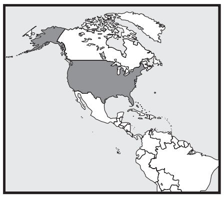
Narrow agenda undermines domestic and global development



The US sends the lowest amount of aid as a proportion of government spending among the countries on the OECD Assistance Committee, and much of this "foreign aid" actually serves its own economic and political interests. At home, social policies and programs are severely and increasingly under-funded, leading to growing poverty and inequality.

Institute for Agriculture and Trade Policy
Alexandra Spieldoch / Patricia Jurewicz / Steve Suppan
Center of Concern
Aldo Caliari
Action Aid International USA
Karen Hansen Kuhn

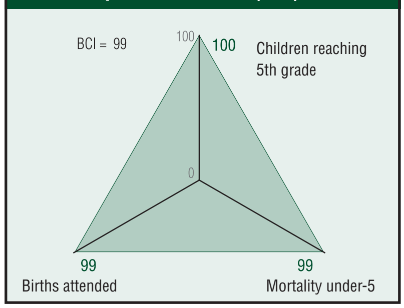
Reviewing Financing for Development (FFD) from a US perspective is as much about how the United States of America operates as the world's superpower as it is about how the Government carries out a development agenda. Some of the failures associated with the United Nations FFD process are due to US obstruction, as the Bush Administration has sought to reduce its commitment to addressing the systemic causes of poverty. The Bush Administration has also shown itself consistently hostile to attempts to reinvigorate global governance, instead indulging in posturing and actions that undermine the UN's credibility and authority. The authors join the many critics with Social Watch who recognize that the United States defines development too narrowly by over-emphasizing the market's ability to reduce poverty in isolation from other social and economic tools. This narrow agenda has led to the United States making too small a contribution to development globally and to neglect the poor at home.

Undermining FFD

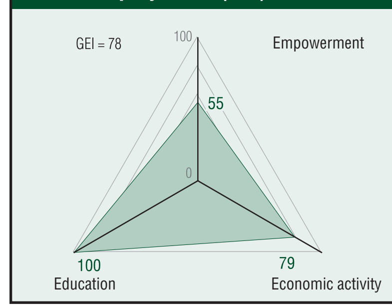
The FFD process was considered by governments, institutions and non-governmental groups to be one of the most important opportunities for the global community to engage in a new multilateral consensus around global economic structures since the launching of the Bretton Woods institutions in 1944. However, Financing for Development hopes have turned to disappointment. Sadly, while the United States could have provided leadership for systemic change, it chose to undermine the FFD process, and to block the emergence of new governance structures proposed for the international trade and finance system.

The United States has consistently questioned the authority of FFD to propose reforms to the public institutions that drive the international economic system, especially the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (WTO). The US has instead argued that the international financial institutions and the private sector should be given more influence in the FFD process. The United States claims that policies such as increased trade liberalization, rather than foreign aid, will lead to growth and development for countries, and has sought to place the burden on developing countries to reform their domestic policies to support a neo-liberal development model. The United States also pushes this development agenda through its bilateral relationships.

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



US foreign policy

Much of US funding for foreign economic development is conditioned on new or planned free-trade agreements with the United States. The Bush Administration is clear that it will strive to encourage free markets and free trade bilaterally, regionally and multilaterally in order to secure "freedom and security."[1] The United States is advocating "aid for trade" initiatives, also referred to as "trade-capacity building assistance". Critics are concerned that while aid for sustainable development is desperately needed across the globe, "tied aid" for increased liberalization undermines national development strategies and efforts to make governments more accountable to their citizens. Current liberalization trends encourage corporate control of public resources and services, including water, infrastructure, energy, and health care. Poverty eradication depends on paying attention to the distributive effects of economic change and ensuring that employment increases.

Development packages increasingly reflect national economic and security concerns. For example, while the aid budget has been increasing gradually over the last few years to a projected USD 23.7 billion for 2007, the increases have been directed mainly to the high-profile Global AIDS Program, the Millennium Challenge Account and the rebuilding in Iraq and Afghanistan. Funding for international narcotics control and the Andean counter-drug initiative (USD 1.5 billion) and foreign military financing and training (USD 4.6 billion) is also included within the aid budget.[2] In contrast, funding for lower-profile development programs, including Child Survival, Development Assistance, International Disasters and Famine Assistance, have continued to decrease over the last few years.

In Latin America, military funding has surged to levels nearly matching development aid, in large part because of US support for Plan Colombia. As has been true for decades, the top five recipients of foreign assistance dollars under the Bush Administration's 2007 budget reflect countries influential in US security concerns: Israel, the top recipient, is followed by Egypt, Afghanistan, Iraq and Pakistan, in that order.

While many Americans are proud that their country ranks as the largest aid donor, unfortunately, they do not realize that the United States, equal with Japan, sends the lowest amount of aid as a proportion of government spending among the 22 countries on the Organization for Economic Co-operation and Development (OECD) Assistance Committee (UNDP, 2005, p. 58). Foreign assistance is less

1 "U.S. National Security Strategy," Section Four: "Ignite a New Era of Global Economic Growth through Free Markets and Free Trade." <www.state.gov/r/pa/ei/wh/c7889.htm>.

2 Data from InterAction - Global Partnership for Effective Assistance, FY07 Budget Request Cuts Core Programs to Fund Initiatives, 2006 and US State Department Budget Tables.

than 1% of the total government budget. Out of a total budget of USD 2.5 trillion in 2006, just 0.84% was directed to foreign aid.[3] Worse, some 86% of this spending is what ActionAid International (2005) calls "phantom aid." Phantom aid includes aid that is not targeted to poverty reduction, aid double counted as debt relief, aid for overpriced and ineffective technical assistance, aid tied to purchases of US goods and services, and aid that is poorly coordinated, leading to high transaction and administrative costs. This practice is not limited to the United States – ActionAid estimates that at least 61% of donor assistance from the G-7 countries is phantom aid – but the problem is particularly pronounced in the United States.

Private financial transfers, led by remittances from immigrants working in the United States, far exceed official aid flows. A study by the Hudson Institute reports that USD 71 billion in private flows went to developing countries in 2004. While the Hudson report, and a press release from the US State Department, cited these figures as evidence of US private-sector generosity, nearly two-thirds of that money, USD 47 billion, was actually remittances sent by individual immigrants to their home countries.[4] An increasing number of immigrants are sending a portion of their wages back to their country of origin to support their families living in precarious positions. According to the United Nations, in 2005, there were about 191 million migrants worldwide, with one in five migrating to the United States (Deen, 2006).

Trade liberalization is a major factor that has contributed to this trend. For example, whereas in 1978, agricultural exports accounted for 81% of El Salvadoran foreign exchange, after 26 years of trade liberalization, they accounted for only 5%, while remittances accounted for 70%. Better known is the example of Mexico, where more than ten years after the North American Free Trade Agreement (NAFTA), inflation-adjusted wages are lower than before NAFTA. There are 19 million more Mexicans living below the official poverty line than before NAFTA (Sirota, 2006). Post-NAFTA, over 1.3 million Mexicans have lost their jobs in the rural sector, with many migrating to the US to find work and sending remittances back home to support their families (Audley *et al*, 2003). In 2005, remittances from the United States to Mexico amounted to USD 20 billion, the second largest source of foreign exchange after oil revenues (De la Torre, 2006).

Financing for development in the US

People living in the United States are also experiencing the negative impacts of the current Administration policies. Support for the 'war on terror' and regressive taxation policies have had a negative impact on domestic budgetary spending and government finances. Levels of personal debt have increased, taxation on corporations and the very wealthy have decreased, and the cost of the war in Iraq, estimated by Nobel prize-winning economist Joseph Stiglitz at about USD 1.3 trillion, has damaged long-term US financial stability (Bilmes and Stiglitz, 2006). Although on a different scale, it is clear that there are similarities in the struggles confronting people in the Global South and in the United States. Unfair economic, political and social policies are worsening income inequality, draining public funds and leaving social priorities under-funded.

Under-financing for development: a hurricane exposes reality

In 2005, people around the world were shocked by what they saw on television after Hurricane Katrina devastated New Orleans and the surrounding area. Viewers could not believe they were seeing images from the United States. Those stranded by the floods were mostly African American, old or undernourished. Survivors were left without electricity, running water or food for days, surrounded by sewage and dead bodies.

None of what occurred should have come as a surprise – exactly what happened and who was affected had been predicted a year earlier. Despite studies showing the sinking of the levees and the Army Corps of Engineers pleas for additional funds for crucial flood-control projects, federal dollars for infrastructure support had been continually cut since 2003. Numerous newspaper articles specifically cite the cost of Iraq as a reason New Orleans was deprived of federal dollars for hurricane and flood protection (Bunch, 2005). Of the 354,000 people who lived in New Orleans neighborhoods where the hurricane damage was moderate to severe, 75% were African American, 29% lived below the US poverty line, more than 10% were unemployed, at least half rented their homes, and approximately 60% did not own cars (Dao, 2006; Wellner, 2005).

In the aftermath of Katrina, President Bush promised USD 200 billion in aid for storm and flood-damaged areas in the region. To date, far less than this has been spent, has been spent unwisely or has not been spent on rebuilding New Orleans so the lower income habitants can return. Further, what has been spent is being taken from other federal discretionary spending budgets (such as food stamps and child care). Recommendations to suspend the new stringent personal bankruptcy law and expand Medicaid for hurricane victims were also rejected. What happened in Louisiana and other Gulf Coast states was a tragedy, but it reflected a larger policy of indifference to the needs of the lower income populations in the country. The government response to the crisis was and remains insufficient and slow, underlining the years of neglect of the infrastructure that led to the destruction of the city in the first place.

Social indicators

The United States scores quite high on the Social Watch Indicators, especially when it comes to access to clean water, immunizations, doctors attending births and the percentage of girls enrolled in school. However, when looking at indicators broken down by race, the picture is quite different. The Fordham Institute for Innovation in Social Policy has tracked 16 social well-being indicators[5] since 1970. By 2003, their indicators showed that "social health" (a measure based on the 16 indicators) was down 20% while economic health, measured by the Gross Domestic Product (GDP), had grown 174%.[6]

The United States continues to be the only rich country in the world with no public provision for universal health care. As a result, over a third of families who live below the US poverty line lack health insurance and therefore have no or limited access to health care. Hispanic Americans are more than twice as likely as White Americans to be uninsured and 21% of African Americans have no health insurance (UNDP, 2005).

In the area of education, according to a report by the Harvard Civil Rights Project and the Urban Institute, only 50% of African American students, 51% of Native American students, and 53% of Hispanic students graduated from high school in 2001 (Children's Defense Fund, 2004). These numbers are particularly alarming because studies show that youth who drop out of school are more likely to be jobless, join a gang, use illegal drugs and spend time in prison. For example, in 2004, 72% of African American men who had dropped out of school were jobless, while six in 10 African American male school dropouts had spent time in prison (Eckholm, 2006).

The US Department of Commerce's Bureau of the Census 2005 shows poverty has grown substantially. Between 2000 and 2004, more than five million people joined the ranks of the poor (US Census Bureau, 2004). According to the Institute for Women's Policy and Research, over 40% of those who are poor are living in dire poverty, earning 50% or less of the federal poverty threshold, set at USD 20,000 annually for a family of four with two children. From a gender perspective, low health insurance rates, inadequate childcare programs, and a persistent wage gap are among the factors that make it especially hard for women to move out of poverty (IWPR, 2005). Over 20% of US children are considered to live in poverty (UNDP, 2005).

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3 *Ibid*.

4 US Department of State, Press Release, 10 April 2006.

5 Infant mortality, child abuse, child poverty, teenage suicide, teenage drug abuse, high school dropouts, unemployment, average weekly wages, health insurance coverage, poverty among those aged 65 and over, out-of-pocket health costs among those aged 65 and over, homicides, alcohol-related traffic fatalities, food stamp coverage, access to affordable housing, and income inequality.

6 Data provided by the Fordham Institute for Innovation in Social Policy.

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This highlights the need for improved data management for all categories of the poor, which would facilitate extension and monitoring of assistance based on needs. Adequate allocation of resources should begin with their inclusion into local and district budgets, and a strategy should be established for effective management of all these resources. As is frequently the case in developing countries, the various existing policies and resource allocations are often improperly managed, especially for the poorest of the poor. In addition, in order to ensure adequate legal protection, existing laws need to be amended and strengthened.

Finally, there is an urgent need for further work by all stakeholders at all levels on the issue of social protection. For its part, civil society in particular should be more vigilant in engaging the various stakeholders about these issues. It should also study the experiences of other countries and the prospects for their adaptability to Uganda. ■

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The growing federal deficit

According to the Center on Budget and Policy Priorities, the federal government ran a deficit of USD 318 billion in 2005. From 2002 to 2011, the government is projected to amass a deficit of USD 3.4 trillion. Much of the projected deficit can be attributed to tax cuts, increases in defense spending, particularly for the illegitimate war on Iraq, and spending on "homeland security" to fight the "war on terror." The long-term outlook for deficit reduction is bleak. Making the Bush tax cuts permanent would add another USD 9.6 trillion (in 2005 dollars) to the deficit over the next 20 years, including the added interest payments on the national debt, which would be substantial. In an attempt to reduce the deficit, Congress has begun to cut USD 39 billion from the budget over the next five years – including cuts in Medicaid, various children's programs, and student loans. The cuts are expected to weaken health care for many low-income families, cutting billions of dollars for low-income programs from the federal budget and placing increased responsibility on state budgets. Many states will not be able to make up the costs and further reductions in these programs are the likely result (CBPP, 2006).

The end of the American Dream

The Government shows little commitment to any kind of government-funded safety nets. However, there was a time when significant investments were made in programs to help make the American Dream possible. For example, public education, primary through tertiary, was of good quality and inexpensive. Progressive taxation ensured that the extremely wealthy would provide their fair share to support the public good, in line with most European governments in the 1970s and 1980s. With high levels of employment, health care that depended on employer-paid insurance schemes covered much of the population. Today, these cornerstones of social policy have been reduced to rubble. Many working Americans do not have access to health insurance (and consequently to health care), because the gap between stagnant wages and sky rocketing insurance rates prohibit the purchase of health insurance. Public schools have been allowed to deteriorate, and fee-based schools are being funded in their place with public tax dollars. Congress has approved a federal budget that allows power politics to define its foreign assistance while at the same time cutting crucial social programs at home. These overall trends reflect an indifference to emerging crises, and bode ill for domestic efforts to eradicate poverty and reduce social exclusion. ■

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