

Testimony of Jeffrey Herbst

“An Assessment of U.S. Economic Assistance”

U.S. Senate Committee on Foreign Relations

July 7, 2016

Mr. Chairman, Ranking Member Senator Cardin, other distinguished members of the Committee, it is a great honor for me to testify before the committee on the panel “An Assessment of US Foreign Economic Assistance.” My observations are mainly based on my own academic work that has focused on the political economy of sub-Saharan Africa over the last thirty years.

Without a doubt, the necessary condition for economic growth in a developing country is the commitment of the government to create the enabling conditions for growth. In particular, governments must create policy environments that are attractive to local and foreign investors. We have seen, in Africa and elsewhere, that governments (e.g., Ethiopia, Rwanda) that create the necessary conditions are able to attract private investment even if there are very challenging historical legacies. We have also seen that countries that may seem more attractive (due to infrastructure and the existing private sector) but with a poor governance climates (e.g., South Africa) do not attract investment. Governments must also be able to make hard decisions, including a focus on building infrastructure rather than spending on consumption and be able to close state enterprises that are not viable. Finally, corruption must be kept to a low and predictable level.

Absent the necessary will to make economic reform, it can be guaranteed that there will not be sustainable economic growth. There are several dozen countries in the developing world that are currently trying to attract investment and many recognize that they are in a global competition for investment. There are only a few cases (mostly in mining but even then there are often choices) where a company has to invest in a particular country.

Whether US economic assistance promotes growth is a complicated question. It must first be noted that economic growth is not the primary goal of US foreign policy. The largest component of bilateral assistance (61% in FY2015) is devoted to global health, notably to support treatment of HIV/AIDS.¹ According to the State Department’s own framework, promoting economic growth is a priority but so is promoting peace and security, investing in people, governing justly and democratically, and humanitarian assistance. Underneath these

¹ A good review of overall trends can be found in Curt Tarnoff and Marian L. Lawson, “Foreign Aid: An Introduction to U.S. Programs and Policy,” Congressional Research Service, June 17, 2016.

major priorities are no less than twenty-four sub-goals ranging from counter-terrorism to agriculture to health to good governance.

Many of these goals are aligned but not all. There are, for instance, some African countries that are growing but who cannot be considered democratic (again Rwanda and Ethiopia are examples). While all of these goals are admirable, it must be noted that the breadth of such priorities spread over many countries makes it very hard for US government agencies to focus on any one priority and therefore tie aid to results. For instance, the US was constrained from using aid to protest the unfair elections held in Uganda in February 2016 because of the important security role that Kampala plays in the region.

More generally, aid will be used well by countries that are committed to economic growth and will be wasted in countries where the government has other priorities. Outsiders can never instill a seriousness of purpose that is lacking in the national government.

As the US government has so many stated priorities it would be all but impossible to say that aid was sufficiently tied to outcomes and objectives. The US, whether deliberately or not, has developed a very broad portfolio of aims spread over a large number of countries. There are strategic advantages to such a posture—displaying American involvement globally, participating in a broad range of issues, and flexibility to move across different sectors depending on felt need—but policy coherence naturally suffers.

Economic assistance should only be expected to succeed when government is committed to having a private sector that thrives. Once that basic commitment is discerned, economic aid can be used in a variety of ways that would be productive, including building infrastructure, rationalizing and enhancing the competency of government ministries and state-owned enterprises, and fostering entrepreneurs. Foreign economic assistance cannot be expected to substitute for local political will.

A policy stance which aimed for a sunset on American assistance in a given country is an attractive idea but would have to be based on a much smaller set of priorities than is currently the case and greater discernment in the disbursement of funds. Greater capacity-building will only occur with governments that want to enhance their fundamental structures, as opposed to enrich leaders, develop patronage networks, or pump up the economy for an upcoming election.

A policy framework with a clear sunset would have to have well defined metrics that would be announced in advanced and then tracked. The US would also have to have the discipline to reduce aid if progress was not being made on the metrics.