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SEVEN STEPS TO IMPROVE U.S. BILATERAL FOREIGN AID

INTRODUCTION

The factors fueling economic growth should be no mystery to Reagan Administration officials. Soon after taking office, Ronald Reagan told a meeting of world leaders in October 1981 at Cancun, Mexico, what developing nations must do to grow economically. He stressed lower taxes, reduced government spending, market-oriented economic policies, privatization of government-owned companies, and primary reliance on personal initiative rather than government intervention. Though reaffirming support for traditional foreign assistance programs and acknowledging an important role for Third World governments, Reagan exhorted foreign leaders to "trust the people, trust their intelligence and trust their faith." Development, he said, was not a question of "East versus West" but of "sense versus nonsense." Development, he explained, is created and sustained by private initiative "liberated and empowered," not coerced by governments.

This sound advice strangely has been ignored almost completely by Reagan's own officials most responsible for forging United States bilateral economic and aid policy for developing nations. Under the Reagan Administration, less than 5 percent of U.S. foreign assistance has gone directly to the private sector in developing countries. Instead, the U.S. government continues to subsidize statist or socialist economic policies abroad.

The Main Culprit. The main culprit in this has been the U.S. Agency for International Development or AID. Ignoring Reagan's vision of free market development, AID has conducted business as usual, pursuing the same flawed policies that for decades have substantially contributed to keeping developing nations impoverished. AID, for example, continues to:

1) **Distribute over 90 percent of its funds** as "government-to-government transfers," thereby directly fueling the growth of huge, bureaucratic state sectors in the Third World.

2) **Depress domestic food prices** in developing countries--and thereby farmers' incomes--with hundreds of thousands of metric tons of P.L. 480 food aid.

3) **Fund a land reform program** in El Salvador which has greatly diminished agricultural output. Production levels on the cooperative farms created by the program, are lower than those of existing privately owned farms, and the cooperatives grow deeper in debt each year.

Why has AID failed to follow the course charted by the President? Why have AID policies ignored even the market-oriented changes occurring in many developing countries?

Needed Reforms. Answers to these questions will indicate what must be done at AID to meet more effectively the seemingly intractable financial and political problems of the Third World. The AID bureaucracy will have to be reformed and the aid flows redirected. At least seven reforms are needed:

1) **Rewrite the "Basic Human Needs"** (BHN) legislation of 1973, which constitutes AID's guiding principles, to emphasize the concept of private sector economic activity leading to self-sustaining growth.

2) **Redirect most of U.S. foreign assistance** to local private sectors, rather than to governments and government entities.

3) **Reorganize the foreign assistance system,** shifting the bulk of economic responsibilities to the Treasury Department.

4) **Revitalize the International Development Cooperation Agency** (ICDA) and move it from AID to the Treasury Department.

5) **Modify the Overseas Private Investment Corporation's** (OPIC) charter to give it the primary role in managing U.S. support for private sector economic efforts.

6) **Reconstitute AID under the State Department,** directing it to administer whatever social development programs survive after a rewrite of the BHN legislation.

7) **Transfer the oversight of local currencies** generated by the sale of P.L. 480 commodities to OPIC to ensure the funds are used in the private sector.

Without fundamental changes, U.S. foreign assistance programs will continue to do little other than assure the perpetuation of foreign bureaucracies and continuation of Third World poverty.

PURPOSES OF FOREIGN AID

Foreign assistance is widely unpopular with the American people. As a consequence, Congress generally passes the AID budget as part of its catchall Continuing Resolution bill, instead of approving new authorization legislation. This shields the program from full congressional debate. The public's attitude stems not from a lack of generosity, but rather from a profound skepticism about the perceived consequences and effectiveness of the aid that the U.S. gives. Such doubts are understandable, since current foreign assistance programs poorly serve the purposes they were intended to fulfill.

Perhaps the most important role of foreign economic assistance in the view of the State Department is to give the U.S. some leverage in dealing with foreign governments. While this is surely important, as is AID's help in stabilizing friendly governments, it does little to spur economic development. Indeed, trying to influence Third World leaders via large scale government-to-government aid transfers is often antithetical to promoting development.

Welfare Dependency. U.S. aid also serves humanitarian needs and is an important element of global disaster relief efforts. But U.S. relief to foreign countries too often has created an international version of welfare, as disaster relief is frequently provided for man-made as well as natural disasters. Such assistance thus comes to be understood in mismanaged developing countries as their "safety net" for bad policies. Ethiopia is an example of this. Another problem of aid as welfare is recurring costs. While the industrial nations may be able to maintain a domestic welfare program once it is created, most developing countries cannot fund programs when foreign assistance ends. In effect, social services are then held hostage to the budgetary vagaries of donor governments. Such a situation poses clear social and political risks to the recipient nations.

Promoting economic growth should be the most important goal of the U.S. AID effort. Economic growth serves U.S. security interests, since giving Third World peoples an economic stake in their systems will reduce the attraction of millenial ideologies such as Marxism and Islamic radicalism. Growth strengthens the political center through the creation of conditions that permit the rise of a broader political base of middle-class consumers and producers.

The economic rights necessary for sustained economic growth eventually translate into political rights and encourage the development of private organizations that balance central government power. Promoting such a balance--rather than just supporting entrenched regimes will provide long-term stability.

AIDING THE THIRD WORLD PRIVATE SECTOR

How to direct foreign assistance toward the private sector in developing countries is perhaps the most fundamental question involved in any assessment of AID. Defenders of what AID has been doing argue that U.S. assistance to the public sector is intended ultimately to support the private sector. Indeed, as a government-to-government undertaking, foreign assistance cannot be channeled easily into the private sector without some form of government mediation. To make matters worse, it often is hard for the U.S. to require that its aid be passed on to the private sector because developing nations argue that such conditionality is a violation of their sovereignty.

Yet experience shows that government-to-government aid is not an efficient means of transferring resources to less developed countries. This is clear from Manuel J. Tanoira's description of his efforts during his brief appointment as Argentina's Secretary of Growth Promotion with the present Alfonsin administration.[1] One of his projects was to allow the private sector to help finance and build the expansion of a major Argentine port. Tanoira tells how his government opted for a $300 million loan from the World Bank rather than accept private sector proposals from five different groups that were willing to charge lower interest rates than those offered by the World Bank. Indeed, the bureaucracy refused even to consider the private proposals. The reason for this, writes Tanoira, is that the World Bank loan would provide $6 million in engineering contracts to a number of domestic firms. Some of these firms can be expected to hire many of the Argentine bureaucrats when their government service ends.

Bolstering Bureaucracies. Another problem with giving direct aid to governments is that it tends to strengthen state bureaucracies and weaken the indigenous private sector. With few private firms offering comparable financial reward and job stability, public enterprises attract the most talented people in developing societies.

Perhaps the most destructive aspect of direct aid to governments is that so long as the West continues to supplement the tax revenues of developing countries, the leaders and even the society in general are protected from the natural consequences of their destructive economic policies. It can be argued that, until the primary objective of Western aid and of multilateral and commercial bank lending becomes self-sustaining economic development, aid will actually retard economic growth, not enhance it.

AID officials contend that a substantial portion of their budget indirectly assists the private sector by funding "a public sector entity whose goal is direct assistance to the private sector." However good such an approach is in theory, the Third World is littered with failed institutions started or supported by AID or other donors. Development banks in Third World countries such as El Salvador's Agricultural Development Bank, as other government agencies, become political plums, exempt from efficient management practices or even basic accounting procedures. Appointments to staff are frequently based primarily on political connections. Loans, too, often are used to reward political allies, driving private capital and potential competitors who must find financing at market rates out of the market.

Billion Dollar Loss. An example of this abuse is the Development Bank of the Philippines (DBP). The DBP and its projects long have been supported by four

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1. "Confessions of an Argentine Privatizer," *The Wall Street Journal*, May 29, 1987. The *Journal* reports that Mr. Tanoira "resigned in despair" after seven months.

different U.S. agencies (including AID), the World Bank, and other donors. One of DBP's customers, is a nickel mine, originally funded by the DBP in the early 1970s with about $250 million in capital and loan guarantees. The company has never turned a profit. Yet it received nearly $1 billion in additional loans and guarantees over the years and continues to operate with subsidies from the Aquino government. This despite the fact that the mine declared a $1.3 billion bankruptcy in 1985, was reorganized by the government, and this year again sought protection from its creditors.

AID's final defense in justifying its emphasis on public sector lending is that there are few viable potential recipients or intermediaries outside the government sector.[2] This, of course, tends to become a self-fulfilling prophecy when the cheap money is channeled through developing countries' government institutions, which subsidize inefficient, politically favored enterprises. Better managed financial institutions and private companies, which depend on private capital, are driven from the market or acquired by government insiders using cheap money.

Some U.S. allies' foreign assistance programs have a private sector component, as do those of the World Bank and the regional development banks. Great Britain, for example, has created the Commonwealth Development Corporation which, like the World Bank's International Finance Corporation (IFC), provides loans directly to both indigenous ventures and joint ventures with foreign participation. While all these institutions can and should be criticized for tactical errors and some bad policies, they demonstrate that official development assistance can be channeled directly to the indigenous private sector in developing countries, thereby effectively using small staff relative to the heavily staffed missions that provide official assistance. Even AID has created a small private enterprise bureau, but its budget is so small and its charter so limited that it is essentially irrelevant to a global process of promoting private entrepreneurs to drive the desired growth.

THE PROBLEM WITH AID

The lack of emphasis on the private sector by the U.S. foreign aid program results from a deeply ingrained, institutional disposition against alternate approaches of providing foreign assistance. American foreign aid originally concentrated on infrastructure projects such as roads and dams. These kinds of projects meant huge capital projects undertaken by recipient governments. This resulted in part from use of the Marshall Plan as a model aid program. Yet Marshall Plan assistance was intended to help rebuild fully developed economies, not to transform traditional societies into industrialized nations.

U.S. foreign assistance efforts during the Truman Administration at least had the goal of helping such developing countries as Greece and Turkey attain self-sustaining economic development primarily through the stimulation of private

2. AID is frequently confused on what constitutes the "private sector." Indeed, AID often treats the provision of public funds to private U.S. consultants who carry out government objectives as "support for the private sector."

enterprise. Loans were transferred at market rates, with subsidies limited to important projects that might not qualify for commercial credit.

Three Damaging Notions. Later U.S. foreign assistance programs were influenced by such development economists as Walter Rostow. He contended that Western experience demonstrated that there were more or less "classic" stages of economic development for all nations. This process, said Rostow, could be accelerated and countries could skip stages of development entirely. His thesis was the foundation of development theory for a quarter century. It promoted three subsequently damaging notions: 1) industrial development is more important than agricultural development; 2) the acceleration of development is a managed or directed process; and 3) this accelerated process requires external resources.

The U.S. government's acceptance of Rostow's approach to development has affected the very structure and function of AID. The agency was created by an executive order, in conjunction with the Foreign Assistance Act of 1961; at the time, Rostow was Deputy Special Assistant to President Kennedy for National Security Affairs. Virtually every AID assistance program has reflected Rostow's view of the importance of managed economic growth and political development. Most of the development projects sponsored by the U.S. do not even recognize, other than rhetorically, the important role of the private sector in economic development.

Shifting the Philosophy. AID's reliance on government-to-government transfers was reinforced as other approaches to development assistance were embraced by or forced on the agency. In the 1970s, for instance, Congress passed the Basic Human Needs (BHN) legislation, which purported to direct foreign assistance to the poorest of the poor to meet their basic human needs. The legislation profoundly shifted the fundamental philosophy underlying U.S. aid. In 1967 the legislative language on AID had stated that "development is primarily the responsibility of the people of the less developed countries themselves." The 1973 language of the BHN legislation transformed this emphasis on the people to one on the government, stating that "development planning must be the responsibility of each sovereign nation."[3]

It was this AID emphasis on the public sector that was inherited by the Reagan Administration. The President's own policies strongly recognize the private sector as the engine of economic growth. Yet his appointees at AID did little to redirect U.S. assistance to the developing countries' private sectors. Instead, AID Administrator Peter McPherson invoked only rhetoric. In his "Four Pillars" of AID policy, McPherson included using the private sector, along with institutional development, policy dialogue, and technology research, development and transfer.

Surrendering to the Bureaucracy. McPherson and the Administration did little to counter the opposition to change from the entrenched AID bureaucracy. Indeed, in hearings in late 1985, one senior AID appointee said that it would take "ten years for AID to become comfortable with the private sector"; he noted that, of the more than 70 AID missions overseas, only two or three had submitted their private sector strategy papers that had been requested by AID in Washington.

3. Nicholas Eberstadt, "The Perversion of Foreign Aid," *Commentary*, June 1985, pp. 19-33.

Resistance to private enterprise is widespread within AID. When asked why she chose a large U.S. cooperative corporation for a project, an AID contracting official responded that the cooperative was nonprofit. In fact, the organization was highly profitable, but the AID careerist, like many of her colleagues, simply distrusts private, profit-making enterprises.

In another case, Hershey Foods, a multibillion dollar U.S. commodity processor offered, through AID, a long-term contract to purchase at world market prices commodities from Third World growers. AID, however, rejected the offer and then commissioned a marketing study to find commodity buyers.

According to a 1985 AID study to evaluate its "Private Sector Development Initiative," the development assistance portfolio spent on private sector efforts was barely "$300 million annually for FY 1982 to FY 1984, or about 17 percent of the total development assistance obligations over the period."[4] Development assistance totaled about $5.4 billion during the three-year period.

Behavior Modification. Even this low number inflates AID's programs, since many private sector projects have little to do with private enterprise, save their titles. Moreover, even some of the programs that were clearly directed at the private sector had no conceivable utility.

One AID project, for instance, involved a multiyear study in Morocco "supplementing other Agency-sponsored research being conducted in Malawi, Ecuador and India" to determine "personal entrepreneurial characteristic variables" and then develop a program that "improves entrepreneurial effectiveness through behavior modification."[5] AID expects to use both "concurrent-validation analysis" and "longitudinal-validation analysis" in this work. That AID believed entrepreneurial activity can be cultivated through "behavior modification" shows a fundamental lack of understanding of the underpinnings of economic activity, such as secure property rights, reasonable levels of taxation on profits and capital gains, and simple licensing procedures for new businesses.

Another problem with AID is its bureaucratic imperative to obligate funds. AID mission directors' careers are advanced more for the amount of money they spend than for the effectiveness of their projects. Even when critical assessments are made, they usually occur years after the responsible officials have moved to new countries or programs. This bureaucratic pressure to spend funds, too, encourages AID officials to favor public sector projects, since loaning funds to the central government is simpler and less risky than assisting numerous private borrowers.

Destroying Agricultural Markets. An even more fundamental problem, however, is the institutionalized orientation toward the public sector within AID.

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4. By FY 1985, using AID's accounting, the portion directed at private sector efforts had more than doubled to almost 40 percent. But the arbitrary accounting method and the fact that this includes private sector aid through local public sector institutions casts serious doubts on the accuracy of this number.

5. "Research on Entrepreneurial Identification and Development in Morocco," RFP No. COD-AN-85-005, July 9, 1985.

Agency officials, following the lead of Western development experts, have supported Third World programs that in effect tax the agricultural sector to support industrial growth. Indeed, subsidized food sold to governments through the U.S. P.L. 480 program, popularly known as Food for Peace, typifies this problem; it has destroyed many domestic Third World agricultural markets. Whole regions inside developing countries returned to subsistence or barter economies, as farmers lost their domestic markets under the twin pressures of uneconomic pricing policies and cheap food imports.

What is most disturbing about the reliance of AID and other Western donors on government intermediation is that many aid recipients once had relatively strong private sectors. Example: the Philippines. Despite the existence of powerful, aggressive private Filipino firms capable of undertaking extremely large, sophisticated projects, virtually all Western donors supported a national program of public investments in every major industry and sector. This transferred resources from private hands to the Philippine government. The result has been disastrous, leaving the country with nearly a $30 billion external debt and several years of negative gross national product.

FREE MARKET CHANGES IN THE GLOBAL ECONOMY

During the decolonization of the 1960s, a wave of centrally planned economies emerged in the Third World. This crested in 1979. Then the huge jump in oil prices robbed the Third World of the financial buffers that had allowed inefficient economies to muddle through, maintaining the fiction that they were viable. The economic drain resulting from higher energy prices essentially brought the mortgage on their economies due.

At the 1981 Cancun Summit representatives of the Group of 77, the roughly 120-member predominately socialist Third World lobby, derided Ronald Reagan's free market economic prescriptions. Yet a number of Third World countries have begun reforming their economic policies in the direction of greater personal freedom and market orientation. AID, however, has been unable to capitalize fully either on the opportunities for change identified by Reagan six years ago or on the historic changes underway in the Third World. These changes often seem to be proceeding despite AID--not because of it.

Among the changes beginning to be seen in developing countries with mixed economies have been the decontrol of certain economic sectors, the lifting of price controls on basic commodities, a reversal of rural-urban imbalances on prices and taxes and the provision of government services, the disbandment of commodity marketing boards, and the privatization of some state-owned enterprises.

A NEW APPROACH

Almost all points on the political spectrum appear to be converging on the need to foster self-sustaining economic development in Third World states. Some key congressional Democrats and Republicans believe reform in U.S. AID programs is necessary. The Administration itself increasingly seems disquieted by its own record.

Reform cannot be carried out only on the project level. Good projects in bad economies are ultimately bad projects and bad policy. Such projects, like artificially cheap oil, help Third World governments avoid facing the cost of their bad economic and political decisions.

Instead, Third World recipients and Western donors alike must change the basic foundation of their economic relationship. They must shift their focus from aid to trade and from welfare client to business partner. Development Economist Keith Marsden, in an article in *The Journal of Economic Growth*, describes the high correlation between economic growth and increases in domestic credit to the private sector. In contrast, he found that economic growth was not significantly correlated to financial flows from abroad. He also reports that external lending to African governments has failed to boost growth. He writes that the "level of external public debt had a negative relationship with economic growth...."[6]

A new AID approach would include a number of reforms. Among them:

Reform #1: Rewrite the Basic Human Needs Legislation

The Reagan Administration should begin recrafting the Basic Human Needs statute. The White House should work with a bipartisan group of Congressmen who recognize the key role of the private sector in development. Congress must reverse the BHN approach, which replaced the goal of helping developing country economies achieve broad-based growth with the desire to help alleviate the suffering of the "poorest of the poor" via wealth transfers. BHN largely transformed AID into a welfare agency for the Third World.

Reform #2: Find Mechanisms for Directing Assistance to the Private Sector

There is no substantial reason, either legislative or practical, why the major portion of U.S. foreign assistance cannot be programmed to provide immediate and direct benefit to the local private sector of developing countries in which the U.S. has an aid program. The major impediment seems to be pervasive opposition within AID to changing the Basic Human Needs approach and the current government-to-government resource transfers designed primarily to obtain influence with Third World leaders.

There are institutions that are oriented toward support of entrepreneurial rather than governmental stimulation of economic growth. The models are well known and proved. While these can be improved, their basic approach should be considered.

Using Peru's Underground Economy. Also to be supported are efforts by foreign nationals themselves which are aimed at encouraging private enterprise and

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6. Keith Marsden, "Private Enteprise Boosts Growth," *Journal of Economic Growth*, vol. 1, no. 1 (1986), pp. 17-22.

restructuring statist economies. For example, recent research conducted by Peruvian economist Hernando de Soto on the Peruvian underground economy paints a profoundly disturbing picture not only of the existing political economy in Peru, and by inference in all of Latin America, but also of the policies and programs of traditional development assistance. De Soto shows that the vast underclass of Peru (over half of the urban workers) are not an exploited proletariat but mainly frustrated entrepreneurs, who even though they are barred from entering the economic mainstream create 40 percent of Peru's gross national product. Indeed, they have created a large, profitable underground economy: the existing illegal public transport system has had $1 billion invested in it and is profitable at some of the lowest unsubsidized rates in the world (10 cents/ride). Nevertheless, the Peruvian government has sought foreign aid to put the private concerns out of business, for example, by requesting a $300 million loan from the World Bank, for instance, to fund a commuter train system.

Work such as de Soto's that points up the failures of traditional channels of foreign assistance, while at the same time suggesting viable alternatives, can and should be supported by all the U.S. foreign assistance program.

Reform #3: Reorganize the Foreign Assistance System

It is essential to delineate and, when necessary, segregate U.S. efforts that promote humanitarian assistance, economic growth, and short-term political stability. Congress and the Administration need to redefine the functions of the key actors in the foreign assistance system: the International Development Cooperation Agency (IDCA), the Agency for International Development (AID), the Overseas Private Investment Corporation (OPIC), the Export-Import Bank, the Trade and Development Program (TDP), the multilateral development banks, and the federal departments that oversee their activities.

In particular, the U.S. should shift as much economic development responsibility as possible from the State Department to the Treasury Department. For one thing, Treasury currently has primary responsibility for multilateral development assistance, the stated objective of which is primarily self-sustaining economic development. For another, it is Treasury Secretary James Baker who has helped set the global agenda for dealing with Third World debt by pushing for policy reform and private sector support. Such a reorganization could rationalize the foreign assistance structure without extensive new legislation, without the creation of new institutions, and without substantial new budget appropriations.

Shifting Responsibility to Treasury. Shifting the bulk of the global economic responsibilities to Treasury might be accomplished in several ways. Although the ExIm Bank, which finances U.S. exports, is an independent agency, it now coordinates its activities closely with Treasury. Congress could merge ExIm with the Trade and Development Program, which provides feasibility studies to evaluate trade opportunities for U.S. manufacturers.

The ExIm Bank then could be paired with the Overseas Private Investment Corporation, which now provides insurance and financial assistance to U.S. firms making long-term investments in developing countries. This would create a developing countries finance and development group that would follow a more private sector structural model. Congress could reconstitute both ExIm's and OPIC's boards to give Treasury the dominant position. The Treasury Secretary, for instance, could chair both organizations and be represented by his subordinate, the Assistant Secretary of the Treasury for International Affairs.

Reform #4: Revitalize IDCA

The International Development Cooperation Agency was created by the Carter Administration to set the policy direction for AID, OPIC and the TDP. The Reagan Administration effectively eliminated IDCA by combining it with AID. This allows the official whose primary responsibility is to fulfill the Basic Human Needs legislation also to set overall U.S. foreign assistance policy. Separating the positions of AID administrator and IDCA head would help divorce the development of a global economic strategy from the parochial imperatives of operating an aid agency bound by the BHN. The Assistant Treasury Secretary for International Affairs could be appointed to this position.

Reform #5: Redirect OPIC to Manage Economic Development Policy

OPIC currently has the dual responsibility of insuring U.S. multinationals abroad and providing small amounts of catalytic financial assistance to U.S. investors in the Third World. OPIC's role should be expanded to assume the primary responsibility for managing U.S. support for all private sector economic development efforts. The three most recent foreign assistance review panels--one under Nixon and two in the Reagan Administration--as well as current Democratic legislative initiatives have made similar proposals. Modifying OPIC's charter, due for review late this year, to allow it better to support investment in the Third World, would improve U.S. efforts to stimulate economic development. The reason: OPIC does not share AID's ambivalence about private enterprise.

Reform #6: Reconstitute AID Under the State Department

At the same time, AID should be reconstituted within the State Department to be rid of its often contradictory objectives by letting it administer whatever social development programs survive after a rewrite of the BHN legislation. AID could be consolidated with the State Department and run by an Assistant Secretary for Humanitarian Assistance within the Economic Bureau, which is under the Under Secretary for Economic Affairs. The Economic Support Fund, which is a fast-disbursing, more politically oriented account, could be separately administered within the structure of the Under Secretary for Security Assistance, Science and Technology. Such a structure would separate the economic programs from the humanitarian and political functions by having them administered from Treasury and State respectively, which would also separate humanitarian and political functions.

Reform #7: Have OPIC Manage Local Currencies

The Farm Bill of 1985 includes new provisions that enable developing countries' private sectors to use local currencies generated by the sale in those countries of surplus U.S. food commodities. AID, however, has done very little so far to promote the use of these funds by private sectors because there is an ambivalence about the real purpose of those local currencies: to support AID's budget or to stimulate private growth. Currently such proceeds are jointly programmed by AID and the host government for public sector use. In effect, they frequently become supplemental budgets for AID projects. By programming these funds into the private sector for re-lending, AID effectively loses budget resources. As such, AID has resisted the program.

To ensure that the money is used in the private sector as the law intends, Congress should transfer management of this program to OPIC. This would be consistent with the original legislation introduced by several Republican Senators, as well as later proposals made by senior Democratic Senators in separate legislation.

CONCLUSION

In its 26 years of existence, AID has--or should have--learned a number of painful lessons about which development policies succeed and which do not. AID, however, seems to refuse to learn from its mistakes. Other countries are learning much faster. This includes the communist rulers of China, who have unleashed the private sector in agriculture and, in less than a decade, have transformed their huge country from a food-deficit into a food-surplus nation.

It is not too late, however, for AID to reform and to apply history's and experience's lessons. The 1985 Farm Bill, for example, includes a Food for Progress program that allows AID to provide multi-year commitments of food aid to a developing country in return for substantial policy changes by that country. Such changes could include the privatization of state agricultural efforts and increased reliance on the market. Such a program could be a tool to leverage policy change more usefully than has been the case.

Fulfilling Reagan's Promises. Other changes in the AID approach could include: 1) limitations on the government-to-government method of supplying foreign assistance, 2) meaningful conditionality on economic assistance, 3) real accountability within the bureaucracy on reconciling project expectations with results, 4) a deemphasis on the bureaucratic system, which rewards mission directors for spending money, 5) time limitations on the use or application of research or studies, and 6) personnel selection and internal training programs that elevate the notion of self-sustaining economic development as a cornerstone of AID's existence.

More fundamentally, the U.S. government must change the basic philosophy underlying its aid program and revamp the organizations charged with managing U.S. development policy. The U.S. Agency for International Development can thereby begin translating into policy the promises Ronald Reagan made to the American people and to Third World leaders in Cancun in 1981. More important, AID at last can begin to help developing nations along the path toward genuinely sustained economic growth.

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