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Ending Poverty by Encouraging Business, Not Aid

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Abstract

After decades of aid programs from wealthy countries, 49 least developed countries and some 2.5 billion people remain destitute and steeped in poverty. The literature is replete with proposed solutions to improve livelihoods and lift economies; however, the results have been disappointing. Aid Trap authors R. Glenn Hubbard, dean of Columbia Business School, and William Duggan, a senior lecturer, are experienced in business policy and development practice. They argue equivocally “business is the only solution” (p. 3).

Keywords

Africa, Agricultural Development, Business, Capacity Building, Charity Aid, China, Education, NGO, Marshall Plan, Poverty

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Hubbard, R. G. & Duggan, W. (2009). *The Aid Trap: Hard Truths about Ending Poverty*. New York: Columbia University Press. 198 pp. \$22.95 USD

After decades of aid programs from wealthy countries, 49 least developed countries and some 2.5 billion people remain destitute and steeped in poverty. The literature is replete with proposed solutions to improve livelihoods and lift economies; however, the results have been disappointing. *Aid Trap* authors R. Glenn Hubbard, dean of Columbia Business School, and William Duggan, a senior lecturer, are experienced in business policy and development practice. They argue equivocally “business is the only solution” (p. 3).

In six chapters, the authors introduce the charity trap, describe business first and business last, and then prescribe strong medicine while recognizing that the devil is in the details. Finally, Hubbard and Duggan draw a succinct 13-page conclusion for development practice.

In the first half of the book, the authors examine root conditions of poverty and how some countries escape while others remain trapped. They describe the evolution of business cultures—beginning ca. 5000 B.C. in Mesopotamia and continuing through Africa and Asia, including transformations of China and Vietnam in the 21st century. The authors paint with a broad brush and primary colors to challenge current policies of charity aid and promote business systems. In abbreviated fashion, Hubbard and Dugan describe the history of development and economic success over centuries, concluding that a thriving business sector best explains development success.

Hubbard and Duggan describe four enduring reasons for aid to poor countries:

1) as an alternative to war; 2) stifling aid support from liberal nations, particularly Britain and France; 3) in response to celebrity support, including from Nobel Prize winning economists such as Wassily Leontief, Robert Solow, and Arthur Lewis; and, 4) as a practical way to distribute foreign aid.

In the second half of the book, Hubbard and Dugan reexamine the Marshall Plan of 1947 and describe why and how it should be adopted in today’s poor countries. They reiterate the World Bank’s 10 elements of doing business as touchstones for development. Their recurring question is, “when you find a need, do you design a project or start a business?”

Hubbard and Dugan propose solutions for problems created by undisciplined aid. They suggest ways to improve the effectiveness of aid sent to poor countries. Their philosophy is reminiscent of the Lao Tzu proverb, “Give a man to fish, feed him for a day. Teach a man to fish, feed him for a lifetime.” They advocate business practices emerging from an adapted Marshall Plan as the “strong medicine” essential to heal poor countries.

Hubbard and Dugan concede that charity touches the hearts of people, but they argue it never moves them to change. They later acknowledge that charity aid is here to stay, but they insist that aid should enhance the growth of local business rather than merely serve as a handout. The authors argue that aid should concentrate only on areas such as medical needs, education, agriculture, and emergency relief.

The authors summarize the scale of world poverty, noting that the World Bank reports 1.4 billion people live on less than \$500 per year. Doubling personal income will require \$700 billion each year—seven times the current total world development aid budget. The authors suggest switching

from charity donations and reallocating aid to boost private business.

Hubbard and Dugan warn that aid should not involve economic projects that weaken the development of local business. They conclude that an emerging business class is the core driver of economic growth and the only effective check on government power. China is an example of a rapidly transforming business sector. However, the transformation process is filled with fierce arguments from government leaders, misunderstanding from different social classes, unemployment for ordinary people, and even social unrest. The change brings huge shocks to transitional populations—shocks mixed with promise, disappointment, restlessness, excitement, and sometimes hopelessness. The consequence is positive, but the process is strong medicine.

Hubbard and Dugan wrote *The Aid Trap* as a treatise on the power of business to transform the economies of the poorest nations as it has transformed those of the now-industrial world—or those making the transition from socialism to private enterprise. The microfinance model launched by Muhammad Yunus demonstrates that providing aid in the local business sector is a good anti-poverty tactic.

Unlike many other books full of afterthought and simply a description of the dilemma, Hubbard and Dugan have the courage to draft a blueprint to deal with an ominous and pervasive global problem. The authors offer suggestions for government officials, employees in NGOs, and students in the business schools of both rich and poor countries. This book is also informative for people who have a heart for charity aid. In the final chapter, Hubbard and Dugan acquiesce—“Business must come first in solving the problem of poverty, but there are many problems it can’t solve” (p.164). They recognize the need for balance among the three sectors—business, NGO, and government.

As reviewers, we recommend *The Aid Trap: Hard Truths about Ending Poverty*—a book easy to read but challenging to put into action. The book will be beneficial for policy makers and functional for agricultural development workers. It encourages people to teach others the business of fishing—a much better strategy than giving a fish that will suffice for only a meal or two.