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Equality, the Third World, and Economic Delusion*

The "poverty" of the Third World is not attributable to lack of natural resources or exploitation by the "rich" countries. So demonstrates P. T. Bauer in his book with the above title. "Favorable" land and other natural resources are not prerequisites for a country to advance to a "developed" stage. And while capital sometimes seems to be in short supply, capital always has been available whenever and wherever the conditions for development have been favorable. The key to economic advancement is incentive for personal initiative in a setting of limited government. Promotion of these conditions is the avenue to improved economic well-being for the people of the Third World. Wealth transfer schemes not only fail to relieve the conditions of the poor in the Third World, they actually worsen their plight. There is no economic justification for the United States to support international wealth transfer schemes.

When it comes to promoting desired economic results, sincere concern and good intentions alone do not do the job. Surely this statement is supported by the dearth of success stories (Is there one?) flowing from the billions of dollars in foreign aid given by Western countries to "needy" undeveloped countries. Since World War II, U.S. aid in the form of "concessional assistance" through the World Bank and the International Monetary Fund (IMF) alone was more than $130 billion. Others have estimated the total of Western foreign aid since the end of the war to be a minimum of $200 billion. All of these funds, representing real wealth, were forcibly taken by governments from individual producers in the respective countries.

As the recognition has grown in the United States that the burden of taxation on producers is "killing the goose that lays the golden egg," increased opposition has developed to all types of Government spending, including foreign assistance. First at the September World Bank and IMF meetings and then at the October North-South Summit Meeting in Cancun, Mexico, President Reagan finally said what needed saying for many years but apparently was deemed too politically sensitive to take on: "The domestic policies of developing countries are . . . the most critical contribution they can make to development. Unless a nation puts its own financial and economic house in order no amount of aid will produce progress." And, "we cannot have prosperity and successful development without economic freedom."

Although there was not an open revolt against the President's message by pro-aid forces, those forces still are powerful. When Robert S. McNamara gave his farewell address as retiring president of the World Bank† late in 1980, he reproved the wealthy West for not doing enough. The 1980 report, *North-South: A Program for Survival,* called the "Brandt Report," outlined the worldwide economic decline and failure of the industrialized Western nations to allot larger Third World aid allocations in their national budgets. In his October 1981 *Euromoney* article, "The Common Interest of Rich and Poor," Edward Heath sees the increasingly parsimonious aid policies as appalling and calls for the U.S. Congress to join with other industrialized nations in doubling the World Bank's capital from $40 billion to $80 billion so that it can expand its lending activities to the "poor" nations.

It seems not to matter to these people that such aid turns out to be a curse on the people of the recipient nations as well as the producers of the donor nations. That it has been a curse is made plain in the book here reviewed, *Equality, the Third World, and Economic Delusion* by P. T. Bauer. Professor Bauer, as he has for more than 20 years, methodically demolishes the rationalizations for such aid, presents example after example of its failure – indeed, its counter-productiveness – and counters with example after example of nations advancing economically not from international handouts but from private initiative given opportunity in a setting of limited government. Extracts speak eloquently of Professor Bauer's brilliant examination of the aid issues and practices.

Misconceptions About Equality

In the first chapter, "The Grail of Equality," Professor Bauer addresses the question of why some people are better off economically than others in free and open societies. "Egalitarians," says the author, "often suggest that the incomes of the rich, or property incomes, have been received at the expense of other people rather than earned by supplying valuable resources. A familiar instance is the use of the term unearned income, when in fact such income is no less earned than any other income.

"Incomes, including those of the relatively prosperous or the owners of property, are not taken from other people. Normally they are produced by their recipients and the resources they own; they are not misappropriated from others; they do not deprive other people of what they have had or might have had." (p. 12)

To what, then, are the observed differences in income attributable? That is the key to Professor Bauer's book. Differences in economic well-being are not related so much to differences in natural resources, location, climate, or even the current level of savings and capital, as much as to the freedom of individuals to develop their different potentials by engaging in economic activities of

* This article is a review of *Equality, the Third World, and Economic Delusion,* by P. T. Bauer, Harvard University Press, Cambridge, Massachusetts, 1981, 281 pages, $17.50 (hardbound).

† Edward Heath is currently a Member of Parliament in Great Britain, former British Prime Minister and was a member of the Brandt Commission.

their choice and reaping the product of their efforts:

"Economic differences are largely the result of people's capacities and motivations. This is evident in open societies, and also where societies are not open, nor yet completely closed or caste-bound. A disproportionate number of the poor lack the capabilities and inclination for economic achievement and often for cultural achievement as well." (p. 20)

Some of the current inequalities would disappear in time, observes Bauer, if the fundamental condition noted above were provided:

"This is especially notable and misleading in the context of international income differences. Income and living standards in the West are the outcome of many centuries of cultural and economic progress; they have not come about in one or two generations. It is therefore not surprising, abnormal or reprehensible that many Third World countries (notably in Africa) which do not have centuries of progress behind them should have much lower incomes than the twentieth-century West. The pertinence of this long period of antecedent development is ignored in the advocacy of global redistribution." (pp. 22-23)

Advocates of wealth redistribution wrongly equate the goal of reducing income inequality with that of reducing poverty. Professor Bauer points out that although wealth transfer plans can impoverish the "rich," they cannot make the "poor" in general richer – or better off in any other way:

"In sum, the pursuit of economic equality is more likely to harm than to benefit the living standards of the very poor by politicizing life, by restricting the accumulation and effective deployment of capital, by obstructing social and economic mobility at all levels, and by inhibiting enterprise in many different ways. Continued poverty, whether resulting from soi-disant [so-called] egalitarian measures or from other causes, then serves as plausible argument or rationalization for further and more stringent egalitarianism." (pp. 23-24)

Inasmuch as economic differences are certain in open societies as long as people's capacities and interests are different, schemes to narrow income differences necessarily will involve coercion.* Worldwide egalitarianism thus requires worldwide coercion:

"It is now widely urged that differences in income and living standards should be reduced or eliminated not only within countries but between them, and indeed even globally. Hence the proposals for a New International Economic Order approved by the General Assembly of the United Nations. Because of the enormous and stubborn differences between peoples, policies designed to equalize their living standards would require world government with totalitarian powers. Such a government, to be equal to its ambitions, would be even more coercive and brutal than the totalitarian governments of individual countries." (p. 19)

To avoid this disastrous outcome, the very idea that foreign aid can be useful must be rejected. If not, advocates of wealth transfers through foreign aid can use results in specific instances – no matter what the results – to support their appeal for more aid:

"... [W]hatever happens in recipient countries can be adduced to support the maintenance or extension of aid. Progress is evidence of its efficacy and so an argument for its expansion; lack of progress is evidence that the dosage has been insufficient and must be increased. Some advocates argue that it would be inexpedient to deny aid to the speedy (those who advance); others, that it would be cruel to deny it to the needy (those who stagnate). Aid is thus like champagne: in success you deserve it, in failure you need it." (p. 91)

Poverty is Not Caused by Population Growth

In the chapter, "The Population Explosion: Myths and Realities," Professor Bauer analyzes the past and present views about the effects of increasing population on economic well-being. He cites declining mortality rates in the Third World as the main reason for rapid population growth there, noting that this is a sign of improvement in living conditions, since people value longer life spans. Furthermore, population growth need not preclude economic advancement:

"Since the 1950's rapid population increases in densely populated Hong Kong and Singapore have been accompanied by large increases in real income and wages. The population of the Western world has more than quadrupled since the middle of the eighteenth century. Real income per head is estimated to have increased by a factor of five or more. Most of the increase in incomes took place when population increased as fast as, or faster than, in the contemporary less developed world." (p. 43)

Even physically unattractive and purportedly "uninhabitable" areas can sustain large populations and support economic improvement if other conditions are appropriate:

"The Indians in North America before Columbus had unlimited land and were wretchedly poor. The land was not infertile, as European immigrants soon made clear. They came from Western Europe which had far less land per head and was already advanced and rich. Venice was built on a few mud flats and became a wealthy world power. Much of Holland was drained from the sea and it became a prosperous commercial country and a centre of culture and learning." (p. 45)

"Western Guilt" is a Bum Rap

"Acceptance of emphatic routine allegations that the West is responsible for Third World poverty reflects and reinforces Western feelings of guilt," says Professor Bauer. (p. 66) This, he demonstrates, is patent nonsense. If the West did not create a wider use for the world's natural resources and the system for processing them (including the marketing aspects), much of the Third World's highly-prized natural resources allegedly being exploited by the West would be valueless, as they were for most of history. Furthermore, many of the Third World's commodity crops were not indigenous; rather, the West often brought them into areas where they could flourish and furnish an export base:

"The British took the rubber *to* Malaya and the tea *to* India. There were no rubber trees in Malaya or anywhere in Asia (as suggested by their botanical name, Hevea braziliensis) until about 100 years ago, when the British took the first rubber seeds there out of the Amazon jungle. From these sprang the huge rubber industry – now very largely Asian-owned. Tea plants were brought to India by the British somewhat earlier; their origin is shown in the botanical name Camilla sinensis, as well as the phrase 'all the tea in China.'" (pp. 67-68)

"Cyril Connolly wrote in an article entitled 'Black Man's Burden' (*Sunday Times*, London, 23 February 1969): 'It is a wonder that the white man is not more thoroughly detested than he is.... In our dealings with every single country, greed, masked by hypocrisy, led to unscrupulous coercion of the native inhabitants.... Cru-

* We emphasize that we are referring to income inequality attributable to differences in the capacities and efforts of individuals, not to special privileges granted by government, which themselves are coercive.

elty, greed and arrogance . . . characterized what can be summed up in one word, exploitation. . . .'

"If this were true, Third World countries would now be poorer than they were before Western contacts. In fact, they are generally much better off." (p. 69)

Bauer effectively disposes of the idea that colonialism made countries rich or poor, depending on which side of the colonial "coin" a country was cast:

"Whatever one thinks of colonialism, it cannot be held responsible for Third World poverty. Some of the most backward countries never were colonies, as for instance Afghanistan, Tibet, Nepal, Liberia. Ethiopia is perhaps an even more telling example (it was an Italian colony for only six years in its long history). Again, many of the Asian and African colonies progressed very rapidly during colonial rule, much more so than the independent countries in the same area. At present one of the few remaining European colonies is Hong Kong – whose prosperity and progress should be familiar. It is plain that colonial rule has not been the cause of Third World poverty.

"Nor is the prosperity of the West the result of colonialism. The most advanced and the richest countries never had colonies, including Switzerland and the Scandinavian countries; and some were colonies of others and were already very prosperous as colonies, as for instance North America and Australasia. The prosperity of the West was generated by its own peoples and was not taken from others. The European countries were already materially far ahead of the areas where they established colonies." (p. 75)

Foreign Aid is a Catastrophe

For those who refuse to accept Professor Bauer's condemning analysis of the widely held rationalizations for Third World "poverty," he invites consideration of the results of foreign aid:

"The primary result of official Western aid has been the creation of the Third World as a collectivity confronting the West, and one which, as a collectivity, is hostile to it. The second major consequence has been the contribution of aid to the politicization of life in the Third World. These momentous and far reaching results will continue as long as foreign aid continues." (p. 86)

That there even is a "Third World" is a product of foreign aid:

"The concept of the Third World or the South and the policy of official aid are inseparable. They are two sides of the same coin. The Third World is the creation of foreign aid: without foreign aid there is no Third World.

"The concept of an underdeveloped world eventually to become the Third World was invented after the second World War. It did not exist before then. From its inception, the unifying characteristic has been that the Third World is in practice the aggregate of countries whose governments demand and receive Western aid. In all other ways the unity or uniformity is pure fiction." (p. 87)

"It is sometimes thought that skin color provides a unifying feature of the Third World because its peoples are predominately non-white. But they are also predominately non-black, the majority being brown and yellow. In fact, in the Third World as a whole the whites outnumber the blacks." (p. 88)

Professor Bauer is particularly critical of where wealth transfers in the form of aid actually end up. The "poor" and "needy" people of a recipient country get virtually none of it. Most funds are channeled into ill-conceived projects or the "pockets" of totalitarian rulers and their henchmen. Foreign aid more firmly entrenches the powerful and rich of any country: "Since official wealth transfers go to governments and not to the people at large, they promote the disastrous politicization of life in the Third World. The tendency towards politicization operates even in the absence of these transfers, but is much buttressed and intensified by them. Aid increases the power, resources and patronage of governments compared with the rest of society and therefore their power over it." (p. 104)

"The pattern of spending by aid recipient governments is unrelated to help for the poor. This spending often aggravates the position of the poor, since recipient governments often spend heavily on politically inspired prestige projects made possible by external aid: airlines, inefficient industries, Western-type universities whose graduates cannot find jobs, and the creation of new capitals at vast cost (Brasilia, Islamabad, Dodoma in Tanzania and Lilongwe in Malawi). These often have to be subsidized by local taxes, including those on the poor." (p. 111)

In addition to the topics specifically mentioned above, Professor Bauer cogently discusses many others related to the issue of wealth (or income) inequality and redistribution schemes. We cannot fault any of his economic analyses, as he systematically reveals the superficiality of the pro-aid arguments. From the standpoint of economics, foreign aid is an unmitigated disaster and totally unjustified. But then Professor Bauer stumbles. He concludes that termination of wealth transfers is not now feasible because the power of the vested interests in aid disbursement is too great. That may be the situation, but it should not deter Professor Bauer, or any other sound economist, from stating the appropriate economic policy – the abolition of all official foreign aid.

Equality, the Third World, and Economic Delusion belongs on the shelf of all serious students of economics – lay students or professional. It is easily readable, and it cannot but help to give an uneasy feeling about the political pressure around the globe for more wealth transfers from the "rich" North to the "poor" South.

RETAIL SALES

The Bureau of the Census reports that total retail sales for the 3 months ending in August 1981 was $263.3 billion. In 1967 dollars, this is a 2.1 percent increase from the same period last year. Sales of nondurable goods have increased 0.9 percent from the same 3-month period last year, and sales of durable goods have increased 4.9 percent. Both of these increases were less than those during the early phases of previous recoveries. That consumers did not go on a spending "binge" during the 1980-81 expansion, that their use of installment debt was relatively restrained then, and that disposable personal income will be augmented by the 1981 tax act, suggest that retail sales could hold up reasonably well during the coming months in spite of the probability that a recession is underway.

Note: All data are adjusted for seasonal and trading day variation.

The U.S. Department of Commerce reported that retail sales in current dollars totaled $263.2 billion during the 3 months ending August 1981. This was a 1.6 percent increase from the preceding 3-month period ending May 1981 and 11.0 percent more than during the same period last year. Most of these increases reflected higher prices, not greater volume.

When measured in constant (1967) dollars, total retail sales for the 3 months ending in August 1981were only 0.1 percent more than those during the previous 3 months and only 2.1 percent more than during the comparable period of 1980. These limited increases in

constant-dollar total retail sales are evident in the chart.

Nondurable goods (items such as food, shoes, clothing, pharmaceuticals, and gasoline) account for about two-thirds of total retail sales. Because these products are consumed or "used up" soon after purchase, they must be replaced continuously. As a result, nondurable sales tend to be the most stable category of retail sales, exhibiting only small changes during recessions. Constant-dollar nondurable sales during the 3 months ended in August were 0.9 percent more than the same period last year. After the July 1980 trough, nondurable sales quickly recovered until January 1981, closely following past recovery patterns. Since then, however, increases in retail nondurable goods sales have been small and substantially below the rates of increase during previous recoveries.

Durable goods are items that do not require replacement as often as nondurables. Building materials, hardware, auto parts and "big ticket" items – such as furniture, automobiles, and household appliances – are included in this category. When the economy contracts and disposable personal income declines, consumers can and do postpone many purchases of durable goods. For this reason, the cyclical fluctuations in durable goods sales are large and account for most of the cyclicality in total retail sales. During the 3 months ended in August, constant-dollar durable goods sales were 4.9 percent more than during the comparable period of 1980, but they were slightly less than such sales during the early months of 1981.

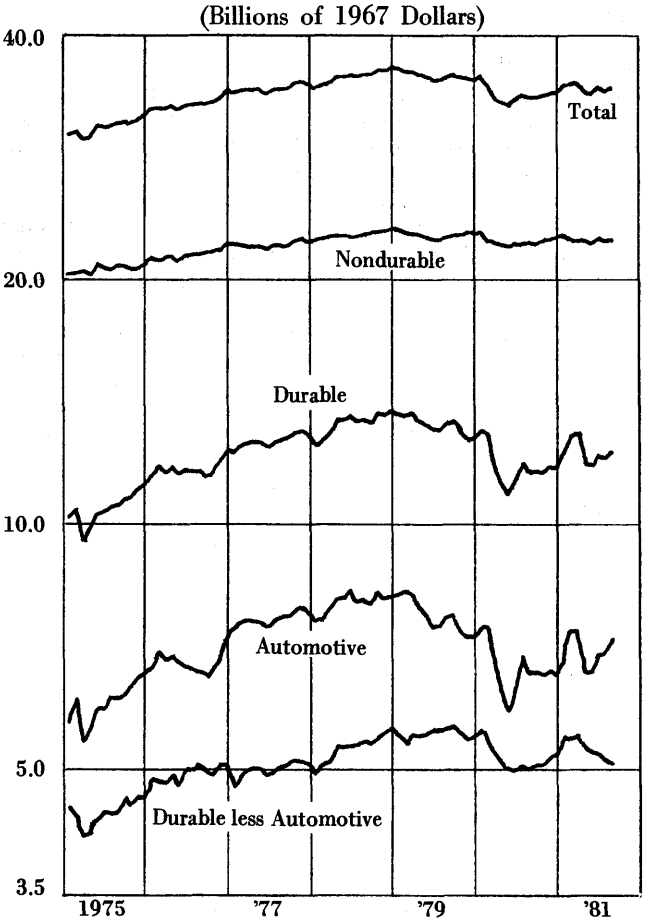
As the chart shows, durable goods sales have trended upward since May 1980 (the trough for this series). Of special interest is the rapid, sharp increase that occurred from December 1980 to March 1981. This large jump in durable goods sales (which on a month-to-month basis was at an annualized rate of over 50 percent) reflected not only increased automotive sales but also rapid increases in nonautomotive durable goods sales. As the chart also reveals, this large increase in total durable sales was not sustained. Such sales declined 9.1 percent between March and May 1981. The recovery of durable goods sales from its 1980 recessionary trough has been much less rapid than during earlier recoveries.

Automobile sales is the largest durable goods subcategory. In recent years auto sales have been in a prolonged depression, punctuated by a few months of noticeably improved conditions. Brief rises in automobile sales and in other durable goods sales occurred during the December 1980-March 1981 period, but they were quickly followed by decreases. From June through August, automotive sales trended upward, almost reaching the interim March-April high. This is in contrast to the recent trend of other types of durable goods sales. Nonautomotive durable goods sales, shown in the chart, have decreased 7.7 percent since March, and in August they were only slightly more than during the 1980 trough.

Analysis of retail sales by type of product thus reveals that automotive sales were the "bright spot" in the total picture during June, July, and August. Automakers have attempted to boost sales by price cutting (rebates) and by offering below-market financing, but such tactics may simply have "borrowed" sales from subsequent periods. Automobile sales during September held up reasonably well but fell sharply during October.

The earlier erratic automobile sales thus may have obscured the beginning of a downward trend of total retail sales. This weakness in retail sales is reflected in the apparently developing recession, which in turn could retard future retail sales. However, the fact that consumers did not go on a "binge" of retail buying during the short-lived business-cycle expansion of 1980-81, and that their use of consumer installment debt has been relatively restrained, could serve to moderate any decrease in retail sales during the current recession. Moreover, any decreases in personal income associated with the recession will be mitigated by the provisions of the 1981 tax act, which began to be phased-in on October 1. This should serve to bolster disposable personal income and that in turn could support retail sales volume during the months ahead.

RETAIL SALES
(Billions of 1967 Dollars)



PERCENT CHANGE IN RETAIL SALES
(Compound Annual Rates)

	Change During 3 Months Ended:			
	Nov. 1980	*Feb. 1981*	*May 1981*	*Aug. 1981*
Current-Dollars				
Total retail stores	+13.8	+18.8	+5.2	+6.7
Constant-Dollars				
Total Retail Stores	+2.5	+9.2	–2.9	+0.2
Nondurable goods stores	+3.2	+3.3	–4.4	+1.8
Durable goods stores	+2.4	+22.5	–1.7	–1.6
Automotive stores	–0.6	+20.9	–1.4	+10.0
Nonautomotive stores	+6.4	+24.4	–2.0	–15.2

PRICE OF GOLD

	1980	*1981*	
	Nov. 13	*Nov. 5*	*Nov. 12*
Final fixing in London	$622.00	$428.50	$411.50

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