The Rich and the Poor Countries

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The differences in wealth between countries has become a major concern to the Western world. Endless discussions are held on the subject and most of what can be said has been said already. We know the per capita incomes in Western Europe and the United States, we know the per capita incomes in the new countries of Africa and Asia, and we also know the growth rates. The differences are admittedly impressive. They are commonly attributed to climatic conditions, to lack of education, to shortage of capital. It is true that in one way or other all these factors have contributed to the present differences in wealth. We find it difficult, however, to follow when the differences of wealth are made responsible for the state of turmoil and unrest the world is in now. This is exactly what happens; many people see a causal relationship between differences in wealth and unrest, and from elimination of these differences they expect peace and content.

Nobody wants to make the rich countries poor—although this is what the leveling-out efforts can easily lead to. The way to distribute wealth evenly is to make the poor countries rich. The instrument with which it is hoped this objective can be attained is foreign aid. Not only for humanitarian reasons, but out of well-understood self-interest, we hear, this aid should be stepped up. What has been given away up to now may sound like a lot, but related to the needs and expectations of the poor countries it is very little.

Anybody arguing in this vein in a Western country is sure to find a sympathetic and responsive public. It is what people are accustomed to hear and what they like to hear. The degree of acceptance of the peace-through-aid theory is so great today that to refer to it is sufficient to be identified with it. A newspaper correspondent in a European capital in which I gave a lecture on economic development not long ago as-
sumed from reading a statement of mine very similar to the one in the first paragraph of this paper that I was a foreign-aid promoter, and summarized the lecture under the caption: “Not enough foreign aid, more money must be raised”—which is, as will become apparent very shortly, the exact opposite of what I believe.

Rather than adding one more to the proposals that have been made on how to close the gap between the rich and the poor countries, I shall review the different approaches to the problem of poverty in the West, the objectives that are being pursued, the expectations entertained, and experiences that have been won. First, however, I feel that I should say that I am expressing purely personal opinions. I would not like to associate any of the institutions I have the honor of serving with the ideas expressed here.

Many people are asking themselves nowadays what the proper relationship of the rich Western to the poor African and Asian countries should be. The different theories advanced on the subject have a common point of departure. It is the realization that the world has become small, that countries have moved closer to each other, that their destiny has become a common one. People tell us that the poor countries—we shall call them the developing countries further on, although they do not always deserve that name—are important to us, that we cannot remain indifferent to the conditions prevailing in them. This is to repeat a truism. In contrast to the USA., isolationism has never had much appeal in Europe; today it is nonexistent there.

It is not sufficient to affirm the interests of the West in the developing countries. One should be able to define them. They are in my opinion of a double nature: political and commercial. The former are dictated by the instinct of self-preservation common to all nations, the latter by the very comprehensible desire for material betterment. The main political interests are the creation in the developing countries of social structures resistant to totalitarian pressures. The economic ones are expanding markets, with satisfied and solvent customers.

The West defended its interests in the developing countries in former times through colonialism. Colonialism has a very bad name now. Many of the calamities humanity has suffered in the last decades are attributed to it. It is not my task to defend colonialism. Undoubtedly there have been cases of exploitation under that system. This does not, however, justify the identification of colonialism with exploitation. If one goes to the bottom of the matter colonialism was nothing other than the territorial expansion of the area of application of certain principles that had proved of value in western Europe. Among these principles are the inviolability of person and property, the limitation of power, the freedom of contract, the possibility of enforcing contracts, etc. With these principles the foundations for the economic development of the dependent territories and their integration into world trade were laid. These principles provided the basis for the flow of capital, know-how and spirit of enterprise to these countries. The real significance of the independence movements in the developing countries—sometimes called “struggles for freedom”—lies much less in the fact that a white-skinned gentleman receiving his orders from a European capital left in the Governor’s Palace a colored gentleman responsible—at least in theory—to the elected representatives of his country than in the fact that the aforementioned principles cease to be applied.

The times of colonialism are over. To defend the interests of the West in the new countries new methods have to be developed. They are thought to have been found in so-called foreign, or development, aid.

Development aid can mean many different
things. It can mean the financing of exports, it can mean private investments, scholarships for students, services of experts, and much more. For the purpose of this paper I would like "development aid" to convey just one meaning: the transfer of funds from one government to another regardless of whether it takes the form of a loan or grant. Over two-thirds of the assistance the West has given to the developing countries in the last years has taken that way. It is the only one that creates problems justifying our time and attention.

Of more interest than the origin of this type of aid is the philosophy underlying it. We have to make a distinction here between the United States, the country that started development aid, and the European countries. In the United States, President Truman was the father of foreign aid. His Point Four program is our principal source of information. It was inspired by the notion that the people of Asia, Africa, and part of South America had risen from centuries of apathy and indifference, that they had begun to realize the state of poverty and stagnation they were living in and found it intolerable. Their desire to participate in the material fruits of Western civilization and do so quickly, the argument goes, made them vulnerable to Communism. Development aid created wealth and by doing so made them resistant to the temptations of the new creed.

The danger of Communist infiltration and penetration is of course not the only motive for development aid. There are others. I shall always remember a talk given by a former Secretary of Commerce of the U. S., co-author of the Point Four program, at the Development Institute of the World Bank in Washington in 1957. The audience was composed of Asiatic and African government officials sent to Washington by their governments to participate in one of the Institute's courses. The talk was short, to leave plenty of time for discussion.

A Chinese from Formosa was the first to ask a question. He had heard something about the unemployment problem in the U.S. and wanted to know if development-aid, by creating jobs, did not benefit the United States more than the recipient countries. He was told that this was not the case; that the agricultural surplus was already paid for; that it did not really matter very much whether it remained in the bins it was stored in or was shipped abroad. As to American industry, exports were of no major importance.

Another participant asked whether the United States wanted to put the recipient countries under obligations with its aid. The answer was no. The Americans had no illusions. They knew very well that there was no such thing as gratitude among nations.

"Do the Americans want to check Communism with aid?" a third one queried. The speaker denied it. He admitted, however, that the Communist threat was used as an argument to obtain funds from a reluctant Congress.

At this point the participants were getting curious. Several of them wanted to know what the real motive of American development aid was. "We want to make a better world," was the answer they received.

I can still see the expression of incomprehension on the faces of the audience. They simply did not know what to make out of what they had just been told. Asians, Africans, and South Americans have seen a lot of the white man. The first to arrive were the Spaniards. They wanted gold. After them came the Dutch and the English. They were out for the trade. On and off, missionaries came to propagate the faith. Now the time of the Americans had come. By the thousands they left their country. There was hardly a place in Asia and Africa where Americans could not be found. Gold they
had—not enough perhaps to support the kind of policies pursued in recent years, but in impressive quantities by the standards of developing countries. World trade they did not really need. Spiritual welfare was of no major concern to them. What they wanted was: Making a better world.

I am personally convinced of the good faith of the Americans. For many people, however, it is extremely difficult to believe that the motives of donors of aid in the quantities dispensed in recent years can be anything else than selfish.

So much about the general feeling in the U.S.A. about the poor countries and their problems. The intellectuals share that feeling. In presenting government-to-government aid as a solution they have other motives as well. If they are liberals (the term “liberal” is here used in the American sense) they see in this aid an instrument to regain the power and influence they held in Roosevelt’s times. This at least is the impression the foreign observer receives.

How does Europe see the developing countries and their problems? We have to make a distinction here between the opinions of the masses and those of the ruling classes. The masses in Europe take a view of the situation very much like the one the people in the U.S.A. take. They have become aware of the poverty in the developing countries and want these countries to be helped. Christian love for fellow-men and fear of Communism may be motives of more or less equal force.

The ruling classes in Europe are composed of middle-class and socialist elements. The Socialists see in the developing countries a field where the social changes they desire will meet with less resistance than in the West and where they can find natural allies in the intelligentsia steeped in the Socialist doctrine at European universities. They are enthusiastic supporters of development aid.

In the non-socialist middle classes the situation is less clear. Politicians with a middle-class background do not as a rule believe that Communism can be fought and democracy saved with government-to-government aid. As to the possibility of raising the living standards through this medium they are also doubtful. Nevertheless billions of dollars are raised and expended for that type of aid. What are the motives?

We have to make a distinction here between the two ex-colonial powers, Britain and France, on the one hand, and Germany on the other. About two-thirds of European foreign aid comes from Britain and France. This aid, it should be noted, does not serve development purposes as much as it meets public expenses in the formerly dependent territories. The case of the German Federal Republic is different. Germany has no obligations resulting from a colonialist past. Nevertheless, the Bundesrepublik now occupies third place among the donors of foreign aid.

Until four years ago the Federal Republic was very “tight-pursed.” Its yearly contributions did not exceed 17 million dollars. According to the Washington Post of March 27, 1958, Minister Erhard on the occasion of a visit to the U.S. declared, “We do not give any government-to-government loans because we do not think that this is the right way [to help the developing countries]. Besides that we fear to be misunderstood.” Four years later the direct contributions of the German government to development aid had passed the half-billion dollar per year mark.

How can this sudden change of mind be explained? I do not know Minister Erhard’s opinion on the subject. What I hear from German bankers and industrialists, however, does not justify the assumption that benefits of government-to-government loans to developing countries have suddenly been discovered. Far from expecting beneficial
results from that type of aid, many Germans fear the damage it can do to the social and economic order of the recipient countries. If aid is nevertheless given in ever increasing quantities three reasons are advanced: first, the wish to show solidarity with the U.S.; second, the hope of finding political support for German foreign policy objectives such as the defense of Berlin; and finally, the desire to expand overseas markets.

We have come to a point now where we can review the results of development aid. For lack of space this can only be done in a cursory way. The original objective of foreign aid was to link countries together in a worldwide alliance. It was later replaced by the aim of strengthening the economies of the countries exposed to Communist pressure. Neither of these two objectives was attained. There are alliances, of course, but they embrace only a small part of the aid-receiving countries. As to the economic strength necessary for the defense of independence, few of the developing countries have acquired it. The hope that they may one day do so has been shaken by events in Laos and Cambodia.

The efforts of the aid-dispensing countries are now directed towards a new goal: high living standards. Higher living standards, it is hoped, will bring the moderation of opinions necessary for peaceful coexistence. This is the peace-through-prosperity theory mentioned at the beginning of this paper.

Has the goal been reached? The gross national product of the countries receiving aid has risen—there is no doubt about that. The rate of growth, however, has been very small. According to figures of the World Bank it was 2.8 per cent per year in India and 1.1 per cent in Egypt (average 1955-1960). In countries with a fast-growing population (like those just mentioned) these rates are scarcely sufficient to assure a yearly increase in per capita incomes of 1 per cent. One wonders how such insignificant changes can bring about the results the followers of the peace-through-prosperity school expect—at a time when per capita incomes in Western countries rise between 3 and 5 per cent per year.

One of the reasons why development aid has so little effect on living standards is the very unequal attention given to the amounts raised and to the principles under which they are distributed. The former is considered all-important, the latter widely ignored. This is a great mistake. It is one thing to let the interest rates and conditions of a free capital market determine the use of the money, and another to leave this to the discretion of government officials. It is one thing to use foreign capital as a complement of domestic capital and another to use it as a substitute, as something to make good the losses suffered through capital flight and hoarding. The giant steel combines and the jet airlines in countries which are still in the oxcart phase of economic development, the large hoards of gold in these countries and the continuous flow of private funds from the underdeveloped to the developed part of the world, show that all is not well with the distribution and use of aid funds.

A casual encounter I had in India four years ago serves as an illustration of the situation. At an official reception in New Delhi I was introduced to a prominent Indian businessman.

“Good that you have come to this country,” he said to me. “You can see for yourself what has been done here and what is in the process of execution. The possibilities are unlimited. This country has a brilliant future. The only thing it lacks is capital. If the manufacturers of your country gave us credits for the purchase of machinery and equipment they would not only participate in an enterprise of great humanitarian value but would also do very good business.”
Soon after this I lost sight of the gentleman. An hour later I found myself standing next to him again.

"I read in a recent monthly report of the Federal Reserve Bank of India an estimate of the value of privately owned gold in India," I told him. "The figure was 6.3 billion dollars. "I hear." I added, "that this is a conservative estimate."

He agreed that the estimate of the Federal Reserve Bank was low, that the value of the gold in private hands in India was higher.

"Why do the people in India buy gold and silver when they have a little money to spare?" I asked him. "Why don't they buy savings bank certificates or public bonds?"

"You must understand the people," he replied. "A lot of things have happened in this country. A lot of things may happen still. Savings bank certificates and bonds are printed paper. What the people want is security, protection."

"I can understand the motives of the people very well," I said. "What I cannot quite understand is how you can expect us in Europe, many thousands of miles away, to have the confidence in the economic future of your country that the people here so manifestly lack."

If development aid does not raise standards of living in the recipient countries in any significant way, has it at least strengthened resistance to totalitarian pressures? This is the main interest the West has in these lands, as noted earlier in this paper. But instead of declining, the power of attraction of totalitarianism seems to have increased. We have the examples of Cuba, Egypt, Ghana and Guinea. Development aid in the form of government-to-government loans and grants, far from slowing down the process of penetration and absorption by totalitarianism, has given it additional impetus. This is in no way surprising. The flow of development-aid funds goes almost exclusively into the public sector of the recipient countries. As a consequence this sector grows and the private sector diminishes. More and more economic power passes into the hands of those who hold political power. The guardians of peace and order become at the same time the biggest employers. In what is left of the private sector, initiative is subjected to the limitations of central planning. In the end a few changes in the ranks of the ruling personnel will suffice to put a new Soviet Republic on the map.

To meet this danger social reforms are sometimes imposed on the aid-receiving countries. In the Alliance for Progress, for instance, redistribution of land is a condition for obtaining a loan. Landownership, it is hoped, will give people a stake in the economy, have a moderating influence on them. We all favor a broad middle class interested in the maintenance of law and order. It remains to be seen, however, whether expropriation and confiscation are the right way of achieving the desired end.

The creation of a class of independent and self-supporting farmers requires more than the handing over of land. Farmers need housing, need livestock, and tools. Above all they need knowledge and experience. All this the state cannot provide because it does not have it. If regardless of this deficiency governments go ahead with the execution of agrarian reform plans the immediate consequence will be a falling off in production. Such losses, however, can be recovered, although it may take quite a long time. What is irreparable is the damage done to economic and social order. Expropriation without adequate compensation—and that is what they invariably are—can only benefit totalitarianism.

The Argentine Minister of Economics, Senor Alsogaray, saw the situation very clearly when, according to the Nacion of June 11, 1962, he said that "agrarian reforms as they are being recommended by
certain propagandists consist of nothing else than making people who are prepared to go out into the country believe that they can get a good farm without any personal effort, a farm that has been taken away from somebody else.” Nevertheless in the West the enthusiasm for agrarian reforms is so great that a conservative Austrian newspaper recently deplored the fact that the Brazilian constitution prohibited expropriation without due compensation, and recommended an appropriate amendment.

What are the conclusions the West has drawn from its experiences with development aid? In the United States, the biggest donor country, the confidence of official circles that in the end something positive will be achieved seems to be unshaken. The public appears to be less confident. Books like Lederer’s *The Ugly American* have contributed to the doubts and misgivings.

If one asks the man in the street what he would like to see development aid replaced with he will very likely be at a loss for an answer. Not so the intellectuals. Some of them—I am referring only to the conservative ones—want development aid brought to a complete end, and the sooner the better. They do not fear the consequences that might flow from such action. Others—among them Professor Peter Bauer of the London School of Economics—would like development aid to be tied to the financial policies of the recipient countries. The better these policies, the more aid they should get; the worse the policies, the less the aid. The impression will then not be given that losses caused by mistakes will invariably be made good by the West. This would of course imply a complete reversal of the policies of the past.

Still others would like to see development aid take the form of technical assistance and counseling. Such a change would cause considerable disappointment in the aid-receiving countries. Who wants advice? they will ask. Enough of it has been given. Undoubtedly a development loan of 100 million dollars gives more immediate satisfaction to the government receiving it than recommendations on how to manage its financial affairs. The country, on the other hand, will derive greater benefit from sound and disinterested advice than from any sum of money.

An objection frequently raised is that the economic and financial policies recommended by the West to the developing countries are colonialism under another name. The “struggle for freedom,” it is said, was not waged for this. The answer is that one cannot very well reject the spirit of the West and at the same time claim the material fruits of its civilization.

Against the charge of exploitation to which a Western type of economic order would lay open the aid-receiving countries, one can say that the technocrats and planners whose services these countries now enlist are much more costly to them than the services of Western businessmen would be. If a planner errs he loses, in the worst of cases, his job. If a businessman errs he loses money—his own money and not the money of the host country.

The most important objection to introducing a Westernized economy in these countries has still to be dealt with. It is pointed out that the rulers of the developing countries will suffer a loss of personal power through a change-over from central planning and nationalization, as we find it in most of these countries, to open markets, competition and private property. To win their support for such changes they will have to be offered some kind of compensation. How this is to be done is a problem for which to my knowledge no solution has as yet been found.

This brings us back to the question indicated at the beginning of this article: whether there really are “rich” and “poor”
countries. So far as natural resources are concerned, they undoubtedly exist. In resources, they undoubtedly exist. Some countries have fertile soil and mineral deposits, others have only sand and mountains of rock. Are the former the rich, the latter poor ones? Not necessarily. Take Bolivia with its tin mines and oilwells, its rich lowlands. Take the Argentine with its fertile plains and benign climate. Take Indonesia. There is little that nature has withheld from these countries. And yet they are poor. Switzerland, which has no natural resources of any kind, is the richest of the rich.

Wealth, we find, does not depend on natural resources; it depends on the people—to be precise, on the degree to which the people will submit to financial and monetary discipline. To realize this we only have to imagine the transplantation of the 50 million Indonesians to Germany (or for that matter to France) and of 50 million Germans (or French) to Indonesia. Which would be the rich and which the poor country in ten years time?

In concluding I would like to raise a question of a general nature. We are living in a materialistic age and are inclined to attribute opinions and developments of all sorts to material causes. Marxist conceptions have affected, without their being aware of it, the thinking of people who not only do not accept Marxism but actively oppose it. We see this influence not only in our domestic social order but also in our relations to the developing countries. We believe that we are serving the interests of the West with government-to-government loans. I have mentioned the assumptions on which this policy is based. For a long time nobody challenged them. Today the number of doubters is growing. With them I would like to say:

It is not true that poverty in the developing countries is the cause of the turmoil the world is in. It has other causes.

It is not true that the closing of the gap between Western and Eastern standards of living will bring about mutual respect and understanding.

It is, finally, not true that the character of people can be transformed by raising their standards of living; that envious and aggressive individuals—assuming their existence—can be transformed into individuals of opposite characteristics. The raising of living standards is very desirable. We should not, however, expect from it something that it cannot possibly bring.

What shapes the mind of men, what determines their actions, is ideas. Prosperity is not an idea. Prosperity is a means of attaining higher ends. These ends can only be of a spiritual nature. Only spiritual values can make life worth living. Only with spiritual values will we be able to defend our civilizations against the forces of evil and destruction that beset it.