

**Whither Development Assistance?  
An Analysis of the President's 2005 Budget Request**

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The international turmoil of the past few years suggests it is time to pay especially close attention to the nation's spending on Development Assistance (DA)<sup>2</sup> to other countries. This is true both because of the daunting challenges faced in developing countries and because our country's expenditures in this area reflect the degree to which we rely on "soft" power to advance our aims.

Excluding spending in Iraq, the President's 2005 budget request indicates:<sup>3</sup>

- The period of successive, significant increases in DA would halt in 2005. Adjusting for inflation, the Administration proposes to spend essentially the same amount on DA as in 2004. As a share of the economy and government spending, DA spending would drop slightly in 2005, and would be at levels well-below its historic levels.

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<sup>2</sup> Development Assistance (DA) as defined in this memorandum encompasses more than the development assistance account at USAID. It includes the entire 151 subfunction of the U.S. budget (the category entitled "International Development and Humanitarian Assistance"), plus Economic Support Fund (ESF) monies, excluding ESF funding for Israel from 1997 onwards. For details on this calculation see the joint CBPP-CGD analysis of last year's DA budget — "How Significant are the Administration's Proposed Increases in Foreign Development Aid," May 2003.

<sup>3</sup> This note is based on an examination of the Congressional Budget Office's re-estimate of the President's 2005 budget request. This analysis will have to be revised upon presentation of the supplemental request for Iraq reconstruction and the war on terror, currently projected to amount to around \$50 billion. We sometimes refer to funding or "budget authority," but emphasize spending, or outlays. Since not all funding provided for a program is spent in the year that it is provided, it can take more than a year for a change in funding levels to translate into a change in expenditures. Over longer periods of time the normal practice (followed here) is to compare actual expenditure levels, because it is the expenditure levels, by definition, that indicate how much in resources is actually being used by particular programs.

- The budget proposes accelerating DA spending after 2005, although the nation's bleak fiscal outlook suggests that it might be difficult to attain such spending levels. Further, even with such spending increases, as a share of the economy and of the budget, spending on DA over the first decade of this century would lag behind such spending in every other decade since the end of World War II.
- Requested funding for two high-profile Presidential initiatives, the Millennium Challenge Account and the Emergency Plan for HIV/AIDS Relief, is lower than promised. Some of this funding, moreover, appears to be indirectly coming at the expense of existing DA programs.
- In 2005, proposed DA spending would amount to 0.12 percent of GDP and 0.59 percent of federal government spending. It would amount to just 1/30<sup>th</sup> of U.S. military spending.

As noted, we exclude expenditures on Iraq from the above comparisons. Such expenditures include the operating expenses of the Coalition Provisional Authority, which the government includes in the International Development and Humanitarian Assistance category of the budget (subfunction 151) from 2004 onwards. Similar expenses for 2003 were listed in the military budget. Expenditure on Iraq also includes the Iraq relief and reconstruction fund — over \$15 billion to be spent over the next 5 years — an unknown portion of which will be used for development purposes.<sup>4</sup>

If Iraq spending were included, the figures for 2005 would be significantly higher but our overall findings would not change dramatically, particularly since spending in Iraq is scheduled to be phased out by 2009.

### **Comparing development assistance over time**

Table 1 details the standard measures of DA, excluding recent spending in Iraq. It examines such spending in inflation-adjusted or real 2005 dollars (including real per capita dollars), as a percentage of economy or Gross Domestic Product, and as a percentage of the federal budget. The appendix figure graphically traces the evolution of some of these measures over time, and the appendix table provides historical details. These show that current development assistance spending is low as compared to other points in US history.

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<sup>4</sup> In addition, recent reports suggest that relatively few of the funds for reconstruction have actually been disbursed. See <http://www.washingtonpost.com/ac2/wp-dyn/A26310-2004Jul3?language=printer>

**Table 1. Spending on Development Assistance**

	1980s average	1990s average	2004, expected (excludes Iraq spending)	2005, proposed (excludes Iraq spending)
Inflation-adjusted level (in 2005 dollars)	\$14.39 billion	\$12.54 billion	\$14.19 billion	\$14.21 billion
Per capita (in 2005 dollars)	\$60.70	\$47.90	\$49.70	\$49.40
As a share of the economy	0.20%	0.14%	0.12%	0.12%
As a share of the budget	0.92%	0.66%	0.60%	0.59%

Source: Authors' analysis of data from the Office of Management and Budget, the Congressional Budget Office and USAID.

- *DA in real dollars* is projected at \$14.21 billion for 2005, a marginal increase over expected spending of \$14.19 billion (in 2005 dollars) in 2004. After adjusting for population growth, and as shown by the per capita figures, spending would fall slightly from 2004 to 2005.
- *DA as a share of the economy* will fall slightly in 2005.<sup>5</sup> It will equal 0.12 percent in 2005: that is, just one-eighth of one percent. Projected spending is to rise to 0.13 percent of GDP in 2006 and remain at that level for the remainder of the decade. DA spending for the decade would then still just average 0.12 percent of GDP, the lowest it has averaged for any decade since the 1950s.
- *DA as a share of the federal budget* is projected to fall from 0.60 percent of the federal budget in 2004 to 0.59 percent of the budget in 2005. The rollout of the MCA and Global HIV/AIDS initiatives should place DA spending at 0.68 percent of the federal budget by 2009 if planned spending increases occur. DA for the decade would then average 0.61 percent of the federal budget, still the lowest for any decade since the 1950s.

*Funding for the war in Iraq.* Including all spending on Iraq that the government has categorized as DA into the historic comparisons, the findings would be:

- The level of spending in 2005 would be \$22.1 billion instead of \$14.2 billion. In other words, in 2005 the Administration proposes to spend nearly \$8 billion in Iraq on activities classified as DA, or more than half as much as it proposes to spend in the rest of the world.

<sup>5</sup> Although the table shows that DA as a share of the economy remains stable at 0.12 percent of GDP, in fact it is expected to fall from 0.122 percent of GDP in 2004 to 0.118 percent of GDP in 2005.

- The Administration’s budget proposes to phase-out the Iraq spending rapidly. By 2009, the Iraq spending would shrink to \$312 million, just four percent of its 2005 level. Thus, over the long-term the exclusion of the Iraq funds has little effect on this analysis.
- Even with the Iraq spending included, DA spending over the first decade of the 21<sup>st</sup> century would equal just 0.14 percent of GDP, equivalent to what it averaged in the 1990s but far below its average in other post-WWI decades.

### **New Initiatives — Broken Promises**

The Administration has also proposed two high-profile development assistance initiatives. One is the Millennium Challenge Account (MCA), which seeks to link the provision of DA to the occurrence of sound governing policies in recipient countries. The other is the President’s Emergency Plan for HIV/AIDS Relief.

The roll-out of these initiatives has not been as rapid as had been originally announced. This is especially true when it comes to the MCA initiative, as Table 2 indicates. For example, the Bush administration originally indicated MCA funding of \$3.3 billion in 2005, but its “budget authority” request (which is the requested amount of new funds that can be spent, with such spending sometimes occurring over several years) and its actual “spending” request (the amount actually to be spent on the program in 2005), are well below this amount. Under the Administration’s request, the Congressional Budget Office projects one-half of a billion dollars will be spent in 2005, just one-sixth of the figure indicated in the Administration’s original “illustrative budget” for the program.

**Table 2. Millennium Challenge Account Funding**  
(In billions of nominal dollars)

	2004	2005	2006	Total
Administration's illustrative budget*	1.70	3.30	5.00	10.00
Administration's 2005 budget authority request	0.99	2.50	5.00	8.49
CBO's projection of outlays	0.05	0.50	1.81	2.36

\* White House Fact Sheet, "Millennium Challenge Account Update," June 3, 2002.

Spending on the Emergency Plan for HIV/AIDS Relief was to have been \$15 billion over 5 years, or \$3 billion per year, from 2004 onwards but Congress enacted \$2.4 billion for 2004 and the Administration has requested \$2.8 billion for 2005.

Also, while monies for both initiatives were to have been *in addition* to existing US spending on development, DA in other areas has been cut. Most notably, the Administration itself has proposed a reduction in the US contribution to Global Fund for HIV/AIDS, Tuberculosis and Malaria from \$550 million in 2004 to \$405 million in 2005.

### **False tradeoffs?**

The taxpayer might think that the Administration has been compelled to choose between military spending, development aid and a spiraling fiscal deficit. However, this is incorrect, for two reasons:

- (a) DA is a mere fraction of the economy, defense spending, and the deficit. As noted, CBO estimates DA spending for 2005 will equal 0.12 percent of the economy. This compares to defense spending at \$450 billion or 3.7 percent of the economy and to a projected fiscal deficit of \$358 billion or 3 percent of GDP.
- (b) Defense and DA can be viewed as complements of one another. The hard power that the US military projects around the world is complemented by the soft power of DA spending in securing global stability. The question is whether the projected spending of \$450.6 billion on defense, approximately 30 times the \$14.2 billion spent on DA excluding Iraq (or 18 times the \$22.1 billion spent on total DA), is the appropriate balance.<sup>6</sup>

### **Conclusion**

While this note has focused on the level of the United States' spending on development aid and traced its path over time, cross-country comparisons of development spending are instructive as well. As compared to other rich countries, the United States provides the largest amount of aid in terms of dollars. At the same time, however, DA spending as a percentage of national income, which is the standard way to compare DA across countries, is already the lowest among developed nations and is expected to fall further in the coming years. In addition to DA spending, U.S. policies on trade, investment, migration, technology, security and the environment also matter to international development. The 2004 CGD/Foreign Policy Commitment to Development Index ranks countries based on their commitment to further poverty alleviation through good policies and the US ranks 7<sup>th</sup> highest out of 21 countries by this measure.<sup>7</sup>

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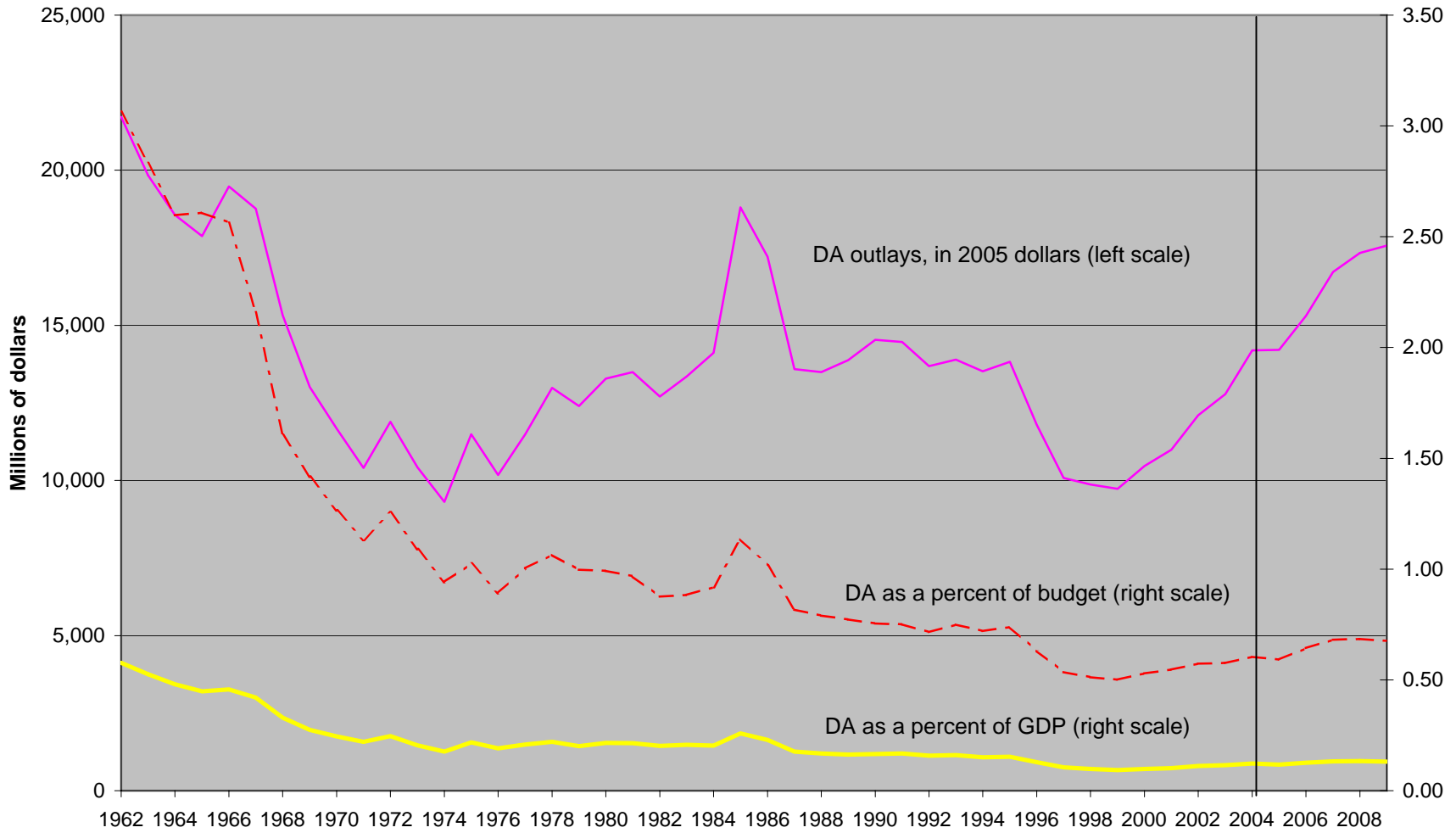
<sup>6</sup> The government's spending on DA — at 0.59 percent of the federal budget — is far lower than the 10 percent of the federal budget that Americans say they would like to spend on DA. See "Americans on Foreign Aid and World Hunger," A Study of US Public Attitudes, Program on International Policy Attitudes, 2001.

<sup>7</sup> For further information see [www.cgdev.org/rankingtherich](http://www.cgdev.org/rankingtherich)

**Further analysis**

For further analysis of the foreign operations/international affairs budget and DA, see DATA ([www.data.org](http://www.data.org)), InterAction ([www.interaction.org](http://www.interaction.org)) and the U.S. Global Leadership Campaign ([www.usgloballeadership.org](http://www.usgloballeadership.org)).

**Appendix Figure. United States Development Assistance (DA) Outlays, 1962-2009 1/**



1/ Development Assistance excludes Iraq spending for 2003 onwards.

Sources: Congressional Budget Office; authors' calculations.

Appendix Table. United States Development Assistance, 1950-2009

Year	Excluding Iraq					Including Iraq				
	Aid, current dollars	Aid, 2005 dollars	Aid as a percent of GDP	Aid as a percent of budget	Aid per capita, 2005 dollars	Aid, current dollars	Aid, 2005 dollars	Aid as a percent of GDP	Aid as a percent of budget	Aid per capita, 2005 dollars
1962	3,273	21,717	0.58	3.06	116.42	3,273	21,717	0.58	3.06	116.42
1963	3,152	19,834	0.53	2.83	104.81	3,152	19,834	0.53	2.83	104.81
1964	3,078	18,563	0.48	2.60	96.74	3,078	18,563	0.48	2.60	96.74
1965	3,083	17,880	0.45	2.61	92.02	3,083	17,880	0.45	2.61	92.02
1966	3,449	19,483	0.46	2.56	99.12	3,449	19,483	0.46	2.56	99.12
1967	3,400	18,763	0.42	2.16	94.42	3,400	18,763	0.42	2.16	94.42
1968	2,860	15,332	0.33	1.61	76.39	2,860	15,332	0.33	1.61	76.39
1969	2,604	13,016	0.27	1.42	64.22	2,604	13,016	0.27	1.42	64.22
1970	2,476	11,677	0.24	1.27	56.95	2,476	11,677	0.24	1.27	56.95
1971	2,379	10,404	0.22	1.13	50.10	2,379	10,404	0.22	1.13	50.10
1972	2,898	11,893	0.25	1.26	56.66	2,898	11,893	0.25	1.26	56.66
1973	2,678	10,424	0.20	1.09	49.19	2,678	10,424	0.20	1.09	49.19
1974	2,539	9,307	0.18	0.94	43.52	2,539	9,307	0.18	0.94	43.52
1975	3,407	11,487	0.22	1.03	53.19	3,407	11,487	0.22	1.03	53.19
1976	3,314	10,179	0.19	0.89	46.69	3,314	10,179	0.19	0.89	46.69
1977	4,103	11,492	0.21	1.00	52.18	4,103	11,492	0.21	1.00	52.18
1978	4,885	12,985	0.22	1.06	58.34	4,885	12,985	0.22	1.06	58.34
1979	5,024	12,401	0.20	1.00	55.10	5,024	12,401	0.20	1.00	55.10
1980	5,861	13,288	0.22	0.99	58.48	5,861	13,288	0.22	0.99	58.48
1981	6,561	13,496	0.21	0.97	58.82	6,561	13,496	0.21	0.97	58.82
1982	6,529	12,706	0.20	0.88	54.85	6,529	12,706	0.20	0.88	54.85
1983	7,144	13,355	0.21	0.88	57.12	7,144	13,355	0.21	0.88	57.12
1984	7,826	14,112	0.20	0.92	59.84	7,826	14,112	0.20	0.92	59.84
1985	10,744	18,805	0.26	1.14	79.04	10,744	18,805	0.26	1.14	79.04
1986	10,073	17,210	0.23	1.02	71.67	10,073	17,210	0.23	1.02	71.67
1987	8,200	13,588	0.18	0.82	56.08	8,200	13,588	0.18	0.82	56.08
1988	8,409	13,494	0.17	0.79	55.19	8,409	13,494	0.17	0.79	55.19
1989	8,834	13,881	0.16	0.77	56.24	8,834	13,881	0.16	0.77	56.24
1990	9,463	14,533	0.16	0.76	58.26	9,463	14,533	0.16	0.76	58.26
1991	9,951	14,468	0.17	0.75	57.37	9,951	14,468	0.17	0.75	57.37
1992	9,877	13,689	0.16	0.71	53.66	9,877	13,689	0.16	0.71	53.66
1993	10,573	13,895	0.16	0.75	53.82	10,573	13,895	0.16	0.75	53.82
1994	10,530	13,521	0.15	0.72	51.72	10,530	13,521	0.15	0.72	51.72
1995	11,198	13,823	0.15	0.74	52.20	11,198	13,823	0.15	0.74	52.20
1996	9,872	11,799	0.13	0.63	43.99	9,872	11,799	0.13	0.63	43.99
1997	8,575	10,076	0.10	0.54	37.09	8,575	10,076	0.10	0.54	37.09
1998	8,468	9,868	0.10	0.51	35.86	8,468	9,868	0.10	0.51	35.86
1999	8,527	9,729	0.09	0.50	34.91	8,527	9,729	0.09	0.50	34.91
2000	9,475	10,468	0.10	0.53	37.09	9,475	10,468	0.10	0.53	37.09
2001	10,178	10,991	0.10	0.55	38.52	10,178	10,991	0.10	0.55	38.52
2002	11,526	12,103	0.11	0.57	42.92	11,526	12,103	0.11	0.57	42.92
2003	12,418	12,785	0.11	0.58	45.21	12,476	12,845	0.12	0.58	45.42
2004	14,013	14,189	0.12	0.60	49.74	19,724	19,972	0.17	0.85	70.01
2005	14,209	14,209	0.12	0.59	49.39	22,091	22,091	0.18	0.92	76.78
2006	15,895	15,309	0.13	0.64	52.76	20,490	19,734	0.16	0.83	68.01
2007	17,650	16,725	0.13	0.68	57.16	19,417	18,399	0.15	0.75	62.89
2008	18,645	17,335	0.13	0.68	58.76	19,278	17,923	0.14	0.71	60.76
2009	19,283	17,572	0.13	0.68	59.08	19,626	17,884	0.13	0.69	60.13
Max		21,717	0.58	3.06	116.42		22,091	0.58	3.06	116.42
Year		1962	1962	1962	1965		2005	1962	1962	1965
Min		9,307	0.09	0.50	34.91		9,307	0.09	0.50	34.91
Year		1974	1999	1999	1999		1974	1999	1999	1999
Averages										
1950s			0.88	5.19				0.88	5.19	
1960s	3,112	18,073	0.44	2.36	93.02	3,112	18,073	0.44	2.36	93.02
1970s	3,370	11,225	0.21	1.07	52.19	3,370	11,225	0.21	1.07	52.19
1980s	8,018	14,393	0.20	0.92	60.73	8,018	14,393	0.20	0.92	60.73
1990s	9,704	12,540	0.14	0.66	47.89	9,704	12,540	0.14	0.66	47.89
2000s	14,329	14,169	0.12	0.61	49.06	16,428	16,241	0.14	0.70	56.25

Sources: Office of Management and Budget; authors' calculations.