THE WORLD BANK MIGA SCHEME: KEEPING POOR COUNTRIES POOR

Last month, the World Bank formally launched the Multilateral Investment Guarantee Agency (MIGA). This new body will insure foreign investments in less developed countries (LDCs) against nationalization by host governments and against investment losses due to war. In addition, World Bank President Barber Conable maintains that MIGA will cover investments by LDC citizens in their own countries of funds held in overseas banks. Further, even before the program begins operations, Conable has agreed to consider a Japanese proposal that MIGA be expanded to insure short-term private foreign loans.

This new MIGA scheme will impair rather than help the economies of LDCs. The fundamental cause of continuing poverty in many parts of the world is the failure of LDC governments to protect the property rights of their own citizens much less those of foreigners. State restrictions and expropriation of property give little incentive for productive economic investments. Yet rather than opposing government confiscation of property and punishing governments engaged in it, MIGA would subsidize such governments, thus encouraging this behavior. Congress currently is considering the World Bank's request for $75 billion in new lending authority, 18.75 percent to be provided by the United States. MIGA gives American lawmakers a good reason to reject this request.

Hostile to Property Rights. Since 1981, direct foreign investment in the Third World has fallen by 50 percent — from $17 billion to roughly $8 billion. What is worse, citizens of LDCs have taken tens of billions of dollars out of their own countries, preferring the safety of American and other banks in the developed world. The World Bank wants to reverse this trend, to encourage more foreign investment and stem capital flight via MIGA. Yet hostility by LDC governments to property rights in general and foreign investments in particular is the cause of the investment nosedive. Example: in 1982 Mexico nationalized its banks, expropriating the savings accounts of thousands of Americans and millions of Mexicans. Example: India, Peru, and many other governments have expropriated Western oil companies. And the government of Indonesia constantly changes the terms of its "contract" with Western investors, to gobble up an increasing share of their profits. It is no wonder that Western businessmen fear investing in Third World countries.

In the short run, MIGA may pull more overseas money into LDCs. Yet MIGA will do so only by shielding governments from the consequences of their economically damaging actions.

In the long run, of course, LDC economies will remain sluggish unless LDC governments end their policies that impede investment. The World Bank's experience with Ethiopia is instructive. After a Marxist military clique seized power in 1974 and nationalized all land and foreign assets, the Bank led the charge to give Ethiopia new credit and urged other lenders to do the same. This gave the regime no reason to change its economic policies. As a result, Ethiopia's economy is now in shambles and collectivized agriculture has brought on famine.

Western Taxpayers Bearing the Cost. For prudent investment, MIGA is unnecessary. Several private insurance companies, such as Lloyd's of London, already offer insurance for foreign investments. The cost of this insurance accurately reflects the risk of entrusting capital to Third World politicians. MIGA simply would transfer the cost of risk from businesses to the World Bank, which receives a substantial portion of its funds from the U.S. government.

The Japanese suggestion that MIGA could guarantee new foreign loans is particularly ill-conceived. Foreign banks already have poured hundreds of billions of dollars into Third World countries. Most of these funds were wasted by LDC governments on subsidies for money-losing state-owned industries, high salaries for public sector bureaucrats, and bribes for corrupt politicians. World Bank insurance for commercial loans would remove incentives for economic reforms and force Western taxpayers rather than Western banks to pay the cost of Third World loan defaults. As for MIGA insuring investments by LDC citizens wishing to return their money from overseas accounts to their home countries, this fails to get at the root cause of capital flight. These citizens take their money abroad because they do not trust their own governments and fear expropriation or other violations of their property rights. Reform is needed in LDC governments, not in World Bank programs.

Costing American Jobs. The MIGA approach could also harm the U.S. economy by diverting investment funds that would otherwise stay in the U.S. into riskier foreign ventures. The federal government already has an agency that provides foreign investment insurance to American companies — the Overseas Private Investment Corporation (OPIC). The General Accounting Office recently concluded that OPIC has cost Americans thousands of jobs and is "having negative impacts on U.S. trade." OPIC also illustrates the danger of government insurance for foreign investment losses due to war. OPIC was involved in the recent effort to insure an Iraqi pipeline, despite the likelihood that the Israelis would bomb it.

MIGA cannot reduce the danger of investing in risky Third World countries without diverting resources from countries with sound investment policies. MIGA cannot reward untrustworthy governments without making irresponsible behavior more likely and discouraging economic reform. The U.S. Congress should recognize that this sort of policy is a primary reason why the World Bank does not deserve $75 billion in new lending authority.

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For further information:

James Bovard, "The World Bank vs. the World's Poor," Cato Institute *Policy Analysis* No. 92, September 28, 1987.

U.S. General Accounting Office, "Foreign Aid: Impact of Overseas Private Investment Corporation Activities on U.S. Employment," May 1987.