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Reform Bill Trades Foreign Aid For Corporate Welfare

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A new foreign aid bill soon to be introduced in the U.S. House of Representatives looks to substitute U.S. development assistance in favor of private investment. In an article in The Hill late last year, the bill's author, Ted Yoho (R-FL), claimed that the Economic Growth and Development Act is aimed at "connecting American businesses with the federal development agencies" in order to create an accountable "one-stop shop" for development financing. This would involve shifting the traditional mode of development assistance to a subsidized loan model, such as the Overseas Private Investment Corporation (OPIC). But, while the current foreign aid regime is rife with problems, this approach to development has its own issues. Rather than being a boon for third-world nations, it is more likely that the bill will carve out lucrative deals for corporate interests and prevent recipient nations from reforming their own economies.

The federal government has a poor track record of trying to integrate the private sector into U.S. development assistance. Models that Yoho favors, such as OPIC, are intended to jumpstart private investment in developing nations through public loan support and underwriting of risk. However, this provision of loans and investment guarantees in emerging markets often goes awry. For example, though it claims otherwise, only a mere 5% of OPIC's business actually goes to countries that are classified as "least developed" by the United Nations. Instead, it is often a platform for corporate welfare, with special interests capturing the bulk of assistance. In some years, 90% of OPIC financing has been taken by ten big businesses. These include some of the world's largest multinational corporations with connections to OPIC itself. Some of these functions of U.S. development assistance, sponsored by the taxpayer, include helping Papa John's to open a franchise in Russia, financing a Ritz-Carlton Hotel in Turkey, and providing $150 million of insurance to Citibank, the third-largest bank in the U.S., to open branches across the Middle East. It isn't hard to see that these measures are doing little for the world's poor and more for the shareholder.

Proponents, however, claim that such assistance is required to incentivize private companies to invest in the risky, undeveloped world. But while that may have been true decades ago, in today's global economy, government support is seldom required. Private investment in developing countries has already begun to outpace investment in the developed world. In 2012, developing and transitioning countries attracted $790 billion in foreign direct investment, more than the total FDI in developed countries. Investing in developing nations does not require U.S. government backing. It is rather a means to promote corporate interests, increasing profit margins for businesses while shielding them from risk. As the Cato Institute's Ian Vasquez and John Welborn have pointed out, "it makes little sense to maintain a government agency that helps the private sector earn profits during good times but socializes losses if times become difficult." Having the private sector in bed with the federal government does little to drive the U.S. economy or the development of poor nations.

Through his experience as chair of the Congressional Caucus for Effective Foreign Assistance, Yoho has insisted that he understands why foreign aid delivers such menial results. He recognizes first-hand the problems with accountability and transparency, as well as the failure of recipient nations to reform their economies. Yet, there is little reason to believe that his particular brand of targeted corporate aid will be any better than those he laments. To spur economic growth, undeveloped countries must foster an attractive business environment. But, when the U.S. subsidizes foreign investments, whether constructive or not, poor nations are incentivized to neglect their own economic reform. Shifting welfare from foreign countries to domestic corporations investing in foreign countries will not change the fundamental problems that impede growth. Governments that depend on assistance fail to reform, and countries that fail to reform fail to grow. There is no doubt that there needs to be a change in the way we administer aid. But these measures must promote, rather than prevent, the market reforms that are essential to driving a nation's development.

If the U.S. wants a better way to assist developing countries, it should start by removing the barriers it has constructed to prevent development. Lowering harmful tariffs, ending U.S. farm subsidies, and liberalizing immigration would be more effective than subsidizing corporate entities. Yoho's bill is merely trading direct development assistance for corporate welfare. This fails to tackle the root of the problem, and there is no reason to believe that this new brand of aid will be any different from the last.