The Washington Times
www.washtimes.com

Foreign aid program that works

Richard W. Rahn
Published 10/3/2002

Who is the biggest provider of foreign aid? The World Bank? The International Monetary Fund (IMF)? The U.S. Agency for International Development (USAID)? The right answer is none of the above. The single biggest provider of foreign aid is the more than 10 million American immigrants and migrant workers who send back a portion of their earnings to their home countries. Officially, these payments are known as remittances, which provide an increasingly important means of support to family members remaining in the less developed countries.

The World Bank and IMF have just concluded their annual meetings in Washington. The scene was familiar — self-important officials being driven around in black limousines, while thousands of protesters were engaging in mindless chants and vandalism in the streets. There is considerable objective evidence that the World Bank and IMF waste tens of billions of taxpayer dollars each year and actually make things worse in the developing world. The protesters seem to sense this but rarely exhibit any intelligence when it comes to providing productive solutions for third world impoverishment.

Ralph Nader gave one of his all-too-predictable rants without intellectual content. As always, he blamed the developing world's ills on multinational corporations, while conveniently ignoring that these corporations he hates actually create real jobs, provide investment capital and new technologies, and technical and managerial training in developing countries. They do this without bloated and costly bureaucracies and, for the most part, without saddling the developing countries with massive debt, unlike the official aid organizations.

The Inter-American Development Bank (IDB) undertook a study of remittances to the Latin American countries from the U.S., which was published this year. The findings were astounding. The study concluded that "workers typically send home an average remittance of about $200 seven to eight times a year." Just for the Latin American region, they estimated that the flow had reached $23 billion in 2001. (The number exceeds annual global World Bank lending and is more than 3 times total annual spending by USAID.) This massive transfer of funds was accomplished by more than 100 million individual transactions.

These remittances greatly exceeded all Official Development Assistance (ODA) to each of the countries, and "equaled 40 percent of the total Foreign Direct Investment to the region." More than $9 billion was remitted to Mexico alone, which was "more than twice the value of agricultural exports, exceeded tourism revenue, and [was] two-thirds the value of petroleum exports." The remittances accounted for 24 percent of the GNP of Nicaragua and 20 percent of the GNP of Haiti. Forty percent of the families of the Dominican Republic received remittances.

The study only covered Latin American, but there is also considerable evidence that immigrants from Asia, Africa and the former Soviet Union also send back billions in remittances. This "private" foreign aid is much more likely to go to people who really need it. One is not likely to send part of one's salary to those not in need. This private aid is conducted without a costly government bureaucracy, and far less of it is likely to be siphoned off into the pockets of corrupt government officials. Many of these remittances are used by those remaining back in the home country to start small businesses, which creates a true multiplying effect on the economy.

Unfortunately, fees for these private remittances typically take anywhere between 10 percent and 25 percent of the amount being remitted. These fee levels are unnecessary and serve as a cruel tax on poor workers and their families. New technologies using "smart" or chip cards and Internet-based money transfer systems can greatly reduce this cost. However, there are some international government bureaucrats who are trying to inhibit the development and use of these new technologies because of their concern about the potential use of such systems for "money laundering." Such overreactions by government officials show they have little understanding of the costs and benefits of these new technologies and even less appreciation for the plight of the poor and for liberty.

Government-to-government or private aid can only be effective in creating economic growth if the recipient country has a rule of law, respects property rights, provides stable money, and has free markets and relatively low levels of taxation, government spending and economic regulation. Without those conditions, the money is almost always wasted, other than temporally relieving some individual suffering, which the private aid does most effectively. Of course, if a country has the proper economic policies, it will not need government aid, because private companies and individuals from around the world will provide all the capital that is needed.

Richard W. Rahn is a senior fellow of the Discovery Institute and an adjunct scholar of the Cato Institute.