LOOKING AHEAD

Reshaping U.S. Foreign Aid and Development Assistance in the Post-Cold War Era

An NPA Perspective 2
by Malcolm R. Lovell, Jr.,
NPA President and Chief Executive Officer

Introduction 3
by Richard S. Belous,
NPA Vice President and Chief Economist, and
Sheila M. Cavanagh,
NPA Research Associate and Aid and Development Project Coordinator

A New Framework for U.S. Foreign Assistance 6
by J. Brian Atwood,
Administrator,
U.S. Agency for International Development

U.S. Foreign Aid Priorities in the Post-Cold War World 11
by John W. Sewell,
President,
Overseas Development Council

Aid and Development: Reform and Realities 15
by Curt Tarnoff,
Specialist in Foreign Affairs,
Congressional Research Service

Leveraging Private Sector Resources in the Development Process 19
by F. William Hawley,
Director, International Government Relations,
Citicorp/Citibank

Markets and Development: The Difficult Social Issues to Be Faced 22
by Ronald Blackwell,
Assistant to the President for Economic Affairs,
Amalgamated Clothing and Textile Workers' Union

Russian Realities and the Implications for U.S. Economic Assistance 26
by Clifford G. Gaddy,
Research Associate, Foreign Policy Studies,
Brookings Institution

NPA Publications 32

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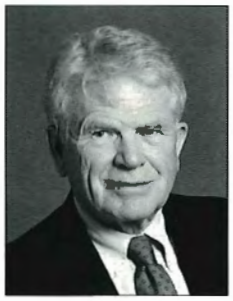
AN NPA PERSPECTIVE

Reshaping U.S. Foreign Aid and Development Assistance

by Malcolm R. Lovell, Jr.
NPA President & CEO



The United States today is in an unparalleled position of global power and influence. However, it lacks a compelling international agenda that is embraced by the vast majority of Americans, as existed during the Cold War. If the U.S. is to exercise its power and moral authority in a responsible and coherent fashion, U.S. goals and strategies must have the firm support of the American people.

Currently, a large number of foreign policy and development goals are in contention with each other, with no clear national resolve supporting any of them. In this issue of *Looking Ahead*, J. Brian Atwood, Administrator of the U.S. Agency for International Development, presents the administration's case for "sustainable development," defined as including economic, political, environmental, and population goals. Other authors present their critiques of the options facing the United States.

Irrespective of the goals selected, some priorities must be established if available resources are to be utilized to influence events in more than a marginal way. Foreign aid and development is too important a tool in the U.S. foreign policy arsenal to waste in ineffectual displays of largess. We must be confident that the resources we expend will yield results that clearly advance national purposes.

Democratic societies define their goals and determine strategies only after extensive public debate, compromises among competing points of view, and an exhaustive legislative process. The United States has been so involved in domestic concerns and political wrangling that the question of appropriate aid and development goals and strategies has received short shrift.

This issue of *Looking Ahead* is dedicated to stimulating the debate on the opportunities and challenges facing the United States as it defines its policies on foreign aid and development. It is our hope to generate greater public awareness and understanding of the choices available and, where possible, to identify alternatives that have the potential to garner substantial public support.

Reshaping U.S. Foreign Aid and Development Assistance in the Post-Cold War Era:

An Introduction

by Richard S. Belous and Sheila M. Cavanagh

The Cold War, with its goal of stemming the advance of communism, provided a widely understood and agreed upon primary justification for U.S. foreign aid and development assistance programs. The demise of the Soviet Union, however, has forced U.S. public and private sector decisionmakers to reexamine both the goals and the strategies of U.S. foreign aid and development assistance.

The National Planning Association (NPA), in cooperation with the U.S. Agency for International Development (USAID), is hosting a series of public-private sector policy dialogues that encourage this process. Characteristic of NPA's 60-year tradition, the Aid and Development Project is committed to a nonpartisan, factual review of foreign assistance policy and a productive exchange of ideas among public and private sector leaders. The authors in this issue of *Looking Ahead*—representatives of government, private voluntary organizations, business, and labor—have spoken at events related to the Aid and Development Project. Their articles represent a wide variety of vantage points in the foreign aid and development debate.

The Clinton administration presented a rewrite of the 1961 Foreign Assistance Act to Congress in February 1994. Entitled the Peace, Prosperity & Democracy Act (PPDA) of 1994, the proposed legislation provides a framework for funding international affairs programs in the post-Cold War world. The PPDA reflects the restructured goals of the U.S. foreign assistance program minus the pole star of containment. It also reflects the restructured strategies for foreign assistance programs of USAID and other aid-related institutions.

Currently, American aid is allocated primarily by geographic region. If any part of the Clinton administration's new plan is to replace containment and geography as the primary guides of U.S. foreign aid policy, it is the umbrella objective of "sustainable development." Sustainable development is defined in Title I of the PPDA as "broad-based economic growth which protects the environment, enhances human capabilities, upholds democratic values, and improves the quality of life for current generations while preserving that opportunity for future generations." In the box accompanying this "Introduction," the broad concept of sustainable development is broken down into its four interrelated components.

The first article in this issue is authored by J. Brian Atwood, Administrator, USAID. Atwood and USAID are playing key roles in the Clinton administration's pursuit of a new legal framework for U.S. foreign assistance programs and foreign policy. In his article, he outlines some reasons for the new framework and explores the direct domestic interests served by a strong foreign assistance program.

In the second article, John W. Sewell, President, Overseas Development Council, maintains that a number of pressing U.S. interests can be served by constructive engagement in the development process overseas. He argues that, given increasing interdependence in the global economy, the United States needs the help of developing nations to accomplish many of its domestic and international goals.

Curt Tarnoff, Specialist in Foreign Affairs, Congressional Research Service, outlines the serious budgetary constraints facing any foreign aid reform proposal. Although reform is necessary, Tarnoff asserts, budget cuts are eroding the purpose of the reform effort—the ability of foreign aid to be an effective tool of U.S. foreign policy.

Given these constraints, F. William Hawley, Director, International Government Relations, Citicorp/Citibank, proposes in the fourth article that private sector funds be leveraged to the maximum extent possible into the development process. Public funds alone, he argues, often fall short of accomplishing stated development goals.

Ronald Blackwell, Assistant to the President for Economic Affairs, Amalgamated Clothing and Textile

Workers' Union, explores the administration's reform proposal from a labor perspective. Blackwell emphasizes the interdependence of economic growth and the spread of democratic, free market institutions to support that growth. He points out the importance of worker rights in the process of sustainable development.

In the final article, Clifford G. Gaddy, Research Associate, Foreign Policy Studies, Brookings Institution, examines Russia as one of the many new claimants for U.S. foreign assistance. The difficulties of the Russian political and economic transition cannot be completely bridged by U.S. or other foreign assistance funds, he says, especially with the limited funds now available. Gaddy suggests some areas where U.S. aid can be strategically applied.

Many foreign aid reform efforts have failed to dethrone the 1961 Foreign Assistance Act, but the costs of maintaining the status quo will rise as the United States moves further into the maze of challenges and opportunities of the post-Cold War world. U.S. government, business, and labor have a stake in economic growth and political stability in the developing world. Any new legal framework for foreign assistance designed in the mid 1990s probably will affect foreign aid goals and strategies well into the next century.

* * *

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The Peace, Prosperity & Democracy Act (PPDA) of 1994: Key Points

The Peace, Prosperity & Democracy Act (PPDA) of 1994, which was sent to Congress in February 1994 by the Clinton administration, would provide a comprehensive overview of all major programs receiving funding within the International Affairs budget function and would serve as the basic authorization charter for most of these programs.

Sustainable Development

Title I of the PPDA would authorize a single appropriation for sustainable development assistance. The title defines sustainable development as "broad-based economic growth which protects the environment, enhances human capabilities, upholds democratic values, and improves the quality of life for current generations while preserving that opportunity for future generations." Sustainable development assistance would be targeted to four interrelated objectives:

- encouraging broad-based economic growth;
- protecting the global environment;
- supporting democratic participation; and
- stabilizing world population growth.

Encouraging Broad-Based Economic Growth

Under the PPDA, USAID would promote sustainable development by enhancing the capacity for growth in developing countries and by working to remove obstacles to individual opportunity. It would concentrate its efforts in three areas:

- strengthening markets—addressing policy and regulatory impediments, strengthening institutions, and improving infrastructure;
- expanding access and opportunity—promoting microenterprise and small business, focusing on appropriate technology, enhancing food security, and increasing the access of women to employment, land, capital, and technology; and
- investing in people—improving primary health, education, and institutions that facilitate participation, especially by women and other disadvantaged groups.

Protecting the Global Environment

Under the PPDA, USAID would pursue two strategic goals in this area:

- reducing long-term threats to the global environment, particularly loss of biodiversity and climate change; and
- promoting sustainable local, national, and regional economic growth by addressing unsound environmental, economic, and development practices.

The act would direct USAID to continue work on regulatory, statutory, enforcement, policy, and institutional issues, social and economic patterns, inadequate education, the need for technical research, and other roadblocks to environmentally sustainable growth. The agency would also continue to seek sound ways to use forests, wetlands, coastal zones, vital ecosystems, and water sources, and it would continue to encourage efficient and sound energy use and production and adequate waste management.

Supporting Democratic Participation

In supporting democracy building and good governance, the PPDA defines USAID's main role as helping people make the transition to democracy from authoritarian rule and facilitating the empowerment of individuals and communities in nondemocratic states.

The types of programs identified in the act include those that promote:

- respect for human rights and the rule of law;
- an expanding role for nongovernmental and citizens' organizations;
- the means to enhance citizen access to public information;
- the ability of all citizens to freely choose their leaders;
- the growth of a free and independent media;
- efforts that advance legal, social, and economic equality for women, minorities, and other workers;
- principles of tolerance among and within religious and ethnic groups.

Stabilizing World Population Growth and Protecting Human Health

Rapid population growth is outstripping the resources and infrastructure of many countries, and it is a major contributor to political destabilization and environmental degradation. The PPDA would direct resources toward population stabilization programs as well as activities that improve individual health, with special attention to child survival and the prevention of HIV/AIDS.

The act assigns USAID four strategic goals in this area:

- to stabilize the world's population at less than 10 billion by the year 2050, with very low growth thereafter;
- to reduce child mortality rates by one-third over the next decade;
- to reduce maternal mortality rates by one-half during this period; and
- to reduce the rate of new HIV infections by 15 percent.

USAID's programs in this area would continue to include development of voluntary family planning systems and services, reproductive health services, child survival and maternal care, HIV/AIDS prevention activities, and basic education for girls and women.

A New Framework for U.S. Foreign Assistance

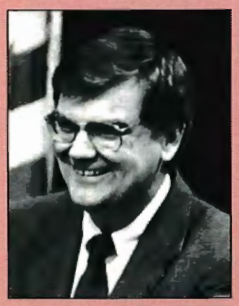
by J. Brian Atwood

It has been suggested that the end of the Cold War may have marked the end of history. In many ways, a good deal of nostalgia surrounds the Cold War. It produced a more coherent U.S. foreign policy than exists today. Business, labor, government, and the American people understood the chief goal of U.S. foreign policy—the containment of communism—and they pursued this aim with vigor until victory was achieved.

CREATING A NEW FRAMEWORK FOR FOREIGN POLICY

The end of the Cold War, of course, did not mark the end of history. But it did reveal a confusing world that continues to offer a wide variety of threats to and opportunities for the United States. Development work is an important part of U.S. foreign policy in this new world; to be engaged constructively in long-term development is to be engaged in crisis prevention. A strong foreign assistance program also serves many domestic interests. Although the United States is struggling to solve a number of internal problems, Americans are more aware, even if intuitively, that the nations of the world are interdependent, that the United States is competing in a global economy, and that American jobs, environmental security, and foreign policy interests benefit from constructive engagement in world affairs.

The Clinton administration and the U.S. Agency for International Development (USAID) are taking that case to Congress in their pursuit of a new legal framework for U.S. foreign assistance programs and U.S. foreign policy. Making such a request on Capitol Hill is difficult and requires a certain amount of credibility, particularly given the problems that have plagued the agency. These problems did not result from the end of the Cold War, but from a leadership vacuum, mismanaged programs, low morale, and the wide variety of missions that Congress had imposed on USAID over the



J. Brian Atwood is Administrator, U.S. Agency for International Development.

years. The situation threatened to worsen in the 1990s. By 1993, USAID had 33 missions and 75 directives defined by Congress, and the agency's real role in the foreign policy community was unclear. When I was appointed Administrator of USAID in May 1993, the agency needed to explicitly define its mission to the American public.

In recent years, given mounting problems at home, domestic agencies like the Environmental Protection Agency and the Department of Labor have not been successful in asking Congress to appropriate money for overseas projects. USAID has been the only agency in Washington that can take on these projects. However, its budgets have been declining, along with all federal budgets. USAID is making the best of this situation as it attempts to create programmatic integrity.

USAID's TASKS TODAY

Sustainable Development

As part of the Clinton administration's proposed Foreign Assistance Act rewrite, programmatic integrity at USAID has been defined under one specific term—"sustainable development." Under this umbrella objective, USAID is emphasizing environmental programs, population and health programs, broad-based economic growth programs, and democracy programs. Through a series of strategy papers, the agency has sought to demonstrate the interdependence of these goals. Amelioration of population and environmental problems can indirectly strengthen civil society and democracy. Conversely, improvements in governance and encouragement of popular participation in society can strengthen indigenous popular support for environmental and health matters.

Direct Domestic Impacts

USAID's other important task is to explain the domestic benefits to be derived from a strong U.S. foreign aid program. The following examples outline some of these benefits for the United States.

Protecting the Environment. The United States is spending almost $130 billion a year in public and private funds on environmental protection against pollution emissions that occur within U.S. borders. However, the United States spends only $600 million on environmental protection overseas in dealing with problems such as global warming. According to some projections, by the year 2010 more emissions will be entering the U.S. environment from outside U.S. borders than will be generated domestically because of the success of U.S. domestic environmental protection programs. U.S. foreign policy must concentrate more on international environmental issues to protect the domestic investments of U.S. taxpayers and U.S. businesses.

Improving Health. Global health problems also directly impact the United States. For example, AIDS increasingly affects U.S. citizens on a daily basis. And with sufficient investment, the polio virus could be eradicated everywhere on earth in the next five to seven years, as it already has been in the Western Hemisphere. Because polio can be transmitted to the United States from other regions that still have the disease, U.S. children must be vaccinated at a cost of $300 million a year. If some of that amount were invested in regions where polio continues to claim victims, the U.S. domestic expenditure would eventually be eliminated.

Expanding Exports. The U.S. economy has begun to grow again, and the export sector is the biggest, fastest growing sector. Most economic growth internationally is occurring not in the developed countries, but in the developing world. In the past five years, U.S. exports to the developing nations have increased by about $20 billion.

It is not surprising that U.S. encouragement of economic growth in the developing world has had some success. However, this growth is but an indication of real market potential in the developing countries. By the year 2000, four-fifths of the world's population

"Unless U.S. foreign policy emphasizes programs that create stability, peace, prosperity, and democracy, America will spend more resources on ethnic conflict and the other problems that result from population growth."

will be living in the developing world, which currently includes most of the Southern Hemisphere. This will be a huge market for U.S. goods. If the United States is to be competitive, it must support programs that encourage economic growth in these countries. Previous administrations have turned to the export of American jobs in their efforts to compete. This is not necessary. Rather, the United States must seek to create economic growth in these countries in a way that expands their capacity to purchase American exports.

Controlling Population Growth. Global instability will only increase if population growth is allowed to continue at its present rate. If it does, the enemy of free market democracies will no longer be communism, but chaos. Unless U.S. foreign policy emphasizes programs that create stability, peace, prosperity, and democracy, America will spend more resources on ethnic conflict and the other problems that result from population growth, such as the lack of opportunity, poverty, and malnutrition.

Ninety million people—slightly more than the population of Mexico today—are added to the earth's population each year. The size of Mexico's population and the lack of opportunity there are U.S. foreign policy concerns. The recent rebellion in the southern Mexican state of Chiapas was a direct result of few opportunities, lack of democracy, and poverty. The interrelated problems of population growth and development are growing in the hemisphere, and indeed on America's doorstep.

PREVENTING CRISES IN THE INTERNATIONAL COMMUNITY

Some reports indicate that, for the first time in the past two decades, the world food supply may be leveling off. The agriculture community hotly debates this issue. But if the food supply levels off while the population curve continues to rise, the difference between the two can be used to extrapolate the degree to which instability is likely to increase worldwide.

Fifty million people now move around the earth as migrants. By fleeing environmental degradation, overpopulation, starvation, and lack of jobs, they are voting with their feet for a better life. When the problems that these refugees are trying to escape reach a crisis, the cost to the international community is much greater than the cost of preventing the crisis.

This is especially evident on the continent of Africa. The United States spends approximately $800 million a year on development in Africa, and this effort encourages other countries to invest in African development. But the United States spends twice as much on disaster relief, peacekeeping, and refugee assistance in Africa as it does on development, thereby dealing with the symptoms of the problem rather than treating the disease.

The situation in Africa today is extremely serious. But the continent's tremendous problems are coupled with tremendous hope and opportunity. African nations recognize the importance of turning to democracy and liberalizing their economies, and they see that great opportunities will flow from implementing those policies. At the same time, strife-torn countries such as Angola, Liberia, Somalia, and Sudan are creating refugee flows, destabilizing countries like Uganda that have already made some progress in addressing the crises of the past. The huge country of Zaire, in the middle of the African continent, is ready to break apart, which will create problems for its neighbors. These issues must be treated on a long-range basis by investments from industrialized nations and the aid donor countries.

"Even though Japan is now the leading aid donor in the world, the United States has the unique capability to deliver assistance to the developing countries because of the great dynamism and pluralism of American society."

LEADERSHIP AND CREATIVE ENGAGEMENT IN FOREIGN POLICY

The United States is the one remaining superpower. Even though Japan is now the leading aid donor in the world, the United States has the unique capability to deliver assistance to the developing countries because of the great dynamism and pluralism of American society.

U.S. labor unions can communicate the benefits of free trade union movements to workers in other societies. U.S. businesses have created so much in this society that people in Russia, for example, listen attentively when business leaders talk about how to restructure state-owned enterprises. These networks of people have become more important than government diplomatic relations. Communication, transportation, and other influences that governments have not been fully aware of are changing the face of global economic and social development. The United States must utilize these networks in its aid programs rather than turning its back on them. It must find ways to engage people creatively in the development process. Across the board, people-to-people diplomacy and people-to-people development work are the wave of the future.

USAID's current highly bureaucratic structure frustrates private sector leaders who work with the agency. But we are changing. USAID is changing procurement procedures to create governmentwide regulations for contracting services. We are also trying to provide information systems, procurement systems, budget systems, and personnel systems that will enable the agency to become results oriented, managed on the basis of strategic objectives. USAID is looking at the unique development needs of each country and working with other aid donors on country-specific strategic plans. This will allow donors to address problems in an integrated fashion, so that development efforts are mutually reinforcing.

In November 1993, USAID announced the closure of 21 overseas missions. Many were in countries that could be "graduated" from U.S. aid programs, and others were in countries with which the United States simply does not want to work. Zaire is the most dramatic example. The United States has invested several billion dollars in Zaire since that country gained its independence from Belgium in 1960, but per capita income has nevertheless steadily declined. The reputation of USAID and of foreign assistance in general clearly suffered from reports that Zaire's leader, Mobutu Sese Seko, was transferring aid money to Swiss bank accounts. In the post-Cold War period, the United States cannot continue to work with governments that may misuse U.S. money, that are corrupt, or that are unwilling to engage their own people in the development process. USAID is putting a premium on effectiveness and results, and the agency will not ask its staff to work in countries where the chance of achieving results is low. Countries where USAID remains engaged are those in which the agency is reasonably confident of success.

USAID is making progress, but it has a long way to go, and the agency must get a mandate from Congress to continue its work. The 1961 Foreign Assistance Act now contains many amendments from the Cold War that are outdated and counterproductive. The agency and the foreign policy community need a streamlined approach to conduct the business of development, and they have already demonstrated that if given flexibility they can produce results.

U.S. AID AND REFORM IN RUSSIA

The Aldrich Ames spy scandal that broke in February 1994 raised questions about the U.S. aid programs in Russia. Yet instead of spotlighting short-term politics and spies, as the media have done, public and private sector leaders should remain focused on what the U.S. foreign policy community is seeking to accomplish with reformers in Russia, as well as on what the reformers have already accomplished with U.S. assistance.

The December 1993 referendum in Russia changed many political structures that were obstacles to reform. For example, the old Supreme Soviet, the parliament of the land, had been elected by highly questionable means. This type of political structure obstructed democracy, and this approach to power resonated throughout Russian society. For example, at the municipal level, the Moscow City Council had 535 members. These bureaucrats had far more power than the mayor of Moscow. Yet in December 1993, this structure was broken apart by Boris Yeltsin's initiative, a significant breakthrough.

Free elections may also result in the rise to power of nationalists like Vladimir Zhirinovsky. Although this is not a positive development, extremists represent a segment in Russian society that is probably better off inside the parliament than on the outside throwing rocks. The parliament and the new political structures will have to respond to the grassroots. For the first time, labor unions are developing, and a vast network of nongovernmental organizations is expanding, including all types of affinity groups that will form the intermediary organizations of a Russian civil society.

The United States has helped to distribute vouchers to 100 million Russians, who have used them to purchase property previously owned by the state. Thousands of small and medium-sized businesses are now owned by people who are holding on to these

"It is time not only for a new legislative beginning, but for the executive and legislative branches to agree on a new set of organizing principles for U.S. foreign policy."

"stocks," which have become the only real liquid currency in Russia. The fundamental relationship between Russians who own vouchers and their government and society has changed because they now have a stake in the economy.

Long before these structural political changes had occurred, a vibrant, free media had developed in Russia. While they still experience problems when criticizing government, the Russian media are now freer than those in many other societies.

Many of the changes taking place in Russia are the result of technical assistance from the United States and other countries. The United States has given relatively little money to Russia, but it is donating considerable American expertise and technical assistance. However, U.S. technical assistance programs for Russia need to be better coordinated and implemented. Many people would like to volunteer their time and expertise, and the Clinton administration needs to encourage these efforts and find structures to facilitate them. The reform process in Russia is moving forward, although it will continue to experience the ups and downs of a transitional society that is moving from a command economy to a democratic market economy.

The business environment in Russia in early 1994 does not inspire tremendous confidence on the part of American investors. Commercial and municipal codes are nonexistent. The rule of law is questionable. USAID's role in Russia is to try to create an environment in which American businesses would be confident in investing and becoming involved in the development process in other ways. The United States will continue to support the reform process in Russia with U.S. technical assistance, and it will begin to see the benefits. There is no other society where more benefits can be derived from successful economic and political reform.

MAINTAINING U.S. INTERESTS IN WORLD AFFAIRS

This is a dynamic world, and the United States must react quickly to change. U.S. law governing foreign assistance currently is so cumbersome that the foreign policy community cannot react as a superpower should—rapidly and responsively—to volatile situations. The new framework legislation would not establish specific priorities for foreign policy. That agenda would be set by individual administrations. The proposed rewrite of the 1961 Foreign Assistance Act is charter legislation; it is a framework wherein any administration can fit its foreign policy priorities.

The end of the Cold War enables us to focus, in a way not heretofore possible, on results achieved in partnerships with nations that truly care about the development of their societies and the participation of their people. It is long past time to rewrite the charter that authorizes U.S. foreign assistance programs. It is time not only for a new legislative beginning, but for the executive and legislative branches to agree on a new set of organizing principles for U.S. foreign policy. We look forward to working with Congress and the American people to help fashion a new charter for overseas cooperation programs that will truly reflect the interests of the nation in a changing world.

We have made a good and considerable start on such a charter and on revitalizing USAID. The agency must and can be an effective means of promoting the political and economic interests of the United States. It also must and can be an extension of the best impulses of the American people, historically committed to helping neighbors and assisting those less fortunate. The work we plan to conduct in the years ahead will be a fulfillment of those roles.

U.S. Foreign Aid Priorities in the Post-Cold War World

by John W. Sewell

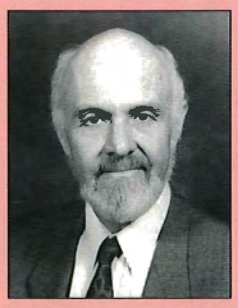
Two questions are of primary importance in reconsidering America's foreign aid policies. First, what are the new U.S. interests in development? Several years ago the answer would have been to look in the "developing world," but that term now encompasses what used to be called the "Second World," eastern Europe and the Soviet Union, and therefore includes most countries outside the Organization for Economic Cooperation and Development (OECD). Second, what is the relationship of foreign aid to those U.S. interests for the rest of this decade and into the next century?

With respect to the first question, it is important to realize that Americans—and particularly the Clinton administration—have an unprecedented opportunity to play a crucial role in shaping the post-Cold War world. Some historical perspective on these issues is useful. After five decades of stressing military preparedness and spending well over $12 trillion on defense, the United States can now turn to other priorities.

Of course, preoccupation with communism and fighting the Cold War was paralleled by neglect of pressing domestic problems that Americans are now debating. Many believe, justifiably, that these domestic issues must be given priority. They see in the end of the Cold War an unequaled opportunity to restore the U.S. economy and to deal with a range of important social problems, including jobs, health care, education, and drug addiction.

COOPERATION AND VALUES

The United States indeed has a major opportunity to reduce its military commitments overseas and redirect spending to domestic priorities that, left unaddressed, will worsen greatly over the next decade. But America cannot afford to focus on domestic priorities in a way that ignores the world beyond its shores. The reason is simple: many of the eco-



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nomic and social problems facing the United States can be dealt with only through cooperation with other countries, including those in the developing world.

Further, Americans remain committed to the fundamental values that define who they are and what kind of world they want to live in. Americans believe in market-oriented economic systems, functioning democracies, and peaceful political change within and among countries. In addition, most Americans still support, both rhetorically and with their personal contributions, humanitarian efforts to address poverty and to help victims of political upheaval and natural disaster around the world.

But some now believe that the countries of what used to be called the Third World are of no political interest to the United States other than as objects of charity. While the dramatic events in eastern Europe and particularly the former Soviet Union have captured U.S. attention over the past several years, massive changes have also occurred in the relationship between the United States and the developing countries. These changes are perhaps less dramatic than what has been happening in the former Soviet Union, but they are at the very least equally important. Indeed, the developing countries are perhaps more important than the former Soviet Union to America's future well-being and prosperity. Developing countries are valuable trading partners; they are continuing suppliers of low cost consumer goods and raw materials; and they are crucial partners in dealing with the domestic and international challenges facing business, labor, government, and the American public in general.

COMMON CHALLENGES

The challenges include unemployment and job creation, trade deficits, environmental degradation, drugs, illegal immigration, and health threats such as AIDS, tuberculosis, and cholera. These issues have a great deal in common: all are of pressing concern to most Americans; all affect Americans' future health, well-being, and security; all are global in nature; all involve the developing countries; and most can be effectively addressed only with the cooperation of developing countries.

Take two of the challenges—jobs (and U.S. competitiveness) and the environment. The developing countries are now major export markets for the United States. This fact was underscored by the debate over the North American Free Trade Agreement (NAFTA) and by the November 1993 Asia-Pacific Economic Cooperation meeting in Seattle. By the beginning of the 1980s, developing countries were buying 41 percent of U.S. exports, more than Japan and western Europe combined. That trend turned negative during the 1980s as a result of the debt crisis. In that period, the United States lost between 1.5 million and 2 million jobs because of diminished purchasing power in the developing world. Exports are now picking up, but the market share in the United States has still not reached its level prior to the debt crisis. Most estimates, including those of the Overseas Development Council (ODC), indicate that exports to the developing countries in Asia and Latin America will continue to be a high growth area for the U.S. economy, with a direct beneficial impact on U.S. communities, firms, and workers.

"America cannot afford to focus on domestic priorities in a way that ignores the world beyond its shores. . . . Many of the economic and social problems facing the United States can be dealt with only through cooperation with other countries, including those in the developing world."

For instance, ODC recently estimated that by the year 2000, U.S. exports to the rapidly growing "dynamic" economies could increase at a rate of over 10 percent annually, rising above $203 billion (in 1992 dollars) by the end of the decade. This would result in an employment increase of 1.7 million U.S. jobs.

Public opinion polls show that environmental threats are at the top of Americans' concerns. Environmental problems are local, regional—most notably in the cross-border area between the United States and Mexico—and global—such as ozone depletion, global warming, and deforestation. As with the other challenges, most regional and global environmental problems can be effectively addressed only with the cooperation of developing countries.

For instance, if industrialization in China and India were to raise their carbon dioxide (CO_2) emissions to the world average, overall global CO_2 emissions would increase by more than 30 percent. Patterns of industrialization in the Third World thus will have a direct impact on the U.S. economy. Furthermore, poverty itself is a root cause of environmental degradation. Most poor people act rationally, but with a very short-term time horizon. They cut down trees for firewood and they farm on hills or land where agriculture is not sustainable because they are poor and have no other choice. By ODC estimates, 6 out of every 10 of the world's poorest people are being pushed inexorably on to land within cities, on hillsides, or in semiarid regions where sustainable livelihood is simply not possible.

Current U.S. interests in the developing countries are much different than they were in the previous 30 or 40 years, when most of the developing world was seen largely in the context of America's struggle with the Soviet Union. The end of the Cold War has given the United States an unprecedented opportunity to forge a new foreign policy built around its pressing domestic interests and its fundamental values. The United States is fortunate that both democracy and free market economics are now widely accepted around the world. Global economic growth could expand U.S. exports and increase American jobs. Poverty and disease could be dramatically decreased. It is worth noting that in the past 10 years, infant mortality has been reduced by one-half in the developing world. The earth's environment and natural resources could be better protected. Hunger could be eliminated, and victims of natural and human disasters could have a chance to return to a normal and perhaps better life.

In the 1990s, it is clear that the United States cannot do everything. U.S. resources are limited, and there is much that is beyond U.S. control—for instance, events in the former Yugoslavia, in Somalia, and in other trouble spots. But America can still actively promote its own interests and those of the global community, and at a fraction of what was spent to fight the Cold War. Any discussion of the future of the U.S. foreign aid program must be framed against this background.

BUDGET PRESSURES

The U.S. foreign aid program largely developed in response to the Cold War. The emphasis on military security was particularly intense during the 1980s, when the Reagan administration expanded the foreign aid budget from $9.9 billion in 1980 to $22.7 billion in 1985. That huge increase focused on programs of military security and other short-term foreign policy interests. Since foreign aid's high watermark in the 1980s, the inexorable pressure of budget reduction and, as the Cold War ended, an increasing questioning of the purposes of U.S. foreign aid programs have dramatically decreased aid budgets. The real question to be answered now is: are Americans witnessing the beginning of the end of the foreign aid program or the beginning of a period of renewed commitment to global development?

The high hopes that accompanied the arrival of the Clinton administration have so far not been realized. Development and aid policy are at risk. New foreign aid legislation, promised by Secretary of State Warren Christopher in the first 90 days of Clinton's presidency, was not formally submitted to Congress until late January 1994. The highest ranking official in the State Department with any development interest and experience, Deputy Secretary Clifton R. Wharton, Jr., was unceremoniously fired, and others have left in frustration. Foreign aid faces continuing budget pressures and new claimants.

NOT KEEPING PACE

U.S. policies toward the developing world have not kept pace with the changes in those countries and in U.S. interests. They also do not reflect the fact that the aid "business" has changed. When America began its foreign aid program, it dominated global development cooperation. The United States then provided four out of every five dollars of foreign assistance; it currently provides less than one out of every five dollars, and that amount is shrinking. There are now many more donors, and Japan is the major provider of Official Development Assistance. This is not necessarily bad because the U.S. has spent considerable effort to encourage other countries to be involved in development cooperation, and that emphasis should continue in the successful developing countries. Development policy is now

dominated by the World Bank and the other multilateral development institutions, not by the United States and its Agency for International Development (USAID). Foreign aid funds face a set of new claimants in countries in the former Second World and new claims for problems such as protecting the environment, maintaining democracy, and dealing with migration. If the United States is to promote its legitimate interests overseas in this new environment, it cannot continue to do business as it has in the past.

The Clinton administration's record reflects good intentions but little action. In speeches, National Security Advisor Anthony Lake and USAID Administrator J. Brian Atwood have said the right things about aid priorities. But a focus on development and poverty is singularly lacking, and resources are increasingly scarce. USAID is being reorganized, an absolutely necessary step. The agency has suffered from years of neglect. While good people continue to work for USAID, morale is low, and the agency's standing is also low within the U.S. government and Congress. The strategy papers developed within the agency need a great deal of work. However, reorganizing USAID alone is not sufficient for the aid and development challenges that lie ahead.

NEW LEGISLATION

New foreign aid legislation has been sent to Congress that provides a comprehensive framework for dealing with U.S. global interests, from export promotion to military security. But its future is in question. There is no governmentwide focal point for U.S. international economic and development interests in the National Security Council or in any other interagency grouping, and that gap is most crucial in terms of U.S. policies at the World Bank and the other multilateral development institutions. Lack of focus is also counterproductive to the challenges that link global issues, such as the environment, population, health, terrorism, drugs, and development itself.

Further, foreign aid budgets risk being decimated by lethal cuts mandated by the need to reduce the budget deficit. There seems to be no way to deal with the current budget crunch without major cuts in funds for development (outside the Middle East and the former Soviet Union). These cuts seem inevitable because the United States refuses to choose between two unpleasant options. Either it must "tithe" existing large aid recipients such as the former Soviet Union and the Middle East, or it must put more money into the budget.

Finally, development issues are not a high priority of the White House. When Senator Patrick J. Leahy (D-VT), Chair of the Subcommittee on Foreign Operations, marked up the international affairs budget last year, he pointed out that the President assured Congress that it could cut anything it wanted in the bill as long as it did not touch aid to the countries of the former Soviet Union. Aid to the Middle East also would not be cut, for political reasons related to the historic agreement recently signed at the White House. Everything else, however, was open to cuts. The budget crisis is very serious, and the administration's signals have left aid to the developing world extremely vulnerable.

Where does America go from here? For the nongovernmental community—labor, business, academia, private voluntary organizations, and other nongovernmental organizations—it is time to insist on decision and action. There is no reason for the slow pace of change that the foreign aid community has witnessed since the beginning of 1993. The usual excuse that Congress will not deal with the issues is patently false. The four major subcommittee chairs and the Speaker of the House asked for legislation last year and wanted it much earlier. Aid legislation should be given priority now that NAFTA has passed, and Congress and the administration should consult seriously with business, labor, and nonprofit groups that have expertise and experience in dealing with development issues.

These groups should also support and encourage those in office who have the knowledge and the mandate to act on development and aid issues—for example, J. Brian Atwood; Douglas Bennet, Assistant Secretary of State for International Organization Affairs; Timothy Wirth, Counselor at the State Department; the export promotion apparatus; the White House; and the National Security Council.

HARD CHOICES

The budget crisis must be taken seriously. Budget cuts limit foreign aid choices to two directions. The United States must sequester whatever money is available for a broad range of international purposes and make some tough choices about how to spend it, dividing it to promote both economic and development interests. Or the United States must grapple with an even more difficult political issue, that is, the U.S. will have to throw on the table the entire $300 billion it spends to promote U.S. interests overseas. It will have to ask whether current levels of military expenditures are more important to real U.S. interests than additional money for promoting its commercial activities overseas, for dealing with environmental problems, or for facilitating a relatively peaceful transition in the former Soviet Union. These are some of the difficult choices the United States must debate in the next few months.

Aid and Development: Reform and Realities

by Curt Tarnoff

Most policymakers and other interested observers agree that a real need exists for foreign aid reform. With the end of the Cold War, foreign aid seemed to have lost the rationale that gave it political support. At the beginning of 1993, the U.S. Agency for International Development (USAID) was demoralized and, for all practical purposes, leaderless. But J. Brian Atwood, with a reputation as a solid manager who has strong ties to the State Department, is now at the helm of USAID, and the Clinton administration has finally presented a draft foreign aid reform bill. It is questionable, however, whether the changes the administration is hoping to make are sufficient to restore faith in the program.

Representative Lee Hamilton (D-IN), Chair of the House Foreign Affairs Committee, recently noted that "everyone in Congress wants reform of foreign aid. The problem is that everyone wants to reform it in a different way." That actually describes how Congress reacts to most issues. This article first puts the issue of foreign aid reform in a broad perspective; it then raises some questions; and last it provides some insight on how this issue is perceived by Congress.

Three facts are important to understanding the reform of the U.S. aid program.

- Since its inception, foreign aid has always been an important tool of U.S. foreign policy.

- The overall budget for foreign assistance has declined in recent years, and this is eroding America's ability to meet all of its foreign policy objectives.

- In recent years, the demand for aid, in number of claimants and possible uses, has grown substantially.

FOREIGN AID REFORM IN PERSPECTIVE

Foreign aid has always been an important tool of U.S. foreign policy. The U.S. foreign

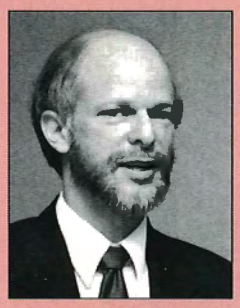

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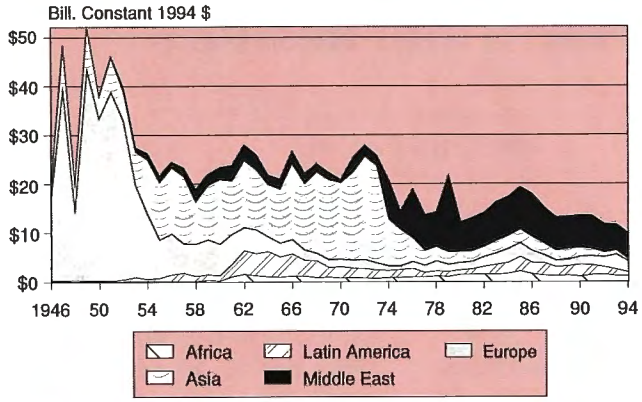
FIGURE 1
U.S. FOREIGN AID BY REGION, 1946-94



Source: U.S. Agency for International Development (USAID).

aid budget, from the time of the Marshall Plan to the present, has fairly accurately reflected changes in foreign policy priorities. The geographic distribution of foreign aid (see Figure 1) has also changed to suit the concerns of U.S. foreign policy. For example, only five years ago, the former Soviet Union and eastern Europe were not even on the chart for U.S. foreign assistance, let alone among the top 10 recipients. In 1994, Russia alone is the third largest recipient of U.S. aid, after Israel and Egypt.

The content of aid also has often changed to fit foreign policy priorities. The most dramatic shift during the past decade has been the decline of military assistance as a proportion of the total foreign aid budget (see Figure 2). Under President Ronald Reagan, military assistance rose from 22 percent of the budget in 1980 to 42 percent by 1984. It is now down to 23 percent. This downward trend has squeezed out most other recipients, so that Israel and Egypt together make up 98 percent of the U.S. military assistance budget.

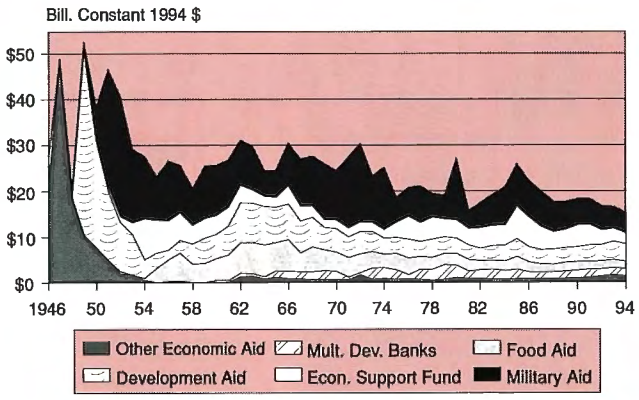
Of course, the decline in military assistance as a percentage of total foreign assistance reflects the end of the Cold War. But it also illustrates the second fact necessary to understanding foreign aid reform—that is, the overall budget for foreign assistance has declined in recent years, and budget reductions are eroding the U.S. ability to meet all of its foreign policy objectives.

Contrary to popular belief, foreign aid is not a huge percentage of total federal spending. In fact, in the past five years, foreign aid has hovered at about 1 percent of federal spending. (Figure 3 shows the budget outlays for 1993.) Foreign aid grew rapidly during the 1980s and peaked in 1985 at about $19 billion. However, on average, the aid budget from the 1980s to the present has been about $13.4 billion annually. In 1989, for example, it was $13.9 billion; in 1994, it is slightly less, $13.7 billion. In just five years, the decline in real terms has been 16 percent. Figure 4, p. 18, shows that foreign assistance outlays as a percentage of U.S. gross domestic product have remained at similar levels in recent years, but far less than historical amounts.

While this decline occurred, the third fact necessary to understanding foreign aid developed. The demand for aid, in number of claimants and possible uses, has grown substantially. Cold War needs have given way to a proliferation of high priority concerns—environment, narcotics, terrorism, peacekeeping, refugees, and trade interests, to name just a few. At the same time, the number of countries that require assistance has proliferated with the fall of communism and the breakup of the Soviet Union. More than 25 new aid recipients have emerged in the past five years. The gap between need and available resources has caused many to question whether any meaningful foreign policy objectives can be supported with available funds.

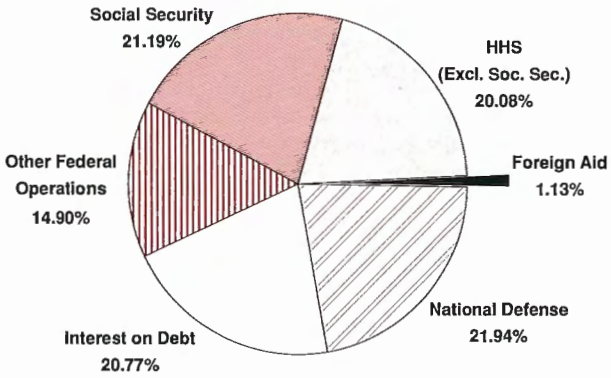
In late 1993, Secretary of State Warren Christopher and others argued that the fiscal year 1995 budget mark issued by the Office of Management and Budget, reportedly about the same as the FY 1994 mark, was $3 billion short of what was actually required to meet foreign policy goals. In the end, the State Department received perhaps one-third of this amount. Even congressional appropriators seem to realize that further cuts in aid will mean considerable damage to U.S. foreign policy interests. It is within this restricted funding context that the debate on foreign aid reform is taking place.

FIGURE 2
U.S. FOREIGN AID BY PROGRAM, 1946-94



Source: USAID.

FIGURE 3
U.S. BUDGET OUTLAYS, FY 1993



Source: U.S. Department of the Treasury.

TWO LEVELS OF DEBATE

Two levels of debate on foreign aid reform are under way. First, there is a debate about policy; second, there is a debate about effective implementation of aid programs. At the policy level, the question comes down to, What are America's foreign policy priorities? Can they be enunciated clearly enough so that the American people will support the amount of foreign aid required to accomplish them?

The Russian aid program is an example of what happens when foreign aid is linked directly to specific foreign policy objectives that are widely understood and supported. In early 1994, Senator Patrick J. Leahy (D-VT), Chair of the Senate Subcommittee on Foreign Operations, was talking about the $2.5 billion assistance package passed for the former Soviet Union in September 1993. He said that in all his time in the Senate, he had never seen a foreign aid package go through Congress so rapidly. He attributed this to the high level of bipartisan support for the measure. Many people on Capitol Hill believe that the Russia program has joined assistance to the Middle East (Israel and Egypt) as the reason that foreign aid appropriations are now passing by good margins. Together, these two programs account for $6 billion of the 1994 funds, or 44 percent of the total. President Clinton has indicated that assistance to the Middle East and the former Soviet bloc will remain untouchable in future aid programs. That does not leave much money in the foreign aid budget for other programs or objectives.

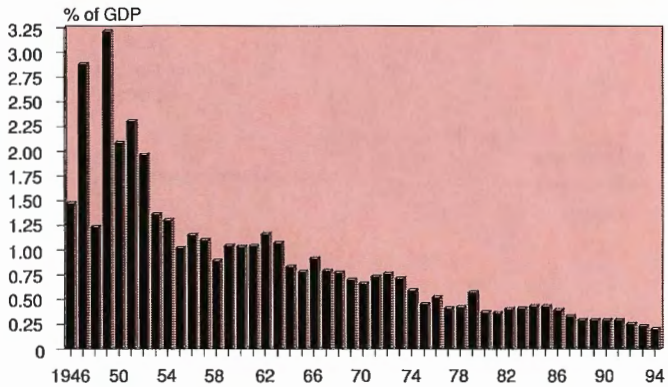
As mentioned earlier, many other U.S. objectives have been met in the past with foreign assistance funding. The Foreign Assistance Act of 1961 has been rewritten so many times that by now it has at least 33 legislated objectives. Each major proposal for reforming aid over the years has presented its own short list of objectives. For example, the Clinton administration, in its current effort to restructure aid programs, has boiled down the old development assistance account into a new "sustainable development" account with four core objectives: broad-based economic growth; protection and improvement of the global environment; democratic participation; and stabilization of world population growth.

In light of this rewrite, what isn't the Clinton administration going to do? What activities is it going to give up? All the old aid projects, from health care to basic education to microenterprise, fit into the new core objectives of the Foreign Assistance Act rewrite. What is really changing?

The administration has at least begun to make cutbacks in the number of countries that receive U.S. foreign assistance. Administrator Atwood recently announced plans to close 21 foreign USAID missions, which will save an estimated $26 million in operating expenses. But many projects in those countries are likely to continue through regional offices. Again, what is really changing?

The administration is simplifying the connection between aid activities and foreign policy objectives, a necessary step to obtaining public support. But it also is seeking a high degree of flexibility in implementing aid policy. One unnamed USAID staff member called the new reform bill the "international flexibility act of 1994." While the executive branch and Congress may reach a temporary agreement on

FIGURE 4
FOREIGN AID AS A % OF U.S. GROSS DOMESTIC PRODUCT, FY 1946-94



Sources: USAID; and U.S. Department of the Treasury.

present aid objectives, in the long run members of Congress may find it difficult to restrain themselves from wanting their priorities specified in legislation.

In addition, the administration may eventually stray from agreements made on where foreign aid funds will be spent. One current concern, for example, is the Development Fund for Africa, which Congress instituted several years ago because the administration at that time was not putting enough money into Africa. The Clinton administration's foreign aid reform bill rolls back the Development Fund for Africa into all the other development objectives and raises concern in Congress about whether Africa will be protected and receive sufficient funding. Thus, even though Congress and the executive branch may agree on these reforms in the short run, eventually specific objectives may be reworked into the foreign aid legislation.

AID EFFECTIVENESS

The second debate, and perhaps the more important one in the long run, concerns how to effectively implement assistance projects. In other words, the foreign aid community must decide how to make the money work to accomplish the objectives it finally agrees upon. Foreign aid is unpopular, and USAID is demoralized, in large part because a perception exists that foreign assistance is not accomplishing anything and is therefore a waste of money.

The reform legislation proposed by the administration will aid program effectiveness in some key areas. First, if funds that Congress has earmarked for certain countries and programs are cut back, the administration presumably will have more flexibility to decide where foreign assistance funds can best be spent. In the past, recipient countries grew to expect that their allocations were earmarked by Congress. Consequently, they did not feel compelled to make the economic, social, or political policy reforms that would help them to effectively carry out aid projects. Program earmarks also forced USAID to provide assistance in specific areas, such as the health sector, because that was where the funds were made available. Earmarked sectors were not always the ones that most needed the assistance. Second, the proposed reform legislation seeks to reduce the number of notifications, reporting requirements, and other paperwork needed by Congress each year. This would allow USAID staff to concentrate on appropriate monitoring and evaluation of projects, thereby improving their effectiveness.

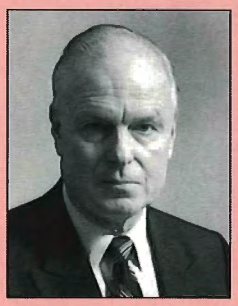
In addition to legislation, there is much that could be done to improve the effectiveness of foreign assistance. Projects could be more closely monitored and evaluated, allowing for immediate improvement in those that were deemed ineffective. Success could be measured more accurately, and financial management could be improved. Finally, the United States must be more willing to shut down bad projects when they are identified. For some time, members of Congress have been pushing USAID to take action along these lines. The Clinton administration should be watched to see what measures it will take to improve implementation. If the measures work, the American people may discover that their foreign aid dollars can bring concrete returns.

Leveraging Private Sector Resources in the Development Process

by F. William Hawley

Many aspects of the development process, including the welfare of workers, are enhanced by private sector efforts. Freer trade and investment and increased capital flows that create economic growth are not a zero sum game. Conditions are improved on both sides of borders. As President John F. Kennedy used to say, the rising tide lifts all boats. Public and private sector organizations working in international development should strive to solve some of the problems for all of the people involved, rather than trying to divide a legislatively appropriated—and shrinking—sum of money. Included in that effort should be initiatives that free up more private capital to play an important role in the development process.

These brief remarks deal with several broad themes on public and private sector funding that warrant consideration as U.S. aid and development policy is restructured.



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A COMPREHENSIVE VIEW IS NECESSARY

The current tendency is to think of foreign aid very narrowly, as a financial sum channeled through government appropriations, aid agencies, and multilateral banks. In reality, the United States participates in the development process in many ways, such as through technical assistance, trade, and investment. A more holistic approach is needed to measure how much the United States actually contributes to the process.

The process of economic liberalization that is taking place in many developing countries, including the emerging markets of Southeast Asia, has benefited from a wide variety of capital flows, both official and unofficial, from the developed nations. Technical assistance, training, and education, for example, are necessary contributions to the development process. It is important to take this type of broad view of the methods, sources, and nature of development capi-

tal and the forms of economic assistance or foreign aid.

LEVERAGING PRIVATE SECTOR RESOURCES

It is clear that the foreign aid community is dealing with a severe shortage of funds. Congress is likely to appropriate only a relatively small amount to achieve the development goals that both public and private sector leaders are working to attain. Because of these limited resources and the lack of support among voters, it would be beneficial to concentrate less on how to spend appropriated funds and more on how to leverage available pools of private capital to become an effective part of the development process. It is possible to go beyond officially appropriated resources and tap the private capital market to make up some of the shortfall in public funding.

Risk perceptions have kept many pools of capital out of developing nations—that is, out of the international risk-taking world. According to the Institute for International Finance (IIF), a Washington research institute made up of international banks, U.S. mutual funds, pension funds, and insurance companies control vast sums of capital that have never been made available in the international realm. Public and private sector organizations should devise ways to move some of this capital into the mix of funds that is needed to bring about economic growth in the developing world.

Obviously, international development priorities are competing with U.S. domestic financial priorities, and the private sector is as concerned as anyone in government about the budget problems and the macroeconomic effects of federal fiscal policy. The private sector also understands that very careful choices must be made in the post-Cold War world. Discussions about foreign aid, therefore, should include not only the appropriation of official funds, but also the difficult issue of how to leverage private sector funds in the ongoing development process.

PRIVATE SECTOR FUNDS: SUPPLEMENT OR SUBSTITUTE?

Which countries should the United States focus on as it prioritizes aid and development assistance? The IIF recently conducted a study of multinational financial institutions and their role in financing development in the Third World. Many of the major recipients of loans from these institutions are countries that have developed access to private capital markets. In some cases, official funds may have been used when private sector financing was available. Remedying the situation could free some multilateral resources to be used in countries that do not have access to private sector financing.

Further, private sector organizations have maintained that public agencies are sometimes substituting official programs for what might be done by private sector financial institutions, banks, or other investment enterprises. Scarce public sector funds should not be devoted to programs and enterprises that the private sector can support and, in some cases, in a more effective way. This should be a consideration in restructuring U.S. foreign aid policy.

Overlap exists in the roles of public financial institutions, both bilateral and multilateral, and of private resources. The growing privatization of state enterprises in the former Soviet Union and throughout many of the economies of the developing world has drawn considerable attention to this issue. When en-

"Discussions about foreign aid should include not only the appropriation of official funds, but also the difficult issue of how to leverage private sector funds in the ongoing development process."

terprises were controlled by the state, all aid had to flow through the official institutions to reach a primarily state-run economy. Privatization is increasingly opening up opportunities to direct aid funds to the local and private sector levels, which can often use the funds more effectively than the central government. The private sector in these countries is actively looking for funds.

MOVING PRIVATE CAPITAL

If private funds can supplement the restricted amount of public funds, then public sector agencies need to better understand the determinants that move private capital. Lenders and investors have had a wave of bad experience in the developing world over the past decade. Given this recent history, what are the incentives and disincentives in today's private financial markets that will leverage private capital?

Project Finance-Oriented Strategy

Private financial institutions are increasingly demanding a shift from the previous program lending emphasis to a project finance-oriented strategy. This type of investment involves leveraging large volumes of private capital under risky conditions. The IIF has hosted meetings of the international export credit agencies of the United States, major U.S. trading partners, and private banks that have focused on how programs can be shifted to appropriately address project finance.

From Lending to Equity Capital

Another shift has been away from the 1970s-type of Euromarket syndicated lending to the developing countries. With their appetite for loans to developing countries highly constrained in the 1990s, banks have been concentrating instead on flows of equity capital. The determinants of moving equity capital into these countries are very different from those that promote lending.

A more coordinated and comprehensive education process between public sector agencies and private sector institutions would further U.S. development efforts. Public sector agencies should remain up to date on what is happening in the marketplace, what is and is not possible to expect, and under what conditions capital can be leveraged into developing countries. The IIF is an effective forum for keeping public sector organizations updated on private sector perceptions. The institute involves not only major American banks, but also those of U.S. trading partners such as Japan and Germany.

"If private funds can supplement the restricted amount of public funds, then public sector agencies need to better understand the determinants that move private capital."

LINKING AID AND INVESTMENT

The North American Free Trade Agreement (NAFTA) negotiations were particularly instructive concerning the linkage between aid policy and trade and investment. For the first time, environmental clauses, labor standards, and other aid-related issues were brought into an international trade agreement. NAFTA is also the first international trade agreement that addresses a number of investment questions, such as the right of establishment and protection against expropriation and nationalization.

NAFTA was a breakthrough in this sense because trade negotiations traditionally have dodged some key investment-oriented provisions. The General Agreement on Tariffs and Trade was not as significant in this area, but investment provisions are clearly part of the future work program for the World Trade Organization, to be established in 1995, which grew out of the Uruguay Round.

The Clinton administration's draft Foreign Assistance Act rewrite is appealing in the abstract. But without throwing too much cold water on the likelihood of adoption, those on Capitol Hill are considerably less sanguine than the aid community. The draft has even been described as "dead on arrival." Washington reality often focuses more on jurisdictional questions than on the substance of a program. In short, turf wars and pet projects of congressional committees may thwart this aid reform effort.

Markets and Development: The Difficult Social Issues to Be Faced

by Ronald Blackwell

Important parallels can be drawn from the early history of the Amalgamated Clothing and Textile Workers' Union (ACTWU) and the difficult labor issues posed by current economic development policies.

The ACTWU was born in Chicago in 1910 when tens of thousands of women apparel workers walked off their jobs and went on strike to protest miserable working conditions and demand recognition of their union. Their struggle was very difficult, but it was eventually successful. Soon after, clothing workers formed unions in other major markets, including New York.

But as these workers became able to negotiate improved wages and working conditions through their unions, many of their employers reacted by moving in search of cheaper, more compliant labor. New York employers ran away to what were then referred to as "foreign zones" in Passaic, Trenton, and Newark—all in New Jersey!

The union responded in three principal ways. First, the ACTWU went to the foreign zones and helped the workers organize their own unions. Second, the union worked with the companies, or fought them when necessary, to get them to compete in ways that did not exploit workers and that were compatible with workers' ability to exercise their rights to organize and to bargain collectively. Third, the union fought to "change the rules," the laws that allowed companies to avoid regulations by moving across state lines. This struggle to change the rules culminated in the 1930s in the Fair Labor Standards Act, which established minimum conditions of work and made it illegal for companies to cross state borders to exploit children.

The struggle did not stop in New Jersey, obviously. It has been a constant movement of the industry and the union.

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"Two challenges are inherent in labor's interest in development: to find an effective mechanism for enforcing worker rights and to harmonize labor standards upward so that workers everywhere benefit."

That is why the apparel and textile industry moved first to the southern United States and eventually overseas.

ACTWU's tasks today in dealing with increasingly international companies are still essentially the same as they were when companies first moved to the foreign zones in New Jersey:

- to organize workers wherever they are;
- to work with companies, and fight them when necessary, to help them compete without exploiting workers; and
- to change the rules—the laws and public policies regulating international competition among firms.

CHANGING THE RULES

Changing the rules is the context in which ACTWU's experience becomes relevant to the U.S. Agency for International Development (USAID) and to the larger questions of U.S. trade and investment policy. The mobility of capital between countries in an international economy is analogous to the earlier interstate mobility of capital in a domestic economy. Unless the market is properly regulated, companies are tempted to exploit workers, and individual workers find it impossible to exercise their most fundamental human rights and to establish unions to defend their interests and allow them to build a better future.

The Clinton administration's draft Foreign Assistance Act rewrite incorporates mandates for building democracy and fostering broad-based economic growth. Unless the United States can find some way to directly address human rights and worker rights, it cannot effectively serve these mandates.

Worker rights and labor standards are two distinct but related issues. Worker rights include the right of workers to speak openly, to associate freely, to organize unions, and to act collectively in defense of their interests. These fundamental civil rights exist regardless of the level of development of a country and cannot be abridged simply because a country is poor.

Labor standards include the levels of the minimum wage and maximum hour laws, health and safety, and child labor provisions. Whether the minimum wage is high or low and whether people work longer or shorter hours depend on the level of development of a country. Therefore, labor standards cannot and should not be the same in all countries. However, some mechanism should be established to ensure that labor standards rise as productivity and development permit.

INTERNATIONAL LABOR STANDARDS

Thus, two challenges are inherent in labor's interest in development: to find an effective mechanism for enforcing worker rights and to harmonize labor standards upward so that workers everywhere benefit. For this to happen, U.S. international trade and investment laws must include labor provisions because there is no supranational entity or state to pass an international fair labor standards act. Companies' ability to cross international borders in search of labor should be conditioned on the production of goods in a manner that respects fundamental worker rights and that encourages the upward harmonization of labor standards. U.S. trade laws incorporate a number of social clauses, the inclusion of which has been a long-standing objective of the labor movement. Similar concepts on an international scale are an absolute condition for broad-based, just, and sustainable development.

But the United States should not simply set labor standards and then dictate them to the rest of the world. The standards of the International Labor Or-

"Human rights are surely as important as intellectual property rights, and their enforcement is no more difficult."

ganization (ILO) of the United Nations are the most developed in the world, and they were negotiated on a multilateral, tripartite basis. They do not have to be ratified by the U.S. Congress to be used as guidelines for any agreement that the United States signs on trade, investment, or aid. If ILO standards are not used, however, labor standards should be established on a negotiated basis with the countries involved in an international agreement, and the standards should be enforceable, with at least the same practical provisions found in Chapter 17 of the North American Free Trade Agreement concerning intellectual property rights. Human rights are surely as important as intellectual property rights, and their enforcement is no more difficult.

DETERIORATION OF LIVING STANDARDS

The effect on workers of global economic integration and development, as it is now occurring, is problematic both in the developing world and in the United States. Real wages in the United States have been falling since 1973, and they are currently at levels unseen in this country since the early 1960s. Young American workers—those who are age 29 or younger—are the first generation in our history whose life-expected earnings are lower than those of their parents. Obviously, this burden is distributed differently across races, ethnic groups, and geographic areas. In some ways, the United States is creating for itself the same types of social problems that are surfacing in the nations of the former Soviet bloc or that have recently come to light in southern Mexico.

Unions want their companies to be competitive. But there are different ways to compete. Companies can compete by sweating people or by producing quality products efficiently. For example, the Xerox Corporation, one of our largest employers, did not recapture market share from its Japanese competitors by finding cheap workers to make copying machines. Xerox revolutionized the way it produced items, and it now makes the best copiers in the world.

Another of our employers, Levi Strauss and Company, recognized that establishing sourcing guidelines was good business. It will not source in countries that do not meet certain democratic standards, and it will not engage business partners that do not respect basic labor standards. Levi Strauss did this voluntarily and sincerely because it did not want its name associated with exploitative practices overseas. Companies that demand basic labor standards from their affiliates and international business partners follow a high road of competition. The issues are not whether U.S. companies should compete, but how they should compete and what the results are in terms of living standards.

The United States cannot be the kind of country it wants to be, and the world cannot be the kind of world we all would like it to be, unless the now serious and acute deterioration of living standards is reversed. This is part of USAID's mission, but it is also part of USAID's politics because American workers will not long tolerate a program that helps workers in other countries to their own detriment. This type of program brought ACTWU into acute contradiction with USAID, when it was discovered that during the last administration, the agency had used U.S. taxpayer money to fund a series of business promotion programs that channeled U.S. jobs offshore, exploiting oppressed and impoverished workers—in this case in Honduras and El Salvador.

After these policies were exposed on CBS's "60 Minutes," the laws governing USAID appropriations were quickly changed to prevent this type of funding. Recent guidelines adopted by USAID ensure that the agency will not use any monies that have the effect of channeling jobs offshore or of encouraging the exploitation of workers. Such protections are also included in the Foreign Assistance Act rewrite now before Congress.

ACTWU's support for the Clinton administration's proposed foreign aid legislation will depend very much on the spirit in which USAID and other U.S. agencies implement proposed reforms. Without supporting fundamental worker protections, USAID cannot serve its mission in the world, and it certainly cannot justify asking for more U.S. taxpayer dollars, particularly when those dollars are coming out of the pockets of American workers.

A LABOR VIEW ON FOREIGN ASSISTANCE

A labor viewpoint on foreign aid and development assistance can be summarized in the following way. First, those who represent U.S. and Canadian workers recognize that as long as impoverished and oppressed people exist in the world, domestic jobs and working conditions are at risk. Labor's strategic task is not to stop the integration of the world economy—trade with other countries or the free flow of foreign investment—but rather to ensure that workers benefit from the growth and prosperity that result from these and other effects of economic integration. Unless workers in less developed countries prosper, in the long run U.S. workers cannot either.

Second, USAID must expand and redefine its mission, and the United States must make a commitment to international foreign assistance that goes beyond its current, inadequate levels. The United States has a bigger role to play in the world than its present commitment to foreign assistance implies.

Third, aid programs must be focused in a way that advances the cause of democracy and produces broad-based economic growth, allowing the masses of people in the developing world to participate in the development process.

Fourth, one of the biggest luxuries that the end of the Cold War affords the United States is the ability to break free of ideologies of all kinds, such as communism and neoliberalism. Absolute policy prescriptions—such as that freer markets are always better markets or that economic reform must come before political reform—are counterproductive. Development demands more realistic and flexible policy responses. Each case should be examined with the most practical intent, and solutions should be found that are appropriate for different development missions in different parts of the world.

Finally, public and private sector leaders must be more mindful of the social implications of development. The events in Chiapas, Mexico, since the beginning of the year provide a sobering lesson on the limits of a laissez-faire approach to the difficult problems of economic development.

The development model advanced by the current government in Mexico, like models in many other countries, is basically a rigid neoliberal model, for which Mexico was congratulated and celebrated in New York City and Washington, D.C. But this model of development leaves most people out, and not just in southern Mexico. However, the people left behind will not be forgotten. The development goals of corporate, labor, and public policy leaders cannot be served unless the process benefits *everyone* in developing nations.

THE SOCIAL SIDE OF MARKETS

Markets are fundamental institutions of a free and prosperous world. Global hopes for prosperity and for freedom depend on markets. But markets do not float in the air; they are institutions embedded in other institutions. They do not regulate themselves to produce the best possible outcomes, but have to be properly supported by appropriate institutions. The premise that less regulation is always better needs to be questioned. There is bad regulation and there is good regulation. Sometimes good regulation means more regulation, sometimes it means less. Appropriate institutional support for markets must be built so that they work not just for business—and unions have a big interest in markets working for business—but for broad sectors of society. Only then will markets work to produce the foundation for a free, just, and peaceful society. If markets continue to work the way they currently do, they will continue to produce the social conditions for a reaction against free society—in the developing and the developed worlds.

"Labor's strategic task is not to stop the integration of the world economy . . . but rather to ensure that workers benefit from the growth and prosperity that result from these and other effects of economic integration."

Russian Realities and the Implications for U.S. Economic Assistance

by Clifford G. Gaddy

This article first examines the situation in Russia today and then suggests ways in which U.S. aid and development assistance can play a positive role in Russia's transition process.

MYTHS AND REALITY

Much of the talk about the current economic, political, and social transformation in Russia has had remarkably little factual basis. In some cases, the understandable sense of urgency about all that has happened in Russia, especially since 1991, has led to these inaccuracies. However, the lack of attention to reality has also stemmed from a certain arrogance that we know all we need to know about the Russian situation.

That attitude is changing. Many individuals who have worked with the International Monetary Fund (IMF) and other multilateral financial institutions have learned quickly that they must understand Russia better before barging in with recommendations. For example, an employee of the International Finance Corporation, part of the World Bank, had extensive experience in Latin America, but none in the former Soviet Union. Prior to a two-week mission to Russia, he believed that there was nothing about the Russian economy that had not been dealt with somewhere else in the world. He returned shell-shocked: "I've never seen anything like that place in my life," he said.

Unfortunately, however, such humility is still in short supply, and myths continue to flourish, especially since the December 1993 elections and the subsequent changes in the Russian government. All kinds of statements seem to have entered the category of uncontestable truths and are repeated without being challenged.

For example, one leading U.S. newspaper recently reported that "Millions of Russians voted in protest against Yeltsin's economic reforms, which led to 900% inflation last year and skyrocketing unemployment." In January 1993,

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the Russian unemployment rate was 0.7 percent. At the end of 1993, 700,000 Russians were unemployed out of a labor force of 70 million. The unemployment rate at the end of 1993, therefore, was 1 percent—0.3 percent higher than in January and certainly not "skyrocketing." In fact, for several months in mid 1993, Russian unemployment actually declined. Other misconceptions about Russian unemployment will be discussed later, but this is one example of the perpetuation of myth over reality regarding Russia.

REFERENDUMS ON REFORM

The best way to begin a discussion of Russia today is to review the results of recent elections. The Brookings Institution is conducting a study of the effects of the Russian reform process on an important sector of Russian society, the defense-industrial complex. The study has involved extensive field research—visits to Russian defense plants and to the cities and regions where they are located. It has also involved measuring the extent to which statistics about economic, demographic, and social trends in various Russian regions reveal the local importance of the defense industry.

As part of that statistical work, the study examined the voting record of different regions in the June 1991 presidential elections, the April 1993 referendum, and the December 1993 parliamentary elections. These can perhaps be viewed as a series of referendums on reform. When the referendums are compared, three remarkable and surprising facts emerge—one clear constant across the elections and two significant changes.

The constant in all three elections is that the number of Russians voting against reform remained the same. In the June 1991 presidential election, votes for the four anti-reform candidates totaled almost 28 million. Similarly, in the April 1993 referendum, the total number of people who answered "no" to the question "Do you have confidence in Boris Yeltsin as President of Russia?" was close to 27 million. Finally, in the December 1993 parliamentary elections, the total number of votes for Vladimir Zhirinovsky's right-wing party, the Communist Party, the Agrarian Party, and the other, smaller anti-reform parties again totaled almost 28 million.

In other words, the size of the anti-reform vote has remained stable. Whether the same 28 million Russians have consistently voted against reform cannot be determined with direct evidence, of course, as long as Russians vote by secret ballot. But the cross-sectional regional data analysis referred to earlier indicates that, at least between April and December, the trend of the kinds of people voting against reform has remained stable.

The typical Russian anti-reform voter has three basic characteristics. He or she is more likely to live in a rural area, to be part of the older generation, and to come from a region of Russia that is relatively less industrialized, indeed, that is relatively less dependent on the defense industry. This point is surprising, but the statistics confirm that the greater the number of defense employees in an *oblast* (state or region), the higher the vote for reform.

Regional statistics, however, do not give a complete picture of the typical Russian anti-reform voter. One key fact about the results of the three elections is that the stable segment of the Russian population that voted against reform in April and December 1993 was already in place in June 1991. These Russians were voting against the "pain" caused by former Prime Minister Yegor Gaidar's policies before Gaidar was even in the government; they voted against reform before there was reform. They were not reacting negatively to the consequences of reform because they never wanted reform in the first place. They have not considered themselves part of the reform process for the past three years, and they want no part of it now. This point cannot be overemphasized. These voters are not judging reform by its progress or lack thereof or by the way it has affected them or anyone else. They reject reform entirely.

SHIFT IN ANTI-REFORM VOTES

The first of the two significant changes in the elections was the tremendous increase in the vote for Zhirinovsky. Russian voters had the option of casting their ballots for Zhirinovsky in the June 1991 presidential election, and he received 6 million votes. In the December 1993 election, he received well over 13 million votes.

Zhirinovsky did not take those extra 7 million votes from the Russians who voted earlier for reform or even from those who did not vote. He took them from his rivals within the stable anti-reform bloc of voters. In fact, it is interesting to note that in 1991, the communist candidate received 13 million votes. Election results in December 1993 were thus a mirror image of the June 1991 results, with Zhirinovsky getting 13 million votes, and the communists 6 million.

In retrospect, the shift to Zhirinovsky within the anti-reform bloc was not surprising, considering that the overall anti-reform vote remained constant. In fact, it was the June 1991 vote for Zhirinovsky that was surprising. In 1991, Russians had no idea who Zhirinovsky was until he participated in a nationally televised debate two days before the election. By December 1993, Zhirinovsky had had two and one-half more years of exposure. In 1991, his communist

"The second change that can be observed in the last three Russian elections is that voter turnout declined sharply."

rival, Russia's prime minister, was extremely well-known. In December 1993, the communist candidates were relatively obscure. Given the combination of high name recognition and lack of strong opposition, Zhirinovsky attracted more of the anti-reform vote.

DECLINE IN VOTER TURNOUT

The Russian reform process has frequently been portrayed as dividing people into winners and losers. Another way of viewing the dynamic of Russian reform is as a division into players and nonplayers. If the anti-reform voters are "losers," it is because they have lost by default—they did not play the game.

The second change that can be observed in the last three Russian elections is that voter turnout declined sharply. This development is perhaps even more important than the Zhirinovsky shift. In June 1991, 75 percent of all Russian registered voters went to the polls. In April 1993, the turnout declined to 64 percent. Eight months later, less than 54 percent of all Russian registered voters went to the polls.

The decline in electoral participation is a trend that began before 1991. Although not voting was always an option for Russians, in reality the cost of not voting was quite high—high enough to produce 99.99 percent voter turnouts. After Russians were given the option of not voting without being awarded a one-way ticket to Siberia, voter turnout rates dropped. Eighty-nine percent of Russians voted in the 1989 elections for the USSR Supreme Soviet; 77 percent voted in the 1990 elections for the Russian Supreme Soviet; and in the last three elections, voter turnout, as mentioned, dropped from 75 percent to less than 54 percent, a substantial decline of 10 million voters.

There are two basic reasons for the decline in voter turnout. First, Russians are no longer forced to vote (although that practice continues in some local districts). Second, Russians exhibit a general disaffection with the entire political process.

The end of "mandatory" voting has clearly reduced pro-reform votes. When forced to vote, all pro-democracy/pro-reform Russians vote for reform. When not forced to vote, many pro-reformers—more than the anti-reformers—stay at home. This is evident from discussions, especially with young people who view voting as a burden. It is one more factor that they associate with the hated Soviet regime.

Russians' general disaffection with the political process also tends to result in a lower pro-reform vote. Many voters are disaffected with *politics*, not with reform. But this disaffection, which keeps them away from the polls, serves as a detriment to reform.

The result is what must be termed a "dilemma of democracy." The evidence is persuasive that if an all-inclusive poll of voting-age Russians were conducted, reform would win. But a vote held on those terms would be a forced vote. So as long as Russians observe the freedom not to vote, they face the possibility of seeing reform, and perhaps even democracy, democratically voted out of existence.

This raises several questions. Assuming that Russia continues to respect democratic elections, can the pro-reform voters be brought back to the polls? Some observers think they can because of what might be termed a "worse-is-better" argument. They argue that if there were a serious threat to the economic and political freedoms of Russians who currently support reform through their everyday behavior (especially by engaging in new private business activity), these individuals would rush back to the polls to defend their freedoms.

That is possible, but it is easy to envision an alternative scenario in which an imposition of constraints upon fairly libertarian-minded people, young people in particular, simply produced rage. Such rage could as likely be directed into nonconstructive channels—perhaps even into fascism—as into democratic channels.

Another question raised by declining Russian voter turnout is whether the anti-reform vote can be expanded beyond the 28 million who voted in December 1993. Might other Russians—those who have never voted before or, worse, those who at some point may have voted for reform—join the original anti-reform core at the polls and expand it in a qualitatively new way?

The idea of players and nonplayers is again useful. In the future, some of the Russians who are now indifferent or even some who earlier supported reform

will become nonplayers and join the anti-reform bloc. The issue that will catalyze this is job rights, the right to secure employment.

RUSSIAN JOBS

As noted above, Russian unemployment is not skyrocketing. Millions of Russians clock in at Russian plants every day without actually working, but that type of hidden unemployment is not new. Millions of Russians have also left the labor force in the past few years, but they are not necessarily unemployed. In the former Soviet Union, having a job was, with only some exceptions, a legal obligation for all citizens. As a result, labor force participation rates for men and women were the highest in the world. It is not surprising that participation rates have dropped closer to normal levels now that Russians can choose to remain outside the labor force.

In early 1993, unemployment was almost nonexistent in Russia. Hence, millions of Russians could hardly have been protesting against it by voting for anti-reform candidates. But this is almost certain to change.

REDISTRIBUTION OF PROPERTY RIGHTS

One term that succinctly and realistically describes what is currently happening in Russia is "redistribution of property rights." Russian economic reform in general, and enterprise privatization in particular, is a redistribution of property rights.

Russian reform is not the distribution of ownership of former state property previously "owned by everyone and thus owned by no one." In fact, much of that state property was owned by someone. Although the Soviet system did not involve legal property ownership, Russians did have economic property rights. Any property was owned that had value which a residual claimant gained or lost depending on how it was used.

It makes a difference whether Russia is redistributing rather than distributing property ownership (that is, redefining ownership rather than merely passing out a share in something previously unowned). Indeed, this process gives new meaning to the notion of winners and losers. When two people compete for something that neither of them owned before, one will win and one will lose. But the win/lose concept changes when it is a matter of redistribution, or taking what previously belonged to one and giving it to the other.

Under the old Soviet system, Russian workers actually held property rights to the part of the Russian enterprise in which they worked. They "owned" the right to a job and the social benefits that accompanied it.

Enterprise privatization, then, does not simply give Russian workers and managers ownership of something they did not own before. Nor does it merely give them formal ownership rights over something they once owned. Rather, privatization asks Russian workers to trade their job rights for a more explicit share of ownership of an enterprise in the form of equity. That is the deal—vouchers and a loosely defined promise of an explicit social safety net in return for what the old Soviet enterprise represented for them, job rights and an implicit social safety net. Millions of Russian workers perceive this to be an involuntary and unfair trade.

There is a danger in this dissatisfaction. In the new division of Russians into winners and losers, the losers in the redistribution of Russian property rights are forced to make the trade. Losers could potentially change the stable anti-reform core and enlarge it by many millions of voters.

"Some form of support needs to be instituted for state enterprises that provide jobs and a safety net for the masses of Russians who can be considered the losers in the redistribution scenario."

BLOCKING THE GROWTH OF THE ANTI-REFORM BLOC

The growth of the anti-reform bloc is not inevitable. Two steps can be taken to avert this possibility. First, Russian leadership can change the redistribution of property rights from an involuntary to a voluntary trade by the Russian people. Second, at least in the interim, some form of support needs to be instituted for state enterprises that provide jobs and a safety net for the masses of Russians who can be considered the losers in the redistribution scenario.

Expanding Individual Choice

With respect to changing the involuntary trade of job rights to a voluntary trade for as many Russians as possible, millions of Russians have, in effect, already voluntarily traded away their job rights. They have left state enterprises and entered the new private economy, mainly as self-employed private contractors and occasionally as employees in private Russian or foreign firms.

This is a positive sign because it provides the model for further reform—maintaining and expanding these possibilities. Successful reform will create new job opportunities. To say that successful reform will create jobs has the misleading connotation of public works. Rather, reform must provide *opportunities* for Russians to continue to move out of state enterprises as entrepreneurs who create their own jobs and who down the road create jobs for others.

"Reform must provide opportunities for Russians to continue to move out of state enterprises as entrepreneurs who create their own jobs and . . . jobs for others."

Conversely, one of the most detrimental measures that could be taken now in Russia would be to close off job opportunities in the private sector. There is a real danger that this may happen. Gaidar single-handedly opened up the economy in January 1992 with a decree that allowed any Russian who so desired to legally engage in private business. In 1993, when Viktor Chernomyrdin assumed office as prime minister, he threatened to restrict the new job opportunities, speaking of the need to clamp down on the flourishing street trade in Russian cities. Chernomyrdin maintained that the era of simply "buying and selling," of "speculation," was over. Russia, he said, needed more productive activity.

Increased movement of individuals currently involved in retail trade into new private manufacturing industries would indeed be a positive development. However, the way to achieve that desirable shift is not to strangle the small, one-person retail businesses. In fact, such restriction on new individual economic freedoms might foment rage among young Russians.

Interim Support for State Jobs

Thus, expanding individual opportunities for those who want to voluntarily leave the state sector is the first step in preventing the growth of the anti-reform bloc. At the same time, Russian leaders must recognize that some Russians will choose not to leave and that they must maintain state enterprise jobs for the majority of these people.

This does not mean, however, that the status quo should be maintained for state enterprises. While the necessity of keeping many state jobs must be emphasized, reformers must also reduce the cost of doing so. The Russian budget cannot afford current levels of subsidies, and no realistic amount of foreign aid will help measurably in that respect. Therefore, the support of state jobs for the sake of employment must be as small a drain on the budget as possible.

The first step toward shrinking the cost of maintaining state jobs has been mentioned—to encourage the voluntary flow of Russian workers out of state enterprises. Every Russian who voluntarily enters the private economy reduces the number who must be supported by the state budget.

The second step is to make state enterprises less unprofitable. It is remarkable that there is so little discussion of this option. The standard Western policy recommendation for the inefficient Russian enterprise sector is to shut it down. This advice, which often comes from observers who have never been in a Russian industrial city or a Russian manufacturing plant, is worse than inadequate for a number of reasons. How can these observers attempt to measure

the profitability or efficiency of plants given the distortion of relative prices in Russia today? The advice to shut down state enterprises stems from a mistaken approach (which predates Mikhail Gorbachev's reforms) concerning the nature of the Soviet economy. Most observers are obsessed with a narrow concept of efficiency. Russian factories' main problem is not that they produce items with too much waste or at too great a cost, but that they produce the wrong items. The first, and gigantic, step that nearly all enterprises need to take, therefore, is to seek new products to manufacture and/or new markets in which to sell their products.

This point is related to the Western obsession with establishing a Russian social safety net. Russia already has a social safety net. It is the one that is maintained by enterprises—day care centers, clinics, vacation resorts, subsidized or free food, and so on. Admittedly, this system is in much worse condition now than before because of the decrease in funds available to maintain it. But for the most part it still works. Why, then, should Western observers suggest that Russia destroy that functioning safety net and then offer to help build a new one?

POSITIVE AID AND DEVELOPMENT

The following is a summary of policy recommendations for the Russian government and for foreign governments, institutions, and organizations to assist in the transition process.

First, the Russian government must reduce subsidies to enterprises. In general, recommendations to cut budgetary spending are motivated by the desire to reduce inflation. Another reason to cut subsidies is that adjustments by enterprises will be undertaken more readily. It is difficult for enterprises to adjust, and few do it willingly. The desire to make adjustments in products and markets is inversely related to the ease of obtaining subsidies by doing nothing.

But being forced to adjust is not enough for those who cannot or do not know how to adjust. The second policy recommendation, therefore, is to provide technical assistance to help enterprises find new products and new markets. Because the Russian government has no expertise in this area, the West can clearly help.

The third policy recommendation is to create job opportunities. There are several ways to do this. One is direct support for small business development. Another is support for targeted existing civilian enterprises. Some civilian nondefense enterprises could expand employment if encouraged. In the old, hypermilitarized Soviet Union, nondefense enterprises were at the bottom of the priority list. They could not hire new workers without approval from the local Communist Party bureaucrats, who first made sure that no defense plant in town needed the workers. For Westerners concerned about the problem of downsizing the Russian defense complex, attention should be given to nondefense enterprises. Foreign joint ventures are another vehicle for creating new jobs, as they provide both capital and business expertise.

"The enterprise sector and the communities it supports are the keys to Russia's reform and Russia's stability."

Finally, there is the need to create an explicit social safety net. But it is important to realize that Russia is already hard at work in this area and that the majority of the work is being done at the local government level. These local governments need technical assistance. The West has established programs to begin providing some assistance, but supply lags far behind demand. Municipal authorities in several of Russia's largest provincial cities have said they would welcome offers of technical assistance but have not yet had any.

Thus, rather than providing money, the United States and other Western nations should provide technical assistance to develop municipal- and provincial-level employment and social welfare institutions. The U.S. and other countries should not promise to provide the cash for unemployment compensation for Russian workers, as some have proposed. The result would be a huge quagmire—millions of Russian workers complaining to Uncle Sam when their welfare checks are not delivered on time.

These are relatively modest policy recommendations, and all are related to the needs of grassroots enterprises and local governments. This is where the action is in reform, perhaps even more so now than before. This is where Western help is most needed. The enterprise sector and the communities it supports are the keys to Russia's reform and Russia's stability. The United States should target its assistance efforts accordingly.

NPA PUBLICATIONS

Food and Agricultural Markets: The Quiet Revolution, *ed. Lyle P. Schertz and Lynn M. Daft.* Food and agricultural markets have changed dramatically over the past several decades, resulting in a profound yet quiet revolution. Vertical integration and internationalization have made many U.S. food policies and programs inadequate. Perhaps most challenging is the explosion of knowledge about the genetic make-up of plants and animals and how this knowledge can be used for the betterment of humanity. Producers, marketers, and consumers alike must redefine their roles in this rapidly changing food system. The study emphasizes the need to adapt production support, information, and adjustment assistance policies to the new realities of food and agricultural markets. A joint publication of the Food and Agriculture Committee of NPA and the Economic Research Service of the U.S. Department of Agriculture (1994, 340 pp, $17.50).

Academic Focus Japan, *ed. Gretchen Shinoda.* This is a cross-referenced guide to academic programs, resources, and services on North American campuses that are devoted to Japan. The guide features over 150 programs on large and small campuses. Appendices identify more than 1,000 additional sources that provide information on language programs, exchange programs, scholarships and financial aid, continuing education, recent publications and reports, faculty and areas of expertise, and other specialized information. A joint project of NPA and the University of Maryland at College Park (1994, 560 pp, $45.00; special rates available to students and academic and nonprofit organizations).

Unfinished Tasks: The New International Trade Theory and the Post-Uruguay Round Challenges, *by F.M. Scherer and Richard S. Belous.* This study has two goals. First, while the recently completed Uruguay Round of the General Agreement on Tariffs and Trade was a positive step, there are still many unfinished tasks in the area of international trade. The first goal is to focus attention on the key unresolved issues. The second goal is to present the "new international trade theory" (NITT) in a way that allows informed readers to take part in the growing debate on the development of trade policy. Until now, most of the NITT literature has been too technical to be readily understood by laypeople. The authors conclude that from a better understanding of NITT can come a renewed sense of urgency concerning the drafting of rules for international trade that in turn will decrease the likelihood of future trade distortions and trade warfare. A British-North American Committee Report (May 1994).

U.S. Competitiveness and the Aging American Workforce, *ed. James A. Auerbach and Joyce Welsh, with an introduction by U.S. Secretary of Labor Robert Reich.* Older workers have been hit hardest by the downsizing and across-the-board cuts that many companies have undertaken in response to increasing international competition. Older workers frequently bring experience and expertise to their jobs, yet misconceptions persist that they are unyielding to change and that retraining them is too costly. This report considers the implications for older workers and the nation of the far-reaching economic restructuring that is occurring throughout the United States. The report is based on a 1993 symposium sponsored jointly by NPA and the National Council on the Aging, Inc. (July 1994).

"The Future of the North American Automobile Trade After NAFTA," ***North American Outlook*** (Vol. 4, No. 4), June 1994.

"The Restructuring of Employment," ***Looking Ahead*** (Vol. XVI, No. 2), July 1994.

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