



U.S. AID: GENEROUS OR STINGY?

A Debate Between

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And

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Moderated By

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Steve Radelet's introduction lecture only

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.