

Killing With Kindness: How Foreign Aid Backfires

By: Malou Innocent – June 10, 2013

Whether Washington calls it capacity building, counter-insurgency, short-term emergency relief or long-term foreign assistance, its multi-decade mission to bring economic development to faraway lands often falls short of achieving its desired outcomes. At the Cato Institute last Wednesday, George Mason University Economics Professor Christopher J. Coyne explained why, presenting the central arguments of his new book, "Doing Bad by Doing Good: Why Humanitarian Action Fails."

As summarized in this Cato Daily Podcast, Coyne argues that even though coercive and non-coercive forms of state-led humanitarian action can alleviate short-term human suffering, it cannot replicate individual instances of success systematically. Challenging those arguments was Dr. M. Peter McPherson, president of the Association of Public and Land-grant Universities.

Their discussion proved informative, contentious and was overall well-received, but left under-explored one of the book's key conclusions, specifically about the allocation of aid – that is, political competition among entrenched bureaucracies typically trumps the selfless moral imperative to help those in need. Humanitarian efforts typically flop because of vested interests, perverse incentives and clashing missions.

Similar problems hamstrung a major food aid initiative in Vietnam, as retired Foreign Service Officer Jaime L. Manzano shared with me and Coyne after the book forum:

U.S. agricultural surpluses available under PL 480 [the law that created the Office of Food for Peace] can be granted or sold in less developed countries to generate local currencies. These funds are used to cover budgets in recipient countries and meet U.S. agency needs to cover local budgetary expenditures that their operations require.

In the early 60's, the U.S. Mission in Vietnam requested PL 480 to ship rice to the country. The rice was to be sold in the Saigon market for local currencies and then used to pay for the training and salaries of South Vietnamese soldiers.

Vietnam was a rice exporting country. It had no shortage of the commodity. But the country team argued that the cost of rice was high, and that it needed local currency to pursue the war.

A review of the program showed that local rice was indeed available, and that should PL 480 rice be sent to Saigon, prices would plummet. Rice producers, the small farmers in rural areas where the war was being fought, would become disaffected from the government of Saigon and have reason to ally themselves with the insurgents. The direction of trade would shift toward the Cambodian market, with insurgents functioning as middlemen. Such a change would run counter to the purposes of the U.S. presence in Vietnam.

The PL 480 review team, composed of the AID Vietnam desk officer and the AID Far East program officer, participated in the preparation of a position paper that was vetted through the Department of State, the Pentagon and the Department of Agriculture. State sat on the fence, Pentagon strongly supported the country team and USDA pushed to get rice out of its silos.

The AID PL 480 team continued to point out that the use of rice undermined the reasons for America's presence in the region. Firstly, it pointed out that if the U.S. continued to bend to the needs of the government of Saigon, the war in Vietnam would become one for which the U.S. would become responsible and not the South Vietnamese government. Secondly, because the rice would alienate the rural constituency in South Vietnam, the U.S. would be losing the hearts and minds of the Vietnamese people who were precisely the ones we wanted to wean away from the insurgents.

The issue went up to the White House. Politics worked its wondrous ways and the rice to Vietnam was approved. Those who argued against the shipments were accused of "disloyalty" to the administration. Within months, those who had the temerity to question the country team were transferred to other posts.

I was one of them.

That anecdote exemplifies the incentives created by political institutions, regardless of the conflict. In his 2012 book, "Little America: The War Within the War for Afghanistan," Washington Post Senior Correspondent Rajiv Chandrasekaran uncovered similar inter-agency turf battles that harmed diplomatic efforts to end America's longest war.

Despite rhetoric about "lessons learned," development experts and policymakers seemingly fail to fully grasp that political competition is immutable to bureaucracies. Coyne explains that agencies and departments, focused on their own discretionary budgets and discrete visions of success, continually jockey to influence policy and advance their narrow self-interest. Citing fellow economists Gordon Tullock and the late William A. Niskanen, "Doing Bad by Doing Good" knocks down the popular view that policies always serve a higher benevolent purpose. Among his many conclusions, Coyne argues that competition, much like waste, corruption and other factors that good intentions can never eliminate, "is a logical outcome of the industrial organization of government bureaucracies."