

Preface 15

Ecclesiastes 12:12

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P. T. Bauer's

REALITY AND RHETORIC

by David Chilton

Without a doubt, the most important economist working today on the issues of the Third World, foreign aid, and the economics of development is Peter T. Bauer, of the London School of Economics. Lord Bauer is the author of several books, all of which are absolutely indispensable for any in-depth study of development. In a field clouded with muddled thinking, vague rhetoric, and often downright crackpottery, his straightforward style and refreshing clear-headedness are not only welcome but positively astounding. He is perhaps best known, and most resented, for his stubborn insistence that the canons of economics (and a good deal of common sense) should be applied to "development economics", that the study of *development* is simply an extension of the study of *economics*, and operates by the same rules.

Bauer's most important books are **Dissent on Development** (Harvard, 1971, 1976; paper, \$8.95), **Equality, the Third World, and Economic Delusion** (Harvard, 1981; paper, \$7.95), and **Reality and Rhetoric**, his latest work.

The Unmentionable Issue: Group Differences

Bauer began his studies of development economics by examining the economies of South-East Asia and West Africa. He points out an interesting fact: "Before 1885 there was not a single rubber tree in Malaya nor a single cocoa tree in British West Africa. By the 1930s rubber, cocoa and other export crops were being produced on millions of acres, the bulk of them owned and operated by non-Europeans" (p. 2). In other words, these colonies, which should have been suffering under the "exploitation" of the West (according to much conventional wisdom in "development economics"), had experienced rapid advancement and were actually prospering.

Much of the standard "development" literature looks only at the ratio between the number of people in a country and the natural resources (and/or capital) available to them. The people themselves are overlooked. "People are people," the development advocates reason shrewdly; thus, as far as economics is concerned, "people" are seen as homogeneous, with no differences in economic performance among various racial and cultural groups. Yet that is not how it works in real life, as Bauer found by his experience in South-East Asia: "Perhaps the clearest demonstration that people, even with the same level of education, cannot be treated as uniform in the economic context was to be found in that region" (p. 7). Comparing the productivity of Chinese and Indian immigrants working in Malaya, Bauer discovered that the Chinese produced more than double the

output of the Indians. The tools used were the same; both had the same level of education. In fact, the Chinese had an additional handicap: they were extensively discriminated against by the government.

The greater Chinese productivity was not limited to only one industry. The group differences "were pervasive throughout the local economies in the establishment and running of plantations and mines, and of industrial and commercial undertakings" (p. 7). In fact, economic productivity has very little to do with resources as such. There are millions of very poor people in the Third World who have access to cultivable land. Their low productivity primarily reflects "want of ambition, energy and skill, and not want of land and capital" (p. 8). In his earlier book *Equality, the Third World, and Economic Delusion* (p. 185), Bauer shows the other side of the coin:

How would you rate the economic prospects of an Asian country which has very little land (and only eroded hillsides at that), and which is indeed the most densely populated country in the world; whose population has grown rapidly, both through natural increase and large-scale immigration; which imports all its oil and raw materials, and even most of its water; whose government is not engaged in planning and operates no exchange controls or restrictions on capital exports and imports; and which is the only remaining Western colony of any significance? You would think that this country must be doomed, unless it received large external donations. Or rather you would have to believe this if you went by what politicians of all parties, the United Nations and its affiliates, prominent economists and the quality press all say about less developed countries.

The country is, of course, Hong Kong, which has become such a powerful center of industry that the great Western nations have erected trade barriers to protect their home industries from her imports! The lesson: "Lack of natural resources, including land, has little or nothing to do with the poverty of individuals or of societies. . . . The small size and low productivity of farms in such areas [less-developed countries, or LDCs] reflect not the shortage of land but primarily the lack of ambition, enterprise and skill. . . . Land on its own is unproductive, and yields nothing of value to mankind. It becomes productive as a result of ambition, perceptiveness, resourcefulness and effort. These attributes and characteristics are present very unequally among different individuals, groups, and societies" (p. 82).

The Market Order vs. State Planning

The most basic presupposition of the standard "development literature" is that central planning—comprehensive

State control of economic activity—is absolutely necessary for raising the standard of living. This fundamental premise is so fully accepted that it is not only unquestioned, but it is rarely even brought up; it is simply the unstated presupposition for all discussion, the absolute category of all thought and action. For this reason, it does not occur to the advocates of centralism to explain just *how* it is that economic controls will produce material abundance. It is simply assumed. (The developmentalists generally overlook uncomfortable data such as the fact that the one nation where the Chinese are not highly productive is that model of controlled economies, Red China. It could just be the climate, of course. See Stephen W. Mosher's *Broken Earth: The Rural Chinese* [The Free Press, 1983].)

Paul Johnson's characterization of V. I. Lenin could well be a description of all "Coercive Utopians" (to borrow Rael Jean Isaacs' apt term):

Lenin thought entirely in terms of control; not of production. He thought that provided he got the system of control right (with the Politburo taking all the key decisions), the results would flow inevitably. He was wholly ignorant of the process whereby wealth is created. What he liked were figures: all his life he had an insatiable appetite for bluebooks. One sometimes suspects that inside Lenin there was a book-keeper of genius struggling to get out and bombard the world with ledgers (Paul Johnson, *Modern Times: The World from the Twenties to the Eighties*, Harper & Row, 1983, p. 89).

We must remember that the State is not God: it cannot create out of nothing. All government can do is to divert resources from some uses into other uses. Governments do not wave magic wands; instead, they point guns at the heads of their citizens in order to extort money out of them. According to some extraterrestrial logic, this tactic is supposed to result in a veritable cornucopia of blessings to the populace (the victims). Bauer asks the simple, unanswered question: "Why should the overriding of private decisions increase the flow of income?" (p. 21). Actually, the answer is easy: It does increase the flow of income. To the bureaucrats.

But true economic development cannot be accomplished by State control. Again, this boils down to the fact that the State is not God, and cannot possess the knowledge sufficient for exercising adequate control. Thus State "control" is not what it attempts to be; it is just tyranny. "There is no way of feeding into a computer either people's perceptions of their own preferences, faculties, opportunities and prospects, or their likely reaction to changes in them or the information and knowledge dispersed among the people who make up society" (p. 23).

Only God can direct an economy. No dictator can possibly know (or determine) the individual choices, desires, and constantly changing scales of value of millions of people. What we call "the market" is simply the most efficient and reliable means for those people to express their choices. When people are free to express choices, the result is a market order which no one has (or could have) organized—what F. A. Hayek calls "the results of human action but not of human design" (*Studies in Philosophy, Politics, and Economics*, University of Chicago, 1967, pp. 96ff.).

Bauer cites several examples of economies in LDCs which could not have been predicted: the rubber industry in South-East Asia, the cocoa industry in West Africa, and Hong Kong's transformation into a major industrial center. What has made all these possible was not government planning. They came into being because many millions of people made choices and took advantage of opportunities to improve their economic conditions. And to make these choices they did not need to know what everyone else was doing,

nor did they need to exercise totalitarian control over the marketplace. They simply needed to know what opportunities were available to them. They simply needed *freedom*, and the responsibility which accompanies it—concepts which are understood by practically everyone except most politicians, journalists, tenured professors, clergymen, and the editors of *Christianity Today*.

Freedom is always more than bare "economic" freedom. "Decentralized economic decision-making is closely related to other components of personal freedom, including expression of opinion, and movements of people and their property. It is not accidental that these elements of freedom are to be found in market societies, not in closely controlled economies" (p. 26f.). A State-managed economy cannot help but inhibit freedoms in every area of life. The directives of bureaucrats increasingly replace the decisions of individuals, in employment, residence, transportation, number of children, and countless other details of personal life. All these areas have an impact on economics; thus, if one wishes to control economics, he must also control these. And this means that everything in life suddenly has *political* significance. All of life becomes politicized.

When government keeps to its proper sphere, it normally is of only peripheral concern to the average person. But when life itself is politicized, government acquires enormous importance in people's lives. Every slight whim of the ruling class can conceivably have drastic effects upon the population. As Lenin realized, politics is always a question of *who* is doing what to *whom*. This means that the issue of whose party is in power is uppermost in people's minds. Their economic activity, and often their personal survival, can depend on the answer. And so instead of concentrating on productive endeavors, they shift their energy and resources to political activity. The struggle for political dominance takes the central position in national life.

This is precisely the reason why political contests in the Third World are so bloody. Because of the pervasive State controls, political issues are often literally matters of life and death for millions of people. As Bauer points out, the Third World cannot be understood apart from this most basic fact of human existence there: the politicization of life.

Most of us are familiar with Chairman Mao's dictum that "political power grows out of a gun barrel." What is generally less well-known is the revealing context of that statement, which shows what happens when near-total politicization is achieved:

Every Communist must grasp the truth, "Political power grows out of the barrel of a gun." Our principle is that the Party commands the gun, and the gun must never be allowed to control the Party. Yet, having guns, we can create Party organizations, as witness the powerful Party organizations which the Eighth Route Army has created in northern China. We can also create cadres, create schools, create culture, create mass movements. Everything in Yenan has been created by having guns. All things grow out of the barrel of a gun (*Selected Works of Mao Tse-Tung*, Peking, 1975, Vol. 2, pp. 224f.).

Mao was correct. Without the market order, which leaves people free to make their own economic choices, *everything* grows out of the State's gun barrel. At every point in life, the individual is subjected to the authority of the State—a condition much appreciated by those who seek absolute power over others. With good reason Bauer observes that the market order is "a necessary condition of personal freedom" (p. 27); the statist order is merely a "kleptocracy" (p. 104).

The Rhetoric and Reality of Foreign Aid

"Foreign aid" created the concept of the Third World as a distinct entity. Ask most people what the Third World is, and

they will reply that it consists of "the poor nations," as if the world is neatly and conveniently divided into two parts: one-third (the Western nations) rich, and two-thirds (the South) poor. One problem with this picture is that, in fact, "there is no clear discontinuity, no clear gap, in the international range of incomes, which means that the line of division between the two global categories is arbitrary. It follows from this that the extent of the difference is also arbitrary" (p. 144).

More than this, there is the fact that the nations of the Third World are not one homogeneous aggregate of people with similar concerns and problems. The cultural differences among them can be as radical as their differences with the West. "The Third World includes millions of aborigines and pygmies, people with ancient and sophisticated cultures, and others employing highly advanced methods of business and technology. It is both misleading and condescending to treat the richly varied humanity of the majority of mankind as if it were much of a muchness, or an undifferentiated uniform stagnant mass, which, furthermore, could not emerge from this state without external donations" (p. 39).

What is the Third World, then? There is one factor which does unite these nations, one common characteristic which definitively marks them as part of the Third World. This characteristic "is not poverty, stagnation, exploitation, brotherhood or skin colour. It is the receipt of foreign aid. The concept of the Third World and the policy of official aid are inseparable. The one would not exist without the other. The Third World is merely a name for the collection of countries whose governments, with occasional and odd exceptions, demand and receive official aid from the West. Thus, The Third world is a political and not an economic concept. The Third World or the South is simply an entity for engaging in collective bargaining with the West. The purpose of the Third World *qua* collectivity is to coax or extract money from the West" (pp. 40f.).

Much of Bauer's research over the years has covered the disastrous — necessarily disastrous — effects that foreign aid has had on Third World countries. As he shows, the use of the term *aid* to describe international transfers of funds considerably prejudices the issue.

Perhaps the most crucial thing to remember about foreign aid is that it emphatically does *not* go to those pitiful, emaciated kids on the posters. *Foreign aid goes to governments*. Period. This means that the actual function of aid is to increase the powers of government over the populace. Ronald Sider and his ilk to the contrary notwithstanding, propping up totalitarian dictators is not by any means the same thing as helping the poor. In fact, foreign aid encourages recipient governments to pursue irresponsible and destructive policies in the certain knowledge that when things go wrong, the West will bail them out again. In terms of its alleged purpose — the alleviation of poverty — foreign aid is counterproductive, since "to support rulers on the basis of the poverty of their subjects does nothing to discourage policies of impoverishment" (p. 50).

One rationale for aid has been that if we don't give it to the Third World, the Soviets will, thus, if we want to keep the Third World out of the Soviet camp, we must send money to their governments. If this is true, then we should stop calling it *aid*, and call it by its true name: *extortion payments*. Let us, however, ignore that point for now. Let us also ignore the fact that the Soviet government itself has been able to survive only through the generosity of American taxpayers. Let us just concentrate on the logical errors of the proposition. The government-to-government transfer of tax receipts is not conducive to the development of a market-oriented society; indeed, it is a denial of it. Moreover, it positively encourages the growth of statism and the politicization of life in recipient countries. *Foreign aid simply turns the recipients into "little Soviets."* It should not be a matter of much surprise that so

many of our clients are hostile toward us. The extortion payments are not working.

Over the past twenty years some have recognized the inherent problems of government-to-government foreign aid, and have advocated a so-called "multinational aid" instead, meaning government-to-*international-development-agency*-to-government foreign aid. This, its proponents hope, will depoliticize aid. But, as Bauer quickly points out, the aid still comes out of taxpayers' pockets, and thus cannot help being political to some degree. More than this, however, multinational aid simply "substitutes political control by the international organizations for political control by the donor government over national aid" (p. 64). It still politicizes life among the recipients, for the money is still, inescapably, given to the *governments*. Multinational aid is nonpolitical only in the sense that the recipient governments are even *less* accountable to the donors than they were previously: "Both in public and private spending the more distant the relationship between those who supply the funds and those who use them the more likely it is that the funds will not be used effectively for the pursuit of their avowed purposes. In multinational aid there is no contact at all between the donors (the taxpayers) and the spenders (the aid administrators and recipient governments)" (p. 66).

One example cited by Bauer is the absurd position of Britain during the recent Falklands War with Argentina. Because of its commitment to a U.N. aid program, Britain was forced to give aid to Argentina throughout the war!

Like other bureaucracies, multinational aid organizations and their staffs have two main goals in life: spend the money, and increase the budget (as much as two-thirds of an aid organization's budget will be spent on "administrative costs" [p. 67]). In his earlier book *Equality, the Third World, and Economic Delusion* Bauer quotes Thomas Sowell's marvelous summary

To be blunt, the poor are a gold mine. By the time they are studied, advised, experimented with and administered to, the poor have helped many a middle-class liberal to attain affluence with Government money.

Bauer comments: "As so often happens, people who set out to do good do well" (pp. 144f.).

Ecclesiastical Economics: Envy Legitimized

Lord Bauer is keenly aware of the various heretical currents running through contemporary Christendom, particularly as they deal with economic issues. In *Reality and Rhetoric* he devotes an entire chapter to the study of two influential documents on "social justice" written by Pope Paul VI in 1967 and 1971. The papal documents set forth the now-familiar themes which are central to "Christian socialism." Primary among these is the notion that economic *differences* are *inequalities*, and that any "inequality" is caused by *injustice*. Accompanying this is the doctrine that the problem of injustice is too severe to be dealt with by individuals, and so collective action must be taken by the State, which *always* works for the best: "It always intervenes with careful justice and with devotion to the common good for which it holds final responsibility" (quoted on p. 78).

There is an urgent need, say the papal documents, for the international redistribution of wealth (which is not a matter of charity but of *rights*); for the confiscation of landowners' property by public authorities; for price controls and subsidies. Indeed, State-controlled, tax-financed development is "the New Name for Peace," since "peace cannot be limited to a mere absence of war," but is rather the abolition of "economic, social and cultural inequalities" (quoted on p. 77).

The Pope and his unholy ghostwriters committed all the economic blunders common to socialists in every age. In particular, income and wealth are viewed "as being ex-

tracted from other people, or somehow achieved at their expense by depriving them of what they had or could have had. They are regarded as fixed totals rather than as the results of productive activities and processes over time" (p. 81). For some reason I have yet to fathom, socialists think that commodities go through a two-stage process: first, they are *produced*; then, when production is completed, they are *distributed*. Production, therefore, is a *given*. It just happens, and the wealth just lies there waiting for someone to pick it up. All the government has to do is to jump in between the two stages, *before* the goods are "distributed," and make sure that they are distributed equally. In reality, however, there is only one process taking place. Ludwig von Mises wrote: "Goods are not first produced and then distributed. There is no such thing as an appropriation of portions out of a stock of ownerless goods. *The products come into existence as somebody's property*. If one wants to distribute them, one must first confiscate them" (*Human Action*, Henry Regnery Co., 3rd rev. ed., 1966, p. 804).

Naturally, the papal documents also ignore the very real differences in economic performance among various ethnic and cultural groups in the Third World. According to them, the only differences that exist are differences of *result*, stemming from the "fact" that the wealthy have gotten their "unearned" riches at the expense of the poor. Of course, there are indeed some outstanding instances of unearned income, but the socialists don't usually talk about them: the "incomes derived predominantly from government-conferred privileges. Such privileges are especially significant and widespread in the extremely politicized societies of the Third World. Their many forms include state subsidies, restrictions on competition, allocations of licences and privileged forms of employment. These privileged incomes are not what the Pope and other clerics have in mind in their attacks on inequality" (p. 81).

Why do the socialists place so much emphasis on income differences? It is because their purpose is to arouse envy and resentment—"soul-destroying sentiments liable to corrode people afflicted by them," Bauer says (p. 84), echoing Solomon's warning that envy is "the rottenness of the bones" (Prov. 14:30). Bauer has also noted the guilt-manipulation which pervades these documents and other "Christian socialist" literature:

Exponents of collective guilt rarely examine either the ground for their allegations or the results of the policies they propose. In the context of foreign aid, such allegations are most likely to lead to indiscriminate wealth transfers to Third World governments and to various international organizations. The emphasis on guilt precludes close examination either of conditions in the recipient countries or of the conduct of the recipient governments. These considerations are pertinent, especially because guilt so often parades as compassion and is so readily confused

with it. The exponents of guilt routinely exempt themselves from their accusations, they do not speak of *mea culpa* but of *nostra culpa*, or rather *vestra culpa*. This is not accidental, allegations of collective guilt go hand in hand with a decline in personal responsibility and a sense of personal sin" (p. 85).

Cleric-watching can be very depressing these days. Lord Bauer was thus heartened and refreshed when he came across an essay by an African Bishop, Monseigneur Bernard Bududira of Burundi in Central Africa. Bauer sums up Bududira's excellent remarks.

Bishop Bududira's principal theme is that the local cultures in Africa and elsewhere in the Third World obstruct material progress. The Bishop insists that economic improvement of a person depends on the person himself, notably on his mental attitudes and especially on his attitude to work. Unquestioning acceptance of nature and its vagaries is widespread in Africa and elsewhere in the Third World. Man sees himself not as making history but as suffering it. The Bishop concludes that the message of Christ frees people from the shackles of tribal thinking, and leads to a greater sense of personal responsibility. The required changes can best be achieved by Christian groups working with local communities (pp. 86f.).

Unfortunately, the good Bishop seems to be in a minority at present; the papal documents express the views of at least the most vocal groups within both Romanism and Protestantism. As Bauer forthrightly states, the papal documents are not at all Christian. "The responsibility of a person for the consequences of his actions and the fundamental distinction between mankind and the rest of creation are basic Christian tenets. They are pertinent to the issues raised by the Pope, but they are ignored throughout these documents. Their Utopian, chiliastic ideology, combined with an overriding preoccupation with income differences, is an amalgam of the ideas of millenarian sects, of the extravagant claims of the early American advocates of foreign aid, and of the Messianic component of Marxism-Leninism" (p. 88).

In another volume, Bauer cites Joan Robinson's admirable maxim:

The purpose of studying economics is not to acquire a set of readymade answers to economic questions, but to learn how to avoid being deceived by economists.

Few writers in history have given us nearly as much help in achieving that goal as has P. T. Bauer. He is at once the clearest, the most knowledgeable, and the most eminent writer in his field. This review has barely skimmed the surface of his magnificent work. The student of economics, the Third World, foreign aid, and charity will find that Bauer's books are the ones he cannot do without. I urge you to purchase his works. You will read them again and again.