

**F**OR TWENTY YEARS Western governments have been engaged in transferring vast sums of money to the governments of the newly-independent, underdeveloped countries for the expressed purpose of raising the living standards of their peoples. The United States has dispensed a total of 115 billion dollars and the public debt has increased by 62 billion dollars over the period. Similarly, the British Government, although defaulting on its external debt, continues to expend some £200 million annually on foreign aid. The burden of providing this charity, because financed through inflation, has fallen mostly on those who are dependent on fixed incomes, the section least able to bear it. Yet, as far as the ordinary people of the poorer countries are concerned, the results are negligible, although as revealed by Dr. Nkrumah's critics, some of the rulers themselves have profited. Socialist India, a major recipient, and one enjoying the alleged benefits of economic planning to a high degree, is nearer to starvation than it was under British rule, when trade was free. It is not surprising that in some quarters opinion is becoming critical of this method of aiding one's fellow men, particularly when such largesse to governments is given without clear agreement as to how it is to be applied.

The Institute of Economic Affairs makes a valuable contribution to the discussion by publishing together two divergent views by Miss Barbara Ward and Professor P. T. Bauer, respectively\*. Miss Ward is a member of the Overseas Development Institute, a body financed by the Ford Foundation and by British firms presumably interested in exports. Professor Bauer is Professor of Economics with special reference to underdeveloped countries at the University of London.

Miss Ward's views conform to the modern type of paternalism. The older political economy, she states, has no relevance to this age of affluence when wealth has been "due to the readiness of governments to pour out money on armaments . . . which can act as a sustainer of demand and a stimulus to growth." Therefore increased foreign aid, even presumably if it is wasted, must be policy for the West, together with stronger government intervention and direction in all spheres, bolder experimentation in planning production and trade, and currency management both nationally and internationally. She makes tentative suggestions for further experiments; but as this has been the general policy for the last twenty years and she does not explain why it has failed, her contribution



does not add to our knowledge.

Miss Ward becomes almost lyrical about aid as a permanent policy: "this forcing house, this experimental

\**Two Views on Aid to Developing Countries.* Barbara Ward and P. T. Bauer. Occasional Paper No. 9. Institute of Economic Affairs Ltd., 7s. 6d.

## The Realities of Aid To Underdeveloped Countries

BY FRA

**"The supposed panacea of providing aid for technical and higher education often produces a class of native planners who are avid to impose a way of life alien to the people."**

field, this exciting partnership in the work of development." The failure of aid, so far, she attributes to its insufficient scale and to insufficient government intervention. She particularly endorses a proposal that the International Monetary Fund should issue annual certificates equal to a five per cent. increase in world trade and that this new currency, operated by international authority, should be used to regulate the trade, provide the capital and stabilise the prices of the underdeveloped countries.

Professor Bauer's contribution, originally given as a lecture at Yale University, is by modern standards surprisingly unorthodox. He even doubts the ability of governments to plan the happiness of peoples by compulsory industrialisation; and he cites an unexpected example of "external aid" from the past. He notes that at the end of the sixteenth century, when the Spanish conquerors plundered the Mexican silver mines, this great influx of specie to Spain, instead of strengthening the economy of that country, coincided with the beginning of its decline. He is careful to distinguish between voluntary private investment in underdeveloped countries and the government-to-government transfers which he considers "have not fulfilled and cannot fulfil the expectations they arouse."

Professor Bauer notices that the wealthiest countries today, apart from the fact that they developed without foreign aid, have attained their material standards by the qualities of their people rather than by available natural resources. Obviously, foreign government money cannot immediately or directly affect this stimulus to material progress, if at all. Professor Bauer contrasts Hong Kong's striking economic progress and absence of exchange difficulties, despite its lack of natural resources and foreign aid, with India, Algeria, Burma, Ceylon, Ghana, Indonesia and the United Arab Republic—all of which take foreign aid for granted and continually suffer acute domestic economic difficulties and foreign exchange problems. "The suggestion that material progress depends on external grants encourages the belief that the prime determinants of development can be had for nothing. This . . . retards material progress because it encourages the pauperisation of the recipients."

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their people, causing frictions that check the progress which might otherwise occur more naturally. "Little is achieved," writes an Uganda lady, Miss Nona Jabavu, "by those who 'have' being softhearted and solicitous towards those who seem to 'have not.' The best things in life are learnt the hard way. And need there be unanimity about what everyone means by 'best'?"†

The practice of granting aid according to development schemes devised by recipient governments, Professor Bauer observes, encourages them to embark on grandiose projects beyond their means, leading to exchange difficulties—and demands for further aid; and the efforts of sectional interests to mould the schemes to their advantage promotes a hectic struggle for political power that destroys the stability and respect for property on which material progress depends. Such stability provides the conditions for attracting private investment, but while the recipient governments can obtain outside aid they have no incentive to attract private investment. Moreover, the overtaxed people cannot provide an effective demand for the artificially-stimulated flow of goods not regulated by free market checks. The effect of foreign government aid on private investment is so discouraging that native capitalists seek every opportunity to invest abroad despite the stringent regulations maintained by the recipient governments to prevent it. There could be no clearer demonstration of the ineffectiveness of government-to-government aid to accomplish its declared purpose.

Professor Bauer considers that foreign government aid could be effective only if it could be administered so as to promote the development of liberal economic systems in the recipient countries. But he acknowledges the political difficulties not only in the recipient but in the donor countries. Aid is frequently linked to the dumping of agricultural surpluses, to the privileges of exporting goods and services to recipient countries, or to restrictions on imports from recipient to donor countries. Such political conditions for aid evince the selfish motives which exploit man's faith in charity which is not balanced by equal consideration for prudence.

In several passages Professor Bauer quotes the example of Hong Kong. That this territory should have increased in population from 600,000 after the Japanese occupation

†Quoted by Professor Bauer from *Drawn in Colour*, John Murray, 1960.

MAY, 1966

## HUMBUG

AID to underdeveloped countries in its present form did more harm than good to the receivers as well as to the givers, Mr. Enoch Powell said in Wolverhampton last night.

Half the monetary aid was wasted in corruption. Much of the remainder went in some form which would not benefit its receivers. Trade should replace aid but it was humbug to dole out money to countries against which we were erecting trade barriers. —*The Daily Telegraph*, March 30.

to some three and a half million today, with a continuously rising standard of living, and with negligible foreign aid; and that this has been accomplished under honest administration, stable currency and free trade, demonstrates that the real factors making for material advance require neither foreign aid nor economic planning. It shows also that free trade and good government are inter-linked. When politicians cannot offer favours in return for votes, sectional interests have no incentive to struggle for power and to pander to racial fanaticism to obtain it. The Hong Kong example also dissipates the bogey of over-population, alleged to be mainly responsible for India's difficulties.

But Hong Kong cannot be cited to prove that free trade and honest administration are all that is necessary. Under British rule India enjoyed these advantages, yet poverty was rife. Hong Kong has advantages not only over India but over Western countries where land is monopolised and where it has been found necessary to relieve poverty by pauperising measures. Hong Kong's land system, though far from perfect, exercises a perceptible check on the power of monopolists to hold land out of use, and the collection of some of the land value for revenue relieves industry and labour from tax burdens to that extent.

Landlord power is especially apparent in India. There it has been demonstrated how, on a limited scale, intelligent European volunteers, without any compulsory powers, can instruct and secure the co-operation of the peasantry in improving their methods so that all are better off. But when, as inevitably happens under land monopoly, the landlords absorb the benefit by raising the rent, the peasants become discouraged and the original conditions recur.‡ This problem cannot be resolved by vague talk of land reform, leading to confiscation of estates and other compulsory measures, but by radical reform of the land laws.

If it were politically possible to supply aid for constructive public works only on the strict understanding that the increased land value so produced would be collected for public purposes, other forms of taxation correspondingly remitted, and trade left free, then it could be demonstrated, as in the Indian example cited above, that the ordinary folk in such countries are quite capable

‡"An Experiment in India," *LAND & LIBERTY*, Nov./Dec. 1965.

67

of bettering themselves by their own efforts.

But such advice would come ill from governments that ignore these principles themselves. Perhaps the most genuine method by which Western peoples could manifest their charity would be to induce their own governments to set the example. The moral effects of supplying aid in this way should not be overlooked. It would encourage



all those political leaders in Asia and Africa who know that their peoples are quite capable of relying upon themselves and that they have no need to be regarded as human guinea pigs for the social laboratories of European experts. Such countries, with their fresh outlook, might aspire to lead, not follow blindly, in social thought.

## Not So Happy Birthday for the Prophets

By PETER RHODES

SO WE COME to the third anniversary of the "Prophets of Whitfield Street," the publishers of the *London Property Letter*. This year, however, the birthday edition, while losing none of its sparkling wit and hard, fact-punching technique, has about it an unmistakable air of jaded optimism. In the last breaths of the Conservative Government's thirteen-year rule, when the property market was beginning to sag from the ills of the economy as a whole, there were still opportunities to make a quick and rewarding kill. Now, however, after three fierce years of sifting through the facts and analysing market trends, population movements and local authority planning schemes, the Prophets are meeting a rougher spell. Where before they were able to entice their readers with the prospect of rapid, rising, rewards, now their ground is less firm. Here is part of their appraisal of the situation:

"Life is becoming almost impossible for property developers. Even those lucky enough to get a building licence, or an industrial development certificate, or an office development permit (whichever is appropriate), can no longer be at all certain that they will be able to go ahead. Local authorities, many of whom are already waiting for traffic plans to be finalised before deciding on the future shape of their towns, are as confused as property

developers by the stream of legislation and pronouncements from Whitehall. They have, *inter alia*, been told to restrain their spending on non-residential developments and to delay many of their projects until the balance of payments starts to look a little healthier. Then the Land Commission, and its stable-mate, the development value levy, will complicate the business of development still further."

It is not surprising, therefore, that the Prophets are throwing their energies hard into the overseas market by organising a two-day Seminar on Overseas Prospects. Interest in overseas investment, they claim, is stronger than ever, and some developers are convinced that this is where the future lies. Subscribers are to be addressed by the Market Research Manager of BOAC, the Economic Advisor to BEA and by people with first-hand knowledge of conditions and prices in the Bahamas, Malta, Eire, Spain and Portugal. With air travel becoming cheaper and faster, it is hardly surprising to find the transfer of purchasing power raising the price of land in the Mediterranean and further afield.

Nearer to home the land and property value astrologers are a bit put out by not being able to discern the effect of the Rent Act. Undaunted, however, they single out Earls Court as a possible area for investment gains. Twelve minutes from Piccadilly by Underground, terrace upon terrace of big-roomed, four-, five-, and six-story Victorian dwellings present themselves ideally for "bedsit" conversion. Since the cosmopolitan population is a shifting sea of mobile humanity moving in and out of the district, the soothsayers consider that Earls Court may not be so drastically hit by new legislation as the more stable, solid residential suburbs. Nevertheless, landlords are in a cleft stick. Should they ask for rents to be registered now or should they wait for their tenants to go to the Rent Officer and risk incurring the liability of a back-dated reduction? So far only one "new" rent has been registered. One landlord is known to have faith in the Rent Officer, a man who has spent some years with a local estate agent and knows the values of the area "back to front." Nevertheless, the prospect of a retrospective reduction being



negotiated in, say, 1968, which might mean that a landlord would have to *refund* a tenant perhaps £300, is disturbing some investors. Even so, with single room units with bath fetching between £270 and £350 per annum, all is not dark.