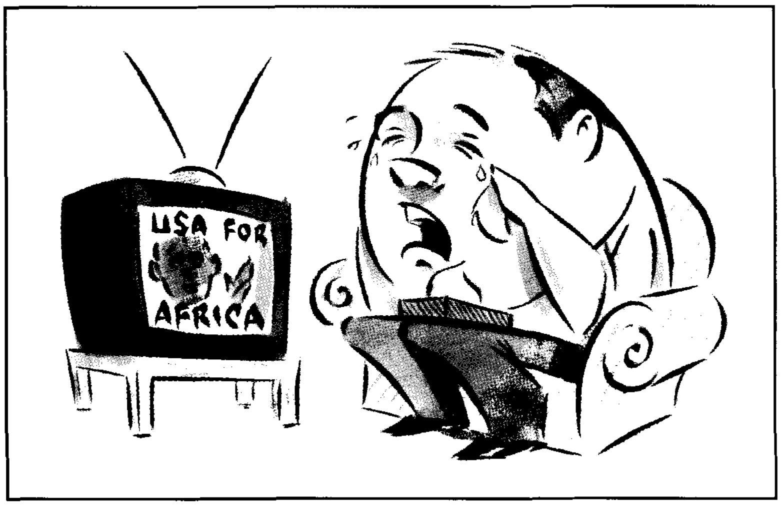
Down the Rathole

Where Foreign Aid Goes

by Doug Bandow



Darren Gygi

Last year, President Clinton, who has rarely found a conflict that he did not want to join, complained to the Veterans of Foreign Wars that Congress was cutting foreign aid, "the very programs designed to keep our soldiers out of war in the first place." He threatened to veto the foreign-assistance appropriation bills passed by the House and Senate, which had reduced his request by two billion dollars. Naturally, Congress capitulated, throwing more good money after bad. What is a few billion among friends for programs which have consistently failed?

The pattern is likely to be repeated this year. The administration has proposed spending $22.8 billion next year on international affairs, including the cost of manning the State Department, subsidizing the United Nations, and funding international conferences and commissions. Roughly $12.2 billion is slated for "international assistance programs."

Where does it all go? There is three billion dollars for "international development assistance," which falls under the U.S. Agency for International Development (USAID). More than one billion dollars is for general aid; separate funds have been established to aid Africa, respond to disasters, and combat disease. Another $1.5 billion is for the former Soviet bloc. All of this money is supposed to encourage economic growth, democratic development, environmental protection, population reduction, and a variety of other worthy ends. In addition, USAID costs about $500 million to run.

Small amounts of money go to such agencies as the Peace Corps and the Inter-American Foundation. But the administration also wants to spend $3.1 billion on the African Development Foundation in order to "generate new jobs, protect Africa's environment, and strengthen basic democratic values and civil society."

The potpourri of multilateral aid institutions—the World Bank; the International Monetary Fund; regional banks for Africa, Asia, Europe, Latin America, and North America; and more—will consume another $2.1 billion. Finally, more than $800 million is slated for Food for Peace, which subsidizes foreign agricultural shipments (and U.S. farmers) in the name of feeding the world.

Security assistance, largely administered by the Pentagon, accounts for almost seven billion dollars. About $4.3 billion goes to subsidize U.S. arms sales abroad; another $420 million is slated to support peacekeeping operations and promote nonproliferation. There is also $2.3 billion doled out by USAID for the Economic Support Fund, which is essentially a cash transfer to those governments which happen to be on Washington's annual gift list. Israel is a prime recipient.

Since World War II, the United States has contributed (in current dollars) more than one trillion dollars in bilateral and multilateral assistance to other countries. Other nations and international aid agencies have provided hundreds of billions of dollars more.

What do they have to show for all of this effort? Although some individual development projects have worked and humanitarian aid can help alleviate the effects of crises, there is little evidence that American cash transfers have done much to advance growth or stability throughout the developing world. Most obviously, there is no evidence that abundant "aid" has helped move poor Third World states into the industrial age.

Even USAID has been forced to admit that "much of the in-

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vestment financed by U.S. AID and other donors between 1960 and 1980 has disappeared without a trace." The result? The United Nations reported in 1996 that 70 countries were poorer than they were in 1980; 43 were worse off than they were in 1960.

Almost all policy workers today acknowledge that good domestic policies (outward-oriented, market-friendly) are the fundamental determinants of growth. Aid officials have argued that they can induce countries to move to market economies, but foreign-aid transfers more often subsidize economic failure—witness Russia. In fact, World Bank economists Craig Burnside and David Dollar have concluded: "We find no systematic influence of aid on our index of fiscal, monetary, and trade policies." For each case where one can argue that assistance advanced reform, "there is a Zambia, in which policy deteriorated continuously from 1970 until 1993, while aid receipts rose continuously."

The failure of foreign aid to meet its traditional goals has led to a frantic search for new justifications for its continuation. The latest, articulated by President Clinton before the VFW, is that Western financial transfers can prevent social catastrophe, the implosion of entire nations, and war. Without massive transfers to the Balkans, argued Clinton, "make no mistake—there will be another bloody war."

Similarly, before he quit in July 1999, USAID Administrator J. Brian Atwood complained that budget caps on foreign aid were causing the United States to miss "opportunities to understand the internal tensions that lead a state to fail or go to war with its neighbor."

The administration has long peddled this line. In June 1994, Atwood ordered the agency to "start putting together a socio-economic and political early warning system, to identify the vulnerabilities" of weak developing states, and to "start putting some resources behind them." Calling this mission "crisis prevention," he went on to advocate "preventive investment" in "nation building." Other U.S. aid advocates, both on Capitol Hill and in the private relief community, have made much the same argument.

The U.N. high commissioner for refugees also suggested using aid to forestall crises. In 1995, Commissioner Sadako Ogata asked: "What might have happened in Rwanda if the estimated $2 billion spent on refugee relief during the first two weeks of the emergency had been devoted to keeping the peace, protecting human rights and promoting development in the period that preceded the exodus?"

The answer is "probably nothing," for Rwanda did not go unaided before its crisis. On the contrary, between 1971 and 1994, that nation received $4.7 billion in foreign assistance from America, the multilaterals, and European nations.

Then there are Haiti and Somalia, which, over the same period, received $3.1 billion and $6.2 billion, respectively. Both descended into chaos; both ended up under U.S. military occupation. So much for the President's desire to use aid to avoid military intervention.

In fact, almost every country in crisis received abundant outside transfers from a variety of sources beforehand. Over the same period, Sierra Leone received $1.8 billion in international aid, Liberia $1.8 billion, Angola $2.9 billion, Chad $3.3 billion, Burundi $3.4 billion, Uganda $5.8 billion, Zaire $8.4 billion, Sri Lanka $9.8 billion, Mozambique $10.5 billion, Ethiopia $11.5 billion, and Sudan $13.4 billion.

Contrary to the Clinton administration's claims, generous and continuous foreign aid did not prevent catastrophe in these nations. Obviously, they all suffer from a variety of ills. But in no case did inadequate international aid cause the West to miss "opportunities to understand the internal tensions that lead a state to fail or go to war with its neighbor," let alone cause those nations to fail or go to war.

None of the benefiting states was capable of using foreign capital well. In countries like Ethiopia, Somalia, Sudan, and Zaire, foreign assistance subsidized autocratic and corrupt dictators who consciously wrecked their nations. Alex De Waal, onetime vice director of Africa Watch, reports 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."

Even well-intended humanitarian assistance has had perverse consequences. Concluded one internal USAID audit of Food for Peace shipments: "the long-term feeding programs in the same areas for ten years or more have great potential" for creating disincentives to "food production." Farmers in countries as diverse as Guatemala, Haiti, and India have been ruined by American kindness.

Western assistance programs had a particularly disastrous impact on Somalia, a longtime U.S. ally that self-destructed and, like Humpty-Dumpty, proved impervious to American and U.N. attempts to put it back together again. Explained Michael Maren, a journalist who has worked for the Peace Corps, Catholic Relief Services, and USAID, "the program was working to prop up a corrupt dictator and turn nomads into relief

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Foley's Secretary

by Lawrence Dugan

She said whatever they told her,
Let the meanest client scold her:
"Put Foley on the phone, I pay
"To hear his nonsense once a day!"
But client slowly realizes
The girl is smart and sympathizes.
One day she says a *bit* too much,
Tells angry Mr. Such-and-Such
That company X is under fire
To make it rain—or is it drier?
"I don't know Mr. Foley's views . . . "
But client understands the news,
Shorts the stock and saves his skin,
Takes her to lunch at *Le Bec Fin*
For bending rules left unspoken.
(When they break they don't seem broken.)