You Can't Develop What You Don't Know: The Realities and Limitations of Foreign Aid Missions

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Abstract Mariana Mazzucato argues that capitalism needs to be rebuilt around private-public partnered "missions." To facilitate these missions, Mazzucato provides seven pillars to serve as guidelines. Using Mazzucato's pillars, we critically review US government efforts to develop the local economy and establish new political institutions through foreign aid. We analyze the successfulness of these "missions" by assessing government officials' ability to overcome the "knowledge problem" and "political economy problems." We conclude that Mazzucato's pillars are unlikely to be satisfied due to these dual problems.

Keywords Mazzucato · Foreign aid · Intervention · Knowledge problem · Political economy problem · Missions

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Introduction

Mariana Mazzucato has garnered significant attention during the past decade for her work advocating a more proactive role for government in steering and creating markets. In her most recently published book, *Mission Economy: A Moonshot Guide to Changing Capitalism*, Mazzucato (2021) argues that we need to rebuild capitalism to create a "solutions-based economy" (p. xxiv). She envisions the economy not as an emergent order but as a collection of directed goals guided by collaborations between public and private organizations.

Mazzucato points to several pre-existing public-private partnerships that, to her way of thinking, exemplify ideal missions. These include the US government's mission to send a man to the moon, DARPA's role in creating the Internet, and the European New Green Deal. Another key example is the United Nations' Sustainable

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Development Goals (SDGs), which Mazzucato calls "the perfect starting point for considering the challenges missions might address" (p. 109). The SDGs are merely one of the latest attempts by the international community to encourage economic development and state capacity. But international economic and political development projects have long existed, with much controversy over their efficacy. The history of foreign aid thus makes an excellent proving ground for Mazzucato's arguments.

In this chapter we judge the various missions by the US and multinational organizations to develop economies and shape institutions through foreign aid against the seven principles for creating a new political economy identified by Mazzucato in *Mission Economy*. These principles are (1) collectively creating value; (2) focusing on market shaping, not market fixing; (3) creating dynamic capabilities within organizations; (4) budgeting based on desired outcomes; (5) pre-sharing risks and rewards; (6) focusing on stakeholders instead of shareholders; and (7) utilizing open systems to co-design the future.

Our theoretical framework is grounded in two related problems that all economic decision-makers face. The first is the "knowledge problem," as identified by Austrian economists (Mises 1974 [1936]; Hayek 1948; Lavoie 1985). Scholars in this tradition highlight that economic knowledge—knowledge of the best use of scarce resources—is not objective and given, but rather emerges through the process of interaction in different institutional environments. The second is the range of "political economy problems" identified by public choice scholars. Scholarship in this area identifies the frictions and perverse incentives that often exist in political institutions which can frustrate even the most well-intentioned policies. Together, these two challenges threaten to hinder the ability of key mission actors to adapt in the face of changing conditions or error. In order to adapt, actors require both knowledge that adjustment is necessary and the incentive to act on that knowledge. Absent either component, errors will persist, and failure is more likely.

Drawing on these theoretical insights, our analysis seeks to answer the following question. Given the knowledge and political economy problems, can we expect Mazzucato's pillars to be effectively implemented and adjusted to achieve the ends stated by proponents of missions? If government officials suffer from knowledge problems regarding the best use of resources or perverse incentives due to political dynamics, then we should be less optimistic about the likelihood of Mazzucato's principles successfully guiding missions. Similarly, if foreign aid missions that adopted similar principles still struggle to achieve objectives, then we should question whether the implementation of Mazzucato's principles is likely to lead to future mission success.

We proceed as follows. The next section presents Mazzucato's seven pillars, as well as the knowledge and political economy problems, in more detail. We then apply our theoretical framework to Mazzucato's pillars in the context of foreign aid programs. We conclude with some thoughts regarding more fruitful avenues for economic development.

Theory

What Is a Mission Economy?

In the first chapter of *Mission Economy*, Mazzucato writes (p. 7):

> We cannot move on from the key problems facing our economies until we abandon this narrow view [viewing government as simply a tool for leveling the playing field]. Mission thinking of the kind I outline here can help us restructure contemporary capitalism. The scale of the reinvention calls for new narrative and new vocabulary for our political economy, using the idea of public purpose to guide policy and business activity.

Mazzucato offers seven "key pillars" or principles to successful missions. The first pillar is collectively creating value. "Missions are about bringing a high level of strategic purpose to value creation. They are an admission that growth has not only a rate but also a direction—and that direction should have purpose" (p. 168). Missions need to work to promote the public interest. This requires rejecting the traditional economic framework wherein individuals seek to maximize their own utility according to their own subjective preferences. Additionally, it requires rejecting the price system as a guideline for value. Instead, Mazzucato argues the government, and the community must come together to determine what is valuable.

Rejecting the price system leads directly to Mazzucato's second pillar—market shaping, instead of market fixing. Mazzucato views the absence of real-world perfect competition as an opportunity for governments to proactively reshape markets by using policy to direct entrepreneurs to certain technologies. To do this, governments will need to develop "dynamic capabilities" (p. 174), changing the way bureaucracies think about evaluation and administration and increasing their tolerance for risk-taking (pillar 3). Governments also need to engage in outcome-based budgeting (pillar 4). Mazzucato argues that the government's ability to print money allows the public budget to accommodate additional spending. As a result, missions should be funded with the success of the mission in mind and not by affordability.

The next two pillars, pre-distributing risks and rewards (pillar 5) and embracing stakeholder value instead of shareholder value (pillar 6), are both centered around the question of who should benefit from a mission. Unlike redistribution, which seeks to reallocate wealth after its creation, pre-distribution involves shaping markets before wealth creation in such a way that any wealth generated will be distributed so that all contributors will be getting their "fair share" (p. 189). To do this, Mazzucato suggests building public wealth funds paid for through government-funded activities or equity stakes in companies that have received public investments. Similarly, Mazzucato argues that companies that focus on creating value for their stakeholders ignore the impact of company decisions on others in the community. Governments should intervene to shape markets so that all stakeholders in a mission will profit.

The final pillar is utilizing open systems to co-design the future through increased citizen engagement and participation. Additionally, it includes incorporating feedback loops and embracing uncertainty and ambiguity. In this, Mazzucato draws upon the evolutionary theory of the market espoused by Joseph Schumpeter and the political theory of Alexis de Tocqueville. She envisions citizens participating in the creation of the vision of the mission and the method of achieving the said mission.

Together, Mazzucato believes these pillars will help ensure mission success. But there are two significant challenges any government program has to overcome in order to have any hope of being successful—the knowledge problem and political economy problems.

The Knowledge Problem

The knowledge problem originated from the socialist calculation debate of the early twentieth century. The debate took place between proponents of central government planning and proponents of markets. The former argued that the abolition of private ownership over the means of production, coupled with state planning, was superior to private markets for rationally allocating scarce resources; the latter argued that markets served a crucial function in enabling economic actors to discover how to best allocate scarce resources among an array of possible alternatives. The main market proponents—Ludwig von Mises and Friedrich Hayek—argued that the socialist model of planning was doomed to failure because it ignored the role of market prices in coordinating knowledge.

Their argument against planning was as follows. Without private property in the means of production, there could be no market for the means of production. Without a market for the means of production, there could be no exchange. And without exchange there could be no market prices which capture the relative scarcities of resources. Efforts to address this issue through a mixed system of "market socialism" inappropriately presumed that economists can identify equilibrium conditions. But equilibrium data does not exist outside the market process that generates the relevant knowledge.

The knowledge problem, then, consists of three components. The first is that knowledge necessary to production is often dispersed throughout society. The market is thus an important mechanism for coordinating this knowledge. The second is that much of this knowledge is inarticulable because it arises from the lived experiences of individuals. Monetary prices, however, are able to communicate this knowledge through people's decisions to buy and sell. The third is that the dynamic process of the market leads to the creation of new knowledge that cannot be generated absent the market context. Hayek (2002, p. 13) notes that it is only through the use of markets that people discover "Which goods are scarce, however, or which things are goods, or how scarce or valuable they are. . . ." This knowledge, crucial for effective production and economic development, is only generated through individuals exchanging goods and services. Thus, markets both serve as a coordinator and creator of economic knowledge.

Government intervention disrupts the market's ability to communicate "knowledge of circumstance" while also distorting the process of discovery that takes place in markets. The result is what Kirzner (1985) refers to as the "stifled discovery process," which refers to the distortions caused by government regulations and interventions in markets.

Lavoie (1985) makes the important distinction between "comprehensive" and "non-comprehensive" planning. Comprehensive planning refers to government efforts to plan the entire economy. Non-comprehensive planning refers to government efforts to plan and control certain aspects of economic activity.

Non-comprehensive planning fits with Mazzucato's vision of missions. Private markets still exist, but they are guided by the public sector. Importantly, Lavoie (1985) noted that, from an economic standpoint, the difference between comprehensive and non-comprehensive planning are the ones of degree and not kind. That is, planners still suffer from the knowledge problem under non-comprehensive planning because the process of knowledge creation and coordination is attenuated due to government involvement whereby the political process, at least partially, replaces the market process.

To understand why this is important for missions, return to Mazzucato's pillars. The first pillar is that missions will collectively create value. This assumes that decision-makers possess knowledge of how to collectively create value as if this knowledge already exists and is available to collect. Missions are supposed to be "market shaping" (pillar 2) based on "dynamic capabilities" (pillar 3) possessed by government. Absent the market's discovery process, it is unclear how planners will know how to shape markets to achieve their ends. Similar logic applies to the issues of pre-distributing risks and rewards (pillar 5) and embracing stakeholder value (pillar 6). Both assume that decision-makers possess the economic knowledge necessary to ex ante influence markets to achieve the desired outcomes in terms of resource distributions and stakeholder value.

Political Economy Problems

Public choice scholars have identified several frictions and perverse incentives in democratic politics which can result in government policies failing to achieve their stated ends (Buchanan 1954; Tullock 1965; Reksulak et al. 2014; Wagner 2016). For instance, voters will tend to be rationally ignorant, meaning they will not obtain available political information because the cost of doing so is greater than the expected benefit. Because the impact of a single vote is limited, voters have a weak incentive to gather, and process, detailed political information on elected officials.

Another issue with voting is bundling: the fact that each voter casts a single vote for a candidate who represents a diverse range of major issues. Thus, individual voters cannot express their preference for specific issues. For instance, a voter may value a candidate's education policy but dislike the same candidate's health-care policy. With a single vote, there is no way to communicate nuanced preferences across policies.

Exacerbating feedback between voters and policymakers are information asymmetries, as parties have different information. Rational ignorance assumes that information is available to voters, but they choose not to obtain it because the expected costs outweigh the expected benefits. Additionally, some information is unavailable to voters. For instance, the detailed workings of government bureaus are not available to voters. This is partially due to the complexities of agencies and partially due to the fact that congressional oversight committees often rely on agency reporting to carry out their monitoring. Agencies can strategically frame or withhold information which weakens oversight.

A final factor is special interest groups: collections of voters with a shared interest. While individual voters have little impact on electoral outcomes, special interest groups can have a bigger impact. The group's combined influence means members often have access to political actors that non-member voters lack. Where special interest groups are effective, they concentrate benefits on members while dispersing costs on taxpayers. These groups' success in influencing policy for their own benefit undermines the public interest justification for government action. Furthermore, in the process of currying favor, special interests can destroy wealth through rent-seeking activities, as they expend resources to secure resource transfers. This is wealth destroying because scarce resources are spent redistributing existing wealth instead of creating new wealth.

These political economy problems are prevalent in foreign aid. It is difficult for individual voters to track the specifics of foreign aid flows. Even if they were interested in gathering information to monitor political actors, the bureaucracy of foreign aid is so dense that important information is simply not available. Moreover, both domestic and foreign special interests are at work in foreign affairs, further intensifying the pathologies of politics. Absent the appropriate incentives, political officials will not pursue the interests of voter-citizens, or "stakeholders," as dictated by the mission model. Instead, there will be space for narrow opportunism whereby those in privileged decision-making positions, or those who have access to those in those positions, can pursue their own interests under the guise of inclusive rhetoric.

Like the knowledge problem, political economy problems present potential concerns for Mazzucato's key pillars. Consider, for example, how easy it might be for outcome-based budgeting (pillar 4) to be influenced by the political process. There are numerous government actors involved in the process who have an incentive to expand budgets for the benefit of their agency (Tullock 1965; Niskanen 1971). Officials can control flows of information to limit accountability. Moreover, special interests will seek to influence missions to benefit their members. The influence of these factors is likely to lead to missions that satisfy a subset of interests as compared to some overly broad and non-operationalizable conception of the "public interest."

Foreign Aid: Mazzucato's Principles in Action

The overall effectiveness of foreign aid has been a matter of much debate among economists (see, for instance, Easterly 2001, 2006; Sachs 2005). A well-known study by Burnside and Dollar (2000) finds that aid can indeed have a positive effect on GDP growth, so long as countries receiving the aid have good fiscal, monetary, and trade policies. In the absence of these policies, aid has little impact. However, the empirical robustness of Burnside and Dollar's findings has been questioned by many, including Hansen and Tarp (2001), Lensink and White (2001), and Easterly et al. (2004). These studies suggest far more dismal outcomes; outcomes that seem corroborated by the reality that many countries who have been lavished with foreign aid over the past few decades are still mired in poverty and corruption.

Foreign aid is a good arena in which to explore Mazzucato's principles for several reasons. First, foreign aid is nearly always mission-minded, given, or implemented with specific goals in mind. Second, it often involves collaboration between government and non-government players. Third, the significant number of foreign aid or economic development projects carried out over the past few decades allows us to compare results across varied institutional and cultural backdrops. Fourth, previous failures have theoretically allowed economists, political scientists, and the broader international community myriad opportunities to identify errors and implement potential solutions. Recently, there has been greater critique of aid programs that ignore the wishes of the recipient governments and even the local populace when designing programs, which dovetails with pillars 1 and 7 (Lancaster 2008, p. 51). There has also been a greater focus on building up state capacity and improving institutions, which arguably reflects pillar 3 (Lancaster 2008, p. 48). This provides the opportunity to explore whether the implementation of Mazzucato's pillars is crucial to mission success.

Collectively Creating Value

According to Mazzucato, missions should be determined based on a sense of public value and public purpose, which will guide the public and private together in co-creating value. Within our context, we can translate this into a collective determination of when foreign aid should be given, to whom and for what purposes.

Foreign aid hasn't always been considered a core function of governments. Prior to 1945, foreign aid was nowhere near as common as it is today. There are a few examples that can be pointed out. For example, US President Herbert Hoover headed up the Committee for Relief in Belgium during World War I, which aimed at relieving war-induced food shortages (Nash 1983). But the idea of utilizing public resources to help those outside a nation's borders, even in the case of humanitarian crisis, was anathema to many. As illustration, note that in the mid-1800s the US

Congress debated whether to send assistance during the Irish potato famine and eventually decided against it (Lancaster 2008, p. 26).

But by the end of World War II, politicians increasingly argued that promoting democracy required focusing on problems outside one's borders. Moreover, an active (government) hand needed to cultivate an international order sympathetic to US leadership. This change in perceived public purpose radically impacted both the scale and channels of foreign aid. The immediate concern of foreign aid in the wake of World War II was assistance for the war-torn countries of Europe. The ambitious spread of the USSR further unnerved US government officials, who also began giving aid to Asian countries in the aftermath of the Chinese civil war, hoping to stem the influence of communism in Asia. Both Moscow and Washington began using aid as bids to strengthen their own spheres of influence, although the United States was better able to establish long-term aid relationships, while the USSR was constrained by their domestic economic situation. Other countries also increased aid-giving as the international order shook off old ties and tested new alliances, particularly as former European colonies in Africa and Asia gained independence. By the 1970s, most countries were involved in the aid "business" in one way or another. Simultaneously, the number of NGOs involved in aid grew. These NGOs not only provided relief but also petitioned governments to provide additional resources.

Aid increasingly focused on economic development in the 1970s and 1980s and on meeting basic human needs among the global poor. Donors preferred projects that provided immediate benefits. And there was greater focus on aid from multilateral organizations, especially the World Bank's International Development Association. The collapse of the USSR in 1991 caused another reshuffling of aid relationships. While there was less pressure to use aid as a tool in the ideological struggle between capitalism and communism, there were also a host of typically impoverished newly created Eastern European states attempting to transition to a market-based economy. This furthered aid's transition to being primarily focused on economic development and as an incentive for policy reform (Lancaster 2008).

As this brief history attests, foreign aid has always been a heavily politicized process. Politicians often used it as a carrot to encourage cooperation from other regimes or to protect the giving country's own economic or political interests, with humanitarian goals coming second (Lebovic 1988; Alesina and Dollar 2000). Drury et al. (2005) and Coyne (2013) note even with humanitarian aid, such as disaster relief, and political considerations typically dictate both how much aid is given and if aid is given at all.

Of course, in Mazzucato's conception of the public interest, the government is not the sole value creator. NGOs, generally altruistically motivated (Büthe et al. 2012), have grown increasingly influential. But despite good intentions, NGOs often work with governments, entangling their work in political mire. Kim (2017) argues that countries with a higher presence of US-based NGOs are more likely to receive increased amounts of US-based aid. Additionally, the longer an NGO is present in a particular country, the more successful they are at petitioning for foreign aid. And government officials may view private aid as a potential tool for carrying out foreign policy goals. For example, Baldwin (1969, p. 445) quotes a report from the Advisory Council on Private Enterprise in Foreign Aid, created by the Foreign Assistance Act of 1963, saying "private institutions may be far more effective instruments of national policy in some situations than government institutions." A significant portion of private aid from the Western world is tied to promoting liberal values and institutions.

Can aid be sufficiently disentangled from political mechanisms to allow for the missions Mazzucato envisions? It seems quite unlikely, without completely cutting government from the mix, the opposite of what Mazzucato calls for in *Mission Economy*. Not only are government officials unlikely to let go of a tool for influencing other governments, but some recipient countries prefer to restrict foreign to public channels. These governments view private aid as a politically destabilizing force and legally restrict these groups' funding (Dupuy et al. 2016). All of which suggests that Mazzucato's first principle is unlikely to hold in light of our public choice argument.

Even in cases where government officials or multinational or private actors seek to grant foreign aid in as depoliticized manner as possible, there is no guarantee that they have the relevant knowledge to identify the correct missions or how to implement those missions to create value, relative to alternative uses for those resources. Missions at the level of the UN SDGs may seem so universally noble as to be almost unobjectionable goals. But considering potential paths of implementation immediately reveals the need to determine more specific priorities and make calculated tradeoffs. Perhaps this is why the announcement of the SDGs generated derision as "worse than useless" by *The Economist* (2015) or "senseless, dreamy, and garbled" by Easterly (2015).

Missions require specificity to determine whether success has been achieved. The SDGs are arguably broader and less-quantifiable than their predecessor, the Millennium Development Goals (MDGs). Yet it's worth noting that despite their more targeted nature, the MDGs were typically considered failures, particularly in Africa. Because so many African countries started so far behind compared to other geographic regions, even countries that showed improvement were considered program failures (Easterly 2009). The MDGs' creators could not account for the unique local challenges countries faced. Nigeria, for example, lagged behind partially due to the Boko Haram insurgency in the north of the country and a spate of kidnappings in the south (Oleribe and Taylor-Robinson 2016). The unsuitability of the MDG goals to local realities is dominant in the extensive literature on the limitations of the MDGs (Fehling et al. 2013). Other common critiques include the goals' overly simplistic nature, lack of accountability, and inadequate inclusion of relevant stakeholders in goal creation. (This latter point is particularly relevant to Mazzucato's framework.)

Market Shaping

Mazzucato's principle of market shaping follows naturally from her first principle of co-creating value, because market shaping requires a goal, a vision of what a specific market should look like. As she states, market shaping requires "goal-oriented investment on the supply side, market creation on the demand side, and governance mechanisms to achieve inclusive, innovation-led and sustainable growth" (p. 174).

Because missions require intervention by the government, they are inherently market shaping in that they change market activity relative to the counterfactual. However, what Mazzucato does not address is that all market interventions cause unintended consequences, and these unintended consequences often undermine the original intention behind the intervention. Because planners cannot have full knowledge of existing conditions or future conditions, they necessarily operate on very limited knowledge of the world. The result of simple interventions in a complex system is that unintended consequences emerge in forms and ways that planners cannot fully know or anticipate (Coyne 2013, pp. 143–168).

One of the most devastating of these unintended consequences is the increase in rent seeking and the subsequent politicization of nearly every aspect of life within aid recipient countries. P. T. Bauer (1981, p. 104) noted that, "[t]he tendency toward politicalization operates even in the absence of these transfers [of foreign assistance], but is much buttressed and intensified by them." As an example, consider how influxes of foreign aid can incentivize wealth-destroying behavior, as individuals recognize profit earning opportunities from lobbying for additional aid and shift resources into the political realm. Instead of focusing on the productive creation of economic wealth, individuals and firms choose to compete for political favors, diverting resources better used elsewhere and rewarding corruption for those in positions of power over how foreign assistance is spent. Economides et al. (2008) break down foreign aid transfers into two effects on growth—the positive impact that stems from increased financing of infrastructure and the negative impact that stems from increased incentives to rent seeking. They find that any positive impact on growth is significantly mitigated by adverse rent-seeking behavior. This issue is exacerbated by a large public sector.

Aid can also distort government spending into unproductive channels. Svensson (2000) argues that foreign aid may decrease productive spending on public goods because the influx of assistance reduces the pressure to use public spending in an effective manner. Aid money serves as a substitute for funds raised by taxation or other domestic sources, freeing up budgets for rewarding special interests.

Tying assistance to specific outcomes may seem like a solution for aid advocates trying to avoid abuse, but tied aid still shifts public spending. In a study of public spending in Malawi by Seim et al. (2020), government officials who became aware of aid programs at certain local schools were less likely to target these schools for local development projects. Feyzioglu et al. (1998) also assert that earmarked loans or assistance reduce spending in the designated areas. As a result, the rate of return of a particular aid-funded program is not accurately reflective of the overall impact of the said program. Chatterjee et al. (2012) attempt to put numbers to the problems and suggest that 70% of aid is fungible and that aid given to spur public investment actually crowds out between 80 and 90% of domestic public investment.

The distribution of private aid also tends to be centered around which countries or issues are most likely to lead to receiving public funding, rather than determination of the greatest need. For example, there was a massive influx of NGOs in both Kosovo and Haiti after the international community made large funding commitments, following the respective country's conflict and earthquake (Coyne 2013, p. 97). Called the "NGO scramble" (Cooley and Ron 2002, p. 26), this phenomenon demonstrates how NGOs focus on highly publicized, short-term projects to attract future funding. It also leads to "disaster hype," as humanitarian organizations exaggerate the extent of a specific crisis in order to encourage additional donations. One example of such is the Darfur conflict, where the US government estimated fatalities of 60,000–160,000, while the Coalition for International Justice claimed fatalities were as large as 400,000 (Coyne 2013, p. 98).

Although mission-creating experts may be aware of the existence of issues such as corruption or NGO scrambles, without the feedback loops of the market, and the incentive to act on that knowledge, it is impossible for them to determine what the unintended consequences of a given foreign aid program will be. Thus, market shaping also falls prey to both the knowledge problem and political economy problems.

Building Up Government Capabilities

Perhaps the problem is the quality of government institutions. Mazzucato argues that in order to successfully shape markets, the public sector needs to build dynamic capabilities similar to that of the private sector. She identifies five capabilities she thinks are central to modern bureaucracy's ability to "manage complex and wicked problems": leadership and engagement, coordination, administration, risk-taking and experimentation, and dynamic evaluation. To Mazzucato, the government has been efficiently neutered by the broad acceptance of market failure theory. This has created a broader culture antithetical to the idea of government officials engaging in the risk-taking prevalent in the private sector.

What Mazzucato doesn't consider is that the behavior she admires, the ability to bear greater quantities of risk, may not be compatible with the bureaucratic structure of government. If government capabilities are indeed simply held back by citizens who only want the government to intervene as a last resort, then bolstering these attributes starts with changing public perception of the public sector. However, if the level of risk tolerance and other government capabilities is a result of government officials responding to the incentives generated by the bureaucratic structure, it is not public perception, but rather the non-market nature of government that determines which capabilities are developed by government officials.

As evidence of the influence of bureaucratic structure on behavior, consider the work of Arel-Bundock et al. (2015), who look at the 15 aid-giving agencies that are part of the US government. They argue that dependent agencies are more likely to give aid that closely tracks with the foreign policy goals of the president, while more independent agencies are more likely to be more responsive to the needs of the recipient country. This suggests that incentives differ across bureaucratic structure.

Far from being neutered by market failure theory, over the past few decades, the scope of the US government is arguably the largest ever. Indeed, a greater concern than government impotence is mission creep, as the activities expand beyond what was originally intended. The phrase was originally created in the 1990s to describe US actions in Somalia and Libya but has been applied to several non-military scenarios, including foreign aid. Consider this admission from former World Bank Managing Director Jessica Einhorn (2001, p. 22) that the World Bank's "mission has become so complex that it strains credulity to portray the bank as a manageable organization."

Unlike domestic government-involved missions, foreign aid involves a nexus of two different areas wherein government capabilities potentially play key roles: the abilities of both the giving government and the recipient government. Hodler (2007) notes that the quality of the recipient country's institutions impacts aid effectiveness and that countries with poor institutions that insufficiently protect public funds from being appropriated by government officials are less likely to see positive growth associated with aid. Similarly, Dollar and Levin (2005) evaluate World Bank development projects in the 1990s and find that the institutional quality of the recipient country matters far more for the likelihood of success than the project type.

A significant portion of foreign aid today is centered around attempting to build state capacity. However, it is dubious whether assistance can achieve this end. Djankov et al. (2008) look at 108 countries over a period of nearly 40 years and find that foreign aid negatively impacts democratic institutions. Knack (2001) finds that receiving higher aid levels actually erodes a country's governance quality, due to poorer bureaucratic quality, increased corruption, and weaker rule of law. Aid reduces government accountability, essentially subsidizing poor behavior, since badly managed countries typically receive the most assistance. Aid can even increase the likelihood of violent conflict, since whoever is in charge of the government often gains control of the rents provided by aid (Grossman 1992).

The erosion of foreign governance institutions suggests that economic development comes not from relaxing constraints on government officials, but on devising constraints that will prevent political opportunism while enabling ordinary citizens to engage in productive entrepreneurship. However, no expansion of government scope will enable bureaucrats or politicians to overcome the knowledge problem because this constraint is not an issue of capacity, but rather a fundamental inability of planners to solve the core economic problem outside of the context of private markets.

Budgeting Based on the Desired Outcomes

Recognizing the incentive problems caused by aid dependency, the past two decades have led some aid advocates to try to find less harmful methods of providing assistance. For example, the Center for Global Development, a development-oriented think tank, has argued for a form of outcome-based budgeting for foreign aid which they call cash on delivery (COD). COD aid programs try to limit aid abuse through practices such as tying payments to outcomes and requiring independent verification of progress. COD aid is tied to specific projects, but funding is doled out gradually, in exchange for achieving specific outcome goals. With this system, donors refrain from stating how goals are achieved, using independent monitoring to verify only outcomes instead of inputs, which is supposed to encourage recipients to take full responsibility for achieving goals (Birdsall et al. 2010).

COD aid is essentially an attempt to reduce or eliminate political economy problems from foreign aid. By requiring hands-off implementation, donors eliminate their ability to direct aid funding to beltway experts or special interest groups. Independent verification and public transparency keep performance in the public eye, where it is harder to get away with corruption. And payment for outcomes requires programs to actually be carried out in order to receive additional funding, reducing the ability of aid recipients to forestall achieving the donor's desired goals in order to prevent cutting off their stream of revenue.

Hands-off implementation also allows for some local knowledge to be incorporated into determining the best method of delivering the outcome. However, inclusion of local knowledge into the production process still doesn't eradicate the knowledge problem because there is no way to capture economic knowledge in determining the goal itself which must be pre-determined. Absent the market context, mission decision-makers are unable to correctly assess the true cost or benefit of a given mission relative to all other possible alternatives. Furthermore, because outcome-based budgeting requires quantifiable outcomes that can be easily measured, aid projects are likely to be centered around whatever outcomes can be verified and not necessarily where there is the greatest value. In comparison to other funding structures, COD aid may provide a superior option for policymakers. But this does not mean COD aid can determine the best desired and the best use of scarce resources to achieve that end.

The other danger of outcome-based budgeting is that budgets for programs will simply grow relatively unchecked regardless of whether the benefit is greater than the cost. Exacerbating the issue is the fact that government bureaus must spend down their yearly budgets in order to justify receiving additional funding in the next year. As a result, there is little incentive to withdraw funding from projects, even if projects are not meeting the desired thresholds (Coyne 2013, pp. 108–142). This is a problem within NGOs as well, particularly those who receive funding tied to carrying out specific projects. Even in cases where aid programs are theoretically tied to certain evaluations, the proposed consequences may be unlikely to be carried out.

Pre-Distributing Risks and Rewards

Mazzucato argues that missions should be "pre-distributive," instead of merely redistributive. Pre-distributive policies, at their core, seek to shield actors from fully facing the forces of the market. But unlike redistributive policies, which seek to compensate the "losers" of a particular market through welfare transfers, pre-distributive policies seek to change "the way in which the market distributes its rewards in the first place" (Hacker 2011, p. 35). This desire can manifest itself in a myriad of different public policies, such as minimum wage laws and universal basic income proposals. These policies reduce the risk for many types of actions, encouraging people to engage in riskier behavior. That risk is instead borne by the government. Mazzucato argues that pre-distributive policies are crucial to mission success because the private sector underinvests in riskier projects.

Mazzucato's preferred method of pre-distribution is the creation of public wealth funds, where the wealth is built up by returns to government-funded activity or equity stakes in companies that benefit from government investments. As such, we will focus on public wealth funds and their internationally oriented analogue, the sovereign wealth fund. Whereas public wealth funds are typically invested domestically, sovereign wealth funds (SWF) consist of investments made by a government primarily outside the borders of its own country. However, the definitions are not set in stone, with some scholars using the term sovereign wealth fund in both cases.

How do public or sovereign wealth funds impact foreign assistance missions? Sharma (2017) argues that sovereign wealth funds are key to the success of the UN SDGs, since the SDGs require significant amounts of long-term investment, and that governments should direct sovereign wealth fund investments toward economic development initiatives. As an example, he points to India's National Investment and Infrastructure Fund (NIIF), which funnels investment into different infrastructure sectors, such as railroads.

Numerous experts have debated how, if at all, sovereign wealth funds change the tenor of international relations. In testimony for the House Committee on Foreign Affairs, Edwin Truman (2008, p. 1), a Senior Fellow with the Peterson Institute, argued that while sovereign wealth funds weren't a significant threat to US foreign policy, "[t]he U.S. should continue to press countries with sovereign wealth funds to design and embrace best practices for these funds to enhance their accountability to citizens of the countries with the funds as well as to the citizens and markets in which they invest." He describes five concerns that will become increasingly pertinent as wealth is increasingly concentrated in public hands. These concerns are that governments will mismanage the funds; that governments will manage SWFs to subsidize state-owned or state-controlled national champions; that financial protectionism will be encouraged, especially if states perceive future policies would benefit; that SWFs will increase market turmoil due to their opaque natures; and that government ownership of international assets makes it more complicated to balance the benefits of open markets and regulation.

Pre-distribution advocate Jacob Hacker (2015, p. xxix) argues, "a predistribution agenda does not make all the hard choices easy. But like the engineer who is allowed to open his toolkit, we are at least able to recognize what the real choices are." As with market shaping, the successfulness of pre-distribution relies on whether or not the economy can be "engineered" by experts. Truman's solution to this question is encouraging international commitments to SWF best practices. But the best practices are toothless checks on government behavior. Nor do they solve the government's inability to access and incorporate dispersed, local, and tacit knowledge into their decision-making. The government's inability to pick winners is not due to a lack of the best practices, but to the absence of market prices and profit and loss and the resulting economic knowledge.

Embracing Stakeholder Value

So far, we have primarily focused on the constraints of government planning in missions. But Mazzucato's vision isn't that the government carries out missions alone. In order for missions to be successful, they need to include both the private sector and the general public. Mazzucato's sixth pillar comes out of the shareholders versus stakeholders' debate regarding corporate governance. Whereas shareholder theory argues that companies should seek to maximize shareholder returns, stakeholder theory argues that financial considerations must be balanced by consideration of the interests of others impacted by the business in some way, whether that be employees, customers, or the surrounding community (Smith 2003). Shareholder advocates generally support a laissez-faire approach to the market, believing that the "business of business is business" (Pfarrer 2010). Stakeholder theory, in contrast, argues that the business of business extends far beyond maximizing market returns.

Predominant within stakeholder theory is corporate social responsibility (CSR). CSR programs can run the gamut from donating to local food pantries to participating in fair trade practices to diversity, equity, and inclusion programs. Michael (2003) identifies three schools of thought for CSR: company-led CSR, state-led CSR, and civil society-led CSR. These categories are determined not by actions taken by the corporation, but by the actor who incentivized the actions in question. Company-led CSR develops endogenously from within the company, often because the firm seeks to promote a reputation of being good for the local community or because they wish to attract and retain employees by offering a high-quality work environment. State- and community-led CSR programs, however, are programs a company pursues due to external pressure.

There are several ways CSR can impact international development, including lobbying for better legal and political practices, creating educational programs, or even just refusing to engage in bribery in countries with prominent corruption. Because stakeholder theory focuses on the relationship between corporations and the local community, stakeholder-ruled governance is sometimes viewed as an alternative to government regulation (Buchholz and Rosenthal 2004). Blowfield

(2005) posits that corporate social responsibility theory contains unique implications for international relations because it rewrites the perceived relationship between businesses and broader society. He argues that CSR even has the potential to discourage conflict among different sectors of society through creation of inclusive stakeholder partnerships.

Does CSR fall prey to the knowledge problem? It depends on the type of CSR program. Company-led CSR largely manages to escape the knowledge problem, since the decision to engage in such programs is internal to the firm and is thus part of their profit-loss calculation. However, businesses in developing countries, which tend to have less secure political and civil rights, may face increased responsibilities to their stakeholders compared to businesses that operate in countries with superior institutional environments (Reed 2002). This may discourage firms committed to CSR from entering the market in a developing economy, limiting their capacity in assisting mission success.

State-led and community-led CSR, on the other hand, are more likely to push programs based on external standards, such as pushing for more women to be included on boards. These external goals may or may not be driven by some amount of local knowledge, but since firms would arguably be already including such programs if they thought it would be profitable, the need to exert external pressure to achieve such external goals suggests these programs run counter to the economic calculation provided by the market.

How do CSR programs fair regarding political economy problems? Once again, externally motivated CSR programs are more likely to fall prey, particularly state-led CSR. State-mandated or state-subsidized CSR programs inherently politicize the concept of stakeholder. Michael (2003) points out that while advocates of state-led CSR argue externally encouraging such programs is necessary to build a "brighter capitalism," what it really does is pit government and businesses against one another. Externally motivated CSR "represents a site of contestation for the right to determine social objectives and the funding of these objectives" (p. 123). With political rents up for grabs, state-led CSR could lead to a "CSR scramble" similar to the aforementioned "NGO scramble" where businesses who seek to benefit from government subsidies seek to implement programs they otherwise wouldn't and waste resources lobbying for additional subsidies.

Open Systems and Co-Designing the Future

Mazzucato's final pillar is intended to hold the government accountable through community engagement. But incorporating community engagement isn't easy. Who should participate in the conversation and whose feedback should be given the most weight during disagreements when it comes to making decisions about mission goals and methods? Should taxpayers in donor countries have a say about how aid money is spent in another country? Milner and Tingley (2011) note that there are strong partisan divides in the United States when it comes to supporting economic aid but that the opposite is true for military aid. There are also divides alongside economic class and racial ethnicity. Public opinion, however, typically focuses on broad buckets of aid (economic vs. military) and not on the details of specific projects.

There are relatively few large sample studies that look at the opinions on aid recipients. Findley et al. (2017) conduct one among 3000 Ugandans and find more support for projects funded by foreign aid, because they view aid projects as less politicized than they do for projects funded by their domestic government. They also find some support that Ugandans prefer multilateral aid to bilateral aid.

Of course, positing that governments ought to incorporate public opinion into their decisions regarding foreign aid doesn't mean that this will occur. Otter (2003) finds mixed evidence for whether or not first-world governments care about public opinion regarding foreign aid. While there are some cases where aid is increased or decreased in concordance with public opinion, there are many other cases where the opposite is true. Otter suggests faulty polling techniques may be partially at play, but also that government policies are determined by elites who only care about public opinion when it is sufficiently threatening to their electability. Another explanation might be the rational ignorance of voters who are likely to lack details as to specifics of aid flows. To the extent rational ignorance is at work, it would allow political decision-makers to pursue policies contrary to public opinion with little consequence.

Perhaps even more disappointing for Mazzucato is Winters' (2010) study on whether participation encourages accountability in aid programs. He finds that "in terms of donor accountability to aid-receiving countries and the end users in them, recent pushes for increased participation have not resulted in more accountability in the design of aid programs" (p. 218). This might be due to a lack of information, a lack of incentive to gather information, and a lack of voice or exit.

Experts' inability to properly incorporate public desires into their plans often undermines their goals. Ottaway (2002) argues that the initial stages of post-conflict rebuilding are particularly fragile and that the international community often pushes for institutional development too quickly in these situations. Reform is more likely to happen with a significant, prolonged engagement by the international community, but as Ottaway notes (p. 1021), this is a strategy that:

> relies on force, or better on the threat of force, to coerce the groups that have caused the state to collapse to submit to external 'best practices' solutions. It involves the presence of foreign troops and the direct intervention of international agencies willing to make and impose policies. It is not a democratic option.

Here Ottaway acknowledges an uncomfortable truth many aid advocates are loath to understand and admit—missions are often inherently coercive. They involve experts imposing their wills upon others under the guise of freedom, individual rights, and self-determination (Easterly 2006, 2013). Mazzucato's pillars do not offer a clear path to avoiding this reality.

Conclusion

We have spent much of this chapter discussing the ways that foreign aid missions are doomed to fail. But there is one last argument in favor of missions that must be addressed: the argument of compassion. Even if the goals of missions may not be achieved successfully, what else is there to do? Surely the answer cannot simply be to turn our backs on human misery and do nothing? Isn't something better than nothing?

Sadly, it is indeed possible that doing nothing is better than doing something. If doing something runs the risk of doing more harm than good, then we should refrain from action. Granted, it is not always easy to gauge overall harm, but the possibility of harm is the reason enough to appreciate the challenges posed by knowledge and political economy problems. Any treatment of missions to aid others should take these factors into account.

Furthermore, there is an alternative to missions, and one with a proven track record of success—the expansion of free trade and movement of people. Although the narrative around capitalism today is too often a story of wealthy countries using the guise of free markets as yet another opportunity to oppress poorer countries, a look at where economic growth actually occurs shows this is simply not true. Empirically, countries that embrace capitalism reap the rewards of their decision, while those who restrict or nationalize markets suffer. Individuals from more capitalist countries on average experience better lives, becoming wealthier and healthier, and benefiting from greater amounts of education and political freedom (Leeson 2010). And allowing people the freedom to migrate offers them an opportunity to improve their own lives while contributing to broader wealth creation (Clemens 2011; Kukathas 2021).

Mazzucato's book is dedicated to the idea of reshaping capitalism through the use of missions. But as we see from the voluminous history of foreign aid, missions cannot overcome the knowledge and political economy problems, even when guided by Mazzucato's pillars. True capitalism doesn't need to be reshaped in order to be effective. If we truly believe in promoting human flourishing, the ultimate goals of the UN SDGs, then we should embrace the best path forward for doing so—individual freedom that enables people to unleash their creativity, which is the fountainhead of human progress (Norberg 2020).

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