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United States Senate

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RANKING MEMBER
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September 24, 2008

Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

Dear Senator McConnell,

I am requesting that I be consulted before the Senate enters into any unanimous consent agreements regarding S. 3169, a bill that authorizes the eleventh replenishment of the resources of the African Development Fund. I objected to the previous unanimous consent agreement, and I reserve the right to object to any future unanimous consent agreements or rule waivers regarding this bill.

I have a number of concerns with this legislation.

S. 3169 authorizes over $468 million to be given over a period of three years to the African Development Fund, a part of the African Development Bank that provides concessional loans and grants to low-income African countries. This represents a $61.2 million increase in funding from the last 3-year authorization to the Fund.

The national debt now exceeds $9.4 trillion. That means over $30,500 in debt for each and every man, woman and child in the United States. The U.S. debt is expanding by about $1.4 billion a day, or nearly $1 million a minute. S. 3169 would contribute to the already overwhelming burden of debt that Congress has created.

This violates a principle I have laid out in a letter sent at the beginning of the 110th Congress to all my Senate colleagues, to withhold my consent for unanimous passage of any bill that authorizes new spending without an equivalent reduction in existing spending authority for a lower-priority or less effective program.

Hidden within this authorization is $26 million which represents the first installment of a $400 million African Development Fund bailout the U.S. Treasury Department agreed to during a G8[1] summit in 2005. The Treasury Department committed to provide a bailout to multilateral banks, including the African Development Fund, which participated in the Multilateral Debt Relief Initiative (MDRI). MDRI is an initiative that gives 100 percent relief on eligible debt

[1] G8 countries include Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United. The European Union is also represented at the G8, but it cannot host or chair the group.

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from three multilateral banks[2] to a group of low-income countries, most of whom never intended to repay the loans.[3]

In the outcome document from the 2005 G8 Summit, the U.S. Treasury Department and its counterparts in the other G8 countries agreed to "compensate" the multilateral banks "on a 'dollar-for-dollar' basis" the full amount of the debts to eligible low-income countries that will be forgiven.[4] The outcome document goes on to say that the G8 will "provide MDRI financing additional to donors' regular support" of the development banks.

Regular support of the development banks comes in the form of replenishments, which are wealth transfers from G8 countries given to the banks every three years with which the banks redistribute to low-income countries. The agreement made by the G8 was to include the multilateral banks' bailout within the regular 3-year replenishments to the banks.

The total debt relief G8 countries, including the U.S., agreed to is more than $41.3 billion over 40 years. This means $41.3 billion in mostly bad loans to low income countries have been transformed into foreign aid grants that will never be paid back. By agreeing to bail the banks out for these bad lending decisions, the G8 is passing the cost of the scheme to G8 taxpayers. The total cost will be up to $82.6 billion to cover the original loan plus the cost of the bailout.

The U.S. taxpayers' share of this bailout is almost $7.5 billion over 40 years. Even though the U.S. Treasury was not authorized by Congress to commit to this increase in foreign aid spending, Treasury plans on making the first installments of the U.S. portion of the bailout this year without informing Congress. Of the $468 million authorized in S. 3169, $26 million is intended to go towards the $400 million bailout of the African Development Fund. In its 2009 budget request to Congress, the Treasury Department does not report any information about its agreement to bail out the multilateral banks or that its request for its next 3-year replenishment to the banks includes its first installment of the bailout.

It wasn't until I asked specifically about the bailout that the Treasury Department admitted that it has hidden the first installment of the bailout in the replenishment payments for 2009. According to the Treasury Department, these bailout payments will not cost the taxpayer additional funds. It claims that by sending the normal 3-year replenishment to the banks earlier than planned, the money will gain enough interest while sitting in the multilateral banks' accounts that will pay for the U.S. share of the bailout. What the Treasury Department fails to understand is that this interest belongs to the U.S. taxpayer, and by denying the taxpayer this interest, the cost of the bailout is indeed carried by the U.S. taxpayer.

Another disturbing element to the bailout agreement that U.S. Treasury made at the 2005 G8 summit is that the additional money the U.S. and other G8 taxpayers will be sending to the

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[2] The International Monetary Fund, the International Development Association of the World Bank, and the African Development Fund of the African Development Bank.
[3] "The Debt of the Poorest Nations: A Gold Mine for Development Aid," by Adam Lerrick, *International Economics Report*, Carnegie Mellon Galliot Center for Public Policy, June 2005.
[4] G8 MDRI Agreement, 2005 (Treasury Department provided excerpt in a July 21, 2008 email).

banks for the bailout will be used for "providing further resources for. . .development efforts"[5] within low-income countries whose loans were forgiven. In other words, the U.S. Treasury Department agreed to saturate the multilateral banks, such as the African Development Fund, with even more U.S. taxpayer cash, so the banks can continue their misguided policies responsible for issuing bad loans and the subsequent bailout scheme.

Socialist development policies that require massive transfers of wealth from developed nations to low-income nations have proven not only to fail at eradicating poverty but actually prolong and worsen economic conditions in many impoverished countries. I strongly believe that when we act as a government to help people, we make sure that our help first doesn't make the problem worse, and second, really works and doesn't just make us feel good about having tried to help.

Wealth transfers, whether it be in the form of foreign aid packages, concessional loans, or debt relief, is based on the false premise that transfers of riches from wealthy nations to poor nations will *buy* economic growth in those recipient nations. There is no credible evidence that suggests this approach has ever actually produced economic growth, and sadly, there is a growing body of economic research that suggests just the opposite. [6]

Since 1960, African countries have received over $400 billion in foreign aid. The World Bank reports that African GDP per capita fell on average by 0.6% each year between 1975 and 2000. The U.S. National Bureau of Economic Research reports that in 1970, the number of persons living on less than $1 a day in Africa was 1 in 10. By 2004, the Bureau reports that the number increased to almost 1 in 2.[7] Between 1970 and 1996, for every dollar that wealthy nations transferred into Africa through the African Development Fund or other development programs, 80 cents flowed out as capital flight in the same year, typically into Swiss bank accounts.[8] These measurable outcome indicators show that transfers of wealth are not the answer to economic growth and poverty reduction.

All evidence demonstrates that poverty decreases only with the increase in economic freedom, free trade, the protection of property rights, elimination of corruption, and predictably enforced rule of law. In other words, poverty is the result of corrupt governments and the absence of liberty—not the lack of wealth transfers. [9]

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[5] G8 MDRI Agreement, 2005 (Treasury Department provided excerpt in a July 21, 2008 email).

[6] William Easterly, "Reliving the 50s: The Big Push, Poverty Traps, and Takeoffs in Economic Development," Northwestern University, Kellogg School of Management seminar, June 1, 2005 and Raghuram G. Rajan and Arvind Subramanian, "Aid and Growth: What Does the Cross-Country Evidence Really Show?" National Bureau of Economic Research Working Paper No. 11513, abstract, July 2005.

[7] "The G-8 Summit and Africa's Development," by Roger Bate of the American Enterprise Institute, Testimony before the House Subcommittee on Africa, Global Human Rights and International Operations, July 1, 2005.

[8] *The Economist*, January 17, 2004, pg 12.

[9] William Easterly, "Reliving the 50s: The Big Push, Poverty Traps, and Takeoffs in Economic Development," Northwestern University, Kellogg School of Management seminar, June 1, 2005 and Raghuram G. Rajan and Arvind Subramanian, "Aid and Growth: What Does the Cross-Country Evidence Really Show?" National Bureau of Economic Research Working Paper No. 11513, abstract, July 2005.

The American people are already burdened with over $9.4 trillion of debt due to uncontrolled spending by Congress. The U.S. taxpayer is always called upon to bail out failed wealth-transfer programs, whether it is multilateral banks, government-run mortgage companies, or federal retirement plans. It is unlikely that there will be anyone willing to bail out the U.S. taxpayers once this unsustainable spending frenzy finally catches up with us. I cannot, in good conscious, contribute to this problem.

Thank you for protecting my rights on this legislation.

Sincerely,

Tom A. Coburn, M.D.
U.S. Senator