

REPLENISHING THE WORLD BANK'S IDA: A \$12.4 BILLION MISTAKE

The World Bank's International Development Association, or IDA, long has been one of the most controversial of all foreign aid programs. It correctly has been criticized for heavily subsidizing misguided economic policies throughout the Third World. It therefore is baffling that the Reagan Administration has negotiated with other donor nations a 38 percent increase over current contributions. This contradicts prior Reagan policy decisions to reduce IDA funding levels.

IDA grants 50-year, zero-interest development credits to the world's poorer nations. The most favored recipient has been India, which last year received credits amounting to \$625 million and over the past 5 years has received \$4.262 billion. Recently, the People's Republic of China has begun receiving large credits, amounting to \$450 million last year. Many Marxist nations also receive IDA funding, including Mozambique, Tanzania, Ethiopia, and South Yemen.

IDA funds are supposed to promote development. Whether they do so is increasingly doubtful. Many Third World nations view the generously subsidized loans as a "development right" to which they are entitled just because their economies are anemic. No matter that their poor economic performance is largely due to their own flawed statist economic policies. Yet IDA, year after year, underwrites the same economic policies which have imposed enormous hardship and suffering on Third World inhabitants. IDA, moreover, sets no time limit for cutting off funding for nations that fail to use the loans wisely. Indeed, the worse a developing nation's government runs its economic affairs, the more eligible it becomes for IDA funding. Example: Tanzania has witnessed its economy and living standards decline almost annually yet continues as a favorite IDA beneficiary.

Another concern about IDA is the creditworthiness and anti-U.S. position of some of its recipients. Creditworthy India, for example, has easy access to commercial funds. Yet India, acting sensibly enough in terms of its self-interest, shuns commercial loans and foreign equity investment because of the availability of IDA's credits. It is not in the interest of the U.S. taxpayer, however, to foot the bill for IDA's subsidy to India, particularly in light of many of India's anti-U.S. and pro-Soviet positions. For example, India has refused to condemn the Soviets for invading Afghanistan and

shooting down the Korean airliner, KAL 007. Additionally, it has allowed Soviet military ships access to its ports and recently expanded Soviet air routes over India to Vietnam.

Mainland China, another IDA favorite, also has the ability to borrow commercially. Several years after the People's Republic of China (PRC) first began receiving IDA credits in 1982, it was one of the top six foreign currency holders in the world and a net creditor country (i.e. lending more money to other countries than it borrows). While it was receiving 50-year zero-interest subsidies courtesy of U.S. taxpayers, the PRC, in fact, was turning around and making direct investments in the U.S. and Japan. Although China has begun freeing its economy from the straitjacket of communist direction, it is still enormously inefficient and thus capable of squandering any amount of subsidy from Western taxpayers. Yet a more fundamental concern remains: Is Communist China sufficiently benign and friendly toward the interests of the Free World democracies that it deserves U.S. subsidies? Such a critical question should not be left to be answered by the international bureaucracy of the World Bank.

IDA's dismal economic and political record some time ago came to congressional attention. Thus when President Jimmy Carter in 1979 negotiated what technically is called the IDA VI replenishment, amounting to \$12 billion from all contributing nations, even the Democratic-controlled Congress balked. It refused to authorize or appropriate the \$3.24 billion U.S. share. Not until the 1981 Omnibus Budget Reconciliation Bill, when the IDA replenishment was buried in this important larger bill and thus could not be voted on separately by members of Congress, did IDA VI get approved. Three years later, the Reagan Administration negotiated a much smaller IDA VII--\$9 billion. Again Congress would not pass it as a separate bill. It was okayed only when it was buried in the huge 1985 Continuing Resolution bill, which prevented members of Congress from voting against it as a separate item. To oppose IDA VII would have meant shutting the entire U.S. government. Prior to IDA VII, Treasury Secretary Donald Regan issued a report declaring that future U.S. policy would be to reduce future IDA funding levels.

This carefully weighed policy decision is now being ignored by the U.S. Treasury Department in negotiating a \$12.4 billion IDA VIII replenishment. Yet the arguments against IDA today are even stronger than when Congress turned down Carter's IDA proposal. For one thing, the U.S. budget deficit has swelled. For another, IDA has not changed its ways. It continues to lend money without regard for whether it is fostering economic growth or dependency. The U.S. taxpayer can no longer afford to subsidize frivolous loans and the activities of blatantly unfriendly nations. More important, the U.S. should not be funding international lending agencies which fail to encourage the emergence of market-oriented economic policies. It is such policies, not subsidized IDA loans, that will trigger the growth needed to end Third World poverty and suffering.

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