

105TH CONGRESS
2D SESSION

H. R. 3256

To establish an index of economic freedom to evaluate on an annual basis the level of economic freedom of countries receiving United States development assistance and to provide for a phase-out of that assistance based on the index, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 24, 1998

Mr. SOLOMON introduced the following bill; which was referred to the Committee on International Relations, and in addition to the Committee on Banking and Financial Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To establish an index of economic freedom to evaluate on an annual basis the level of economic freedom of countries receiving United States development assistance and to provide for a phase-out of that assistance based on the index, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “International Respon-
5 sibility and Self-Sufficiency Act of 1998”.

1 **SEC. 2. FINDINGS.**

2 The Congress finds the following:

3 (1) Economic freedom plays the single greatest
4 role in the ability of a country to develop sustainable
5 levels of economic growth.

6 (2) Poverty is largely a condition imposed on
7 people by ill-conceived and repressive economic poli-
8 cies. Other factors such as history, culture, war, and
9 climate influence a country's development, but no
10 such factor is as important as economic freedom. No
11 amount of foreign aid can make up for the condi-
12 tions that result from economically unfree econo-
13 mies.

14 (3) Governments have placed various con-
15 straints on economic activity throughout history, and
16 some governments have placed greater constraints
17 on economic activity than others. Generally, these
18 constraints can be measured. Since economic free-
19 dom is the degree to which individuals are free to
20 produce, distribute, and consume goods and services,
21 one method by which economic freedom can be
22 measured is to study the number of constraints a
23 government imposes on production, distribution, and
24 consumption. Government policies and conditions
25 that either maximize personal economic choices or

1 restrict personal economic choices can be objectively
2 examined.

3 (4) United States foreign assistance has failed
4 to help other countries grow economically. 67 coun-
5 tries have received foreign assistance from the
6 United States for more than 35 years. Of these 67
7 countries, 37 countries have economies that grew by
8 less than 1 percent per year since receiving such for-
9 eign assistance. These countries are no better off
10 economically than before receiving such foreign as-
11 sistance.

12 (5) Of these 37 countries, 19 countries actually
13 are poorer than they were before receiving United
14 States foreign assistance.

15 (6) Assistance from multilateral institutions
16 such as the World Bank and the International Mon-
17 etary Fund have been equally ineffective at promot-
18 ing sustainable levels of economic growth.

19 (7) Of the 66 less developed countries receiving
20 loans from the World Bank for more than 25 years
21 (most for more than 30 years), 37 are no better off
22 today than they were before they received such
23 loans.

1 (8) Of these 37 countries, a majority (20 in all)
2 actually are poorer today than they were before re-
3 ceiving assistance from the World Bank.

4 (9) Of the 89 less developed countries that re-
5 ceived loans from the International Monetary Fund
6 between 1965 and 1995, 48 are no better off eco-
7 nomically today than they were before receiving such
8 loans. Of these 48 countries, 32 are poorer than
9 they were before receiving such loans, and, of these
10 32 countries, 14 have economies that are at least 15
11 percent poorer than when they received their first
12 such loans.

13 (10) United States foreign assistance fails to
14 support the foreign policy interests of the United
15 States. 68 percent of United States foreign assist-
16 ance recipients voted against the United States in
17 the United Nations on United States-supported for-
18 eign policy goals a majority of the time in the 1996
19 session of the United Nations, an increase from 64
20 percent of United States foreign assistance recipi-
21 ents in the 1995 session. Thus, two out of every
22 three United States foreign assistance recipients
23 voted against the United States most of the time in
24 the United Nations.

1 (11) Of the ten largest United States foreign
2 assistance recipients, six voted against the United
3 States more than half the time in the United Na-
4 tions. The United States will give approximately
5 \$323,000,000 in foreign assistance in 1997 to such
6 ten largest United States foreign assistance recipi-
7 ents.

8 (12) United States foreign assistance fails to
9 support United States commercial interests abroad.
10 United States foreign assistance recipients enforce
11 the highest barriers to trade in the world. The aver-
12 age tariff rate for all recipients of United States for-
13 eign assistance is more than five times higher than
14 the average tariff rate of Japan—a non-recipient of
15 United States foreign assistance. Bangladesh, for ex-
16 ample, received almost \$70,000,000 in foreign as-
17 sistance for fiscal year 1997, but it has an average
18 tariff rate of 50 percent. Angola, which received
19 more than \$47,000,000 in United States foreign as-
20 sistance in fiscal year 1997, has an average tariff
21 rate of 30 percent.

22 (13) The average tariff rate for all United
23 States foreign assistance recipients is approximately
24 17 percent. By comparison, the European Union has
25 an external tariff of 3.6 percent, Japan has an aver-

1 age tariff of less than 2 percent, and Hong Kong
2 has an average tariff rate of 0.1 percent.

3 (14) On average, countries receiving higher lev-
4 els of United States foreign assistance do not import
5 more in United States exports of goods and services
6 and do not have lower average tariff rates than
7 countries receiving lower levels of United States for-
8 eign assistance.

9 **SEC. 3. ESTABLISHMENT OF ANNUAL INDEX OF ECONOMIC**
10 **FREEDOM.**

11 (a) IN GENERAL.—The Secretary of State shall es-
12 tablish an index of economic freedom for the purpose of
13 evaluating on an annual basis the level of economic free-
14 dom of countries receiving United States development as-
15 sistance.

16 (b) OVERALL ECONOMIC FACTORS.—In establishing
17 the index under subsection (a), the Secretary shall, on an
18 annual basis, review the laws, policies, and practices of
19 each country receiving development assistance that most
20 contribute to or detract from the achievement of economic
21 freedom in the country. In reviewing such laws, policies,
22 and practices, the Secretary shall use, among other
23 sources, the annual Country Reports on Economic Policy
24 of the Department of State and the Country Commercial
25 Guides of the Department of Commerce. The index shall

1 review the following factors with respect to the country
2 before assigning a specific numerical rating of between one
3 (for the highest level of economic freedom) to five (for the
4 lowest):

5 (1) TRADE POLICY.—Trade policy, including
6 the following:

7 (A) The average tariff rates of the country.

8 (B) The extent to which the country has
9 established any significant non-tariff barriers.

10 (C) The extent to which corruption exists
11 within the customs service of the country.

12 (2) TAXATION POLICY.—Taxation policy, in-
13 cluding the following:

14 (A) The level of the highest income tax
15 rate.

16 (B) The level of the tax rate that is ap-
17 plied to the average income of individuals in the
18 country.

19 (C) The level of the highest corporate tax
20 rate.

21 (D) The extent to which other taxes exist
22 in the country.

23 (3) GOVERNMENT INTERVENTION IN THE
24 ECONOMY.—Government intervention in the econ-
25 omy, including the following:

1 (A) The level of government consumption
2 as compared to the total level of consumption in
3 the economy.

4 (B) The extent to which the government
5 owns or otherwise controls businesses or indus-
6 tries.

7 (C) The level of output of the economy
8 that is attributable to the government.

9 (4) MONETARY POLICY.—Monetary policy, in-
10 cluding the average rate of inflation for the most re-
11 cent 10-year or other relevant period, as appro-
12 priate.

13 (5) CAPITAL FLOWS AND FOREIGN INVEST-
14 MENT.—Capital flows and foreign investment, in-
15 cluding the following:

16 (A) The extent to which the country has
17 established a foreign investment code.

18 (B) The extent to which the country allows
19 for 100 percent ownership by foreign investors
20 in domestic businesses.

21 (C) The extent to which foreign investors
22 are restricted from investing in certain busi-
23 nesses or industries.

1 (D) The extent to which foreign investors
2 are subject to certain performance require-
3 ments.

4 (E) The extent to which foreign individuals
5 can own land.

6 (F) The extent to which foreign businesses
7 and domestic businesses are treated equally
8 under the law.

9 (G) The extent to which the country allows
10 foreign businesses to repatriate their earnings.

11 (H) The extent to which foreign businesses
12 are allowed to receive local financing.

13 (6) BANKING POLICY.—Banking policy, includ-
14 ing the following:

15 (A) The number of banks that the govern-
16 ment owns.

17 (B) The extent to which foreign banks can
18 open branches and subsidiaries in the country.

19 (C) The extent to which the government
20 influences the allocation of credit.

21 (D) The extent to which banks are allowed
22 to operate without undue government regula-
23 tion, including regulation relating to—

24 (i) deposit insurance; and

1 (ii) the offering of various types of fi-
2 nancial services, including buying and sell-
3 ing real estate, securities, and insurance
4 policies.

5 (7) WAGE AND PRICE CONTROL POLICY.—Wage
6 and price control policy, including the following:

7 (A) The minimum wage established by the
8 government.

9 (B) The extent to which businesses are al-
10 lowed to establish their own prices without in-
11 fluence from the government.

12 (C) The extent to which the government
13 establishes prices for certain products.

14 (D) The extent to which the government
15 provides subsidies to businesses to affect prices.

16 (8) PROPERTY RIGHTS AND THE RULE OF
17 LAW.—Property rights and the rule of law, including
18 the following:

19 (A) The extent to which the legal system
20 is free from undue government influence.

21 (B) The establishment of a commercial
22 code that defines contracts.

23 (C) The extent to which the country allows
24 foreign arbitration of contract disputes.

1 (D) The extent to which the government
2 can expropriate property.

3 (E) The extent to which corruption exists
4 within the judiciary.

5 (F) The extent of major delays in receiving
6 judicial decisions.

7 (G) The extent to which property rights
8 are granted and protected by legal means.

9 (9) REGULATION POLICY.—Regulation policy,
10 including the following:

11 (A) A license requirement to operate a
12 business, including the degree of difficulty in
13 obtaining such a license.

14 (B) The extent to which corruption exists
15 within the government.

16 (C) The level of government regulation of
17 businesses, including—

18 (i) regulation of activities such as the
19 work week, paid vacations, and maternity
20 leave; and

21 (ii) regulation of environmental, con-
22 sumer safety, and worker health issues.

23 (D) The extent to which such government
24 regulations impose a burden on businesses.

1 (10) THE STATE OF THE BLACK MARKET.—The
2 state of the black market, including the following:

3 (A) The extent to which the following is
4 supplied on the black market:

5 (i) Labor.

6 (ii) Transportation.

7 (iii) Agricultural production.

8 (iv) Manufacturing.

9 (v) Services.

10 (B) The level of piracy of intellectual prop-
11 erty on the black market.

12 (C) The level of smuggling in the country.

13 (c) RANKING OF COUNTRIES BY CATEGORY.—

14 (1) DETERMINATION OF AVERAGE SCORE.—

15 After assigning a specific numerical rating for each
16 of the 10 factors under subsection (b) with respect
17 to a country for a fiscal year, the Secretary shall de-
18 termine an average score for the country.

19 (2) CATEGORIZATION OF COUNTRY.—After de-
20 termining the average score for a country for a fiscal
21 year, the Secretary shall, based upon such average
22 score, categorize the country into one of four cat-
23 egories in accordance with the following:

24 (A) A country with an average score of 1
25 to 1.99 shall be categorized as “free”.

1 (B) A country with an average score of 2
2 to 2.99 shall be categorized as “mostly free”.

3 (C) A country with an average score of 3
4 to 3.99 shall be categorized as “mostly unfree”.

5 (D) A country with an average score of 4
6 to 5 shall be categorized as “repressed”.

7 **SEC. 4. PHASE-OUT OF DEVELOPMENT ASSISTANCE BASED**
8 **ON ANNUAL INDEX OF ECONOMIC FREEDOM.**

9 (a) ANNUAL RANKING BY CATEGORY OF RECIPIENT
10 COUNTRIES.—In conjunction with the submission of the
11 annual requests for enactment of authorizations and ap-
12 propriations for foreign assistance programs for each fis-
13 cal year, the President shall submit to the Congress a
14 ranking by category of each country for which develop-
15 ment assistance is requested for the fiscal year based upon
16 the index of economic freedom established under section
17 3.

18 (b) ASSISTANCE FOR FREE COUNTRIES.— In the
19 case of a country determined to be a free country under
20 section 3 with respect to assistance provided for fiscal year
21 2000—

22 (1) development assistance may be provided for
23 such country for such fiscal year; and

24 (2) development assistance may not be provided
25 for such country for any subsequent fiscal year.

1 (c) ASSISTANCE FOR MOSTLY FREE COUNTRIES.—

2 (1) FISCAL YEAR 2000.—Development assist-
3 ance may be provided for fiscal year 2000 for a
4 country determined to be a mostly free country
5 under section 3 with respect to assistance provided
6 for such fiscal year.

7 (2) SUBSEQUENT FISCAL YEARS.—

8 (A) NO CHANGE IN RANKING; CHANGE TO
9 FREE OR MOSTLY UNFREE COUNTRY.—If a
10 mostly free country described in paragraph (1)
11 continues to be ranked as a mostly free country
12 under section 3 with respect to assistance pro-
13 vided for fiscal years 2001 and 2002, or if such
14 country is determined to be either a free coun-
15 try or a mostly unfree country under section 3
16 with respect to assistance provided for fiscal
17 years 2001 or 2002, then—

18 (i) development assistance may be
19 provided for such country for such fiscal
20 years; and

21 (ii) development assistance may not
22 be provided for such country for any sub-
23 sequent fiscal year.

24 (B) CHANGE TO REPRESSED COUNTRY.—If
25 a mostly free country described in paragraph

1 (1) is determined to be a repressed country
2 under section 3 with respect to assistance pro-
3 vided for either fiscal year 2001 or 2002, then
4 development assistance may not be provided for
5 such country for such fiscal year and any sub-
6 sequent fiscal year.

7 (d) ASSISTANCE FOR MOSTLY UNFREE COUN-
8 TRIES.—

9 (1) FISCAL YEAR 2000.—Development assist-
10 ance may be provided for fiscal year 2000 for a
11 country determined to be a mostly unfree country
12 under section 3 with respect to assistance provided
13 for such fiscal year.

14 (2) SUBSEQUENT FISCAL YEARS.—

15 (A) NO CHANGE IN RANKING; CHANGE TO
16 FREE OR MOSTLY FREE COUNTRY.—If a mostly
17 unfree country described in paragraph (1) con-
18 tinues to be ranked as a mostly unfree country
19 under section 3 with respect to assistance pro-
20 vided for fiscal years 2001 through 2004, or if
21 such country is determined to be either a free
22 country or a mostly free country under section
23 3 with respect to assistance provided for fiscal
24 years 2001 through 2004, then—

1 (i) development assistance may be
2 provided for such country for such fiscal
3 years; and

4 (ii) development assistance may not
5 be provided for such country for any sub-
6 sequent fiscal year.

7 (B) CHANGE TO REPRESSED COUNTRY.—If
8 a mostly unfree country described in paragraph
9 (1) is determined to be a repressed country
10 under section 3 with respect to assistance pro-
11 vided for any of the fiscal years 2001 through
12 2004, then development assistance may not be
13 provided for such country for such fiscal year
14 and any subsequent fiscal year.

15 (e) ASSISTANCE FOR REPRESSED COUNTRIES.—

16 (1) FISCAL YEAR 2000.—Development assist-
17 ance may be provided for fiscal year 2000 for a
18 country determined to be a repressed country under
19 section 3 with respect to assistance provided for
20 such fiscal year.

21 (2) SUBSEQUENT FISCAL YEARS.—

22 (A) NO CHANGE IN RANKING.—If a re-
23 pressed country described in paragraph (1) con-
24 tinues to be ranked as a repressed country
25 under section 3 with respect to assistance pro-

1 vided for each of the fiscal years 2001 through
2 2004, then development assistance may not be
3 provided for such country for such fiscal years
4 and any subsequent fiscal year.

5 (B) CHANGE TO FREE COUNTRY.—If a re-
6 pressed country described in paragraph (1) is
7 determined, subsequent to a revolution, coup, or
8 other major political change, to be a free coun-
9 try under section 3 with respect to assistance
10 provided for any of the fiscal years 2001
11 through 2004, then development assistance may
12 not be provided for such country for such fiscal
13 year and any subsequent fiscal year.

14 (C) CHANGE TO MOSTLY FREE COUN-
15 TRY.—If a repressed country described in para-
16 graph (1) is determined, subsequent to a revo-
17 lution, coup, or other major political change, to
18 be a mostly free country under section 3 with
19 respect to assistance provided for any of the fis-
20 cal years 2001 through 2004, then—

21 (i) development assistance may be
22 provided for such country for such fiscal
23 year and, if such country continues to be
24 a mostly free country, for the succeeding
25 fiscal year; and

1 (ii) development assistance may not
2 be provided for such country for any sub-
3 sequent fiscal year.

4 (D) CHANGE TO MOSTLY UNFREE COUN-
5 TRY.—If a repressed country described in para-
6 graph (1) is determined, subsequent to a revo-
7 lution, coup, or other major political change, to
8 be a mostly unfree country under section 3 with
9 respect to assistance provided for any of the fis-
10 cal years 2001 through 2004, then—

11 (i) development assistance may be
12 provided for such country for such fiscal
13 year and, if such country continues to be
14 a mostly unfree country, for each of the
15 succeeding 3 fiscal years; and

16 (ii) development assistance may not
17 be provided for such country for any sub-
18 sequent fiscal year.

19 (f) ASSISTANCE FOR NEW OR SUCCESSOR COUN-
20 TRIES.—If a new or successor country comes into exist-
21 ence at any time from fiscal year 2000 through fiscal year
22 2003, then development assistance shall be provided for
23 such country in accordance with this section, except that
24 any reference in this section to fiscal year 2000 and to
25 any subsequent fiscal year shall be deemed to refer to the

1 first fiscal year for which assistance is to be provided for
2 such country and to the corresponding fiscal year that
3 comes after such first fiscal year, respectively.

4 **SEC. 5. OPPOSITION TO ASSISTANCE BY INTERNATIONAL**
5 **FINANCIAL INSTITUTIONS TO COUNTRIES IN-**
6 **ELIGIBLE TO RECEIVE UNITED STATES DE-**
7 **VELOPMENT ASSISTANCE.**

8 (a) POSITION OF UNITED STATES IN INTER-
9 NATIONAL FINANCIAL INSTITUTIONS REGARDING ASSIST-
10 ANCE TO COUNTRIES INELIGIBLE TO RECEIVE UNITED
11 STATES DEVELOPMENT ASSISTANCE.—

12 (1) IN GENERAL.—Except as provided in para-
13 graph (2), the Secretary of the Treasury shall in-
14 struct the United States Executive Director of each
15 international financial institution (as defined in sec-
16 tion 1701(c)(2) of the International Financial Insti-
17 tutions Act) to use the voice and vote of the United
18 States to oppose the provision of any assistance, di-
19 rectly or indirectly, by the institution to the govern-
20 ment of any country with respect to which develop-
21 ment assistance may not be provided (as determined
22 under section 4), any citizen or national of such
23 country in such country, or any entity established in
24 such country.

1 (2) EXCEPTION.—The requirement to oppose
2 the provision of assistance, directly or indirectly, by
3 an international financial institution to a country
4 under paragraph (1) shall not apply with respect to
5 the provision of disaster assistance for such country.

6 (b) LIMITATION ON PROVISION OF FEDERAL FUNDS
7 TO INTERNATIONAL FINANCIAL INSTITUTIONS THAT PRO-
8 VIDE ASSISTANCE TO COUNTRIES INELIGIBLE TO RE-
9 CEIVE UNITED STATES DEVELOPMENT ASSISTANCE.—If
10 an international financial institution (as defined in section
11 1701(c)(2) of the International Financial Institutions Act)
12 provides assistance, directly or indirectly, to the govern-
13 ment of any country with respect to which development
14 assistance may not be provided (as determined under sec-
15 tion 4), any citizen or national of such country in such
16 country, or any entity established in such country, then
17 the United States shall withhold from payment to the in-
18 stitution, from amounts that would otherwise be paid by
19 the United States to the institution, the amount that the
20 Secretary of the Treasury determines was the United
21 States portion of the amount necessary to support the
22 loans provided to such country by the institution during
23 the preceding fiscal year of the institution.

24 (c) SENSE OF THE CONGRESS RELATING TO ADOP-
25 TION AND IMPLEMENTATION OF INDEX OF ECONOMIC

1 FREEDOM BY INTERNATIONAL FINANCIAL INSTITU-
2 TIONS.—It is the sense of the Congress that each inter-
3 national financial institution (as defined in section
4 1701(c)(2) of the International Financial Institutions
5 Act)—

6 (1) should establish an index of economic free-
7 dom similar to the index of economic freedom estab-
8 lished under section 3; and

9 (2) should implement a phase-out of assistance
10 based on such index similar to the requirements to
11 phase out United States development assistance
12 under section 4.

13 **SEC. 6. WITHDRAWAL OF THE UNITED STATES FROM THE**
14 **INTERNATIONAL FINANCIAL INSTITUTIONS.**

15 As soon as possible after development assistance may
16 not be provided for any subsequent fiscal year to each
17 country to which an international financial institution (as
18 defined in section 1701(c)(2) of the International Finan-
19 cial Institutions Act) may provide assistance, the Sec-
20 retary of the Treasury shall withdraw the United States
21 from the institution, and shall seek to negotiate an agree-
22 ment on the method of settling accounts with the institu-
23 tion.

24 **SEC. 7. DEFINITIONS.**

25 As used in this Act:

1 (1) DEVELOPMENT ASSISTANCE.—The term
2 “development assistance” means—

3 (A) assistance under the Agricultural
4 Trade Development and Assistance Act of 1954
5 (7 U.S.C. 1691 et seq.);

6 (B) assistance under section 401 of the
7 Foreign Assistance Act of 1969 (22 U.S.C.
8 290f);

9 (C) assistance under the African Develop-
10 ment Foundation Act (22 U.S.C. 290h et seq.);

11 (D) assistance under chapter 1 of part I of
12 the Foreign Assistance Act of 1961 (22 U.S.C.
13 2151 et seq.), including population planning as-
14 sistance, environmental assistance, and eco-
15 nomic growth assistance, except for child sur-
16 vival assistance under section 104 of such Act;

17 (E) micro- and small enterprise develop-
18 ment credits and microenterprise development
19 grant assistance;

20 (F) assistance from private sector enter-
21 prise funds;

22 (G) assistance under the Urban and Envi-
23 ronmental Credit Program;

24 (H) assistance under chapter 10 of part I
25 of the Foreign Assistance Act of 1961 (22

1 U.S.C. 2293 et seq.; relating to the Develop-
2 ment Fund for Africa);

3 (I) assistance under chapter 11 of part I
4 of such Act (22 U.S.C. 2295 et seq.; relating to
5 assistance for the independent states of the
6 former Soviet Union), except for democracy
7 building assistance;

8 (J) assistance under the Support for East
9 European Democracy (SEED) Act of 1989 (22
10 U.S.C. 5401 et seq.), except for democracy
11 building assistance;

12 (K) assistance under the Freedom for Rus-
13 sia and Emerging Eurasian Democracies and
14 Open Markets Support Act of 1992 (22 U.S.C.
15 5801 et seq.), except for democracy building as-
16 sistance; and

17 (L) assistance under any successor pro-
18 gram to a program described in subparagraphs
19 (A) through (K).

20 (2) NEW OR SUCCESSOR COUNTRY.—The term
21 “new or successor country” means a country that—

22 (A) becomes independent of another coun-
23 try of which it had formed a part; or

24 (B) arises because of the dismemberment
25 of the country of which it had been a part.

- 1 (3) SECRETARY.—The term “Secretary” means
2 the Secretary of State.

