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The Foreign Aid Cancer

By Richard T. Montoya

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THE FOREIGN AID CANCER

by Richard T. Montoya

Ladies and gentlemen, the patient has cancer. There is a doctor in the operating room who has the ability to help this patient. That doctor is Ronald Reagan.

Unfortunately, this patient has had opinions from other doctors who are neither skilled nor licensed and if they, Congress, are allowed to perform this operation, the patient will surely die.

It is my sincere belief that this Administration, this President, is moving effectively in a direction to improve foreign aid within the overly restrictive bounds that Congress has applied to it.

Subsidizing Poverty. Prior to this Administration, aid to foreign countries had become permeated with the same rhetoric found in domestic welfare programs. Precious little was done to prevent foreign aid from producing many of the same perverse results. Reference had often been made to the "rights" of the global poor and what was "owed" to the less developed countries by the more developed. Indeed, Hollywood today now profitably promotes concert-benefits playing upon collective guilt feelings.

When people are convinced that poverty is someone else's fault, then the solution also can be left to someone else. Liberals argue that the consequences are bearable because the rich should subsidize the poor. But it is cruel to raise people's expectations to a level that cannot be sustained by their countries' internal resources.

Internationally, past Administrations' foreign aid policies that fostered dependency were disasters. The ultimate result was deeper poverty and increased political and social unrest as well. We raised expectations that citizens of poor countries had a right to a redistribution of wealth created by others, and ignored the development of entrepreneurs who create their own wealth. Could we truly blame those same people for turning to demagogues and ideologies that promised redistribution of wealth by force?

As Assistant Secretary for Territorial and International Affairs, I have had to deal with the legacy of failure inherited by the Reagan Administration in the region known as Micronesia. Micronesia is an area of some 2,000 Pacific islands and 100,0000 people which was administered by the United States Navy after the second World War and then by the Department of the Interior since 1950.

Giving Democracy Roots. In the early 1960s, when President Kennedy initiated the Alliance for Progress, an ultimately unsuccessful attempt to apply a Marshall Plan to Latin America, a little noticed but similar aid program was

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He spoke at The Heritage Foundation on May 28, 1987.

ISSN 0272-1155.

launched in Micronesia. Because Micronesia was administered by the United States, it was not considered eligible for foreign aid programs, either U.S. or multilateral. The attempt to bring these remote islands kicking and screaming into the 20th century was made instead through a combination of Interior Department administrative grants and application of domestic federal programs from school lunches to the Legal Services Corporation. The pitch to Congress, that no one dared to question, was that no programs or services offered to Americans should be denied to the Micronesians. That the economy and needs of isolated and unique cultures were any different from those of American inner cities was somehow never seriously considered.

Well, the programs achieved some positive results. Health was improved; democratic institutions were given roots. A great deal of effort was put into replacing U.S. civil servants with local employees, with similar pay and benefits. As a result, a disparity in wage scales between the private and public sectors has become prevalent--a condition that stifles private sector growth today.

Dependency Greater Than Ever. A great deal was also spent on infrastructure, on the theory that living standards could only rise after the implementation of stateside standards for schools, hospitals, highways, docks, airports, sewage treatment plants, and air conditioning. But these projects proved to be horrendously expensive to build on isolated islands with no production capacity and little local labor. Furthermore, they were impossible to maintain, particularly without any revenue source other than more federal dollars. It was found that the 7,000-foot runways, the fully-equipped hospitals and the typhoon-proof school buildings did not bring development and deteriorated in the tropical climate like the cargo cult symbols of an earlier era.

Due to inappropriate programs designed by Congress and past Administrations, the dependency is greater than ever. The result of some 15 years of negotiations between the United States and teams of U.S. lawyers representing Micronesia at U.S. taxpayers' expense, has been a deal for independence of sorts, called "free association" with the United States. The price tag: a staggering $3 billion payable over 15 years. The money is provided to support Micronesia in the standard to which it has been accustomed--that is, $2,000 per capita annually in U.S. assistance. The need is great because little indigenous self-sustaining economic development has resulted from the previous $2 billion that has been spent. Local private sector development is largely limited to stores selling goods to government employees, while exploitation of the available resources--fisheries and tourism--is left to foreigners, mainly Japanese, in exchange for token payments often confused in local minds with economic development.

Providing the Golden Goose. The funds--all $3 billion--are earmarked for local administrative expenses and "infrastructure," which is somehow still not up to the desired U.S. standards. Nothing was set aside for private sector development until the Reagan Administration added on to the agreement an additional $30 million in "investment development funds" specifically earmarked to encourage the presence of the U.S. private sector.

Although I am encouraged by this modest attempt to begin at last the process of real economic development in Micronesia and by the rhetoric of its leaders on private sector development and privatization, I cannot consider the Compact of Free Association a model for financial relationships with less developed countries.

The ones who will benefit the most from this aid will be the ones who now benefit--the Japanese. The private sector that will thrive in Micronesia will one day be very much like the private sector that thrives today in the U.S. territories of Guam and the Northern Mariana Islands. Japanese-owned hotels, Japanese air fleets, Japanese tour operators, Japanese gift shops, and Japanese restaurants abound. There is nothing intrinsically wrong with Japanese investment, and we should do all we can to encourage truly private investment from whatever the source. But there is something terribly wrong with a system that pumps millions, even billions, of U.S. taxpayer dollars into a region to subsidize that self-serving foreign investment.

In the U.S. territories as in Micronesia, it is the U.S. assistance that literally has provided the golden goose. This golden goose has engendered a commercial framework of legal and banking systems, subsidized utilities, free and unrestricted access to foreign labor, monopolistic control over the tourist dollar, and local workers padded onto territorial government payrolls financed by the U.S. taxpayer.

The Japanese Model. I believe that by contrasting the way the Japanese have operated in Micronesia and the way in which U.S. assistance has been provided, we gain insight into how to improve foreign aid. I have in mind several important examples that I have experienced in Micronesia.

When I became Assistant Secretary, on my first tour of one of the islands, I noticed that, wherever a Japanese-funded project was being built, there was a large sign stating, "A GIFT TO THE PEOPLE OF THE MARSHALL ISLANDS FROM THE PEOPLE OF JAPAN." This "gift" in fact was payment of war reparations by Japan, but that fact was conveniently left unstated. The second important fact was that aid from Japan did not come in the form of yen. Instead, it was "in-kind," with Japanese equipment, Japanese supplies, and Japanese labor dedicated to the project. As a result, future operating and maintenance contracts were also earmarked for Japanese businesses. This model appeared over and over again as I toured the Pacific--in bridges, in docks, in electrical generation, and in ice plants needed for local fisheries development.

"We Don't Respect Americans." I then asked to see some U.S.-funded projects. At these locations, there were no signs whatsoever. On one U.S.-funded project, because Taiwanese workers comprised the construction crew, the local population assumed that Taiwan was the donor country.

Our well-intentioned but basically unrestricted grant assistance has not bought the U.S. the respect that the Great Society planners naively had hoped for when it was originally designed. This was well summarized by a Micronesian elder who said, "We don't like the Japanese, but we respect them because they make things work--we like the Americans very much and their money, but we don't respect them."

The advantages of in-kind contributions rather than unrestricted funding for foreign aid are obvious. These advantages are not overlooked by the Japanese, or by the Soviet Union for that matter.

Where multilateral assistance is involved the Japanese have been equally pugnacious in pursuing their own advantages. As economist Warren Brooks put it so lucidly in a recent editorial concerning contributions to the World Bank:

Over the last decade the United States has put up more than 30 percent of the money but got back less than 8 percent of the total procurement generated.

By contrast, the Japanese have put up about 10 percent of the money but got more than 16 percent of all the foreign procurement made by the borrowers.

In short, the Japanese are getting back more money than they put in, while the United States is getting less than 25 percent of its own money back in procurement.

A Pragmatic Tool. The objectives of multilateral assistance are varied. While assistance should not, of course, be directly tied to procurement, I believe that we can do a better job in getting American businesses involved in foreign aid.

How do we cure the cancer that is foreign aid? Only by restructuring our objectives and expectations of what foreign aid can and cannot do. Foreign aid must become a pragmatic tool of American foreign policy. We gain maximum advantage of foreign aid only by ensuring development of strong private sector driven economies. Such development will improve conditions in recipient countries and will bring long-term benefits by expanding markets and creating private sector opportunities.

Strings Attached. Another objective of giving aid is to obtain or maintain influence and thereby assist in achieving mutual interests. In well defined instances, foreign cooperation, or at a minimum, lack of interference with U.S. foreign policy, is something useful.

Finally, well managed foreign assistance programs enhance security. We provide economic assistance to help solve problems that, if left unattended, create instability, unrest, and opportunities for our adversaries.

So, let there be strings attached to U.S. foreign aid and let that be clearly understood. A clear example of a productive and useful condition of foreign aid is the requirement for privatization. Privatization is fast becoming a global phenomenon in the free, and even in parts of the not so free, world. I have used privatization successfully in the Pacific islands to break the cycle of dependency engendered by government to government grants-in-aid. Whether it be electrical or water utilities, telephone companies, hotels or ship repair facilities, the Administration has steadfastly argued against their continued government ownership and operation.

Key Improvements. Similarly, Treasury Secretary James Baker's initiative and the private sector development work of AID's Private Enterprise Bureau stand as key improvements that the Reagan Administration has made in the provision of foreign aid.

In the Dominican Republic, Costa Rica, Ecuador, Niger, Somalia, Zaire, and Bangladesh, policy and institutional changes there have contributed directly to accelerated growth and development. This has been achieved as a direct result of the innovative and results-oriented private sector approach that the Administration has developed.

Congress Befuddled. When the results are finally starting to show, it is not the time for Congress to balk shortsightedly and not give the Administration the funds it needs in foreign aid. Properly structured, foreign aid is a necessary part of our foreign policy. If current trends continue and programs become bankrupt, we will lose an important instrument for protection of our national interests.

The U.S. Congress, with its present majority leadership, today stands as a house divided. Befuddled as to America's true national interest, this leadership insists on hamstringing the executive branch in carrying out its rightful constitutional authority. With the principles that I have laid out, I believe the cancer that is foreign aid can be cured. The Administration has put into place the foreign aid programs that will work, that rely on the private sector, and that the American people expect and deserve in return for their tax dollars.

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