Will More Dollars Save the World?

by William H. Peterson

"Stingy" is the word critics hurl at President Bush's initial foreign aid offer of $100 million to Poland and $25 million to Hungary. Some critics go further and invoke the idea of a new Marshall Plan—this time including the support of Japan and the West generally—for Eastern Europe and, perhaps, another for the Third World as well. The idea brings to mind a variation on an old question: Will hard-currency transfers save the world?

The old question: "Will Dollars Save the World?" That was the title of a 1947 Foundation for Economic Education study, later condensed in *Reader's Digest*, by *Newsweek* economic columnist Henry Hazlitt. Hazlitt questioned the premises of foreign aid in responding to a speech on June 5, 1947, at Harvard University by Secretary of State George Marshall. Marshall had called for vast, coordinated dollar transfers to stagnating war-torn Europe (which was already receiving substantial U.S. war relief). Declared Secretary Marshall:

"The truth of the matter is that Europe's requirements, for the next three or four years, of foreign food and other essential products—principally from America—are so much greater than her present ability to pay that she must have substantial additional help, or face economic, social and political deterioration of a very grave character."

Hazlitt wondered about Marshall's "ability to pay" perspective on Europe. He took note of the Keynesian pattern of postwar European protectionism, inflation, rationing, exchange rate controls, huge public spending, deficit financing, heavy taxation, and wage and price controls. He wondered if dollar aid would hence but temporize the thick jungle of interventionism and not get at the root causes of postwar European stagnation.

Hazlitt contended, long before the advent of the supply-siders, that purchasing power grows out of production, that production is frustrated by government controls, that it thrives on free markets and stable currencies, that the great producing nations are perforce the great consuming nations, that, in essence, *supply creates demand.*

This basic economic truth, the perception of 19th-century French economist Jean-Baptiste Say, had been challenged, at first rather successfully, by John Maynard Keynes. In his *The General Theory of Employment, Interest and Money* (1936), Keynes promoted his own idea of demand management, mainly through government spending, to achieve "full employment." The 1940s (and, indeed, the 1950s and 1960s) were the heyday of Keynesianism, it should be noted, and Marshall's speech and the ensuing era of foreign aid had this going for it.

In any event, after the enactment of the Marshall Plan, the Hazlitt contention was soon put to the test. In 1948, on a June Sunday, without the knowledge or approval of the Allied military occupation authorities (who were of course away from their offices), West German Economics Minister Ludwig Erhard unilaterally and bravely issued a decree wiping out rationing and wage-price controls and introducing a new hard currency, the Deutsche-mark. The decree was effective

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immediately. Said Erhard to the stunned German people: "Now your only ration coupon is the mark."

The American, British, and French authorities, who had appointed Erhard to his post, were aghast. Some charged that he had exceeded his defined powers, that he should be removed. But the deed was done. Said U.S. Commanding General Lucius Clay: "Herr Erhard, my advisers tell me you're making a terrible mistake." "Don't listen to them, General," Erhard replied, "my advisers tell me the same thing."

The advisers were wrong. The German people rolled up their sleeves as never before, and the decontrol action brought about what has since been called "the German Economic Miracle." The moribund, ravaged West German economy snapped back to life, a phoenix soon becoming, ironically, the most prosperous in Europe.

Erhard, who had earned a doctorate in economics from the University of Frankfurt in 1924, who had witnessed the catastrophe of the German super-inflation of the early 1920s, and who followed Adenauer as West Germany's chancellor in 1963, conceded that Marshall Plan dollars helped the German recovery but held that the greater factor by far was the introduction of sound money and the deregulation of the economy.

As he wrote in his *Prosperity Through Competition* (1958), a book describing West Germany's rather radical system of *Soziale Marktwirtschaft* (Responsible Free Market Economy): "What has taken place in Germany . . . is anything but a miracle. It is the result of the honest efforts of a whole people who, in keeping with the principles of liberty, were given the opportunity of using personal initiative and human energy."

With the further successful examples of Japan and the "four tigers" of Singapore, Hong Kong, Taiwan, and South Korea, are not other economic miracles in Eastern Europe and the Third World awaiting non-dependency on foreign aid and a return to freedom and free enterprise?

In this light, does foreign aid really aid? Can it be that U.S. bilateral economic and military support (see accompanying table), along with U.S. multilateral support of international agencies like the World Bank and the International Monetary Fund, act as a net drag on a goodly number of recipient countries—some of which lack even a basic system of private property rights let alone a capital market?

Such support often does a disservice both to the donor and to recipient countries as the interventionist status quo is preserved and precious time and financial resources are wasted. National examples of that waste on all five continents are legion, as Peter Bauer has long demonstrated.

Even politicians occasionally spot the waste. As Secretary of State James Baker observed at a press conference in Warsaw last June: "In the 1970s, we and our allies and Polish people made a mistake. We shoveled a lot of money into this country with no requirement for economic reform."

So notwithstanding more than four decades since its first enunciation, the Hazlitt question is still relevant: *Will dollars save the world?*

An answer may lie in a further quotation from the Erhard book: "If the German example has any value beyond the frontiers of this country, it can only be that of proving to the world at large the blessings of both personal and economic freedom." □

Countries Getting 10 Biggest Shares of U.S. Bilateral Economic and Military Aid

(estimates in millions of dollars in fiscal 1989)

1.	Israel	$3,000
2.	Egypt	$2,400
3.	Pakistan	$627
4.	Turkey	$624
5.	El Salvador	$389
6.	Greece	$351
7.	Philippines	$270
8.	Honduras	$209
9.	Portugal	$163
10.	Guatemala	$146

Source: Congressional Research Service, House Foreign Affairs Committee

Religion in China

by Geoffrey Kain

While playing with our son Julian at a small park in our "home" city of Xiamen one January day, my wife Lisa and I met an American couple in their late 30s and their child who had come to the balmy south from their home in Beijing. Larry was a professional photographer and a painter, and his wife Marilyn had been a teacher of English as a Second Language on a California campus. They had a 9-year-old son, Max, and no plans to return to California or to move anywhere else, for that matter.

Max was being educated at home, his mother acting as teacher. Max looked unhappy. His father was painting, hoping to sell some of his work in Hong Kong soon, and his mother was teaching English at a Beijing college, receiving grant money from her California school. They claimed to have sold their California home and nearly all of their belongings. Larry had quit his lucrative job and here they were—an American family in China. China had its own problems, they admitted, but at least in China you didn't have to worry about having your child abducted from a shopping mall. This remark caused Lisa and me to look again at the apparently lonely 9-year-old in the California Angels baseball cap.

As we shared with them our motivations for living a third year in China and offered some reflections on various places we had traveled, we came to discuss some distinctions between life in the south and life in the north. One of the aspects of our lush Fujian Province that had struck the California couple as being strikingly different from life in dry, dusty Beijing and some other northern cities was the obvious prominence of Buddhism in the south. They had visited several temples in the Fujian cities of Xiamen, Quanzhou, and Fuzhou, and they were startled to see the number of people who came to the temples and worshipped openly. They were not sure whether to ascribe this to a traditionally stronger Buddhism in the south, a less stringent political control in the south, or some combination of the two. Whatever the causes, the temples of the north are typically almost devoid of worshippers, and there are far fewer Chinese who visit the northern temples as tourists or apparent tourists. They simply stay away.

Without question, the temples of the north generally suffered more devastating damage during the most violent years of the Cultural Revolution (1966-76) than did the temples in the south, and many of the northern temples remain gutted, even if their façades have been renovated in the past several years. Nevertheless, it would be a serious mistake to assume that a great many of the southern temples somehow escaped the ravages of the late 1960s. They did not.

Temple renovation in China is widespread and just one manifestation of the building and reparation boom that has turned much of the nation into a vast construction site. I recall the extensive repairs underway on the Lichee Garden Temple in Fuzhou, next to Fuzhou University, when we arrived there to teach in 1984. The temple was in many ways typical. A large monastery, it housed more than 100 monks and had a large library of valuable texts. It had stood on this ground for more than 1,000 years.

During the Cultural Revolution, this temple was battered by Red Guards, swept out, and then converted into a transistor radio factory. On its grounds was constructed a scrap iron salvage

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