

# The Executive Memorandum

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**RUSH!**

## THE WOODS REPORT: WHY THE U.S. NEEDS NEW FOREIGN AID GOALS

The United States has spent billions of dollars to help the less developed countries of the world. Much of this money apparently has been wasted when recipient countries have failed to promote free enterprise and economic growth. This is the conclusion of an extensive report just issued by the federal agency responsible for helping developing countries, the United States Agency for International Development (AID). Known as the Woods Report, after AID Administrator Alan Woods, *Development and the National Interest: U.S. Economic Assistance into the 21st Century* makes it clear that the U.S. foreign aid program requires new goals and new strategies. This is clear too from the Report of the Task Force on Foreign Assistance, chaired by Representative Lee Hamilton, the Indiana Democrat, and Representative Benjamin Gilman, the New York Republican, also released last month. It explicitly calls for "a new international economic cooperation act to replace the existing Foreign Assistance Act" of 1961.

The Woods Report finds that while America seeks to further humanitarian, trade, economic and security goals with its foreign aid funds, these goals too often are not well defined or actually conflict with one another. One problem is congressional micromanagement. Congress increasingly has been earmarking foreign assistance funds for specific uses. Thus, the proportion of Economic Support Funds over which AID has spending discretion has dropped from 44 percent in 1985 to only 2 percent in 1989. This congressional micromanagement has meant that AID officials must pay more attention to meeting specific spending targets than to determining whether a recipient country truly is being helped by U.S. aid. Further, by spreading limited resources among disparate goals, none are well served.

**Mistaken Solutions.** The Woods Report also examines the relationship between economic growth, and the ability of countries to meet such basic human needs as health care and education. The Report notes that, while there is no single adequate measure of living standards and that data are often inaccurate, nevertheless, only a country with steady economic growth can improve live infant birth rate levels, life expectancy, and literacy over the long term. Too often, says the Report, policy makers mistake short-term fixes for long-term solutions to the problems of meeting basic human needs.

The Woods Report recognizes that developing countries have no control over such important development factors as world prices for their exports or natural disasters. Yet they do control their own domestic economic policies and these have proved the most important factor in sustained economic growth. In 1960, for example, South Korea was considered an economic basket case and little promise was seen for the Republic of China on Taiwan or Singapore. By contrast, bright futures were projected for many African states and for Brazil and Argentina. Today much of Latin America and most of Africa wallow in debt or abject

poverty, primarily because they have mismanaged their economies by restricting trade and investment, by maintaining huge, wasteful government bureaucracies, and by failing to protect the property rights of their citizens. Asian countries that have protected private property, allowed market forces to operate in their economies, and which have smaller state sectors are prosperous and still growing.

**Evaluating PVOs.** The Woods Report finds that U.S. charities, churches, and private voluntary organizations (PVOs) have contributed twice as much as the U.S. government to less developed countries. Many PVOs, however, are scarcely private or voluntary. They receive the vast majority of their funds from the U.S. government. As such, they tend to emphasize short-term goals that their programs can fulfill, thus assuring renewed government funding. This is an important cause of the emphasis on short-term development results at the expense of long-term goals, and of excessive congressional targeting of AID funds. While it correctly notes the positive achievements of PVOs, the Woods Report should have focused more on how these groups have contributed to the present sorry state of U.S. foreign aid policy.

The bottom line of the Woods Report and the Hamilton-Gilman Report is that Congress should establish new and sharper goals for U.S. foreign assistance and determine in general how these goals could best be met. Judgments concerning whether channeling funds through particular American PVOs best meets U.S. interests and promotes self-sustained economic and social progress in the Third World should be made by AID officials each year, case by case. Congress then should set criteria to judge the effectiveness of PVOs in light of U.S. policy aims.

Poverty and economic stagnation are not only a tragedy for the Third World. They also rob the U.S. of potential customers for its goods and create political insecurity in strategically important countries. Congress has an opportunity this year to address these problems. The Woods Report provides a basis for developing a new foreign assistance act. Congress and the Administration should work together, outside of the influence of interest groups that benefit financially from the very aspects of the current system that contribute to its failure, to devise an act that will best serve the interests of the U.S. as well as those of less developed countries.

Edward L. Hudgins, Ph.D.  
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For further information:

*Development and the National Interest: U.S. Economic Assistance into the 21st Century.* A Report by the Administrator, Agency for International Development, February 17, 1989.

Report of the Task Force on Foreign Assistance to the Committee on Foreign Affairs, U.S. House of Representatives, February 1989.

Mark Huber, "Private Voluntary Organizations Betray Their Trust," Heritage Foundation *Backgrounders* No. 636, March 7, 1988.