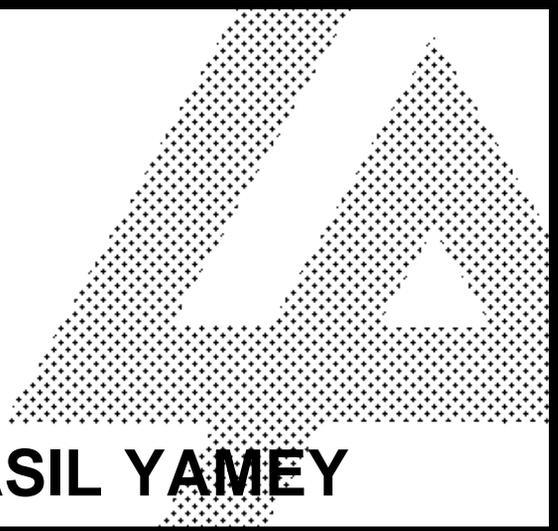


# AGAINST FOREIGN AID

PETER BAUER AND BASIL YAMEY



What on earth is there in common between Mexico and the Cook Islands, Saudi Arabia and Vietnam, India and Columbia, Cuba and Kuwait, Algeria and Liberia? It is evidently not poverty, stagnation, exploitation, former colonial status, political non-alignment, brotherly sentiment or skin colour. The only common feature is that (according to the latest official statistics) their governments all receive official financial donations from the West. These are known as "aid". Britain, with an official aid programme (1979) of between eight hundred million and a billion pounds, is among the donors - directly and through international organisations.

The term "aid" for government-to-government donations has paralysed discussion. It has permitted such startling anomalies as Western aid to rich oil-producing countries; to virulently anti-Western governments; to totalitarian regimes; to countries at war with each other; and to governments which have pursued policies of large-scale persecution, expulsion and discrimination.

## "AID" IS NOT HELP TO THE POOR

Who can be against "aid"? The public sees the money as going to the pitiable figures in the aid publicity, when in fact it goes to their rulers; and the term aid has enabled its advocates to claim a monopoly of compassion and dismiss critics as heartless.

The Third World (or "the South") is the creation of Western aid. It is the collection of countries whose governments, with the odd exception, receive official Western aid. Without aid there is no Third World. Aid has brought about a collectivity united solely in demanding and receiving aid from the West. Some individual Third World countries are neutral, or even friendly to the West; but as an articulate collectivity the Third World is always hostile. With the loss of self-confidence, widespread feelings of guilt and internal dissension in the West, a collectivity established to extract resources from the West appropriately takes up a hostile, even threatening stance.

The North-South (or rather, West-South) confrontation is not between a rich West and a poor South. Many Third World societies in the Far East, Middle East and Latin America are much richer than large groups in the West, and since the Second World War many Third World countries have progressed much more rapidly than many Western countries, including the US and Britain.

## "AID" IS NOT NECESSARY FOR DEVELOPMENT

Apart from all that, however, the central argument for foreign aid is quite simply wrong. External donations have never been necessary for the economic development of any country anywhere. Such donations,

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moreover, are much more likely to inhibit development than to promote it.

Third World governments or business which can use capital productively can borrow, abroad and at home. This is true also of infrastructure investment, which, if productive, increases taxable capacity, and hence the government's ability to service loans. The most the external gifts can contribute to the growth of income (i.e. development) is the cost of borrowing which is avoided. This is the maximum benefit even when the gifts are used productively, because development would still have occurred even without them. The avoided cost of borrowing is generally far too small a contribution to register in the national income statistics.

Furthermore, any benefit from the avoided cost of borrowing is likely to be much more than offset by adverse repercussions. These are brought about by amounts of aid which, though small in relation to the recipients' national income, are nevertheless large relative to the government revenues or to foreign exchange earnings: and these are the relevant magnitudes because aid goes to governments.

### **“AID” INCREASES OPPRESSION**

Aid increases the money, patronage and power of the recipient governments. It intensifies the politicisation of life in the Third World. This result promotes conflict, especially in the multi-racial societies of most Third World countries, and diverts energy and attention from productive activity to the political arena. These gifts have enabled governments to pursue policies which retard growth and exacerbate poverty, such as suppressing of productive groups, including minorities, restriction on the inflow of capital, enterprise and skills; and numerous policies which discourage food production.

While aid can do little for development or relief of poverty, it can relieve immediate shortages. This enables governments to pursue damaging policies, even extremely damaging policies, because the donations temporarily conceal the worst effects. Thus there is truth in the allegation that Western donors are responsible for disastrous policies in some Third World countries - though it provides no basis for the associated claim for more aid.

### **“AID” HARMS THE POOR**

Aid is *not* given to poor people. It is given to their rulers - whose policies, including public spending, are determined by their own personal preferences and political interests, among which the position of the common people, let alone the poorest, is apt to have low priority. How have the poor in Tanzania, a large aid recipient, benefitted from compulsory “villagisation” of agriculture, which has uprooted millions of people and reduced food production? Or the poor in

Zaire from the expulsion of traders, which has caused widespread hardship and retreat into subsistence production? Or the poor in many countries from prestige projects including brand new capital cities, or from uneconomical industrial projects, or from heavily subsidised national airlines with offices in the West End? (According to the official *British Aid Statistics, 1975-79*, “Britain’s aid to developing countries represents part of a global effort to raise living standards in those countries.”)

Commodity agreements, a euphemism for price-raising schemes, are a much-canvassed form of aid. They will not benefit but harm the poor. The poorest countries and people are insignificant producers of export commodities, but consumers of some of them.

### **“AID” HARMS THE GIVERS**

A major theme of the Brandt report is that aid is helpful or even necessary for Western prosperity, by increasing Third World purchasing power and hence exports and employment in the West. Aid is thus twice blessed: it benefits both donors and recipients. But the contention would be invalid even if the gifts significantly promoted development in the Third World (which they cannot do). Exports bought with foreign aid are given away. It is sophistry to say that people who give away money must be better off because those whom they have helped will be better off and so will buy more from their beneficiaries. A shopkeeper does not prosper by giving away his cash to people some of whom may later spend a part of it in his shop.

Some aid advocates argue that without large-scale aid the Third World would drift into the Soviet camp. But about one-third of all Western aid is channelled through international agencies, which in allocating aid are not permitted to take into account the donors' political interests. Moreover the Soviet block is represented in the United Nations, and can affect the direction of substantial multilateral transfers under UN programmes, though its financial contribution is small.

Western political interests are largely ignored even in bilateral government-to-government aid. Much of this aid is given regardless of the political conduct of the recipients, or of their political and military significance. Official transfers have indeed often helped to bring to the fore governments sympathetic to the Soviet bloc; and, as noted earlier, the Third World as an organised and articulate collectivity is always hostile to the West.

The policy of Western gifts to the Third World, directly or through the international organisations, has to be rethought fundamentally, as also the appropriate means of effective relief of distress and need. Present policy will not do.