

# Rocking to Help Poor Countries: Man, Give us Freer Markets, Less Aid and Fewer Taxes

**Bienvenido S. Oplas, Jr.**  
Minimal Government Movement  
Manila, Philippines

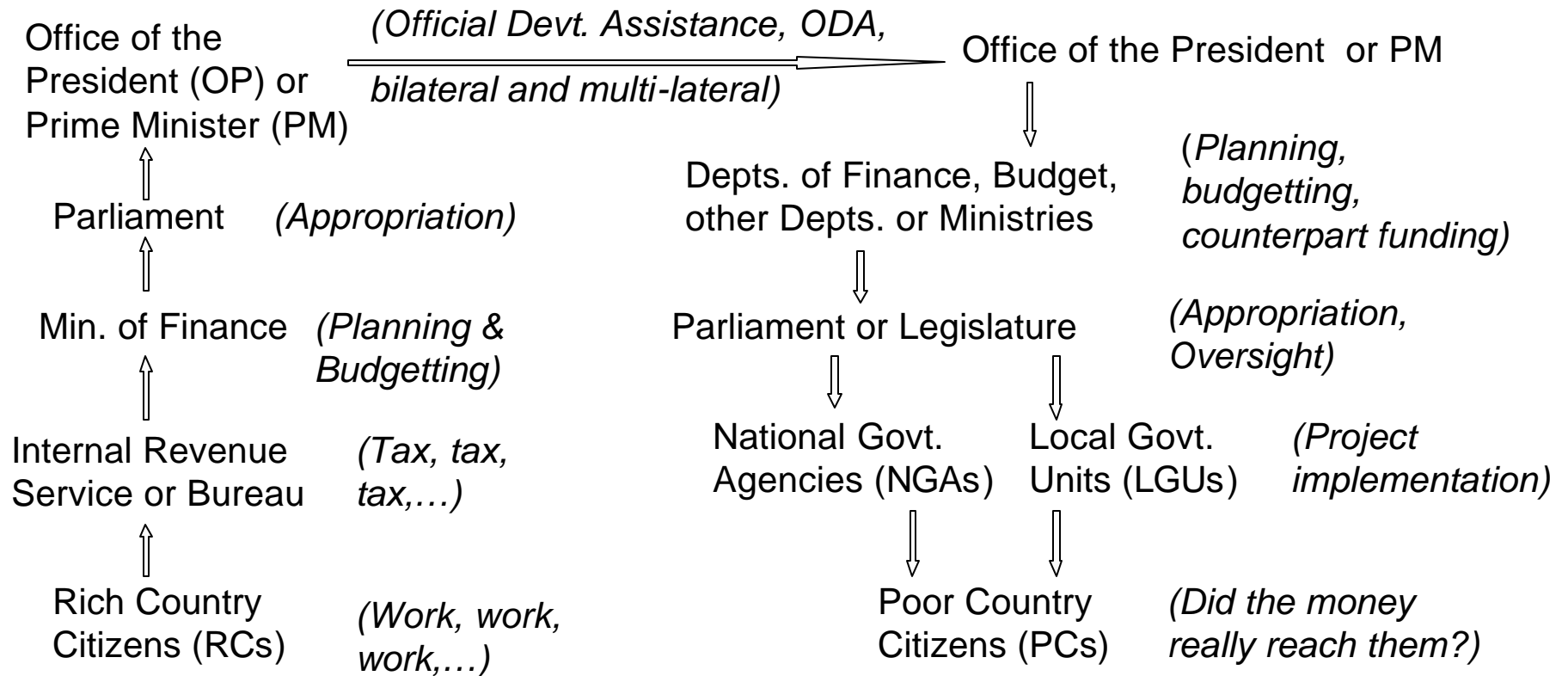
Presented at the "Global Development Summit", June 28, 2005, One White Hall Place, London, UK; sponsored by IPN

# Outline

- The AID circus
- The irony of debt and debt relief
- How rich countries can help poor countries
- Summary

# The AID circus: Is foreign aid really glamorous?

It's a bureaucratic, circuitous, and leaky process...

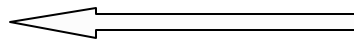


## *Do you really trust them... with your money?*

When wastes, if not outright robbery can - and do - happen here...

Would you trust more of your money to them?

Poor Country



Rich Country

*ODA*

President/Prime Min.

Legislature/Parliament

Departments/Ministries

Local Government Units

President/Prime Min.

Legislature/Parliament

Departments/Ministries

Foreign aid goes to the control and discretion (and often the pockets) of poor country politicians and bureaucrats -- NOT to the poor country citizens.

## But rich countries are increasing their spending on ODA!

	2003, Actual		2006, Projected	
	US\$ bn	% of GNI	US\$ bn	% of GNI
1. United States	16.25	0.15	22.29	0.19
2. Japan	8.88	0.20	9.50	0.22
3. France	7.25	0.41	8.79	0.47
4. Germany	6.78	0.28	8.38	0.33
5. United Kingdom	6.28	0.34	8.46	0.42
6. Netherlands	3.98	0.80	4.24	0.80
7. Italy	2.43	0.17	5.09	0.33
8. Sweden	2.40	0.79	3.21	1.00
9. Norway	2.04	0.92	2.36	1.00
10. Canada	2.03	0.24	2.56	0.27




## The irony of debt: “debt relievers” are themselves highly indebted!

Public debts of the G7 countries *as % of their GDP*

	1980	1990	2000	2004
1. Japan	51.9	68.8	139.2	169.4
2. Italy	57.6	97.2	111.2	105.8
3. Canada	57.7	93.2	101.5	84.3
4. Germany	37.3	42.6	60.2	66.1
5. France	20.7	35.1	57.1	65.0
6. United States	43.6	64.8	57.1	61.0
7. United Kingdom	51.7	33.7	41.7	40.4

Source: IMF,  
WEO 2005,  
database

## The negative “externalities” of rich countries’ high debts and persistent budget deficit

-  Revenues < expenditures, need to borrow; govt borrowings results in higher global interest rates, say, by 1%
-  The Philippine govt is projected to borrow about \$7B this year.  $\$7B \times 1\% = \$70M/\text{year}$  - additional expenses on Phil. Govt on interest payment
-  Implication: rich countries’ cutting their budget deficit and reduced borrowings is a form of “soft” foreign aid to poor and indebted countries, by lowering their interest payment.

**And the irony of debt relief:  
What are the real effects of debt forgiveness?**

It will encourage poor country governments (and their client businesses) to repeat irresponsible borrowing – if given the chance.

## Are there short-term alternatives to outright debt forgiveness?

- Poor country governments could sell state-owned enterprises and real estate assets to pay off debts.
  - But many governments, including the Philippines', are dragging their feet in taking this measure.
- Interest payment holiday for the next 3 (or 5) years to expand basic health care to control malaria, HIV/AIDS, ...
- But remaining debt stock should be paid in succeeding years. It will be a reminder to future governments that aid-dependence and over-borrowing are wrong!

## How can Rich countries help Poor countries?

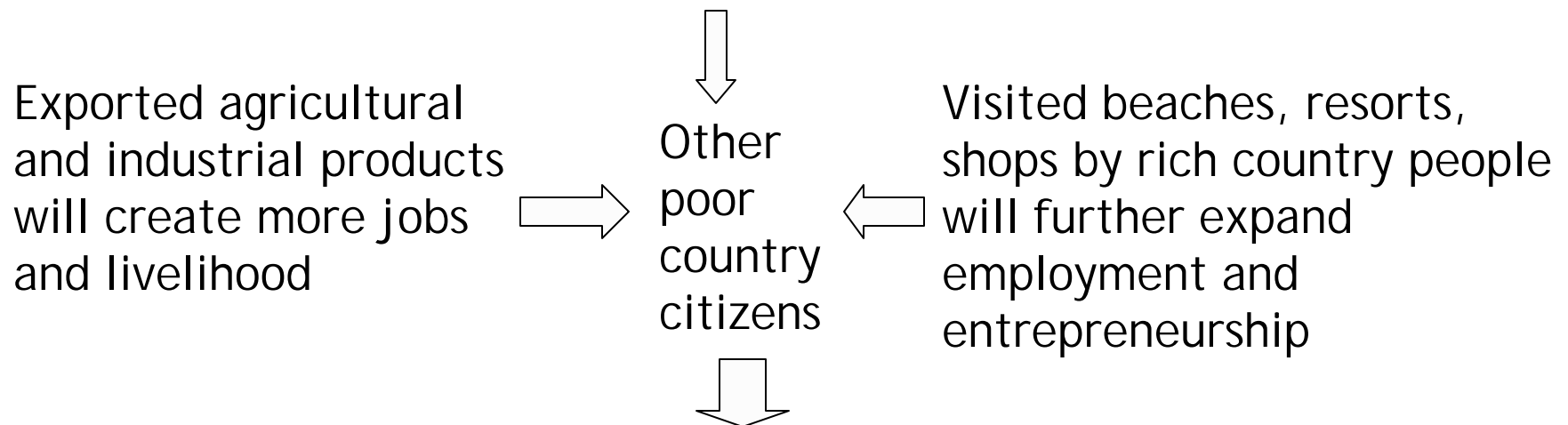
-- By reducing (rich countries') taxes and protectionism

→ Income tax cut (= pay hike) means rich country citizens will have more money and less restrictions to:

- ❖ buy poor countries' mangos, prawns, IT, industrial goods, ...
- ❖ hire poor countries' health, h'hold, industrial workers
- ❖ visit poor countries' beaches, mountain resorts, shops,...

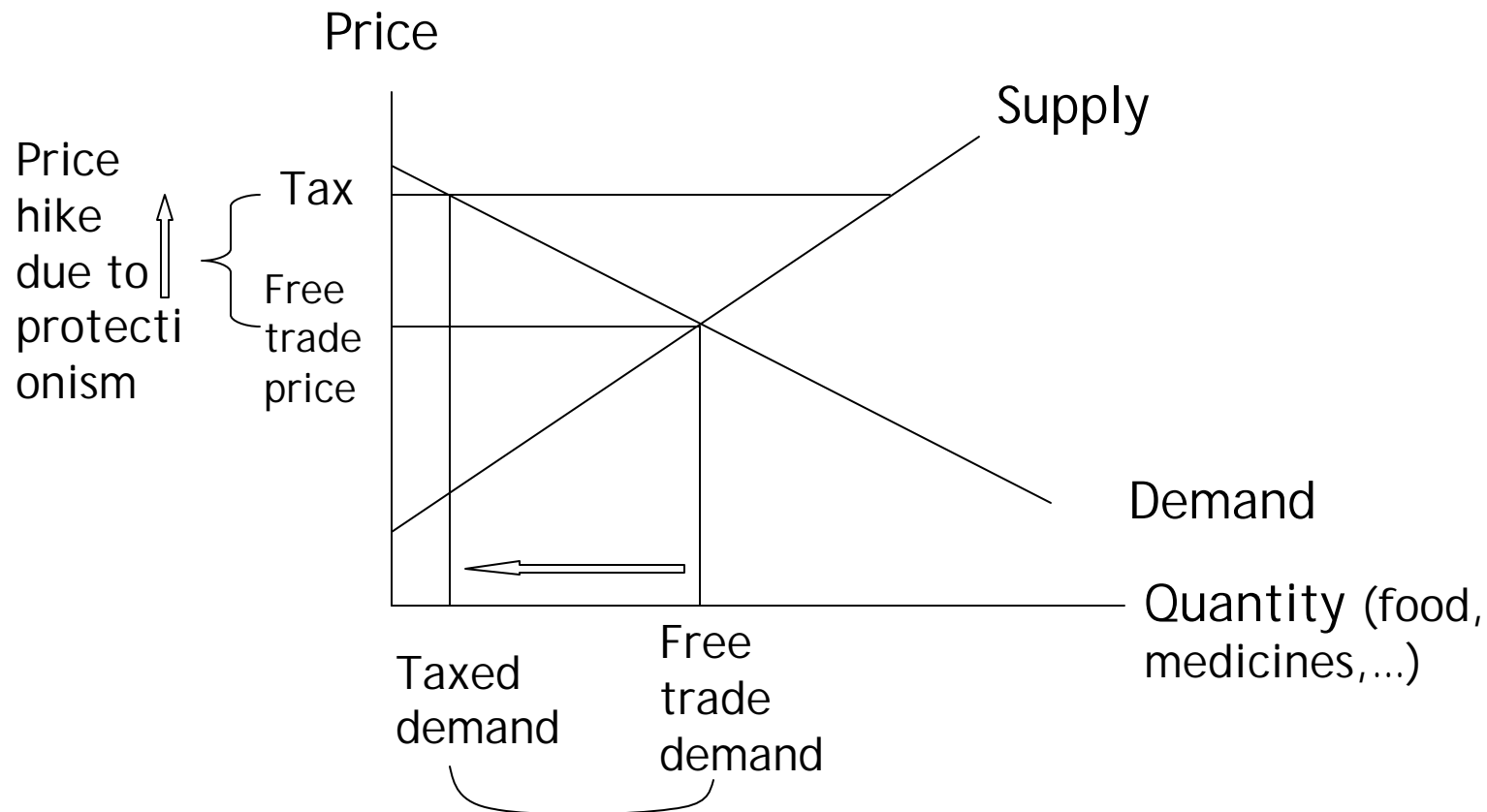
## And poor country citizens will be able to help themselves

Hired health, household, other workers in rich countries will send money back home



And poor countries will have more money to buy rich countries' medicines to control HIV/AIDS, malaria, other diseases; hire their engineers and scientists for modern agri, water, sanitation technologies; invite their rock bands for concerts,...

# Because trade protectionism is anti-poor



Lower demand (food, medicines, ...) due to higher price, the poor suffers

## Finally, OECD must consider further income tax cut for their citizens

### *Top marginal income and payroll tax rate, %*

Country	1980	1990	2002
1. Italy	72	66	52
2. Netherlands	72	63	52
3. Portugal	84	57	57
4. Finland	65-71	61-69	55-60
5. Germany	65	53	51
6. Denmark	66	69	63
7. Hungary	--	60	63
8. France	60	61	61-64
9. Norway	75	64	65
10. Austria	62	62	67
11. Belgium	76	70	64-68
12. Sweden	87	79-86	64-69

Tax cut = Pay hike

# Summary

- Foreign aid is government to government. More of it = more taxes for rich country citizens, feeding many corrupt politicians and bureaucrats.
- Debt forgiveness is rockingly attractive, but there are more sane alternatives.
- Citizens of both rich and poor countries need each other in a market-friendly environment.
- And they both need LESS, not more, aid and taxes. More personal responsibility, less dependence on government.