Overseas Aid is Money Well Spent
By Joseph Stiglitz
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The United Nations conference in Monterrey on finance for development was not the disaster that many feared. It produced a chorus of recognition of the risks posed by the widening gap between haves and have-nots. The US pledged a substantial increase in its overseas assistance. But even with that increase, US aid is paltry, a mere 0.15 per cent of gross domestic product, and much of that assistance is allocated not so much by humanitarian concerns as by geopolitical motivations.

Worse still, however, is the excuse given by Paul O'Neill, Treasury secretary, for this stinginess. He argues that if Washington is to give aid, it must be shown that it is effective, hinting that there is no such evidence, or at least that he has not seen the evidence. But if he has not seen it, it is simply because he has not looked.

I have had the good fortune of being able to see development assistance in action "on the ground": irrigation projects in the Philippines or Nepal that allowed farmers to have two or three crops a year, rather than one, doubling or tripling their meagre incomes; or education projects in Colombia, designed to allow the children of migrant workers to move from school to school, and pick up lessons where they left off.

Not every dollar is well spent, of course. That can always be said, whether in the public or private sphere. But World Bank studies have shown that aid to countries with reasonably good policy environments - and there are many such countries - has significant effects in spurring growth and reducing poverty.

Of course, much aid has gone to countries without those conditions, but the assistance was as often dictated by political concerns as by a push for development. Think of the west's backing of Zaire's Mobutu Sese Seko during the cold war; or the billions sent to Russia in July 1998 to support Boris Yeltsin.

Failures should not be chalked up against development assistance; rather, they should be treated for what they are - money spent, whether wisely or not, to pursue political objectives.

The fact that statistical studies, which did not distinguish between the two kinds of aid, suggest that assistance to countries without the right policy environment does not promote growth has led many to conclude that aid should be given only selectively. I believe, however, it would not be in the west's interests - nor would it be morally right - to abandon developing countries, which include some of the poorest people in the world. It is bad enough that they suffer from exploitative or incompetent governments, or that they live in countries visited by large adverse shocks beyond their control.

There is an alternative strategy: find different delivery mechanisms that bypass the government and focus assistance on projects that directly help the poor. In Bangladesh, for example, non-governmental agencies have provided micro-credit, which not only enhances the income of the poor but provides programmes to imp- rove the health of women, strengthen their understanding of their legal rights and enhance the quality of education in poor villages.

The slogan "Trade not aid", sometimes used by those reluctant to give aid, would be more convincing if countries such as the US opened themselves freely to goods from developing countries. Instead what do we find? Vietnamese catfish are not allowed to go by that name, as their low price undercuts American catfish. Steel imports from efficient producers in Asia are kept out of the US. As Russian aluminium entered the US, the US created a global cartel to limit the inflow.

Trade is important, and Europe's generous effort to open its markets to the poorest countries (the Everything but Arms initiative, which, because it has not really addressed problems in agriculture, has come to be called Everything but Farms) needs to be deepened and broadened to include not just the very poorest. If the US were to join Europe in this endeavour, it would show it is serious about promoting free trade - and Washington should act as soon as possible.

But opening up markets makes little difference if countries lack the capability to produce for them - if, for instance, they do not have the transport to bring their goods to market. By the same token, the mantra that countries should turn to the private sector is misleading. Foreign investment is important, but it goes to relatively few countries and in relatively few sectors. Foreign direct investment misses out on rural roads, on health and education - all important to developing countries.

The Monterrey conference was long on rhetoric but, especially because of Washington's refusal to make serious commitments either on aid or trade, it was short on action. Two years ago, civil societies around the world united in the Jubilee Movement to push debt relief. They succeeded. What makes democracies so great is that political leaders must respond to popular demands. It is time once again to unite, to push for trade and aid to the poorest.