

Written Testimony

of

William Ruger

President

American Institute for Economic Research

To the Committee on Homeland Security and Governmental Affairs

United States Senate

For a Hearing Titled:

“Eliminating Waste By the Foreign Aid Bureaucracy”

February 13, 2025

10:00 a.m.

Senate Dirksen Building, SD-342

Chairman Paul, Ranking Member Peters, and members of the Committee, thank you for inviting me here today to testify about foreign aid. I am honored by the invitation.

Background

In FY2023, the United States spent approximately \$65 billion on foreign aid.¹ The U.S. Agency for International Development (USAID) accounts for nearly two-thirds of that spending with the State Department responsible for most of the rest along with a few billion dollars doled out by the Department of the Treasury and Health and Human Services. National security spending at the Pentagon and the Department of Energy, for comparison, amounts to well over \$850 billion.

Foreign aid has been pushed to the forefront of the national debate by President Trump's inauguration day Executive Order on "Reevaluating and Realigning United States Foreign Aid."² This order paused foreign assistance (with a waiver exception) and initiated program review on the basis that aid institutions and many programs are not supporting American interests. Soon thereafter, the United States DOGE Service (USDS) moved to examine and help eliminate unnecessary or wasteful USAID spending. Most USAID staff were also placed on leave and agency offices closed. On February 3rd, Secretary of State Marco Rubio was appointed acting administrator for USAID and notified Congress of his own review "with an eye towards potential reorganization."³

¹ See <https://www.wsj.com/politics/policy/how-much-the-u-s-spent-on-foreign-aid-and-where-it-went-a8c66088> and <https://crsreports.congress.gov/product/pdf/R/R48150>. The Pew Research Center places the number at about \$72 billion, but counts \$8.2 in military aid within foreign assistance reported at ForeignAssistance.gov: <https://www.pewresearch.org/short-reads/2025/02/06/what-the-data-says-about-us-foreign-aid/>.

² <https://www.whitehouse.gov/presidential-actions/2025/01/reevaluating-and-realigning-united-states-foreign-aid/>

³ <https://thehill.com/homenews/administration/5124136-rubio-notifies-congress-of-potential-usaid-reorganization/>

In response, critics have charged that these moves jeopardize humanitarian efforts across the globe and even threaten U.S. national security. Examples of the former are plentiful, from concerns about global programs that save lives from HIV/AIDS to those that help victims of violence against women in Latin America.⁴

Perhaps unexpectedly, Democratic critics have used the national security angle to push back against the Trump administration's reform efforts, with particular emphasis on the claim that they hurt our ability to confront China. For example, *Politico* reported that Representative Dana Titus (D-Nev.) warned "that cutting this foreign aid funding could weaken U.S. soft power around the world and limit the ability of the U.S. to boost democratic movements around the world."⁵

Representative Raja Krishnamoorthi (D-IL.) argued that shuttering USAID "cedes leadership to our foremost adversary—the Chinese Communist Party" and "severely kneecaps us in the pacing challenge that is China. To compete with China, we need USAID."⁶ Biden administration USAID official (and former Open Society Foundation senior policy advisor) Francisco Bencosme likewise claimed that "China is already reaching out to partners. They will fill in the void in places like Cambodia and Nepal, and those are just the places we know about."⁷

These national security arguments, though, are not compelling and do not provide a sound basis to slow down efforts to reform how we administer aid or even to cut back on foreign assistance itself.

⁴ <https://abcnews.go.com/Politics/humanitarians-warn-dire-consequences-us-foreign-aid-ends/story?id=118611697>

⁵ <https://www.politico.com/newsletters/national-security-daily/2025/02/10/as-usaid-retreats-china-pounces-00195922>

⁶ <https://www.newsweek.com/we-need-usaid-compete-china-opinion-2028966>

⁷ <https://www.newsweek.com/trump-usaid-cut-china-foreign-aid-political-influence-2028949>

Cutting Aid is Not Going to Ruin American Foreign Policy (or Why Material Power Matters Most to Winning at Great Power Competition)

One of the reasons that critics are off base with their criticism of aid cuts is that the most important determinants of American security do not include “soft power” resulting from foreign aid (even assuming that our foreign aid programs are effective at producing it). Instead, our relative material power—both our military capabilities and our economic/technological strength—and our geostrategic advantages matter most for our safety and prosperity. The results of great power competition will be decided primarily on these margins. Thus the geopolitical implications of the fight over foreign aid are fairly limited.

In terms of our material power, maintaining a large national defense capability second to none is what allows us to defend our interests and deter attacks on our territory. In particular, our ability to maintain strong air and naval power keep our enemies far from our shore, allow us to project power abroad, and provide for a secure second-strike nuclear capability. Capable land forces contribute to our defense and meet our needs should we have to fight overseas. As we deal with the rise of potential peer competitors, maintaining our edge militarily is far more important to our security than even the best aid programs. Of course, those that track with progressive political causes are going to be even less important or even negative.

Our security is also supported by our fortunate geostrategic position. We are far from our most threatening strategic adversaries, especially China, and the “stopping power of water” makes it difficult for them to project power into our hemisphere across the Atlantic and Pacific oceans.⁸ We have friendly, weak

⁸ John Mearsheimer. *The Tragedy of Great Power Politics*. (Norton: New York, 2001), 114ff.

neighbors in our sphere of influence who can be protected from adversary penetration by a strict faithfulness to the Monroe Doctrine. We also have plentiful natural resources at home and throughout the Americas.

This combination of military power and our geostrategic position allows us to enjoy some detachment from problems in the developing world—and thus further reduce the security relevance (though not necessarily the pure humanitarian rationale) of many foreign aid programs in those areas. In other words, we simply do not have as much at stake in what happens outside the three economic hubs of the world (East Asia, Europe, and the Persian Gulf) and thus should avoid thinking that it is a matter of strategic necessity to be deeply engaged everywhere. Sound geostrategic and even geoeconomic thinking requires prioritization and trade-offs. So we can't be equally concerned about Chinese aid programs in Nepal and what that means for U.S. security and prosperity (very little, actually) and Chinese political penetration of Latin America (a lot, potentially). Even in those three critical regions abroad, we should be cautious about how we engage so as not to injure ourselves through unnecessary or wasteful interventions, including using foreign assistance in a way that backfires or alienates allies and partners.

Our economic strength is also a key cause of our security. Our robust, innovative, and technologically sophisticated economy allows us to build that strong defense capability at a relatively small fraction of our \$30 trillion dollar economy. This is why Admiral Mike Mullen, when he was the chairman of the Joint Chiefs of Staff, argued that our debt is our greatest national security challenge.⁹ Our economy is the golden goose as long as we don't undermine it through wasteful and excessive spending (and the debt and deficits that result), poor tax and monetary policy,

⁹ <https://www.politico.com/story/2012/12/mike-mullen-focuses-on-debt-as-security-threat-084648>

constraining overregulation, or cultural decay. So while foreign aid is a small percentage of the national budget, it should still be scrutinized for waste and effectiveness. And even when it comes to soft power, the private sector of our economy is more likely to produce it abroad than government aid programs. Think McDonald's, Apple, and the NBA rather than government grants to advance DEI in Serbian workplaces.¹⁰ Plus access to our domestic market is a more powerful attractor to other countries than assistance—and states will be wary to risk that should they side with our adversaries. What most states want is more American commercial engagement rather than aid, especially if that aid promotes progressive causes that are unpopular with the target government and/or their people.

So it is hard to make the case that \$65 billion in foreign assistance is all that critical to our security when stacked up against our military and economic power. If it were so important, why is it hardly mentioned in most treatments of grand strategy or competing approaches to U.S. foreign policy? It is not even entirely clear that soft power as a whole has more than a limited impact on the perceptions of other societies and the behavior of other states, especially when our interests collide.

Indeed, there is some evidence that foreign aid can have a negative impact on target societies and even on our soft power. According to research by Efe Tokdemir at The Ohio State University, “US foreign aid may actually feed anti-Americanism: aid indirectly creates winners and losers in the recipient countries, such that politically discontented people may blame the US for the survival of the prevailing regime.”¹¹ Similarly, as highlighted recently by Ian Vasquez of the Cato Institute:

¹⁰ See Glenn Kessler, “The White House’s Wildly Inaccurate Claims About USAID Spending,” *Washington Post* (February 7, 2025).

¹¹ Efe Tokdemir, “Winning Hearts and Minds (!): The Dilemma of Foreign Aid in Anti-Americanism.” *Journal of Peace Research*, 54:6 (2017): 819-832.

A 2007 World Bank study that looked at 108 countries that received aid between 1960 and 1999 concluded that ‘foreign aid has a negative impact’ on political institutions and democratization. Aid windfalls—which often make up a large part of recipient governments’ budgets—weakened checks and balances and other democratic practices as countries became dependent on foreign aid.¹²

Moreover, there are numerous studies that show the ineffectiveness of foreign assistance to even economic development. As Tokdemir notes in his survey of the literature:

Easterly & Pfutze (2008) and Chong, Gradstein & Calderon (2009) show that aid provided to authoritarian, corrupt structures is not very effective in reducing poverty and income inequality. Moreover, foreign aid fails to improve indicators of human development (Boone, 1996), has a negative influence on governance (Busse & Groning, 2009) and does little or nothing to promote the democratization of the recipient country (Knack, 2004). Foreign aid may even exacerbate political repression in recipient countries (Ahmed, 2016; Fielding & Shortland, 2012; Wood 2003). Thus, aid does not necessarily serve the people’s interest in the recipient countries, as it may fail to generate improvements in social, political, and economic conditions. It can be expected, therefore, that aid may fail to function as a soft power tool in generating negative attitudes toward the USA in such contexts.¹³

Aid spending also does not necessarily work to keep states on our side in today’s Great Power Competition. As the *Wall Street Journal* noted, “USAID and the State

¹² <https://www.cato.org/commentary/usaid-failed-because-foreign-aid-doesnt-work>

¹³ Tokdemir.

Department spent tens of millions of dollars in recent years training local militaries and supporting good governance in Niger, Mali, and Burkino Faso—three countries in Africa’s Sahel region where coups ousted elected leaders and the new ruling juntas kicked out U.S. troops to force closer ties with Russia.”¹⁴ U.S. aid didn’t stop these poor African countries from expelling our forces, though it isn’t clear it made much sense for U.S. troops to be there anyway.

Finally, if part of the value of foreign aid is its ability to attract countries to our cause and help them choose our side when it comes to hard decisions, then one thing we need to avoid doing is alienating them because an aid agency is trying to be a wedge for progressive social policy efforts that aren’t necessarily popular abroad with the target governments and their populations (see the case of Hungary) and even contestable here at home. Some of these aid programs are used to meddle in the internal affairs of other countries, not necessarily in ways that promote our most important priorities and often foster resentment.

Vacuum Theory Is Problematic: China Won’t Eat our Lunch

As noted above, critics of aid cuts claim that such a policy will create a vacuum that the Chinese will happily fill, thus eating our lunch abroad in the current Great Power Competition. The problem with this argument is: (1) it isn’t clear that even were adversaries like China to fill vacuums created by cutting aid that this would necessarily hurt us; and (2) it isn’t clear that the Chinese experience with aid will be any better than ours at creating soft power that they can meaningfully exploit to their advantage. Indeed, there is evidence that Chinese aid efforts can backfire.

¹⁴ <https://www.wsj.com/politics/policy/how-much-the-u-s-spent-on-foreign-aid-and-where-it-went-a8c66088>

On the first point, much can be learned from similar discussions around military withdrawals that also apply to aid in developing countries. As security analyst Benjamin H. Friedman has noted, “the places where vacuums are feared tend to be poor regions with little strategic security value to either the United States or its rivals.”¹⁵ Therefore, aid to most of these countries is better thought of as charity than having critical strategic value. Cutting it wouldn’t incur meaningful strategic costs even if a competitor jumped into the breach. There would be little strategic margin for us and likely little for adversaries as well. Moreover, economic assistance from others that brought more natural resources to market isn’t necessarily bad for the U.S. or the rest of the world given the impact on global prices. Not everything our adversaries do in the world is necessarily zero sum (as is the case with global counterpiracy efforts). In fact, we’d benefit in some cases without having to pay the costs. Of course, aid critics aren’t arguing that we shouldn’t support programs that make strategic sense in particular instances and can pass a cost-benefit test. But we should avoid falling prey to the type of thinking that has ensnared us in the past in peripheral areas with little to show for it.

On the second point, we should not be so confident that China’s communist rulers have the secret sauce for making aid programs work for them better than ours have worked for us. As noted above, foreign assistance is rife with problems and failures that seem endemic to government-led economic initiatives. It can create corruption, breed anger, stymie development of robust markets, and fail to deliver the hoped for goods. Why would we think the Chinese can do significantly better, especially given the failures of their own system at home? Indeed, even critics of rethinking our aid acknowledge the problems China’s initiatives face: “USAID is

¹⁵ <https://defense360.csis.org/bad-idea-fearing-power-vacuums/>

our ground game against the expansive Belt and Road Initiative—Beijing’s global infrastructure campaign that often leaves countries in debt with low-quality results.”¹⁶ If that is true, then states will naturally avoid such things, as they might be fooled once or twice but not forever. We’ve already seen this happening. Nadia Clark at the Council on Foreign Relations noted that:

In recent years, there have been an increasing number of reports from BRI partner countries about construction flaws in major infrastructure projects, project cancelations initiated by BRI partner countries due to concerns over corruption and debt, project cancelations initiated by Chinese companies due to financial problems, and projects that have led to nowhere (in some cases, literally—such as a BRI-funded railway that ends in the middle of a field in Kenya).¹⁷

It would behoove us to publicize these Chinese failures with aid rather than aim to mirror Beijing’s approach and make our own mistakes with aid.

Given what has been noted about soft power and the vacuum theory, we should be more honest and think of foreign aid as simply charity that supports humanitarian ends rather than key contributors to our geopolitics or geoeconomics efforts. Of course, even in that case, aid programs should meet some appropriate standard of cost-benefit analysis and be aimed at meeting needs that few would argue with (preventing starvation) rather than contentious political causes domestically (advancing DEI abroad).¹⁸

¹⁶ <https://www.politico.com/f/?id=00000194-efe9-d1d6-a9dc-ffebf85e0000>

¹⁷ <https://www.cfr.org/blog/rise-and-fall-bri>

¹⁸ Of course, it is perfectly legitimate to question whether or to what extent government should be in the foreign charity business when it is largely disconnected from national security concerns.

Moreover, one does not have to claim that foreign assistance programs never support our strategic ends. In some cases, an argument could be made to continue the programs—something acknowledged by Secretary Rubio by the existence of the waiver process that was used to justify continued funding for a law enforcement program in Guatemala that was tied to stopping fentanyl from reaching the U.S.¹⁹

But this still begs the question of whether our aid, charity or otherwise, is best handled by the current institutional aid architecture or can be best handled (and coordinated with our foreign policy more generally) inside the State Department. Given the potential for USAID and the State Department to pursue different and potentially contradictory goals, it makes sense to bring aid under one roof where it can more easily be used in support of the Secretary's overarching effort to advance our foreign policy.

Critics Claim Too Much about What the Administration Is Doing

Even if we assume that soft power is vitally important and that cutting assistance abroad would hurt our ability to deal effectively with the rise of China, the fact is that the Trump administration isn't proposing cutting all assistance. Secretary Rubio directly stated this in a February 10th interview with Scott Jennings on SiriusXM Patriot: "We're not walking away from foreign aid. We will be involved in foreign aid."²⁰ Instead, the administration is making a more careful distinction between aid that can be reasonably argued to advance American interests and aid that can't pass a basic smell test. Again, as Secretary Rubio noted:

¹⁹ <https://www.state.gov/secretary-of-state-marco-rubio-with-scott-jennings-on-siriusxm-patriot/>

²⁰ <https://www.state.gov/secretary-of-state-marco-rubio-with-scott-jennings-on-siriusxm-patriot/>

The goal is very simple: Go through all of our foreign aid—a lot of it is through USAID, some of it is through State Department; identify the foreign aid that makes sense, the foreign aid that actually supports our country and that supports our national interests, and continue to do that; and then get rid of the ones that are a waste of money, or in some cases or run counter to our foreign—to our national interest and to our interests around the world. And that’s what we’re going through right now.²¹

On the issue of coordination, Secretary Rubio also argued recently about USAID that:

“There are things that it does that are good and there are things that it does that we have strong questions about. It’s about the way it operates as an entity. And they are supposed to take direction from the State Department, policy direction. They do not.”²²

In other words, aid that can be reasonably tied to our national interests and that supports the administration’s policy direction to secure them can be continued. However, aid that fails this test is wasteful at best and counterproductive at worst.

Conclusion

If we are going to change our foreign policy to one that prioritizes American national interests and respects hard working taxpayers, then fixing our foreign assistance program is imperative. Too much spending is disconnected from making us stronger, more secure, and more prosperous—to use Secretary Rubio’s three-part test from his confirmation hearings. Too often it is in the service of

²¹ <https://www.state.gov/secretary-of-state-marco-rubio-with-scott-jennings-on-siriusxm-patriot/>

²² <https://thehill.com/homenews/administration/5124136-rubio-notifies-congress-of-potential-usaid-reorganization/>

questionable social and political goals that many Americans find dubious. Foreign aid is not going to be the margin that wins or loses in today's Great Power Competition. We would be wise to get our own economic and budgetary house in order by looking carefully at programs that are wasteful, inconsistent with the administration's policy preferences, can't deliver for our security or prosperity, or are so indirectly connected to legitimate goals as to be based more on an article of faith than sound analysis. I commend any efforts to scrutinize aid and provide accountability so programs deliver for the American people.