

# FOREIGN AID

## An Analysis of Rationale and Approaches.

by Vic Berecz

Recently there's been much written about the efficacy of foreign aid. The *Marshall Plan* was obviously a great success. But, untold billions infused into the Israeli-Palestinian standoff for 60 years has done little or nothing to resolve the issue; and Africa's poor are poorer than ever due largely to mismanagement by dictatorial governments. Let's start by considering the purpose(s) of foreign aid, and then analyze various approaches to foreign aid in that light. Finally, let's each of us inform our representatives in Congress what we think about the foreign aid situation.

**Rationale for Foreign Aid.** I can think of only two possible reasons for foreign aid ... i.e. voluntarily sending our national treasure to other countries: 1) for humanitarian reasons, usually in response to natural catastrophes combined with the universal imperative to *treat others as you'd have them treat you*; and 2) for selfish reasons, to further our own national goals including creating markets for our products.

I'm not sure how to deal with the topic of humanitarian foreign aid, because I'm biased. As a Christian, I see it as a scriptural mandate. But, it's more than mere Christianity. I feel a universal imperative exists in all sentient beings to provide aid to their brethren who are facing serious hard times through little or no fault of their own. Perhaps it's out of self-interest ... we'd like others to help us if we were in the same situation. Whether based on religious conviction, a common human trait, or self-interest, an argument can be made that humanitarian aid should be private rather than governmental. I generally agree ... churches and other NGO's are well-equipped to provide such aid, especially to deal with long-term needs. But, catastrophic emergencies ... such as the Indian Ocean tsunami a few years ago ... are of such a magnitude that only the resources of rich and powerful governments can deal effectively with the initial stages of rescue and stabilization. So, some government-provided humanitarian aid is needed periodically. This is OK by me ... we can afford a tiny portion of our national resources from time-to-time to help with such emergencies. Then ... when the situation is stabilized ... it's probably time for private humanitarian efforts, specifically NGO's, to take over.

The bulk of governmental foreign aid should be designed for selfish reasons ... to enhance our overall national well-being. Push-come-to-shove, that's what government is all about ... to enhance the well-being of all Americans ... isn't it? In the true entrepreneurial spirit of America, foreign aid is an investment that ... while benefiting the recipient ... in the end also benefits us by bringing profits to our nation and the communities which make it up. But, "our overall national well-being" covers a multitude of things. For instance, foreign aid should help build overseas wealth so our products can reach expanded markets. *Microsoft, McDonald's, Otis, Boeing* and *Google* are ubiquitous in the developed world. More developed countries means more jobs and profits for these iconic American businesses and others. My alma-mater, *United Technologies Corporation*, gets over 60% of its revenues overseas ... our approach to foreign aid should protect and expand these markets. Likewise, foreign aid can lead to savings in the future by cost-avoidance. For instance, if well-placed foreign aid alleviates a difficult situation, it could produce major savings in both lives and treasure by avoiding the future necessity of military action. Unfortunately, as I've discussed before, risk mitigation is the classic *Catch-22*. But, these are only a couple of examples from the dozens that seem reasonable.

**Marshall Plan.** At the end of World War II, Europe was devastated. The US expended \$12 billion (5% of our GDP) in foreign aid and loans between the summer of 1945 and the summer

of 1947 to meet emergency needs and alleviate starvation in Europe. At his Harvard University commencement speech in June 1947 our Secretary of State, Gen. George C. Marshall, said:

The modern system of the division of labor upon which the exchange of products is based is in danger of breaking down. . . . Aside from the demoralizing effect on the world at large and the possibilities of disturbances arising as a result of the desperation of the people concerned, the consequences to the economy of the United States should be apparent to all. It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health to the world, without which there can be no political stability and no assured peace. Our policy is not directed against any country, but against hunger, poverty, desperation and chaos. Any government that is willing to assist in recovery will find full co-operation on the part of the U.S.A. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist.

The resulting *European Recovery Program* (familiarily called the *Marshall Plan*) poured another \$14 billion into Europe between 1947 and 1951. Belgian economic historian Herman Van der Wee concluded that the Marshall Plan was a “great success” because “It gave a new impetus to reconstruction in western Europe and made a decisive contribution to the renewal of the transport system, the modernization of industrial and agricultural equipment, the resumption of normal production, the raising of productivity, and the facilitating of intra-European trade.” By the end of the *Marshall Plan*, both industrial and agricultural production in western Europe far exceeded pre-War levels. The resurgence of European prosperity, largely due to the success of the *Marshall Plan*, has made western Europe the largest market for American products for over half a century. So, the *Marshall Plan* was a great success for us also!

**Creating Prosperity through Education.** Remember the old saw: *give a man a fish and he'll eat for a day, teach a man to fish and he'll eat for the rest of his life.* It's true ... and patently obvious. Therefore, a second focus of foreign aid should be creating prosperity overseas by helping educate people to earn a better living and live better and healthier lives. While this is being done successfully by many private and church-related organizations, the *Peace Corps* has been particularly successful in its approach. Over the past half century, it has sent over 200,000 American volunteers into developing countries to teach skills for living better in today's world. Peace Corps volunteers work in the nations of Africa, Latin America and elsewhere in the fields of education, health, business development, and environment.

In 1961, President John F. Kennedy established the *Peace Corps* to promote world peace and friendship. Its mission has three simple goals: helping nations meet their need for trained men and women; helping promote better understanding of Americans in the nations served; and helping promote a better understanding of other peoples on the part of Americans. Since self-interest is an important rationale for foreign aid, let's ask how each of these three goals helps us.

Training people to live more productive and healthier lives is the key to developing a nation's economy. The result is improved ability to buy American goods and services. The *Peace Corps* volunteers provide that training by living among the people they serve and by being positive role models for American values. As a result, the recipients of this training -- are more open to American ideas and to working with American businesses and individuals in the future. And, the *Peace Corps* volunteers themselves, by learning new languages, gaining an understanding foreign cultures, and enhancing their own leadership skills gain experience that will be valuable in their long-term career development. The *Peace Corps* is truly a win-win proposition in foreign aid.

**Sell ... not give ... people the tools needed to make money.** The July 13 broadcast of *The News Hour with Jim Lehrer* featured a unique private foreign aid approach. Martin Fisher, an American mechanical engineer and inventor, founded the non-profit *KickStart International* to implement a vision he had some years ago. In his words, “I went over to Africa as a socialist, and ... after five or six years of hitting my head against a wall, I came back a capitalist.”

From the *KickStart International* website ([www.kickstart.org](http://www.kickstart.org)) I learned that Fisher and his partner Nick Moon became disillusioned as many apparently successful group enterprises collapsed soon after they left. They realized that in many cases they were doing more harm than good. By assisting these enterprises in which the local people had no meaningful investment, nor had taken on any risk in the event of failure, they were in fact working against genuine local entrepreneurs who were unable to compete with a large charity. As a result, in 1991, they founded the non-profit that would become *KickStart*

According to Mark Bell, a professor of agriculture at UC-Davis, “If you go in and say, here’s a freebie, then people are going to say, sure, give it to me. And when you leave, who knows what happens to it. But if a farmer is given the opportunity to assess and then makes the decision to buy, I think that’s the real proof that this is something that is beneficial to him.”

*KickStart’s* most successful product to date is a pump that a farmer can use to irrigate his fields. The pump costs about \$100, can be broken down, moved, and reassembled without tools, and operates without any power source other than the human operator. Essentially it is operated like a *StairMaster* exercise machine. While \$100 is big money for most African farmers, the pump allows a farmer to recoup his investment in less than six months by permitting owners of small plots to get beyond subsistence and produce sufficient crops to sell the surplus. It is a real *MoneyMaker*, hence the product name. 153,000 of these pumps have been sold to date through a network of hundreds of stores, mostly in East Africa. In this way, *KickStart* enhances the standard of living for large numbers of families, while helping build the national economy in several African nations.

This type of aid, for obvious reasons, cannot be undertaken by our Government. But, aid such as *KickStart’s MoneyMaker* irrigation pumps have great potential to benefit the U.S. by developing economies that can purchase our goods. This is especially true, since the aid itself instills confidence in American-supplied products. Therefore, our Government should encourage private organizations, such as *KickStart*, to perform this work ... probably through tax incentives.

### **The Charter Cities Model.**

The July/August issue of *The Atlantic* included an article by Sebastian Mallaby titled *The Politically Incorrect Guide to Ending Poverty*. The message was essentially to learn from history. The approach is to create a “merchant’s Mecca” as the seed for development of an area. The example used is Lübeck, a small port in northern Germany. It was given a unique charter by Henry the Lion without onerous taxes and trade restrictions, and light regulation and fair laws to attract investment. It was a great success and its charter was the model for most of the cities of the Hanseatic League which dominated commerce and trade in the Baltic and North Seas for half a millennium.

Centuries later, Britain’s lease of Hong Kong established another city-state whose economy in the 20<sup>th</sup> century “left mainland China’s in the dust, proving that enlightened rule can make a world of difference.” This was the result of colonial rule that stressed low taxes, minimal regulation, and legal protections for property rights and contracts. Hong Kong’s success,

combined with the end of the 100-year British lease, led China to its concept of *Special Economic Zones* which “later drove China’s rulers to embrace the export-driven, pro-business model for the whole country.”

Paul Romer, a Stanford economist who made a fortune with an on-line education venture, later developed a concept he calls *Charter Cities* based on the Lübeck and Hong Kong models. Romer’s concept is for an under-developed nation to lease an area to another nation to establish and operate a city focused on encouraging commerce, allowing free access for entrepreneurs from the host nation and other poor nations. The idea being “to bring the governance of developed nations to workers in undeveloped places.” So far, his one attempt to establish such a zone in Madagascar failed due to a coup, and populist sentiment against all foreign investment.

But, what if a needy people could get beyond the politics of neo-colonialism? Maybe this approach to foreign aid could usher in new prosperity in under-developed regions over the long haul and produce tangible benefits to the developed sponsor-nation from day one. What if we’d done this with Guantanamo rather than turning it into a military base and later a huge off-shore prison camp? Who knows. Maybe we should explore some “wacky” notions of foreign aid ... as Romer’s ideas have been described.

### **Private Philanthropy.**

Our era has produced stupendous wealth for a few. The wealth of the Rockefellers or the Mellons ... even adjusted for inflation ... was nothing compared to the wealth of Bill Gates, Warren Buffett, and a handful of other multi-billionaires. The amazing thing is that those two have pledged essentially their entire fortunes to philanthropy ... and they’re doing it together through the *Bill and Melinda Gates Foundation*. The primary aims of the foundation are, globally, to enhance healthcare and reduce extreme poverty, and in America, to expand educational opportunities and access to information technology. Ultimately, this one foundation will likely have over \$100 billion to work with ... perhaps a lot more if Bill can persuade others to join in as he did with his bridge-partner Warren.

Even if only half the Gates Foundation’s resources address global issues, it puts a whole new perspective on foreign aid. For the first time in history private philanthropy is going far beyond the norm and reaching the capabilities of rich nations when it comes to foreign aid. As noted above, private organizations are better at some forms of assistance, governments are better at others. With this huge new source of funds coming online, it is increasingly important that government encourages private philanthropy and works to coordinate their mutual efforts.

Below are the fifteen guiding principles of the Gates Foundation, as outlined in their website. I thought they are worth reading, and many of them seem appropriate for governmental foreign aid as well as the foundation’s private assistance.

- 1: This is a family foundation driven by the interests and passions of the Gates family.
- 2: Philanthropy plays an important but limited role.
- 3: Science and technology have great potential to improve lives around the world.
- 4: We are funders and shapers -- we rely on others to act and implement.
- 5: Our focus is clear -- and limited -- and prioritizes some of the most neglected issues.
- 6: We identify a specific point of intervention and apply our efforts against a theory of change.
- 7: We take risks, make big bets, and move with urgency. We are in it for the long haul.
- 8: We advocate -- vigorously but responsibly -- in our areas of focus.
- 9: We must be humble and mindful in our actions and words. We seek and heed the counsel of outside voices.

- 10: We treat our grantees as valued partners, and we treat the ultimate beneficiaries of our work with respect.
- 11: Delivering results with the resources we have been given is of the utmost importance -- and we seek and share information about those results.
- 12: We demand ethical behavior of ourselves.
- 13: We treat each other as valued colleagues.
- 14: Meeting our mission -- to increase opportunity and equity for those most in need -- requires great stewardship of the money we have available.
- 15: We leave room for growth and change.

Maybe a private organization like the *Bill and Melinda Gates Foundation* can be a model for some aspects of future governmental foreign aid. Even if that's not possible, at least they and the government should plan and work together to obtain the greatest degree of synergy possible.

### Military Aid.

The chart at the right shows estimated military foreign aid for the current fiscal year. Only the nine highest beneficiaries are shown, but as is obvious, the great bulk of this aid goes to these nine nations. As we see, the two largest are in support of the on-going war efforts in Iraq and Afghanistan. The figures shown do not include the cost of U.S. military operations in those countries. In general, though, military aid falls into four major and three less expensive categories.

Country	Est Military Aid in 2010
 Iraq	\$6.5 B
 Afghanistan	\$5.6 B
 Israel	\$2.75 B
 Egypt	\$1.75 B
 Pakistan	\$1.6 B
 Colombia	\$0.834 B
 Jordan	\$0.300 B
 Palestine	\$0.100 B
 Yemen	\$0.070 B

1) *Foreign Military Financing* involves grants to purchase American-made weapons, services, and training. By far the largest beneficiaries are Israel and Egypt who have been receiving this aid since 1979 ostensibly because they signed a peace treaty. Some view this program as corporate welfare for US defense contractors.

2) *Economic Support Fund* is intended to promote economic and political stability in strategically important areas. They are not, strictly speaking, for military expenditures but since money is fungible, they free up other funds for military programs.

3) *International Military Education and Training* supports foreign military participation in education programs and training exercises on US weapons systems. It's hoped that "US values and democratic processes" will rub off on foreign officers exposed to this training.

4) *Counter-Narcotics Assistance* provides funds for military equipment and training that will be used to combat production and trafficking in illegal drugs. Colombia is the largest single beneficiary of this program.

The three other categories are *Non-Proliferation, Anti-Terrorism, Demining, and Related Programs; Peacekeeping Operations* (other than those conducted by the UN, which are funded from a different pocket); and *Assistance to the Independent States of the Former Soviet Union* which is intended to support free market and democratic reforms and enhance law enforcement and border security.

Clearly good arguments can be made for each of these programs, but the devil is in the details. Of particular note and concern to me is the fact that of the nine major beneficiaries, eight are in the middle-east. But, the only one of these programs that seems to be achieving its goals is the *odd-man out* – the aid to Colombia which has established a stable and reasonably democratic government that has re-established its sovereignty in most of the areas formerly controlled by the drug cartels.

### **Nation and/or Democracy Building.**

It seems that in every significant foreign aid effort, one major aspect of our policy is called *Nation Building* or *Democracy Building*. Well, that's a tough assignment. A noted London economist has stated in the context of aid to Africa that, "Sustainable democracy is possible only after a strong middle class has emerged." That's one of the reasons the *Marshall Plan* worked. But, I'm afraid the advocates of *Nation Building* want more than just *any* nation or democracy. In essence, these folks are saying "let's make them look like us" or perhaps (and even worse) how we wish we looked. This rationale for foreign aid is predicated on the premise that if they look like us, they'll be nice like us. Well, face it, that's just not going to happen. There's no way we're going to turn a village of mud huts in the African jungle into a Mayberry overnight. And there's no way we're going to turn a desert tribesman living in a medieval society into a charming Ward Cleaver type of individual.

While we aren't the only democracy on earth, the good-old USA is quite unique. In my mind, the only nation in the world that is even close is Canada, and from there it's a long-way down to a tie for third between Australia and Brazil (which both got a late start). I'm sure some of you are now saying "Is he out of his mind?" Let me explain.

I believe that the key to our uniqueness is that throughout our national history every generation has had a major influx of non-homogeneous immigrants who came here voluntarily with the goal of achieving better lives for their descendants ... and those descendants have produced an evolving American culture based on universal concepts of freedom, our common English language, and our Constitution -- each of which have also evolved with the nation. Are we perfect? No. Are we moving in that direction? I think so. Will we ever get there? No, because as a evolving nation we're striving for a moving target. But, getting back to the point, America is unique. Most nations are either based on a predominant common ethnicity (Hungary, Ireland, Spain, Japan, Mexico) or were cobbled together from *in situ* diverse tribal groups (Nigeria, Soviet Union, Iraq, Yugoslavia, Sudan). The intricate centuries-long process that made us can't be duplicated. Let's not spend a lot of time and money trying!

Maybe we're starting to learn that from China. Here's a country that we fought in a never-concluded war 60 years ago; that we tried to isolate for decades; that we only began speaking to 35 years ago; and began seriously trading with 20 years ago. We've never given them foreign aid. They aren't a democracy by the farthest stretch of the imagination. What's happened? They decided it was to their advantage to *play nice* and make a lot of money in the process. We decided it was to our advantage to play, even if we didn't like some of the nasty stuff they did from time-to-time. Let's ask, did Arthur Ashe refuse to play Ilie Năstase in the 1972 U.S. Open because he was renowned as "Nasty" Năstase? Did Năstase decline the prize money because he was a Communist? The answers should be obvious.