

THE CASE **FOR** FOREIGN AID

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The debate over foreign aid is an example of the perfect becoming the enemy of the good. While aid, its implementation and its impacts are far from perfect, three points must be defended: (1) foreign aid is absolutely critical, both to our on self interests and to the millions of lives it saves; (2) foreign aid is a work in progress, constantly evolving and improving; and (3) many of the arguments used by the critics of aid are easily dismissed.

1. Aid is Critical

The positive effects of foreign aid are as abundant as they are important. Together, they leave little doubt that on principle, aid is a worthwhile exercise.

The global financial necessity of aid is becoming increasingly apparent. In an interconnected and interdependent global economy, the extreme inequalities between those that live in poverty, and those that live with abundance is a destabilizing force. There are clear trade incentives for donor countries in evening this playing (rich countries will buy more of our goods and services), more important though, are the costs of doing nothing.

Disengaging from the developing world has real security implications. The Brookings Institution estimates that there are 56 states that do not have the resources to provide basic government services. These countries are far more vulnerable to terrorism, weapons proliferation, organized crime, infectious disease, and armed conflict. Global health threats are also interdependent. A Recent US study showed that a new pandemic flu could kill over half a million Americans, and cost the US economy \$70 - \$160 billion in lost productivity and medical expenses.

Aside from the self interested rationales for foreign aid, by far it's greatest value is a human one: it saves lives. Large scale health interventions have facilitated routine immunizations, the eradication of small pox and polio, and significant progress against river blindness, guinea worm, diarrheal diseases and tuberculosis. This has led directly to increased life expectancy around the world – typical developing countries saw an increase from 48 to 68 years over the past four decades. The simple fact is that millions of people are alive today because of foreign aid.

2. How to make it better

It is indisputable that foreign aid has had a tremendous positive impact. Aid has lifted countries out of famine, improved their public health, and moved nations from economic isolation into the global economy. This said, getting aid right is an incredibly complex proposition. Which is precisely why the aid community has relentlessly focused on how it can improve. Several efforts are of note.

Many of the critics of foreign aid are right, it is about more money. Jeffrey Sachs estimates that a doubling of aid to roughly \$100 billion a year, could end extreme poverty and prevent 8 million annual deaths. More resources would save more lives. This increase is needed to lift countries out of the trap of poverty. When all the money in a society is spent on basic survival, there is no surplus for investment and growth. Only external funds can break this cycle.

But increasing foreign aid and reforming foreign aid are not mutually exclusive propositions. Money must be spent more effectively, be more accountable and not go to support corrupt governments.

Over that past two decades, aid effectiveness has been a central notion in the aid discussion. Better aid coordination mechanisms, less tied aid, and stricter evaluation have all been adopted. Aid is also getting more accountable to those it is intended to assist, through direct budget support and greater local evaluation of both needs, and aid effectiveness.

Giving greater local control, however, leads to a high chance of corruption. And here again, the aid community has been proactive. In Malawi, or

example, the British government has supported a strong internal anti-corruption bureau, that both helps to ensure its aid get well spent, but also has a lasting impact on good governance in the country.

3. Problems with the anti aid arguments

Finally, it is worth pointing out some of the more egregious errors in the arguments of those opposing foreign aid.

First, the notion that there has been a 50 year 'big push' of aid is simply not true. While \$2.3 trillion over fifty years sounds like a lot, it equals \$46 billion per year, a modest amount for any global capital flow. What's more, only about \$26 billion per year is spent in the low-income countries, the ones who do indeed require a legitimate 'big push'.

Second, aid has not been a failure. Millions of people are alive because of aid, countries have been lifted out of poverty, and the 'green revolution' has transformed agricultural productivity.

Third, the connection between aid and economic growth is far more complex than critics purport. The vast amount of research to date has found that aid does indeed have a modest impact on growth. None of these studies, however, take into account the potential deflation of economies should the aid have never been provided, and more importantly, none take into account the human benefits of aid - the lives improved and saved.

Fourth, foreign aid is not anti-market. If anything, aid has been overly tied to free market reforms in the form of structural adjustment conditions. What's more, a large proportion of aid goes to public infrastructure, such as roads, railways, power plants, and electric grids, the very development needed to stimulate private enterprise.

Fifth, aid is not all top down. In fact, some of the largest and most prominent aid projects currently being implemented are precisely the opposite. The Millennium Village project, for example, is decisively 'bottom up,' based around community participation and local empowerment and accountability.

Finally, there is a distinct free market romanticism that colors much of the critique of aid. A romanticism that is particularly hypocritical given the current failures in the global capital markets. Sometimes, even in wealthy countries, governments action is required to help those in need, which is precisely what foreign aid attempts to do.

The global foreign aid project is far from perfect. There are no shortage of examples of mistakes, missteps and malpractice. However, the fundamental truth remains: without it, millions or people will die unnecessarily, and millions more will continue to live in extreme poverty. The rest is academic.