The United States and Global Poverty: How Can Aid Make a Difference?

Stephen L. S. Smith
Professor of Economics, Gordon College

U.S. international economic policies are not the only determinant of the trajectory of global poverty, but they matter enough to merit scrutiny. Policies on trade, immigration, foreign direct investment, exchange rates, governance of international financial institutions, and aid all affect poverty. Though U.S. policies are deeply flawed in many respects, they deserve some credit for the global decrease in the number of poor people since 1980 (from 1.5 to 1.1 billion).¹

I focus on aid, a topic that is enduringly contentious and richly deserves attention from Christian thinkers. Aid is now eclipsed in size by other kinds of capital flows (FDI, commercial bank lending, remittances and trade-related finance), but generous, well-structured aid remains capable of enormous good.

I. Theological Foundations

All strands of Christian theology affirm private and national aid. Private generosity toward the poor is a tangible act of faithful obedience to the Lord’s commands in both the New and Old Testaments. Care for the poor is encouraged whether or not the donor is responsible for impoverishing the poor: it is an act of love that points to Christ and is part of the faithful’s proper, virtue-protecting rejection of Mammon. The early church’s help to the Jerusalem church

¹ The poverty figures are measured at the common “$1 per day” standard; source: World Bank (2005), Table 2.5a, which summarizes changes in the number and proportion of the absolutely poor. More generally, see CDG/FP (2006, 2004) for an attempt to quantify an overall effect on poverty reduction of the whole range of country policies that are relevant to poverty.
is an example of global Christianity caring for the poor across national boundaries. Reformed, Catholic and Anabaptist theological traditions speak with one voice on personal generosity, though they differ about the proper initial direction of such generosity (within or outside of the church).

Christian teaching also affirms that nations should give generously and are judged in part on how they care for the poor, though here theological traditions offer more differentiated views. Broadly speaking, national assistance is enjoined less in the Anabaptist tradition than in the Reformed and Catholic perspectives, which frame it in terms of justice and solidarity. There are also prudential reasons—such as national security—why the state might wish to provide aid. Christian traditions view many of these aims as basically legitimate.²

II. The Current Situation: The Aid Landscape in the Early 21st Century

Recent years have seen intense ferment in all aspects of aid. Official and private aid flows grew exponentially; new institutions emerged to become major players; innovative collaborations offer improved means of structuring aid; and new research findings, now based on long country experience with growth and aid, confirm some fears about aid but also open doors for new approaches.

First, let’s consider official development assistance (ODA). U.S. ODA stagnated in the 1980s and 1990s. Then the September 11 attacks, combined with growing recognition of the AIDS epidemic, jolted U.S. policy. Between 1999 and 2004 U.S. ODA rose from $9 billion to $20 billion (or to 0.17 percent of national income). This is substantial. In per capita terms U.S. aid still lags behind most other rich countries. But U.S. aid has risen to 25 percent of all rich

² The theological literature on giving is so large as to defy summary. Two good places to start are Sider (1997, 1999). Griffiths (2004) offers a good short synthesis.
country aid (from 17 percent), which enhances the U.S. voice in aid matters. The distribution of aid has shifted, too. Sub-Saharan Africa’s slice has grown to 20 percent from its historic average of 10 percent. Israel and Egypt, previously among the largest recipients, in 2004 received a mere 2 percent each.³

Furthermore, the Bush administration made two key changes. U.S. economic assistance is now exclusively on a grant rather than a loan basis. Also, future aid is conditioned on successful policy implementations and observed outcomes. This conditionality represents a decisive break with past practice and could significantly improve aid effectiveness.⁴

Private aid also has surged. In 2004 U.S. NGOs provided $7 billion in net grants—far more than any other rich country’s NGOs. U.S. per capita private donations are strikingly larger than private donations from much of Europe and Japan.⁵ Much of this is attributable to the work of Christian relief and development NGOs. World Vision provides aid on a particularly large scale, raising literally billions of dollars of private in-kind and cash donations. In fact, evangelicals have been even more tuned into economic development, and more generous, than these figures indicate. For instance, missions trips take many U.S. Christians to poor regions to work, not to sightsee. North-South church-to-church contacts have burgeoned.⁶

³ Figures here are author calculations from World Bank (2006), Tables 6.9, 6.10. The rise in ODA is substantial even apart from the 17 percent of U.S. ODA now going to Iraq. The rich country group is the OECD’s Development Assistance Committee (DAC). The United States remains far below its pledge to commit 0.7 percent of national income to ODA. The top ten U.S. aid recipients reflect strategic and national security concerns: Iraq, Afghanistan, Russia, Egypt, Israel, Ethiopia, Sudan, Colombia, Jordan, and West Bank/Gaza.
⁴ See Radelet (2003); similar changes are underway in DFID (the UK’s official development agency), as described by Griffiths (2004).
⁵ See CDG/FP (2004) for further detail on this. Only Norway, Switzerland and Ireland exceed U.S. per capita private giving while many countries fall several orders of magnitude lower.
⁶ Rick Warren’s venture in Rwanda garnered some media attention, but most economic assistance that flows church-to-church goes unrecorded in official statistics and its extent underappreciated by mainstream media. The church has always been active in economic service,
Another new feature of the aid system is the creation of several large development-oriented private foundations. The Bill and Melinda Gates Foundation, buttressed with $31 billion from Warren Buffett, promises to provide more than $4 billion in aid per year for the foreseeable future. Western aid agencies have always worked closely with NGOs in developing countries. The emergence of serious private foundation money vastly expands the potential for public-private collaboration. The Global Fund to Fight AIDS, Tuberculosis and Malaria, the most prominent such collaboration, promises to unite private, official multilateral, and country government resources in a massive way.

Yet aid remains contentious. There is little evidence of any link between aid and economic growth. This matters because growth is extraordinarily reliably related to poverty reduction. There are many reasons why aid might not promote growth or might at best have ambiguous effects in the recipient nation. In economic terms, it suffers from an endemic principal-agent problem. It is hard for principals—donors—to hold their agents—aid agencies and NGOs—accountable to deliver aid well. Likewise, the poor—also principals in poverty reduction—rarely can hold their governments, NGOs, and other actors responsible for actually delivering poverty reductions. Furthermore, aid frees up government resources for other, possibly counterproductive, uses. Finally, there are difficult incentive problems inherent in delivering aid. At both the household and national levels aid can harm self-reliance and

though much of this story remains untold. The present era is distinctive for the enormous ramp-up in scope and size of these activities, including significant South-South Christian efforts. Strom (2006).

On the growth-poverty reduction link Dollar and Kraay (2002) survey the evidence and offer important original results. There is some variability by region and policy regime, but overall the growth-poverty reduction elasticity is unity. For recent evidence on the effect of aid on growth see Rajan and Subramanian (2005) and Easterly (2005). World Bank (1998) offers a contrarian view summed up in one of its chapter titles: “Aid Matters—In the Right Policy Environment” but has received little empirical support from other researchers.
encourage cultures of dependence.\textsuperscript{9} Food aid appears to be particularly problematic.\textsuperscript{10} These problems sustain a longstanding, powerful critique of aid and help explain something that has been clear since the 1960s: aid is not a necessary condition for countries to grow and achieve poverty reduction.\textsuperscript{11}

Even when people support aid, debates remain about tactics and strategy. For instance, proponents of the Global Fund and of Bush’s PEPFAR (President’s Emergency Plan for AIDS Relief) initiative are battling about tactics to fight AIDS transmission.\textsuperscript{12} Another debate centers on whether or not to use DDT to fight malaria. Putting conditions on ODA is also controversial. And at the broad strategic level there is disagreement between proponents of Sachs’s (2005) “big push” initiative—that ODA should be quadrupled and directed by the UN to lift poor countries out of “poverty traps”—and others, such as Easterly (2006), who promote a strategy of smaller, decentralized increases in aid, administered with more institutional innovation and private-sector accountability.

Nonetheless, aid has the potential to do enormous good. Though it has not, historically, spurred economic growth, it can raise human wellbeing by improving poor people’s education, health, longevity, and dignity. Indeed, aid was probably a key to the human development

\textsuperscript{9} Easterly (2006) discusses the principal-agent problem at length.
\textsuperscript{10} Barrett and Maxwell (2005) have a trenchant analysis of food aid as well as suggestions for plausible policy improvements. See also Maren (1997).
\textsuperscript{11} Easterly (2006), surveying global growth and aid over the past 60 years, writes “…aid cannot achieve the end of poverty. Only homegrown development based on the dynamism of individuals and firms in free markets can do that,” (p. 368). He echoes Bauer (1984) “External donations have never been necessary for the development of any society anywhere. Economics achievement depends on personal, cultural, social and political factors, that is people’s own faculties, motivations, and more, their institutions and the policies of their rulers. In short, economic achievement depends on the conduct of people and their governments” (p. 34).
\textsuperscript{12} The Global Fund promises big scale economies and a unified global reach while PEPFAR offers speedier aid delivery and fast institutional innovations. This debate has become ensnared in the hugely controversial question about the extent to which condom use should be emphasized in AIDS prevention. See Chase (2006), Donnelly (2006), and Smith (2006) for useful accounts.
improvements in Latin America and sub-Saharan Africa over the past 25 years, improvements that occurred despite those regions’ stalled economic growth. However, aid must be kept under intense critical scrutiny. Focused attention on accountability and good stewardship are vital.

The increase in overall aid to poor countries is promising. Perhaps even more promising is the rise of new, more accountable institutions that take a collaborative, focused approach to particular development issues (such as education or water supply rather than “development”). Sachs’ plan for an overall “big push” may be over-ambitious, tied as it is to an overburdened, dysfunctional UN bureaucracy. But a “big push” might very well work in single policy areas such as AIDS or malaria. The surge of funds and actors from the private sector suggests that smaller-scale, flexible, innovative programs may prove fruitful—in collaboration with official actors, to be sure.

III. A Christian Perspective and Recommendation

The present situation offers Christians deep opportunities and, indeed, obligations to serve others in the name of Christ. I advocate “critical generosity.” As individuals, in churches, and in NGOs, Christians should be generous to a fault, but also should pursue hard-nosed analysis of how funds are stewarded. Intensifying U.S. Christians’ efforts is well within reach, given our generation’s increased wealth and global connections.

The time is ripe for innovative approaches. It is essential that programs recognize the full set of incentives facing the poor, and enable the poor to provide feedback to program designers. This requires experimentation and keen attention to the details of program design. It also is essential for NGOs to implement independent program reviews and more sophisticated project
evaluation. Collaboration between academics and development practitioners is foundational to all of these tasks.\textsuperscript{13}

Increased giving through Christian NGOs is particularly attractive. They have well-earned reputations for honest work. They have increasingly advanced institutional capacities. They are part of local, national and international Christian networks that encourage information-sharing and transparency. These factors ameliorate the principal-agent problem in aid.\textsuperscript{14}

Additional well-structured ODA should also be encouraged. Christians need not obsess about the official target of 0.7 percent of national income, which is arbitrary and not inherently compelling. Rather, Christians should work for generous national responses to particular problems, responses that combine private aid and ODA. Adopting tangible goals—say, eliminating malaria in sub-Saharan Africa—will help build political constituencies for aid and encourage sharp thinking by focused agencies. Given the large extent of poverty in sub-Saharan Africa, a focus on that region might be wise. We should steel ourselves to the likelihood that more generous ODA—though the right course—may not ease global anti-Americanism.

Finally, Christian NGOs need to be heard from in policy advocacy—but with a consistently wise voice. NGO voices are essential, but some do not always see the whole picture. Narrow advocacy can at times harm development.\textsuperscript{15} Given the importance of economic growth in poverty reduction, Christian NGOs have a particularly valuable role to play in thinking about how to serve the poor in the midst of the dislocations entailed in growth. For the sake of not wasting funds, NGOs should support reasonable conditions on U.S. aid even if that means some countries are shut off.

\textsuperscript{13} See Dean et al (2005, 2006).
\textsuperscript{15} Mallaby (2004) offers vivid examples, but cites World Vision and Oxfam as exceptions.
References


Center for Global Development/Foreign Policy. 2006. “Ranking the Rich. The 4th Annual CDG/FP Commitment to Development Index” *Foreign Policy* No. 156 (September/October) pp. 68-75.


