

The Executive Memorandum

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RUSH!

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AID SHOULD RELEASE ECONOMIC FREEDOM REPORT NOW

Concerned over the wastefulness of America's foreign aid program, Congress last year mandated that the Agency for Internal Development (AID) submit a report on the status of economic freedom in countries receiving U.S. aid. The report was due this summer. It is now October, however, and still no report. The Clinton Administration should fulfill its obligation under the law and submit AID's economic freedom report to Congress immediately.

The Economic Freedom Report. The appropriations bill for foreign operations, passed in November 1995 and signed into law by President Clinton in February 1996, requires AID to "submit to the appropriate congressional committees an annual report providing a concise overview of the prospects for economic and social growth.... For each country, the report shall discuss the laws, policies and practices of that country that most contribute to or detract from the achievement of this kind of growth."¹

Why this report has not been completed is a mystery. The reason certainly cannot be a lack of resources. With operating expenses of \$465 million, 2,400 permanent employees, and some 6,000 long-term contractors and consultants, AID should have had no difficulty finding the resources to produce such a report and submit it to Congress on time.² Nor can the reason be a lack of information on levels of economic freedom in the world. There now are three privately produced studies on this subject: The Heritage Foundation's *Index of Economic Freedom*, Freedom House's *World Survey of Economic Freedom*, and the Fraser Institute's *Economic Freedom of the World*. While there are minor differences among these studies in the methodologies used to measure economic freedom, all three agree that economic freedom is essential to economic growth.

The most likely reason for AID's failure to submit its report is the low priority the foreign aid bureaucracy gives to economic freedom. For example, of the \$12 billion in foreign aid spending, AID earmarks only 13 percent for what it calls "achieving sustainable development." Of this 13 percent, most of the money is spent to protect the environment, educate the poor, control populations, and immunize infants. Some of these programs may be useful, but they hardly qualify as programs aimed at promoting economic growth in less developed countries. A well-educated person living in a clean environment and given good health care will not be able to enjoy those benefits if private property is outlawed, there is no rule of law, and people are not free to work. Economic freedom, not environmental or population controls, creates economic growth.

AID's Neglect of Economic Freedom. This failure to understand the central role of economic freedom in economic development is a principal reason for AID's failed approach to foreign aid. The Heritage Foundation's 1996 *Index of Economic Freedom* evaluates the level of economic freedom in 142 countries. Examining

- 1 *Making Appropriations for Foreign Operations, Export Financing, and Related Programs for Fiscal Year Ending September 30, 1996, and for Other Purposes*, Report No. 104-296, U.S. House of Representatives, October 26, 1995.
- 2 U.S. General Accounting Office, *Foreign Assistance: Status of USAID's Reforms*, GAO/NSIAD-96-241BR, September 1996.

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taxation, trade and investment, banking, regulation, monetary, and other policies, the *Index* demonstrates that of these 142 countries, those with the greatest economic freedom also are the richest. Conversely, those that are the most economically repressed are the poorest. Consider the following:

- Of the 76 countries ranked as “mostly unfree” or “repressed,” 35 have received U.S. foreign aid for at least 36 years, many for as long as 52 years;
- Of these 35 countries, 25 are no better off economically today than they were before receiving aid;
- Of these 25, 13 actually are poorer today than they were over three decades ago.

The evidence in the *Index* demonstrates what many economists have known for years: No matter how much foreign aid is pumped into less developed economies, they will not grow economically until they begin to free their economies from excessive government constraint.

It was Congress’s belief in this fact that prompted it last year to require that AID submit a report on economic freedom. Critics of AID will be watching to see how reliable and accurate it will be in evaluating the economic policies of U.S. aid recipients. They will be scrutinizing AID’s assessment of barriers to U.S. exports, whether American companies are free to invest in other countries, and whether aid recipients still do not respect private property rights.

With over 8,000 employees, consultants, and contractors, and \$465 million in operating expenses, AID surely has enough resources to fulfill its legal obligations to Congress and the American people. By not submitting its report on economic freedom to Congress, AID is violating a specific congressional directive. Whether AID is finally giving economic freedom the attention it deserves cannot be known until it submits its report. However, one thing is already clear: The agency remains one of the most poorly run and ineffective in the U.S. government. AID should release its report on economic freedom immediately.

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