

Sam offers a new vision for the United States foreign aid in the twenty-first century.

## **THE UNITED STATES FOREIGN AID IN THE TWENTY-FIRST CENTURY: A NEW VISION**

By Sam Sedaei

One of the very politically-charged issues of the new century is the issue of foreign aid and economic assistance. This topic has especially been brought to attention as a result of the terrorist attacks of September the eleventh, and more recently, the tsunami in South East Asia which took the lives of thousands. As one studies the nature of U.S. foreign aid and that of other developed countries, it becomes apparent that the United States' agenda in foreign aid as well as its institutional means have been distinctly different from those of other major foreign assistance donors, causing worldwide foreign aid to suffer from lack of common goals and effectiveness. Before examining possible solutions for eradicate this ineffectiveness, it is crucial to review some of the elements that have caused the United States to pursue different means and ends in foreign aid than those of other countries.

One of the main aspects in which the United States greatly differs from other developed nations is the total amount of official development assistance it allocates each year. In the year 2003, the United States devoted about sixteen billion dollars<sup>1</sup> to foreign aid. Even though in absolute term, this amount is about twice as much as that of Japan, the second highest donor, by looking at the numbers as percentage of GNI<sup>2</sup>, it becomes revealed that the amount of aid given by the United States counted only 0.15 percent of its GNI, placing the U.S. aid at the bottom end of the net ODA<sup>3</sup> spectrum. Two major arguments have been offered by Carol Adelman, a senior fellow at Hudson Institute, in support of the idea that the amount of aid given by the U.S. is sufficient and there is no need to increase aid. It is important to introduce these two arguments and then proceed to identify their weaknesses in giving a true image of the current status of U.S. aid.

One of the arguments offered by Adelman is that the only number which should be looked at when assessing the amount of foreign aid is to compare that number in absolute terms to that of other countries.<sup>4</sup> Adelman believes that it is irrelevant to look at aid in GNI terms because that would result in countries with larger GNI to have to devote a larger amount for aid. The second argument that Adelman offers concerns the methods employed to calculate the amount of aid contributed by each country. Adelman points out that the amount of yearly aid, such as the sixteen billion dollars previously noted, "does not fully count the money that foundations, corporations, religious organizations, private charities, religious organizations, private charities and individuals send overseas for disasters, schools and healthcare." Adelman asserts that "By overlooking such charitable contributions" one could miss the big picture about the nature of American foreign aid: "we generally help people abroad the same way we do domestically – privately."

There are numerous weaknesses in Adelman's arguments, which shall be discussed.

---

<sup>1</sup> OECD, DAC. [www.oecd.org/dac](http://www.oecd.org/dac)

<sup>2</sup> Gross National Income

<sup>3</sup> Official Development Assistance

<sup>4</sup> Adelman, Carol. 2005. "Freedom from Want". *The New York Times*.

Adelman's first argument revolves around the numbers which should and should not be looked at in order to get an idea of whether a country is contributing enough resources to aid. If we were to consider foreign aid only in absolute terms, we would be neglecting a crucial factor which affects the amount of aid countries contribute: the extent of the developed countries' ability to contribute. For instance if we were to expect Norway to contribute the same absolute amount of aid as the U.S. does, they would have to spend over six percent of their entire GNI to foreign aid, which is a detrimental economic policy for that country to undertake. Global poverty is a multidimensional phenomenon which requires much more resources than that which is currently contributed by developed countries. Since the amount "necessary" to immediately solve the problem of poverty is so high that no developed country's economy and politics would allow such expenditures, the most economically feasible way of spreading the burden of foreign aid is to spread the responsibility among the donor nations based on the size of each country's economy. Hence by not expecting the countries to contribute more when their economies grow, in a way we would be freezing the amount of given aid because each large donor is going to claim that since they are contributing more resources in absolute terms, there is no need for them to increase aid.

Adelman's second point concerns the kinds of aids, such as those contributed by private institutions that are not included in ODA measures. Although this is Adelman's stronger argument, he still fails to recognize the fact that even though the amount of private aid is possibly higher in the United States, as private institutions in Europe have gained more strength throughout the years following World War II and also the Cold War, the role in giving foreign assistance has also expanded. By loosening our definition of what foreign aid is in order to make our aid appear larger than it actually is, we would seem to be producing un-founded justification for not increasing foreign aid to reach the expected percentage of GNI.

Another factor which contributes to the ineffectiveness of foreign aid is the idea that United States and other developed countries seem to differ in their global foreign aid goals and also the methods they employ to advance those goals. Following attacks of September 11, 2001, the current U.S. administration has kept promotion of "democracy" the focus of its foreign policies. "In his [2005] Inaugural Address, President Bush vowed that "all who live in tyranny and hopelessness" will find a staunch friend in the United States."<sup>5</sup> However, the U.S.'s European allies and other major foreign aid donors seem to be following a different plan involving foreign assistance. While the United States has focused mostly on concentrating its funds to fight global terrorism, European countries such as Britain, France and Germany, have advanced a war to eliminate global poverty and increase aid. For instance Tony Blair, the British prime minister, has proposed what he calls a "Marshal plan for Africa," and has asserted that "he would dedicate his leadership of both the G8 and the European Union this year to the issue of Africa." The Europeans' other development agenda also includes debt relief, mostly from the World Bank and the IMF.<sup>6</sup> As one compares the foreign aid policies of the U.S. and those of its European allies, it appears as if America is disengaged from the development agenda, similar to how, as it appears to us, Europe is disengaged on the terrorism agenda.<sup>7</sup> While European countries and other major donors have committed themselves to raise the level of aid and focus on issues that seem to be rather idealistic and selfless, such as combating malaria in Africa and expanding treatment of people with AIDS and tuberculosis, the U.S. is concentrating its resources in places where, as president Bush asserted, "America's vital interests and deepest

---

<sup>5</sup> Traub, James. February 13, 2005. "Freedom, From Want." *The New York Times*.

<sup>6</sup> International Monetary Fund

<sup>7</sup> Traub, James. February 13, 2005. "Freedom, From Want." *The New York Times*.

beliefs” impel us to focus, which is to help nations locked in tyranny to liberate themselves. This divergence between the European and American agendas have resulted in a system where powerful countries are pursuing their individual goals, hence causing a lack of concentration of resources and reducing the effect aid could have with more policy coordination and planning among the donor countries.

One of the major elements which have contributed to the ineffectiveness of U.S. foreign aid is the bureaucracy that manages the foreign aid. The U.S. has four bilateral aid agencies, seven multilateral development banks, and nearly seventy international organizations working to manage foreign aid.<sup>8</sup> However there is not a single government body or institution to coordinate the activities of these entities. Hence even though sometimes these agencies work on programs that are different, in many cases they run programs that are very similar to those of other agencies. This lack of coordination causes the entire system of foreign aid to suffer from a lack of consensus on what the main purposes of foreign aid should be, and what means are to be undertaken to advance those purposes.

Another aspect of bureaucracy of foreign aid that contributes to its ineffectiveness is lack of knowledge and accountability in the lower levels of bureaucracy. This aspect is best demonstrated by Michael Maren’s “The Road to Hell.” Maren, who has had over two decades of experience working with Peace Corps and other aid agencies in Africa, overwhelms the readers with tens of examples of how the nature of aid agencies is very similar to that of private businesses, which brings into light the question of what the real purposes of foreign aid is. Maren asserts that “groups like CRS<sup>9</sup> are paid by the U.S. government to give away surplus food produced by subsidized U.S. farmers.”<sup>10</sup> Maren reveals the fact that the more food CRS gave away, the more money they received from the government to administer the handouts. Such private business model is at odds with the purposes of foreign aid for two reasons. One reason is that private businesses are usually concerned with advancing their own purposes and maximizing profit rather than advancing democracy or fighting malaria. Hence these institutions make it difficult for the government to pursue a focused foreign aid agenda. The second reason is that many of those who work with private agencies that handle many projects in aided countries lack the knowledge required to understand the needs of inhabitants. For instance, as Maren demonstrates, the foreign aid agents might think it would be a good idea to dig a well far from other water resources, not knowing that once the well runs out of water, the inhabitants have to cross the desert for days to reach a new water source, resulting in many of their animals to die on the way. When aid agents invest money in projects that have no or even detrimental effects on the inhabitants, they substantially reduce the effectiveness of aid from the optimal level which could be reached by investing the same resources in better projects.

Foreign aid contributed by the United States makes up a large portion of worldwide foreign aid. As one learns more about the structure of foreign aid, it becomes apparent that many factors contribute to the worldwide foreign aid’s being far less effective than it could be. Therefore it is important to briefly review some of the changes that could be made, specifically in the United States’ part, to maximize the benefit of aid.

One of the main problems that have resulted in U.S. foreign aid being less effective is the amount contributed. As established earlier, the argument for looking at aid as a percentage of GNI seems stronger than that of the method of absolute amounts. The United States needs to

---

<sup>8</sup> Lancaster, Carol. 2000. “Transforming Foreign Aid”. *Institute for International Economics*. Washington, DC.

<sup>9</sup> Catholic Relief Services

<sup>10</sup> Maren, Michael. 1997. “The Road to Hell”. *The Free Press*. New York, NY.

start a long-term plan to increase aid to the UN goal of 0.7 percent of GNI by 2015 to increase the effectiveness of aid.

Many have asserted that Americans look at foreign aid as “welfare for foreigners” and therefore do not support aid strongly.<sup>11</sup> However it is important to note that even during the peak of aid for the Marshall plan (year 1964) when the U.S. had devoted 0.06% of its GNI to aid, the amount was barely contested by Americans, mainly because Americans saw it in their interest to rebuild Europe and save it from communism. Hence it is reasonable to believe that the public will support increase in foreign aid once more if they are presented with different ways that aid could advance American interests. For instance the public should learn that by supporting democratic governments, we are preventing many other countries from becoming anarchies and consequently incubators for terrorism. Another method which could be employed to increase public support for aid is a campaign aimed at informing the public about the real current amount of aid contributed by the U.S. “When asked what percentage of the federal budget [Americans] think goes to foreign aid, the median estimate is 25% of the budget, which is more than twenty-five times the actual level” of aid.<sup>12</sup> In addition it is important to note that the majority believes that a remarkable 10% of the budget should go to foreign aid. Hence by demonstrating to the public that the U.S. contributes far less to aid than the majority believes it does, and by using GNI measure rather than the billion-dollar measure, the public is likely to be much more supportive of an increase in aid. Such gradual increase in aid will drastically boost its effectiveness and at the same time demonstrates America’s commitment to aid and paves the way for creating a system with more coordination among donors, a concept which shall be reviewed.

One of the main issues which need to be dealt with to reform the foreign aid structure is the lack of accord between the U.S. and other major donors. As noted earlier, the U.S. and Europe seem to be pursuing their own very different foreign aid agendas. However a review of the goals that all of these countries are advancing shows that these purposes are not derived from opposing values. Hence the U.S. needs to work with other donors, possibly through the U.N. and W.H.O., which have the strongest support among Americans,<sup>13</sup> in order for all donors to find common purposes and follow a common foreign aid agenda. Such cooperation among donor countries will result in a more focused way of spending aid fund and a more effective worldwide management of aid.

The U.S. government and other entities involved in foreign aid need to do more to educate well as many of those aid agents and worker who are going to take charge of projects overseas as possible. Many aid workers who lack major understanding of the needs of specific regions squander the aid funds for projects that do not have priority and could even be counterproductive for inhabitants. Aid agencies need to hire immigrants who are willing to go back to their home countries for certain periods of time and accept paid positions to implement projects. Even though it is likely that such paid positions require more resources, those resources could be obtained by eliminating the currently-existing redundant elements in the system.

Finally, the U.S. needs to organize all of the aid institutions through one major body to reduce redundancy. Government agencies which are pursuing common purposes need to be eliminated or merged to reduce sunk costs<sup>14</sup> and fixed costs.<sup>15</sup> Since it is not feasible to

---

<sup>11</sup> Traub, James. February 13, 2005. “Freedom, From Want.” *The New York Times*.

<sup>12</sup> Global views 2004.

<sup>13</sup> Global views 2004.

<sup>14</sup> Expenditures that have been made and cannot be recovered.

<sup>15</sup> Costs that do not vary with the level of output.

dismantle many of the government agencies that are already established, one organizing body – possibly a reformed USAID – needs to take control of all the projects that are being funded overseas by government agencies and banks and make sure that they are in line with longer-term U.S. and world aid policies and purposes.

The U.S. contributes substantial amount of resources to foreign aid. However its contributions are far less than its relative potential ability. Simultaneously, while the current U.S. foreign aid is fairly substantial, much of those resources are squandered due to misallocation, redundancy, and lack of coordination between the U.S. and other foreign aid providers. While the U.S. has contributed a great deal of resources to the cause of advancing foreign aid, the above factors have undercut the effectiveness of aid. By advancing such goals as eliminating agencies with overlapping tasks, the U.S. can reform the system in a way that it would make it more efficient and effective to make real change in poor parts of the world, while coordination with other donors will help the United States to achieve its foreign aid policy goals with more success.

*With special thanks to Dr. Michelle Miller-Adams, without whom this paper and my other writings on foreign aid and international political economy would not have been possible.*