

Expeditionary Economics: A New Approach to Post-Crisis Development

Joshua Foust

April 28, 2011

This is the first essay in a research series the American Security Project is hosting on the topic of reforming American foreign aid policy.

ExpEcon is:

- The strategic deployment of economic development to fix failed economies in crisis states;
- Fundamentally about business development;
- Based on the assumption that economies grow when businesses grow;
- Focused on local communities and local businesses.

ExpEcon is not:

- A blueprint for Western foreign direct investment;
- A call for promoting multinational corporations to set up businesses in conflict zones;
- Focused on empowering Western aid agencies or NGOs.

As the upheaval in the Middle East unfolds, the U.S. must face the prospect of what to do afterward. In many cases, U.S. involvement will take the form of aid packages—in Egypt and Yemen, where there is an existing policy of donating aid dollars, but also in Libya, where U.S. intervention implies some aid responsibility once the fighting ends. The current practice of foreign aid runs the gamut from “bottom-up” aid efforts focused on individual communities to “top-down” Soviet-style technocratic efforts focused primarily in the capital. Despite this, aid overall has a fraught history of limited effectiveness and often contributes to corruption, rather than growth or development. The opportunity presented by the continuing uncertainty in the Middle East represents an opportunity for the U.S. to reconsider how it handles the aid process.

Joshua Foust is a Fellow at the American Security Project. This series is supported by the Kauffman Foundation and the views expressed here do not necessarily reflect those of the Foundation.

The Current Approach

“Institutions determine development success; yet little work is done to develop institutions.”

Most foreign aid takes the form of government-to-government transfers: a wealthy government like the U.S. donates money to a non-wealthy government, with the idea that this money will fund services and hopefully contribute to economic growth. This can be difficult to achieve in practice, as these money transfers tend to evade the reform of public services—negating their purpose.¹ Studies of government behavior in aid relationships indicate that, often, the leadership of both donor and recipient governments instead tend to seek policies that protect their hold on power.² Aid projects can lead to economic growth and development, because the process of giving aid can still have a substantial effect on the policies of the recipient country.³ The situation is far from hopeless; many standard methods of conferring aid can be altered to have a dramatic positive effect on the reconstruction process.

One way to alter aid policy is to invert the normal methods of foreign aid, and improve on “bottom-up,” community-centered aid. Economic development and assistance projects usually take a top-down approach: the host government is supported, and expatriate development workers descend on the capital city to craft plans for they think the national communities they’re meant to serve should grow and develop. The projects that the aid community focuses on tend to be either amorphous and ill-defined (like “capacity building”) or large scale infrastructure development (like paving highways and building buildings). They are focused, in other words, on inputs—if the right things are done to a recipient country, then the right outcomes should result.

Unfortunately, “bottom-up” approaches make this same mistake: they often rely on expats dictating to communities what their needs and opportunities are, and assume that if they bring the right inputs, the right outcomes will naturally follow. Missing in both aid approaches is a full appreciation of outcomes. Many aid organizations measure their success in terms of money spent, miles of road paved, or amount of time devoted to a project; it is relatively rare to see assessments based on outcomes (that is, what effects that money, construction, or time actually had on the target communities). Missing, too, is any consistent means to empower and promote the needs of regular, non-elite people in recipient countries. Rather, aid projects are driven by donor concerns and political arrangements in the recipient capital.

1 Owen Barder, “Markets and Aid,” *Owen Abroad*, 8 January 2010, <http://www.owen.org/blog/3008>

2 See Peter Boone, “Politics and the Effectiveness of Foreign Aid,” *European Economic Review* 40, 1996, (2):289—329; Bruce Bueno de Mesquita and Alastair Smith, “A Political Economy of Aid,” *International Organization* 63, Spring, 2009, pp. 309—40; and William Easterly, *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*, 2002, Cambridge Mass: MIT Press.

3 See, for example, Peter Heller, “A Model of Public Fiscal Behavior in Developing Countries: Aid, Investment, and Taxation,” *American Economic Review* 65, 1975, (3):429-45

The standard approach to aid, in other words, relies on working through established institutions—whether national or local—to provide basic services and thus encourage development. However, governments cannot just provide the bare minimum services to their people and be considered successful. The lack of civic and formal institutions that support economic development is one of the most common reasons development can stall; yet within the post-crisis development community there is very little attention paid to why and how those institutions can be transformed into constructive enablers of growth.

A New Approach

“ExpEcon is a win-win foreign aid policy, allowing the U.S. to engage with communities in key strategic areas.”

ExpEcon assumptions:

- Communities know what they need better than foreigners do;
- Communities will direct their own growth if given the time and space;
- Not every successful market economy is a perfect mirror of the American market economy.

One way to rethink the doctrine of development and assistance aid is “expeditionary economics.” At the heart of ExpEcon, as it is known, is the assumption that economies grow because businesses grow and that growing economies are a benefit both to U.S. national interests and to global security. Growth is not just the result of a generic set of capacities or regulatory structures—the normal “instruments” of aid policy—but rather the result of businesses creating wealth, expanding and hiring new people to take on new tasks to generate new wealth. Therefore, ExpEcon is fundamentally about business development, with a focus on empowering local communities instead of international organizations.

ExpEcon is not a blueprint for Western foreign direct investment. While that may be one of the ways these local firms receive cash injections, ExpEcon does not call for promoting multinational corporations to set up businesses in conflict zones. Rather, it is about applying the lessons learned from successful business growth in other sectors: What sort of agencies and institutions and organizations encourage economic growth? How can you structure taxes and regulations to encourage development? By creating the conditions in which local businesses can grow and thus spur economic growth in their communities, the international community can achieve its development goals while empowering target communities to take ownership of their own futures.

The best aspect to ExpEcon is that it does not require Soviet-style economic planning. The current methods of encouraging economic growth — especially when performed by the military, but also by civilian agencies — follow a Soviet approach to economic growth: top-down, authoritarian, inflexible (and often ineffective). ExpEcon works on the assumption that local communities know what they need far more than an expatriate aid consultant does. There's no need to dictate any process of privatizing state-run industries or the development of new ones. The goal of development should be to remove barriers to economic growth, rather than to dictate how that growth should take place.

In post-disaster or post-conflict countries that require development aid, like Haiti or Afghanistan, the West does not need to stimulate business development or growth. People will do commerce even in the worst of conditions. Businesses pop up almost immediately after conditions allow it; ExpEcon aims to support and encourage this natural process of business activity. It is focused on guiding development efforts from the point of view of those who emerge to do business.

There are, of course, pitfalls to this new model of development. One is that it just might prove impossible: American policymakers have a difficult time reforming American government institutions. There is no reason to assume other countries' institutions can be created or reformed quickly or easily. There is also the danger that a target community might develop in a way the international community finds unacceptable. In Afghanistan, for instance, there is a thriving, extremely profitable agricultural commodity market; it just happens to involve opium, instead of food. There is also the more fundamental concern that the U.S. simply should not be in the business of nation building.

Similarly, the U.S. has a mixed record of consistently supporting and encouraging economic growth. For example, as part of its macroeconomic reforms in Afghanistan, the U.S. dropped tariffs—inadvertently restricting Afghanistan's ability to develop an export capacity in the process.

Many of these concerns can be overcome with proper planning and flexibility. There is no reason to assume, for example, that any sort of institutional or structural change will happen instantaneously, or that it will bring about instant results. Similarly, it is possible to constrain a community's economic development with law enforcement and monitoring to make sure it doesn't rely on illicit activities for its growth —avoiding a Soviet approach of dictating development while still enforcing basic rules and norms. Finally, the conceit behind ExpEcon isn't that it is a better way of nation building, but rather that it avoids the need to nation build altogether. In fact, ExpEcon is organized around the idea of letting nations build themselves, without intrusive and expensive Western meddling.

By empowering communities to prosper, instead of leaning on governments to be less abusive, the U.S. can achieve two goals at once: undercutting a major plank of al-Qaeda rhetoric (e.g., the U.S. support for hated tyrannical regimes) while building up the local resilience to upheaval that will facilitate better long-term planning. ExpEcon is a win-win foreign aid policy, allowing the U.S. to engage with communities

in key strategic areas, while transforming the terms of that engagement to have the long-term focus of leaving communities more prosperous than before.

ExpEcon gets you:

- Empowered local businessmen who can grow their own economies without foreign input;
- Dramatically reduced expenditure on relief and development projects;
- Community empowerment through the act of taking responsibility for their own economic future.

The current period of upheaval and chaos, while stirring in its democratic potential, is also creating many hardships in the region. And in fact, several of the revolutions—in Tunisia, but also in Yemen and elsewhere—got their start in protests over stagnant economies. By focusing on the creation of wealth, on growth, and on development, the U.S. can adapt its aid policies to be more effective, and in the process substantially improve its standing in the world.

This is the first in a research series the American Security Project is hosting, with support from the Kauffman Foundation, on the topic of reforming American foreign aid policy. This research will explore not just how to apply ExpEcon to the countries currently in crisis, but also how the concept of an entrepreneurial aid policy can be applied strategically in pre-crisis states to prevent crisis from occurring. It is a brand new field, and ripe for a great deal more study. For more details on this research, please check back regularly at www.americansecurityproject.org.

Building a New American Arsenal

The American Security Project (ASP) is a bipartisan initiative to educate the American public about the changing nature of national security in the 21st century.

Gone are the days when a nation's strength could be measured by bombers and battleships. Security in this new era requires a New American Arsenal harnessing all of America's strengths: the force of our diplomacy; the might of our military; the vigor of our economy; and the power of our ideals.

We believe that America must lead other nations in the pursuit of our common goals and shared security. We must confront international challenges with all the tools at our disposal. We must address emerging problems before they become security crises. And to do this, we must forge a new bipartisan consensus at home.

ASP brings together prominent American leaders, current and former members of Congress, retired military officers, and former government officials. Staff direct research on a broad range of issues and engages and empowers the American public by taking its findings directly to them.

We live in a time when the threats to our security are as complex and diverse as terrorism, the spread of weapons of mass destruction, climate change, failed and failing states, disease, and pandemics. The same-old solutions and partisan bickering won't do. America needs an honest dialogue about security that is as robust as it is realistic.

ASP exists to promote that dialogue, to forge consensus, and to spur constructive action so that America meets the challenges to its security while seizing the opportunities the new century offers.



American Security Project

www.americansecurityproject.org