

We are constantly being told that a dangerous gap is opening as a result of the richer countries getting richer and the poorer countries getting poorer all the time. There is a certain tautological truth in this in so far as those countries whose wealth is growing rapidly tend to get richer than those where it grows little or not at all. But this does not mean that wealth is growing faster in those countries which were richest a generation or two ago, while those which were the poor are now all getting absolutely or relatively poorer.

Some of the countries which show now the most spectacular growth of wealth started from a very low level of wealth indeed: South Korea, Hongkong, Taiwan, Singapore, Malaysia, Mexico, Venezuela and, most recently and impressively, Chile, not to speak of the proverbial "economic miracles" of West Germany and Japan.

On the other hand, countries which 50 years ago were envied as among the wealthiest, like Great Britain, Argentina, or Czechoslovakia, have experienced a sad relative or absolute decline.

The obvious fact is simply that there are consciously rising countries and that these are the ones that have

developed an effective market economy; and there are countries which have become increasingly socialist and have during this period suffered a relative or absolute decline in their standard of living and their prospects. This is the "increasing gap" carried by the policies pursued by these countries and by nobody else. We need compare merely West and East Germany, which 30 years ago started equally poor.

The extraordinary feature of the present positions is that the governments who bear the responsibility claim that the socialist principles which have ruined the economies of their countries should be applied internationally to enable them to continue.

I am not questioning that, in the general interest, larger amounts of capital should flow from the wealthy to the poorer countries. That is how in the past economic progress spread. What I am questioning is whether this capital should go to the governments of these countries to enable them to continue their socialist experiments. I am convinced that by providing the means in this form we harm rather than benefit the people of those countries.

The western world seems to

Professor F A Hayek on why the poor nations remain poor

The flaws in the Brandt report

have been led to its present policies by a silly kind of sympathy with Russia for the sympathy of those countries. But it is not from the goodwill of the intellectual elites whose misguided doctrines now govern so much of the third world, but from the growing welfare of the masses that we must hope in the long run to derive their friendship. Since the majority of the people of the Western world rightly believe that they owe their wealth to the market economy which they maintain, it would only be reasonable if they confined their assistance to the countries in which they could expect that the people at large would benefit from the investment of capital.

Let the Russians assist those

governments which wish to organize their economies on the Russian model and let the "capitalist" countries confine their help to those where they can believe that what they do will really benefit the people at large.

It is deeply to be regretted that a former Conservative British Prime Minister has joined the former socialist Prime Ministers of Germany, Sweden and elsewhere in the notorious North-South report to support the traditional fallacy that poverty can be cured by a massive transfer of wealth. This is not the place in which the basic error of this can be conclusively refuted. I can here only implore all readers who have been moved by the

specious plausibility of the Brandt Report to study the full analyses which British experts in the field have during the past few months published in various journals, such as Professor P. D. Henderson in *The World Economy* (June), Professors P. T. Bauer and B. S. Yamey in *Commentary* (September) and several others in the current issue of *Encounter*.

They do not argue that no help should be given to the third world but merely that the methods now practised or recommended in the Brandt Report are not only ineffective but would in several ways produce effects opposite to those desired. Personally, I still believe that the alternative I suggested 27 years ago with respect to American help to Europe would equally apply to all Western help to the third world. There seems to me, I then argued, "a strong case for a division of functions between American business and government.

"Let American government, while withdrawing entirely from direct lending, at the same time assume, for a limited period of transition, the role of guarantor against political risks, of private loans to private

foreign borrowers, and especially against the risk of the non-transferability of the proceeds of such investments. The economic risk of the particular investment—of the borrower paying interest, or dividends, and repaying the capital in his own country—would still remain entirely with the investor. The United States government would merely guarantee that any money thus paid to his credit on the borrowing country would become available in free dollars.

"Such a guarantee should of course be given only on loans and other investments made while the borrower's country abided by the undertaking on which the arrangement was based. The appropriate foundation would be an agreement between the United States and the country concerned, in which the latter undertook to refrain from imposing any obstacles to the transfer of returns from such investments, from levying discriminatory taxation, and from acts of expropriation or confiscation affecting such investment. The country concerned would, in addition, agree to assume full responsibility for any debts on which, through its failure to live up to its obligations, the guarantee of the United States government became effective."