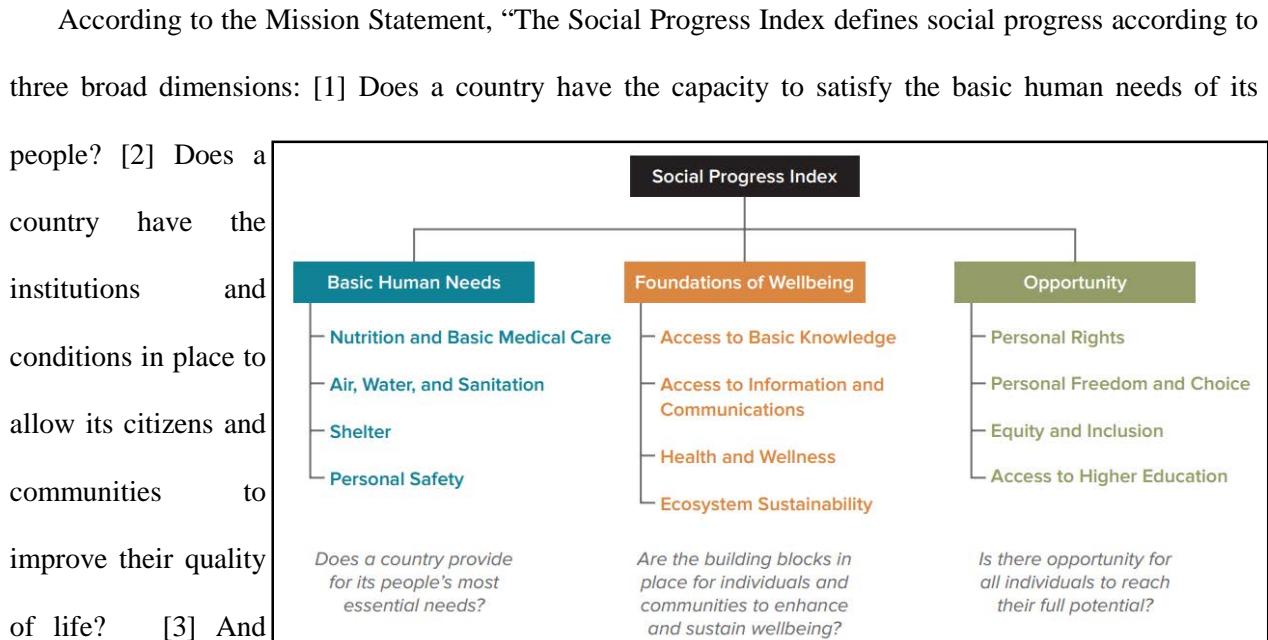
²⁵ SOCIAL PROGRESS IMPERATIVE: ORIGINS, <http://www.socialprogressimperative.org/about/origins> (“The original idea for the Social Progress Index was conceived within the World Economic Forum’s Global Agenda Council on Philanthropy and Social Investing, chaired by *The Economist*’s New York Bureau Chief Matthew Bishop. … The conceptual underpinnings draw heavily on the work done by Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi for France’s Commission on the Measurement of Economic Performance and Social Progress.”).

²⁶ Porter, *supra* note 13; see also *Feast and famine: Demography and development*, ECONOMIST (Apr. 18, 2013), <http://www.economist.com/blogs/feastandfamine/2013/04/social-progress>.

²⁷ SOCIAL PROGRESS IMPERATIVE: ORIGINS, <http://www.socialprogressimperative.org/about/origins>.

²⁸ “Inequality is often framed in terms of income of individuals whereas the Social Progress Index captures differences in quality of life. The Social Progress Index shows that countries which are unequal in terms of the indicators measured score lower on overall social progress compared to other countries where larger portions of the population are experiencing the outcomes of social progress. Neither a focus on income inequality nor social inequality alone paints a complete picture of what really matters to real people.” Sarah Orzell, *The Missing Dimension of the Inequality Debate*, SOCIAL PROGRESS IMPERATIVE (Oct. 15, 2014), <http://www.socialprogressimperative.org/blog/posts/the-missing-dimension-of-the-inequality-debate>.

²⁹ Governments of Brazil, Costa Rica, Peru, and Guatemala have signed Memorandums of Understanding expressing their intent to use the Social Progress Index as “a tool able to generate inputs for decision-making processes of public interest, and for impact assessment of public policies.” See Jonathan Talbot, #PROGRESO Social Brasil Presents IPS Amazonia to the Brazilian Government, SOCIAL PROGRESS IMPERATIVE (Sept. 15, 2014), <http://www.socialprogressimperative.org/blog/posts/progresso-social-brasil-presents-ips-amazonia-to-the-brazilian-government>; e.g. MOU Signed with Government of Costa Rica to Study the Contributions of Cooperativism to Social Progress, SOCIAL PROGRESS IMPERATIVE (Sept. 24, 2014), <http://www.socialprogressimperative.org/blog/posts/mou-signed-with-government-of-costa-rica-to-study-the-contributions-of-cooperativism-to-social-progress>; e.g. Jonathan Talbot, #PROGRESO SOCIAL Peru Launched Today!, SOCIAL PROGRESS IMPERATIVE (Sept. 15, 2014), <http://www.socialprogressimperative.org/blog/posts/progreso-social-peru-launched-today>; e.g. Jonathan Talbot, Launching Our Newest Country-Level Network Today in Guatemala, SOCIAL PROGRESS IMPERATIVE (Nov. 3, 2014), <http://www.socialprogressimperative.org/blog/posts/launching-our-newest-country-level-network-today-in-guatemala>.



Yet, GDP remains immensely important to governments, businesses, and the news media. As a result, misincentives and misunderstanding encourage reasonable groups to act in ways that otherwise would not make sense. Not surprisingly, this generalization applies to governments under pressure to boost reports of domestic GDP growth. The United Kingdom, for example, recently joined Estonia, Austria, Slovenia, Finland, Norway, and Sweden in the decision to include “prostitution and the import, manufacture, and consumption of illegal drugs like crack cocaine and heroin … in the official estimates of the country’s economy.”³² It is important to remember that when the perceived worth of a country hangs on a single

³⁰ Porter, *supra* note 13..

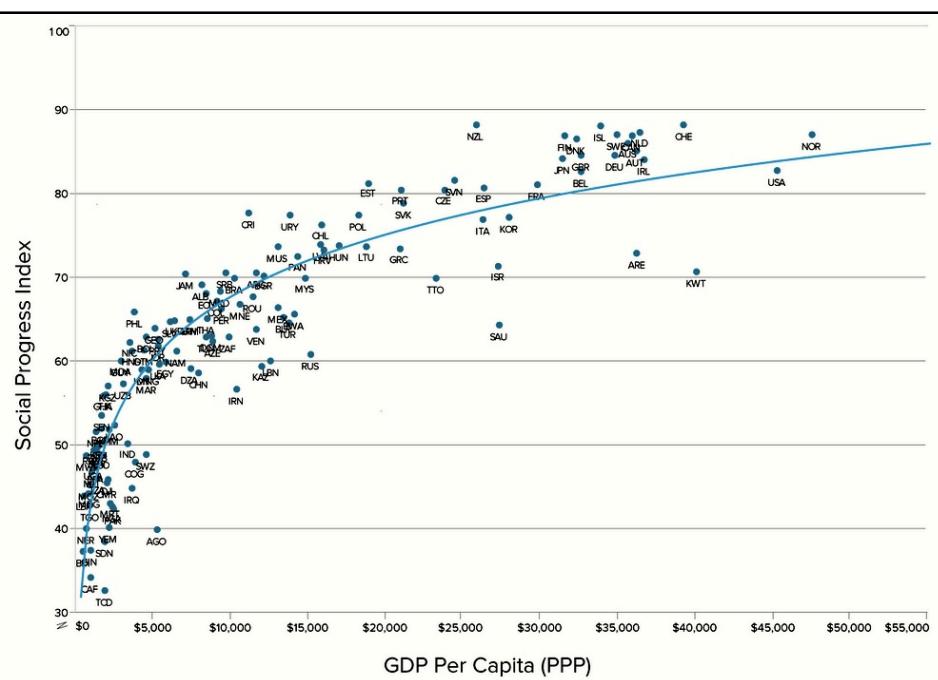
³¹ SOCIAL PROGRESS INDEX, <http://www.socialprogressimperative.org/data/spi/findings>

³² UK To Count Prostitution, Drugs When Measuring GDP, NAT'L PUB. RADIO (May 30, 2014), <http://www.npr.org/templates/story/story.php?storyId=317319336>; accord Bill Chappell, Seeking A Boost: Italy To Include Cocaine Sales In GDP Numbers, NAT'L PUB. RADIO (May 23, 2014), <http://www.npr.org/blogs/thetwo-way/2014/05/23/315259446/seeking-a-boost-italy-to-include-cocaine-sales-in-gdp-numbers>.

number, it is easy to lose sight of human development and increased human capabilities as the true prize of economic success.

CORRELATION BETWEEN ECONOMIC GROWTH AND HUMAN DEVELOPMENT

Despite the many shortcomings of GDP as a standalone measure, however, there is a definite positive correlation between economic growth and social progress.³³ Thus, for the vast majority of countries,³⁴ economic



growth is a necessary, but insufficient, condition³⁵ to human development.

As the largest single charitable organization in the United States,³⁶ the Catholic Church is well-versed on the topic of human development and aid, and suggests:

...the answer to problems with the free market is not to reject economic liberty in favor of government control. The church has consistently rejected coercive systems of socialism

³³ SOCIAL PROGRESS INDEX, <http://www.socialprogressimperative.org/data/spi/findings>; see generally ROBERT D. COOTER & HANS-BERND SCHAFER, SOLOMON'S KNOT: HOW LAW CAN END THE POVERTY OF NATIONS (2012); e.g. C.K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits* 103, 109 (2010) ("Transactions governance capacity is about making the entire process as transparent as possible and consistently enforced.").

³⁴ SOCIAL PROGRESS INDEX, <http://www.socialprogressimperative.org/data/spi/findings> (“Social progress is distinct from economic development, though correlated with it. Some countries with low GDP per capita are able to achieve surprising levels of social progress, while some relatively prosperous nations register levels of social progress lower than less wealthy countries.”).

³⁵ See generally NECESSARY VERSUS SUFFICIENT CONDITIONS, <http://philosophy.wisc.edu/hausman/341/Skill/nec-suf.htm>. (explaining the difference between necessary and sufficient conditions).

³⁶ See *The Catholic Church in America: Earthly Concerns*, ECONOMIST (Aug.12, 2012) <http://www.economist.com/node/21560536>.

and collectivism, because they violate inherent human rights to economic freedom and private property. When properly regulated, a free market can certainly foster greater productivity and prosperity. But, as the pope continually emphasizes, the essential element is genuine human virtue. The church has long taught that the value of any economic system rests on the personal virtue of the individuals who take part in it, and on the morality of their day-to-day decisions. Business can be a noble vocation, so long as those engaged in it also serve the common good, acting with a sense of generosity in addition to self-interest.³⁷

AS VLADIMIR LENIN ASKED IN 1902, “WHAT IS TO BE DONE?”³⁸

Consider the following question: “What if global poverty is increasingly focused either in countries which do not really need aid or in countries [that] cannot absorb aid easily and quickly?”³⁹

There is a strong case to be made that this is already the reality in much of Eastern Europe and the Former Soviet Union where more than “60 million [people] are poor and more than 150 million are vulnerable.”⁴⁰ Yet hindrances to poverty reduction in the former Soviet Bloc stand apart from impediments to social progress in other parts of the world. “[T]he legacy of the former socialist systems of production means that huge inefficiencies exist in the way production is organized, how infrastructure is deployed, and where people are located.”⁴¹

³⁷ Cardinal Timothy Dolan, *The Pope's Case for Virtuous Capitalism*, WALL ST. J. (May 22, 2014), <http://online.wsj.com/news/articles/SB10001424052702304198504579572571508689630?KEYWORDS=economic+progress+and+social+progress&mg=reno64-wsj>.

³⁸ See generally Lenin, *What is to be Done?*, DOCUMENTS IN RUSSIAN HISTORY, http://academic.shu.edu/russianhistory/index.php/Lenin,_What_is_to_be_Done (referencing one of Lenin’s famous communist manifestos).

³⁹ *Aid agencies of the future: Poverty, geography and the double dilemma*, ECONOMIST (Jun. 3, 2013) [⁴⁰ ASAD ALAM, GROWTH, POVERTY AND INEQUALITY: EASTERN EUROPE AND THE FORMER SOVIET UNION \(2005\) <https://openknowledge.worldbank.org/handle/10986/7287>.](http://www.economist.com/blogs/feastandfamine/2013/06/aid-agencies-future; see also PETER EDWARD & ANDY SUMNER, THE FUTURE OF GLOBAL POVERTY IN A MULTI-SPEED WORLD: NEW ESTIMATES OF SCALE, LOCATION, AND COST (2013), http://www.kcl.ac.uk/aboutkings/worldwide/initiatives/global/intdev/people/Sumner/Edward-Sumner-Version04March2013.pdf; accord PAUL COLLIER, THE BOTTOM BILLION: WHY THE POOREST COUNTRIES ARE FAILING AND WHAT CAN BE DONE ABOUT IT (2007).</p></div><div data-bbox=)

⁴¹ WORLD BANK, GROWTH, POVERTY, AND INEQUALITY: EASTERN EUROPE AND THE FORMER SOVIET UNION, at 4, <https://openknowledge.worldbank.org/bitstream/handle/10986/7287/34043.pdf?sequence=1>; see generally ANDERS AASLUND, BUILDING CAPITALISM: THE TRANSFORMATION OF THE FORMER SOVIET BLOC 167 (2002) (providing a detailed history of Eastern Europe’s transition from central planning to market economies); accord MARIE LAVIGNE, THE ECONOMICS OF TRANSITION: FROM SOCIALIST ECONOMY TO MARKET ECONOMY (1999).

From a human development perspective, the lingering inefficiencies of socialism and communism were further exacerbated by the West's externally organized development aid methods imported from decades of work in the third world.⁴² Unfortunately, methods that evolved in sub-Saharan Africa translated poorly to Eastern Europe, where education levels were frequently on par with those of Western donor countries when the Iron Curtain fell.⁴³ Moreover, "recipient cultures were not habituated to the ways of aid donors who were accustomed to trampling, fairly unimpeded, over the sovereignty of their local partners; and donors had little if any on-the-ground experience in the countries in question."⁴⁴

William Easterly contends that if rich Westerners "truly want to help the poor, rather than just congratulate themselves for their generosity,"⁴⁵ they must be willing to abandon tactics that have failed to create change. Easterly contrasts the "traditional 'Planner' approach of most aid projects with the 'Searcher' approach that works so well in the markets and democracies of the West. 'Searchers' treat problem-solving as an incremental discovery process, relying on competition and feedback to figure out what works."⁴⁶

A Planner thinks he already knows the answers; he thinks of poverty as a technical engineering problem that his answers will solve. A Searcher admits he doesn't know the answers in advance; he believes that poverty is a complicated tangle of political, social, historical, institutional and technological factors. A Searcher hopes to find answers to individual problems only through trial and error experimentation. A Planner believes outsiders know enough to impose solutions.⁴⁷

⁴² Thomas Carothers, *Western Civil-Society Aid to Eastern Europe and the Former Soviet Union*, E. EUR. CONST. REV. (1999), <http://carnegieendowment.org/1999/09/01/western-civil-society-aid-to-eastern-europe-and-former-soviet-union/4hv6>; e.g. Tony Killick et al., *Eastern Europe: Lessons on Economic Adjustment from the Third World*, 67 INT'L AFF. 679-696 (1991), <http://www.jstor.org.proxy.library.nd.edu/stable/10.2307/2622439?ref=search-gateway:d08990f22cca36efa2a1b9d3f2008421>.

⁴³ Thomas Carothers, *Western Civil-Society Aid to Eastern Europe and the Former Soviet Union*, E. EUR. CONST. REV. (1999), <http://carnegieendowment.org/1999/09/01/western-civil-society-aid-to-eastern-europe-and-former-soviet-union/4hv6>.

⁴⁴ *Id.*; see generally HERNANDO DE SOTO, THE MYSTERY OF CAPITAL: WHY CAPITALISM TRIUMPHS IN THE WEST AND FAILS EVERYWHERE ELSE (2000) (challenging the assumption that poor countries are necessarily both asset-poor and capital-poor).

⁴⁵ Virginia Postrel, *How to solve the foreign aid conundrum*, NEW YORK TIMES (March 17, 2006), <http://www.nytimes.com/2006/03/17/arts/17iht-idlede18.html?pagewanted=all>.

⁴⁶ *Id.*

Development economist, Paul Collier, highlights a related problem with the current model: “The statistical evidence generally suggests that aid is subject to what is called ‘diminishing returns.’ That is, as you keep on increasing aid, you get less and less bang for the buck: the first million dollars is more productive than the second, and so on.”⁴⁸ Collier posits that an estimate of diminishing returns, under existing modalities, implies that the absorption of aid is limited to about 16% of GDP.⁴⁹

ALIGNING ECONOMIC GROWTH AND HUMAN DEVELOPMENT

Once the relationship between economic growth and human development potential is established, we must acknowledge that aligning economic goals and human development goals in Eastern Europe and the former Soviet Union is daunting but not impossible. Economic growth and economic equality are not mutually exclusive.⁵⁰ Moreover, the Cold War assumption that there is a trade-off between economic growth and egalitarian distribution of resources is a fallacy.⁵¹

⁴⁷ WILLIAM R. EASTERLY, THE WHITE MAN'S BURDEN: WHY THE WEST'S EFFORTS TO AID THE REST HAVE DONE SO MUCH ILL AND SO LITTLE GOOD 7 (2007).

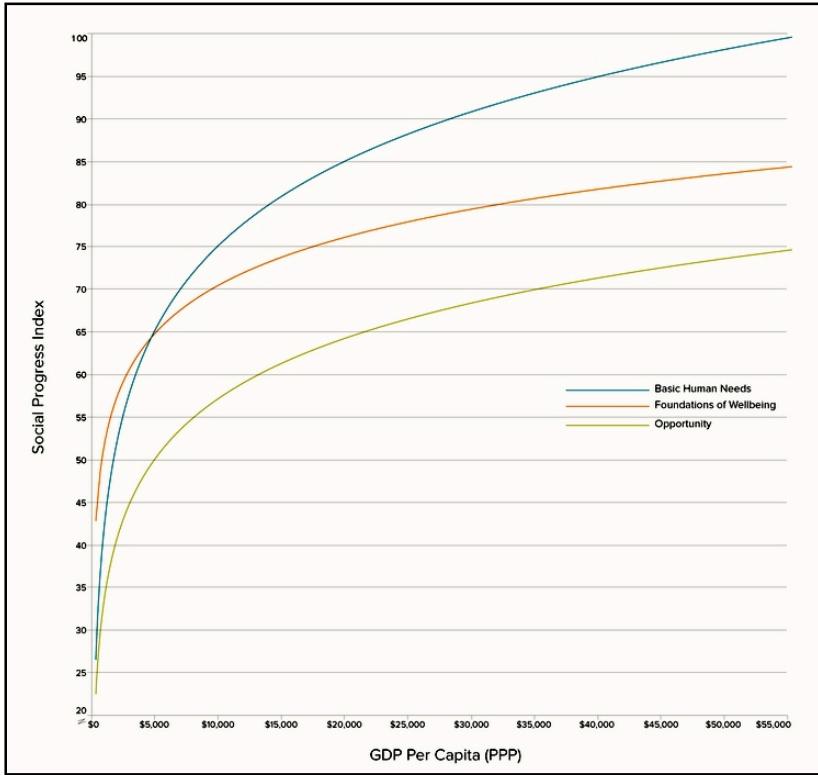
⁴⁸ PAUL COLLIER, THE BOTTOM BILLION: WHY THE POOREST COUNTRIES ARE FAILING AND WHAT CAN BE DONE ABOUT IT, at 100 (2007).

⁴⁹ *Id.*

⁵⁰ See generally C.K. Prahalad & Allen Hammond, *Serving the World's Poor, Profitably*, 80(9) HARV. BUS. R., 48-57.

⁵¹ See *Inequality and Efficiency: the Last Casualty of the Cold War*, ECONOMIST (Apr. 23, 2014), <http://www.economist.com/blogs/democracyinamerica/2014/04/inequality-and-efficiency?page=4&spc=scode&spv=xm&ah=9d7f7ab945510a56fa6d37c30b6f1709>; e.g. JAMES R. MILLAR & SHARON L. WOLCHIK, EDS., THE SOCIAL LEGACY OF COMMUNISM (1994).

Not too surprisingly, views of democracy and capitalism in Eastern Europe and the Former Soviet Union have soured since the fall of the Berlin Wall in 1989.⁵² Nonetheless, World Bank findings indicate



that since the collapse of the Soviet Union, “where [economic] growth has been positive, poverty has declined, and where it has been negative, poverty has increased.”⁵³ Therefore, outcome focused efforts to improve capital markets and promote economic growth while fostering self-determination and individual freedoms are nearly certain to reduce regional poverty and increase human capabilities.

INCENTIVIZING DESIRED OUTCOMES AS A MEANS OF IMPROVING EFFICIENCY AND EFFECTIVENESS

Rather than carpet-bombing poor countries with general development aid, we ought to play to the strengths of our “dynamic financial system [which allocates] investment resources to those private uses where they would get the highest return”⁵⁴ by investing in individuals.⁵⁵ Data suggests we should

⁵² *Confidence in Democracy and Capitalism Wanes in Former Soviet Union: Twenty Years Later*, PEW RESEARCH GLOBAL ATTITUDES PROJECT (2011), <http://www.pewglobal.org/2011/12/05/confidence-in-democracy-and-capitalism-wanes-in-former-soviet-union/>; see generally ZOLTAN D. BARANY & IVAN VOLGYES, EDS., LEGACIES OF COMMUNISM IN EASTERN EUROPE (1995) (identifying distinctive aspects of the Communist period and considering the possibility that the Communist experience left lasting, unsolvable problems).

⁵³ WORLD BANK, GROWTH, POVERTY, AND INEQUALITY: EASTERN EUROPE AND THE FORMER SOVIET UNION, at 81, <https://openknowledge.worldbank.org/bitstream/handle/10986/7287/34043.pdf?sequence=1>.

⁵⁴ William Easterly, *The Poor Man’s Burden*, FOREIGN POLICY (Jan. 5, 2009).

consider focusing resources on small, context-sensitive projects with measureable benefits.⁵⁶ In short, “[aid] could seek to create more opportunities for poor individuals, rather than trying to transform poor societies.”⁵⁷

It is ironic that, after the fall of communism and the failure of Stalin’s “five year plans,”⁵⁸ the West attempted to fill the resulting vacuum with Central Planning-esque⁵⁹ development aid of strikingly similar structure. The common denominator of communist economic policy was a “focus on quantity rather than quality or profit. The measure of success was the level of production rather than personal consumption.”⁶⁰ Interestingly, the West adopted an analogous view focused on the quantity of aid money rather than the

⁵⁵ E.g. Jürgen von Hagen et al., *Financial Development, International Capital Flows, and Aggregate Output*, 106 J. DEV. ECON. 66 (2014) (finding that “Foreign Direct Investment inflows are more strongly positively related to improvement in human development when Foreign Direct Investment policy restricts foreign investors from entering some economic sectors and when it discriminates against foreign investors relative to domestic investors”); accord Bill Gates, CEO Microsoft, Keynote Speech at World Economic Forum in Davos, Switzerland (Jan. 24, 2008) (“The genius of capitalism lies in its ability to make self-interest serve the wider interest. The potential of a big financial return for innovation unleashes a broad set of talented people in pursuit of many different discoveries. This system, driven by self-interest, is responsible for the incredible innovations that have improved so many lives.”).

⁵⁶ The Acumen Fund is a fascinating example of this approach. “Acumen models itself after a venture capital fund and brings in management and entrepreneurial expertise to help build the companies’ financial independence. To that end, Acumen has a mantra on business fundamentals on how to design, price, distribute and market goods and services. But the audience it is focusing on are people who live on less than \$4 a day, and Acumen’s goal is to provide them affordable, critical goods and services that have otherwise been neglected by the marketplace.” Jennifer Lee, *A Charity With an Unusual Interest in the Bottom Line*, NEW YORK TIMES (Nov. 13, 2006), <http://www.nytimes.com/2006/11/13/us/13acumen.html?pagewanted=print&module=Search&mabReward=relbias%3Ar%2C%7B%221%22%3A%22RI%3A7%22%7D>; e.g. ACUMEN, <http://acumen.org/> (“The markets alone cannot solve the problems of poverty; nor are charity and aid enough to tackle the challenges faced by over two-thirds of the world’s population living in poverty. Patient capital is a third way that seeks to bridge the gap between the efficiency and scale of market-based approaches and the social impact of pure philanthropy.”); accord JACQUELINE NOVOGRATZ, THE BLUE SWEATER (2009).

⁵⁷ CHARLES WHEELAN, NAKED ECONOMICS: UNDRESSING THE DISMAL SCIENCE 313 (2010) (quoting William Easterly).

⁵⁸ See generally *Modern World History: Russia/ USSR 1905-1941*, BBC BITESIZE, <http://www.bbc.co.uk/schools/gcsebitesize/history/mwh/russia/stalinfiveyearplansrev1.shtml> (“Stalin realized that if Russia was to become a key player in the global market, the country needed to industrialize rapidly and increase production. To do this, Stalin introduced the Five-year Plans. Stalin’s chief aim was to expand industrial production. For this, he developed three Five-year Plans between 1928 and 1938.”).

⁵⁹ SHARON L WOCHIK & JANE L. CURRY, ED., CENTRAL & EAST EUROPEAN POLITICS: FROM COMMUNISM TO DEMOCRACY, 54 (2011) (“In practice, ...the Communist Party leadership controlled all social and economic organizations and made all major decisions about the economy.”).

⁶⁰ *Id.*

quality of such aid or the profit of human development. Re-imagined, Eastern Europe's development aid and development-targeted loans could mitigate external risks, while shifting responsibility for transparency and efficiency to the beneficiaries and promoting accountability.

Some barriers to human development in Eastern Europe, like corruption⁶¹ and lack of transparency,⁶² may seem obvious but others, like "soft currency" exchange risk, and the far-flung implications of underdeveloped or red-tape-laden property rights, are less intuitive. These less intuitive barriers exacerbate existing corruption and increase the overall cost and risk of doing business. Therefore, three dramatic changes to the existing system are likely to increase transparency and improve the efficiency⁶³ and efficacy of future development efforts in Eastern Europe: I) reallocate external risks to international financial institutions and aid organizations, which have the capacity to mitigate those risks; II) assign project execution responsibility to beneficiaries with a hands-off, results-focused approach; and III) increase accountability by supplementing traditional impact evaluations with real-time information from crowd-sourcing and social media. In the nomenclature of the Human Development Approach, these changes might come close to striking the Sen-ian balance between Easterly and Sachs.⁶⁴

⁶¹ See generally S.L. Reiter et al., *Human Development and Foreign Direct Investment in Developing Countries: The Influence of FDI Policy and Corruption*, 38 WORLD DEV. 1678-1691 (2010), <http://www.sciencedirect.com.proxy.library.nd.edu/science/article/pii/S0305750X10000926>; see also ROBERT D. COOTER & HANS-BERND SCHAFER, SOLOMON'S KNOT: HOW LAW CAN END THE POVERTY OF NATIONS, 159 (2012).

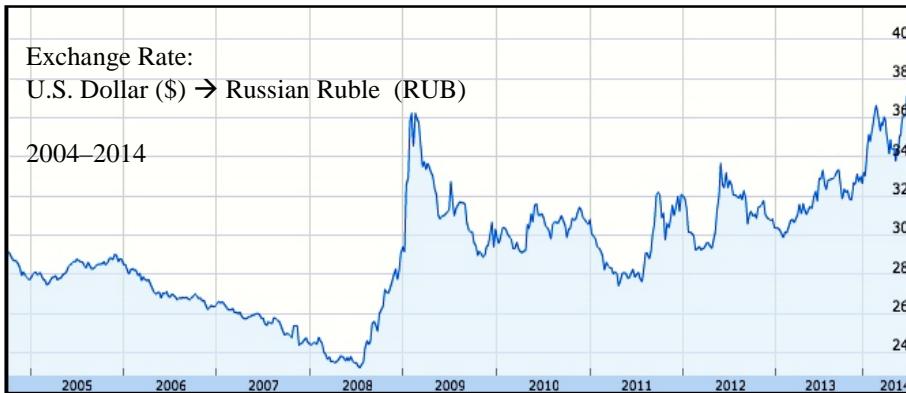
⁶² See generally Paul Moffatt & Vesselina Haralampieva, *Through the looking glass: the role of the Extractive Industries Transparency Initiative (EITI) in sustainable resource development*, <http://www.ebrd.com/downloads/research/law/lit14eb.pdf>.

⁶³ M. Talmaciu, *Role of Institutions in the Economic Development of Central and Eastern EU Countries*, J. E. EUR. RES. IN BUS. & ECON. 1-13 (2012), <http://search.proquest.com.proxy.library.nd.edu/docview/1447096437/abstract?accountid=12874>.

⁶⁴ The point of consensus between the Jeffrey Sachs (THE END OF POVERTY)/Bono development camp and the opposing William Easterly (THE WHITE MAN'S BURDEN: WHY THE WEST'S EFFORTS TO AID THE REST HAVE DONE SO MUCH ILL AND SO LITTLE GOOD)/Dambisa Moyo (DEAD AID: WHY AID IS NOT WORKING AND HOW THERE IS A BETTER WAY FOR AFRICA) development camp, probably lies somewhere very near the Amartya Sen school of thought. Jeffrey Sachs often misses the forest for the trees, and in his fervor to solve third-world infrastructure problems and continuously increase the flow of aid money from the West, forgets that the development aid beneficiaries might benefit most from fewer layers of bureaucracy and decentralized planning. William Easterly, on the other hand, in his remarkable post-World-Bank skepticism, fails to give successful development aid initiatives credit where credit is due, and despite broad generalizations regarding the failures of development aid, hesitates to extract lessons and generalizable principles from experience or propose possible solutions. In contrast, Amartya Sen

I: REALLOCATE EXTERNAL RISK

In business, risk is typically borne by the party least able to refuse, but to incentivize economic



development in emerging markets external risk ought to be shifted to the party best able to manage that risk. The private sector tradition of passing on the cost of

external risk to poor individuals and small businesses does not encourage capital market growth, and subsequently, does not promote human development. In contrast, international aid organizations and development banks are in a unique position to mitigate certain types of external risk through hedging.⁶⁵

Businesses in countries that do not operate primarily in “hard currency”⁶⁶ are frequently qualified candidates for foreign investment and international loans, yet operating in “soft currency” is problematic.⁶⁷ An excellent example of this “soft currency” problem occurred in 1990 when Pepsi wanted

(DEVELOPMENT AS FREEDOM) seems to strike the balance between realist and optimist in the world of human development. He demonstrates a zen-like understanding that development is meaningless unless it increases individual freedom and quality of life, while recognizing that unregulated markets do not necessarily distribute wealth equitably.

⁶⁵ See generally ROBERT D. COOTER & HANS-BERND SCHAFER, SOLOMON’S KNOT: HOW LAW CAN END THE POVERTY OF NATIONS, 101 (2012) (discussing the importance of a formal banking system in economic growth); see also Alexander Kolyandr, *Ukraine Gets International Backing for Anti-Corruption Initiative*, WALL ST. J. (May 12, 2014), <http://blogs.wsj.com/frontiers/2014/05/12/ukraine-gets-international-backing-for-anti-corruption-initiative/?KEYWORDS=development+bank>; accord Lilian A. Barria et al., *Economic Transition in Latin American and Post-Communist Countries: A Comparison of Multilateral Development Banks*, 17 INTERNATIONAL JOURNAL OF POLITICS, CULTURE, AND SOCIETY 619-638 (2004), <http://www.jstor.org.proxy.library.nd.edu/stable/10.2307/20007703?ref=search-gateway:6c496996d0fdc83cfb5c4c4acb961931>.

⁶⁶ See “Hard Currency”, INVESTOPEDIA, <http://www.investopedia.com/terms/h/hardcurrency.asp>, (“A currency, usually from a highly industrialized country, that is widely accepted around the world as a form of payment for goods and services. A hard currency is expected to remain relatively stable through a short period of time, and to be highly liquid in the forex market. Another criterion for a hard currency is that the currency must come from a politically and economically stable country. The U.S. dollar and the British pound are good examples of hard currencies.”).

⁶⁷ See generally BARRY EICHENGREEN, GLOBALIZING CAPITAL: A HISTORY OF THE INTERNATIONAL MONETARY SYSTEM (2008) (explaining the international cooperation international monetary system requires); accord SHARON

to expand cola exports within Russia. Because the Soviet ruble was essentially worthless outside of the Soviet Union, “PepsiCo [took] its profits not just in Stolichnaya vodka, but in oceangoing freighters and tankers...”⁶⁸ It’s extraordinary to picture a multinational corporation bartering with the largest country in the world less than 25 years ago, but this demonstrates the enormity of the potential risk associated with volatile exchange markets and soft currencies.⁶⁹

As globalization increases, businesses often have the choice between borrowing money in local currency or foreign currency. However, a third option, taking on synthetic local currency (i.e. hedged foreign currency⁷⁰) debt, shifts risk to those most able to mitigate it: international financial institutions and aid organizations. This allows businesses to enter capital markets that otherwise would not have the option, thereby increasing opportunities and choices of individuals. External risks, like exchange rate volatility and government expropriation, can be reallocated to increase individual capabilities and facilitate financial inclusion, with little additional exposure to international financial institutions and aid organizations.⁷¹

L. WOLCHIK & JANE L. CURRY, ED., CENTRAL & EAST EUROPEAN POLITICS: FROM COMMUNISM TO DEMOCRACY 61 (2011) (“[C]ommunist regimes had no link between domestic and foreign prices, making currencies convertible for international payments.”).

⁶⁸ Anthony Ramirez, *Pepsi Will Be Bartered for Ships And Vodka in Deal With Soviets*, N.Y. TIMES (Apr. 9, 1990), <http://www.nytimes.com/1990/04/09/business/international-report-pepsi-will-be-bartered-for-ships-vodka-deal-with-soviets.html>; accord Thom Shanker, *Pepsi, Soviets Toast New Cola-vodka Deal*, CHI. TRIB., Apr. 10, 1990, http://articles.chicagotribune.com/1990-04-10/news/9001290829_1_soviet-vodka-vodka-and-ships-soviet-borders.

⁶⁹ See generally Firat Demir, *Growth under exchange rate volatility: Does access to foreign or domestic equity markets matter?*, 100 J. DEV. ECON. 74 (2013) (arguing that exchange rate volatility significantly reduced growth); accord Matthew Walter, *Currency Markets Rev Up; Some Investors See Rare Opportunity As Key Indicator Of Future Volatility*, WALL ST. J. (May 18, 2012), <http://online.wsj.com/news/articles/SB10001424052702303505504577405110578932998>.

⁷⁰ “Foreign currency options ... are one of the most popular methods of currency hedging. As with options on other types of securities, the foreign currency option gives the purchaser the right, but not the obligation, to buy or sell the currency pair at a particular exchange rate at some time in the future.” This means that even though the loan is disbursed in the local currency, the exchange rate between the local currency and a predetermined hard currency (the U.S. dollar, for example) is locked in, so if the local currency weakens against the U.S. dollar during the loan period, the borrower only owes the amount of the original loan denominated in a hard currency. Ayton MacEachern, *What is hedging as it relates to forex trading?*, INVESTOPEDIA (Nov. 8, 2014), <http://www.investopedia.com/ask/answers/forex/forex-hedge-and-currency-hedging-strategy.asp>.

II: ASSIGN EXECUTION RESPONSIBILITY TO BENEFICIARIES

Assigning responsibility to beneficiaries for the successful execution of externally funded projects promotes true systemic change, increases human capabilities,⁷² and respects the internationally recognized right to self-determination.⁷³ Outcome-specific contingencies for development loans and aid funding undermine corruption and inefficiency by encouraging transparency and fostering the rule of law. In other words, beneficiaries ought to be responsible for risks they are best positioned to mitigate, through efforts like pressuring governments for policy changes, refusing to facilitate corruption, and promoting industry transparency.

Underdeveloped or red-tape-laden property rights, for instance, provide myriad opportunities for corruption, extortion, and financial exclusion. Because sound property rights are taken for granted in the West, it is worth pointing out that secure title is what makes assets fungible.⁷⁴ In short, “formal property law enables people to do business with strangers.”⁷⁵ “Without an integrated formal property system, a modern market economy is not conceivable.”⁷⁶ Yet, William Easterly argues, “having Western lawyers and accountants rewrite the legal code overnight from the top down, as the West tried in Eastern Europe

⁷¹ Relatedly, the risk of “capital flight” in beneficiary countries is being mitigated through changes in the laws of Western donor countries, including mandates of increased scrutiny of banking by “Politically Exposed Persons.” Such anti-money laundering protocols require that banks “know their customer” but also know the source of the funds, freeze suspicious funds, and repatriate the funds if it’s obvious that the source is unlawful. *FATF Guidance: Politically Exposed Persons*, FINANCIAL ACTION TASK FORCE, <http://www.fatf-gafi.org/documents/documents/peps-r12-r22.html>; e.g. *Making Sure Crime Doesn’t Pay: Repatriating the Proceeds of Corrupt Regimes*, ORG. FOR SECURITY & COOPERATION IN EUROPE (Sept. 3, 2012), <http://www.osce.org/sea/9333?download=true>.

⁷² See generally MARTHA C. NUSSBAUM, CREATING CAPABILITIES: THE HUMAN DEVELOPMENT APPROACH (2011) (providing an overview of the Human Development and Capability Approach and related philosophy); e.g. SEVERINE DENEULIN & LILA SHAHANI, EDS., AN INTRODUCTION TO THE HUMAN DEVELOPMENT AND CAPABILITY APPROACH: FREEDOM AND AGENCY 22 (2009).

⁷³ See “Self-Determination”, UNDERREPRESENTED NATIONS AND PEOPLE’S ORGANIZATION (2006), <http://www.unpo.org/article/4957>, (“Essentially, the right to self-determination is the right of a people to determine its own destiny. In particular, the principle allows a people to choose its own political status and to determine its own form of economic, cultural and social development.”); see also C.K. Prahalad & Kenneth Lieberthal, *The End of Corporate Imperialism*, 81(8) HARV. BUS. R., 109 (“Western business models have been shown to be of minimal value outside of Europe and Northern America when companies consider foreign operations.”).

⁷⁴ No title: Want to make the poor less poor? Give them proper title to what they own, ECONOMIST (Mar. 29, 2001), <http://www.economist.com/node/549974>; see generally ROBERT D. COOTER, LAW AND ECONOMICS, 177 (2000).

⁷⁵ Id.; e.g. HERNANDO DE SOTO, REALIZING PROPERTY RIGHTS (2006).

⁷⁶ HERNANDO DE SOTO, THE MYSTERY OF CAPITAL, 148 (2000).

after 1990” is an excellent example of what *not* to do.⁷⁷ After the collapse of the Soviet Union, “Eastern European legislatures passed the Western-drafted laws, satisfying aid conditions for the West, but the new laws on paper had little effect on actual rules of conduct.”⁷⁸ To illustrate, “at the behest of donors, Albania dutifully passed a bankruptcy law in 1994, one of the elements of property rights. Only one bankruptcy case ever made it to the Albanian courts, even after a national pyramid scheme in the mid-1990s led to losses for investors amounting to 60% of the GDP.”⁷⁹

Since 1990, existing property laws in many former Soviet Bloc countries have further evolved to very effectively facilitate corruption. In Russia, allowing Coca-Cola to use a square meter of floor space for a vending machine is technically considered subleasing, which is prohibited under article 615 of the civil code. Giving anything away for free, floor-space included, is also prohibited by article 575.⁸⁰ According to an investigative report published in the *Economist*:

Coca-Cola declined to comment, or even to say how many vending machines it has in Moscow. Casual inspection suggests there must be thousands. This illustrates how many of the petty but insuperable-seeming hurdles that Russian rules create for businesses disappear quickly enough if you, or your landlord, are paying the right “security firm”. For Coca-Cola, or a big western advertising agency, this may be tolerable. But it is little comfort for the many small businesses blighted by bureaucracy before they get big enough to protect themselves.⁸¹

Thus, although considerable criticism⁸² has surrounded proposals to adopt a “Cash on Delivery”⁸³ model of development aid in Sub-Saharan Africa, this tactic could work well in the former Soviet Union.

⁷⁷ WILLIAM EASTERLY, THE WHITE MAN’S BURDEN: WHY THE WEST’S EFFORTS TO AID THE REST HAVE DONE SO MUCH ILL AND SO LITTLE GOOD, at 94 (2007).

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *A Coke and a frown*, ECONOMIST (Oct. 5, 2000), <http://www.economist.com/node/387703>.

⁸¹ *Id.*

⁸² *Is Cash on Delivery the Future for Aid?*, GUARDIAN: POVERTY MATTERS BLOG (May 13, 2011, 2:00 EDT), <http://www.theguardian.com/global-development/poverty-matters/2011/may/13/cash-delivery-future-results-based-aid>.

⁸³ *Cash on Delivery*, CENTER FOR GLOBAL DEVELOPMENT, <http://www.cgdev.org/initiative/cash-delivery-aid>, (“Cash on Delivery Aid is designed to overcome the problems of traditional aid, which often focuses more on

Promoting a “culture of results” would allow citizens to determine the most appropriate means for achieving transparency and giving the general population access to the legal system. Results-based aid holds particular promise for crystallizing existing extra-legal contracts and agreements and incorporating extra-legal agreements into the evolving legal infrastructure, which is crucial to its success.⁸⁴

The former Soviet Union is renowned for its culture of corruption, but the underlying cause is typically inadequately addressed, making the success of solutions proposed by the West unlikely. It is imperative to recognize the role of social networks as a means of organizing society and bridging government shortcomings under communism.⁸⁵ Since the collapse of the Soviet Union, a majority of Eastern European governments have failed to meet expectations or deliver the progressive change promised during campaigns. A history of disappointment has left citizens reluctant to abandon the security of social networks to provide protection and facilitate business operations— and this reliance on social networks translates into the Western definition of corruption.⁸⁶

Subsequently, domestic governments in Eastern Europe, not Western aid agencies, are best positioned to develop property laws that incorporate existing extra-legal agreements reached through social networks, rather than nullifying standing agreements by adopting western property laws verbatim. The hands-off approach of results-focused development aid allows “the recipient country [to] use whatever

disbursements and verifying expenditures than on results, undermines a government’s accountability to its citizens, and undervalues local experimentation and learning. COD Aid’s advantage is in linking payments directly to a single specific outcome, allowing the recipient to reach the outcome however it sees fit, and assuring that progress is transparent and visible to the recipient’s own citizens. These features rebalance accountability, reduce transaction costs, and encourage innovation.”); *see also* NANCY BIRDSALL ET AL., CA\$H ON DELIVERY: A NEW APPROACH TO FOREIGN AID (2011), http://www.cgdev.org/sites/default/files/1423949_file_CODAid_SECOND_web.pdf; *see generally* “*Cash on Delivery*”, INVESTOPEDIA, <http://www.investopedia.com/terms/c/cashondelivery.asp>, ([“*Cash on Delivery*”] “allows both the seller and the buyer of the product to minimize the risk of fraud or default.”); Reforming Aid: More is More?, ECONOMIST (Jun. 10, 2010), <http://www.economist.com/node/16326398>; <http://devpolicy.org/a-new-approach-to-aid-cash-on-delivery20101211/>.

⁸⁴ HERNANDO DE SOTO, THE MYSTERY OF CAPITAL (2000).

⁸⁵ RICHARD ROSE, GETTING THINGS DONE WITH SOCIAL CAPITAL: NEW RUSSIA BAROMETER VII (1998).

⁸⁶ Interview with Diana Michalova, Chief Legal Counsel at the European Bank for Reconstruction & Development, in London, Eng. (July 11, 2014).

tools it chooses, as long as it achieves results. No conditions, beyond the targets set. No micro-management. A totally transparent contract.”⁸⁷

The over-arching theme of Cash on Delivery Aid, fully handing over decision-making responsibility to the recipient, “demonstrates a post-ideological humility regarding how to achieve development.”⁸⁸ In the context of the former Soviet Union, there is widespread recognition that development aid must decline relative to domestic resources as components of GDP. Therefore, development funding that catalyzes the evolution of accountability between citizens and their government is certainly a step in the right direction.

III: PROMOTING ACCOUNTABILITY AND MEASURING RESULTS

Since development banks and international aid organizations don’t have traditional shareholders, different strategies must be adopted to offset accountability deficits. Accountability consists of two crucial, independent components: 1) ensuring promises are fulfilled and 2) confirming that the desired outcome was achieved.

Established methods of independent audits and project reviews can remedy this accountability deficit to some extent. But relying solely on independent impact evaluations is problematic in terms of both cost and feedback delay. In 2003, World Bank estimates placed the cost of impact evaluations between \$200,000 and \$900,000 per project, depending on the methodology used and the amount of data collected.⁸⁹ The report also acknowledged that the true cost is often difficult to determine since private firms may wish to keep their fees confidential. Even more frustrating, there appears to be little correlation between the cost of an impact assessment and the size of the project being evaluated.⁹⁰ “Lack of timely

⁸⁷ *Is Cash on Delivery the Future for Aid?*, GUARDIAN: POVERTY MATTERS BLOG (May 13, 2011, 2:00 EDT), <http://www.theguardian.com/global-development/poverty-matters/2011/may/13/cash-delivery-future-results-based-aid>.

⁸⁸ *Id.*

⁸⁹ JOHN BLOMQUIST, IMPACT EVALUATION OF SOCIAL PROGRAMS: A POLICY PERSPECTIVE 16 (World Bank 2003) (this was the most recent report available).

⁹⁰ *Id.*

results is another criticism of rigorous impact evaluation. It is argued that the longer it takes to conclude an evaluation, the less likely the findings will directly influence policy.”⁹¹

Over the past decade, however, social media has emerged as a potential supplemental check on aid organizations and international financial institutions. In addition to allowing aid organizations to monitor the reach and impact particular projects, social media has the potential to facilitate participatory democracy and civic engagement.⁹² Social media is a powerful tool for disseminating information, catalyzing movements, and influencing protest cycles. Yet it remains to be seen whether aid agencies and international financial institutions will fully harness social media’s power to engage, include, and crowd-source the knowledge, opinions, and feedback of local populations and beneficiaries.

Until recently, social scientists had questioned whether social media trends merely reflected shifts in real world behavior, or whether future real world behavior might actually be influenced by social media – – essentially the “chicken or the egg” question. Pop-sociologist, Malcolm Gladwell, has famously argued that, “because networks don’t have a centralized leadership structure and clear lines of authority, they have real difficulty reaching consensus and setting goals. They can’t think strategically; they are chronically prone to conflict and error. How do you make difficult choices about tactics or strategy or philosophical direction when everyone has an equal say?”⁹³ The validity of this criticism is evident in the viral Youtube video, “Kony 2012,”⁹⁴ and the “#BringBackOurGirls”⁹⁵ twitter campaign against Boko

⁹¹ *Id.*

⁹² Russia, for instance, “may sound an unlikely place for a bold experiment in participatory democracy. But Wikivote, an online forum where citizens collaborate in redrafting laws, seems to be enjoying unlikely early success there.” *Government by (All) the People*, ECONOMIST, Oct. 29, 2011, <http://www.economist.com/node/21534760>.

⁹³ Malcolm Gladwell, *Small Change: Why the revolution will not be tweeted*, NEW YORKER (Oct. 4, 2010), <http://www.newyorker.com/magazine/2010/10/04/small-change-3?currentPage=all>.

⁹⁴ *Kony 2012*, INVISIBLE CHILDREN, <http://invisiblechildren.com/kony-2012/> (last visited Nov. 16, 2014), (“The KONY 2012 campaign started as an experiment. Could an online video make an obscure war criminal famous? And if he was famous, would the world work together to stop him? The experiment yielded the fastest growing viral video of all time. The KONY 2012 film reached 100 million views in 6 days, and 3.7 million people pledged their support for efforts to arrest Joseph Kony. It proved our theory that if people only knew what Kony had been getting away with, they would be as outraged as we were. But knowing is only half the battle - Joseph Kony is still out there.”).

Haram in Nigeria, that garnered the support of Michelle Obama and Malala Yousafzai. Both campaigns made Western participants feel good about their virtual contribution to human rights but did not lead to real world action or change.

Then, “on November 2, 2010, Facebook’s American users were subject to an ambitious experiment in civic-engineering: Could a social network get otherwise-indolent people to cast a ballot in that day’s congressional midterm elections? The answer was yes.”⁹⁶ It’s difficult to observe social influence effects in a controlled environment, but in 2010, Facebook did just that.⁹⁷ On Election Day, many Facebook users saw a button proclaiming: “I’m a Voter” or “I Voted” at the top of their newsfeed, which included a



link to the location of polling places and pictures of six close Facebook friends who had already clicked “I Voted.” Then, “in an awesome feat of data-crunching, the researchers cross-referenced their subjects’

names with the day’s actual voting records from precincts across the country to measure how much their voting prompt increased turnout.”⁹⁸ The result? “Researchers concluded that their Facebook graphic directly mobilized 60,000 voters, and, thanks to the ripple effect, ultimately caused an additional 340,000

⁹⁵ BRING BACK OUR GIRLS, <http://bringbackourgirls.us/> (last visited Nov. 16, 2014).

⁹⁶ Jonathan Zittrain, *Facebook Could Decide an Election Without Anyone Ever Finding Out*, NEW REPUBLIC (June 1, 2014), <http://www.newrepublic.com/article/117878/information-fiduciary-solution-facebook-digital-gerrymandering>.

⁹⁷ Robert M. Bond, et al., *A 61-million-person experiment in social influence and political motivation*, 489 NATURE 295 (2012) (reporting the results from a “randomized controlled trial of political mobilization messages delivered to 61 million Facebook users during the 2010 U.S. congressional elections.”). It’s worth noting that Facebook has received serious criticism for conducting ethically questionable, non-consensual, research on its users and that such research has not been limited to elections. See generally Micah L. Sifry, *Facebook Wants You to Vote on Tuesday. Here’s How It Messed With Your Feed in 2012*, MOTHER JONES (Oct. 31, 2014), <http://www.motherjones.com/politics/2014/10/can-voting-facebook-button-improve-voter-turnout>; accord Robinson Meyer, *Everything We Know About Facebook’s Secret Mood Manipulation Experiment: It was probably legal. But was it ethical?*, ATLANTIC (Jun. 28, 2014), <http://www.theatlantic.com/technology/archive/2014/06/everything-we-know-about-facebooks-secret-mood-manipulation-experiment/373648/>.

⁹⁸ Zittrain, *supra* note 96.

votes to be cast that day.”⁹⁹ Keep in mind George W. Bush won Florida, and the Presidential election, by 537 votes.

In addition to engaging populations and catalyzing movements, social media provides an unprecedented outlet for underrepresented groups to “name and shame” international organizations, companies, financial institutions, and governments.¹⁰⁰ “Around the world, the Catholic Church has faced lawsuits over its harboring of [alleged pedophiles], a process that started when *The Boston Globe*’s 2002 exposé of sexual abuse in the church went viral online in a matter of hours.”¹⁰¹ This sort of new accountability potential is further supported by the fact that levels of Internet penetration in regions of Eastern Europe are increasingly correlated with perceived levels of corruption. “[T]he more people with access to internet in a particular country, the less corrupt that country is perceived to be.”¹⁰² A report by the London School of Economics identified six specific social media tools capable of improving

⁹⁹ *Id.*

¹⁰⁰ See Sneha Shankar, *World Bank Postpones \$90M Aid To Uganda Because Of Anti-Gay Law; Ugandan Government Says It Does Not Care About Western Aid*, INT’L BUS. TIMES, Feb 24, 2014, <http://www.ibtimes.com/world-bank-postpones-90m-aid-uganda-because-anti-gay-law-ugandan-government-says-it-does-not-care; accord> <http://www.washingtonpost.com/blogs/wonkblog/wp/2014/04/03/here-is-why-the-world-bank-withheld-aid-to-uganda/> (demonstrating the power of social media to impact the decisions of massive international organizations).

¹⁰¹ Clay Shirky, *The Political Power of Social Media: Technology, the Public Sphere, and Political Change*, FOREIGN AFFAIRS (January/February 2011), <http://www.foreignaffairs.com/articles/67038/clay-shirky/the-political-power-of-social-media; see also> Rachel Martin, *Abuse Scandal Still Echoes Through Catholic Church*, NAT’L PUB. RADIO (Jan. 12, 2007) (“... in 2002, it wasn’t just victims who were speaking out. Catholics around the country left the pews and took to the streets, demanding answers and apologies. And that, says former Vatican canon lawyer Father Tom Doyle, was something the U.S. Catholic Church had never seen before. ... Doyle says that this new, emboldened spirit has kept the momentum going as more and more victims come forward even today. The scandal of 2002 marked a culmination of events and forces: the revelations of secret documents; the power of the Internet to connect victims; a heightened cultural consciousness about sex abuse; a new determination from reporters to tell the story. And perhaps in 2002, America was just more willing to listen.”)

¹⁰² STUDY ON THE ROLE OF SOCIAL MEDIA FOR ENHANCING PUBLIC TRANSPARENCY AND ACCOUNTABILITY IN EASTERN EUROPE AND THE COMMONWEALTH OF INDEPENDENT STATES: EMERGING MODELS, OPPORTUNITIES, AND CHALLENGES 7 (UNDP 2011). Contra Shaun Walker & Oksana Grytsenko, *Text Messages Warn Ukraine Protesters They Are ‘Participants in Mass Riot’*, GUARDIAN, Jan 21, 2014, <http://www.theguardian.com/world/2014/jan/21/ukraine-unrest-text-messages-protesters-mass-riot> (demonstrating that social media and technology can also be used by oppressive regimes to suppress social movements).

transparency and combating corruption; the list included: 1) crowd-sourcing; 2) social networking; 3) online communities; 4) blogging; 5) mobile technology; and 6) Internet censorship circumvention.¹⁰³

In 2009, more than 10,000 young Moldovans, organized using twitter,¹⁰⁴ Facebook, and text-messaging, “materialized seemingly out of nowhere … to protest against Moldova’s Communist leadership” following an obviously fraudulent election.¹⁰⁵ Social media was also crucial to the #EuroMaidan protests, which resulted in the ousting of former-Ukrainian President Viktor Yanukovych in 2014.¹⁰⁶ “The Ukrainian Protest Project,”¹⁰⁷ made up of researchers at the University of Oxford, Harvard, and National University of Kyiv Mohyla, conducted real-time research on the role of social media in the EuroMaidan protest cycle. The researchers found that large numbers of participants “learned about the protests from [websites] like Facebook (49%), VKontakte (a Facebook-like social media site that is popular among Russian speakers, 35%), and Internet news sites, such as Spilno TV and Hromadianske TV (51%). Social networks also played a key role: 47% received valuable information from their friends, 18% from work colleagues, and 15% from family members.”¹⁰⁸ When interviewed, protesters explained “they found Facebook and Internet news sites more reliable sources of information than [state-controlled] television.”¹⁰⁹

¹⁰³ DANA BEKRI ET AL., HARNESSING SOCIAL MEDIA TOOLS TO FIGHT CORRUPTION 7 (London School of Economics 2011).

¹⁰⁴ @ThinkMoldova, TWITTER, <https://twitter.com/ThinkMoldova>, (last visited Nov. 16, 2014).

¹⁰⁵ Ellen Barry, *Protests in Moldova Explode, With Help of Twitter*, NY TIMES (Apr. 7, 2009), <http://www.nytimes.com/2009/04/08/world/europe/08moldova.html?pagewanted=all>.

¹⁰⁶ Olga Onuch et al., *What Does Ukraine’s #Euromaidan Teach Us About Protest?*, WASH. POST (Feb. 27, 2014), <http://www.washingtonpost.com/blogs/monkey-cage/wp/2014/02/27/what-does-ukraines-euromaidan-teach-us-about-protest/>.

¹⁰⁷ *Research on Ukrainian Activism and Protest*, THE UKRAINIAN PROTEST PROJECT, <http://ukrainianprotestproject.com/> (last visited Nov. 16, 2014).

¹⁰⁸ Olga Onuch, *Social networks and social media in Ukrainian “Euromaidan” protests*, WASH. POST (Jan. 2, 2014), <http://www.washingtonpost.com/blogs/monkey-cage/wp/2014/01/02/social-networks-and-social-media-in-ukrainian-euromaidan-protests-2/>.

¹⁰⁹ *Id.*

Moreover, social media has been used to map everything from “NFL Fandom”¹¹⁰ to the number of regular Amtrak riders in a given region¹¹¹ and the particular dialect of Twitter users around the world,¹¹² so mapping the reach or success of a specific aid project would not be a stretch. Unlike its traditional ancestors, social media is uncharted territory and as a result, the ethical boundaries and established paths to success are still evolving. Despite this, social media presents a unique opportunity to involve beneficiaries in the process of self-determination, which increases human capabilities, while holding international organizations accountable on a continuous basis.

CONCLUSION

To summarize, the international model for development aid is broken. Although GDP is an imperfect measure of progress, it can, in combination with tools like the Social Progress Index and the United Nations Human Development Index, provide insight and context with which to evaluate the successes and failures of development efforts thus far. The time has come to abandon the Central Planning-esque philosophy that more money must mean more human development. Instead, it is prudent to embrace proposals to use aid money purposefully to foster human development and self-sufficiency.¹¹³

¹¹⁰ *Facebook Data Provide the Most Accurate NFL Fandom Map Ever Created*, DEADSPIN, <http://deadspin.com/5979970/facebook-data-provides-the-most-accurate-nfl-fandom-map-ever-created>.

¹¹¹ *Amtrak: the Map that Shows the Real Problem*, ECONOMIST, Jul. 18, 2014, <http://www.economist.com/blogs/gulliver/2014/07/Amtrak>.

¹¹² Matthew Arcilla, *Twitter Study Maps the ‘Superdialects’ of the Wired World*, GMA NEWS (Aug. 14, 2014, 6:43 PM), <http://www.gmanetwork.com/news/story/374858/scitech/socialmedia/twitter-study-maps-the-superdialects-of-the-wired-world> (“A dialect is a particular iteration of language whose use is associated with a specific social group or region. Dialects are of interest to researchers because they draw attention to social interactions between different groups and how they influence one another. In the past, research and study of dialects has been limited by brute force data gathering. The linguistic atlases that researchers create are limited by the number of people they can interview and survey regarding their lingual character.”).

¹¹³ On a smaller scale, this is the logic underlying the United States’ Earned Income Tax Credit– a surprisingly interesting section of the tax code. The bipartisan, relatively uncontroversial program gives money to low-income Americans based on their earnings during the taxable year. The financial bonus is given in the form of a tax credit, which increases as earnings increase, up to a designated phase-out level of income. The concept of the Earned Income Tax Credit was loosely based on Milton Friedman’s “Negative Income Tax.” Although Friedman is known for being the “patron saint of small-government conservatism, … [he] was a generous and compassionate man, someone more keenly aware of good luck’s contribution to individual prosperity than many of his disciples. Careful students of his work will be inspired not to dismantle the social safety net but to make it more effective. … As

Shifting external risks like volatile exchange rates and government expropriation to international financial institutions and aid organizations with the capacity to mitigate such risks, will remove a serious barrier to entry for individuals and small businesses. At the same time, taking a hands-off approach and giving beneficiaries responsibility for project execution creates a sense of ownership and promotes legitimate systemic change within recipient countries. Finally, augmenting traditional impact evaluation techniques with informal social media audits can improve feedback and allow real-time changes to be made during the life of a project at a reasonable cost.

[Eighty-five] years ago, a depression changed the way we think about poverty. It took decades for the world to recover and to remember that if people are given freedom, they will prosper. Now, in the wake of another massive meltdown, the fear that shocked us into depending on government to fix poverty is spreading once again—and threatening to undo many of the gains we've made.¹¹⁴

Capital markets are not the silver bullet for poverty in Eastern Europe and the former Soviet Union, but failed development aid, and the resulting animosity towards capital markets,¹¹⁵ should not be confused with failure of capital markets themselves.

always, Mr. Friedman's policy prescriptions were shaped by his desire to minimize adverse economic incentives, a feature that architects of earlier welfare programs had largely ignored. ... If the main problem of the poor is that they have too little money, he reasoned, the simplest and cheapest solution is to give them some more. He saw no advantage in hiring armies of bureaucrats to dispense food stamps, energy stamps, day care stamps and rent subsidies." Similarly, adverse economic incentives and empirical evidence should play a role in future development aid decisions.

¹¹⁴ William Easterly, *The Poor Man's Burden*, FOREIGN POLICY (Jan. 5, 2009).

¹¹⁵ *Confidence in Democracy and Capitalism Wanes in Former Soviet Union: Twenty Years Later*, PEW RESEARCH GLOBAL ATTITUDES PROJECT (2011), <http://www.pewglobal.org/2011/12/05/confidence-in-democracy-and-capitalism-wanes-in-former-soviet-union/>.