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ECONOMIC VIEWPOINT

By Jeffrey E. Garten

Don't Just Throw Money At The World's Poor

High-profile proposals to boost aid seem like political one-upmanship

In recent weeks government officials around the world have put forth several high-profile proposals for pumping huge amounts of money into aid for the world's poor -- the 2.5 billion people who live on less than \$2 per day. I believe global economic development ought to be accorded far more attention than it usually gets, given its importance to economic growth and the battles against terrorism, disease, and the drug trade. But the focus on dramatic increases in foreign aid could be an overreach and an ill-advised diversion from other critical approaches to alleviating poverty.

On Jan. 17, the U.N. released a report imploring wealthy countries to double their foreign aid. The goal: to halve the number of people living in extreme poverty by 2015. Shortly afterward, Britain proposed a modern-day Marshall Plan for Africa. It also called for a major injection of funds that would come from issuing new government-guaranteed bonds. French President Jacques Chirac, meanwhile, suggested raising aid with new international taxes on such things as financial transactions and aviation fuel. Japan pushed a big recapitalization of the African Development Bank. The Group of Seven asked the International Monetary Fund to sell some of its gold holdings to provide even more assistance. All this occurred even as more than \$5 billion was being mobilized on behalf of the tsunami victims in Asia.

EVEN IF THESE IDEAS CAME TO FRUITION, it's doubtful that these proposals will produce the desired results. The fact is that huge amounts of foreign aid are already in the pipeline. The Organization for Economic Cooperation & Development estimates that its members will have increased their assistance from \$58.3 billion in 2002 to \$88 billion by next year. The research of Todd Moss of the Center for Global Development in Washington shows that for at least 20 African nations, foreign aid constitutes more than half their public expenditures. And let's not forget the large and growing antipoverty programs of organizations such as the Bill &

Melinda Gates Foundation.

Moreover, most development experts acknowledge the impediments to effective use of aid brought about by poor governance and corruption in many developing countries. Are the donor nations assuming that these obstacles will be miraculously washed away with enough money? Are they also counting on the disappearance of the notorious lack of coordination by aid-giving agencies that leads to enormous waste?

I'm for more aid, to be sure -- if it is wisely used. The current frenzy seems more like political one-upmanship among governments than sound policy. It could set unrealistic expectations that result in public disillusionment with development efforts.

It also could draw attention away from alternatives, such as strengthening the engines of economic growth in developing countries, including the private sector, and from ideas, such as those of Peruvian economist Hernando de Soto, who advocates giving poor people clear title to the land and housing they already occupy, so that they can use their assets as collateral for credit.

What is most disturbing is that the calls for aid could undercut efforts to liberalize trade. Poor countries face high tariffs, quotas, or subsidized competition from rich nations in industries such as food processing, textiles, and agriculture. The World Bank estimates that a substantial dismantling of these barriers could be worth \$350 billion to the developing world in the next decade and could lift 144 million people out of poverty. Reducing trade barriers would also help consumers in the industrialized nations.

Trade protection in the U.S., Europe, and Japan from agricultural subsidies alone amounts to \$1 billion a day. Global trade negotiations are moving at a snail's pace, and they don't adequately address some of the most important impediments to development and poverty reduction -- such as the provision of cheap medicines. Too little technical assistance is being provided to poor countries to allow them to maneuver effectively through the complex procedures of the World Trade Organization. The question shouldn't be aid or trade but the relative emphasis given to each. Right now, the scales are becoming dangerously imbalanced.

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