

## WESTERN SUBSIDIES AND EASTERN REFORM

*Peter Bauer*

Western subsidies to reformist governments in Eastern Europe are *not generally necessary for the prosperity of these countries and the survival of their governments. The contribution of such subsidies is at best very limited. They are more likely to be damaging. In certain clearly defined exceptional circumstances, reflecting not poverty as such but other legacies of Communist rule, modest support preferably as bilateral grants, might be helpful. But reduction in the trade barriers against exports from these countries would be far more effective.*

### Conventional Arguments for Subsidies

Official subsidies to governments of poor countries are widely seen in the West as a moral, political, and economic imperative. Their progress is said to be of vital importance to the West and it is regarded as impossible without external subsidies. The core argument, popularized as the vicious circle of poverty, has been the central theme of post-war development economics. It was concisely formulated by Nobel Laureate Paul Samuelson (1951, p. 49): "They [the backward nations] cannot get their heads above water because their production is so low that they can spare nothing for capital formation by which the standard of living could be raised."

This argument is refuted by every individual, family, group, community, and country that has emerged from poverty without subsidies. If the argument were valid, we should still be in the Old Stone Age.

Provided they are motivated to improve their lot and are not inhibited by government policy or lack of public security, poor people can

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and do generate or secure sufficient funds for economic advancement. They can save enough even from small incomes for direct investment in agriculture, trading, and many other purposes. They can also work harder or longer or redeploy their resources more productively.

Governments and enterprises of poor countries have access to commercial external funds. Ability to borrow abroad does not depend on the level of income but on responsible financial conduct and productive use of funds.

If property rights are clearly defined and reasonably protected, external commercial funds are available even in the face both of poverty and political risk. Since World War II much foreign investment has taken place in Asia and Africa amid acute political uncertainty. Substantial investment trusts targeted to Eastern Europe have already been established in the West. And Western corporations have set up thousands of joint ventures and subsidiaries in Eastern Europe, including the Soviet Union—that is, in countries where political risk is compounded by an incompletely developed legal system. The skills and attributes that accompany the inflow of equity capital can play the same role in Eastern Europe in transforming methods and habits as they did in many less developed countries (LDCs).

Thus subsidies are not necessary for emergence from poverty. It is indeed an unwarranted and distasteful condescension to argue that while the peoples of poor countries crave material progress, they cannot achieve it without subsidies from the West.

Nor are subsidies sufficient for advance. The many billions of official aid both from the West and the Communist Bloc to Ethiopia, Sudan, and other African countries have not secured their progress. To have money is the result of economic achievement, not its precondition.

## The Politicization of Life

Although subsidies are demonstrably neither necessary nor sufficient for economic advance, it may seem self-evident that they must promote it because they are an inflow of resources. However, this does not follow. This inflow sets up adverse repercussions that can far outweigh any benefit. Some arise whether the subsidies go either to the public or to the private sector; others arise because they go to or through recipient governments.

An inflow of capital raises the real rate of exchange and thereby impairs foreign trade competitiveness. With equity capital this is

usually offset by increased productivity of resources, but that is unlikely with official subsidies.

External subventions promote or reinforce the belief that economic improvement depends on outside forces other than domestic effort. Subsidies encourage governments to seek foreign assistance through beggary or blackmail instead of looking to change at home. Such attitudes often spread from the government or other groups.

Unlike manna from heaven, which descends on the whole population, these subsidies go to the government. They therefore increase its resources, patronage, and power, compared to the rest of society. External subsidies have also helped to sustain governments especially in Africa, whose policies have proved so damaging that only the subsidies have enabled them to remain in power and continue with such destructive policies. Altogether, the subsidies have contributed significantly to the politicization of life in recipient countries.

When life is extensively politicized, people's fortunes come to depend on government policy and administrative decisions. The stakes, both gains and losses in the struggle for power, increase greatly. This encourages or even forces people to divert attention, energy, and resources from productive activity to concern with the outcome of political and administrative decisions.

Politicization of life provokes tension and conflict, especially in countries with different ethnic and cultural groups as in much of the Third World and Eastern Europe. Groups and communities that have lived together peaceably for generations have been set against each other by the politicization promoted by these official subsidies.

Subsidies also make it easier for governments to restrict the inflow of foreign capital, especially equity capital. Aid-recipient governments commend inward foreign equity investment but in practice restrict it because this suits their political purposes and the commercial interests of their supporters.

These restrictions are plainly anomalous when the argument for external subsidies is a shortage of capital. Inflow of equity capital—together with the commercial, administrative, and technical skills that accompany it—have been the prime instrument of the economic advance the world over.

Reformist governments in Eastern Europe are less likely to restrict the inflow of equity investment than LDC governments. But cushioned, by external subsidies, they could still be tempted to do so for political reasons.

## A Double Asymmetry in the Effects of Official Subsidies

Economic advance depends on personal, cultural, and social factors and political arrangements; it does not depend on the cost and volume of investable funds. And because commercial capital from abroad is available to people who can use it productively, it follows that the maximum contribution external subsidies make to economic advance cannot exceed the avoided cost of borrowing, that is, the interest and amortization charges that would have been payable to the creditors as a proportion of GNP.

Thus the most subsidies can do is to reduce the cost of a resource that is not a major factor in economic advance. Any possible benefit would be too small to register in GNP statistics. And as we have seen, the inflow of subsidies sets up adverse repercussions that affect critical political and social factors.

There is a double asymmetry in the effects of official subsidies. First, any favorable effect through the reduction in the cost of investable resources affects a factor not critical for economic advance, while major adverse effects operate on critical determinants. Second, a volume of subsidies too small to benefit economic performance appreciably is nevertheless amply sufficient to set up the adverse effects. It is the relationship of the subsidies to GNP that is relevant to the favorable effect, namely, a reduction in the cost of investable funds. And because the subsidies go to governments, it is the relationship of the subsidies to government receipts and foreign exchange earnings (themselves readily subject to government control) that is relevant to major adverse repercussions. Because GNP is necessarily a large multiple both of tax receipts and foreign exchange earnings, the subsidies must be far larger relative to these magnitudes than to GNP.

It is unequivocal that external subsidies are neither necessary nor sufficient for economic advance. Whether they promote or retard it cannot be established so conclusively. But this uncertainty in no way affects the conclusion that the subsidies can do no more for development than the avoided cost of borrowing and that this modest contribution tends to be offset by adverse repercussions.

It is crucial to recognize that the subsidies entail major adverse consequences. Belief that an inflow of resources must benefit the population at large, and certainly cannot harm it, has promoted the uncritical acceptance of foreign subsidies. Once the damaging repercussions are recognized, a less questioning stance might come to be adopted.

## Subsidies as a Device to Maintain Government Power

Although *government-to-government* subsidies can do little or nothing for economic achievement and advance, they can alleviate acute shortages, especially of imports. By maintaining a minimum level of consumption, the subsidies avert total collapse and conceal from the population, at least temporarily, the worst effects of destructive policies. This result, in turn, helps the government to remain in power and to persist with these policies without provoking popular revolt.

The same process can also apply in reverse. If a shortage of necessities develops for reasons outside the control of the government, and for which no provision could have been made, subsidies might help the government to survive. As we shall see, this possibility bears on Western assistance to the reformists.

## Government Policy and Economic Advance

Multiparty democracy is widely seen as a necessary condition of a market system and of economic improvement. Multiparty democracy *may well be desirable*. But what matters for economic advance, especially improved living standards, is not how the government is established but what is envisaged as its tasks. Whatever its origins, a government is most likely to promote the economic advance and well-being of the people by the effective performance of a specific range of tasks while refraining from extensive control of economic life.

The list of tasks is familiar: public security, which means protection of life and property, including the definition of property rights; maintenance of the value of money; management of external relations in the interests of the population; provision or oversight of basic education, public health, and transport; assistance to those in need who cannot help themselves and are not helped by others. It is by combining these functions with restriction on state economic control that a government can most effectively promote personal freedom and economic welfare.<sup>1</sup>

## Obstacles to Liberalization

In the West, in public discourse on reform in Eastern Europe, introduction of multiparty democracy and establishment of a market

<sup>1</sup>In some instances the subsidies go through the government for subsequent allocation to other entities. In the present context the distinction is immaterial as the distribution and use of the funds require official sanction.

system are usually linked or even identified. This practice is misleading. Multiparty democracy may well be thought beneficial for various reasons, such as conferring legitimacy on a government reducing the dependency of people on a single ruler or party. But the two types of reform are quite distinct. Establishment of a market system from scratch is far more difficult than introducing multiparty democracy.

Reformists in the Soviet Union and elsewhere in the East recognize that replacement of the command economy by a market system is indispensable for economic reform or even for averting economic collapse. Accordingly, they try with differing degrees of commitment to dismantle the command economy. In doing so they attempt an unprecedented task. In the course of history, ruling groups have often introduced a new constitution or established and extended the suffrage. But there is no recorded instance of a government introducing a market system where there was none before. In the West the institutions, attitudes, and modes of conduct of a market order have emerged in the course of centuries of sustained social and economic evolution. People in the Soviet Union have never known a functioning market system and its arrangements. To take a simple example, job search is practically unknown to people in the Soviet Union. They were directed into jobs from the time they left school. This is also true, to a lesser extent, in Eastern Europe. The attempt to establish a market system from scratch is therefore inevitably a leap in the dark.

In the post-Communist countries, the hazards and difficulties of this leap are much exacerbated by major legacies of the command economics. In particular, two distinct but interacting obstacles stand in the way of market-oriented reform: unpreparedness of the people and hostility of the bureaucracies and other established interests.

People who have spent their entire adult lives under a comprehensive command economy are necessarily unfamiliar with a market economy. They face severe difficulties of adaptation that they do not relish. Under the command economy, people's economic fortunes depended on the government. People were not looking for jobs and activities but were directed into them. People were engaged in activities in which production was divorced from the supply of valuable commodities and where output was measured by the cost of inputs, which was unrelated to economic cost. Such people are bewildered by the market system. They find it difficult to accept the opportunities, risks, and rewards of the market. They attribute any economic reverse to malice or exploitation.

Many people in these countries are most apprehensive about the effects of extensive reform on their own fortunes. They fear the steep

rises in prices and housing costs following the removal of subsidies and controls and the withdrawal of state-provided health services.

Reformist governments inevitably have to rely extensively on existing personnel in the public services, including the military, the police, the civil service, the public utilities, and the state enterprises. On grounds both of self-interest and ideology, much of this personnel is opposed to the dismantling of the command economy. They try to frustrate reform by stirring up popular discontent and apprehension and by denying supplies to the private sector or to areas of activity controlled by the reformists. They cannot be expected to surrender, without resistance, the power, positions, and privileges they enjoy. As U.S. Senator Strom Thurmond said, "You can't get a hog to butcher itself." Altogether there is much latent and open opposition to the market system. More international trade and investment could help to overcome some of this hostility, especially through acquainting people with the market order.

### Gradual versus Radical Reform

Faced with these daunting difficulties, two distinct schools of thought have emerged among committed reformists in Eastern Europe: gradualists and radicals. The former argue that the population is not ready for far-reaching change and would respond by resistance, even revolt, or by lethargy and listlessness. They recognize that people, whether as individuals, families, or entire societies, cannot readily absorb abrupt changes. The radicals argue that slow, gradual change enables opponents to marshal their forces and that delay extends the period of unpopularity aroused by reform. They urge that half measures are more likely to discredit the market system than to make it more acceptable. Academician Arbator has written that a small market sector within a largely state-controlled Soviet economy is as unlikely to thrive as a vine grafted onto a telegraph pole.

Strangers to a country and to its political culture are poorly qualified to judge between gradual and rapid change. Two observations favoring the radicals may be in order.

In the West, proposals for economic reform have often elicited dire predictions about the outcome. These predictions have usually been disproved by the results. Examples include the German currency reform of 1948 and Thatcherite policies of the 1980s.

Comprehensive reform need not be shock therapy causing widespread acute hardship. If the measures for reform are carefully thought out, especially the sequence of different measures, the

reforms need not involve extensive hardship. Moreover, some of the changes such as decontrol of prices and rents that harm some groups benefit others. Compensation paid to the former could be financed at least in part by taxation of the beneficiaries.

### What Can the West Do?

There are several things the West can do to promote economic advance in Eastern Europe. First and foremost, Western countries should reduce their trade barriers. Eastern Europe would benefit because international trade acquaints people with the market system; helps to allay suspicions about its operation; and promotes market-oriented attitudes, habits, and conduct, which would emerge only from direct experience.

Although reduction of Western trade barriers can be a potent instrument for economic advance in the circumstances of Eastern Europe, more may be needed to assist the reformists. Hostility to the market by the bureaucracies and popular fears could inhibit economic advance and could also create shortages long before the government can accumulate reserves against such contingencies. Foreign loans may then also be very expensive. To service them may absorb much of the benefits of reform, which would be sufficiently unpopular politically to endanger the government. Even large inflows of commercial capital may not avert such dangers. Such investment benefits the economy as a whole and enlarges the tax base, but does not promptly make funds available to the government. Under these circumstances, subsidies might secure the survival of market-oriented reformist governments by alleviating acute shortages, notably of imports.

This argument for external subsidies hinges on the legacies of Communist rule and is altogether different from that based on poverty. This difference is important for the timing and method of the subsidies. These subsidies should be provided only to governments irrevocably committed to promotion of the market economy. Such reform is both difficult and unpopular. It will be pursued only if without it economic collapse would endanger the government. If subsidies are provided ahead of far-reaching reforms, the reforms will be postponed or abandoned—perhaps forever. Meanwhile, subsidies facilitate the maintenance of military establishments.

Subsidies should be grants not soft loans. President Gorbachev has said that while he would not accept aid he would welcome low-interest loans. But these also represent subsidies: Soft loans or government guaranteed loans compose a substantial grant element. They



also confuse investment with handouts, and they provoke tensions between donors and recipients: Donors see them as assistance; recipients see them as a burden.

The grants should be for a strictly limited period, say three years. This period would be long enough to overcome the obstacles of bureaucratic hostility and popular apprehension. If those obstacles cannot be overcome in a few years, then the support should be withdrawn. Equally if they are overcome, no further support is necessary.

Bilateral grants (going directly from donor to recipient government) are far preferable to multilateral grants (going through the international organizations). The bilateral method permits a vestige of control by the taxpayers, the real donors; termination of bilateral subsidies in the face of wasteful or destructive policies is far easier; a measure of conduct between supplier and user of funds also makes for greater effectiveness; and self-perpetuation and self-aggrandizement can be somewhat more readily restrained.

Another advantage of bilateral subsidies is of special importance in our context. They need to be administered by people wholly in sympathy with the dismantling of the command economy. Such people are even less likely to be found in the international organizations than in the national bureaucracies. The international organizations attract people with a dirigiste or socialist outlook, perhaps because of the distance of these organizations from grassroots politics.

The international organizations do not command expertise not available otherwise. Any specialized knowledge can be readily purchased by the national government departments.

The oft-heard claim is unfounded that the international organizations are disinterested and objective and that, therefore, subsidies allocated by them are more likely to be effective. In fact, the delegates and staffs of these organizations have distinct personal and political interests, which the more energetic and ambitious among them pursue vigorously.

It is often said that the reformists need technical assistance rather than financial support, especially for the development of the human and financial substructure, such as accountants, lawyers, tax inspectors, and computer personnel. But the reformists can purchase these resources. They know best which experts they require and how many of each kind.

Subsidies for general purposes seem preferable to project subsidies. It is easier to secure commercial funds for the latter. And after decades of command economies, it is necessary that people should

understand that projects ought to cover their economic costs; specific subsidies obscure this.

Altogether, the recipients ought to be free to spend the subsidies in whatever direction they think will suit their purposes. If they are thought to deserve financial support, they should be given wide latitude in spending the money. They may even use some funds to pay off redundant personnel to mitigate opposition to reform, or to use it to service debt if they think this would help the credit worthiness of their countries.

It is widely urged that the sovereign debt of Eastern countries should be scaled down or even forgiven altogether as a form of support. Such suggestions raise awkward problems. In general, blanket debt reduction or cancellation specifically rewards the incompetent, profligate, and dishonest compared to those ready to meet their obligations. But the reformists can plausibly argue that they should not be saddled with debts contracted by the rulers of command economies when they themselves are trying to replace the command economy by market order. They can, and do, argue that their predecessors dissipated the loans in directions that have not yielded productive assets. This contention is in no way affected by the fact that much or most of the indebtedness was incurred through subsidized loans from the West.

On the other hand, wholesale default on sovereign debt, however contracted, goes counter to attempts to establish and maintain property rights, a measure that is crucial to the operation of a market system. Perhaps the least of the evils would be if reformist governments were to make sustained, modest payments on the debts contracted by their predecessors. Similarly, some compensation for confiscated property, where its owners or their legitimate heirs are identifiable, would promote confidence in the maintenance of property rights.

The effect of subsidies in raising the real exchange rate and thereby impairing international competitiveness could be minimized by paying the funds into special accounts in the West on which the recipients could draw for buying imports.

Such subsidies involve costs and risks. But these need not be heavy if support goes to committed reformists for a strictly limited period, and if donors are prepared to cut off funds when they recognize failure in the course of that limited period.

There are also risks in refusing support. If the reformists go under and this can be plausibly attributed to lack of external assistance, this failure would undoubtedly lead to demands for much increased subsidies to LDCs. Demise of the reformists would threaten the West

with a flood of refugees and might also pose a real or fictitious security risk.

### Conclusion

The thrust of public discussion, as well as the measures already taken, differ radically from the arguments outlined here. It is the low level of incomes in the Soviet Union and Eastern Europe, rather than the specific legacy of Communist command economies, that is envisaged as the ground for support. Financial assistance, rather than freer trade, is in the foreground. The international organizations, notably the World Bank, the IMF, the European Commission, and the Bank for European Reconstruction and Development, are envisaged as the sources, arbiters, and channels of subsidies. Substantial subsidies have already been provided without any assurance of commitment to reform.

The currently adopted and envisaged methods of assistance to the Eastern governments do not reflect the merits of the case, but rather the climate of opinion, the play of political forces, and above all the influence of the aid lobbies, especially the international organizations, in politics, the media, and the academies.

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## THE PITFALLS OF EXTERNAL AID

*Doug Bandow*

Virtually everyone in the West is rejoicing over President Mikhail Gorbachev's commitment to glasnost and perestroika. The Soviet Union's rush away from Stalinism, Moscow's willingness to allow Eastern Europe to move toward full democracy and independence, and the waning of the Cold War have combined to present former adversaries with a unique opportunity to cooperate economically as well as culturally and politically.

Unfortunately, however, many people in both the East and West are proposing significant "aid" to reform governments in Eastern Europe and the USSR. The widespread pressure for large-scale financial transfers makes Peter Bauer's paper a particularly important one. It should be read by officials in Washington as well as Moscow.

### Forty Years of Failure

Peter Bauer's basic thesis—that "Western subsidies to reformist governments in Eastern Europe are not generally necessary for the prosperity of these countries and the survival of their governments"—is absolutely correct. We have had roughly 40 years of experience with foreign aid, both bilateral and multilateral, and the results have been quite disappointing. Very few recipients of foreign aid have ever subsequently shown economic success: South Korea and Taiwan are a couple of very rare exceptions, and they probably prospered in spite of, rather than because of, the money they received from the U.S. government.

### Reform Begins at Home

Unfortunately, receipt of foreign assistance has a number of deleterious consequences. Perhaps the most fundamental problem, one

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touched on by Bauer, is that international transfers encourage the belief that outside forces control the development process. That is, many people, including those in poorer countries themselves, believe that foreign aid is necessary for their nations to grow and prosper. Thus, they do not critically examine domestic conditions that may inhibit development.

This is a very real danger for the Soviet Union and the Eastern European countries that are attempting to reform their economies. Rigid central planning has proved to be a disaster; only a transition to a market economy can get those countries moving again. But if public officials and average citizens alike place their hopes in receiving funds from abroad and lose sight of the many politically difficult domestic reforms that are necessary, they will find themselves growing poorer, not richer.

How can reform governments and, more importantly, domestic industries seeking to modernize and become efficient, acquire the necessary capital? Bauer's point about what justifies international loans is particularly important. As he explains, "Ability to borrow abroad does not depend on the level of income but on responsible financial conduct and the productive use of funds." Although Western banks have finally—and wisely—grown more cautious after greatly contributing to the \$1.3 trillion owed by Third World countries, they are still willing to extend credit where borrowers seem responsible and want the funds to undertake projects that make economic sense. Again, it is domestic reforms, which will convince lenders that the money will be well spent and ultimately repaid, that is the key to economic success.

## The Perverse Effects of International Lending Organizations

Unfortunately, this willingness by lenders to demand market discipline by borrowers has never been exhibited by the international lending organizations—the IMF, World Bank, and regional institutions. The multilateral development banks have uniformly favored government projects; the World Bank helped establish many of the failing state enterprises that it now says should be privatized; the Bank even continues to pour money into such organizations to "modernize" them, actually encouraging borrowers to resist privatization. The newly formed European Bank for Reconstruction and Development (EBRD), designed to lend to Eastern Europe and the USSR, is likely to be no different. Thus, multilateral loans may

actually perpetuate the existence of money-losing enterprises that are draining away scarce resources from reform governments.

Particularly dangerous would be international lending to governments that have demonstrated no firm commitment either to democracy or market economics, such as Bulgaria and Romania. As Bauer points out, aid that may "do little or nothing for economic achievement and advance" may nevertheless "alleviate acute shortages," thereby helping to "avert total collapse and conceal from the population, at least temporarily, the worst effects of destructive policies." Which, "in turn, helps the government to remain in power and to persist with these policies without provoking popular revolt."

### Promoting Market Reforms

Western governments committed to seeing glasnost and perestroika succeed, along with the reform governments struggling to help their people achieve a better life, need to focus on promoting market economic reforms. The general exhilaration over the movement toward political freedom is justified, but, as Bauer rightly points out, is not enough. To prosper, and for democracy to firmly take root, reform governments must replace their failing command economies with free-market systems. For the reasons cited by Bauer this is no easy task. Opposition to the market and resentment of a system that allows failure as well as success is strong even in the industrialized West; not surprisingly, there will be powerful forces against change in former command systems.

What can the West do to help reformers in the USSR and Eastern Europe succeed? Bauer correctly points to lowering trade barriers. America's professed policy of promoting development in the Caribbean, for instance, has been hobbled by the imposition of sugar quotas to protect domestic interests, which has blocked access to the most obvious market for the region's most important agricultural crop. It is critical that the West not respond to reforming governments in Eastern Europe and the USSR in the same way. By offering markets for products, the industrialized nations can best assist the development of efficient private sector industries elsewhere in the world.

More controversial is Bauer's support for narrowly targeted foreign aid. Bauer rightly warns that official transfers are more likely to hinder than advance liberal economic policies. However, he suggests that aid that helps reduce serious shortages, especially of imports, "might secure the survival of market-oriented reformist governments."

In theory, Bauer's argument has much to recommend it. Official transfers might promote the shift to a market economy if the following conditions were present: (a) the government is "irrevocably committed to promotion of the market economy" and would be likely to collapse without aid because of the economic problems left over from the previous command system; (b) the aid is administered by people in sympathy with the move to a market economy; (c) the donor is willing to terminate the transfers if the recipient backslides; (d) the assistance is in the form of grants rather than loans; (e) the donations are bilateral rather than multilateral; and (f) the transfers are temporary.

The practical problems in implementing this theoretical policy, however, are enormous. How do we know that the government, which may incorporate different parties and factions and may be beset by powerful institutional resistance and special interest pressure, is "irrevocably committed to promotion of the market economy?" How do we judge the likelihood of a collapse without aid? (Poland, for instance, seems to be moving in the right direction despite not having received the levels of aid that it had initially requested.)

Where do we find aid administrators who support market reforms? How do we convince government officials to admit failure and cut off assistance—something neither bilateral nor multilateral officials have ever proved very willing to do—if the reformist government falters? And how do we overcome a problem acknowledged by Bauer, namely, the tendency of programs to be self-perpetuating? The Marshall Plan did end, but the scope of government and power of interest groups have both greatly expanded over the last four decades. And although the evidence is overwhelming that American transfers to poor states have done nothing to promote overall development, the programs continue.

Indeed, an equally serious, but more subtle, problem is the ability of special interests and bureaucracies to twist even well-intentioned programs to their own advantage. External aid, for example, has been tied to the purchase of U.S. products, and monies are almost invariably allocated to advance perceived U.S. political interests. Trying to implement Bauer's theoretically well-conceived assistance program would risk creating all of the deleterious effects that he so eloquently catalogues elsewhere in his paper.

## Debt Relief

Interestingly, the one form of "aid" that might have the least perverse impact on reformist governments is the one dismissed out of

hand by Bauer—debt relief. He worries that it would reward the “profligate,” yet the debt forgone would have been accrued by ousted Communist regimes, rather than the new democratic governments. Contrary to his argument, there is nothing inconsistent with Western governments agreeing not to demand payment on debt amassed by illegitimate Stalinist systems and market reformers guaranteeing property rights and providing for restitution to individuals of confiscated assets. And a one-time debt write-down or forgiveness would not provide more power to politicians and bureaucracies, subsidize statist economic policies, or have most of the other ill-effects of official financial transfers.

### Conclusion

Bauer’s message is an important one, and it should be heeded by those in the West who want to assist and those in the East who have the responsibility for implementing needed reforms. Official aid transfers would be more likely to hurt rather than help. Instead, reformers need to recognize that the only way to create the conditions necessary for self-sustaining economic growth is to move toward a market economy as fast as possible.