

## SOUND NEW ADVICE FROM THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Alan Woods, the new Administrator of America's primary foreign aid agency, the Agency for International Development (AID), recently submitted his first annual report to Congress. In it he observes that, because of ill-conceived economic and social policies, the governments of less developed countries (LDCs) often are more responsible than anything else for continuing poverty in their countries. Woods explains that stressing to these countries the importance of free markets is the best means of achieving economic growth and prosperity.

The Woods testimony is as welcome as it is correct. His candor contrasts greatly with what have been the standard operating procedures of the AID bureaucracy and the programs that it administers. Woods's challenge therefore is to make certain that his AID employees and AID-funded organizations promote the market-based policies that he calls for in his report. Congress needs to back Woods's efforts by rewriting AID's policy mandate to emphasize the need for more U.S. aid programs to promote long-term, growth-oriented economic policies.

Since the end of World War II, the United States has recognized that worldwide prosperity serves America's economic, political, and moral interest as well as benefitting the citizens of the LDCs. Economically healthy countries not only have higher living standards but are more politically secure, less susceptible to communist subversion, and potential customers for U.S. exports. Yet in recent decades, many recipients of U.S. aid have stagnated or actually grown poorer.

**Discredited Theories.** A key reason for this failure of AID is that AID's mandate is based on discredited theories of economic development policy. These theories see national governments as the engine of economic growth. In 1973, for example, Congress rewrote AID's authorizing legislation to stipulate that "development planning must be the responsibility of each sovereign nation." The 1973 rewrite also directed AID to focus on the "poorest of the poor" to meet such basic human needs as food and medical attention. While such aims are laudable, they prompted AID to funnel aid money through the public sector of the recipient country. The result: Independent private entrepreneurship and the private provision of food and health services were discouraged. Economic and social progress thereby was constrained.

Thanks to this congressionally imposed philosophy of development, AID has supported increased government intervention in the economies of many foreign countries. Example: In El Salvador, AID recently financed several extensions of state control, including the creation of a government monopoly for marketing coffee. Example: In many cases direct U.S. food aid to

LDCs lowers the prices that farmers receive for their crops, thus creating a disincentive for them to increase output. By contrast, one study found that only about 4.5 percent of AID expenditures go to the private sector.

**Promoting Entrepreneurship.** Woods is correct when he notes that the governments are responsible for the bleak prospects of most poor countries and that as such only governments can reform their systems. He recommends that in countries with active private sectors, governments should promote rather than restrain entrepreneurship by transferring state-owned industries to private hands. He cautions, however, that such privatization will not work if governments continue to over-regulate the economy and penalize productive business activity.

Woods now must ensure that AID officials actively promote growth-oriented, non-statist economic policies. He must appoint key administrators to execute such policies. Since AID carries out many programs by contracting with private voluntary organizations, Woods also must see to it that these groups are selected according to their ability to fulfill AID's new policy. Of special importance is the need to fund private groups in LDCs that study and disperse information concerning free market reforms. Congress also should back Woods's efforts by rewriting AID's legislative mandate to give clear priority to long-term, growth-oriented economic programs.

**Correcting Past Errors.** AID's new Administrator is making an important effort to correct his agency's past errors. Anti-free market policies, combined with an overemphasis on meeting basic human needs — an understandable but insufficient strategy — actually has undermined economic growth and led to stagnant or even falling living conditions. The U.S. has a moral, economic and political interest in worldwide economic growth. Congress and the Administration should push ahead with efforts to make AID a more effective cure for worldwide poverty.

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For further information:

"Statement of the Administrator," *Congressional Presentation, Fiscal 1989, Agency for International Development*, main volume, pp. 1-19.

Peter F. Schaefer, "Seven Steps to Improve U.S. Bilateral Foreign Trade," *Heritage Foundation Backgrounder* No. 599, August 19, 1987.