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Think Again: U.S. Foreign Aid

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Shortly after a tsunami swept through the Indian Ocean last December, a U.N. official complained that the West was “stingy” with its relief donations. Stung by this criticism, the Bush administration increased its financial pledge tenfold overnight—while loudly asserting that the United States actually led the global pack in foreign aid. Is the world’s wealthiest country a scrooge or a savior?

“The U.S. Government Provides More Foreign Aid than Any Other Country.”

Yes. The United States gives more cash to developing countries than any other nation. Of the \$69 billion in development assistance given by the world’s 22 top donors in 2003, the U.S. government contributed \$16.3 billion, or just under 25 percent. But these sums mainly reflect that the United States is the largest and wealthiest donor country, accounting for 40 percent of the 22 donor countries’ total income. So, it should come as no surprise that the United States gives substantially more than, say Canada, which has one tenth the population and a much lower average income.

When U.S. foreign aid is measured on other scales, however, a different picture emerges. For example, the United States provided about \$51 per citizen in official development assistance in 2002–03. That ranks it in 16th place among other major donors, behind Norway (\$381 per citizen), the Netherlands (\$203 per citizen), France (\$96 per citizen), and the United Kingdom (\$89 per citizen), among others. When aid is measured as a share of national income, the United States ranks dead last at 0.15 percent. Top givers include Norway (0.92), Denmark (0.84), Belgium (0.60), and Germany (0.28).

Moreover, foreign aid constitutes only a small share of the U.S. federal budget—much smaller than most Americans think. Surveys show that most Americans believe the federal government devotes 15 to 20 percent of the country’s expenditures to aid. The actual figure is far less than 1 percent; that’s less than

one fourth of the budget share of 1965.

“America Is the Most Generous Country in the World if You Include Private Donations to Charities.”

No. Americans certainly rise to the occasion in times of crisis, as the outpouring of charitable giving to tsunami victims demonstrated. According to U.S. government figures, private donations to low-income countries through American churches, charities, foundations, nongovernmental organizations, and college scholarships was at least \$6.3 billion in 2003. And such data almost certainly understate the actual amount of private aid. Some organizations do not respond to the government survey used to collect the data, and some important forms of contribution are omitted, such as volunteer time.

Alternative estimates vary, with the upper-end figure (including gifts to more developed countries such as Israel and Russia) at \$17.1 billion for 2000. By this estimation, private charitable donations per American total \$58 per year—or about 0.16 percent of U.S. income—ranking the United States second among major donors in private giving (the first is Ireland at 0.22 percent).

Combining public and private donations puts total U.S. development assistance in the range of \$35 billion per year, or about 0.32 percent of U.S. income. In other words, for every \$3 of income, the United States provides about one cent in development assistance. Even with this broader measure (and using the larger estimate of U.S. private assistance without making a similar adjustment for other countries), the United States ranks, at best, 15th among the top donors.

“Americans Provide Generous Economic Aid Through the Remittances Foreign Workers Send Home to Support Their Families.”

Wrong. The United States hosts many immigrant workers who send home money each month to help support their extended families by paying for school fees, food, housing, job training, and medicine. But these remittances are not aid, and they are certainly not an indicator of U.S. generosity or stinginess.

Remittances stem from market-based labor transactions, not generosity. Workers trade their time and skills for a paycheck in a mutually beneficial exchange. When those workers send the money back home, it is an intra-family transfer, not a charitable gift. Just because these flows help fight poverty does not make them aid. Private bank loans, foreign direct investment, and trade also help reduce poverty, but they are not aid, either.

Consider remittances that flow in the opposite direction. Thousands of Americans work in low-income countries around the world, and many of them send funds back to their families in the United States. But when an American working for Pertamina Oil Company in Indonesia sends money back to his or her grandmother in Florida, that money is clearly not Indonesian foreign aid to the United States.

Some argue that remittances can still substitute for aid, but this assertion is only partially true. One difference is the regional disparities in their destinations. Remittances from the United States are heavily concentrated in Latin America and much scantier in the poorer countries of Africa and South Asia. Of

the \$28 billion in U.S. remittances to developing countries in 2003, the majority went to middle-income countries, and more than half went to Latin America. Only about \$0.5 billion went to sub-Saharan Africa, or about 75 cents per African—hardly enough to ease poverty in a continent where income averages about \$500 per year. In addition, government policy only modestly and indirectly affects remittances, so the United States cannot direct them to the neediest countries (in response to a natural disaster, for example), or use them to support U.S. foreign-policy goals. Remittances are an important complement to aid, but they are not a substitute.

“The United States Helps Poor Countries in Many Ways Besides Foreign Aid.”

True. The United States helps provide security around the world by keeping sea lanes open for commerce, providing peacekeeping forces, and airlifting supplies during emergencies, as evidenced by the U.S. military’s valuable role in tsunami relief efforts. U.S. trade and investment also accelerate growth and development. In addition, U.S. firms develop technologies such as medicines and the Internet that low-income countries can use at a fraction of the cost of creating them.

Still, though the United States is one of the most open markets in the world, it imposes tough restrictions on poor countries. In fact, some analysts estimate that U.S. trade barriers inhibit growth in low-income countries much more than U.S. aid helps. Contrast the \$350 million pledged in tsunami relief to the \$1.8 billion in duties on imports collected from Indonesia, Sri Lanka, Thailand, and India in 2004.

The United States collected almost as much in import duties in 2004 from Bangladesh (\$314 million) as from France (\$350 million), despite importing 14 times as much from France. In addition, U.S. agricultural subsidies undermine the incomes of poor farmers around the world. Economist William Cline estimates that elimination of trade barriers by rich countries could inject \$100 billion annually into the economies of developing countries.

In the most recent ranking of the Center for Global Development/**FOREIGN POLICY [Commitment to Development Index](#)**—which ranks 21 rich countries on how their aid, trade, investment, migration, environment, security, and technology policies help poor countries—the United States places seventh. U.S. policies toward the poorest countries are not the worst in the world as some suggest, but there is clearly ample room for improvement.

“The Key to Development in Low-Income Countries Is Trade, not Aid.”

Actually, it’s both. Trade is an enormously powerful engine for development, especially trade in manufactured goods (less so for commodities). Countries that export labor-intensive, manufactured goods to the rest of the world generally experience faster economic growth and less poverty because such exports help create jobs, improve worker skills and productivity, and upgrade local technologies. Aid without trade—or, more accurately, aid without the creation of a robust private sector—cannot stimulate long-term growth and development.

But simply lowering trade barriers and opening markets is often insufficient. Many poor countries just don’t have the resources to build the roads, train the teachers, and buy the medicines necessary to

increase worker productivity and compete in global markets. Some of the greatest development success stories of the last 40 years have relied on a combination of trade and aid. South Korea created millions of jobs by exporting its products around the world while receiving nearly \$100 per person (in today's dollars) in annual aid between 1955 and 1972. Botswana's rapid expansion of diamond exports and exceptionally good governance made it the world's fastest growing economy between 1965 and 1995, during which time it received annual aid flows averaging \$127 per person. By contrast, annual assistance to sub-Saharan Africa today averages about \$28 per person—not nearly enough to build a foundation for sustained growth and development.

“Private Investment and Other Financial Flows to Developing Countries in the 1990s Offset the Decline in Aid.”

Think Again. Official aid fell sharply in the 1990s following the end of the Cold War, then rebounded slightly during the last few years. According to the World Bank, the amount of private financial flows to developing countries jumped from \$55 billion to \$155 billion between 1990 and 2002. With such a massive increase in private finance, why should we be concerned about the drop in aid?

Unfortunately, the increase in private cash was concentrated in a relatively small number of middle-income countries but almost completely bypassed the poorest ones. In low-income countries—defined by the World Bank as countries with average incomes below \$735 per year—levels of aid (after accounting for loan payments) held steady between 1990 to 2002 at around \$31 billion (though the real value fell after factoring in inflation and increased population of recipients). At the same time, non-aid loans from governments dropped from new loans of \$3 billion to net repayments of \$6 billion, meaning official financial assistance fell overall. At the same time, private capital dropped from \$14 billion to \$9 billion, dealing poorer countries a double whammy.

For middle-income countries such as Brazil, Turkey, and Malaysia, a different picture emerges. Official aid declined sharply between 1990 and 2002, from \$29 billion to \$9 billion. But private cash swelled from \$42 billion to \$146 billion, more than offsetting the decline in aid. This private finance was enormously beneficial to the countries that received it, but for most of the world's poorest countries, it was in short supply. There was no privatization of capital flows to the poorest countries, only a sharp decline.

“Foreign Aid Has Actually Done Very Little to Help Development.”

Wrong. In 1947, U.S. Sen. Robert Taft famously described U.S. support for the International Monetary Fund as “pouring money down a rathole.” Former U.S. Sen. Jesse Helms claimed foreign aid only “lined the pockets of corrupt dictators, while funding the salaries of a growing, bloated bureaucracy.” A great deal of assistance has certainly been wasted over the years, particularly aid provided for political rather than developmental purposes. Corrupt governments pocketed some of the funds, while the United States and the Soviet Union showered money on proxy states during the Cold War with little regard for how it was spent.

But aid has successfully supported development in many other countries, such as South Korea, Taiwan,

Botswana, and, more recently, Uganda and Mozambique. Although economists still debate the evidence, a growing body of research links increased aid with enhanced growth. One recent study found that every dollar in growth-oriented aid added \$1.64 on average to the incomes of recipient countries.

Aid has proven particularly effective in boosting health and education, which improved markedly around the world during the last four decades. In developing countries, life expectancy at birth increased from 43 to 59 years between 1960 and 2002, and infant mortality rates fell from 147 to 79 per thousand. Although aid was not the most significant contributor to these trends, many analysts believe it played a key role. The United States could unquestionably increase the effectiveness of its aid by reducing bureaucratic overhead, increasing coordination with other donors, and aiming fewer funds at corrupt or incompetent governments. Nevertheless, evidence suggests that in most cases, aid has positively contributed to the well-being of developing countries around the world.

“If Rich Countries Just Doubled their Aid, Poor Countries Could Develop Quickly.”

No. Initiating and sustaining growth and development depends primarily on the actions of citizens and leaders of developing countries themselves. The key ingredients for sustained growth and poverty reduction are economic and political stability, investments in health and education, strong institutions for good governance, and establishing an environment for a robust and competitive private sector. Aid can do little to overcome poor governance and destructive policies. Nevertheless, it can make a crucial difference in many countries, particularly those that do not have the resources to initiate rapid growth. A country with per capita income of \$200 and a 15 percent savings rate generates \$30 per person per year in investable resources, hardly enough to initiate rapid growth. Even in countries with poor governance, under certain circumstances, well-targeted aid working through non-government channels such as private clinics or mission schools can help improve people’s lives.

Just providing more aid is not enough, though. How the United States provides it is equally important. The Bush administration’s innovative new aid program, the Millennium Challenge Account (MCA), is designed to provide large amounts of assistance to a small number of low-income countries with a proven record of reasonably good governance, investments in health and education, and sound economic policies. The program provides a big incentive—large amounts of funding with relatively high spending flexibility—for countries that show a strong commitment to development.

But, though the MCA is a very promising approach, it is at best only a partial solution to improving aid effectiveness. To make aid work better in a post-September 11 world, deeper changes are needed. The United States must develop a set of hard-nosed, sensible strategies for working in countries that do not qualify for the MCA, from those that just miss to those that have completely collapsed. It must restructure the U.S. Agency for International Development (USAID) to reduce its bureaucratic costs, narrow its focus, and revamp its aid-delivery mechanisms. More fundamental, it must rewrite the 1961 Foreign Assistance Act, an outdated piece of legislation that is a great millstone around USAID’s neck. Taking on these challenges will not be easy, but they are central to improving the effectiveness of U.S. aid programs, fighting poverty, and creating a more secure world.

“The United States Is Doing Enough to Achieve Its Foreign-Policy Goals in Developing Countries.”

No. Debates about whether the United States gives more than others misses a bigger point: The key question is whether we are doing enough to achieve our own foreign-policy goals in the developing world. Sadly, our efforts are woefully inadequate.

Former Secretary of State Colin Powell has argued in FOREIGN POLICY that development is “a core national security issue,” and that “the United States cannot win the war on terrorism unless we confront the social and political roots of poverty.” Unfortunately, many citizens of poor countries see economic opportunity, escape from poverty, and political freedom as distant dreams. The gap between the richest and poorest countries has widened considerably during the last 20 years, breeding bitterness and anger among people who believe—rightly or wrongly—that the rich have rigged the international system against them. A growing number of groups are promoting radical ideologies that see the United States as the problem, not the solution. If the United States is to win the “war on terrorism,” it needs poor countries as well as rich ones to support the values it champions and to believe that they, too, can climb out of poverty and achieve economic and political freedom. But they need help to do it, and the assistance the United States provides is not enough to make a real difference.

The Bush administration deserves credit for increasing foreign aid both through its emergency HIV/AIDS program and the MCA. But these initiatives will touch only a few countries. Outside of these programs (and excluding aid for Iraq and Afghanistan), development assistance has stagnated and is likely to be cut in the next federal budget. In sub-Saharan Africa, the United States provides a paltry \$7 per African per year (one quarter of the \$28 all donors together provide), with private giving perhaps doubling that amount. Meanwhile, 27,000 children die every day from preventable diseases, half the world’s population lives on incomes less than \$2 per day, and resentment of the United States continues to grow. This is no way to create a more stable, secure, and pro-Western world. The United States may or may not be stingy with its aid, but it is clearly short sighted.

Steven Radelet is senior fellow at the Center for Global Development and was deputy assistant secretary of the treasury from 2000 to 2002.