The Heritage Lectures

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A U.S. Model for Progress in the Developing World

By Alan Woods

The Heritage Foundation

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A U.S. MODEL FOR PROGRESS IN THE DEVELOPING WORLD

by Alan Woods

Last February, as Administrator of the Agency for International Development, I released a report. The subject was the form and effectiveness of U.S. Development Assistance. We called it *Development and the National Interest*.

And, sure enough, it developed a lot of national interest. There was quite a lively public dialogue, which was what we wanted. Heritage was one of many groups to give us a fair and thoughtful treatment.

But there was heat as well as light. Judging from some of the headlines that greeted *Development and the National Interest*, you might think it was a case of "Administrator bites Agency." The New York *Daily News* didn't lead with "Administrator to A.I.D.: Drop Dead," but others came close. *The Washington Post*, to cite just one example, ran a four column headline reading, "Foreign Aid Largely a Failure, U.S. Report Says." Which, of course, it does not. But some of the things the report does say, and some of the questions it asks, are just as challenging to the conventional wisdom on development.

In *Development and the National Interest*, we began by recognizing that successful development is a long-term process, not an overnight transformation. Foreign aid is only one of many tools for development, and not necessarily the most important one.

No Easy Solutions. America took over a century to become a major industrialized society enjoying high living standards. Western Europe and Japan also developed over many generations at slow but sustained rates. In all three cases, with the exception of post-World War II reconstruction aid, the development process occurred without foreign aid of any significant kind. So to expect easy, foreign aid-based solutions to today's development problems simply does not make historical sense.

Even in the relatively controlled environment here in the U.S., again and again, we've seen that earmarking billions of dollars to "fight poverty" doesn't necessarily help poor people very much. Attempting the same thing globally, where problems are more complex and the drains on resources far greater, is an exercise doomed to fail.

Indeed, until recently, many in the development community compounded the damage. First they would cheer on leaders practicing some of the most destructive policies in developing countries: state farms, parastatal enterprises, high marginal tax rates,

On June 29, 1989, some seven weeks after he delivered this lecture, Alan Woods died of cancer.

Despite a long and painful illness, Alan continued to give great leadership to the Agency for International Development, which he headed since November 1987. Surely no AID Administrator in history has made a more significant contribution to development policy in so short a time.

This lecture reflects Alan's great vision for the agency, the gains he made, and the challenges he was eager to confront.

Washington and the nation will miss him.

Edwin J. Feulner, Jr.
President, The Heritage Foundation

infringements on property rights, and untargeted consumer subsidies. Then they would use the inevitable economic devastation that followed to call for more poverty alleviation funds.

Today, thanks in part to work done here at Heritage, the battle for ideas is being won. Marxist-Leninist state economies are no longer seen as the wave of the future. They're recognized for the disastrously failed experiment in compulsion and economic illiteracy that they are. But transforming ideas into action takes time and effort. We haven't gotten there yet.

Yes, after years of decline and deprivation, much of the developing world has awakened to the need for freer, more opportunity-oriented policies – policies that we now know are the keys to economic growth and social progress.

Naive Hope. But is this reflected in official American development aid? Have our traditional development policies kept pace with reality? The record is painfully clear. In almost all of sub-Saharan Africa, for example, foreign aid has emphasized poverty alleviation projects. And treating symptoms, not causes of poverty, has coincided with declining standards of human development. There may have been a time when people could sincerely believe that, if only enough foreign aid could be pumped into a country, it could solve its problems. But that naive hope has been exposed as the myth it is.

The acid test of successful development is not how many individual projects achieve their limited objectives. It's whether or not countries or regions are making sustained progress. Indeed, when you get right down to it, there's only one bottom line measure of successful foreign assistance. What does it take to get countries to kick the aid habit? What makes it possible for developing countries to graduate from a state of impoverished dependency to independent growth?

Vague generalizations about the gap between rich and poor countries, the developed and developing worlds, tells us little. And they miss a vital point. Among developing nations themselves, there is a vast range of successes, failures, and object lessons from which to learn.

External factors do matter. Fluctuations in the global economy, natural disasters, and aid levels all play important parts in the performances of individual countries. But their impact varies considerably. Some countries simply cope better than others. The question is why? They answer is policy: the degree to which developing country governments encourage or discourage ten basic areas of human activity.

1) Promoting poverty.

Too many developing country governments hinder the ability of low-income groups to better themselves. They keep agricultural prices artificially depressed to the detriment of low-income farmers and the benefit of relatively well-off urban elites. Similarly, they subsidize social service programs aimed at the elites, even while they publicly rail against the "social costs" of adjustment. Efficient private provision of social services is also often opposed by entrenched bureaucracies.

2) Squandering natural resources.

Too many governments encourage the non-sustainable use of natural resources. Either they fail to promote land tenure systems that encourage sustained use of forest, water, and soil, or they actually subsidize short-term exploitation for short-term gain.

3) Persecuting the small businessman.

In many LDCs, government policies force normal economic activity – especially among the poorer classes – into nominally illegal informal sectors of the economy. This erodes respect for civic institutions and discourages the development of locally controlled, nongovernment institutions.

4) Lack of property rights.

Individual property rights of ordinary citizens are routinely ignored in many developing countries. For healthy social institutions to evolve, both urban and rural small-holders must be able to earn and hold legal title to their land.

5) Red tape vs. private enterprise.

Bureaucratic controls over commerce in many LDCs actively discourage new businesses and competition. This leaves commercial life in the hands of a privileged few working in league with the state bureaucracy.

6) Weak legal institutions.

Lack of faith in the ability to enforce legal agreements with government agencies – loss of credibility in the basic system of law and contracts – is a serious deterrent to development and growth in developing countries.

7) Bad economic policies.

Too few LDC government fiscal and monetary policies provide adequate incentives for private investment. Excessive marginal tax rates are often further aggravated by chronic hyper-inflation.

8) Protectionism.

Living standards of the poor, and growth prospects for all, are hindered in many LDCs by government protectionism. Coddling wasteful state-run enterprises or a handful of virtual monopolies owned by a small, privileged elite hurts economic growth and the poor.

9) Bad investment climate.

Regulations on repatriation of earnings and other restrictions on local and foreign investors virtually guarantee a stagnant private sector in too many developing countries.

10) Elitist education.

Lastly, education systems in some LDCs seem more interested in grinding out the next generation of bureaucrats intent on protecting their perquisites than on preparing their people for better opportunities and better living standards. Higher education for the few is favored rather than providing the majority with skills needed to be productive.

Clearly, policy makes a difference.

Good policies can't guarantee good weather. But they can guarantee a more resilient economy – one that can better withstand the shocks of hard times and better exploit the opportunities of good times.

The decisions that developing countries make themselves are, in the end, far more important than any we make on their behalf, however good our intentions. Given this basic fact, our study concluded that, while America's role in global development remains pivotal:

"... Radically reshaping future official assistance programs to face new realities and complement these greater unofficial American contributions to development must be both an immediate concern and a long-term national priority."

Concentrating on Economic Reforms. American resources are limited. Not every developing country is of strategic or economic importance to the U.S. And not every developing country is willing to practice the pro-growth, pro-people policies that will make aid and development work. What we need to concentrate on now is not only development aid, per se, but the economic reforms, open markets, and free trade that are essential to sustained development itself.

It's time we reaffirmed the principle that government-to-government aid should be a transitory bridge to private flows and self-sustained growth, not a permanent condition of dependency.

In the end, the real test of U.S. development aid will be how many recipient states outgrow the need for it. And that means replacing patterns of dependency with patterns of mutual economic benefit. That means leveraging private investment and technical assistance.

In short, it means refocusing – and leveraging – our limited aid resources where they can do the most good. And where they will best serve our national interest.

We do not need yet another layer of "new initiatives" or "new directions" piled on top of the existing backlog of often conflicting executive and legislative priorities and guidelines. What we need is nothing short of a new overall policy: a new American model for development into the 21st century.

It would be American because it builds on American strengths:

♦ ♦ our unequalled international presence in the private sector, where American multinationals train and employ the largest single global labor force in the world;

♦ ♦ the American higher education system, which already serves as virtual "university to the world";

♦ ♦ and the unsurpassed American ability to combine growth and prosperity with tested safeguards for the environment and health.

It would be a model, not because it would be mandatory, but because it would be a practical, rewarding blueprint for success. Because it looks to the reality of the 1990s and beyond, not to the failed policies of the past.

We know what our mistakes were. All we have to do is to stop making them.

Moving Away From the Double Standard. We've spend billions trying to alleviate poverty by spending on its symptoms. But, at the end of the day – much less at the end of decades – the countries where people are genuinely better off are the countries where people have evolved higher living standards through economic growth.

We must move away from the current double standard that recognizes the virtues of free trade among developed nations yet encourages LDCs to indulge in protectionist policies that enrich a privileged elite but hold back progress for the many.

We must make U.S. government programs collaborative with "partner" developing countries, emphasizing the catalytic financial or technical role U.S. business can play alongside the existing contributions of the nonprofit private sector.

True partnership with LDCs requires an irreducible minimum of policy cooperation. We simply cannot alleviate poverty where the host government's own policies cause poverty. We can't hand over American taxpayers' dollars to governments that confiscate private capital and raise barriers to private investment.

But we can help create a steadily improving economic climate in those developing countries we do work with. And, by doing so, we can contribute to both their progress and prosperity and our own.

A Firm New Course. Obviously, the changes required to forge a new American model for development are drastic. But, when you think about it, they're much closer to the spirit of enterprise, opportunity, and progress that is at the heart of America's own successful development into the economic leader of the world

They're also closer to the vision of the development pioneers who successfully launched American foreign aid forty years ago, and made it work so well for so long.

The failure of many of our more recent policies is as obvious as it is unacceptable. After decades of drift and uncertainty, it's time to set a firm new course.

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