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The Case Against Foreign Aid

by Professor Peter Thomas Bauer, London *

In the words of the author: "The arguments of this article go counter to widely held notions. If they are shown to be wrong they will have to be reconsidered, but their unfashionable nature alone is no ground for doing so." We believe that this article could be the beginning of a discussion on development policy.

Foreign aid, that is government to government grants and heavily subsidised loans from relatively rich to relatively poor countries, has come to be virtually sacrosanct in public discussion in Western Europe and in England. It is practically the only type of government expenditure which goes unquestioned, except for the criticism that the expenditure is not large enough. For instance, in England spending on defence, universities, school milk or the Monarchy may be questioned, but not foreign aid.

As the case for aid is usually taken as self-evident or axiomatic, its advocates usually do not find it necessary to put forward arguments in its support. When such arguments are advanced the most familiar is that it is necessary for the development of poor countries. For instance, Mr Richard Wood, the British Minister for Overseas Development, stated categorically in Parliament that official aid was indispensable for the development of the recipients.

World – A Closed System

Foreign aid (official aid) is obviously not a necessary condition of the emergence from poverty. All developed countries began as poor, and have advanced without gifts from abroad. Some aid advocates imply that God has made the world in two parts, one in developed form with a more or less ready-made infrastructure of roads, railways and the like, but somehow forgot similarly to endow the poor countries. This, however, is not how things have happened. Indeed, as the world is a closed system in the sense that it has not received resources from outside and yet has somehow emerged from backwardness, the suggestion that aid is indispensable for progress is inconsistent with the phenomenon of development

as such. Throughout the world countless persons and groups have emerged from poverty to prosperity without alms from somewhere else.

The allegation that the less developed countries (LDCs) cannot progress without aid offensively patronises their peoples by implying that they desperately want development, but cannot achieve it without hand-outs, that is alms, from us. In fact, very many poor countries have progressed rapidly over the last hundred years or so without foreign aid. Familiar examples include Japan, Hong Kong, Thailand, Malaysia, large parts of East and West Africa, Mexico and other Latin American countries.

There is an inescapable dilemma in the argument that aid is necessary for development. If the required personal and social determinants of development are present, capital will be generated locally or supplied commercially from abroad to the government or to business. Where the basic determinants are favourable, there will be progress without aid. If, on the other hand, the required conditions are not present it will be ineffective and thus useless. Aid is therefore neither a necessary nor a sufficient condition of development, which depends on personal and social factors and not on hand-outs.

Repercussions of Aid

The foregoing argument still leaves open the question whether aid is more likely to promote or to retard progress. Because it is an inflow of resources it is often taken for granted that even if aid is neither necessary nor sufficient for development it must at least promote it and cannot retard it. But this is not so. Aid is not like manna from heaven which simply descends on the recipients. It sets up all kinds of repercussions which can far outweigh any favourable effect of

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the inflow of resources. Here is a list of some of these repercussions:

☐ Aid reinforces the disastrous tendency to make everything a matter of politics in LDCs. The hand-outs increase the resources and power of governments in relation to the rest of society, and this is reinforced by the preferential treatment of governments which try to establish state-controlled economies. Politicisation of life diverts energy and ambition from economic activity. Moreover, it provokes and exacerbates political tension, because the question of who has the government becomes supremely important, often a matter of life and death — as is clear from the recent history of Indonesia, Pakistan, East Africa and Nigeria.

☐ Aid often supports damaging policies. Many recipient governments restrict the activities of minorities; Chinese in Indonesia, Asians in East and Central Africa, Indians in Burma, Europeans everywhere. The removal of thousands of Asians from East Africa has reduced incomes and widened income differences between these countries and the West. These measures are often followed by the expulsion or even destruction of thousands of people.

☐ Aid encourages the paradoxical policy of virtually all aid recipients of restricting the inflow and deployment of private capital. The Indian government, an aid recipient for many years, sets up expensive oil refineries, although the oil companies there have unused capacity which they are not allowed to employ.

☐ Foreign aid promotes the adoption of unsuitable external models. The establishment of uneconomic heavy industries and national airlines is familiar. More important is the proliferation of Western-type universities, whose graduates cannot find employment, and of Western-style trade unions which are only vehicles for the self-advancement of politicians.

☐ Aid obscures the fact that progress cannot be had for nothing, that the people of advanced countries have themselves had to develop the required conditions. It reinforces the widespread attitude that opportunities for the advance of one's self and one's family must be provided by someone else, which promotes or reinforces torpor and fatalism. Pre-occupation with aid also diverts attention from the basic determinants of material progress, and thus from the possibilities of acting on them.

The suggestion that aid is necessary, or at least helpful, for the development of the recipient is the most influential implicit or explicit argument for foreign aid. There are also certain subsidiary or supplementary arguments which are often heard

and which though related to the principal argument are nevertheless distinct from it. The most important of these subsidiary arguments is that aid should be given as a moral duty to relieve need, in much the same way as charity is designed to help one's less fortunate fellowmen. We shall now examine this particular argument.

Foreign Aid and Charity

The analogy between foreign aid and voluntary charity fails completely. Foreign aid is taxpayers' money compulsorily collected. The payers have no choice and often do not even know that they are contributing. Foreign aid is outside the area of volition and choice, and therefore has no moral element. The advocates of aid do not give away their own resources — they want taxes on other people. Those who think that the governments of LDCs are worthy objects of charity can easily send a cheque to them. The moral obligation to help less fortunate people rests on individuals and cannot be discharged by entities such as governments. Moreover, policies of the recipient governments often offend the most elementary moral principles: massacres and large scale expulsions are obvious examples.

This fundamental distinction between aid and voluntary charity is sensed by those few people in poor countries who know that their governments have received foreign aid. And because they sense that this aid differs radically from voluntary charity, they suspect statements about its alleged humanitarian motives and believe that there must be sinister motives behind foreign aid.

Another way in which foreign aid differs from voluntary charity is that it cannot be readily adjusted to the needs and requirements of the recipients. In voluntary charity we try to adjust our gifts to the circumstances, requirements and needs of the recipients, and to the likely results of our action. We regard this as so self-evident that we hardly notice it. It is often suggested that the low level of income in poor countries is evidence of need for assistance which must therefore be provided through foreign aid. It should be noted however that quite apart from the difference between voluntary charity and the spending of taxpayers' money, there is also a radical difference between the advocacy of aid as an instrument for development and its advocacy as an instrument for the relief of need. Donations to a beggar or an invalid are distributed on bases and criteria very different from loans to promising young people for their training or for the setting up of businesses. Expectations about the results and the duration of the two kinds of transfers are also very different.

The uncritical adoption of need as basis for aid leads to absurdities. For instance, should aid be given or increased if per capita incomes in the recipient countries are reduced by the expulsion of groups whose per capita productivity and per capita incomes are above the national average? Thus the effective expulsion of Asians from Uganda or of Indians from Burma has reduced per capita incomes in these countries: On the argument for relief of need, aid should always be increased in these conditions.

Appeals for aid on grounds of need must take into account the conduct of the recipient government. Moreover, the conduct of the population of poor countries is often uncongenial to material advance or even inconsistent with it. Familiar examples include the sanctity of cattle in India or the reluctance to take animal life in many parts of South Asia. In such conditions aid cannot do much to relieve material poverty. Further, the poorest groups in the LDCs, such as the aborigines, desert people and tribesfolk, are hardly touched by aid, which goes overwhelmingly to the urban population.

In the discussions on aid as an instrument for the relief of need, statistics of per capita incomes in LDCs are often quoted as evidence and measure of need. These figures are practically meaningless especially for comparative purposes. This range of issues has been closely investigated in recent years by Professor Dan Usher, a Canadian statistician of international standing, who came to the conclusion that the national income figures of LDCs are subject to margins of error of several hundred per cent¹.

Moreover, the population statistics which underlie calculation of per capita incomes are also subject to wide margins of error. For instance, according to the official census, the population of Nigeria in 1963 was 55.6 million. Professor Kilby, a prominent scholar of Nigerian affairs estimated it at 37.1 million.

Uneven Distribution

Nor is aid calculated to relieve need in the recipient countries. Indeed, it operates perversely. The poorest groups in recipient countries, people like the aborigines in Latin America, Africa and South East Asia, the desert people in the Sahara or the simple tribes in Africa, are untouched by aid. The position of the poorest groups is actually often made worse by the operation of aid. It often finances uneconomic industrialisation or prestige

projects of all sorts which absorb domestic resources which might otherwise satisfy the needs of the poorest groups especially by producing food. The primary beneficiaries of aid in the recipient countries are overwhelmingly the better off people, politicians, civil servants, business men and academics. The staff members of the international agencies concerned with the administration and allocation of aid are also major beneficiaries, and it may be mentioned parenthetically that they pay practically no taxes. At the same time, the taxes which finance aid are levied on the whole population of the donor countries including the poorest people. Hence the jibe, ascribed to a prominent Dutch politician, that foreign aid is a system by which poor people in rich countries subsidise rich people in poor countries.

There is an important way in which foreign aid has clearly contributed to misery and suffering in the less developed world. It has contributed to that disastrous politicisation of life which has been such a feature of LDCs in recent years. This politicisation does not originate in foreign aid, but for reasons already noted it is greatly reinforced by aid. The politicisation of life has certain inescapable results, notably the exacerbation of political tension, especially in multi-racial societies, and also the diversion of the energies and activities of the ablest and most ambitious people from economic life to the political arena.

Politicisation of Life

These results of politicisation of life have in turn greatly contributed to the flow of refugees from different parts of the less developed world. Maltreatment, including expropriation, expulsion, and at times even massacre of economically successful minorities has since the World War II taken place in many LDCs including among others Burma, Ceylon, Egypt, Indonesia, Iraq, Kenya, Nigeria, Pakistan, Tanzania and Uganda. These events and consequences were closely connected with the politicisation of life in these countries which in turn was promoted by Western aid. This aid has also concealed from the population some of the economic consequences of the barbarous and inhuman actions of their governments. These matters are rarely noted when aid is advocated as an instrument to relieve need.

It is often thought that some of the adverse effects of aid could be significantly reduced, or even eliminated by channeling aid through the international agencies; in particular that such multilateralisation of aid would serve to de-politicise its operation. These suggestions are mis-conceived.

¹ Cf. Dan Usher, *The Price Mechanism and the Meaning of National Income Statistics*, Oxford 1968, and *The Transport Bias in National Income Comparisons*, in: *Economica*, May 1963.

To begin with, foreign aid cannot be removed from politics because it is taxpayers' money handed over to recipient governments. The idea of de-politicising government to government aid is self-contradictory. Moreover, like the rest of us, the members and staffs of the various international agencies have usually very definite political and personal objectives which they wish to promote. This is reflected in many of the publications of the international agencies on the subject of economic development and on the relation between rich and poor countries, publications in which systematic and objective reasoning is often totally subordinated to political purposes. Familiar examples include *Towards a New Trade Policy for Development* (New York, 1964) known as the Prebisch Report, and *Partners in Development* (New York, 1969), the Pearson Report.

Multilateralisation of Aid

Moreover, multilateralisation severs all contact between the supplier and the user of aid funds which is likely to make their use even more wasteful than it is already because the interest of the supplier of funds in their use tends to promote their effective deployment.

Many advocates of multilateralisation of aid favour this course as a step towards an appreciable

measure of the equalisation of income and living standards internationally. However, any move in this direction would have most far reaching implications which are widely ignored. The general case for redistributive taxation implies a basic uniformity in living conditions and requirements. These differ enormously between many rich and many poor countries, as is obvious for physical requirements, but is true also of social conditions. The meaning and significance of income differences and the concepts of riches and poverty depend greatly on the specific physical and social context. For instance, recipients of welfare payments in the USA usually regarded as poor, have higher conventionally measured incomes than African chiefs or many landowners in India, who are considered prosperous in their countries.

Moreover, international income differences reflect the operation of the underlying personal and social determinants of material achievements. Attempts substantially to reduce income differences require therefore close and intensive control over people's lives, that is, the creation of great inequalities of power. The more diverse the conditions, and the more deep-seated the causes of diversity, the more intensive is the compulsion required to standardise them. A large measure of international standardisation of material conditions postulates world government with totalitarian powers.

Pakistan's Quitting the Commonwealth

by D. H. Hamdani, Toronto

In the beginning of 1972 Pakistan broke with the Commonwealth after an association of nearly 25 years. Apart from the political implications that formed the basis of this decision and that may follow from it, there are certain economic factors which merit attention.

It is not unfair to say that the primary advantage of membership in the Commonwealth, in so far as the less developed countries (LDCs) are concerned, lies in economic benefits that it bestows. Though its economic usefulness has been declining partly as the result of the economic difficulties of its senior member, Britain, and partly as the result of the changing international trade patterns and the emergence of new trading blocs, it has been beneficial to members in a number of ways. Pakistan, for example, has been enjoying good trade relations with the countries of the Common-

wealth with a few exceptions. During the second half of the 1960's, 20 p.c. of its imports came from and 23 p.c. of its exports went to the Commonwealth. It has also been aided in its economic development by the industrially advanced members. In addition, a large number of Pakistanis took advantage of the liberal immigration policy applicable to the Commonwealth citizens and migrated to Britain mostly before 1962 and are now a rich source of foreign exchange earnings for their home country.