

Cato Institute Policy Analysis No. 226: A New Aid Policy for a New World

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Executive Summary

Since 1945, Washington has disbursed generous amounts of U.S. foreign aid in attempts to achieve a variety of foreign policy goals ranging from political influence to economic development. Today, the poor record of foreign assistance programs is widely recognized. Many countries receiving the aid are more impoverished now than when U.S. assistance began; the few that are making progress are doing so in spite of, not because of, foreign aid.

The Clinton administration's proposal to "reform" U.S. aid does little to change the way foreign assistance is spent. Traditional lending programs have simply been renamed, and new spending priorities are no more likely to promote sustainable development. Even aid for humanitarian purposes continues to be used for nonhumanitarian ends.

Some Republican proposals to reform foreign aid are more encouraging because they envision cutting programs that have clearly failed or serve no national interest. But the Republican proposals should be viewed only as a starting point. In the post-Cold War world, developing countries are moving away from the type of central economic planning that U.S. aid has financed in the past. The United States should encourage that trend by zeroing out foreign aid. That includes foreign aid programs intended to promote free-market reform; even that type of assistance tends to delay, rather than accelerate, liberalization.

Washington can do much to help poor nations by abolishing the U.S. Agency for International Development and most of its functions. Instead of disbursing foreign aid, the United States should open its market to the developing world's goods.

Introduction

Foreign aid has become one of the constants of American foreign policy. Since World War II the United States has provided more than \$1 trillion (in current dollars) in bilateral economic assistance to other nations, supplemented by generous contributions to such multilateral organizations as the World Bank, regional "development banks," the International Monetary Fund (IMF), and the United Nations. Washington has also provided developing nations with large-scale military support, trade subsidies, and the like.

And aid money continues to flow. Washington has been spending about \$18 billion a year.[1] Although spending is down from a decade ago, pressures to increase expenditures in the future remain strong, given not only the Clinton administration's general looseness with the public purse, but also the "emergencies" that regularly seem to come America's way. For instance, after the collapse of Mexico's peso in December, the administration offered to extend an

extra \$3 billion credit, on top of the previously promised \$6 billion, to help buttress President Ernesto Zedillo's government. Undersecretary of the Treasury Lawrence Summers explained, "Clearly in approaching this situation, we've recognized the central importance of Mexico to the United States because it is our second largest trading partner, because we share a 2,000-mile border, and because our societies are so closely intertwined." [2] As Mexico's problems expanded, the administration proposed an additional \$40 billion in loan guarantees, only to face mounting public opposition. President Clinton then bypassed Congress and announced his plan to provide \$20 billion in loans and loan guarantees through a special Treasury Department fund. (The overall \$50 billion assistance package includes \$17.8 billion from the IMF, to which America is the largest contributor.)

Not that this should come as any surprise. The Bush administration forgave nearly \$7 billion in Egyptian debt to reward Cairo's participation in the Persian Gulf war; Washington formally wrote off roughly \$2.7 billion in Polish debt to assist that nation's move to democracy. The Clinton administration is a leading supporter of increased assistance to Moscow; according to then-Treasury Secretary Lloyd Bentsen, "President Clinton promised that, as long as Russia keeps reforming, we'll work with the G-7, the IMF, and the World Bank to get this support delivered as rapidly as possible." [3] And Moscow's bloody invasion of Chechnya has changed nothing: today aid "becomes more important," Secretary of State Warren Christopher told the Senate Foreign Relations Committee in January. [4]

In September 1994 the president made a "firm commitment" to Irish deputy prime minister Dick Spring to increase U.S. assistance from current outlays of \$20 million annually. [5] A month later Clinton promised South African president Nelson Mandela an extra \$100 million. (By the end of the year Pretoria was complaining that America's promised total of \$600 million was not enough.) In November President Clinton pledged an extra \$100 million for Ukraine, to reward its economic reforms and promise to adhere to the nuclear Non-Proliferation Treaty, which will make Kiev the fourth largest recipient of American aid. Three months later a congressional subcommittee voted to forgive \$50 million in Jordanian debt, on top of the \$99 million written off this year, to reward Amman for participating in the Mideast peace process.

The various Caribbean nations contributing a handful of "peacekeeping" personnel in Haiti have indicated that they expect a generous financial reward for doing so. Haiti itself expects even more, and how can the administration not oblige, lest its attempt at nation building fail? And Washington has agreed to help finance a new nuclear reactor for North Korea, though the deal could fall through depending upon the machinations of the always unpredictable regime in Pyongyang.

Moreover, analysts have proposed billions for numerous other claimants. On his November visit to Washington, Israeli prime minister Yitzhak Rabin pressed the Clinton administration for continued economic and military aid flows. After the Republican Congress was seated, Defense Secretary William Perry promised Egypt that its \$2.1 billion check was safe. Cairo, he explained, "is a source of stability and moderation in the Middle East." [6] Unrest in Yasser Arafat's new Mideast dominions has led to demands for hundreds of millions of dollars in assistance--or else. "If the economic situation does not improve, there will be bombing everywhere," warned one businessman in the Gaza Strip. [7] In early December the United States and European nations agreed to accelerate transfers to the Palestinian Authority. And the administration continues to press for a Middle East development bank.

The Congressional Budget Office (CBO) has drafted an even more ambitious agenda, with a possible \$12.5 billion increase in annual aid flows. CBO would provide more money for the republics of the former Soviet Union, peacekeeping, international birth control, debt relief, and so on. [8] A new CIA study warns that 40 million people in other countries are at risk of malnutrition or death this year. One U.S. official explained that Washington is not spending "enough on preventive measures." [9]

In fact, under President Clinton the U.S. Agency for International Development (U.S. AID) has been gaining rather than shedding responsibilities. In June 1994 a State Department spokesman announced that President Clinton had instructed the agency to "start putting together a socioeconomic and political early warning system, to identify the vulnerabilities" of fragile Third World societies, and to "start putting some resources behind them." [10] U.S. AID director J. Brian Atwood explicitly terms this "nation building." As he explains, "Our approach is designed to deal with short-term concerns and to formulate the longer term investments that will permanently reduce disorder." [11]

U.S. AID has even inaugurated a new program to assist American cities. Although the agency is barred by its charter from spending money domestically, it can share its expertise. Moreover, it seems likely that U.S. AID's so-called "Lessons without Borders" will generate pressure for increased spending. After participating in a Baltimore seminar organized by the agency, Michael Gaines Sr., head of Baltimore's Council for Economic and Business Opportunity, said that he would like to tap U.S. AID's budget: "If you were able to fold some of those AID resources and knowledge with the Housing and Urban Development agency and the Commerce Department, and start working in a coordinated way in this country, oh man, the potential would be tremendous." [12] There is, it seems, a perception among foreign aid advocates that the pot of cash is endless.

However, with the coming of a GOP Congress on January 4, a new world may finally have dawned. Most Republicans in the House have never cared for foreign aid; the chairman of the House appropriations subcommittee governing foreign assistance, Rep. Sonny Callahan (R-Ala.), has never voted for a foreign aid bill, though his aides suggest that the responsibilities of leadership may force him to moderate his position. Sens. Jesse Helms (R-N.C.), chairman of the Foreign Relations Committee, and Mitch McConnell (R-Ky.), chairman of the Appropriations Subcommittee on Foreign Operations, have proposed to make major cuts in foreign aid. Opines Robert Berg, president of the International Development Conference, "This is probably the greatest, most fundamental debate on foreign aid since the end of the Vietnam War." [13] McConnell has already introduced legislation to cut non-Mideast aid by 20 percent; Helms is preparing a separate bill to reduce it by 25 to 35 percent.

But even these measures should merely be viewed as a starting point. Despite the natural assumption embodied in the term "foreign assistance," there is little evidence that American cash transfers actually do much to aid Third World peoples (or U.S. taxpayers). Many developing states are moving backward economically, and well-subsidized political clients have been overthrown, while funds continue to flow to nations that regularly oppose U.S. interests. Even the "best" cases--democratic governments moving toward a free market--are likely to gain little benefit from bilateral and multilateral transfer programs. [14] To the contrary, the "assistance" is more likely to hurt.

Clinton Administration "Reforms"

The Clinton administration remains committed to a wide-ranging aid program. In opposing Republican cuts, Undersecretary of State Tim Wirth complained, "This is not where the big dollars are, but it's where much of the future is." To make major reductions, he argued, would be "a very short-sighted thing to do for the future of this country and the world." [15] Nevertheless, at least some Clinton administration officials harbor doubts about the efficacy of "aid": an administration task force concluded 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." [16] As for U.S. AID, through which most American foreign aid flows, Administrator J. Brian Atwood has admitted that "we were an agency on the road to mediocrity, or worse." [17] Moreover, the legislation currently directing the disbursement of foreign assistance, stated Atwood, has "Cold War barnacles all over it." [18]

The administration has promised to revamp the foreign aid program to eliminate such problems. Part of the change is administrative--replacing 50 top-level employees, for instance. [19] Moreover, in November 1993 U.S. AID announced that it was closing 21 missions and cutting off 50 nations, including Chile, Costa Rica, Pakistan, and Zaire. [20] In a few cases, such as Chile, this unusual reduction in the number of aid clients reflects the recipients' economic success. (U.S. assistance was not responsible for these nations' progress, however; other factors, particularly domestic economic reforms, played a far more important role.) More fundamentally, Vice President Al Gore told a UN conference that the administration hoped to funnel increasing amounts of aid through private organizations rather than U.S. AID. [21] In early 1995 the president did, however, reject Secretary Christopher's proposal that the State Department absorb U.S. AID.

In most instances the administration's modest changes represent an acknowledgment of abject failure. For instance, U.S. AID officials singled out Zaire as "a poor partner" in the development process. [22] Today the Central African nation is in chaos. [23] American assistance to Zaire has been largely stolen or wasted; its only legacy is a huge international debt that will never be repaid.

But Zaire is extreme only in the extent of the disastrous results of foreign meddling. The administration is battling

desperately to preserve assistance to Africa, which Atwood calls "an investment we make in other people for our own self-interest." Indeed, he contends that African states are not far behind "where the 'Asian Tigers' were in 1960" and that the former can match the latter's growth rates.[24] Yet the results of the West's supposed helping hand for many other recipients, especially in Africa, have proved not much better. Analyst James Bovard has called the continent a "foreign aid wasteland," with U.S. AID programs a chief culprit.[25] Even the World Bank, a major lender to Africa, admitted in the 1980s that "African governments and donors continue to prefer new projects, especially new schools and hospitals, when the greatest urgency is to provide more resources to operate and maintain (and, increasingly, rehabilitate) existing projects." [26]

This longstanding problem bedevils agricultural programs as well. Journalist Blaine Harden of the Washington Post writes that most "donor-funded African development schemes" fail the sustainability test: "Irrigation often flunks even before donors leave. . . . The expansion of irrigation in Africa has ended, as the collapse of old schemes equals the construction of new ones." [27] In a scorching critique of Western aid policies in Africa, researchers Karl Borgin and Kathleen Corbett argued more than a decade ago that aid money is routinely spread over small, transitory projects; wasted on programs the Africans could undertake themselves; used to subsidize small-scale ventures that contribute little to development; and used to promote inappropriate agriculture, "either primitive small-scale farming or huge state-owned enterprises." [28]

Unfortunately, little has changed since then, despite the aid community's purported newfound commitment to free markets. Some African nations have begun to adopt reforms, but many others remain mired in statism. Even the ever-optimistic World Bank admits that "a number of countries have yet to implement the reforms needed to restore growth. And even among the strongest adjusters, no country has gone the full distance in restructuring its economy." [29] Moreover, foreign aid remains as ineffective as before. Ghana-born economist George Ayittey observes that "there is nothing to show for billions in assistance annually, except a multitude of 'black elephants,' economic collapse, social disintegration, and political chaos." [30] Indeed, the almost complete politicization of African society through foreign transfers has been disastrous. [31]

Not surprisingly, when speaking of Africa, President Clinton admits, "I do know we need a new policy." [32] However, cutting off a few high-profile aid failures, as he has done, merely reallocates resources rather than reforms the program. Traditional aid recipients, like Egypt, understand this and have been lobbying the Clinton administration to protect their share. Stated former Egyptian ambassador Ashraf Ghorbal, "There's a recognition here of the fact that as the demanders of aid increase, the pie has to be shared out in smaller pieces among more people." [33]

The Proposal for a New Framework

What else does the administration propose to do to respond to what appears to be a genuine crisis in U.S. policy? Its "solution" is to offer omnibus legislation to change U.S. AID's objectives and reduce Congress's power to allocate funds. The legislation "represents a new framework for American foreign policy," explained Atwood. [34] Reform is certainly overdue. Current law sets 33 goals and 75 "priority areas." At the same time, congressional micromanagement is legendary. U.S. AID officials Jennifer Windsor and Carol Lancaster understandably call the Foreign Assistance Act of 1961, which remains the framework for U.S. policy to this day, "an unwieldy and outdated relic of the cold war." [35]

The administration would replace today's hundred-plus goals and priorities with six major principles:

- * Peace: continued transfers to countries in the Mideast, principally Egypt and Israel, the signatories of the Camp David accords; support for disarmament, non-proliferation, crime, and narcotics programs; and payments for UN peacekeeping.
- * Prosperity: business subsidies, particularly through the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency; and some so-called Food for Peace (or P.L. 480) shipments.
- * Diplomacy: State Department funding, payments to the United Nations, and U.S. AID operations.
- * Sustainable development: the usual economic and social programs undertaken by U.S. AID--food programs, AIDS

prevention, employment generation, population control, environmental protection, support for democratic processes, and the Peace Corps.

* Democracy: assistance to the former Soviet Union and Central and Eastern Europe; electoral and political training and institution-building programs; and funding for international broadcasting services.

* Humanitarian assistance: disaster relief, refugee assistance, and food shipments.[36]

Having trimmed the number of goals, the administration also wants greater executive discretion in using its funds to achieve them. Explained Clifton Wharton, former deputy secretary of state, "A crucial element in buttressing this flexibility and accountability, however, will be the cooperation of the Congress in freeing U.S. AID from earmarked programs and unnecessary and restrictive oversight procedures." He hoped that "this will free U.S. AID to design, and be held accountable for, bilateral development programs that respond to the development needs in recipient countries." [37] In theory, officials explained--before the disintegration of support for Clinton-style health care reform--foreign aid would then operate like "managed competition" in health care, with administrators choosing the most effective delivery mechanism and with assistance provided to nations on the basis of merit rather than entitlement.[38]

So serious did Atwood purport to be about the reform process that he had his agency become one of only four government organizations to sign a "performance agreement" promising major efficiency gains under the Gore-led National Performance Review. Atwood told reporters that U.S. AID would soon be referred to as "the reform agency" rather than "the beleaguered agency." [39]

A "Streamlined Status Quo"

Alas, for all of its rhetoric about change, the administration is not talking about serious reform. For instance, the highly touted six principles are, in fact, merely restatements of the status quo. At best, they offer unimaginative euphemisms to describe maintenance of existing policy (e.g., assistance to Israel as promoting "peace"). Indeed, Atwood was quick to reassure Congress that his proposals would probably mean an increase in aid to America's Mideast allies and client states.[40] Similarly, he acknowledged that the president rejected even such modest proposals as shifting decisions about funding for individual nations from Congress to U.S. AID.[41] And the administration has done little to change the way the money is spent. Observed John Sewell, president of the Overseas Development Council, "If you want to see how it is different, look at where the money is budgeted. There is not much change in the budget allocations." [42]

In the end, then, the president's proposal looks an awful lot like the "streamlined status quo" that U.S. AID claims is the only alternative to its reform package.[43] The administration did not even consider, let alone reject after reviewing, other, more serious departures from current policy. For instance, in response to those who suggest that U.S. transfers abroad have outlived their usefulness, Wharton replied, "Our task force concluded unanimously that foreign assistance, in the light of new international realities and challenges, remains a fundamental cornerstone of U.S. foreign policy and is just as important, if not more so, than it ever was." [44] In short, the more the world changes, the more Washington policymakers believe they need more money for the same programs.

And if the administration has its way, the taxpayer funds strewn abroad will be substantial. When his appointees indicated their interest in reforming the aid process, President Clinton assured foreign assistance lobbyists, "I'll make sure there is no cut." [45] Indeed, within his administration the debate was between the so-called deficit hawks, who wanted to spend "only" \$19.6 billion in 1995, and the activists, like Vice President Gore, who wanted to spend \$23.4 billion, with a greater emphasis on democracy, population control, and environmental programs.[46] In December 1993 Secretary Christopher was reported to be lobbying the White House to add roughly \$3 billion to foreign affairs spending in FY 1995. "The Secretary of State is personally engaged in trying to find the resources consistent with the president's commitments," explained an unnamed State Department official.[47] And what could be more natural? As Atwood observed in late 1993, "We won't be able to do nearly as much as we would like if we had more money." [48]

The administration ended up proposing \$20.86 billion in budget authority for 1995, a small increase over 1994 (outlays, in contrast, were to fall slightly). In a number of specific areas, however, the president proposed substantial increases for multilateral development banks, population control, peacekeeping operations, UN payments, international "information and exchange" (such as the U.S. Information Agency), narcotics and crime control, aid to Middle Eastern

states, and environmental activities, among others. Here, as elsewhere, the president seems committed to "reinventing" a program that is incapable of working by spending more on it. Congress has been no different: in July 1994 it trimmed the administration FY 1995 request by about \$500 million but left the president's priorities largely intact.

The Republican Alternative

The new Congress may have very different ideas, however. Most House Republicans have never been strong supporters of foreign aid. And two of the Senate Republicans most concerned with foreign assistance, Jesse Helms and Mitch McConnell, have proposed major cuts.

Senator Helms's committee is responsible for writing the authorizing legislation for foreign aid, but it has not done so since 1986. He has proposed abolishing U.S. AID, folding some of its functions into the State Department, and creating an international development fund that would finance development projects through private voluntary organizations. Although Helms has released a four-page statement of principles on reforming foreign aid, he is still drafting specific legislation.[49] Helms's position is clear; at a recent press conference he declared, "The foreign aid program has spent an estimated \$2 trillion of the American taxpayers' money, much of it going down foreign rat-holes, to countries that constantly oppose us in the United Nations, and many which rejected concepts of freedom. We must stop this stupid business of giving away the taxpayers' money willy-nilly." [50] He has suggested treating assistance to Egypt and Israel as part of the Defense Department's expenditures and eliminating most other aid programs. But he may face difficulty pushing a radical rewrite of the foreign aid program through a committee long noted for its internationalist tendencies.

Senator McConnell, in contrast, is attempting to use his appropriations power to effectively rewrite the law. He introduced his omnibus reform bill late last year. McConnell would dramatically reshape the current program. He would, first, streamline the number of formal objectives of American assistance, focusing on protecting U.S. security, promoting economic interests by encouraging market reforms, meeting natural disasters and other problems, and advancing democracy. Second, McConnell would refashion the aid bureaucracy, by abolishing U.S. AID, placing foreign aid under the control of the secretary of state, and combining the Trade and Development Agency and the Overseas Private Investment Corporation. McConnell would eliminate specific earmarks of outlays for several development and population programs; he would then reduce the overall pot of money from which they are funded. Remaining economic assistance would be conditioned on recipient governments' adopting market reforms; aid to Russia would require its nonintervention in its neighboring republics. However, McConnell would increase money for Israel and Egypt and preserve assistance for Ukraine, Georgia, and Armenia. Finally, he would hike trade subsidies and security outlays, focusing the latter on Central and East European states that he hopes to pull into the North Atlantic Treaty Organization. He expressed pleasure at the administration's proposal to expand military aid and trade subsidies.

Broadening the Debate

The McConnell bill is no more likely than a Helms bill to pass unscathed; Senate and House Republicans immediately complained about being "blindsided" by his proposal.[51] In response to objections from various senators, including Paul Coverdell (R-Ga.), onetime head of the Peace Corps, McConnell has withdrawn his original proposal to eliminate the program's guaranteed funding. Far harsher was Rep. Benjamin Gilman (R-N.Y.), chairman of the House International Relations Committee, who denounced "demagogues who like to show they're doing something by cutting all foreign aid." [52] On the other hand, even a traditional internationalist like Sen. Richard Lugar (R-Ind.) admits to some doubts over past outlays. He points to the large backlog in money for Russia as an indication of how hard it is to spend the aid effectively: "Appropriators may simply ask what's the point of appropriating any more." [53] And Republican members of the Senate Budget Committee have circulated a plan to cut \$3.5 billion in outlays.

Even though the Helms and McConnell plans should help set the stage for a serious debate over foreign aid, both fall short of the changes that are needed. Adjusting the formal goals of American assistance will have meaningful effect only if the programs themselves are reformed. Abolishing U.S. AID, which has gained a reputation for incompetence, makes sense but will achieve little if the State Department expands in size and hires many of the same people. Giving money to countries only if they do not cripple their own economies makes more sense than subsidizing collectivist

failures; that does not, however, mean that foreign aid is necessary or even helpful in those cases. Sending aid through private voluntary organizations does not remedy the problems inherent to foreign assistance. Trade subsidies are largely welfare for major exporters. The case for security assistance to the Czech Republic, for instance, is hard to discern. After all, the European members of NATO have the interest and wherewithal to aid their poorer neighbors; why must Washington remain an international nanny? And continued multi-billion-dollar flows to Egypt and Israel, which maintain stultifying dirigiste economic policies in large part because American aid ameliorates the resulting harm, would only serve domestic political, rather than international security, interests.

Nevertheless, the Republican proposals have moved the battle over the future of foreign assistance in the right direction--downward. Atwood bravely declares, "I welcome the increased scrutiny McConnell's statement will bring to our program." [54] Indeed, in between angry outbursts at agency critics, Atwood expressed his hope to work with the GOP "to fashion an aid program that will meet the demand for budgetary austerity and still help to achieve important U.S. foreign policy goals." [55] But that assumes continued foreign transfers actually promote American objectives. Whether they did so very much in the past is a dubious enough proposition. They certainly do not do so today. As McConnell has noted, "The world has changed and Congress has changed" since Congress created the framework for American assistance in 1961. [56] For nearly 50 years American policy has essentially been locked in a time warp. Foreign assistance was created during the Cold War at a time when it was widely believed that government could create prosperity. It is time for Washington to acknowledge that there is no more Soviet Union and that statism does not create economic growth abroad any more than it does at home.

The Genesis of U.S. Foreign Aid

It was not until the end of World War II that foreign aid became a significant tool of U.S. intervention, replacing the rapidly shrinking military as the primary means of exerting American influence abroad. Today the United States spends some \$18 billion annually on foreign "assistance," particularly grants and loans to other nations through both bilateral and multilateral institutions.

The United States administers three major security assistance programs: foreign military sales credits, which help finance weapons purchases; military assistance program grants, which underwrite local defense efforts; and international military education and training, which schools foreign military officers. U.S. AID manages a small disaster relief program, subsidized crop shipments, primarily through the Food for Peace program, and a host of general economic development projects, such as irrigation systems and hospitals. U.S.-funded multilateral agencies, including the IMF, the World Bank, and such regional agencies as the European Bank for Reconstruction and Development also underwrite borrower projects ranging from agricultural development to urban services and provide aid to support "structural" economic reforms.

No outlays can be justified, however, if the programs do not achieve their goals. Not that U.S. AID and its supporters would let failure stand in the way of spending increases; they argue that foreign assistance necessarily redounds to America's benefit because 70 percent of aid funds eventually return to the United States. [57] But even if that statistic is true, it ignores the fact that leaving the money in the hands of taxpayers would ensure that it never left America. Anyway, handing out cash in hopes that some of it will be spent in the United States makes no economic sense. As the renowned British economist P. T. Bauer has observed, "To argue that aid helps the domestic economy is like saying that a shop-keeper benefits from having his cash register burgled so long as the burglar spends part of the proceeds in his shop." [58]

So one needs to return to the question, does foreign assistance work? Proponents would prefer to simply avoid the question. When faced with GOP proposals to slash monies for Africa, C. Paine Lucas, director of the group Africare, contended that U.S. aid levels are so low that "it is a non- issue." [59] Of course, American taxpayers, who are paying the bill, think otherwise. Indeed, \$18 billion reflects the collective earnings of nearly a half million Americans.

So the next tactic is to merely assume the efficacy of foreign assistance. "Our aid program has obviously served American national interests," asserts Atwood. Why else would past Congresses and presidents have supported it? [60] Admittedly, it is not easy to measure the program's effectiveness, in part because the various forms of assistance have divergent objectives and may interfere with one another. But aid is generally thought to serve five main goals:

stabilizing potentially unsteady societies (security), improving the defense capabilities of allied governments (military), buying influence for Washington (political), relieving human suffering (humanitarian), and promoting economic growth (development). Not surprisingly, the foreign policy establishment harbors few doubts--publicly, at least--about the value of foreign aid. For example, the so-called Carlucci Commission, formed in 1983 to review U.S. aid programs, concluded that foreign assistance "makes an indispensable contribution to achieving foreign policy objectives." [61]

Yet this conclusion was largely unsupported. The commission itself admitted that it is not "clear that specific programs have been consistently effective with regard to any one objective" but nevertheless argued that "on balance" they have been a success. [62] Yet if individual programs do not work separately, how do they work together? The Clinton administration seems to suffer from the same delusion--it acknowledges that multitudes of aid recipients have gone nowhere, or have even moved backward, but it nevertheless wants to press on with more programs and money. The Wharton report, the Clinton administration's review of U.S. foreign aid programs, explains, "Well-defined, effectively managed, and flexible foreign assistance programs can further U.S. domestic, economic, political, and security interests." [63]

Yes, and if we were all angels there would be no need for jails. In fact, there is reason to doubt that foreign transfers even intermittently fulfill their official ends and that any successes achieved are more than ephemeral. As such, it is worth briefly reviewing the real impact of foreign assistance on security, military, and political objectives, while taking a closer look at those issues that the administration most wants to emphasize, particularly, humanitarian and developmental aid.

Security

Virtually all forms of assistance are assumed to promote the stability of friendly states, many of which suffer from extreme poverty and social unrest. In the short term, at least, U.S. aid does advance this objective somewhat, because recipient governments are presumably strengthened by millions or billions of dollars from Washington. In some cases, such as El Salvador, massive American aid may have played an important role in preventing a pro-American government from collapsing.

However, in the long term, assistance often undercuts rather than promotes U.S. security, both by discouraging incumbent regimes from adopting needed reforms and by tying Washington to unsavory dictatorships. President Ferdinand Marcos of the Philippines, for example, suppressed the democratic opposition, looted his country, wrecked the economy, and emasculated the military; yet generous American aid helped prop up his corrupt government. The result was ultimately, not only a more brutal and statist system, but also one that was less stable.

Indeed, U.S. subsidies act as a public endorsement of vicious dictators, such as Somoza in Nicaragua and the shah of Iran, who often seem destined to fall. [64] In both cases aid encouraged unpopular autocrats to resist needed reform; in both cases the pro-American regimes were overthrown and replaced by virulently hostile ones.

In short, handing out cash does not automatically promote social, economic, or political stability. Moreover, with the end of the Cold War the survival of allied governments in small nations around the globe is no longer important, or often even relevant, to U.S. security.

Perhaps the best case on security grounds now advanced is assistance to Russia. And it is not just Clinton administration officials, like Ambassador Thomas Simons, State Department coordinator of American aid to Russia, who makes this argument. In response to growing GOP criticism of assistance to Moscow, Rep. John Porter (R-Ill.) recently contended, "If Russia doesn't become a democratic, free-market nation, it could cost us hundreds of billions of dollars on defense spending in the future." [65]

True enough, but, as argued in more detail later, Western aid has had virtually no effect on either Russia's staggering steps toward a free market or byzantine political struggles. American officials tend to overrate their influence: economic programs have come and gone and Boris Yeltsin has variously leaned toward democrats and authoritarians with little regard to U.S. promises of assistance. Consider Moscow's recent and brutal military crackdown on independence-minded Chechens. Not only has that episode revealed the government's current tilt away from

democratic means to resolve an internal dispute, but the invasion's cost has exacerbated Russia's economic problems by making already unrealistic national budget targets impossible to achieve. Not that this will be the first time Russia has failed to meet the economic goals agreed to with its donors. The IMF, for instance, found itself in the embarrassing position in 1993 of having to suspend one aid program for noncompliance shortly after its implementation. In short, the grand events in Moscow will continue to play out without much regard to whether Congress mulcts U.S. taxpayers to put more money into the hands of the old-line bureaucrats who still largely staff Russia's economic agencies.[66]

Military Aid

Military aid programs have probably helped strengthen the defense of some nations--Egypt and South Korea, for example. Yet it is very hard to judge how important these improvements have been to either the recipients or the United States, as success is best measured by the conflict that does not occur. And proving that American aid prevented or halted a war or insurgency is virtually impossible, because U.S. military assistance, aside from unusually high outlays for countries such as South Vietnam and El Salvador, has accounted for only a small proportion of recipients' defense spending.

Even if American aid prompts the beneficiary to build a stronger military than it otherwise could afford, there may be no practical benefits for Washington. Throughout the 1980s official military assistance was flowing to more than 100 nations annually, far more than were strategically important even during the Cold War. The collapse of the Soviet Union and the disintegration of the Warsaw Pact have made the military justification for funneling billions more dollars into the hands of regimes that are often the worst sorts of kleptocratic autocracies completely disappear. Even the administration acknowledges that this justification for foreign aid is kaput.

Political Influence

The ultimate, but usually unstated, justification for much of Washington's foreign assistance is to buy influence. Where U.S. assistance is high enough to effectively turn a Third World country into a client state, such as Vietnam during the 1960s or El Salvador during the 1980s, Washington may enjoy considerable sway over the recipients' policies. However, that is a rare occurrence, and one not likely to be healthy for such a country's long-term stability.

Lesser amounts of aid can buy some political clout when the topic in question is of little or no importance to the recipient regime, but it usually does not enable the United States to dictate compliance when the ruling elite is strongly opposed to America's position. In innumerable cases Third World elites have proved willing to defy Washington and denounce the United States in international forums even as they cashed U.S. checks.[67]

An even more basic objection to attempting to bribe foreign governments, especially corrupt autocracies, is that there is no warrant for doing so unless fundamental national interests are at stake. Garnering support on a UN vote, resolving a commercial dispute, and reducing the relative influence of Washington's international adversaries are all potentially worthy goals, but their value is limited. Forcing U.S. taxpayers to underwrite venal dictatorships is far too high a price to pay to score minor political points.

Now that regional struggles are not linked to American security through a larger conflict, such as that between the United States and Soviet Union, there is even less justification for political aid. As a result, admits Atwood, "We no longer have to use our aid programs to purchase influence." [68]

Yet when confronted with evidence of his agency's past failures and demands for severe budget cutbacks, Atwood later resurrected this same discredited argument. In response to Senators Helms's and McConnell's proposals, he contended, "We cannot exercise influence over the international community in some rosier future if we abdicate responsibility now." [69] The administrator did not offer evidence that throwing more good money after bad yields America real influence or that such influence has real value.

Humanitarian Aid

While the administration seems prepared to deemphasize security, military, and political assistance, it is more committed to humanitarian and developmental programs. The demand for humanitarian aid is obvious enough: the

Hunger Project estimates that 13 million to 18 million people die of starvation every year. Another half billion people are thought to be undernourished, and double that number live in serious poverty. Citizens of developing countries are also particularly vulnerable to natural and man-made calamities.

There seems little doubt that U.S. AID's small disaster relief program has helped ameliorate the effects of floods, earthquakes, and the like, as have the many private initiatives undertaken in this area.[70] Unfortunately, the record of the largest official program theoretically devoted to humanitarian purposes, Food for Peace or P.L. 480, is not so good. In fact, Food for Peace, which has averaged \$1 billion to \$1.5 billion in outlays annually, was created more to dump surplus American crops in foreign markets than to alleviate starvation; just 14 percent of the food shipments go to disaster-stricken areas.

The fundamental problem with P.L. 480 is that large-scale transfers of cheap American crops put small producers in recipient countries out of business. Concluded one internal U.S. AID audit, "The long-term feeding programs in the same areas for ten years or more have great potential" for creating disincentives to "food production." [71] In countries as diverse as Colombia, Guatemala, Haiti, and India, U.S. assistance has harmed local farmers. Even temporary disaster-related assistance may effectively undercut indigenous producers. Following the devastating 1976 earthquake in Guatemala, farmers who sought to sell their stockpiled grain found the market flooded with Food for Peace shipments. "As a result," explained the Institute for Food and Development Policy, "food aid stood in the way of reconstruction." [72]

Even the most well-intentioned assistance often provides an undeserved subsidy for irresponsible foreign governments. For example, Ethiopia's Mengistu regime, overthrown after decades of civil war, greatly exacerbated the impact of a drought in the early 1980s by collectivizing its farms and forcibly relocating much of its population; American aid helped insulate the government from the natural consequences of its folly. Even worse, the knowledge that Western nations were likely to step in with assistance allowed the Mengistu regime to squander between \$150 million and \$200 million on its 10th anniversary celebration in 1984, leaving it with virtually no funds to purchase food during the ensuing drought. When famine again hit in 1988, the country was no better prepared to deal with the problem than before.

Similarly, Western assistance programs had a disastrous impact on Somalia, a long-time U.S. ally that self-destructed and, like Humpty Dumpty, proved impervious to American and UN attempts to put it back together. Michael Maren, a journalist who has worked for the Peace Corps, Catholic Relief Services, and U.S. AID, explains, "Harmless as this might at first sound, sending food to areas where there is already food creates serious problems." In Somalia, where Maren represented U.S. AID in 1981, "the program was working to prop up a corrupt dictator and turn nomads into relief junkies." [73] The latter effect assisted politicians seeking to centralize power. As Maren points out, "Nomads make it hard to build a modern state, and even harder to build a socialist state. Nomads can't be taxed, they can't be drafted, and they can't be controlled. They also can't be used to attract foreign aid, unless you can get them to stay in one place." [74]

Maren is not alone in viewing humanitarian aid as a problem in Somalia. Alex De Waal, vice-director of Africa Watch, was fired for opposing U.S. military intervention in Somalia. Now head of African Rights, he argues that outside assistance causes governments to shirk their responsibilities: "It is structurally bad because all forms of relief undermine the incentive to take responsibility. The more aid a country receives, the less the government of that country has to answer to the people." [75]

In short, although official humanitarian aid can help relieve human suffering when limited to short-term disaster relief, private resources are generally easy to mobilize for this purpose. Long-term subsidized transfers of food, which account for the bulk of U.S. "humanitarian" aid, are likely to cause more harm than good.

Developmental Aid

Far more expansive--and, unfortunately, often even more counterproductive--is American economic aid. The U.S. government makes bilateral loans and grants and provides technical assistance for the official purpose of encouraging economic growth. Washington also funds several multilateral agencies with similar programs. That is the category of aid that so many people want to expand so quickly. The United States, it is argued, should pour money into Russia,

Central and Eastern Europe, the Caucasus and the Middle East, South Africa, and elsewhere to support market reforms and promote development. When faced with proposed cuts in funding in late 1993, the State Department argued, "Without timely material and moral support from other democratic countries, fragile transitions to democratic rule could be lost." [76]

Unfortunately, there is little evidence that foreign aid advances "fragile transitions to democratic rule" or otherwise benefits Third World peoples. As the Clinton administration has admitted, despite large doses of economic assistance, the average increase in the per capita GNP of developing countries has fallen steadily since the 1960s; by the 1980s, in fact, the Third World's average per capita GNP was actually falling, with a number of countries, particularly heavily indebted states and sub-Saharan African countries, suffering negative economic growth and losing ground into the early 1990s.

Obviously there are many reasons why so many countries have done so poorly, but in virtually no case has foreign aid proved to be much of a help. Consider Tanzania, which for a time received more outside assistance per capita than any other nation yet suffered a drastic economic decline. Observed economist Thomas Sowell in 1983,

Its output per worker has declined 50 percent over a period of a decade; it has turned from an exporter of maize to an importer; nearly half of the more than 300 companies expropriated by the government ("nationalized") were bankrupt by 1975, with many of the remainder operating at a loss. As the economy has declined, government bureaucracy has grown by 14 percent per annum, doubling in less than a decade. [77]

So disastrous was Tanzania's experience that after its flamboyant dictator, Julius Nyerere, stepped down, the successor regime had little choice but to gingerly experiment with market reforms--allowing private traders into the cashew market, for instance. [78] The results have been modestly encouraging, but the country remains both hooked on foreign aid and desperately poor. Between 1980 and 1992 Tanzania's total long-term international debt tripled. Despite this continued flow of foreign funds, the nation remains the world's third poorest, after Mozambique and Ethiopia. It had no per capita GNP growth at all between 1980 and 1992. Over the same period the annual inflation rate averaged 25 percent, energy production fell, and value added in agriculture fell by fully one-third. [79]

Overall, aid levels do not correlate with economic growth, and other large recipients of foreign assistance such as Bangladesh, Egypt, India, Israel, the Philippines, and Sudan have been among the world's worst performers. Indeed, it is hard to find an economic assistance program that has worked. Even U.S. AID acknowledged in a detailed review of its programs released in 1989 that "only a handful of countries that started receiving U.S. assistance in the 1950s and 1960s has ever graduated from dependent status." [80] And there is no evidence that such nations did so because of Washington's generous checks.

More recent studies by Peter Boone of the London School of Economics and Center for Economic Performance yield similar results. First, he reviewed the experience of nearly 100 countries and found that while foreign assistance boosts consumption expenditures, it had no apparent effects on recipients' levels of investment. "Long-term aid is not a means to create growth," Boone bluntly concluded, adding that "these results provide some support for the controversial views of [Milton] Friedman and P. T. Bauer," that aid would not promote development. [81] Boone next looked at the impact of foreign assistance on recipient regimes and found that it most benefited local political elites. He explained, "Aid does not promote economic development for two reasons: Poverty is not caused by capital shortage, and it is not optimal for politicians to adjust distortionary policies when they receive aid flows." [82]

Has U.S. Aid Ever Helped?

The postwar Marshall Plan for Europe is the most cited example of a foreign aid success, leading to proposals for "Marshall Plans" for Latin America, Africa, the Middle East, Central and Eastern Europe, Russia, and even American cities. Atwood also cites the Marshall Plan: it was not because of "a group of Adam Smiths . . . chanting 'Get the government off our backs'" that the world economy has grown seven-fold since 1946. [83] There is good reason, however, to question the importance of the Marshall Plan to Europe's postwar growth. German analyst Werner Abelshausen, for one, has concluded that "foreign aid was not crucial in starting the recovery or in keeping it going." [84] Economist Tyler Cowen has come to much the same conclusion. [85] In any case, even had American

assistance triggered Europe's recovery, the Marshall Plan still would not provide a model for today's developing countries. The European people retained the legal, economic, educational, philosophical, and cultural infrastructure necessary for successful industrial economies.[86] Most current aid recipients, in contrast, need to generate these characteristics before creating the industrial infrastructure necessary for growth; development, not restoration, is the issue.

Of course, none of this is to say that no recipient of U.S. assistance has ever succeeded economically, but that is not the issue. In response to the Heritage Foundation's contention that American assistance to the Third World had not produced sustained economic growth, Atwood pointed out that 19 of 20 nations listed as "mostly free" economically by Heritage had once collected money from Washington.[87] However, what country has not received checks from Washington? For this reason, at a superficial level aid simultaneously correlates with both economic failure and success. The question is not, has any recipient of American aid succeeded? Rather, the question is, has any recipient of American aid succeeded because of the aid? U.S. AID, which bears the burden of proof, has offered no evidence that the answer is yes.

As noted earlier, it probably was not the Marshall Plan that sparked Germany's postwar growth. Although South Korea and Taiwan did receive assistance from the United States, their economies did not take off until America's transfers had largely ended (much of that assistance was also military in character). And it was not differing levels of foreign aid that led South Korea to leap over Ghana, the richer nation in 1965, or spurred Indonesia past Nigeria, also more prosperous 30 years ago, or allowed several Asian countries to surpass Latin American nations that were among the richest in the world after World War II. For that reason, Atwood is fantasizing if he really believes that more assistance will allow Africa to match Asia's growth rates.

There are many reasons why aid has little or no beneficial economic impact. One is that Western foreign assistance programs are often ineffective and wasteful in the extreme.[88] Examples include the construction of tennis courts in Rwanda, a country that has since been rent by genocidal tribal violence. U.S. AID has sent sewing machines to areas without electricity and constructed hospitals in cities where dozens of similar facilities sat empty. Taxpayer funds have underwritten pro-privatization ads used in the 1993 Russian election.[89] An audit of U.S. assistance programs in El Salvador found that it was "impossible" to "accurately assess the cost-benefits or the impact of the project." [90] U.S. AID admitted in a 1993 report that "much of the investment financed by U.S. AID and other donors between 1960 and 1980 has disappeared without a trace." [91]

Politically well connected consulting firms collect inordinate amounts from some projects.[92] Corruption, too, is rife among both donors and recipients. Complains one U.S. AID deputy inspector general, "Our crime rate is essentially higher than virtually any other agency of the government and higher than most major cities in the United States." [93]

Overcoming Waste and Corruption Will Not Help Much Either

Such problems are endemic to government programs, however. Even if aid programs worked as intended, they would not likely promote development. First, world economic forces and the openness of foreign markets have far more effect on the relatively small economies of most developing states. Moreover, not only is capital a minor factor in economic development, but the Third World has had no problem arranging commercial financing, amassing a \$1.7 trillion debt by 1993. "Money--or the lack thereof--is not a significant constraint on development," reports the Development Group for Alternative Policies. "All too often, Third World agencies are overloaded with funds that they cannot effectively absorb and utilize." [94]

Even more fundamental is the issue of domestic economic policies. U.S. AID likes to contend that it is helping to promote reform in recipient nations.[95] However, that appears to be a convenient argument designed in response to today's broad consensus that development comes only through market-oriented economic policies. Washington has for years subsidized governments that were not only authoritarian but collectivist. Nowhere has reform occurred because of American foreign aid.

And that should come as no surprise. No amount of assistance can overcome the stifling statism of so many nations--bloated government bureaucracies; money-losing state enterprises; price and production controls; and perverse monetary, fiscal, and credit policies--or counteract the powerful incentives for political and economic elites to exploit

the rest of their populations. For instance, when countries steal from their farmers by requiring peasants to sell their crops at artificially low prices to state marketing boards, aid for irrigation projects has little impact on grain production. The dramatic differences in growth rates caused by variations in domestic policies are evident even among African countries. Those with relatively less economic intervention and more liberal reforms have been doing far better. Reported the World Bank, "The extent of government intervention in markets also made a difference in growth. Countries that limited their intervention in markets had median GDP per capita growth of almost 2 percent during 1987-91, compared with declines of more than 1 percent for the countries that intervened more extensively." [96] Indeed, to the extent that foreign assistance insulates governments from the natural consequences of their policies, it inhibits reform, thereby exacerbating the economic crises that now afflict so many Third World nations.

The Case of Russia

This "reform" argument is the fatal flaw in most of the new plans for aid, particularly proposals to fund change in Russia. The IMF and World Bank have for years supposedly been underwriting policy "reform" around the world, yet most governments have simply taken the money and run, causing these taxpayer-funded organizations to extend new loans. [97] The idea that the aid institutions and Western governments will now act as tough loan officers, cutting off new credit if, say, Moscow does not act quickly enough in enacting far-reaching market reforms, runs counter to five decades of experience. Indeed, shortly after his government received its latest IMF loan, presidential adviser Alexander Livshits insisted that the fund's conditions were too strict and "must be loosened." [98] Since then Moscow has exceeded its monetary targets, leading to a resurgence in inflation. And the IMF has agreed to a new \$6.8 billion loan. (At least Livshits waited a few weeks to repudiate his government's IMF accord. Former Ukrainian prime minister Vitaly Masol suggested that he intended to break his nation's agreement with the IMF literally hours after signing it. [99] The government later adopted some reforms in spite of his threat.)

Anyway, why does Russia need foreign aid? There is little disagreement as to what Moscow must do to make its economy work: free up prices, limit the printing of rubles, eliminate subsidies to uneconomic industries, encourage foreign investment, and privatize state enterprises. The political resistance to such a course is formidable, of course. But how is putting money into the hands of the apparatchiks who still run the Russian bureaucracy going to encourage reform? Indeed, there has been no correlation between aid proposals and political currents in Moscow; the IMF announced a major assistance program in mid-1993 after the Yeltsin government had been adopting reforms, only to quickly suspend the credits after the government's efforts faltered. Since then, of course, the flow of IMF money to Russia has resumed. Yet billions in promised aid did not yield Yeltsin a legislative majority in the December 1993 elections. To the contrary, resentment of foreign interference in Russia's affairs helped fuel the vote for strongly nationalist parties. The influential traditionalists now predominant around Yeltsin are creating, not removing, obstacles to reform, yet the IMF is advancing more money.

Can the United States Promote Development?

The inability of foreign aid to promote reform is the critical flaw in proposals to, for instance, tie assistance to some market measurement, such as the Index of Economic Freedom proposed by Thomas Sheehy of the Heritage Foundation. [100] (Sheehy proposes assessing a recipient nation's budgetary, monetary, and regulatory policies.) [101] Certainly, it makes more sense to channel scarce resources to governments that do less to disable their economies. But countries adopting the right policies do not need foreign assistance, and once provided, aid is likely to discourage countries from continuing their reforms. In any case, the most powerful incentive for poorer nations to move toward capitalism is the knowledge that private investment and trade will follow and that these financial flows will do far more than official "aid" to spur economic growth.

That does not mean developed nations can do nothing to assist poorer states. As the CBO acknowledged even as it proposed increased aid, "Critics may rightly argue that the broad economic policies of the major Western countries--trade policies, budget deficits, growth rates, and the like--generally exert greater influence on the economies of the developing countries than does aid." [102] Free international markets are particularly important. J. Michael Finger, the leading trade policy economist at the World Bank, estimates that the developing world's GNP runs about 3 percent lower than it otherwise would because of Western protectionism. That is twice the total aid provided by the leading industrialized states. [103] Trade rather than aid is therefore a policy that makes sense to Third World peoples and

Western taxpayers alike.

However, advocates of aid dismiss that argument and respond in two largely contradictory ways. Jessica Matthews, a senior fellow at the Council on Foreign Relations, seems to view a nation's domestic policies as largely irrelevant to its economic success. She contends, "Trade is the end, but it's not the means for the climb out of the depths of poverty. It takes a whopping dose of deceit to argue that all a country afflicted with illiteracy, high birthrates, disease, malnutrition, environmental degradation and joblessness needs to do to enjoy rapid economic growth is to nurture a free market." [104] However, such problems as illiteracy, disease, malnutrition, and joblessness are a consequence of poverty, and poverty is a consequence of self-defeating statist economic policies. So the simple answer is, market economics, particularly free trade, fights poverty directly by providing employment for poor people. Indeed, the Asian model--cited favorably even by U.S. AID's Atwood--demonstrates how export-led economic growth can allow nations to escape "illiteracy, high birthrates, disease, malnutrition, environmental degradation and joblessness" irrespective of the level of outside assistance.

Atwood makes a different argument: "The growth in the world economy is not the result of serendipity." [105] While trade is important, in his view it is the result of aid. Yet none of the great exporters such as Hong Kong, Japan, or South Korea owe their success to American assistance. Chile's switch from insular protectionist to efficient exporter had nothing to do with financial transfers from Washington. In sharp contrast is the record of heavy aid recipients such as India and Tanzania, which relied on foreign assistance in suppressing domestic markets and lost economic ground as a result. [106] All told, writes economist David Henderson, "on average, the more outward-oriented a country is, the higher its annual real GNP per capita growth." [107] Here again, Atwood mistakes correlation, that some countries that occasionally cashed U.S. checks became successful, with causation, that they became successful because they occasionally cashed U.S. checks.

Sustainable Development and Other Goals

The administration has also attempted to raise in importance environmental and population programs. Explains Atwood:

Sustainable development can become an antidote to chaos. Our definition of sustainable development encompasses environment, population and health, economic growth, and democracy. [108]

The latter three issues have long been important goals of American assistance programs; the administration's emphasis on the first two, in contrast, reflects an important reshuffling of priorities. Indeed, in defending U.S. aid generally, Undersecretary Wirth focused on population, asking, "Do we want to cut population programs when the number of Haitians is growing dramatically?" [109]

Environmental protection is obviously a worthy goal, but the administration's attempt to use government-to-government financial transfers risks promoting "socialism with a green hue," in Sheehy's words. [110] In fact, cost-effective environmental protection can only be accomplished by nations with growing economies. And that, in turn, will result only from following a market-directed development strategy. Thus, conservation abroad does not require a special foreign aid program. Indeed, much foreign assistance, particularly the sort of project-lending subsidized by America through the World Bank, has proved positively injurious to the environment of developing states. [111]

Moreover, the only intelligent meaning of "sustainable development," a term much in vogue, is the market economy. That is, absent government subsidies, price controls, and other meddling, the economy will expand only when that growth is "sustainable." That is why government-induced inflationary binges end in recessions--the growth was artificial and could not be sustained. That is also why natural resources continue to become relatively more plentiful (as evidenced by their falling prices) despite rising populations and constant warnings of "depletion." [112]

Ultimately, people are likely to demand and pay for environmental protection only after they are able to feed their families. And the best means to create this sort of broad middle class, increasingly evident in Asian and Latin American countries, is to encourage economic reform of statist economies and open Western markets to producers in poorer nations.

The population issue should similarly be linked to larger development issues. There is no intrinsic reason for Undersecretary Wirth to worry about the number of Haitians. People with the courage, stamina, and initiative to flee across a sea to America are obviously capable of caring for themselves and their families. The problem is that Haitian babies are being born into a country that lacks a rule of law, political stability, or economic freedom. Give the Haitians the opportunity to be productive, and they will do so.

Obviously there is more to the population debate, but nothing suggests that Third World population growth is a threat akin to nuclear war, as once suggested by World Bank president Robert McNamara. Indeed, much of the recent population rise is unabashed good news--fewer children in the Third World die. Over time, parents will have fewer children as a result, but that takes time. Indeed, changes are already occurring: fertility levels in Third World nations have been dropping faster than predicted and population increases have moderated as a result.[113] Warns Julian Simon, who has almost single-handedly transformed academic discourse on population issues, "The most important fact in today's population economics is the lack of observed correlation between the rate of a country's population growth and the rate of its economic development." [114] Alas, when confronted with such arguments, Atwood simply responded, "that is not the position the world community has adopted." And what could be more dispositive than the fact that 180 countries agreed in Cairo "that something has to be done about this problem"? [115]

Even to the extent that population growth rather than stultifying state economic control is still considered to be a problem, government aid programs to curb population are a dubious solution. U.S. and UN monies have regularly funded coercive population control programs, most notoriously in China. Aid of any kind to governments is more likely to serve the objectives of state officials than families. Better are private initiatives, run outside of local governments. There is simply no reason to assume that every problem around the globe requires Uncle Sam to respond with a grant.

Conclusion

Foreign assistance became an integral part of this nation's attempt to enforce a pax Americana in the aftermath of World War II. While military force was considered to be the ultimate guarantor of U.S. interests, financial assistance was believed to be a less expensive and intrusive means of reshaping the world in America's image. The end of the Cold War has made this use of foreign aid obsolete.

Nevertheless, supporters of passing out cash abroad remain as active as ever, only with new justifications--to promote democracy, human rights, environmental protection, and other similarly appealing causes. As Atwood explains, "It is all the same fundamental goal of foreign policy that we have had since we became a nation, and certainly since we became a superpower. We are looking for peace and stability and democratic principle. You don't achieve that without investing in sustainable development." [116] Indeed, he calls foreign aid "a good investment for the American people." [117]

Unfortunately, however, decades of painful experience have proved the actual benefits of foreign assistance to be largely illusory. The administration correctly understands that foreign aid is not working, and much tinkering could be done to marginally improve existing programs. [118] But the problems go far deeper. "Reform" is not enough. Nor are modest conservative proposals, such as those by the Heritage Foundation, to transfer aid programs to the State Department and cut the assistance budget by \$1 billion to \$3 billion a year. [119]

The point is, foreign assistance has proved to be a waste--not because U.S. AID is overly bureaucratic, nor because Congress imposes too many mandates on the agency, nor because Washington is not concentrating its money on governments following more free-market economic policies, but because, in the end, it is not "aid." Government-to-government transfers inevitably reward the wrong people and policies; international aid programs simply cannot be reinvented. To some, this judgment might seem overly harsh. However, to maintain blind optimism in the face of decades of persistent government failure would be even worse. Consider the effect in Africa of the aid establishment's generous subsidies for autocracy and statism conjoined with the recipient governments' misguided belief that development depends on outside forces. According to *The Economist*, at present growth rates it will take countries on this continent "40 years to clamber back to the incomes they had in the mid-1970s. Exclude Nigeria, and the wait would last a century." [120]

Thus, the most important reform would be to eliminate foreign assistance, refusing to send checks either to collectivist autocracies or fledgling democracies, without clear and convincing evidence of foreign aid's efficacy, evidence that is nonexistent today. Not that this absence of evidence has so far had much impact. In one speech Administrator Atwood claimed to "welcome an informed national debate" but criticized his opponents for "demagoguery," "epithets," and "inaccurate allegations" and for wanting "to win the day by tearing down our institution," one "that serves America's interests." [121] At another event he attacked "demagogues, isolationists and populists, all sometimes in the same person." [122] Similarly, Health and Human Services secretary Donna Shalala has termed critics of aid "isolationists and turn-of-the-century know-nothings." [123]

Indeed, Atwood wants us to believe that, after two years under President Clinton's gentle care, U.S. foreign aid expenditures meet what he calls the mother's test: "Could you look your mother in the eye and tell her that it's in the U.S. national interest?" [124] But many members of the foreign assistance lobby have a far more important test in mind--would they still have a job if they admitted the facts? Alas, the answer is no. To acknowledge that aid is not aid would put an entire industry out of work. As Duke University political scientist Robert Bates has observed,

Many in the development community find the implications of the argument [that perverse recipient policies are the basic cause of poverty] disturbing, for insofar as it correctly captures major causes of Africa's development crisis, it then implies that what is needed is domestic political change. And there is, of course, very little that people in the development community can do to effect political reform. [125]

For this reason, if no other, despite popular disapproval of aid transfers, the program retains enormous support inside and outside the Washington Beltway. Of course, assistance proponents hate to admit as much. U.S. AID spokesman Jay Byrne, for one, complains that "foreign assistance doesn't have much of a constituency. Every time you turn a corner there's someone standing there with a baseball bat." [126] Yet advocates of so-called aid have long proved to be very strong. In June 1993, for instance, a host of business organizations, pro-Israeli groups, ethnic associations, labor unions, and environmentalists all coalesced to ensure easy passage of that year's foreign aid bill. [127]

But if the president is serious about "reinventing" government, he should reconsider what he believes to be "reform" of the foreign aid program. Congressional Republicans, who are searching for their own distinctive policy agenda, have an even better opportunity and greater incentive to draft a serious alternative to the administration's status quo policies wrapped in new rhetoric. After all, the alternative is likely to be a blundering president turning loose, at additional taxpayer expense, the ever-incompetent U.S. AID on America's cities, after the very same agency has spent three-plus decades presiding over and subsidizing the implosion of economies and societies around the world.

Notes

[1] Definitions of "foreign aid" vary widely. This figure represents a broad definition, including such functions as peacekeeping, in contrast to the more restricted meaning of "official development assistance." Congressional Budget Office, *Enhancing U.S. Security through Foreign Aid* (Washington: Congressional Budget Office, April 1994), p. 2.

[2] Quoted in Keith Bradsher, "U.S. Is Readying Further Billions to Rescue Mexico," *New York Times*, December 29, 1994, p. A1.

[3] "Clinton Promises Yeltsin Quick Aid," *Washington Times*, January 14, 1994, p. A17.

[4] Quoted in "Despite War, Aid Sought for Russia," *Washington Times*, January 14, 1995, p. A9. Secretary Christopher may find it difficult to stave off the budget cutters; Republicans, led by House Rules Committee chairman Gerald Solomon, are targeting assistance to Moscow.

[5] Ruth Marcus, "Clinton, Irish Official Differ over Degree of Possible Aid," *Washington Post*, September 3, 1994, p. A23.

[6] Quoted in John Lancaster and Dana Priest, "U.S. Assures Egypt on Foreign Aid," *Washington Post*, January 8, 1995, p. A30.

- [7] Quoted in Tom Masland et al., "Bankrolling the Peace," Newsweek, December 5, 1994, p. 38.
- [8] Congressional Budget Office, pp. xiii-xx.
- [9] Quoted in R. Jeffrey Smith, "Demand for Humanitarian Aid May Skyrocket," Washington Post, December 17, 1994, p. A22.
- [10] Quoted in Thomas Lippman, "U.S. Aides Fear New Violence in Burundi," Washington Post, June 17, 1994, p. A19. U.S. AID head J. Brian Atwood calls this mission "crisis prevention." J. Brian Atwood, "Suddenly, Chaos," Washington Post, July 31, 1994, p. C9.
- [11] J. Brian Atwood. "Nation Building and Crisis Prevention in the Post-Cold War World," Brown Journal of World Affairs 2, no. 1 (Winter 1994): 13-14.
- [12] Thomas Friedman, "Foreign-Aid Agency Shifts to Problems Back Home," New York Times, June 26, 1994, p. 18; see also James A. Dorn, "Studying the Third World--And Getting It Wrong," Baltimore Sun, August 14, 1994.
- [13] Quoted in Rita Beamish, "Republicans Hone Budget Knives with Foreign Aid High on Agenda," San Diego Union-Tribune, December 26, 1994, p. A8.
- [14] Alas, the Heritage Foundation contends that its newly minted Index of Economic Freedom, which rates the relative liberality of nations' economic policies, "is the ideal mechanism for judging which countries should receive foreign aid." Bryan T. Johnson and Thomas P. Sheehy, *The Index of Economic Freedom* (Washington: Heritage Foundation, 1994), p. 9. See also Kim Holmes, "Focus on Free Markets: How to Cut Foreign Aid," Heritage Foundation Committee Brief no. 3, February 15, 1995. However, the mere fact that it is especially perverse to subsidize governments that are acting in self-destructive ways does not mean that it makes sense to subsidize other, more sensible governments, especially if they have been adopting reforms without additional forced exactions from American taxpayers.
- [15] Quoted in Beamish.
- [16] Al Kamen and Thomas W. Lippman, "Task Force Favors Restructuring and Refocusing Troubled AID," Washington Post, July 3, 1993, p. A16.
- [17] Quoted in A. D. Horne, "U.S. to Close 21 Foreign Aid Missions," Washington Post, November 20, 1993, p. A7.
- [18] Quoted in Thomas Lippman, "White House Seeks Foreign Aid Revamp," Washington Post, September 19, 1993, p. A5.
- [19] Warren Strobel, "Clinton Seeks Massive Cuts in Aid Abroad," Washington Times, November 5, 1993, p. A1.
- [20] Ibid.
- [21] Another advocate of this step is Bush administration secretary of state James Baker. James Baker, "Foreign Policy Map for GOP World," Washington Times, December 11, 1994, p. B4.
- [22] Horne.
- [23] See, for example, Keith Richburg, "An African Giant Falls under Its Own Weight," Washington Post, July 10, 1994, p. A1.
- [24] Remarks of J. Brian Atwood before the Summit on African Aid, February 3, 1995, pp. 2, 1.
- [25] James Bovard, "The Continuing Failure of Foreign Aid," Cato Institute Policy Analysis no. 65, January 31, 1986, p. 9.

- [26] World Bank, *Toward Sustained Development in Sub-Saharan Africa* (Washington: World Bank, 1984), p. 6.
- [27] Blaine Harden, *Africa: Dispatches from a fragile Continent* (New York: Norton, 1990), pp. 201-2.
- [28] Karl Borgin and Kathleen Corbett, *The Destruction of a Continent: Africa and International Aid* (San Diego: Harcourt Brace Jovanovich, 1982), p. 187.
- [29] World Bank, *Adjustment in Africa: Reforms, Results, and the Road Ahead* (New York: Oxford University Press, 1994), p. 1.
- [30] George Ayittey, "Aid for Black Elephants: How Foreign Assistance Has Failed Africa," in *Perpetuating Poverty: The World Bank, the IMF, and the Developing World*, ed. Doug Bandow and Ian Vsquez (Washington: Cato Institute, 1994), p. 131.
- [31] For other detailed reviews of aid policy in Africa, see George Ayittey, *Africa Betrayed* (New York: St. Martin's, 1992); and Doug Bandow, *The Politics of Envy: Statism as Theology* (New Brunswick, N.J.: Transaction Publishers, 1994), pp. 131-47.
- [32] Quoted in "Clinton Cites Ignorance on Africa," *Washington Times*, June 28, 1994, p. A7.
- [33] Quoted in Gordon Robison, "Mubarak Actually Here to Protect Slice of U.S. Aid," *Washington Times*, October 23, 1993, p. A6.
- [34] Quoted in Martin Sieff, "Foreign Aid Gets Shake-Up," *Washington Times*, December 4, 1993, p. A1.
- [35] Jennifer Windsor and Carol Lancaster, "The Restructuring of USAID: Implications for Africa," *CSIS Africa Notes*, December 1993, p. 3.
- [36] Congressional Budget Office, p. 4; and John Goshko and Thomas Lippman, "Foreign Aid Shift Sought by Clinton," *Washington Post*, November 27, 1993, pp. A1, A6. A detailed summary of the administration's proposal is contained in U.S. Department of State, Office of the Spokesman, "FY1995 Budget Summary," February 5, 1994.
- [37] Clifton Wharton, "USAID and Foreign Aid Reform," U.S. Department of State Dispatch, July 26, 1993, p. 530.
- [38] Thomas Lippman, "U.S. Foreign Aid Overhaul Urged," *Washington Post*, September 18, 1993, p. A1.
- [39] Quoted in Greg Pierce, "Beleagured [sic] AID to Become Lab for Government Reform," *Washington Times*, September 20, 1993, p. A4. And, in fact, Atwood appears to have improved U.S. AID's operations. Gary Anthes, "Fed Agency Gets a Client/Server Grip," *Computer World*, February 13, 1995, pp. 1, 28. Unfortunately, this has not improved the results of the programs being managed.
- [40] Lippman, "White House Seeks Foreign Aid Revamp."
- [41] *Ibid.*
- [42] Quoted in Tom Carter, "Small Cost Doesn't Prevent Big Attacks on Foreign Aid," *Washington Times*, November 6, 1994, p. A12.
- [43] Lippman, "U.S. Foreign Aid Overhaul Urged."
- [44] Wharton, p. 527.
- [45] Quoted in Tim Zimmerman, "Administration Family Feud," *U.S. News & World Report*, November 29, 1993, p. 38.
- [46] *Ibid.*

- [47] Quoted in Thomas Lippman, "Christopher Lobbying for \$3 Billion More in Foreign Aid," Washington Post, December 17, 1993, p. A12.
- [48] Quoted in Goshko and Lippman, p. A6.
- [49] Jesse Helms, "Christopher Is Right," Washington Post, February 14, 1995, p. A15.
- [50] Quoted in John Goshko, "Foreign Aid May Be Early Test of New Hill Order," Washington Post, November 21, 1994, p. A14.
- [51] Ben Barber, "McConnell's Plan to Cut Aid Riles Fellow Hill Republicans," Washington Times, December 16, 1994, p. A21.
- [52] Quoted in Ben Barber, "GOP's Gilman Backs Foreign Aid," Washington Times, March 1, 1995, p. A13.
- [53] Quoted in Carla Anne Robbins, "Kentucky Senator, Handed Keys to Foreign Aid, to Be Most Potent Foe of Clinton's Russia Policy," Wall Street Journal, December 13, 1994, p. A20.
- [54] Quoted in Thomas Lippman, "Key GOP Senator Proposes Revamping Foreign Aid Program," Washington Post, December 13, 1994, p. A34.
- [55] Quoted in Goshko. In fact, he knows that U.S. AID's very existence is at stake. In January he told the International Development Conference that "we are threatened as never before." Remarks of J. Brian Atwood before the International Development Conference, January 17, 1995, p. 1.
- [56] Quoted in Lippman, "Key GOP Senator Proposes Revamping Foreign Aid Program."
- [57] Andrew Cohen, "Clinton Doctrine: The Help That Hurts," Progressive, January 1994, p. 28.
- [58] P. T. Bauer, *Equality, the Third World, and Economic Delusion* (Cambridge, Mass.: Harvard University Press, 1981), p. 122.
- [59] Quoted in Kirimi Kaberia, "Africans Fear Aid Will Be Lowered by GOP in Congress," Washington Times, November 28, 1994, p. A16.
- [60] Remarks of J. Brian Atwood before the Center for National Policy, December 14, 1994, pp. 2-3.
- [61] Commission on Security and Economic Assistance, *A Report to the Secretary of State* (Washington: U.S. Department of State, November 1983), p. 3.
- [62] *Ibid.*, pp. 31, 30.
- [63] "Preventative Diplomacy: Revitalizing A.I.D. and Foreign Assistance for the Post-Cold War Era," U.S. AID, September 1993, in *The New USAID Background Package*, July 1994, p. 3.
- [64] Only the Reagan administration's last-minute abandonment of Marcos saved America's reputation in the Philippines.
- [65] Quoted in Steven Greenhouse, "Russian Aid under Siege by the G.O.P.," New York Times, November 25, 1994, p. A15.
- [66] See, for example, Nicholas Eberstadt, "Western Aid and Russian Transition," in *Perpetuating Poverty*, pp. 89-99; Doug Bandow, "The IMF: A Record of Addiction and Failure," in *Perpetuating Poverty*, pp. 28-30; and Doug Bandow and Ian Vasquez, "Time for Reform: Misguided Hopes in Russia and Elsewhere," San Diego Union-Tribune, July 31, 1994, p. G4.

[67] Zimbabwe, for example, was a steady beneficiary of American aid, \$162.8 million between 1983 and 1985 alone, but nevertheless moved toward a one-party socialist state and regularly opposed the United States in international forums such as the United Nations. Washington eventually slashed its assistance levels (after public attacks on American policy), and there was no perceptible change in Zimbabwean policies. The earlier aid monies were simply wasted by any measure.

[68] Quoted in Horne.

[69] Quoted in Steven Greenhouse, "Foreign Aid and G.O.P.: Deep Cuts, Selectively," *New York Times*, December 21, 1994. p. A6.

[70] Oddly, Jessica Mathews, a senior fellow at the Council on Foreign Relations, complains that "every year, more money is spent on disaster relief, humanitarian assistance, refugees and peacekeeping," because in her view that means less money will be available for other aid programs. Jessica Mathews, "Robbing Development to Pay for Disaster Relief," *Washington Post*, July 5, 1994, p. A15. Despite all of the problems of such humanitarian-type programs, however, money spent in this area has actually done some good, and certainly far less harm than that devoted to the areas favored by Mathews.

[71] Quoted in James Bovard, "Free Food Bankrupts Foreign Farmers," *Wall Street Journal*, July 2, 1984, p. 18.

[72] *Ibid.*

[73] Michael Maren, "The Food-Aid Racket," *Harper's*, August 1993, p. 11.

[74] Michael Maren, "Manna from Heaven? Somalia Pays the Price for Years of Aid," *Village Voice*, January 19, 1993, p. 22.

[75] Quoted in Martijn De Rijk, "Aid Can Jeopardize the Ability to Survive," *European Press Survey*, August 24-September 6, 1994, p. 12.

[76] Quoted in Steven Holmes, "A Foreign Aid of Words, Not Cash," *New York Times*, December 5, 1993, p. E5.

[77] Thomas Sowell, *The Economics and Politics of Race* (New York: William Morrow, 1983), p. 240.

[78] World Bank, *Adjustment in Africa*, p. 82.

[79] World Bank, *World Development Report 1994: Infrastructure for Development* (New York: Oxford University Press, 1994), pp. 162-70.

[80] Agency for International Development, *Development and the National Interest: U.S. Economic Assistance into the 21st Century* (Washington: Agency for International Development, 1989), p. 112.

[81] Peter Boone, "The Impact of Foreign Aid on Savings and Growth," Center for Economic Performance Working Paper 1265, October 1994, pp. 25, 26.

[82] Peter Boone, "Politics and the Effectiveness of Aid," Center for Economic Performance Working Paper 1267, November 1994, p. 27.

[83] Quoted in Ben Barber, "AID Head Defends Foreign Assistance," *Washington Times*, December 15, 1994, p. A15.

[84] Werner Abelshauser, "West German Economic Recovery, 1945-1951: A Reassessment," *Three Banks Review*, September 1982.

[85] Tyler Cowen, "The Marshall Plan: Myths and Realities," in *U.S. Aid to the Developing World: A Free Market Agenda*, ed. Doug Bandow (Washington: Heritage Foundation, 1985), pp. 61-74.

- [86] See, for example, P. T. Bauer, *Dissent on Development* (Cambridge, Mass.: Harvard University Press, 1976), p. 132; and Agency for International Development, *Development and the National Interest*, p. 120.
- [87] Barber.
- [88] All aid programs are subject to such problems, of course. In July the Clinton administration staged a public relations air drop in Rwanda. Alas, the three C-130s missed the planned drop zone by a half mile; they almost hit a UN helicopter and local school instead. Mort Rosenblum, "Air drop Off-Target," *Washington Times*, July 25, 1994, pp. A1, A22.
- [89] Warren Strobel and Jonas Bernstein, "U.S. Funds Pay for Russian Campaign Ad," *Washington Times*, November 24, 1993, pp. A1, A12.
- [90] Quoted in Cohen, p. 30.
- [91] Agency for International Development, *Africa: Growth Renewed, Hope Rekindled: A Report on the Performance of the Development Fund for Africa 1988-1992* (Washington: Agency for International Development, 1993), p. 17. For a detailed critique of the misdeeds of U.S. AID, see Bovard, "The Continuing Failure of Foreign Aid."
- [92] Cohen, p. 30.
- [93] Quoted in Henrik Bering-Jensen, "Foreign Aid: From Waste to Investment," *Insight*, January 31, 1994, p. 8.
- [94] Stephen Hellinger et al., *Aid for Just Development: Report on the Future of Foreign Assistance* (Boulder, Colo.: Lynn Rienner, 1988), p. 5.
- [95] See, for instance, Kenneth Lanza, "A.I.D. and Economic Policy," *North-South*, February-March 1994, pp. 34-38.
- [96] World Bank, *Adjustment in Africa*, p. 6.
- [97] See Bandow, "The IMF," pp. 18-30; and Bandow, *The Politics of Envy*, pp. 167-73.
- [98] Quoted in Bandow and Vsquez, "Time for Reform."
- [99] Matthew Kaminski, "Kiev Doubts on IMF Deal," *Financial Times*, October 1/2, 1994, p. 2.
- [100] See, for example, Thomas Sheehy, "The Index of Economic Freedom: A Tool for Real Reform of Foreign Aid," Heritage Foundation Backgrounder no. 986, May 6, 1994; and Thomas Sheehy, "Rethinking Foreign Aid: The Index of Economic Freedom," Heritage Foundation Lecture no. 485, 1994.
- [101] See Johnson and Sheehy.
- [102] Congressional Budget Office, p. 11.
- [103] J. Michael Finger, "The High Cost of Trade Protectionism to the Third World," in *Perpetuating Poverty*, p. 319.
- [104] Jessica Matthews, "The Assault on AID," *Washington Post*, February 28, 1995, p. A19.