

By invitation

What's good for the poor is good for America

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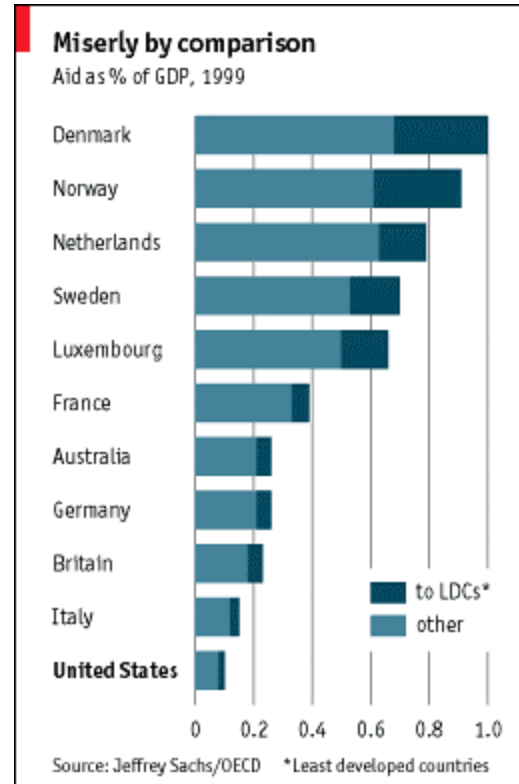
Panos

Jeffrey Sachs on where Uncle Sam should be more generous, and why

ALTHOUGH its prosperity depends on a worldwide network of trade, finance and technology, the United States currently treats the rest of the world, and especially the developing world, as if it barely exists. Much of the poorer world is in turmoil, caught in a vicious circle of disease, poverty and political instability. Large-scale financial and scientific help from the rich nations is an investment worth making, not only for humanitarian reasons, but also because even remote countries in turmoil become outposts of disorder for the rest of the world. The biggest priority of next week's Genoa Summit should be for the rich countries, above all the United States, to get serious about contributing to global economic development.

During the cold war, the United States and its allies provided the global public good of containment, investing trillions of dollars to stop the spread of communism. The task now is vastly more complicated. The principal goal of foreign policy is now almost containment's opposite: helping to ensure that all parts of the world, including the poorest, are integrated into global economic and ecological networks in mutually beneficial ways.

Unfortunately, American presidents in recent times have not acknowledged that this goal requires massive foreign-policy investments. America's foreign aid is 0.1% of GDP, a derisory shadow of what it used to be, and roughly one-third of the European level (see charts). Following America's lead, most of the large economies have allowed their own foreign-assistance programmes to shrink since the end of the cold war. Even when the United States reaped a peace dividend of more than 2% of GDP in reduced defence spending after 1990, it cut, rather than increased, foreign-assistance spending as a share of national income.



The lessons of state failure

Traditional diplomacy deals with risks of conflict between nation-states. These risks are of course still present, but a more pervasive danger is that states will simply collapse. Of the dozen or so conflicts in Africa in recent years, few, if any, have involved cross-border aggression. Instead, bankrupt and impoverished states have imploded, the vacuum filled not by regimes with newly consolidated power but by brutal violence engulfing civilians. The disaster then fans out to neighbouring countries, and eventually much farther afield.

A special “task-force on state failure” set up by America’s CIA has found that three variables are most predictive of state stability or instability: the openness of the economy (closed economies carried an increased risk of state collapse); democracy (authoritarian regimes were less stable); and infant mortality (a high incidence of disease raised the risk of collapse). In sub-Saharan Africa, where much of the population lives on the edge of subsistence, poverty and slow economic growth, or outright decline, increased the likelihood of future state collapse, thereby trapping the countries in a vicious circle of poverty and political instability. Rich countries, on the other hand, tend to maintain political stability which, in turn, promotes further economic development.



When countries were classified in 1990 by their status in the United Nations Human Development Index (an index of income, literacy and health), high-development countries achieved robust and stable economic growth during 1990-98, with average growth rates of around 2.3% a year and with 35 out of 36 countries enjoying rising living standards. Middle-development countries achieved a slightly lower growth rate, 1.9% a year, but seven out of 34 countries experienced outright declines in living standards. The poorest countries averaged no economic growth at all, with 15 out of 39 experiencing falling living standards. The flip-side to the poverty trap, however, is that the gains of development tend to be sustained, once countries break through to sufficient levels of income, health and literacy.

Conservatives in America often ask why it matters if an impoverished country collapses. The answer is that, aside from humanitarian concerns, crises in such far away places often suck the United States into crisis as well. Since 1960, America has been dragged into military conflicts in Cuba, Thailand, Laos, Congo, Vietnam, the Dominican Republic, Cambodia, Cyprus, Lebanon, Zaire, El Salvador, Libya, Lebanon, Honduras, Nicaragua, Chad, Liberia, Bosnia, Somalia and, more recently, Kosovo and Colombia.

State failures, or even milder state instability, have also undermined American and global interests through globally transmitted financial crises, drug-trafficking, money-laundering, terrorism, the spread of diseases such as AIDS and mass refugee flows. On the positive side, sustained economic development would create new and potentially large gains from trade, as well as much-needed co-operation in science and culture.

Even when a problem is correctly identified, there is a stunning disconnect between risk and action in America’s foreign economic policy. The global AIDS epidemic, for example, has recently and wisely been identified as a risk to the security of the United States. What action has been taken? President George Bush has called upon Americans to give just \$200m, or 70 cents each, to the new global fund to fight the disease.

The failure to make even basic investments in foreign policy has been pervasive, and the examples are legion. Eleven years ago, the last prime minister of unified Yugoslavia, Ante Markovic, launched a last-ditch plan for economic stabilisation. He appealed to Europe and the United States for a reduction in debt-servicing and other modest financial support, but was turned down by the creditor governments. Economic stabilisation was undermined, and this helped Slobodan Milosovic to get the upper hand. The rest, as they say, is history.

In the past two years America and European countries have made the same mistake in Nigeria, an impoverished and unstable country emerging from years of corrupt despotism. Although Nigeria's oil earnings, net of production costs and income to foreign oil companies, amount to around only \$90 per Nigerian a year, the United States and Europe continue to prevaricate over urgently needed debt-reduction because the oil earnings are easy to squeeze for debt-service payments. The new democratic regime of President Olesgun Obasanjo is put at risk, and Libya's leader, Muammar Qaddafi, does not miss a chance to inflame matters in Nigeria's Islamic northern states.

Area after area of neglect can be catalogued, from the strife-torn Andes to regions around the world undermined by climate change. Through all of it, the United States barely lifts a finger. It somehow thinks that sending the impoverished and unstable governments down Pennsylvania Avenue to get loans from the IMF and the World Bank will do the job, but even some staff of those organisations now publicly acknowledge that they have failed: making loans when grants are needed, imposing excessive austerity by collecting rather than cancelling debts, and failing to find partner-institutions with the scientific expertise to tackle underlying problems of disease, low food production, climatic stress and environmental degradation.

Re-inventing foreign aid

The Bush administration and Congress must find their way to a renewal of American foreign policy and the sensible international investments that will be needed to back it up. The president's core team knows the world and its risks. Last year's Meltzer Commission, on which I served, demonstrated that there could be a bipartisan consensus on the need for much more American help for the poorest countries. The new chairman of the Senate Foreign Relations Committee, Joseph Biden, is ideally suited by knowledge and temperament to help lead a bipartisan foreign-policy effort with the Bush administration. Here are some guidelines for investing in foreign policy in today's global economy.

First, we must identify the areas where money can really make a difference. Keenest attention should be paid to the world's poorest regions, the ones most likely to fall prey to the vicious circle of poverty, disease and state collapse. Remarkably, only around one-sixth of American aid is currently directed to the 48 least-developed countries, most of which are in Africa. Help for these countries should come in two ways: as direct support for national programmes to fight disease, malnutrition and illiteracy, when those programmes make sense and are honestly administered; and through programmes to develop new technologies to overcome barriers to long-term economic development.

Second, the United States should end its decade-long war against the United Nations agencies. Specialised organisations such as the World Health Organisation, the Food and Agriculture Organisation, the Consultative Group on International Agricultural Research, UNAIDS and the United Nations Development Programme need to be bolstered with more money and administrative reforms, not squeezed financially to the point of collapse. These agencies would be greatly strengthened by closer and properly financed links with America's own top-rank institutions, such as the National Institutes of Health and the Centres for Disease Control.

Third, and surely most important, the Bush administration must explain to Americans that a big increase in budgetary outlays on behalf of economic development in the world's poorest and most unstable regions is an investment in core American interests and values. All serious professional estimates show that the fight against AIDS in the developing countries will require at least \$2 billion-3 billion a year from the United States government for the global fund—rather more than the \$200m so far promised. External assistance for Africa will require not the current miserly \$1 billion from America, but a several-fold increase, if profound problems have a chance of being overcome. Sub-Saharan Africa, neglected by the United States, has routinely received a sum equivalent to around one-sixth of the American aid given to the Middle East.

As a minimum, realistic target, the Bush administration should pledge to raise foreign assistance to at least 0.3% of GDP. This would not only bring the world's richest country back into line with the average of other donor nations, but would make available an extra \$20 billion a year to invest in economic development. Such a turnaround in America's role could harness much larger contributions from the European Union, Japan, and other potential donors both public and private.

A Powell Plan?

Fifty years ago a soldier-statesman, General George Marshall, then secretary of state, explained to Americans that urgent financial support for Europe would stabilise societies destroyed by the second world war and the post-war economic crises. Such aid would unleash Europe's potential for recovery to everyone's mutual benefit. His vision was exactly on the mark. Winston Churchill called the resulting Marshall Plan "the most unsordid act in history".

The United States once again has a soldier-statesman, Colin Powell, as secretary of state. A new Powell Plan to mobilise American technology and finances, both public and private, on behalf of the economic development of the world's poor countries would be a fitting follow-up to the Marshall Plan. The world, and America, would be enormously safer and more prosperous as a result.