THE GLOBAL POVERTY REDUCTION ACT: IGNORING THE KEY INGREDIENT

The continuing economic problems of the less developed countries have prompted Congress and the Reagan Administration to reassess how the United States spends its bilateral foreign assistance funds. This has led to, among other things, a bill now before Congress, the Global Poverty Reduction Act (H.R. 4277 and S. 2454). It would direct all U.S. development assistance toward achieving three goals by the year 2000: 1) a 50 percent reduction in mortality rates for children under five, 2) a female literacy rate of at least 80 percent, and 3) a cut in absolute poverty to no more than 20 percent of the recipient country's population.

These are admirable goals, but they cannot be sustained without economic growth. Yet the proposed legislation is silent on the importance of economic growth. Rather than basing U.S. policy on a well-meaning statement of intent that addresses the symptoms of economic stagnation, Congress instead should tackle the causes of poverty by making economic growth through free-market policies the primary goal of U.S. overseas assistance.

Enormous Expenditure, Meager Results. Proponents of the legislation insist that it would cost the U.S. no more than the $2.7 billion now spent on development assistance, including food aid. Yet officials of the Agency for International Development (AID), which administers America's foreign aid programs, estimate that meeting the bill's lofty targets would require $30 billion-$300 billion annually. Despite this enormous expenditure, past experience shows that poverty cannot be eradicated simply by sending more money. The U.S. has given nearly $400 billion to the developing world in the past four decades, with often meager results.

In fact, AID essentially adopted the Act's goals under the "new directions" legislation of 1973. This rewrite of AID's original guiding principles gave precedence to programs targeted at satisfying developing people's "basic human needs." The result has been more U.S. food aid transfers, increased programs targeted at the rural poor, and expanded programs for infants and children, such as immunization, infant milk and oral rehydration therapy to prevent death from diarrhea. Despite these social programs, AID Administrator Alan Woods observed this year: "The gap between virtually all less developed countries and the developed countries is widening, not closing...[and] it is time to look at why some countries have succeeded."

Results of Economic Growth. The evidence shows that it is the countries with high growth rates that best meet their people's basic human needs and eliminate poverty. Examples:

◆◆ South Korea now enrolls over 90 percent of its children in high school. From 1965 to 1986, while the nation achieved an average annual economic growth rate of 6.7 percent, it also cut infant mortality by 60 percent.

◆◆ Ethiopia, with no economic growth during the period, saw virtually no reduction in infant deaths.

◆◆ Japan's infant death rate before World War II was as high as India's today. Japan's rate is now 7 percent of India's and is among the lowest in the world.

◆◆ The People's Republic of China's agricultural liberalization in the 1980s has increased food production by 35 percent and doubled rural incomes. China can now feed itself.

◆◆ Tanzania, once touted as a socialist success, has been forced to close schools and clinics in recent years for lack of funds. State domination of agriculture has cut production in half since 1970.

When countries adopt sound economic strategies and begin to grow, the symptoms of underdevelopment on which the proposed Global Poverty Reduction Act focuses start to disappear. In fact, the targets which the Act would have developing countries achieve are reached as soon as economic growth raises the average per capita income level to roughly $2,000 per year. United Nations figures for some 100 countries reveal a telling pattern. The higher per capita income, the higher the female literacy rate, the lower the infant mortality rate, and the lower the percentage of people living in absolute poverty. According to the U.N. figures, countries with about $200 per capita income, for instance, have female literacy and infant mortality rates of 21 percent and 250 per thousand, respectively. Countries with $800 per capita income have female literacy and infant mortality rates of 60 percent and 100 per thousand. And countries with $2,000 per capita income have rates of 88 percent and 50 per thousand. For the same countries, the number of people living in absolute poverty shrinks from 44 percent to 33 percent to 25 percent.

Global Welfare System. The Global Poverty Reduction Act, while a sincere attempt to set clear goals for U.S. foreign aid, is certain to fail because rather than seeking to promote general growth, it would turn foreign aid into a global welfare system. While social programs are a necessary component of assistance, U.S. foreign aid programs should focus mainly on promoting growth-oriented, free-market economic policies. Only through such policies will less developed countries become able to provide for themselves what Western aid workers now administer and thereby tackle the social problems that no amount of international welfare aid can solve.

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For further information:

"Statement of the Administrator," *Congressional Presentation, Fiscal 1989*, Agency for International Development, main volume, pp. 1-19.

Carol Adelman, *et al.*, "A New Rx Is Needed for World Health Care," Heritage Foundation *Backgrounder* No. 592, July 9, 1987.