

foreign policy *in focus*



Interhemispheric Resource Center
and
Institute for Policy Studies



Foreign Aid

The U.S. foreign aid bureaucracy took shape following World War II as part of a two-pronged effort: 1) to ensure the dominance of U.S. business in the postwar capitalist world, and 2) to stop the advance of communism and leftist movements. Building upon the experiences of the Marshall Plan that supported the reconstruction of Western Europe in the 1940s, the State Department began providing economic aid to third world allies in the 1950s. Paralleling U.S. economic aid programs were military aid programs that bolstered anticommunist, authoritarian regimes.

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Key Points

- Responding to the rising tide of leftist sympathies and dissatisfaction with the inequitable economic structures in the South, the U.S. government in 1961 passed the Foreign Assistance Act (FAA).
- AID had the dual objective of 1) keeping recipient nations politically aligned with Washington and 2) promoting the economic interests of corporate America.
- The second Clinton administration faces the challenge of establishing the post-cold war objective of foreign assistance.

in the South, the U.S. government in 1961 passed the Foreign Assistance Act (FAA). The FAA established the Agency for International Development (AID) to coordinate development aid, humanitarian assistance, food aid, “free trade unions,” and business-promotion programs. All these components of AID had the dual objective of 1) keeping recipient nations politically aligned with Washington and 2) promoting the economic interests of corporate America. The flagship program of the 1960s was the Alliance for Progress, which won the favor of

some poor Latin Americans (mainly because of its support for agrarian reform and cooperative solutions to rural poverty). As a whole, however, AID’s programs were more a part of the problem than of the solution. Military and police aid fortified repressive regimes, food aid created dependence on U.S. commodities, development assistance was linked to the purchases of U.S. agrochemicals and other goods, and support for “free trade unions” and other AID-dependent organizations undermined independent popular organizing.

The close connections between economic aid and counterinsurgency programs, mainly in Vietnam and Latin America, combined with the failure of AID’s economic modernization strategies led to a redefinition of U.S.

assistance programs in the 1970s. The 1973 New Directions initiative stressed meeting the basic needs of the poor rather than implementing development strategies, and new human rights provisions limited the delivery of military aid to repressive governments. In the 1980s, beginning with the Reagan administration, the direction of U.S. international assistance shifted from basic needs toward using aid to subsidize private-sector development. To ensure that Reagan’s “magic-of-the-marketplace” formula was instituted, the U.S. linked its aid to the imposition of structural adjustment programs of the World Bank and IMF. At the same time, there was also a shift back toward the coordinated use of all forms of U.S. foreign aid—development, political, food, military, and even humanitarian assistance—to promote U.S. national security objectives: namely to roll back communist, nationalist, and leftist advances.

In the early 1990s, after having promoted foreign aid as a cold war weapon for more than four decades, the foreign policy elite was left scrambling for a new rationale to win public and congressional support for these international operations.

The Clinton administration gained some support—particularly among nongovernmental organizations, environmental groups, and liberals—for redefinition of AID’s mission as the promotion of “sustainable development” and the emphasis on more grassroots projects. In the end, however, the Clinton administration did not attempt to promote a new vision of foreign aid or of international cooperation. Instead, lacking the national security justification for aid, it stressed the other traditional rationale for U.S. foreign assistance, namely the way aid served U.S. overseas business interests. Defending its international operations requests from budget slashers in Congress, the Clinton administration mounted a crass propaganda campaign declaring that foreign aid never really leaves home: 80 percent of economic aid goes to purchase U.S. goods and services.

The second Clinton administration faces the challenge of establishing the post-cold war objective of foreign assistance at a time economic insecurity is increasing at home and domestic social service programs are being slashed.

Despite a concerted administration lobbying campaign to convince policymakers that foreign aid directly serves U.S. interests, funding for most aspects of foreign aid has been severely cut. Those bilateral economic aid programs that directly serve either national security interests (such as large funding flows to Israel) or U.S. corporate interests (such as the U.S. Export-Import Bank) have been spared. Paralleling cuts in bilateral aid are reductions in support for international cooperation programs sponsored by the UN and multilateral development banks. The administration rightly points out to critics that its foreign assistance requests are not large.

Together military and economic assistance represent only 1 percent of the federal budget. In total funding, U.S. economic aid ranks fourth behind Japan, Germany, and France. As a percentage of gross national income, the U.S. ranks dead last in economic aid among the 22 wealthiest nations—behind such countries as Portugal, New Zealand, and Ireland.

Since the mid-1980s the U.S. international affairs budget has been cut by one-half. Continued commitments to channel 40 percent of economic aid to Israel and Egypt undermines AID's arguments that it is directing scarce resources to environmentally sustainable and equitable development initiatives. Similarly, the focus on restructuring the transitional states of the former Soviet bloc so as to pave the way for U.S. corporate investors and traders undermines efforts to build broad-based public support for foreign aid. Although AID's rhetoric has changed, it clearly remains highly political and highly influenced by corporate-driven models of economic development.

Nor is the Clinton administration's argument that U.S. tax revenues should be used to establish "free-market democracies" very persuasive. U.S. programs that condition aid packages on the implementation of free market reforms seem only to increase economic and social polarization—and certainly show no sign of ensuring sustainable development or democracy. Indeed, the practice of obligating recipient countries to change their economic policies to conform to U.S. demands seems to run counter to democratic principles espoused by these programs. In most countries, U.S. aid reinforces structural adjustment—notably in Russia, Central and Eastern Europe, and Haiti. There is also the irony—highlighted by critics on both the left and right—of the U.S. government using subsidies to promote private sector investment, all in the name of free enterprise.

Another factor in the administration's failure to build a new public and policy consensus on its budget requests for international operations is the continued inclusion of large military aid expenditures that constitute 48 percent of annual aid allocations. This funding—along with the U.S. defense budget—sustains U.S. arms manufacturers while undermining global peace.

The Clinton administration has failed to take advantage of the opportunities created by the end of the cold war to build a new constituency for U.S. international assistance. Instead of acknowledging the failures and limitations of bilateral aid programs, Clinton has largely continued the misdirected, ineffective policies of past administrations.

It is commonly acknowledged that the U.S. is no longer the economic powerhouse it once was. It cannot—and should not—assume the role of global policeman, lender of last resort, and political hegemonist. However, rather than arguing for a more multilateral and cooperative approach to addressing U.S. concerns about global peace and development, the U.S. routinely criticizes the UN and its affiliate institutions as bloated, ineffective, and unresponsive, while at the same time refusing to meet its financial obligations to the UN. And instead cutting its own military budget to free up needed resources for international cooperation, Washington continues to prioritize military aid and defense spending. In sum, the U.S. foreign assistance program faces four main problems:

- Disintegrating consensus about the need for foreign aid in post-cold war context.
- Failure of administration to convince U.S. public and policymakers how foreign aid furthers U.S. national interests.
- Continuing reductions in the international operations budget as the result of new efforts to reduce budget deficits.
- Directing increasingly scarce foreign aid funds for business promotion and strategic objectives rather than to meet the newly defined objective of fostering sustainable development.

These and other problems have given rise to proposals to restructure the foreign assistance program.

Key Problems

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The first Clinton administration recognized the need to redefine and restructure the foreign assistance program because of rising budgetary pressures and in the absence of cold war rationale for extensive international operations. Although numerous positive steps were taken—including the new emphasis on slowing global environmental degradation, elimination of bureaucratic excess and unneeded country offices, and attempts to involve nongovernmental organizations (NGOs)—the administration failed to establish a new foundation for post-cold war foreign aid. Recognizing this failure, numerous NGOs and policy studies centers have offered alternative proposals. The policy recommendations here include elements from many of those proposals.

A viable reformulation of foreign aid must parallel a revisioning of U.S. foreign policy and a new conceptualization of what are U.S. national interests in international affairs. There are two main approaches each of which has merit. For their part, traditional progressive supporters of foreign aid and most of the NGO community with foreign programs

back proposals to create foreign aid institutions that are more independent of U.S. foreign policy and more driven by grassroots concerns for development and humanitarian aid. It is argued that the creation of a government-funded foreign aid foundation or a new international cooperation agency independent of the political and commercial considerations would help change the top-down character of current programs and remove conflicting objectives (mainly strategic and business promotion) that now distort foreign assistance.

Key Recommendations

- A viable reformulation of foreign aid must parallel a revisioning of U.S. foreign policy.
- Direct most aid through cooperative, multilateral channels rather than bilateral ones that are too easily influenced by short-term considerations.
- Channel aid mostly through locally based NGOs that are democratic and not overly dependent on foreign funding.

On the other side of the debate are those, mostly conservatives, who argue that foreign aid should be more not less responsive to U.S. strategic and commercial objectives. They contend that the foreign aid program should be less independent and more closely integrated into the newly configured State Department whose portfolio includes foreign economic policy and international cooperation as well as the furthering of U.S. geopolitical strategy. They make the strong case that unless foreign aid is closely associated with the U.S. foreign policy establishment it will become increasingly vulnerable to budget cuts.

The ongoing discussions about the role and the structure of U.S. foreign aid are part of a larger debate about the direction of U.S. foreign policy. In reformulating and strengthening U.S. foreign aid, policymakers can contribute to the shaping of a more effective foreign policy. Even before decisions are reached about a more effective foreign aid structure, policymakers should do the following:

- Reaffirm the U.S. commitment to the UN by ending its debtor status and fulfilling its annual financial obligations to the UN's development,

peacekeeping, and humanitarian assistance programs—all of which are relatively cost-effective responses to global economic and political problems.

- End most military assistance programs, except for programs that build the capacity of civilian-controlled police like those in Haiti and El Salvador. Multilateral peacekeeping, not the bilateral strengthening of local militaries, is the best guarantee for regional peace.
- End tied-aid programs that distort development objectives by focusing on the promotion of narrowly defined U.S. business interests. Aid that is justified as self-serving is hypocritical and ineffective.
- Delink bilateral foreign aid from structural adjustment programs that primarily serve the interests of Northern creditors and run counter to the stated U.S. commitment to equitable and sustainable development.
- Terminate the massive economic aid to countries, mainly Israel and Egypt, whose purpose is political not developmental or humanitarian.

In requesting new appropriations for foreign aid, the Clinton administration needs to redefine the relationship between aid and U.S. national interests. This should be part of a joint government-NGO effort to educate the U.S. public about the benefits of international cooperation and assistance programs that foster political stability, reduce threats to the global ecology, and ensure equitable development. Such tangible benefits as expanded markets for U.S. goods, reduced immigration flows, increased goodwill toward U.S. citizens, and a reduction in political violence should be pointed out. But it should be recognized that humanitarian and ethical considerations can also motivate U.S. support for foreign aid.

In addition, public support for U.S. international operations will also depend on a reorientation of U.S. national security away from cold war concepts requiring large military expenditures and linked to the interests of corporate America. Instead, U.S. national security should be more closely linked to concerns about health, education, and employment standards.

Structural reforms in the aid bureaucracy are needed but they too will fail unless U.S. policymakers make international cooperation a central principle of foreign policy. In this respect, a reformed foreign assistance program should do the following:

- Direct most aid through cooperative, multilateral channels rather than bilateral ones that are too easily influenced by short-term political and economic considerations.
- Channel this aid mostly through locally based NGOs that are democratic and not overly dependent on foreign funding.

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sources for more information

Organizations

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People-Centered Development Forum
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Oxfam America
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U.S. Agency for International Development (USAID)
Office of Public Affairs
Voice: (202) 647-1850
Website: <http://www.info.usaid.gov>

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