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CONGRESSIONAL TESTIMONY

Congress Should Reduce the Deficit—Not Increase Funding from American Taxpayers for UN-Designed Foreign Aid Programs That Will Not Work

Testimony before the
Subcommittee on International Organizations, Human Rights and Oversight
Committee on Foreign Affairs
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by
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My name is Jim Roberts. I am the Research Fellow for Economic Freedom and Growth in the Center for International Trade and Economics at The Heritage Foundation. Prior to joining Heritage in 2007, I served for 25 years as a Foreign Service Officer with the U.S. Department of State and worked on a variety of development assistance issues in a number of developing countries. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Congress should reject approval of future taxpayer-funded U.S. Government official development assistance (ODA) programs that are designed to achieve the UN's Millennium Development Goals (MDGs). I should note at the outset that I do not include emergency and humanitarian assistance in my critique of ODA, such as when the United States responds to earthquakes, floods, and other natural disasters by sending help to victims around the world.

The Declaration adopted at the UN Millennium Summit in 2000 addressed a wide range of problems related to peace, security, and development. No one disputes the desirability of reducing poverty, hunger and infant mortality, increasing access to safe drinking water, improving education, reversing the spread of HIV/AIDS, or protecting the environment. There is significant disagreement, however, about the proper methodology to achieve those goals.

The familiar call for the U.S. and other Organisation for Economic Cooperation and Development (OECD) member countries to commit 0.7% of gross domestic product (GDP) as official development assistance, first made nearly 40 years ago in a General Assembly resolution and reaffirmed many times since, has been repeated so often that people have forgotten that there is no verifiable evidence that ODA is effective—in any amount.

In my opinion, these UN development assistance programs will fail to achieve their objectives. If Congress continues to fund them, the only certainty is that they will further enrich corrupt elites in developing countries and they will provide continuing employment for the cadre of development assistance bureaucrats and other professionals who are advancing them.

Increasingly experts in the developing world such as Dambisa Moyo of Zambia, author of *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa*, are voicing opposition to ODA. They know from firsthand experience that 50+ years of foreign aid from developed countries to Africa and elsewhere in the developing world has strengthened corrupt elites, encouraged a morally corrosive culture of corruption, discouraged private foreign and domestic investment, and actually caused poverty rates to rise due to higher levels of non-productive government spending and the welfare-dependency mindset it encourages.

One has only to drive 50 or so miles beyond the Beltway in any direction to see that the massive government "stimulus" spending in the U.S. in recent years, while a boon to public sector unions, has utterly failed to help the average American to achieve his or her own set of "MDGs" (and the U.S. is one of the most economically free nations on earth). So why should anyone expect USG deficit-financed development assistance programs that emphasize welfare-state redistribution solutions to be any more successful in other countries?

This is especially true at a time of unthinkably large U.S. deficits. Analysts at The Heritage Foundation recently reported that the Obama Administration's "FY 2010 Mid-Year Review" projects this year's budget deficit at $1.471 trillion, or 10% of the entire U.S. economy. That is the largest nominal deficit in American history and, as a percentage of the economy, it's the largest deficit since World War II. By 2020 the President's budget includes deficits that never fall below $698 billion and leaves our children with $18.5 trillion in debt.

As Swedish development economist Fredrik Segerfeldt argues in a forthcoming book entitled "First, Do No Harm" on the failure of foreign aid to lift people out of poverty over the last 50 years, despite decades of efforts and the expenditure of $1.65 trillion dollars by OECD donor countries, the problems in those countries simply cannot be solved by foreign aid. Only economic growth can rescue the poor and extremely poor, and that growth cannot be generated by statist development assistance programs that center on an ever-expanding welfare state and redistribution schemes.

Segerfeldt points out that in 1962 the GDP per capita in East Asia and Sub-Saharan Africa was roughly the same. By 2005, the poverty rate in East Asia had been dramatically reduced while in Sub-Saharan Africa it was more or less unchanged. The difference? China, South Korea, the so-called Asian Tigers, and other countries in East Asia generally did not follow the Western development assistance model, preferring to stimulate growth through investing and exporting. Meanwhile countries in Sub-Saharan Africa became increasingly dependent for larger and larger shares of their GDP on ODA flows from OECD donor countries.

The development assistance lobby in OECD countries, however, pushes the MDGs and downplays extensive evidence that growth, not aid, provides the exit from the poverty trap. For evidence, look no further than the UN Millennium Declaration, which the UN Development Programme purports to be the gold standard of development assistance policy prescriptions. It does not contain a single reference to economic growth. That absence is all the more remarkable given that the stated top priority of ODA is poverty reduction. Yet without economic growth, countries will lack the resources necessary to improve the lives of their citizens.

The MDGs are designed in part to build better institutions and, indeed, they are the key. But they cannot be fixed with a few good governance and anti-corruption programs administered by expatriate development professionals. Only fundamental changes in a country's culture and political philosophy by its own citizens can accomplish the necessary changes.

It is not just the formal institutions of a government in developing countries, but the informal customs governing day-to-day business transactions, that must be reformed. And that can be accomplished only by the people living there. If a country's culture and practices and steeped in corruption, no amount of aid will overcome it. In fact, as Segerfeldt notes, official development assistance over a long period actually degrades these formal and informal institutions, allowing corrupt regimes to hang onto power for long periods through manipulation, military intimidation, patronage, and pay-offs.

It seems that around the world more decisions are made by government leaders to insinuate themselves and their bureaucracies as a partner, financier, or outright owner of formerly private corporations and enterprises, sometimes in joint ventures with labor unions. Often this insidious and growing "crony capitalism" is patterned after European corporatist-style industrial policies, hailed by their statist supporters as the "public–private" wave of the future. Yet these public-private partnerships are generally counterproductive. Despite their high-minded titles under the rubric of "Corporate Social Responsibility" they often end up nourishing a culture of cronyism.

It is instructive to study the countries where the MDGs have actually been realized most fully in the history of the world—the developed countries with high levels of economic freedom and low levels of corruption. Why? Because those countries have the cultural and political institutions necessary for success that enshrine rule of law, secure private property rights, limit government, and keep taxes as low as possible. These are the policies and practices by which countries can bolster free markets and entrepreneurship, democratic governance, political stability, and prosperity.

According to The Heritage Foundation/*Wall Street Journal's* 2010 *Index of Economic Freedom*, the countries with greater improvements in economic freedom achieved much higher reductions in poverty.

Although the current and requested level of U.S. ODA is vastly more than it should be, the reality is that cutting $30 or $40 or $50 billion in foreign aid spending from the federal budget would not do much to reduce the U.S. deficit. But it should be done, since it is one of thousands of budget cuts that will be required to restore our country to long-term financial health. In my view, the only role for official U.S. Government assistance should be "One Government" programs to achieve short-term U.S. national security objectives that are designed and implemented by fully integrated U.S. military and civilian agency teams.

And what of the $100+ billion per year in total ODA from developed countries? It is a paltry sum compared to the annual level of remittances, private capital investment, and trade flows in a world economy that is increasingly market-oriented and globalized. These private flows are the real source of economic growth and development. So I urge that ODA from all OECD countries be ended, too. Because ODA is not solving the problem of poverty in the world—it is actually blocking the long-term resolution of that problem.

The best thing the United States could do to help the developing world today would be to get its own financial house in order and regain its status as a role model for developing countries. Take the lead among OECD countries to end ineffective ODA programs. Instead, encourage more trade and investment, for example by approving pending Free Trade Agreements and negotiating more.

Drastic cuts must be made to government spending at all levels in the U.S. in order eventually to reduce deficits to zero, thereby making more capital available to the private sector and spurring a renewed level of economic growth in the U.S. and globally. The U.S. has been the largest source of foreign direct investment in developing countries and the largest recipient of developing country exports. That is the best model for sustainable development—through economic growth.

Thank you very much and I look forward to your questions.

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