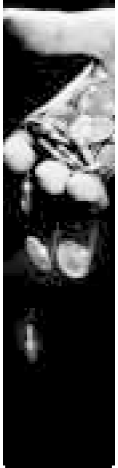

The Culture of Guilt

Marian L. Tupy

Like welfare dependency in developed countries, aid dependency in developing countries has entrenched a 'handout' mentality—and anti-Western resentment.

We live in a world of rights and entitlements. According to the commonly held view, life in the West 'entitles us' to freedom from hunger, decent housing and healthcare. All of these entitlements come at a price. They cost money that someone somewhere had to earn. It is, therefore, incorrect to talk about 'free' provision of healthcare and welfare. Instead, it is more appropriate to talk about a 'wealth transfer' between different groups of people. On the one hand are the taxpayers and on the other hand are the welfare recipients.

Before the era of the welfare state, such transfers of wealth also existed. But they were voluntary. They were based on a feeling of empathy for those in need. In those days, there was a clear understanding concerning the nature of this transfer. The giver was seen as a benefactor, while the taker was seen as a lucky recipient. The rich were expected to be generous, whilst the poor were expected to be grateful. Under the welfare state, however, the coercive power of the government compelled those with higher income to share their wealth with those on lower incomes. The more a person earned, the more he or she had to pay in taxes.

That progressive taxation was sometimes explained and defended in terms of solidarity, equality and marginal utility. However, by far the most popular explanation was that of 'exploitation'. The basis of this explanation rested in a zero-sum understanding of economics, which assumed that the prosperity of one person (a businessman, say) was directly dependent on the poverty of another (a worker, say). According to that premise, wealth is never produced or increased. Instead, it is only transferred from the powerless to the powerful. But if this is true, humanity should have remained in caves forever. Instead, the world has grown ever richer. In fact, the workers in capitalist countries—whom Marx and Lenin claimed to be 'exploited'—are today much richer than their counterparts in former socialist countries. Ironically, it was these socialist countries that claimed to have gotten rid of 'exploitation'.

In practice, all of the above assumptions contributed to the growing separation between creation of economic value and remuneration. The amount of money that both businessman and worker were left with at the end of the day became disconnected from the economic value that either of them had created. As with most governmental actions, the introduction of the welfare state also had unintended consequences. One of these was the recognition by all members of society that their well-being was less dependent on their performance in the marketplace and more dependent on the goodwill of the government. As a result, different special interest groups started to lobby the government to receive better treatment. The other side of the coin was that elections became the time for politicians to bribe the electorate by promises of further entitlements.

Over time, each of these wealth transfers or 'entitlements' became less of a gift from a particular government and more of an expectation to be honoured

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and even improved upon by any future government. This structure of entitlements is now so deeply engrained that any potential cutbacks are seen as illegitimate transgressions on the legitimate rights of welfare recipients.

Aid as an 'entitlement'

The giving and receiving of foreign aid—be it in the form of outright financial grants, lending at discounted rates or transfer of technology, machinery and other goods—is increasingly controlled by the same assumptions.

At its birth, foreign aid was seen as large-scale charity. The Marshall Plan was thus understood as an American gift to the war-ravaged continent of Europe. No European felt 'entitled' to it or implied that the creation of the Marshall Plan was an American 'duty' or 'responsibility'. Moreover, the plan was always meant to be a short-term relief package with a maximum duration of four years. As such, the plan stands in stark contrast with the open-ended foreign aid programmes in the underdeveloped world today. Though the benefits of the Marshall Plan are still debated, the ineffectiveness of subsequent foreign aid programmes is unambiguous. In Africa, for example, there has actually emerged an inverse relationship between foreign aid and development. For decades aid has served to postpone necessary economic reform and to preserve the hold on power of some of Africa's most unsavoury dictators.

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Part of this transition from short-term relief of disasters to long-term subsidies of failed states rests in a plethora of theories purporting to explain why developed countries should transfer their wealth to the underdeveloped ones. Past 'exploitation' of the colonies is often credited with making the developed world rich. That is plainly not true. Britain, for example, had become the richest country in the world long before she acquired any significant colonial possessions. Other rich countries, Switzerland, Norway and Finland among them, never had any colonies. Similarly, former colonial status is often associated with poverty. But both Canada and Australia used to be colonies. Today, these two countries are very prosperous. Then there was 'periphery theory'. This theory maintained that the world was permanently divided into rich core and poor periphery, where the former exploited and impoverished the latter. The spectacular success of previously poor countries, such as Taiwan, South Korea, Singapore, Hong Kong and Chile showed this view to be mistaken.

Despite irrefutable empirical evidence to the contrary, the above theories possess remarkable staying power. Implicit in all these theories is, as with domestic economic arrangements in welfare states, the separation between economically valuable activities and reward. In a nutshell, many people do not see the wealth of the United States, for instance, as a result of domestic policies conducive to economic growth—the most important of which are a free economy and the rule of law. Instead, they see it resulting from a variety of international financial conspiracies.

The most popular among these conspiracy theories is price fixing. It is argued that companies in rich countries keep the poor countries from receiving a 'fair' price for their produce. Coffee is often given as an example. But that is untrue. The daily price of coffee is determined by decisions made by millions of coffee-drinkers and producers of coffee across the globe. The more coffee is consumed, the more expensive it becomes. The less coffee is consumed, the less expensive it becomes. Thus, if everyone suddenly decided to drink coffee, demand for coffee would outstrip supply and the price of coffee would skyrocket. Conversely, if everyone stopped drinking coffee, supply of coffee would outstrip demand and the price of coffee would plummet.

The blame game

Pronouncements of many ill-informed activists and leaders in the under-developed world seem to suggest that economic inequality in the world is one of the central reasons why it is acceptable to hate the West in general and the US in particular. As with domestic economics, in international economics it is often wrongly assumed that the prosperity of the developed world is directly dependent on the poverty of the underdeveloped world. Thus, it is not unusual to hear some activists claim that 'excessive' consumption in the developed world makes the underdeveloped world starve. But these two are totally unconnected. In the developed world, the level of consumption, for example, of foodstuffs and electricity, is proportionate to the level of its production of these items. On the other hand, the level of starvation in the underdeveloped world is proportionate to the level of its inability—mainly due to mismanagement—to produce much.

In a recent BBC documentary, children at school in Cambridgeshire, England, were shown a report concerning starving children in Africa. After watching the report, a number of pupils promised to stop 'wasting' their food as though their 'waste' had anything to do with poverty in Africa. In reality, African children starve because their countries either do not produce food, or cannot purchase it in the international markets because of lack of revenue—which, after all, also needs to be earned through production. If anything, the pro-foreign aid activists should encourage children in Britain to consume more not less, for the Value Added Tax (VAT) which the UK government imposes on processed food sales would increase the government's tax-revenue, which in turn could be used to lavish more aid on the underdeveloped world. More aid is, of course, what the activists are demanding. But how is it to be facilitated?

Unlike in the domestic arena, there is no world government to take from some and give to others. It is for this reason that many wish to embolden the United Nations (UN) to spread its activities into the economic area. The proposal for an Economic Security Council, voiced at the World Summit on Sustainable Development in Johannesburg last September, is an example of an ingenious way in which wealth could be transferred from the prosperous nations to those the UN will define as 'needy'. Keeping with the egalitarian logic of recent decades, there would undoubtedly be pressure for the Economic Security Council to conduct its affairs according to a majority vote. It does not take a rocket scientist to figure out who would constitute the majority and who would have to pay up.

Thus, foreign aid is no longer what it briefly was—charity. It too has become a form of entitlement. It is spoken of in terms of 'wealth sharing' or 'expertise sharing'. Thus, when a new foreign aid package is announced, one never hears a word of gratitude from its intended recipients. In fact, every new donation is met with disapproving comments about the level of that aid. The commitments to 'wealth sharing' that the developed world made in Johannesburg, for example, were universally derided as unsatisfactory. One South African commentator observed that 'The developed nations have once again failed to meet foreign aid targets'. But who sets these targets? Clearly, it is not taxpayers in the developed world, who will have to pay for this foreign aid.

As with domestic economic arrangements, the reason for the failure to take the views of taxpayers in the developed world into account rests in the separation between creation of economic value and remuneration. One example shows this clearly. As South Africa's President Thabo Mbeki recently stated, for the first time the world has enough resources and expertise to eradicate poverty. Predictably, Mr Mbeki emphasised that the only thing needed is the will to do so. Actually, 'the world' has nothing. All the wealth and expertise belongs to specific individuals residing in specific countries. The proverbial pot into which all good things flow only to be divided up among those in need does not exist. As Robert Nozick pointed out, every dollar comes with rights attached. These rights, however, are not those of welfare recipients—be they domestic or international—but those of producers of economic value.

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Conclusion

Contrary to common misconception, the reasons for global economic inequality rest at a local level. They include the lack of rule of law, lack of respect for private property, economic collectivism, corruption and war. That said, the above analysis of the nature of the problem is the easy part. The difficulty rests in ascertaining how to address decades of misinformation regarding international economics. Perhaps the most obvious first step is for Western countries like Australia and the United States to stop subsidising regimes which treat foreign aid as an entitlement and a matter of justice. The governing elites in the underdeveloped world must assume responsibility for decades of misgovernance.