

Double or Nothing: The G8's Unhelpful Generosity

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Articles & Testimony

Last week's G8 summit produced a decision to double international aid to the Palestinian Authority—to \$2 billion per year. The announcement, which comes on the eve of Israel's removal of settlers from Gaza and parts of the West Bank, has been widely lauded. Palestinian Finance Minister Salam Fayyad called the aid "crucial for the peace process." The Economist predicted that the aid would "help to shore up" Palestinian President Mahmoud Abbas, adding that "[p]utting more cash at his disposal to alleviate the suffering of an angry, impoverished populace can only help."

In fact, it will not help—and it may very well hurt. The West Bank and Gaza simply cannot absorb this much money effectively. Much of it will end up going to waste; and worse, it may be used for corrupt purposes, feeding cynicism among ordinary Palestinians and thereby undermining the shaky legitimacy of the Palestinian Authority.

After the 1993 Oslo accords, international aid for the Palestinian territories doubled from \$250 million a year to \$500 million a year; after the 2000 intifada started, it doubled again to \$1 billion a year. In addition to that aid, the P.A. currently takes in about \$1.1 billion in revenue per year—ironically, mostly from taxes collected by Israel on the P.A.'s behalf.

By and large, that money will be spent poorly. Next year, just \$300 million will go to development outlays, while \$1.6 billion will go to salaries and pensions, which is all too often a euphemism for handouts—of the 58,000 security personnel, no more than 20,000 show up for work, according to Lieutenant General William Ward, the U.S. envoy to the region.

Raising aid to \$2 billion per year would mean spending \$600 per person—ten times the Live8-Bob Geldof-Tony Blair target for Africa, a goal that has been criticized by International Monetary Fund researchers as too high for the continent to absorb. (Full disclosure: I was previously an economist at the IMF.) It's true that Palestinians are desperately poor and depend on humanitarian aid. But it's not the total amount of aid that's a problem; it's the way that aid is currently distributed. And therein lies the truly pernicious effect of sending too much aid to the territories: In addition to being wasted, excessive aid has the potential to exacerbate problems in Palestinian society. Consider that after Oslo, USAID tackled the housing problem in Gaza by building 192 apartments at a cost of \$35,000-\$42,000 each, in a place where per capita income was around \$1,200 a year. Guess who got the apartments: politically well-connected families, some of whom occupied multiple units without paying. What's more, wasted money can often beget additional wasted money. For instance, after the EU built a beautiful hospital in Gaza, the EU auditor's report noted, "The cost of maintaining and using this hospital will be well over the financial means of this country." So the hospital stayed shut. But meanwhile, the P.A. had to pay to truck in sewage to the empty facility to prevent a breakdown of its otherwise idle waste-processing equipment. (These examples come from Rex Brynen's wonderful 2000 U.S. Institute of Peace book, *A Very Political Economy: Peacebuilding and Foreign Aid in the West Bank and Gaza*.)

There is reason to fear that future aid would be spent just as poorly. A massive RAND study released this year (and titled "Building a Successful Palestinian State") recommends constructing a high-speed railroad linking the major population areas of Gaza and the West Bank. There is the minor problem that, as the authors note in passing, roads rather than rail would be used for most freight shipments, for emergency services, and for those who can afford cars—including tourists, dignitaries, and the growing middle class the study envisages. As former World Bank President James Wolfensohn has pointed out (second disclosure: I was previously an economist at the World Bank), a good road would connect the Palestinian urban areas at a much more modest cost than the billions the authors propose to pour into a railroad—which could quickly turn into one of the money-draining, inefficient public enterprises that plague many developing countries. All of which is to say that excessive aid money could well fund white elephant investments, saddling the P.A. with operating costs it can ill afford.

So if aid won't help the Palestinian economy, what will? In a word: security. The World Bank's report "Disengagement, the Palestinian Economy and the Settlements" makes this sensible point:

"Today's economic crisis has been caused by restrictions on the movement of Palestinian people and goods, or 'closures,' which the Government of Israel (GOI) regards as essential to protecting Israeli citizens from attacks by militants.... It is important to understand that additional donor money alone can not solve today's economic problems. In other words, the key to restarting the Palestinian economy is easier movement of people and goods—and the essential prerequisite for freer movement is stopping terrorist attacks. Therefore, the best way to help the Palestinian economy is not aid but stronger Palestinian security efforts so that Palestinians can once again work in Israel, so that Israelis will once again shop and dine in Ramallah, and so that foreign tourists will once again visit Bethlehem."

On a side note, Israel recently asked the United States for \$2.2 billion in extra aid to cover the costs of disengagement. Israeli requests for multibillion-dollar extraordinary aid allocations have become the norm in recent years, but they aren't a good idea. They feed an attitude that a Middle East settlement is the responsibility of the United States, not of the parties themselves. In the long run, no one will benefit from the perception that America, or the West in general, won the Middle East peace through bribes. Which is just one more reason to dislike the G8's recent generosity.

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