

HON. RON PAUL OF TEXAS BEFORE THE US HOUSE OF REPRESENTATIVES May 19, 2004

Reject the Millennium Challenge Act

Mr. Chairman, though the ill-conceived Millennium Challenge Act has already become law and therefore we are only talking about its implementation today, it is nevertheless important to again address some very fundamental problems with this new foreign aid program.

I believe that the Millennium Challenge Account (MCA) may be one of the worst foreign policy blunders yet - and among the most costly. It is advertised as a whole new kind of foreign aid - apparently an honest admission that the old system of foreign aid does not work. But rather than get rid of the old, bad system of foreign aid in favor of this "new and improved" system, we are keeping both systems and thereby doubling our foreign aid. I guess it is easy to be generous with other people's money. In reality, this "new and improved" method of sending US taxpayer dollars overseas will likely work no better than the old system, and may in fact do more damage to the countries that it purports to help.

The MCA budget request for fiscal year 2005 is \$2.5 billion. We have been told that somewhere between 12 and 16 countries have met the following criteria for inclusion in the program: "ruling justly, investing in people, and pursuing sound economic policies."

It is a good idea to pay close attention to these criteria, as they tell the real tale of this new program. First, what does "investing in people" mean? It is probably safe to assume that "investing in people" does not mean keeping taxes low and government interference to a minimum so that individuals can create wealth through private economic activity. So, in short, this program will reward socialist-style governance.

In fact, this program will do much more harm than good.

MCA will hurt recipient country economies. Sending US aid money into countries that are pursuing sound economic policies will not help these economies. On the contrary, an external infusion of money to governments meeting the economic criteria will actually obscure areas where an economy is inefficient and unproductive. This assistance will slow down necessary reform by providing a hidden subsidy to unproductive sectors of the economy. We thus do no favors for the recipient country in the long term with this harmful approach.

MCA is a waste of taxpayer money. Countries that pursue sound economic policies will find that international financial markets provide many times the investment capital necessary for economic growth. MCA funds will not even be a drop in the bucket compared to what private capital can bring to bear in an economy with promise and potential. And this capital will be invested according to sound investment strategies - designed to make a profit - rather than allocated according to the whim of government bureaucrats.

MCA is corporate welfare for politically-connected US firms. These companies will directly benefit from this purported aid to foreign countries, as the money collected from US taxpayers can under the program be transferred directly to US companies to complete programs in the recipient countries. As bad as it is for US tax dollars to be sent overseas to help poor countries, what is worse is for it to be sent abroad to help rich and politically-connected US and multi-national companies.

MCA encourages socialism and statism. Because it is entirely geared toward foreign governments, it will force economically devastating “public-private partnerships” in developing nations: if the private sector is to see any of the money it will have to be in partnership with government. There should be no doubt that these foreign governments will place additional requirements on the private firms in order to qualify for funding. Who knows how much of this money will be wasted on those companies with the best political connections to the foreign governments in power. The MCA invites political corruption by creating a slush fund at the control of foreign governments.

MCA encourages a socialist approach to health care in recipient countries. In rewarding a top-down government-controlled approach to health care, the program ignores the fact that this model has failed miserably wherever it has been applied. Ask anyone in the former communist countries how they liked their government healthcare system.

Finally, MCA is another tool to meddle in the internal affairs of sovereign nations. Already we

see that one of the countries slated to receive funds is the Republic of Georgia, where former cronies of dictator Eduard Shevardnadze staged a coup against him last year and have since then conducted massive purges of the media and state institutions, have jailed thousands in phony “anti-corruption” campaigns, and have even adopted their own political party flag as the new flag of the country. The current government in Georgia does not deserve a dime of aid from the United States.

Though the Millennium Challenge Account is advertised as a brand new approach to foreign aid - foreign aid that really works - it is in fact expensive and counter-productive, and will be very unlikely to affect real change in the countries it purports to help. The wisest approach to international economic development is for the United States to lead by example, to re-embrace the kind of economic policies that led us to become wealthy in the first place. This means less government, less taxation, no foreign meddling. Demonstrating the effectiveness of limited government in creating wealth would be the greatest gift we could send overseas.