

## CONTROVERSY

# What Helps the Global Poor Best: Aid or Trade?

In the year 2000, HIV, malaria, and tuberculosis killed millions of people in the developing world. These diseases reached epidemic proportions in some regions of Asia and Africa and were endemic (consistently present) in many others. That year, the rich countries of the world began the process of creating the Global Fund to Fight AIDS, Tuberculosis and Malaria. Since 2002, the Global Fund has spent over \$60 billion to help poor countries in the fight against these deadly diseases. It is estimated that by the end of 2019, these efforts will have saved some 36 million lives and will have averted nearly 200 million new cases of AIDS, malaria, and tuberculosis.<sup>a</sup> The quality of life of hundreds of millions of people has been measurably improved by aid to promote global public health.

Such funds comprise only a fraction of the aid given to the developing world overall. Indeed, over the past 60 years the rich countries of the world have given over \$3 trillion in aid to poor countries. While there have been some major successes in improving public health, foreign aid targeting other developmental goals has often failed to produce a lasting improvement in living conditions. More than a billion people in the developing world still live in abject poverty, barely at or below the income level necessary to guarantee subsistence. Is aid the most effective way to help the world's poor? Might there be a better way?

Activists, policy makers, and scholars have long argued about how best to help the world's poorest people. Some emphasize how foreign aid from rich nations can have a powerful, beneficial impact on the living standards of the poor. Others downplay the potential for aid to make a difference, and emphasize the need for economic reforms so that poor countries can take advantage of international trade. The debate is often characterized as one between aid and trade: whether it is more effective to give money to developing countries, or to encourage them to pursue better economic policies.

a. [www.theglobalfund.org/en/impact](http://www.theglobalfund.org/en/impact) (accessed 12/01/17).



## Applying the Concepts

This disagreement has to do with how aid, or trade, might affect the **interests** of people and policy makers in poor countries. And the effect on interests, in turn, depends on the social and political **institutions** of the poor countries—in particular, whether govern-

ments are set up in such a way that they are willing and able to put aid money to appropriate uses. Central to this issue is the nature of **interactions** between donors and the recipient governments, and whether the donors are themselves willing and able to ensure that their money is used productively to improve the lives of the poor.

Supporters of foreign aid argue that aid has important economic and political effects. Economically, they believe that the prospect of receiving aid can give policy makers in the developing world reasons to pursue policies to alleviate poverty and spur economic development. By loosening some of the tight financial constraints that governments of poor countries face, aid may also encourage these governments to pursue policies that benefit the poor. And while policy makers may not have an interest in alleviating poverty, especially if national political institutions are undemocratic or otherwise do not reflect the interests of the poor, donor countries and nongovernmental agencies can use financial incentives to encourage recipient governments to adopt better policies.<sup>b</sup>

Politically and socially, supporters of foreign aid also hope that aid will reduce some of the extreme pressures

*Aid from the Global Fund has supported malaria prevention programs and provided mosquito nets to people in many developing countries, including the Ivory Coast.*



on these countries' populations, so that they can more fully participate in national life. The Global Fund, in alleviating the burden of disease on developing countries, shares this goal. Jeffrey Sachs, a prominent economist and strong supporter of more generous aid, argues that "development aid, when properly designed and delivered, works, saving the lives of the poor and helping to promote economic growth."<sup>c</sup>

Aid skeptics question whether governments in developing nations will do the right thing with the aid they receive. They argue that many of these governments do not rely on the poor for political support and so have little interest in pro-poor policies. Aid money may go to benefit only their supporters, such as powerful interest groups or corrupt politicians. As Nobel laureate Angus Deaton writes: "Aid undermines what poor people need most: an effective government that works with them for today and tomorrow."<sup>d</sup>

Those who are pessimistic about the positive impact of aid may quote the old saying: "Give a man a fish, and he can eat for a day; teach him to fish, and he can eat for the rest of his life." Their general view is that it is important for developing countries to adopt policies that lead to economic growth and development—especially policies tying them to the world economy so that they can take advantage of the opportunities offered by international markets.

There is evidence to support both positions. Scholars have typically found that aid does not spur development *unless* the assisted governments adopt appropriate policies.<sup>e</sup> On the other hand, even skeptics accept that foreign aid can make a difference to the lives of the poor; Deaton writes: "Foreign aid . . . has much to its credit, particularly in terms of health care, with many people alive today who would otherwise be dead."<sup>f</sup>

Some economists have suggested a third position: that aid should be focused not on broad national policies, but rather on targeted interventions that affect particular aspects



Some argue that developing countries are better served by policies that promote trade. Here, workers at a factory in Bangladesh manufacture clothing for export.

of the lives of the poor. These might include finding more effective ways to deliver medicine or education to poor villages, or developing measures to encourage poor farmers to adopt more efficient techniques.<sup>g</sup> While this approach seems to have achieved some success, it largely abandons attempts at thoroughgoing changes to the development process.

In light of these arguments, how can well-meaning people, and governments, in the rich countries of the world best help the global poor? Aid transfers money to the developing world but may not be effective in the long run. Trade—and economic reforms in general—may hold out long-term promise, but the problem of poverty is pressing and unlikely to be alleviated quickly by policy change. Wherever the answer lies, the quality of life of a billion and more people is at stake.

## Thinking Analytically

1. How might foreign aid affect the interests of recipient governments? Would these effects be good for the poor?
2. How might domestic political institutions affect the ways in which foreign aid would be put to use in recipient countries?
3. How do interactions between donors and recipient governments affect the ways in which foreign aid could help the poor?

b. Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Times* (New York: Penguin, 2006).

c. Jeffrey Sachs, "The Case for Aid," *Foreign Policy* 21 (2014).

d. Angus Deaton, "Weak States, Poor Countries," Project Syndicate, October 12, 2015, [www.project-syndicate.org/commentary/economic-development-requires-effective-governments-by-angus-deaton](http://www.project-syndicate.org/commentary/economic-development-requires-effective-governments-by-angus-deaton).

e. Craig Burnside and David Dollar, "Aid, Policies and Growth," *American Economic Review* 90 (2000): 847–868.

f. Deaton, "Weak States, Poor Countries."

g. Abhijit Banerjee and Esther Duflo, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* (New York: Public Affairs, 2011) presents a prominent argument for this position.