37. Foreign Aid

The United States has provided generous amounts of aid to the developing world—more than $400 billion—since the end of World War n. Through an assortment of foreign assistance programs, Washington has sought to promote economic growth in poor countries and exert political influence abroad. Unhappily for people in the developing world and taxpayers in the United States, most of that money has been wasted at best and been positively harmful at worst.

In the post-Cold War world, many nations are liberalizing their economies, and the United States faces no significant security threats. Those developments and the sorry record of foreign aid call for Washington to seek a new approach to helping the developing world. Washington should

- **abolish the U.S. Agency for International Development within two years;**
- **transfer to the State Department responsibility for dispersing all humanitarian aid, which should only be targeted to genuine emergencies or disasters;**
- **eliminate or sharply reduce the military and security components of the U.S. aid program;**
- **abolish the Export-Import Bank, the Overseas Private Investment Corporation, and the U.S. Trade and Development Agency;**
- **open U.S. markets to the developing world's goods.**

The Sorry Record of U.S. Aid

Many of the goals of U.S. foreign assistance are admirable—alleviating poverty and fostering economic growth, for example—but it is difficult to find countries in which U.S. aid has generated lasting improvements in the lives of the poor. Instead, aid has typically helped stunt progress and create dependence. A 1989 report by the U.S. Agency for International Development, the principal U.S. bilateral aid institution, acknowledged that problem: "Only a handful of countries that started receiving U.S. assistance in the 1950s and 1960s has ever graduated from dependent status."

More than a dozen evaluations in recent years have similarly documented the ineffectiveness of U.S. AID. A 1993 Clinton administration task force, for instance, conceded that "despite decades of foreign assistance, most of Africa and parts of Latin America, Asia and the Middle East are economically worse off today than they were 20 years ago."

Aid has failed to help people in impoverished nations because it has served to expand already bloated government bureaucracies, support authoritarian regimes, subsidize inefficient state-owned enterprises, and underwrite all manner of statist economic policies that are now recognized as major causes of world poverty.

With the spectacular collapse of development planning, it is especially appalling that Washington directed most U.S. aid to the public sectors of the developing world at the expense of the private sectors. Yet countries such as India were considered too poor to be able to attract private capital, much less let the private sector generate prosperity. Thus, between 1951 and 1985, more than 95 percent of U.S. aid to India went to the public sector. The result, as Indian economist Shyam Kamath laments, has been that annual per capita incomes have remained at about $300 after more than 45 years of independence.

Just as aid hindered development in democratic nations such as India and Mexico, it impeded progress in countries ruled by dictatorships. Zaire's Mobutu Sese Seko, the Philippines's Ferdinand Marcos, and Haiti's Papa Doc Duvalier all received lavish sums from the United States. Although those men grew rich in power, that money did not help the citizens of their countries. When Marcos took office in 1966, for example, his country's foreign debt was $500 million. When he was ousted 20 years later, the foreign debt had reached $28 billion.

In the end, no amount of aid could foster development under any regime if the conditions for development did not exist. Pouring money into state-run economies led to debt, not development. Financial aid invariably helped to politicize economies, turning people's energies away from productive activities toward rent-seeking behavior and political patronage. Thus, granting Third World governments more power to award or deny competing constituencies money or development schemes put politics above the market, allowing ruling elites to squander resources on a massive scale.

U.S. Aid in the Post–Cold War World and Clinton's "Reforms"

Today, countries in the developing world are recognizing that they can no longer sustain socialist economies and are implementing, in varying degrees, market-oriented reforms. Some, such as Mexico and Argentina, have made remarkable progress, selling off state-owned monopolies, deregulating their markets, and reducing restrictions on trade and foreign investment.

Those revolutionary changes and widespread skepticism about the utility of foreign assistance have forced the Clinton administration to promise reforms at U.S. AID so that past deficiencies may be corrected. Moreover, the administration has reoriented the way aid is awarded by creating new categories under which it is disbursed. In the words of Secretary of State Warren Christopher, fiscal year 1995 brought the "first true post-Cold War foreign affairs budget." A look at the proposed changes, however, reveals that the reforms are merely a repackaged version of old aid policies with a greater emphasis on such questionable goals as population control.

To its credit, U.S. AID has begun to close some overseas missions and eliminate funding to 50 countries, most of which the administration has deemed cannot make good use of U.S. assistance. But there has been no meaningful reduction in the overall foreign aid budget. In FY95 it stands at $13.7 billion. If spending on such other international assistance initiatives as peacekeeping and export promotion is included, the figure rises to about $18 billion. That level of spending is similar to aid outlays in past years. Although some states have been cut off from official aid transfers, that funding has simply been shifted to other recipient nations such as Russia or South Africa. There is no effort to reduce the scope of U.S. AID's activities. Indeed, as part of its new program entitled "Lessons without Borders," the agency has even begun providing advice to city governments in the United States—not a very auspicious development for a bureaucracy that prides itself on being a "laboratory" for the administration's reinvention of government.

The administration has also devised a new way of allocating aid money according to certain broad objectives rather than by country. Those objectives include providing humanitarian assistance and promoting democracy and market reforms, prosperity, sustainable development, and peace.

Those goals sound good, but they raise important concerns when considered separately. Advancing democracy and desperately needed free-market reforms in places like Eastern Europe or Russia may not be best achieved by official aid transfers. Providing assistance for those ends ignores the record of aid to the developing world; it also imperils reform efforts because foreign assistance allows governments in recipient nations to postpone the introduction of politically difficult liberalization measures. Far more effective at encouraging reform is the reduction or elimination of aid—a move that leaves recipient governments with few alternative courses of action. Indeed, Taiwan and South Korea took off economically only after the termination of large-scale U.S. aid.

The United States, nevertheless, is lending money ostensibly to promote free markets in ex-communist countries. The republics of the former Soviet Union have become major recipients of U.S. largesse—$850 million for FY95. Although approximately a quarter of that money is intended for central governments, much of it is targeted to support private entrepreneurs. Under the aid category of promoting prosperity, for example, the United States is underwriting private-sector investment in Russia in such areas as oil, gas, and communications. Loan guarantees have been made by the U.S. Export-Import Bank, insurance has been provided by the Overseas Private Investment Corporation, and the U.S. Trade and Development Agency has funded feasibility studies.

There is no need for those agencies to subsidize major U.S. oil firms such as Texaco and Conoco as they are doing in Russia. Those agencies should be closed, especially since subsidizing private firms in Russia and elsewhere only relieves host governments of the need to establish investment regimes that are genuinely attractive to private investors. Again, even if it goes to the private sector, aid tends to discourage, not promote, economic reform.

Advocates of U.S. aid not only claim that official wealth transfers are essential to developing nations; they also assert that aid benefits the United States since 70 percent of it returns to this country to purchase U.S. goods or services. That argument is pervasive but should not be taken seriously. It is pure folly to believe that the United States gains from giving money away simply because some of that money eventually trickles back into the U.S. economy.

A central component of Clinton's foreign assistance program—one that has become prominent within the aid establishment—is lending for sustainable development. In FY95 the United States will spend nearly $5 billion for that purpose. Unfortunately, the notion of sustainable development rests on the false premise that economic growth and environmental protection are at odds unless governments manage economies and societies in a way that avoids "overuse" of natural resources.

Yet it is precisely the free play of market forces that has caused natural resources to become abundant in modern times and improved the lives of the world's inhabitants. Allowing the market, not bureaucrats, to respond to relative scarcities and discover how to most efficiently exploit resources is the best way to meet consumer demands and address environmental concerns.

Pollution and other forms of ecological degradation are a problem in the developing world, but the worst enemy of the environment is poverty. Burdensome environmental regulations will only stunt economic growth in poor countries, thus preventing societies from creating the wealth necessary to protect their ecologies. U.S. aid targeted to fight such evils as global warming—a phenomenon on which no scientific consensus exists—actually hinders the efforts of developing countries to liberalize their markets and create thriving economies.

Aid for sustainable development also emphasizes population control measures, on the theory that population growth is the cause of poverty. Yet there is no correlation between population density and prosperity: some of the most densely populated places on earth (Japan, for instance) are also among the richest, while some of the most sparsely populated countries (Congo or Somalia, for example) are among the most impoverished. The evidence, disregarded by advocates of aid, reveals that when market-liberal economic policies and institutions are in place, population growth and size cease to put a strain on either the economy or the environment.

The one category of the administration's foreign assistance program worth keeping is humanitarian aid. That type of aid has long been part of the foreign affairs program, reflecting Americans' traditional desire to help others in distress. Famines and other types of disasters are alleviated by U.S. food aid, which makes up the largest portion of the humanitarian assistance program. Despite its utility, this program should be reformed. More than $1 billion in food aid is distributed each year, yet only about 14 percent of that sum goes to alleviate emergencies. The rest amounts to the dumping of surplus U.S. agricultural goods on poor countries' markets. While this form of export subsidy may help certain U.S. farmers, it has undermined the agricultural sectors in many parts of the developing world where local farmers have been unable to compete with free or underpriced food. For example, Egypt, a country self-sufficient in food 20 years ago, has received U.S. food aid for decades. Today Egypt imports about 50 percent of its food.

If the United States were genuinely interested in international development, it would send food only to emergency-stricken areas. The rest of the disaster relief program, amounting to less than $1 billion and including refugee assistance, could easily be administered by the U.S. Department of State instead of U.S. AID. There is no need to maintain a separate bureaucracy to oversee a relatively small program. Moreover, whenever possible the federal government should merely assist the humanitarian efforts of private relief organizations, which generally have an impressive record.

Aid to the Middle East

The region receiving the largest amount of U.S. foreign aid is the Middle East. Under the category of promoting peace (also the largest category in the aid budget) Egypt and Israel alone enjoy $5 billion per year in U.S. economic and military assistance. The economies of both nations, however, are among the most socialized in the world, and the massive U.S. subsidies have been a crucial factor in the ability of the Israeli and Egyptian governments to sustain such systems. With its annual per capita income of $640, Egypt remains one of the poorest countries in the world, and "Israel ranks at the bottom of all Western countries on every measure of economic freedom," according to Hoover Institution scholar Alvin Rabushka.

Israel could have a thriving free-market economy, capable of providing the military forces for its own defense, if it only introduced market reforms of the kind other nations have been forced to implement in recent years. Likewise, Egypt could deepen its timid liberalization measures and begin to turn its economy around. Unfortunately, U.S. aid subsidies once again discourage the type of change that would benefit millions of Israelis and Egyptians.

There is no justification for economic aid, and the rationale for the military aid portion of the U.S. subsidy is increasingly weak. Military assistance became a staple during the Cold War when an aggressively expansionist Soviet Union openly backed radical Arab regimes and terrorist movements. Israel faced a serious threat to its security from such Soviet-sponsored adversaries—as did any moderate Arab government that had the temerity to contemplate peace with Israel. Today, however, the political landscape has changed beyond recognition. The radical faction has lost its Soviet sponsor (and the flow of arms that accompanied that sponsorship), leaving Arab leaders a choice of concluding peace with Israel or persisting in a policy of confrontation that now has virtually no prospect of success.

Moreover, Israel has a decisive advantage in military capabilities—including a nuclear deterrent of 100 to 300 bombs and warheads—over any remaining adversary.

Under such changed conditions, Israel should be able to provide for its own security without a perpetual military subsidy from the United States. Egypt's principal need is for rapid economic growth and political reform. Helping to generously fund me Egyptian military is hardly an effective way to promote those goals. Washington should eliminate economic aid to both countries within two years and phase out military assistance in four to five years.

Such a move would not hurt the Middle East peace process, as many aid enthusiasts claim. A high level of U.S. participation in the peace process is unnecessary, as the Oslo peace accords—which were the result of secret talks between the Palestine Liberation Organization and Israel—demonstrated. The United States should no longer pay bribes to the Mideast countries to get them to adopt policies mat are in their own best interest.

Conclusion

The record of U.S. foreign aid has been widely recognized as dismal. Aid, it turns out, has done far more harm than good. Predictably, the inside-the-Beltway response has been to call for reform. There is, unfortunately, no reason to believe that U.S. aid will help in the future any more than it did in the past—especially if the United States relies on traditional aid programs disguised with new names. In any case, reform cannot overcome the inherent problems of official aid transfers. If Washington truly wished to help, it would open its markets to the developing world's goods. It would also eliminate almost the entire foreign aid program and abolish U.S. AID once and for all. With developing nations at last moving away from statist economic systems, people in the developing world cannot afford any more of Washington's "help" and advice.

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