



GROUP OF EIGHT

Foreign Aid to the Developing World

By John James Snidow

Introduction

As time goes by, technological knowledge increases, and as it does, our material possibilities expand. What was previously available to the super-rich becomes **de rigueur** for comfortable living. Where once paved roads were a luxury reserved for wealthy cities, they are now a staple of good urban planning and economic development. Where refrigeration of food was once a frill, it is now the basis for public health plans in tropical areas. The standard of living has more than doubled in the United States since 1950. However, at the same time, the population of the world has exploded, reaching nearly seven billion people—and all have not experienced America’s remarkable story of **affluence**.

Indeed, even in a time of incredible prosperity, much of the world lives in poverty. Much of Africa, Southeast Asia and Latin America still **subsist** on less than two American dollars a day. And with the poverty comes a host of other problems: lack of education, political corruption, crime, unwanted pregnancies, and disease, to name a few. Even the life expectancy of those in rich countries is considerably longer than that of their poorer counterparts. What is considered “poor” in the US, Great Britain or Canada would be considered unimaginably wealthy in many parts of the world. In short, nearly every aspect of one’s existence is affected by one singular, arbitrary and uncontrollable fact: place of birth.

According to economist Robert Lucas, the implications of economic growth for the world are so striking that, “once you start thinking about the implications of economic growth, it becomes hard to think of much else.” And yet, the road to growth is foggy and uncertain. **Capital**, labor, language, elevation, education, technology, culture, religion, political institutions, electoral system, capital market formation, the “**Protestant work ethic**,” the presence of rivers, natural resources: these are just a handful of the many determinants of growth that economists have identified—but nobody can, with certainty, point to any one of these as a sufficient condition for growth.

Explanation of the Problem

Foreign aid probably has its roots in the **classical** world. Recently conquered affluent countries would often pay tribute to their conqueror in exchange for protection and mutual support during leaner

De rigueur—*what is customary.*

Affluence—*wealth, abundance of property.*

Subsist—*to have or acquire the necessities of life .*

Capital—*wealth or goods .*

Protestant work ethic—*the Calvinist idea that hard work is a duty which benefits both the individual and society as a whole .*

Classical—*relating to the ancient Greek and Roman world .*

times. However, in modern times, the focus of foreign monetary flows has become less one of mutual support and more one of the richer nations attempting to assist in the economic development of the poorer countries.

The Marshall Plan

World War II decimated the cities and countryside of 1940s Europe and toppled its economy—especially in the defeated Axis powers. Heavy bombing and troop movement leveled urban centers, destroyed bridges, ruined transportation **infrastructure**, and largely left the European economy in post-war shambles. In 1944, the United States launched one of the largest foreign aid operations in history, and the plan for its implementation was named for then-Secretary of State George Marshall. The plan gave billions of dollars for the building of rail lines and roads, and for the other capital investments necessary for European reconstruction. While incredibly expensive (US \$13 Billion in 1944 dollars), the plan likely led to the following explosion in European prosperity that was enjoyed throughout the 1950s and into the present day. Indeed, the Marshall Plan (officially the European Recovery Program) represents foreign aid at its most effective and successful.

Unfortunately, the effectiveness of aid is not always so clear nor is it always given for altruistic motives alone.

The Cold War

During the Cold War, both the US and the Soviet Union (to a lesser extent) used the giving or withholding of foreign aid to encourage support of capitalism or communism, respectively. While much of Latin America and Eastern Europe (e.g. Poland, Cuba) fell under the economic and political sway of the Soviets, the capitalist US used the promise of aid to gain allies. Indeed, a founding principle of the NATO alliance was the giving of developmental aid in order to secure political support against the **Warsaw Pact**.

Recent Developments

The continuing rise in affluence among developed countries pushed academics and policymakers alike towards a greater focus on foreign aid in the 1990s, and the spread of the AIDS epidemic in sub-Saharan Africa raised awareness about the structural barriers to growth that still exist in many regions of the world.

In March of 2002, US President George W. Bush proposed the “Millennium Challenge Account,” (MCA) a US-led program to end poverty in the developing world. The program competitively awards aid based on a list of specific criteria. The criteria judge countries along three guidelines – ruling justly, investing in people, and economic free-

Infrastructure—*the system of public works of a country, state, or region.*

Warsaw Pact—*a coalition of communist nations, led by the Soviet Union, from 1955 to 1991.*

dom – and reward the best-performing nations. The program strives to **incentivize** countries which typically face corruption and other structural barriers to growth to **liberalize** and reform in order to become eligible for MCA aid. In 2004, 17 countries were eligible, but since then many more countries have made efforts to reform and receive MCA aid. However, the program has received mixed reviews in terms of its effectiveness – it is not entirely clear to what extent the Millennium Challenge account has “worked.”

In order to supplement the policy-tied aid of the MCA, the US also pledged in 2003 to boost its investment in combating the spread of HIV around the globe. President Bush announced the plan on January 29th of the same year:

To meet a severe and urgent crisis abroad, tonight I propose the Emergency Plan for AIDS Relief - a work of mercy beyond all current international efforts to help the people of Africa...I ask the Congress to commit \$15 billion over the next five years, including nearly \$10 billion in new money, to turn the tide against AIDS in the most afflicted nations of Africa and the Caribbean.

However, this plan has been criticized as well. Many say that the program is not large enough, not focused enough, and not effective enough, but the strongest criticism is of the program’s promotion of **abstinence**-only education, which is attacked for adding a moral dimension to the AIDS debate that critics argue is unhelpful, backward-thinking and dangerous. Proponents argue back that abstinence is the only sure way to prevent AIDS.

As more economic data becomes available, the effect of aid has become more closely scrutinized and often attacked. Columbia economics professor Jeffrey Sachs recently published a book entitled *The End of Poverty*. In his book, Professor Sachs postulates that through aid and debt forgiveness, the world can rid itself of “extreme poverty.” Sachs argues that if the rich nations will agree to forgive the debts of poor countries and to devote 1% of GDP to foreign aid, the end of poverty can be realized within our lifetime—even in the next 20 years.

Dr. Sachs’s theory is not shared by all. Professor William Easterly of New York University attacks developmental aid in his own book, *The White Man’s Burden*. Easterly’s **searing** criticism points to the real difficulties in understanding – much less influencing – the determinants of long run economic growth. Additionally, Easterly argues that past attempts to engineer economies through massive foreign aid have been at best only **marginally** effective, and at worst detrimental to many in the developing world.

In addition to criticizing the effectiveness of aid, many point to

Incentivize—to provide with an impetus to do something.

Liberalize—to become more free, open, and democratic.

Abstinence—a voluntarily withholding from sexual activity.

Searing—harsh and direct; literally, burning.

Marginally—slightly, very little.

the theoretical and ideological problems surrounding foreign wealth transfers. Many see the World Bank and International Monetary Fund as less about development and more about the economic interests and agendas of the **Bretton Woods** countries, namely the United States. Critics note that often the **metric** of success used for aid is often the success of the donor country and not the well-being of the recipient.

The two schools of thought—pro-aid and anti-aid—came to blows in late 2006. Professors Sachs and Easterly engaged in a lengthy and vicious public debate in the American mainstream press over the efficacy of foreign aid. The battle raged for weeks and across the pages of *The Washington Post*, *The Wall Street Journal*, and the chapters of the two economists' books. While the debate failed to yield a definitive winner, it highlighted the sensitive and critical nature of the issue, revealing that even the most talented and educated minds of our time disagree passionately on the importance and effectiveness of foreign aid.

Focus of the Debate

In the G8, the foreign aid debate is centered on three points: Where should aid go? How much aid should be given and in what form? How should it be distributed, and by whom?

There is a problem among developed countries; everyone wants foreign aid to exist, but nobody wants to pay for it. They also disagree over who should be the recipients; the North American members would like to focus their aid on Latin America, while Europe would rather focus more heavily on African and Asian nations. This debate often leads to tension because there is financial motivation at work. The US and Canada would like Latin America to develop in order to be able to purchase their export products and have more markets for their own products, while Europe, being centrally located, would prefer an Afroeurasian development strategy to one focused on the Americas alone because those markets are more readily available to their industries.

G8 members also disagree over the amount and form of aid. Most of the G8 is committed to AIDS reduction in Africa, but the goal of universal AIDS treatment access by 2012 has yet to be agreed upon by all member nations. There is also a usually unstated reluctance of the United States to participate as fully in foreign aid as the other members of the G8, partially because it feels that it typically ends up paying the majority of the bill. Although the UN resolved to increase foreign aid spending to 0.7% of each member's GDP by 2015, the resolution has so far been unsuccessful—with the US in particular failing to meet the goal. However, the US is not alone. The European Union pledged 0.56% of gross national investment to be spent on foreign aid by 2010, yet they too have failed to meet their target.

The mechanism for aid is also in dispute. While the European

Bretton Woods—an international system of monetary regulation set up by the Allies during World War II to help rebuild their economies. The IMF and World Bank are the institutions most strongly associated with Bretton Woods.

Metric—a standard of measurement.

nations prefer to work through the **OECD**, the **European Development Fund**, and NGOs to accomplish their foreign aid objectives, the US and Canada often prefer to leave much of the development work to the Bretton Woods institutions – the International Monetary Fund and the World Bank.

OECD—the *Organisation for Economic Co-operation and Development*, an international organization of 30 nations that accept the principles of democracy and free markets..

NGO Perspectives

Greenpeace

Greenpeace is generally ambivalent toward foreign aid in theory or in practice. However, because Greenpeace opposed “unsustainable agricultural practices”, which are often encouraged by foreign aid in the developing world, the organization sometimes comes to blows with aid supporters.

European Development Fund—the *principle institution through which the EU distributes aid to Africa*.

Amnesty International

This organization is not aid-focused in most of its core initiatives. However, there is an unsettling **correlation** between poverty and corruption; the poorest nations are often those with the most human rights violations. When aid is given to such nations, Amnesty typically opposes those actions. The Democratic Republic of the Congo, China, Vietnam and South Korea are examples of developing (or formerly developing, in the case of Korea) countries which Amnesty has targeted.

Correlation—a *relationship*.

Oxfam

Oxfam, an abbreviation of Oxford Committee on Famine Relief, is a conglomerate of 13 international organizations dedicated to a central mission of eradicating poverty. Oxfam believes that “poverty is not inevitable” and firmly supports the ideals of fair (but not always free) trade, national debt forgiveness, and foreign aid. Oxfam believes that “aid works” and that countries are currently not doing enough to help developing nations. One of the primary goals of this enormous multinational NGO is to encourage governments to increase the amount of economic resources devoted to poverty alleviation. Oxfam points to the educational improvement of sub-Saharan Africa as a success story of foreign aid and attempts to create similar infrastructure improvements in other countries in the future. In short, Oxfam allies itself more with Jeffrey Sachs and less with William Easterly’s anti-aid philosophy. In the world today, Oxfam may be the biggest supporters of aid worldwide.

However, Oxfam itself is not without criticism. In addition to lobbying for more aid, the organization often lobbies against multinational corporations. In one especially media-covered event, Oxfam became **embroiled** in a spat with Starbucks over the price given to Ethiopian farmers for their coffee beans. Starbucks claimed that their purchase of Ethiopian coffee ultimately benefited the farmers, and most

Embroided—*to be involved in conflict or difficulty*.

economists agreed. The British magazine *The Economist* published a fairly **scathing** critique of Oxfam's stance in November of 2006.

Scathing—bitterly severe.

In addition, Oxfam has often been criticized for being too political for an allegedly development-oriented NGO. Oxfam Belgium released a series of ads in 2003 that showcased pictures of Israeli oranges dripping blood with a caption that read: "Israeli fruits have a bitter taste...reject the occupation of Palestine: don't buy Israeli fruits and vegetables." Oxfam later apologized for improperly involving itself with Israeli politics.

In short, while Oxfam is dedicated centrally to aid and development, the sheer size of the organization and the presence of secondary political agendas sometimes compromises their ability to be an unbiased advocate for the developing world.

The Red Cross

The Red Cross is an international aid organization focused more on short-term disaster relief rather than on long-term, sustainable economic growth. However, it should also be noted that much of foreign aid comes through organizations like the Red Cross during times of disaster, and that these expenditures are often used in the calculation of total foreign aid among countries. In addition, the Red Cross has significant initiatives in the areas of maternal health and infant mortality. Improvement of both of these metrics is typically considered a vital milestone for developing countries in preparation for long-term growth. In this respect, the Red Cross does serve as a delivery agent for some aid programs and for the larger developmental agenda.

Possible Solutions

Unilaterally Increase Foreign Aid

Proponents of unilaterally increasing foreign aid argue that the costs for developed countries are low and the benefits for the developing world quite high. Such supporters typically are in favor of aid that is not tied to a particular political agenda. They argue that aid will increase the standard of living, literacy rate, and educational level, changes that will ultimately result in better governments and greater freedom worldwide.

Tie Aid to Political Benchmarks

Proponents of tying aid to political benchmarks argue that aid can only work in political systems that are free of corruption and that enforce citizens' human and property rights. They argue that there is a moral implication to aid, that nations "vote with their dollars" either for or against a ruling regime. In their most vocal moments, supporters of this solution declare that giving aid to corrupt and ruthless regimes is

tantamount to strengthening and supporting that regime. Finally, supporters argue that making aid **contingent** upon metrics of human and property rights encourages countries to become more open, more democratic, and more free. According to this view, aid should be leveraged as an incentive, and that to give it indiscriminately robs aid of much of its potential benefit for the world.

Contingent—to be dependent on or conditioned on something else.

Reduce the Level of Foreign Aid

Proponents of this view argue that aid is either ineffective or too prone to political hijacking to be of much use. They argue that aid is misused by both the donor and recipient countries, and that too much money flowing from rich to poor countries inevitably leads to corruption, graft, and waste. Proponents of this view typically reject the “**poverty trap**” argument and instead point to the long-term efficacy of the world markets. In short, such supporters argue that poverty can and will be ended not by aid, but rather by the slow historical march of capitalist markets that bring resources to areas where they can be most efficiently used.

Poverty trap—the argument that many people are so poor that they lack the means to lift themselves out of poverty; hence, poverty trap.

Questions for Policymakers

The topic of aid is so broad, the implications so striking, and the politics so complicated that the first step in resolution-writing should be to narrow the problem. What part of aid should we attempt to improve? Government aid? NGOs? Private donations? After limiting the scope of the problem, bill writers should consider what type of action is appropriate. Should aid be increased or decreased? How can the international community coordinate aid for maximum effect? What kinds of aid commitments should be made by the richer nations of the world, and how should those commitments be enforced? Advocates of more aid will have to defend the effectiveness of their plan of action, while opponents will have to propose solutions to world poverty that they deem more effective than increased international donations.

Conclusion

If Jeffrey Sachs is right, foreign aid holds the key to lifting entire nations from backwater subsistence into trans-national trade. It can transform peasants into merchants and slums into **gentrified** cities. In short, it can achieve for the first time something longed for but never achieved in the history of human civilization: the end of extreme poverty.

Gentrified—an area that has seen an influx of middle and upper class citizens.

But if Professor Sachs is wrong or misguided, the implications are likely just as enormous—and negative. Legitimizing corrupt re-

gimes, supporting human rights violations, and wasting large portions of the wealth of the nations and economic stagnation are just a few of the possible effects of using aid wrongly or ineffectively.

Indeed, perhaps more than any other political issue of our time, foreign aid captures the essence of high-risk, high-reward policymaking. To succeed is to achieve a milestone in the history of our species. To fail is to fail spectacularly and to rob an entire generation of the developing world of the promise of affluence.

Guide to Further Research

The topic of aid is **inextricably** tied to the topic of economic growth. The leading growth economists of today include Bill Easterly, Daron Acemoglu, Ross Levine, Robert Barro, David Dollar, Craig Burnside, and, most prominently, Jeffrey Sachs. Many of these economists have written extensively on growth and the effectiveness of aid in particular. Their work can be accessed from their various university websites or (usually) through online scholarly databases. The Bretton Woods institutions' (World Bank and IMF) websites offer vast resources regarding growth and development to the general public. In addition, the UN and Oxfam both maintain extensive collections regarding the effectiveness of aid. However it should be noted that Oxfam's stated ideology of aid promotion makes them an arguably biased source of information.

In addition, Robert Barro of Harvard and Xavier Sala-i-Martin of Columbia coauthored a **seminal** textbook, *Economic Growth*, that covers the basics of growth theory and delves into the effectiveness of aid in later chapters. To be clear, this is a professional-level text and is not required reading for this issue. That said, the book does provide a solid grounding in the intricacies of the topic at hand and is a fairly classic work in the field.

However, perhaps the best place to begin further research is to read through the Sachs-Easterly debates of 2006. These debates are full of the latest scholarly insights into growth theory and will no doubt direct you to the economists' two books, *The End of Poverty* and *White Man's Burden*, respectively. In addition to providing you with thorough information, the writing of these two academics will reveal how important growth is to developing nations and how complicated it is to achieve.

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Inextricably—*nearly impossible to separate.*

Seminal—*laying the foundation for future work or thought; original.*

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