Foreign Aid

Student's Name

Institutional Affiliation

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Foreign aid is considered to be a stable practice in the modern world. Everybody seems to have got accustomed to the idea that some countries are richer and more powerful, and others can barely survive. It becomes a chance for the former to once again display their authority and firm their prestige in the world by rendering different kinds of aid to the latter. This is, probably, the key advantage factor for the developed countries.

Unfortunately, a lot of states giving foreign aid are not interested whether the funds they allocate reach the final destination and to what extent. This issue, among a lot of others, is revealed in the article by Jeffrey D. Sachs. Specifically, the scholar examines the position of the USA as the aid-giver and points out that much of the rendered money covers transportation costs and not humanitarian needs. Jagdish Bhagwati agrees with him by stating that poor countries cannot become independent because of relying on foreign aid, which is often inadequate. In such a situation, the possibility of giving too much aid is practically eliminated, for the multiple stages money passes through gradually decrease the sum. All the donor states should take it into consideration and not attribute honors for themselves which actually are not confirmed by the real situation.

Another benefit for aid-rendering country is compliance with the Millennium Development Goals. In this regard, Sachs emphasizes that the urge to fulfill these goals may force some developed countries to resort to helping the impoverished ones only superficially, for example, taking in account rather political considerations than actual economic necessity. Connecting this insight with the previous one, it can be concluded that such benefits always justify the cost of the aid, as the donor country may allocate as much as it is convenient for it without losing its international image. Another problem is that such a generosity does not conquer poverty problems of the countries of the third world.

1920's-30's were difficult years for the world economy. A lot of countries experienced a lengthy recession, and the Great Depression of the United States became a fact documented by history. Bretton Woods institutions, as the World Bank group is often called, were established for the sake of nonadmission of the repeating of this situation and tried to effectively execute their functions. Their success could be explained by a consistent policy and a range of introduced measures of the institutions.

The history of Bretton Woods's events goes back to the postwar period, thus, the middle of the twentieth century. The reason for resorting to such measures lied in the combination of several major factors, the Great Depression being significant among them, as it turned to cross the borders of America and spread it negative consequences throughout the developed world. The maxim of international politics of those days was the fact that the basic resources came to concentration is a small group of states. The same situation was also evident before the outbreak of the Second World War, and the previous global economic experience of 1930's confirmed the persuasion that the world should rely on the market mechanisms and peculiar way of production as the most advanced system with the greatest potential. Participants of Bretton Woods Conference sought to avoid the decline of 1930s, when pressure in repayment of postwar debts enhanced by isolationism resulted in a breakdown of the international financial system (Hudson, 2003).

Control of stable exchange rates, one of the main prerogatives of Bretton Woods system, became possible due to tying a US dollar to gold. The world community generally agreed that this was one of the most prudent steps. Nowadays, this mechanism is referred to as the gold-dollar standard, as the American currency was established to serve as the economic measure due to convenience and stability considerations. Prior to this, transformation national currencies were used for the same reasons causing differences and disproportions on the international level. Establishment of dollar for gold standard was meant to standardize and stabilize global economic processes.

General Agreement on Tariffs and Trade (GATT) is an international agreement of multilateral kind aimed at regulating the mechanisms of international trade. It seeks to eliminate various barriers existing in trade, in such a way equalizing the opportunities and achievements of all the countries. Control over tariffs was conducted in several stages and involved mostly regulation of various custom duties. Tariff levels were set under GATT dictated by the topical economic necessities, and it was proved by noninterference with tariffs in the struggling industries. Most Favored Nation Status is an economic method introduced by GATT implying that trade relations between two countries must not discriminate any of the third parties also participating in these relations. It ensures equal import/export terms for all the international trade participants.

Planned as the revolutionizing and improvement system, Bretton Woods institutions, unfortunately, experienced a range of difficulties and failures. The most devastating factor is that by adhering to the gold-dollar standard countries with other currencies found themselves financing the deficits in British and American economies. As a result, world community turned to other national currencies and began using them as reserves, undermining the status of the USA in these processes. In 1976, the world changed the existing monetary system, shifting it to the model of free mutual conversions with exchange rate fluctuation inherent to it. It actually outlined the collapse of the Bretton Woods system.

Thus, introduction of Gold-Dollar standard, General Agreement on Tariffs and Trade, Most Favored Nation Status and tariffs levels set under GATT, among the others, contributed to turning Bretton Woods institutions into a successful enterprise able to temporarily eliminate crisis phenomena.

References

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