International relations, Q1. Does foreign aid help or hurt poor people?

While typically framed in the language of moral imperative, foreign aid is beset by ambiguities in measurement and conflicts in goals. This essay describes and quantifies the challenges; highlights the sides and stakes in the debate over efficacy; then illuminates a "third way" that can viably help alleviate global poverty.

From 1960 to 2013, members of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee – in short, "rich countries" – delivered at least $3.5 trillion (in 2009 US dollars, or USD) in foreign aid to developing or "poor" countries. Annual foreign aid disbursements have increased almost forty-fold in that period, from $4.65 billion USD in 1960 to $180 billion USD in 2013 (in 2009 USD). Over that period, the composition of major donors has remained relatively stable, with the United States giving 1.6 to 4.1 times as much as the next largest donor in all decades except the 1990s. On the other hand, the composition of top recipients over that period has changed significantly over time – with that change motivated primarily by the strategic priorities of donor countries rather than need of recipient countries. For example, Vietnam was among the top ten foreign aid recipients in the 1970s, during the US war with Vietnam, while Iraq and Afghanistan made the top ten after 2000, when the US was at war in those countries. Since 1960, the poorest 20% of countries received only 1.7% to 5.25% of total global aid.

Foreign aid can be more specifically described along four dimensions. First, aid can be bilateral or multilateral. Bilateral describes aid given by one country directly to another. Multilateral describes aid given by a group of countries or an international organization to one or more recipient countries. The overwhelming majority of foreign aid is bilateral; multilateral aid was less than 3% of total foreign aid during the 1970s and has stabilized at just 10% of foreign aid since 2010.

Second, aid can be humanitarian or non-humanitarian. According to the OECD, humanitarian aid is "assistance designed to save lives, alleviate suffering and maintain and protect human dignity during and in the aftermath of emergencies." Examples of humanitarian aid include disaster prevention, preparedness and recovery; provision of shelter, food, water and sanitation; health services; and measures to promote and protect the safety, welfare and dignity of civilians. Non-humanitarian aid includes debt relief, administrative costs, shipping costs and student scholarships. Despite the substantially greater public and press attention on humanitarian aid for disasters and conflict, non-humanitarian aid is by far the larger category, comprising over 90% of total foreign aid from 1995 to 2013. The public similarly conflates salience and spend: Americans believe that foreign aid is 25% of the federal budget when in fact it is closer to 1%.

Third, aid can be spent in the donor country or the recipient country. Aid spent in the recipient country includes cash grants and loans, project support, technical assistance and food aid. Aid spent in the donor country – so-called non-transferred aid – primarily includes debt relief, administrative costs and expenditures on refugees. The proportion of aid spent at home versus abroad varies widely among donor countries. For example, from 2006 through 2012, Korea spent just 5.5% of foreign aid disbursements at home while Austria spent close to 69% at home.

Fourth, aid can be in cash or in-kind. In-kind transfers chiefly relate to food and other commodities.

In short, the popular perception of foreign aid is of cash or food sent to poor countries, especially following a disaster or conflict, with the intent of helping the global poor. The statistics tell a different story. Most foreign aid is bilateral and non-humanitarian; much aid never physically reaches the "recipient" country; and the flow of foreign aid tracks the geostrategic priorities of donors rather than the income needs of recipients. Positioned as such, foreign aid would appear to be little more than another

tool by which wealthy countries exercise influence on the world stage. But even under this "realpolitik" view, foreign aid will do more for donor countries to the extent of its positive impact in recipient countries. The exercise of soft power will be more effective if wielded with competence and demonstrable impact. Which in effect recasts the question animating this essay in a utilitarian rather than moral context: regardless of intent, do the actions of foreign aid donors help or hurt the world's poor? Not surprisingly, economists are split on the answer. The remainder of this essay describes the poles in the economists' debate; the reasons for disagreement; and a reorientation of the relevant questions in a way that can yield more durable and sustainable solutions.

On one side of the foreign aid efficacy debate is Columbia University economist Jeffrey Sachs, who argues that poor countries are poor because they are in a "poverty trap." Foreign aid can kickstart a virtuous cycle by helping poor countries invest in endemic problems such as undernourishment, unsanitary drinking water, malaria and other diseases, poor infrastructure and stunted education. Incremental improvements in these areas will generate returns that will fund additional and accelerating improvements. In his book *The End of Poverty: Economic Possibilities for Our Time*, Sachs argues that if the rich world had committed $195 billion in foreign aid per year between 2005 and 2025, poverty could have been entirely eliminated by today.

On the other side of the debate is William Easterly, who questions the efficacy of foreign aid in books including *White Man's Burden* and *The Elusive Quest for Growth*. Easterly generally argues that foreign aid prevents individuals and governments from devising their own solutions, undermines institutions and creates a self-perpetuating (and superfluous) group of aid agencies. Easterly observed, for example, that in the past forty years, "$568 billion has been spent on aid to Africa, yet the typical African country is no richer today than forty years ago." Angus Deaton, winner of the 2015 Nobel Prize in economics, similarly highlights a "central dilemma" for foreign aid: "When the conditions for development are present, aid is not required. When local conditions are hostile to development, aid is not useful, and will do harm if it perpetuates those conditions." Economist and now member of the UK's House of Lords Dambisa Moyo made similar arguments in her book *Dead Aid*. To be clear, these prominent economists are by no means opposed to helping the poor. Instead, they are opposed to a system that, in their view, crowds out genuinely workable solutions via false claims of impact.

Prominent and well-intentioned economists have reached radically different conclusions on the efficacy of foreign aid for at least four reasons. First, as described above, "foreign aid" includes various types of aid – including bilateral and multilateral, humanitarian and non-humanitarian, cash and in-kind and aid spent in donor and recipient countries. Examining the impact of aggregate aid will yield little or no information on the impact of the different mechanisms and whether those mechanisms offset one another.

Second, and similarly, foreign aid involves disparate and sometimes conflicting goals. For example, "growth" within recipient countries is a frequently cited goal. If growth is the goal, then aid used to build infrastructure that generates medium-term growth will be considered successful. However, that same aid used to build infrastructure may increase the value of the local currency, which in turn will increase the price of exports and thereby reduce the competitiveness of the recipient country's manufacturing sector – the so-called "Dutch Disease." Medium-term growth can thereby undermine long-term, sustainable development.

Third, the aggregation of aid types and goals makes it difficult to identify the factors that impact outcomes. For example, factors such as geography, population and income can affect the growth engendered by aid and they can affect growth through channels other than aid. To accurately measure the extent to which specific goals are accomplished, researchers need to understand the specific mechanics of aid implementation in a specific context and pinpoint specific variations in those mechanics. With aggregated aid types and goals, such specificity becomes less practicable.

Fourth, foreign aid implicates difficult valuation questions. For example, to the extent that aid involves administrative costs, those costs may be higher in France than Japan, but the "value" of French aid to the recipient country may be no higher than the value of Japanese aid. Similarly, US law requires US food aid to travel on US cargo ships. If US ships charge higher freight prices to carry food aid than ships originating in the European Union, then freight charges will have to be accounted for in determining the value of US food aid. Along similar lines, for in-kind donations, the price of food in the donor country may be far higher than the price of the same food in the recipient country – leading to potentially misleading results when measuring the value of food aid over time.

Nobel prize-winning economists Esther Duflo and Abhijit Banerjee offer a way out of this seeming binary. Instead of characterizing foreign aid as good or bad, Duflo and Banerjee – in their book *Poor Economics*, as well as in decades of fieldwork – have pioneered the idea of randomized controlled trials, or RCTs, as applied to specific antipoverty interventions in specific contexts. RCTs analogize the methods of drug trials to the development context: RCTs isolate and measure specific inputs and outputs of programs at a specific place and time. In this regard, RCTs supersede the broad generalities inherent in debates over the pros and cons of foreign aid generically. Instead, they reliably measure the efficacy of specific interventions. For example, one notable RCT confirmed that distributing anti-malaria bed nets for free would not inhibit use, that is, that recipients would not discount the value or utility of such nets based on the presence of a subsidy or the absence of a price.

The scope of individual RCTs is more modest, less replicable but far more reliable; and at scale, the Duflo and Banerjee approach can create a patchwork of effective programs. By August 2024, the American Economic Association had registered more than 9,000 projects in its registry for social experiments. Many of those experiments have demonstrated the high "return" of well-designed programs and thereby illuminated prudent routes of social capital allocation. For example, Michael Kremer – co-recipient of the 2019 Nobel Prize in economics with Duflo and Banerjee – helped to create the Development Innovation Ventures (DIV) fund at the United States Agency for International Development, which applied a venture capital-like mindset to foreign aid by alternating funding and testing of social innovations (and adding funding to viable programs). Kremer estimated that the social rate of return on DIV's "portfolio" in its first year of operations was a robust 17:1. Similarly, the Gavi vaccine alliance estimates that for every dollar invested since 2000, it has generated $54 dollars of economic benefits, including reduced healthcare costs, increase productivity, enhanced educational outcomes and long-term economic growth. If foreign aid is going to help the world's poor, it is through experimentation, innovation, measurement and specificity.

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