
Democracy and Development: The Evolution of U.S. Foreign Assistance Policy

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For years scholars have debated whether the poor have to choose between economic opportunities and political rights, and, by extension, whether democratization has to be deferred until national development objectives have been achieved. That debate has been reflected in U.S. foreign assistance policy. In the last decade, a new consensus has begun to emerge that rejects the tradeoff between democracy and development and embraces both goals as integrally related to one another. The need to focus on expanding and deepening democratic governance—as an end in itself but also as a key element of supporting development—has become increasingly recognized internationally. U.S. foreign assistance policies have embraced democracy as an essential part of any development effort. These policies have been a key catalyst for similar, although less dramatic, changes in the policies of other donors. With the establishment of the Millennium Challenge Account, the United States has taken an historic step towards placing democracy and governance at the heart of its development approach.

THE RELATIONSHIP BETWEEN DEVELOPMENT AND DEMOCRACY

Over 40 years ago, Seymour Martin Lipset argued that “the more well-to-do a nation, the greater the chances that it will sustain democracy.”¹ His hypothesis was that development would automatically bring about democracy. Many also argued that authoritarian regimes could better utilize scarce resources to create economic growth. Democratic regimes were seen as susceptible to the influence of powerful interest groups. Their use of populist appeals and compromises could make them inherently less capable of developing coherent economic plans relative

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to insulated authoritarian regimes. Thus, the argument went, democratization should be delayed until certain development goals were achieved. The model of the East Asian “tigers” serves as a potent illustration of the preference to defer democratic aspirations to achieve economic development results.

Numerous studies have demonstrated that there is a correlation between economic growth and the existence of a democratic regime, but have not been able to prove a causal relationship. But the Lipset thesis has been seriously challenged both through analytic work as well as by historical experience.² While economic prosperity and performance helps the survival of democratic regimes, the number of poor democracies that have been established in the last 15 years has challenged the hypothesis that development is necessary for democracy to emerge.³

Many studies have demonstrated that democracies have an economic advantage over non-democratic regimes. In looking at 10 years of macro-economic data, Freedom House found that democracies, even economically poor democracies, are more prosperous than non-democratic regimes.⁴ A forthcoming study argues that over the last 40 years, democracies have achieved equivalent

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growth rates to authoritarian regimes, and poor democracies have performed better, if one excludes East Asia.⁵ Democracies tend to grow much more consistently. While they do not necessarily achieve the highest growth rates, democracies also avoid the worst performances of dictatorships.⁶ Nobel prize winner Amartya Sen has provided the most dramatic illustration of the superiority of democratic systems, arguing that famines

have never occurred in democracies, largely due to the information flows and feedback systems that authoritarian systems lack.⁷ Current studies are parsing exactly which elements or characteristics of democracy are most favorable to economic performance.⁸

THE EVOLUTION OF U.S. ASSISTANCE POLICY

The U.S. development policy community has also evolved in its approach to democracy over the last 40 years. While promoting democracy has long been a part of U.S. foreign policy, it has not always been a primary objective of U.S. foreign assistance policy. The governing legislation of the foreign assistance program, the 1961 Foreign Assistance Act (FAA), is largely silent on democracy as an objective of U.S. assistance. In the late 1960s, Title IX of the FAA linked political participation and economic development and called for the “encouragement of democratic private and local governmental institutions.” Despite the potential

mandate to undertake democratization efforts, most development professionals at the U.S. Agency for International Development (USAID) consciously avoided democracy promotion. Fearing the politicization of their work, USAID focused instead on promoting civic participation.⁹ Even those grassroots efforts were seen as potentially problematic, given the “radical” nature of many of the local movements at that time. Moreover, in reality, the promotion of democracy was subordinated to other Cold War goals. Assistance was regularly allocated to authoritarian governments who were considered to be U.S. allies in the struggle against the Soviet Union. Although there were efforts to support legal reform in Latin America under the Law and Development program during the 1960s and early 1970s, democracy assistance programs as such did not exist.

Under the Carter Administration, human rights emerged as a foreign policy priority. Section 116 was added to the Foreign Assistance Act, which prohibited any assistance to governments of countries that engaged in “a consistent pattern of gross violations of internationally recognized human rights.” Section 116(e) authorized a small amount of money to support activities that encouraged “increased adherence to civil and political rights.”

It was not until the mid-1980s that democracy was established as a separate sector of foreign assistance. In 1984, U.S. Congress established the National Endowment for Democracy, although it was not considered part of the official U.S. foreign assistance program. At the same time, USAID itself began a judicial reform program in El Salvador. In concert with a stronger diplomatic push towards democracy in the hemisphere, USAID began to prioritize democracy in its foreign assistance policy and develop democracy assistance programs throughout Latin America.

With the fall of the Berlin Wall, the U.S. Congress passed the Support for Eastern European Democracy Act and, soon after, the Freedom Support Act for Russia and the former Soviet republics. Those funds established the promotion of democracy and free markets as a primary goal, and created an explicit and sizeable program, implemented by USAID, to support democratic transitions.

By the early 1990s, USAID adopted a new initiative on the promotion of democracy. The 1990 Democracy Initiative stated that “there is growing evidence that open societies that value individual rights, respect the rule of law and have open and accountable governments provide better opportunities for sustained economic development than do closed societies that stifle individual initiatives.”¹⁰ In 1991, USAID released a more detailed democracy and governance policy paper that reiterated the linkage between democracy and the larger development agenda. In that paper, USAID argued that the “effective and efficient use of resources depends fundamentally on the strengths and capacities of local institutions, including political institutions....Democracy does not guarantee successful development, but it can be highly supportive of efforts to address development problems effectively.”¹¹ As the paper notes,

Open political system[s'] respect for basic human rights, and an appropriate and efficiently administered legal and regulatory system based on due process of law, encourage[s] peaceful resolution of social conflict, [and] stimulate[s] individual initiative...and thus support[s] economic and social development....Political development is central to sustained economic and social development."¹²

Democracy assistance programs began to be developed and implemented by USAID throughout Asia, Africa, and the Middle East. For the most part, however, those programs were largely disconnected from the mainstream development efforts of USAID. Most development professionals were wary of taking on an explicit pro-democracy agenda, fearing that politics would contaminate and endanger ongoing development efforts. To the extent possible, development was viewed and carried out in a technical, apolitical way, insulated from the political interests of the State Department and U.S. foreign policy objectives. For example, as the African democracy program was in its nascent stages in the 1990s, USAID lawyers vigorously resisted State Department pressure to use Development Assistance and pushed for the more politically oriented Economic

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Support Funds account to be used to respond to increased demands for democracy assistance from the continent.

The USAID resistance to engage in democracy assistance slowly began to change, partly as a response to events around the world, and partly because even the most conservative development institutions, including the World Bank, were beginning to recognize that politics could not be ignored. USAID and many other U.S. government officials were faced with

requests from reformers, including a burgeoning civil society movement, for help in their efforts to push for political change. USAID may have also been influenced by the publication of a number of critical papers at the World Bank on the central role that bad governance played in the failure to make social and economic progress in a number of critical countries.¹³ Within USAID, democracy criteria were explicitly factored into the assistance allocation process for the Africa region. In the early part of the 1990s, the entire donor community took the unprecedented step of conditioning overall government-to-government assistance to Kenya and Malawi in order to encourage democratic reforms.

The Clinton administration strengthened and expanded the emphasis that the Bush administration had given to promoting democracy in U.S. foreign

policy. The administration placed expanding democracy as one of three interrelated pillars of foreign policy, along with promoting U.S. economic prosperity and protecting national security.

At USAID, then Administrator J. Brian Atwood made the integration of democracy and governance into the agency's overall development work a priority. The promotion of democracy became one of the five strategic goals of USAID. The Center for Democracy and Governance was established to provide technical advice to USAID officers on how best to pursue the new democratization goals.

The 1995 USAID development strategy contained more robust language on the need to promote democracy as part of an overall development approach, stating that "democratization is an essential part of sustainable development because it facilitates the protection of human rights, informed participation, and public sector accountability." Indeed, USAID argued that the successful achievement of the larger development agenda was impossible without attention to politics, and that "success in the other core areas of sustainable development is inextricably related to democratization and good governance." Democratic performance would be factored into aid allocation decisions: "USAID will consider a government's human rights performance, including its willingness to permit the emergence and functioning of democratic institutions and independent political groups."¹⁴

The current Bush administration has not only continued, but indeed dramatically expanded the previous administration's policy of integrating democracy into development approaches. One of the most significant policy changes was the decision to raise the profile and importance of development assistance in the administration's approach to foreign policy. In a March 2002 speech at the Inter-American Development Bank, President Bush proclaimed that "the advance[ment] of development is a central commitment of American foreign policy."¹⁵ He announced the establishment of a new Millennium Challenge Account (MCA), which increased foreign assistance levels by 50 percent. Funds would be allocated under the MCA to reward countries that "make the right choices for their own people." A key choice was whether a regime is "ruling justly." President Bush argued that "good government is an essential condition of development," and therefore the MCA "would reward nations that root out corruption, respect human rights, and adhere to the rule of law."

The decision to make democracy and governance performance a major determinant of potentially large amounts of development assistance was historic. The earlier policy of "taking democracy into account" had not been translated into a consistent practice of rewarding countries that had taken steps towards democracy with significant increases in assistance levels. The MCA promises to be exactly the kind of "democracy dividend" that many democracy proponents and scholars argued was desperately needed to stabilize fragile democratic regimes who were under pressure to deliver concrete social and economic gains. Freedom

House joined with a number of other human rights and democracy representatives in welcoming the MCA initiative, but also in urging that the “ruling justly” criteria be defined in a holistic fashion.¹⁶ The fear was that “ruling justly” would be defined in the narrowest terms, focusing mostly on governance factors that were directly linked to specific economic policy goals, as opposed to embracing the broadest conception of democratic governance. The political realities of how to reward countries that abide by the rule of law, make progress against corruption, and respect human rights needed to be taken into account.

In November 2002, the administration announced the 16 major indicators that would be used to determine MCA eligibility. The new process would require that MCA recipients score above the median in half of the indicators under each of the three major categories—governing justly, investing in people, and promoting economic freedom. Three of the six indicators in the “governing justly”

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category were directly related to democracy, as defined by Freedom House’s survey of respect for political rights and civil liberties.¹⁷ However, the change in the title of the category—from “ruling” justly to “governing” justly—was illustrative of the fact that the initial fears of the democracy and human rights communities were not unjustified. The remaining three indicators within this category were drawn from a World Bank Institute index and focused more on governance conditions that were more directly related to economic development than democracy. As a result, many fear that if the current process is applied, authori-

itarian countries such as Vietnam, China, and Egypt could qualify because they pass the more economic-oriented governance criteria.

A number of questions remain as to how the MCA account will be implemented. The application of the “governing justly” indicators will be the most politically sensitive aspect of the MCA and has the greatest potential for disrupting ongoing U.S. relations with particular countries. The State Department and USAID have demonstrated that the importance of bilateral relationships may weaken their willingness to strictly apply democracy standards in allocating assistance or trade preferences, such as those under the Africa Growth and Opportunity Act. It is also not clear whether any MCA funds will be made available for democracy assistance to strengthen the still fragile democracies that have met the relatively low performance benchmarks or whether the funds will go to more traditional development areas.

Despite these concerns, the advances made by the Bush administration in establishing the MCA and in linking it to performance in the democracy and governance arenas are significant. While USAID was not selected to implement the MCA account (a new Millennium Challenge Corporation will be set up instead), the agency produced a new policy paper in January that built upon the MCA and contained the strongest language yet linking democracy and development. The "Natsios report" places a strong emphasis on the need to promote democracy "as part of achieving good governance which in turn will produce better development outcomes." One of the foremost democracy scholars, Larry Diamond, wrote in the report:

...For the world's poor people, democracy is not a luxury. It is an indispensable instrument of securing accountable government and for ensuring that aid is used effectively. Governance has to be made more responsible, competent, efficient, participatory, open, accountable, lawful, and legitimate. Unless that happens, poorly performing states will not experience the kind of vigorous, sustained development that transforms human development, achieves economic growth and permanently lifts large segments of the population out of poverty.¹⁸

AN EMERGING INTERNATIONAL CONSENSUS?

The United States is leading the donor community in terms of asserting the linkage between democracy and development. Beginning in the 1990s, other bilateral donors established programs that promote democracy, although many still choose to describe such activities as "good governance," "human rights," or "institutional strengthening" programs. Their overarching policy documents typically include a few sentences asserting the connections between democracy and development. However, the priority given to democracy in American foreign assistance programs has not been mirrored in the approaches of other major donors.

Given the release of the latest United Nations Development Program (UNDP) Human Development Report, more donors may take a bolder stance towards linking democracy and development. The UNDP report bluntly states that democracy is "essential" to human development. "It is the only political regime compatible with human development in its deepest sense, because in democracy, political power is authorized and controlled by the people over whom it is exercised."¹⁹

The UNDP has redefined the democracy and development relationship debate by expanding "development" beyond economic growth rates. The "Human Development Index" measures three basic dimensions: "a long and healthy life, knowledge, and a decent standard of living."²⁰ The report notes that

“countries can promote human development for all only when they have governance systems that are fully accountable to all people—and when all people can participate in the debates and decisions that shape their lives.”²¹ The report relies

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heavily on the ideas of Amartya Sen, that democracy is essential to the preservation and protection of human dignity, arguably the goal of any development effort. “Political freedom and the ability to participate in the life of one’s community are capabilities that are as important for human development as being able to read and write and being in good health.”²²

For the UNDP, an organization that is traditionally timid in asserting views or undertaking approaches that may offend its member states, to issue such a report is an unprecedented event. Yet it may not be alone for long. The need for democratic governance—stated in a variety of ways—has become a part of a spectrum of international and regional initiatives, including the UN Millennium Declaration, the New Partnership for African Development, the African Union, the Organization of American States, and the Organization for Security and Cooperation in Europe. Many of these initiatives point to the incorporation of democracy into development decision making, although none are as explicit as the administration’s new Millennium Challenge Account.

Even within the World Bank, there have been significant changes in this area over the last 20 years. While the Bank’s charter prevents decisions from being “influenced...by the political character of the member or members concerned,” the Bank has energetically pursued better governance through its research and grant activities.²³ The Bank now has programs to promote civil society, the rule of law, anti-corruption efforts, and local government development. Pressure is growing to amend the Bank’s charter, or at least to require an explicit democracy impact statement, similar to the environmental impact statement which is now considered to be common practice.²⁴

CONCLUSION

Debates about the relationship between democracy and development have evolved considerably in the last 60 years. While the East Asian model—now exemplified by China—still continues to hold allure for some, a consensus has increasingly emerged that democratic regimes are more likely to produce the overall governance outcomes that are necessary for sustained, successful development.

The most dramatic changes in development policy have occurred in the United States, where successive administrations have taken steps to further integrate democracy into their development approach. The new Millennium Challenge Account, announced by the Bush administration last year, is the first major effort to link a country's democracy performance to allocation of significant foreign assistance resources. The year 2002 may have also signaled a more vigorous international consensus on the need to integrate democracy into development with the release of the UNDP Human Development report. While much remains uncertain, it is obvious that the poor do not have to choose between economic opportunities and democratic rights. The remaining question is how donors can most effectively help them to achieve both. ■

NOTES

- 1 Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review* (March 1959): 31.
- 2 See Larry Diamond, "Economic Development and Democracy Reconsidered," in Gary Mark, ed., *Re-examining Democracy: Essays in Honor of Seymour Martin Lipset* (Sage Publications: Thousand Oaks, California, 1992), 93-131.
- 3 See "What Makes Democracies Endure?" Adam Przeworski et al, *Journal of Democracy* 7 (1) (1996).
- 4 Freedom House analyzed GDP growth rates for all countries rated in its annual survey of political rights and civil liberties. They found that in poor countries (with per capita GDPs of less than \$5,000) the average growth rate over the last 10 years was 3.23 percent as opposed to 1.41 percent growth rates experienced by "Not Free Countries." See Freedom House, *Freedom in the World Survey 2001*, 10-11.
- 5 Morton Halperin, Joe Siegle, et al, Unpublished draft manuscript for the Council on Foreign Relations, Chapter 2, 8-9.
- 6 UNDP Human Development Report 2002, 56.
- 7 Amartya Sen, *Development as Freedom* (Random House/Anchor Books: New York, 1999), 180-186.
- 8 See in particular the work of Dani Rodrik at the World Bank.
- 9 As cited in Thomas Carothers, *Aiding Democracy Abroad: The Learning Curve* (Carnegie Endowment for International Peace: Washington, D.C., 1999), 23.
- 10 USAID, *Democracy Initiative* (1990), 2.
- 11 USAID, "Policy Paper on Democracy and Governance" (1991), 1.
- 12 USAID, *Democracy Initiative*, 5.
- 13 See World Bank, "From Crisis to Sustainable Growth: A Long Term Perspective Study," November 1989.
- 14 USAID, *Strategies for Sustainable Development* (1995), 17-18.
- 15 The White House, "Remarks by the President on Global Development at the Inter-American Development Bank," March 14, 2002, <<http://www.whitehouse.gov/news/releases/2002/03/20020314-7.html>> (accessed March 29, 2003).
- 16 A group of human rights and democracy groups recommended to the administration that beneficiary governments only be considered for the MCA if they are making substantial progress in guaranteeing, in practice and over time, the following fundamental freedoms:
 - Human Rights: Freedom of expression and the media, association, assembly, and public demonstration, freedom from torture, arbitrary arrest, and detention without trial, and the right to choose representatives through free and fair elections.
 - Adherence to the rule of law: Effective, impartial, and independent judiciary, primacy of the rule of law in civil and criminal matters, equal treatment of the population under the law, accountability of security forces to political/judicial authority, and adequate procedural due process protections
 - Rooting out corruption: Existence of laws, ethical standards, and boundaries between public and private sector activity (i.e., financial disclosure and prohibitions against conflict of interest), enforcement of anti-

corruption laws, legal, regulatory, and judicial transparency, and timely publication of information on government expenditures, rule-making, and opportunities for public participation and comment.

17 Each year Freedom House publishes an annual survey of the state of freedom around the world, in which it measures the respect for political rights and civil liberties within each country. For more details on the survey results and methodology, please see <<http://www.freedomhouse.org>>.

18 USAID, "Foreign Aid in the National Interest," January 2003, 42.

19 UNDP 2002 Human Development Report, 55.

20 Ibid., 265.

21 Ibid., 3.

22 Ibid., 52.

23 See World Bank Charter, Article IV, Section 10, <<http://www.web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS>> (accessed May 8, 2003).

24 See Halperin, Siegal, et al, Unpublished draft manuscript for the Council on Foreign Relations, Chapter 7, 11-12.