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Making a real difference

By Richard W. Rahn

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If you were a very wealthy person and you really wanted to improve the lot of your fellow man by donating a large sum of money in the most cost-effective way possible, what would you do?

According to the new Forbes list of the richest people, there are almost 800 billionaires in the world. Many of them are engaged in philanthropic work and give huge sums for programs to help the world's poor by providing medical care, schooling, housing and other desirable programs.

After looking at the data as to where the rich gave their money, I was struck by how much of it was to "provide a fish rather than to teach people how to fish." By this I mean much of the giving was directed toward helping the immediate needs of the world's poor - which is very laudable, but not much of the giving was directed toward changing the political/economic environment that has caused all too many people to live without opportunity, prosperity and freedom.

We know the best way to eliminate poverty is through rapid economic growth. Over the last few decades, countries that have grown rapidly have also shown the sharpest declines in infant mortality and in poverty and increases in life expectancy.

Economic science has progressed to the point that we know which economic policies are needed to make any country grow rapidly, regardless of climate or natural resource wealth. Thus, it can be more cost-effective to alleviate the plight of the world's poor for a major philanthropist to provide funds to public policy organizations or groups that can bring about changes in economic policies, even though it does not provide the "feel-good" pictures for the media.

Over the last few decades, we have seen many places (with few, if any, natural resources) establish economic policies that have resulted in very high growth rates, huge reductions in poverty and enormous jumps in life expectancy.

Examples are Hong Kong and Singapore, which have seen lifespans rise 20 years; Ireland, which had a 12-year jump in lifespans; and South Korea, which had an amazing 31-year boost in lifespans, all in the last 50 years.

By contrast, many of the countries that have been large recipients of both government and private aid have seen little improvement in the people's general health and wellbeing, because there is still no rule of law, protection of property rights, free markets, reasonable taxes and regulations, and so forth, all necessary for sustained economic growth.

Perhaps the most cost-effective example of productive philanthropy was that of the late scientist and entrepreneur Robert Kriebel. He was farsighted and bold enough to see the coming collapse of the Soviet empire in the late 1980s. Kriebel undertook to fund, supply and train emerging free-market groups and individuals in Eastern Europe before the communist governments collapsed. His efforts helped make it possible for talented individuals who had learned what free-market democratic capitalism is all about to have power and influence in their countries after the fall.

I have no doubt economic growth rates and the rise of democratic states in Eastern Europe would have lagged without the money Bob Kriebel put into those U.S. and European public policy organizations that set up the needed programs.

Those individuals and companies that invested in the economic policy institutes in the U.S. and other countries over the last three decades are directly responsible for the fact most countries in the world are growing faster than ever in human history. Such donors do not get the direct satisfaction of seeing a particular hungry child get food or medical care, but their donations have resulted in far fewer children ever needing food or medical care donations.

Despite great progress, much of the world still wallows in economic ignorance and poor economic policies (including all too many in the U.S. and Europe). There are many targets of opportunity for major donors to have a global effect.

Those willing to fund organizations around the world that fight to improve the rule of law and property rights, and promote pro-growth tax and regulatory policies will likely have a far greater positive effect on world poverty and misery than those whose expenditures only reduce the misery for those they reach at this time.

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