



U.S. AID: GENEROUS OR STINGY?

A Debate Between

Carol Adelman, Hudson Institute

And

Steve Radelet, Center for Global Development

Moderated By

Sebastian Mallaby, the Washington Post

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C O N T E N T SSPEAKER PAGE

Introduction

Lawrence MacDonald 3

Presentations

Sebastian Mallaby, Moderator 4

Carol Adelman, Hudson Institute 7

Steve Radelet, Center for Global
Development 21

- - -

P R O C E E D I N G S

INTRODUCTION

MR. MacDonald: -- We've had some technical difficulties, and I'm going to have to apologize again because they have, in fact, not been solved. So our presenters who were eagerly awaiting to show you the numbers in various kinds of charts and tables are instead going to have to do this straight out of their heads, but that might make it more interesting for the rest of us.

On behalf of the Center for Global Development and the Hudson Institute, it's my pleasure to welcome you to this debate on "U.S. Foreign Aid: Generous or Stingy?" It's not often in the development business that we have the opportunity to have a substantive discussion on something that's also being discussed on national radio call-in shows.

I'm Lawrence MacDonald, Director of Communications and Policy at the Center for Global Development. You've made a really excellent choice in coming here today. The tsunami and Jan Egeland's remarks that rich countries are stingy have provoked a very healthy national debate about the level of U.S. support for development. We hope that today's discussion will lead to a shared understanding of the basic facts and that that, in turn, will make it possible to have a more substantive and constructive debate about U.S. policy.

I'd like to thank the Hudson Institute for agreeing to cosponsor this event with us and the Institute for International Economics for lending us this lovely space.

It's now my pleasure to introduce our moderator for today, Sebastian Mallaby. As many of you know, Sebastian is a rare commodity among journalists, somebody who both knows development well and has a passion for it. He's also the author of the new book, The World's Banker: A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations. I think I'll embarrass Sebastian by reading you

an excerpt from a recent review in the Financial Times. "Mallaby's book may well be the most hilarious depiction of the big organization and its controversial boss since Michael Lewis's Liars Poker on investment bank Salomon Brothers."

I don't know if Sebastian plans to be hilarious today, but I'm very glad that he is here. Please welcome Sebastian.

[Applause.]

PRESENTATIONS

MR. MALLABY: Thanks very much, Lawrence.

We're going to get right into this. The plan has been to have 12 minutes from each of our speakers, who I'll introduce in a second. Then we'll have some back and forth up here. Then we'll open it up to you folks for questions, of which I'm sure there will be many. Because we don't have the slides, perhaps the talks will be shorter, longer, hard to predict.

[Laughter.]

MR. MALLABY: Normally, for these occasions, I do bring my oldest son's super-sized Super Soaker, which I find to be very effective in encouraging speakers to wind up their remarks--

[Laughter.]

MR. MALLABY: --but I forgot it today. I'm sure it won't be necessary.

We have Carol Adelman from the Hudson Institute, a Senior Fellow who has been at U.S. AID in the past and who is noted for putting out the view that, in fact, U.S. aid is pretty generous.

And we have on the other side Steve Radelet, who has been at Harvard, at the Harvard Institute for Development. He spent four years advising Indonesia's finance ministry, who has been at the U.S. Treasury under both Republican and Democratic

leadership and is now at the Center for Global Development, who argues that aid, while not stingy, is nonetheless not enough.

So we have two people whose views have been quoted widely in the media on opposing sides of this debate, so I think it's going to be a lot of fun to see how this plays out.

We haven't got a plan necessarily to who goes first, but I will ask Carol to head off.

MS. ADELMAN: Okay. Thank you. Well, I'm still going to use my charts here, even though you don't see them, and I'll try to give you a little bit of a visual image.

First of all, my first chart said, "American Generosity: A Review of U.S. International Giving," so you can understand which side of the debate I'm coming out on.

The first thing that I wanted to say was there was a profound change in about 1992, and those of you that worked at the World Bank will remember Jim Wilkinson saying, we have reached a challenge now because for the first time, overall private flows were greater than official development assistance. And that happened about 1992, when my little blue line here on the chart is going up.

What that meant was that contrary to when the Marshall Plan was started, the private investment was now exceeding it. When the Marshall Plan started, there was very little private investment, hence the need for massive foreign aid flows. And so the notion we talk about today, we need a Marshall Plan, is a notion that was very appropriate in the '50s. It's also a notion of a plan that we were doing for Europeans who were highly trained and who had known market economies before that. So the notion of Marshall Plans and massive foreign aid for the least developed countries, the developing world today, is, to my mind, an erroneous notion, which gets to the heart of what we're talking about today.

I'll go actually to just the entire topic of foreign aid in general, because what the Center for Global Development proposes, and by focusing very exclusively on all these different indices and measures of foreign aid, government foreign aid, it's very much a focus on government and official public aid. To my mind, there has really been long--long maybe over the last ten, 20, 15 years or so--a consensus now that official development aid works really only when--this is the Oxford Policy Institute Study--works when countries have their economic policies in place and when growth is widely shared, but it doesn't work when it's put into countries that do not have that.

Certainly, the International Financial Advisory Commission was very clear on finding in its results that reform--governments make reforms when they want to, not when they're given foreign aid, and having served as a U.S. AID Foreign Service officer for ten years--in fact, my first boss is here tonight. Irv, would you raise your hand? Really, I'm really trying to do very well.

MR. : The highest efficiency rating that I ever gave out.

MS. ADELMAN: Okay. Thank you, Irv.

[Laughter.]

MS. ADELMAN: We're happy to have you here and see some other special faces, as well, from the AID days. Then I came back after the ten years as a career Foreign Service officer and served as a Presidential appointee in the last year of Reagan and four years of Bush.

But what I certainly knew, because I had to sign the billion dollars or \$800 million for Egypt every year with additional \$200 million, and I certainly had a few thoughts about whether massive foreign aid transfers reduced poverty. And I also was in charge of aid to Pakistan and the Philippines and I think we just--we have many examples of massive foreign aid transfers not working and I have long felt that that debate has been

put to rest, but it doesn't look like it has by the index and the arguments that we're probably going to hear from Steve.

So Andrew Natsios asked me to help him right at the beginning of his term to come in and say, listen, I don't feel like--he asked me, is foreign aid being measured correctly, because I know we're out there doing a lot more private foreign aid and it doesn't seem to be reflected. So he asked me to help him and AID do research.

So I'll throw out the first question for Steve, and that is when Steve writes and says that the \$35 billion that I'm claiming is foreign aid is a Hudson number, it's not, it's an AID number. It's an official foreign aid number. It is not the OECD number, and we can talk about that and what's wrong with that number, which I will do.

So he asked me to do this. We did it. And what struck me was the first thing I looked at was the OECD report, because there's a line there that I would have so gladly wanted to show you today, a line that says "Grants by private voluntary organizations," which is included in official development assistance. That line--I looked at it and I saw the number in 2000. It was something like \$3 or \$4 billion. And I said, well, heavens, that couldn't possibly represent all of our private institutions because I already had independent studies on foundations of \$2 billion. I had data from companies, the Conference Board, that had another \$2 billion. I had data on churches that were \$3 or \$4 billion. And I knew that there was no one out there collecting the adequate data on churches.

So that's when we decided, and I talked to Andrew about this and people at AID and we decided to go beyond the OECD report and go to these sources independently and see what they were.

We also made the decision to include individual remittances, which I'm sure there'll be some questions on. These are the remittances by immigrants that come to the United States and work here and send them back to their countries, and we'll get into

that debate and I'm going to use other time for that, but that number, we included, and we'll talk about that later.

So needless to say, when all of these private numbers were added up, we came up with a figure of \$35 billion, which is the number that is being used by AID when Andrew Natsios makes speeches and in official publications. So I just want to make that clear, that there are different sets of numbers and what is official may be official to one person and not to another.

There's also, I wanted to say, a huge amount of money that does not get counted as ODA, as official development assistance, which when I first saw these numbers, I was very surprised, because I said, well, I would have thought that that was counted as ODA. And some of those things are aid to what's called part two countries, aid to the former Soviet Union, the countries in the former Soviet Union, aid to Central and Eastern Europe. Aid to Israel is excluded. But aid to countries--which amounts to a significant amount, at least when I was doing the study it was in the \$3 to \$4 billion range or so.

Also not included in our official development assistance is the monies that we give to the National Endowment for Democracy, monies that we give for foreigners to come to the United States for educational and cultural exchanges, money that we give to OPIC and the Inter-American Foundation, because these are by the definitions of the OECD considered not official development assistance.

So that number, by the way, when I did the study in 2000, was \$12.7 billion, compared to \$9.9 billion in our official development assistance. I'm not arguing today that all those have to be considered, but I'm saying I think most Americans would be very surprised to discover the high amount of funds that are left out of that measure when they're measured.

And probably, I think the biggest problem that I had with our measure and our U.S. Government reporting is on the military side. Military is allowed by the OECD and the development community to include a certain amount of things--peacekeeping, rehabilitation, et cetera. But when we began to try to find out what the military contributes or has time to calculate and give to us, we discovered that while, yes, some disasters are caught, like Hurricane Mitch, they are indeed reported to the OECD, there's very likely very large amounts that are not simply because the DOD accounting system doesn't allow it to be done.

For example, there was \$6.2 billion for aid to East Timor, Bosnia, and Herzegovina, which simply because the DOD found it too difficult to pull out what were the elements of peacekeeping--that's building roads and clinics and things like that--so those numbers never made it into the ODA.

So it's my feeling that our government number that we send into the OECD is greatly underestimated, as well as our private giving.

There's a number that is thrown around out there and that is a number that you probably see on the television, and that's a number of \$108 billion. And then they will put next to it a U.S. number of \$37 billion. Well, I was sitting in a television room when this figure came up and they said, oh, this \$37 billion is our U.S. aid and see how generous we are, and I was horrified because this is certainly the wrong measure. I'd been talking to reporters about what was official development aid and what wasn't, but what that measure is, when you see that, that \$37 billion is actually all the different flows that America gives to the developing world, okay, our total economic engagement with them, if you will.

It starts out with our ODA for 2003, which was \$16 billion, and then has a small amount for other official flows, and then includes this grants by private agencies at \$6 billion, and then has private flows at market terms--this is our investment and bank

lending, which is \$14 billion. All that adds up to \$37.7 billion, okay. The total from all countries is \$108 billion.

So if you take the view, as I think a lot of Americans do and I certainly do, that our total economic engagement, not just our official development aid, which is highly restricted, but our private investment, our remittances, the vast amount of private giving that is not reflected in that figure is important, then it gives a different picture of American generosity.

The next chart that I was going to show you is one that was just recently put out by AID, and what they did in this was to update the numbers from our 2000 study, and this--in fact, we'll post this on our website. We were not able to bring copies, but we'll post the charts that I'm telling you about on our website so if any of you want to go to it, you can.

This was very interesting because it shows that out of the total economic engagement, of those categories that I just read off to you, our official development assistance, other official flows, net private investment and private giving, that entire engagement with the world is about \$112 billion. Of that \$112 billion, only 14 percent is ODA and one percent is aid that goes to these so-called part two countries, the Israel and former Soviet Union and Central and Eastern Europe. Then the rest of that is a combination of foundations, corporate giving, PBO grants abroad, religious organizations, which this year AID had a much, much better number for religious organizations, as high as \$7.5 billion just from churches themselves, which is the first time we've had a number that high. Also, universities and colleges. Remittances went up considerably. And then our private investment.

So I think what I'm trying to say is that I think the people who have been involved in development, and certainly I was. I worked in AID for ten years and I came

back for four years, the Agency for International Development. You're in there and that's what you think is happening in the world.

And when you look at the numbers, it's a very different world out there. It's not the world of the '60s or the '70s. It's the new millennium, okay. A very tiny part of that is official development aid. And out there is private giving. Out there is remittances. It's new ways of transferring wealth. It's more direct ways, through private giving without consultants that cost \$375,000 for AID to put out in the field. It's a family sending home a payment to buy medicines and food for their family. It's a group of Latinos who organize in what are called hometown associations, having a benefit to send money down to build a clinic.

And these are all new ways that Americans engage, because basically, Americans give abroad the way they do here domestically. We like to go through people-to-people programs versus government-to-government. And it is looking like this is the way the whole world is going now.

The reason that these numbers don't get reflected in the OECD numbers is that the Europeans don't give a lot privately. Now, the Center for Global Development cited a figure from 2002 showing that Norway's percent of private giving brought them up to a very high amount and making it look like, when you added our private giving, we weren't that much better. Well, that was 2002, and I was going to show you the numbers for 2003 and Norway had nothing in private giving for 2003. So there was just something special that happened. Someone decided to give \$450 million.

But typically, the European countries have very low numbers, nowhere near what our numbers are. So the OECD data not only--I mean, it underestimates them. It leaves out important categories. It's just not a full measure of foreign aid, nor a consistent measure.

I guess in sum, I would just say that compassion is the work of a nation. It's not just a government. That is how the world has changed, and then that's how we need to do it. We need to be looking at partnerships. We need to see foreign aid as a way of getting in and leveraging other aid. Foreign aid is no longer the only game in town. I mean, it hasn't been since 1992, probably not even since the '80s. And I think the development community is the last to learn about this, to tell you the truth. Everyone else has known, PBOs and corporations and foundations.

So the idea is that there should be a market test for foreign aid, and to my mind, that market test is can your project, can your government project with government foreign aid raise money from the private sector and raise volunteer time, because that's the market test that private giving stands every day that it is out there trying to do good in the world.

Now, I'm not against government aid at all. I worked in it and I believe there are important roles for it. I think, though, that the world has changed so dramatically that we need to recognize that in the development community because certainly our measures do not recognize it. I think once we start measuring it, we'll have a better understanding of what's going on out there.

We're sitting there with billions of dollars being spent in the private sector and what do we know about it? We don't have good evaluations on it. We don't know if it's working. We don't know if we could improve on it or how we could better partner with it.

So I will end there and take questions a little later.

MR. MALLABY: Steve, your shot.

MR. RADELET: Thank you very much. It's great to see everybody here and have such a nice turn-out. Sorry for the technological glitches and that you can't see all the wonderful things that we were going to put up on the screen.

I want to thank Carol in particular for coming to join us and having her visit us over here and actually for putting this topic on the map with the work that she did a few years ago and bringing attention to private sector charitable giving and its role in foreign aid. It has been under-studied and under-analyzed and it's a good movement that we can now begin to discuss this more fully.

We at the Center are not at all just sort of advocating government intervention. We do a lot of work on the private sector. We do a lot of work on trade, on the determinants of growth, and fully recognize in all we say that the biggest determiner of growth in developing countries is the private sector. So I just wanted to make that clear up front.

The other point that I want to make up front is Carol started by pointing out that for developing countries as a whole, since the early '90s when official flows, aid flows, have fallen, private sector flows have risen, and that's true. As a matter of fact, for developing countries as a whole, they've risen between 1990 and 2002. Private sector flows rose 50 percent.

But this leads to great misunderstanding because we talk about developing countries as a whole. When you split developing countries into middle-income and lower-income, you get a completely different picture. All the private capital sector flows essentially are going to middle-income countries. In middle-income countries, foreign aid has fallen since the 1990s. Private sector flows have doubled. They've doubled from \$70 billion to \$155 billion, to be exact.

In low-income countries, in the 70 or so countries that are poorest in the world, aid flows and official flows have fallen since 1990 and private sector flows have also fallen, from \$48 billion to \$35 billion. The poorest countries in the world have seen a fall in official flows and a fall in private flows, and this is what a lot of people don't understand because they don't look deeply enough at the numbers.

It is completely false to say that in the lowest-income countries, there has been a privatization of capital flows. They've both fallen since 1990. So I wanted to make those things clear up front, and I think that's the basis of some of the differences here.

The three main points that I really want to make today, the numbers that Carol uses and that AID I guess now adopts as official numbers are useful as a discussion starter, but I think that they substantially overstate the amount of development assistance provided by the United States. That's point number one.

Point number two, even using quite extreme and generous assumptions based on the data that she and AID have put together on this, the U.S. is--it's very difficult to place the U.S. in the top half of donors, probably maybe in the bottom third, not at the bottom. I don't think the U.S. is at the bottom because I think, as Carol does, that the official government figures do understate the numbers. But using very generous estimates, you might get the U.S. out of the bottom third. It's almost impossible to get them out of the top half.

And unfortunately, it's almost impossible to claim that the U.S. is the most generous country in the world on development assistance. The facts just don't back it up. We may be more generous than the official numbers suggest, but it's really impossible to claim on development assistance that we are the most generous country in the world. It's hard to get us in the top half.

The third point I want to make is that the debate about the rankings and the share of income and how we compare to Norway actually misses the most important point. The key question is are we doing what we should be doing to achieve our own foreign policy goals in developing countries. That's the right question, and from that question, the answer is no. We're woefully inadequate in what we can do and what we should be doing to achieve our own goals. So the rankings can be a little bit misleading.

Let me go through these. First, on the data, the official data on overseas development assistance reported by the OECD for 2003 is that the U.S., the 22 major donors provided \$69 billion in overseas development assistance in 2003, \$69 billion. The United States provided \$16 billion, about 25 percent of the total, okay, in official development assistance, 25 percent of the total.

The U.S. constitutes about 40 percent of donor income, so we give 25 percent of ODA but we have 40 percent of donor income, and it's the combination of those, that when you take official ODA as a share of income, that puts the United States at the bottom 0.15 percent of U.S. income. One-seventh of one percent of U.S. income goes to ODA. So those are the basic facts.

In addition to that, there is money that's called official assistance, not development assistance, to Israel, Russia, countries that are not developing countries, which Carol mentioned. It's about \$1.5 billion in addition to the \$16 billion. So it's actually small potatoes, and it's gotten smaller--or not small potatoes, but it's gotten smaller as aid to Israel has actually fallen off in the last couple of years. So that's the basic data now for the government.

For the private sector, the OECD reports official U.S. Government numbers. They're not OECD numbers, they are the official data submitted by the U.S. Government as private sector flows. They are understated, I'll say it right up front, but they are the official government numbers, not OECD numbers, and they say that private contributions were \$6 billion, \$6.3 billion, in 2003. That is the fifth highest among the donor countries, private contributions. As a share of our income, it's 0.06 of our income. It's about a fourth of what Ireland gives, by the way, in terms of private contributions, according to the OECD data.

When you put those together, \$16 billion official government assistance, or official development assistance, \$6 billion private sector, that gives us \$22 billion by

the official numbers, which is about one-fifth of one percent of our income. And in that combined rating, we're 19th out of the 22 donors, okay. Those are just the facts in the OECD data as reported by the United States.

Now Carol, in her numbers and working with AID, has come up with this different set of numbers and there are four categories. One is official ODA. No controversy about that. In her original paper, it was \$9.9 billion for 2000. Now it's \$16.3 billion. No worries about that.

Then there's other government assistance, as a second category. The third is private contributions from charities, corporations, and foundations. And the fourth is remittances. I want to go through those last three one by one. So we've got ODA, which there's no controversy about.

Other government numbers. Carol mentioned that the number was \$12.7 billion. Well, I looked it up and, in fact, it was. The way that she got that number was looking at the international affairs budget, the 150 account for those of you familiar with the nerdy details, in fiscal year 2000 and that was \$22.6 billion. She subtracted \$9.9 billion for ODA--these are all the details--but came up with \$12.7 billion. And as she mentioned, that includes aid to Israel, aid to Russia, Central Asian republics, some money for the National Endowment for Democracy, but those are very small.

She left out telling you what the three biggest factors are in what she calls aid of that \$12.7 billion. The largest is \$5.4 billion of military assistance and security assistance to development assistance. Now that's assistance, no question about it. It's not at all development assistance, and that's included. My beef with that is not that it shouldn't be included, but when it is included, I think we should make that clear, that we're including \$5.4 billion of military assistance as part of the numbers. That's the biggest in the \$12.7 billion. I'm surprised that she didn't mention it.

The second biggest number out of that \$12.7 billion is \$3.9 billion, which is the State Department's budget. It's the State Department's budget. State Department operations and buildings, \$3.9 billion. It just stretches credibility to call this foreign assistance. I love the State Department. Some of my best friends work at the State Department. They do great things. And when they're in other countries, they do great things. But I just can't call it economic assistance.

The other major thing in there is foreign information and exchange activities, Voice of America and other things like that, \$800 million. Those three account for \$10 billion of the \$12 billion. I just can't call this--certainly not development assistance. The military stuff, yes, it's assistance, but it's a different kind of assistance.

So I think there's real questions about that number of \$12.7 billion. It certainly has to be more clear when it's used. All right. That's one category.

The second category is the private contributions, \$17 billion from charities, foundations, and corporate gifts. This is comparable to the number that the U.S. Government supplies to the OECD of \$6 billion. The official number is \$6 billion. The other number is \$17 billion. I am prepared to accept the \$17 billion. I think that the \$6 billion is understated. But my worry about the \$17 billion is it is really not documented anywhere and we don't know where it comes from. The sources aren't listed. The assumptions are not clear. There are a few footnotes in the FANI report, the Foreign Aid in the National Interest, that gives some of the sources. But I'm very worried about double counting.

Carol has made the point both in her New York Times article and also in Foreign Affairs about the great work that CARE does, for example, and points to that as a great example of U.S. private foreign assistance. CARE is a private organization. They do great work. But if we're counting all of the money that CARE provides, we're double counting because 60 percent of CARE's money comes from the U.S. Government, 60

percent. So if that counts all of CARE's numbers, we're counting that 60 percent as government assistance, first of all, and then as private giving, and it's not just CARE.

Catholic Relief Services, which is another one that's mentioned, 78 percent of their funds come from the government. Now, that doesn't make it illegitimate. That doesn't make it wrong. But I just want to see if we're double counting when we count this and it's just not documented very well.

We're also not sure about corporate giving. When Starbucks gives to CARE, Starbucks counts that as corporate giving and that'll show up in our corporate giving amounts. But it also shows up as the money that CARE spends. Are we double counting or not? I don't know.

But that's all the \$17 billion, but I'm prepared to accept it because I actually think it is probably closer than the \$6 billion that is used. So that's the second category.

The third is remittances. Remittances are very under-studied. They're under-appreciated, under-analyzed. They are extraordinarily important. They are a powerful tool to fight poverty. We should learn a lot more about them. They are not aid. They are not charity.

The easiest way to think about it is to recognize that remittances go both ways, not in equal size, but they go in both ways. There are American workers living all over the world that send money back to their families, and when an American works for Pertamina Oil Company in Jakarta and sends money back to his parents that are retired in Florida, it's not Indonesian foreign aid. No way. It's important. It's an important flow, but it's not aid. Yes, it's smaller going that way than--I'm not talking about the size, I'm just talking about concept. It is not foreign aid.

When we count these things, we know that they fight poverty. We know that they are important. But they are not charity. It's based on work. You don't give

people money when they show up. They work for it. They earn it in a market exchange. It's not a charitable act of us to pay someone when they come and work in a factory in the United States and send money back. When they actually send it back to their family, it's called taking care of your family. It's not charity. It's not aid.

It's important. It's the right thing to do. We should encourage it. But it's not charity and I just don't see how it can be counted as charity, as aid. It should be counted as a financial flow and we should learn more about it, but it shouldn't count as aid.

It also is not a--it's, like all private flows, only a partial substitute for foreign aid. Why? Most remittances go to middle-income countries like private capital flows, not to low-income countries. That's great. It can be helpful in those countries. It can't be used to further U.S. foreign policy goals like official foreign aid can.

Again, it's great. We should encourage it. But it's only, at best, a partial substitute for aid and it is not really aid at all.

So those are the main categories. Now, where does this leave us in terms of U.S. ranking? Let's go back and look at the numbers now.

Government ODA right now, \$16 billion. We're ranked last, 0.15 percent of income. The official numbers from the U.S. Government, \$6 billion in private contributions. Twenty-two billion, as I said, that ranks us 19th if you combine those, but that's too small.

So instead of using that figure of \$6.3 billion, let's use the figure of \$17 billion. So forget the \$6.3 billion. We're just going to count the \$16 billion of official aid and the number that Carol put in foreign affairs of \$17 billion. That brings us to \$33 billion. What does that do? That brings us to 0.3 percent of one percent of U.S. income, about a third of a percent of U.S. income if we use that number for private charitable contributions. If we make no adjustment for any other country, that is, we assume that

the U.S. private foreign aid is undercounted but no one else's is, that brings us to 15th on the list.

Then let's count remittances. It's not aid, but let's count it. Let's give the U.S. in extra foreign aid as remittances and let's give all the other donors nothing, okay. That brings us to \$51 billion. That's about half-a-percent, half of one percent of our income if you count remittances. If you make no adjustments to anybody else in the world, out of the 22 donors, that would bring us to ninth. We just cracked the top half out of the 22 donors if we use all of the remittance numbers, if we use the adjusted private sector numbers, and if we adjust no one else's numbers.

Now, I'm an American. I'm proud to be an American. I've lived in three different countries overseas, and whenever I live overseas, I am amazed at what a great place we've got, but we are not the most generous country in the world when it comes to development assistance. You can't goose it out of the numbers. I wish we could, but we can't.

Now, I want to say a couple of quick things. Foreign aid is not all that matters. Development depends on private sector growth. It depends on leadership of developing countries. It depends on what is done in developing countries themselves. We can't solve all the world's problems. But aid can help, and there's a lot of evidence now where aid does help. The story that aid only works in countries with good institutions and not elsewhere, there's a lot of evidence actually now which shows it actually works better, but not exclusively.

We've got a study that Michael Clemens, Rikhil Bhavnani, and I did that shows for aid that was directed at economic growth, for each dollar you get about \$1.60 back in economic growth over the last 30 years for countries around the world. We've also documented at the Center 17 cases of health interventions, large-scale health

interventions, where aid has had a major effect on eradicating smallpox, in almost eliminating polio, in reducing river blindness, and other cases like that.

So aid does work, but aid is not the most important. We know that. Everybody knows that. But I just wanted to make that clear.

But I want to make a broader point for my last point here. We've got to ask the right question. How much aid we give as a share of our income and how we rank versus Norway doesn't matter. What matters is whether we're doing what we should be doing to achieve our own foreign policy goals. Are we the most miserly of nations? No. Are we the most generous? No. The fact that we don't give much shows that we can give more. But the right question is whether we're doing what we should be doing.

The major U.S. foreign policy goal right now is to promote and extend our vision for a more open and prosperous and democratic world. Unfortunately, for a lot of people in the world, economic opportunity is a distant dream. It's not a reality at all. The vision that we put out is not something that they can easily achieve. The gap between the richest and the poorest countries in the world has widened a lot in the last 20 years. There's a lot of anger amongst people who believe that the rich countries have rigged the system in their favor. And an increasing number of groups around the world believe that the United States is part of the problem, not the solution.

If we're ever going to win this war on terror, or more aptly, I think, the war for the vision of the future of the world, we're going to have to change this. We need poor countries and rich countries alike to believe in the vision that we champion and believe that they can be part of it. But if they're going to do it, they're going to need our help. It can't be done on their own if you're a really poor country.

Consider, before the tsunami, the United States gave Indonesia \$1 per Indonesian in foreign aid, a buck. Go buy a bottle of water--maybe four bottles of water. In Sri Lanka, we gave nothing because they're repaying old loans. In Africa, we give \$7

per African. I'm sorry, but you just can't reduce poverty at seven bucks a crack. It just isn't going to happen.

And countries like to do it on their own. They wish they could. But if you're at \$200 per capita income and you've got a 15 percent savings rate, that means you can generate \$30 in savings per year. You can't buy a sewing machine for \$30 a year.

So the poor countries do need some assistance. We can provide it, and we have provided it in the past when it's been in our interest to do so and we can do it again.

The Bush administration deserves a lot of credit for the Millennium Challenge Account, for the HIV/AIDS program, for those kinds of things, but other foreign aid has stagnated and I think it's going to get cut in the next budget, outside of aid for Iraq, aid for the HIV program, and aid for the Millennium Challenge Account. Meanwhile, 27,000 kids die every day from preventable diseases. It's a tsunami once a week. A hundred-and-ninety-thousand kids die every week and it's preventable. We know how to do it. This is not rocket science. We know how to do it and we can do it.

Half the world's population lives on \$2 a day and resentment of America grows. We can't solve all the problems and we shouldn't be expected to, but we can do a lot more. I don't know whether the United States is stingy or generous, but what I do know is that we're short-sighted. Thank you very much.

[Applause.]

MR. MALLABY: Okay, thanks, Steve.

We're going to open it up to the floor for questions in a minute, but we're going to have a bit of back and forth here first. It seems to me we could be talking kind of high concept or specifics. It'd be nice to kind of clarify a few specifics first. So I thought, first of all, I would ask Carol, if she would like, to come back on some of the detail in Steve's presentation on the numbers and hopefully we can clear some of this up and kind of move on to the bigger conceptual stuff.

We don't need to debate, it seems to me, the remittances number, because there we just have a question about definition. There is the number. Is it charities or not charity? Folks in the audience can make up their mind.

But there were two other issues where I would like to hear your answer. One is that within the private charitable giving, Steve says there's a danger of double counting. Is that true?

Second question, within the other government aid category of \$12.7 billion, is it correct that the State Department budget is included?

MS. ADELMAN: Yes. Yes, there's always a possibility that it's double counted and we have that possibility simply because this has been the most poorly researched subject because it's not in the interest of government foreign aid organizations or international organizations who measure this to look at this. In fact, it's phenomenal to me that we don't have these numbers after being in--as you said yourself, Steve.

So yes, there's that possibility. But you know what? I don't even worry about it because I think those total numbers are so underestimated because the source, and we have very detailed sources in this book right here, Foreign Aid and the National Interest, so please read that. We went to elaborate lengths to be careful, in fact, such elaborate lengths that we took the most conservative numbers, even though we knew they were way below, just so we would have a reference for it.

But they're so underestimated, Sebastian, that the Conference Board doesn't even purport to be a full--it's just a selection of companies. It doesn't even say that it's all the companies.

The foundations by the international grant making is a pretty good report. They do do a random sample survey and they extrapolate and they will--so that's pretty correct, their number.

The NGO grants abroad, we have worked very hard with a very special formula for NGOs with the AID data, which is good data because they have all of the expenditures of every NGO pretty much who's working overseas, and we did a very careful formula, Steve, where we pulled out what that private giving was. We in no way counted the government giving at all. We were very careful for that. And we provide that formula.

So yes, there is a chance there's some double counting where the corporation might have been counted in the Conference Board report and also gives a grant to CARE, but the Conference Board report itself is probably half of what it is right now.

MR. MALLABY: You pulled out government giving so that when CARE's budget is 16 percent government, you've discounted that 16 percent CARE's giving.

MS. ADELMAN: Yes. Yes. And it was a very complicated formula, which I'm happy to share, and if any of you want to come over, we can spend an hour and I'll show you how we did that.

MR. MALLABY: What about the State Department question?

MS. ADELMAN: Oh, State Department? Well, I--you know, please, debate me or criticize me for what I said, but not what I didn't say. I never said that the State Department operations budget should be counted as foreign aid. My point in showing the \$12.7 billion is here is a big chunk of money that is in the foreign affairs account, and I only pointed to--the only ones that I pointed to is ones that most Americans would think were foreign aid, were Central and Eastern Europe, Russia, our aid to the former STANS, Israel, the aid that we give to the National Endowment for Democracy. I was never saying that the full \$12.7 billion was foreign aid in any way.

MR. MALLABY: Okay. Well, let me ask--just we're going to graduate upwards slightly in the--

MR. RADELET: Can I just follow up on that one point?

MR. MALLABY: Okay, just quickly.

MR. RADELET: Just real question, in Foreign Affairs magazine, you said, quote, "The remainder, 12.7, is government aid, that although not within ODA guidelines is still foreign assistance." And in the FANI report, there is a list with a table. In there, it does include on that list State Department aid, or State Department budget. I just want to clarify.

MR. MALLABY: Let's move on from that and ask something a little bit different, which is that would you agree with Steve's comment that even using your numbers, it's hard to get the United States out of the bottom third of givers in terms of share of GDP?

MS. ADELMAN: Well, we actually did that calculation. You know, I have it on a chart but I wasn't even planning to put it up. When we did it for the new numbers from AID of the new private giving, including remittances, which AID is using, and their new estimates on religious giving and whatever, and we calculated that as part of our GNI, we came up to 0.55, which puts the U.S. as number seven in ranking. It's certainly not the top, but it's certainly not the lowest and is nowhere in the lower third, as Steve was saying.

MR. MALLABY: And just to clarify, that puts the U.S. number seven after you adjust the U.S., but you don't adjust anybody else?

MS. ADELMAN: No, and I'll--and that is unfair. That's why I wasn't going to put it up, because that's my next sentence. You're absolutely right. What we don't have in there is we don't have the remittances of workers that are in Europe. We don't have that remittance figure. Now, we do know that the U.S. provides the bulk of

remittances to developing countries because of Latin America. That's the highest. So we have a feeling that we're pretty high, but we don't have that number from there. So that would be an--that's why I will not come out in a publication with that number.

MR. MALLABY: I've got a question for Steve now, which is he opened with a familiar point that private--that it's basically middle-income countries which are capturing this explosion in private flows and so that if you look at the poorest countries, they've had this fall-off both in official assistance and in private flows.

If you were to look at private charitable flows as distinct from capital market flows, that would not be true, right?

MR. RADELET: I don't know. I suspect that it wouldn't be true for private charitable flows, not including remittances. Remittances do go primarily to middle-income countries. It's about two-thirds, they go to middle-income countries if I recall from the latest numbers. So remittances do go primarily to middle-income.

For charitable donations, I suspect that it's more equally distributed, but a lot would go to Central America and Latin America from the United States. Churches tend to work with groups in some of the Latin American countries. But there would be more of it that would go to the low-income countries.

MR. MALLABY: In other words, you've got the Gates Foundation with huge projects in Botswana and India and so on.

MR. RADELET: That's right.

MR. MALLABY: Okay. So in that sense, there's one point on Carol's side of the debate.

MR. RADELET: Yes. For those--that's right--

MR. MALLABY: Okay. I've got one more question, this time for Carol, which is what about the policy implications of all of this? I mean, we could debate the numbers, and secondly, we could debate the U.S. ranking, but is it enough? I mean, to

achieve U.S. foreign policy objectives and U.S. moral objectives in the world, should there be more aid even if your numbers are right?

MS. ADELMAN: No. I mean, I don't think there needs to be, because my view is that, one, the government foreign aid is such a tiny part. I guess you're asking me, if we expanded that aid, would that be the solution to reducing poverty, and I would say no, because I don't think that more government aid, more foreign aid reduces poverty. I don't believe that massive foreign aid transfers do. I think we can certainly help in--

[Break between sides of recorded tape.]

MS. ADELMAN: --government foreign aid going into the hands--going directly through ministries is going to pull people out of poverty, it's not the way the world works.

MR. MALLABY: Well, let me just push you on that. I mean, ERDA is \$16 billion. This other government category is substantial, whatever we want to call it. It's getting towards 50 percent of these \$30-something-billion transfers. So, in fact, it's not small as a share of the whole thing, even if you count all these private flows. You could affect total U.S. flows quite substantially by increasing government flows.

MS. ADELMAN: By increasing our ODA, you mean?

MR. MALLABY: Categories of government giving, whether it's Millennium Challenge--yes, ODA, exactly.

MS. ADELMAN: Yes, ODA. I'm saying just what I said before, that I think private giving, I think private investment, these are the flows that we should be looking at because private investment creates sustainable growth and private giving is going to be more efficient and more direct than government aid.

MR. MALLABY: I'd like to make one observation. Do you want to comment on that?

MR. RADELET: Yes, I did, just on a couple things. One is that, just again, for the low-income countries, the private capital flows aren't there. They're falling.

Second, whether or not aid reduces poverty, there's now a lot of evidence, in fact, that it does. There's at least half-a-dozen peer-reviewed articles in respected economics journals that show a strong relationship between aid and growth, not even controlling for good institutions as the famous Dollar-Burnside study, and I'd refer people to a paper that Michael and Rikhil and I just did called "Counting Chickens When They Hatch." It looks at the impact of aid flows, government aid flows, to the poorest countries around the world since 1970. And as I said, a dollar of aid gets \$1.67 in income on average, and in some countries, it's much higher.

We tend to think a lot of countries have done it without aid. Three examples. Korea between 1955 and 1972 received in today's dollars almost \$100 per Korean in aid. They didn't just do it on their own. Aid as a share of GDP fell. That's because GDP was rising. Almost \$100 per Korean.

Botswana, the great African success story, \$127 per Botswanan in aid for 30 years from 1965 to 1995. Korea and Botswana are the two fastest-growing countries in the world between 1965 and 1995--\$100 and \$127 per capita in aid.

What does Sub-Saharan Africa as a whole get right now? Twenty-seven dollars per African. We gave four times as much to the guys that have been the most successful. Does that prove it? No, but we've got a lot of countries that have done very well with a lot of aid. We tend to focus on the Zaires and the Central African Republics and the Philippines where a lot of aid is stolen. We forget the Botswanas and the Koreas and the Taiwans and Indonesia, which had the fastest reduction of poverty anywhere in the world when a lot of aid was coming in, and other countries that have been quite successful.

So there is a lot of strong evidence now when you actually look at the economic literature of a strong relationship between government aid and growth. It's not to discount the private sector at all, but government aid is more powerful than a lot of people think.

MR. MALLABY: Okay. We'll have one comment from Carol on that, then we'll go to the audience.

MS. ADELMAN: Yes, and I would not--government aid, in what I have seen in studies, and I have not seen these recent studies, clearly does have an impact when the policies are right, and the problem is is that many of the poorest countries, the African countries don't have their policies right and hence the aid we're giving them is really humanitarian, and that's important aid. That is a very important moral part of our foreign policy.

But I think Indonesia, South Korea, and Botswana had very good policies, because I can cite out the statistics that Bangladesh had a fall in its ODA between 1990 and 1997 and its infant mortality fell from 135 to 35. So, I mean, we don't see--these correlations are very hard to find unless the countries are very specifically known for having good policies and making it work.

MR. MALLABY: It seems to me that in this debate we have sometimes on one side of the argument people who think aid doesn't really work at all, ever, and then on the other side we sometimes have sort of magical unrealism where, you know, unrealistic expectations that aid can work magic are there on the other side. Perhaps that's also bound up with distorted impressions of how much aid we're giving. If we're not, in fact, giving very much aid per capita, perhaps it's unrealistic to expect miracles from it, and as Steve said, many other factors play into whether countries succeed or fail beyond aid, and, in fact, aid is not the most important but still matters.

MR. RADELET: Fortunately, we're on neither side of that debate. She's not saying that aid doesn't work and I'm certainly not saying it's a magic--

MR. MALLABY: Yes. This is a colloquium of the same. Who's got a question? Right there in the front. Do we have a microphone? Maybe you can go to the microphone. Carol, you not only have got a big voice, you can trek a long way, we know.

AUDIENCE QUESTIONS

MS. : A couple of comments and then a question for both panelists. Korea--actually, it is and it is not an aid success story. If you look at the history of aid to Korea, most of U.S. aid to Korea, if I'm not mistaken, was given during the period of Syngman Rhee, which was quite a corrupt government with very bad policies, and that was where the "money down a rat hole," I think, was sort of coined.

But during that time, the preconditions for fast growth, I think were created, in significant part with aid, educating Koreans that win. A new government in 1960 came into office and wanted to make a difference. They could turn to people and say, help us out.

So yes, it does help even in times when things are pretty bad, and I think that's something to look for in other places. Steve touched on that.

Second thing, I think that, in one sense, I think Carol was right, and I think Steve, too. We don't fully count, or that doesn't fully count what I think is legitimate foreign aid, which is both the aid, the government's aid to poor countries as well as to the official recipients, like Israel and so on. It seems to me just wrong not to count that. That is something we are giving, for whatever purposes, as a government.

I think it gets dicier when you go beyond particularly government giving, because that, in a way, is a symbol of what we do as a country, and that is one of the reasons why I think it's so often compared. We're compared to other countries. Other

countries are compared to one another. And so I think there's really something in looking at official development assistance. Private giving is important, but it does seem to me that as an expression of our values, official development assistance, including official assistance, is very important.

And I agree with Steve, including remittances is really kind of getting out there into another place altogether.

What I wanted to ask both panelists, though, was it seems that however you calculate it and however you exaggerate our giving--and by the way, there is something I think Carol mentioned that's important. We've got a lot of aid coming from non-foreign affairs agencies. The Defense Department is one, but almost every other government agency in the United States, in the Federal Government, has its own aid program, and I think we have no idea how large that is. So that's kind of a challenge for all of us to sort of figure out, or for the OMB to figure out or somebody.

But I want to ask the panelists, however you calculate it, we're still not very close to, if you like, a leadership position in aid giving according to the size of our economy. You can call that stingy if you want to. The question is why. Why have we become less generous relative to our economy in our official assistance over the years, the last 50 years, really, and why do we remain there compared to other countries?

MR. MALLABY: Do you want to go first?

MS. ADELMAN: Thank you. Yes. I don't think we have. I think, if anything, we've kind of progressed, Carol. We sort of stood steady at the ten, nine, eight to ten billion and we would always trade places with Japan every year, and then really in the last four years, President Bush has made this dramatic increase of doubling our foreign aid, the largest increase since the Marshall Plan, so it has, in fact, gone up.

I just think that because we have such a huge, you know, a huge economy, that it would be difficult to--if we got to that point-seven, that magical point-seven which

was actually just a number thrown out by the World Council of Churches in the 1950s, they actually said there should be a one percent solution. Every government should give one percent of its GNI, and then that, kind of though U.N. committees, that got changed to point-seven, as though this is some magical solution. We'd be giving \$77 billion. I mean, that's just not sort of feasible with our economy. But I would still argue that adding in our private giving is bringing us into the range of totally respectable percentages, if you must measure it that way.

My final point would be that America does a lot more than numbers. We have the largest R&D, contrary to the CGD report which measures only government-subsidized R&D. It leaves out our private R&D, which produces eight out of the ten leading drugs every year, which is certainly a measure of innovation. But in any event, we do that. Our military is helping keep the world safe for peacekeeping operations in huge ways that are very undercounted. So I just think we're there.

It doesn't mean that the world isn't going to criticize us, because they will always criticize the person in the lead, but I don't think that the OECD numbers help very much. Every year, it comes out and we go through this with people misunderstanding things.

MR. MALLABY: Steve?

MR. RADELET: Yes. It was Congressman Robert Taft who called money to the IMF money down the rat hole in the mid-1940s and Congressman Dirksen who said that the Marshall Plan was "Operation Rat Hole," so it actually precedes Korea.

Carol's right, the money has fallen. In the 1960s and '70s, we were really the only game in town. Of course, we were number one. We dominated. We were the only country giving aid. Japan was not giving any aid at that point. So I think over the longer term, you're absolutely right. We have fallen.

There's been a rebound, and as I said, the Bush administration does deserve some credit for a little bit of the rebound. Why has it fallen off? Obviously, at the end of the Cold War, the security interests fell and Congress lost interest in funding aid in the way that they had before. So there was very strong opposition to foreign aid up on the Hill in the 1990s after the Cold War when it lost that reason for its existence. That's one reason.

A second, there's been a long history of an isolationist strand within the U.S. People like Pat Buchanan, for example, and he wouldn't be embarrassed at all for me to say it, he's a strong isolationist and he just doesn't believe we ought to give any foreign aid, period. So I think that's a second strand, that at least a minority of people in the United States believe that we just shouldn't be doing it.

Third, a lot of people think aid has been wasted, and I think with the evidence that is coming about aid effectiveness, I think we need to counter that a little bit, but it's true. A lot of aid has been ineffective and people aren't interested in spending money if they think it's money down a rat hole. So there's a job, first of all, to actually make aid more effective by reducing overhead costs, by getting money more directly into the people that can use it, using private channels when they're the most effective on the ground, improving donor coordination, and a whole agenda of things that we need to do to actually make aid work better, and then get that message out to people that, in fact, aid dollars are money well spent.

And then I think there's a lack of knowledge as the last reason of why it's fallen off. Surveys suggest that most Americans believe that we spend between 15 and 25 percent of our budget on foreign aid. There's a whole bunch of surveys, and the numbers are somewhere between 15 and 25 percent. When asked, then they say it's too much, we ought to spend less. How much of our budget should we spend on foreign aid?

Ten percent, and they're always--actually, they don't believe it when they're told that it's less than one percent. They, frankly, don't believe it.

So a lot of Americans believe that we spend a huge amount of money, much more money on foreign aid than we actually do. So I think it's some combination of those four that led to the decline, with a little bit of rebound. Now, as people understand it in a more globalized world, it does matter what happens in Africa and HIV/AIDS and other kinds of issues do matter and security issues and we have to think more about low-income countries.

MR. MALLABY: Okay. I'm going to suggest, we've got someone waiting at the microphone. Who else has a question? We'll bunch a couple. I see one in the aisle there, one from the lady over there on the left. We'll have three consecutively and then we'll try and respond to all of them. You go ahead.

MS. : Okay. My name is Judek [indiscernible]. I work with development projects. Listening to the debate, I wonder why we are talking--when we're talking about foreign aid, artificially limited discussion to only one side of the equation. We do not--if we do not refer to the constraints on foreign aid like subsidies, which really inhibit or prohibit the development of developing countries, then you are talking only about one side of the equation. And when you mention private investment flows as part of the assistance, then what about the subsidies, the domestic subsidies? The U.S. and the European Union, I understand, together have an amount which is much larger than the OED or [indiscernible].

So my question is whether the definition of aid or the discussion of foreign aid should be limited only to this one side or it has to include the other side, as well.

MR. MALLABY: Okay. Thank you very much. Let's go to number two. Yes, go ahead, sir. I'm sorry, the gentleman with no jacket on, I was pointing to. Sorry about that. Could you identify yourself?

MR. McCORMICK: Yes. I'm John McCormick with the Energy Policy Center. When I received the e-mail, I was really excited because I thought I would hear some good ideas about the long-term future, and instead, I heard what I also expected, a polite food fight.

Something that we learned in the last several weeks in this tragedy that beset the Indian Ocean nations is that the Islands of Maldives were eventually flown over by those waves because the highest point of land is something in excess of three feet. Well, international scientists have also begun to look at climate changes raising sea levels, and perhaps by the turn of the century, we may see a three-meter rise in sea level.

Given the fact that the U.S. dollar will continue to decline, our foreign debts are entirely dependent upon the largesse of China, Asia banks, et cetera, where can you imagine the United States and the OECD nations in 20 and 25 years when we see serious dislocation of whole populations of people along coasts? Where will the money be coming from? At least the U.K. is talking about the international finance facility that would front-load aid so that countries who needed it would have it on hand. I'd like to hear some ideas looking just a little bit beyond these numbers into maybe FY 2015. Thank you.

MR. MALLABY: Okay. There was a woman waiting. Did she go away? Go ahead.

MR. SCHIRMER: Very quick, one thing I would like to suggest is that--

MR. MALLABY: Could you identify yourself?

MR. SCHIRMER: Scott Schirmer [ph.] with Refugees International. One thing I'd like to suggest is that we're comparing or looking at--comparing U.S. foreign aid to Norway or other countries. In 2005, the competition is the European Union. I'd like to hear some thoughts on how U.S. foreign aid compares to the foreign aid from the European Union as a whole. Thank you.

MR. MALLABY: Okay. Carol, don't feel obliged to comment on all of them, but if you pick whichever you like.

MS. ADELMAN: Yes. I'll have to get to my number on the E.U. Do you have that, Steve?

MR. RADELET: No, I don't. I was just going to start opening up--

MS. ADELMAN: All right. Well, you look for it while I--

MR. RADELET: I'm not sure I have it in here.

MS. ADELMAN: --because I think--I know it's higher as a percent and I just can't remember if the absolute amount is more.

MR. RADELET: I'm not sure--

MS. ADELMAN: I don't think it is, but you'll have to check.

Trade, I think definitely, I think trade should definitely be taken into account and the subsidies and the openness of our trade policies are very, very important and I would have them included in. This is a thing that I agree with on the Center for Global Development. I'm glad that they do have a trade measure in their index because I think that's important and there's no reason why the OECD shouldn't be looking at that, as well.

As far as the future, I definitely--again, I'm just going to give the same answer on disaster preparation. There are some very interesting things now that are coming out about how measuring the movement of the ocean, that there are techniques now to do that that we did--that we were able to predict some of that. But even if we had had those systems set up in Indonesia, we would have required the trained scientists to read that data and then they would have had to had someone to tell it to. So that whole infrastructure needs to be developed.

I would big time say that that would be a good infrastructure for the U.S. to invest in, and in terms of looking for prevention of future disasters. Disaster mitigation and prevention, I think are excellent uses of government foreign aid.

MR. MALLABY: If you're still searching for the number, we can come back to it.

MR. RADELET: Yes. Go ahead--are you finished?

MS. ADELMAN: I'm done.

MR. RADELET: I'll start with the third question. I don't have the number right in front of me. I don't know if anybody's got it. It's bigger. The E.U. aid ODA numbers are larger than the U.S. numbers. I don't remember exactly what they are, but they are larger. Do you know what they are, Larry?

MR. : Two-thousand-three is about \$37 billion.

MR. RADELET: Thirty-seven billion for ODA. For ODA. So \$37 billion from the E.U. and \$16 from the U.S. Those are the comparable numbers for the private sector? So more than twice--more than double from the E.U. Thanks, Larry.

On the other questions, should the discussion be more than aid? Absolutely. I mean, we have a short period here. We can only talk about so much and our discussion today has been motivated by this debate about whether or not we are generous or stingy and there's only so much you can cover in a few minutes of time.

But much more than aid matters a lot, and that's at the heart of the index, the Commitment to Development Index that Carol has mentioned several times that my colleague, David Roodman and others at the Center for Global Development put together. It's not a measure of private sector contribution. It's a measure of government policies and how they influence developing countries.

So there might be room for other kinds of indices, but the focus is on government policies, and that's why on R&D we focus on the government side of that

and not private sector. At some point, maybe it will be expanded. But it does include foreign aid, trade policies, migration, security, environmental policies, and trade. I guess I mentioned trade. Is there one more? And technology are the components of it, and what we do is imperfectly, but we're trying to make an attempt at it, which no one else has ever done, is to measure the policies of each of the donor countries in all of these areas and then do a combined index.

It takes some leaps of faith and you have to weight these things and all that, but what we're trying to do is get a discussion started on this, and I think we've succeeded in doing that, in trying to recognize that it is much more than aid.

I will say on trade policies, it's true the United States has among the more open trading systems in the world and that provides benefits to many people around the world who can trade with us. But we reserve our most restrictive trade policies for imports from developing countries, particularly on agriculture and textiles. Tariffs--we collected the same amount of tariffs from Bangladesh, about \$300 million last year, as we did from France. We had 12 times as much trade from France. That is our average tariff from Bangladesh was 12 times higher than what we charged on tariffs from France. In four of the countries most affected by the tsunami, where we've pledged \$350 million, the tariffs that we collected on goods from Indonesia, India, Sri Lanka, and Thailand last year--just last year--\$1.8 billion, six times the amount that we have pledged in aid.

So we manage to keep very high barriers in just the two areas where developing countries have a chance. We say free market export, do it on your own, but not in agriculture, not in textiles, not in the two areas where every other country has succeeded. Those, we're going to put up high barriers, but if you can compete in steel and technology, then maybe we'll let you in. That was the first question.

The second question, ideas for the future. Again, we can't do everything in ten minutes, but there are a lot of ideas in terms of thinking about aid. I think we're

thinking about aid and how to make it work better. But the key issue here is that we need, I believe, a much more formal, actually, strategy for foreign aid as we have a foreign policy strategy, and the administration has put out its foreign policy strategy and given foreign aid development assistance a much higher profile. But there isn't a strategy that looks ahead on foreign aid.

We've got the Millennium Challenge Account. Great. We've got the HIV/AIDS program. Fine. There's no strategy for failed states. There's a lot of talk about failed states, weak states, the threat from the United States, no strategy. How do we deal with these folks? Aid is one part of it. Trade and diplomacy are other parts of it. But we have no strategy. We just react. If we react to Liberia or we react to Haiti, we react to Sudan, we don't think systematically through those kinds of challenges. We don't think through the environmental challenges of looking forward as systematically as we should.

You mentioned issues 20 years from now where environmental issues might come home to roost. The Bush administration walked away from Kyoto Protocol because of its weaknesses and there's justification to do so. At the time, it said it was going to come back with another policy. It's been silent.

So we need to think ahead more formally and aid is part of this, but more strategically, I think we need to think about our engagement with developing countries around the world, how we can engage better and with foreign aid as just part of that strategy.

MR. MALLABY: Well, Steve jumped very elegantly from answering a question to giving a kind of closing remark speech, so I'm going to give Carol one minute to make a last comment and then we're going to wrap it up.

MS. ADELMAN: I guess my final comment would be, and I think most of you, if you're development practitioners or theoreticians, know this, is that when all is

said and done, it is not about money, it is about government will and it's about individuals wanting to do things. I mean, we see these loans, like right now in Ethiopia, the World Bank gave a \$65 million loan to Ethiopia for HIV/AIDS and TB and it's unspent. It's unspent because the Ethiopians are having trouble spending it, and all of us that have worked in AID know that. There's been a Global Fund project also given to Ethiopia, \$165 million, and it's sitting there also unspent.

So we have to figure out how to make any aid flows that we're giving to these countries work, and I submit it is not that what is government-to-government--you will reach these bottlenecks. The E.U. is sitting there with 10 billion Euros in HIV/AIDS that was unspent. So it's not a money issue. It's an issue of how do you make it work.

The best way that development will work is when you are working with institutions in the country and those are usually private institutions, whether it's corporations, whether it's local NGOs and PBOs where you're leaving something there. You're developing that institution which is going to solve the problem. And we should be figuring out how to work ourselves out of a job. Whatever happened to that in foreign aid when we're talking about increasing the amount?

So my final words are that we can keep pouring money in, but it's not going to work unless we are working through local institutions, and private institutions are going to be more efficient and less likely to government corruption and that's the way I think the world works and will develop.

MR. MALLABY: Okay, that's it. Thanks to the Hudson Institute. Thanks to the Center for Global Development. Thanks to you for coming.

[Applause.]

[Whereupon, the proceedings were adjourned.]