

Aid Allocation when Aid is Inadequate: Consequences of the Non-Implementation of the Pearson Report

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AID ALLOCATION WHEN AID IS INADEQUATE

Problems of the Non-Implementation of the Pearson Report

by

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Summary

The aid targets of the Pearson Report are not unreasonable, but — as was clear well before the report was published — stand no chance of being implemented. Since the balance of evidence is that aid furthers economic development, aid allocation under conditions of increasingly serious aid scarcity requires attention. Aid can be used to promote self-reliance rather than dependence in the recipient country, but this requires a very large shift into sectors showing high rates of social return over cost, major contributions to income equalisation, or the capacity to increase the recipient country prospects of paying for imports by exports, and/or for the surplus required for development by domestic efforts. Criteria of contribution to national self-reliance, applied by recipient and a donor together in advance of a project, are likely to be much more useful than paternalistic attempts to impose “performance criteria” after the event.

I INTRODUCTION

The Pearson Commission, unlike some of its critics, rightly refused to "pick any targets one likes from the air".¹ Its "net aid" target of 0.7 per cent of donors' GNP by 1975² is aligned with (a) the requirements estimated by the UN Committee for the Second Development Decade (the Tinbergen Committee) for a 6 per cent yearly growth of national income in poor countries, a rate which they considered otherwise feasible; and (b) the recommendations agreed by less developed and developed countries at the second UN Conference on Trade and Development at New Delhi in 1968.³ Unfortunately, no amount of agreement upon, and consistency among, non-binding targets by non-governmental meetings can secure the implementation of those targets. Although the Pearson goals represent the bare minima that could give even unreformed aid a chance to accelerate development significantly throughout the Third World, it was perfectly clear while the Report was being written that such minima would not be attained, and it has become clearer since. Therefore certain questions about the usefulness of aid to development, its concentration among countries and projects, and its role in helping the recipient towards self-reliance become crucial.⁴

II THE WORLD DECLINE OF AID

Commissioner Lewis points out that the 1 per cent target for flow of public and private resources by 1975 would represent "a drastic reversal of trends"⁵ but expects that "all but two (OECD) countries will be able to report concrete measures (to the World Bank meeting in September) 1971, thus putting the pressure of the entire world community on these two".⁶ It is essential to resist the

emphasis on the 1 per cent total flow target, because total world flows of private resources are little affected by one donor's acts. If there is less British private investment in Guyana, then more US private investment may *ipso facto* become profitable. For this and other reasons, private flow targets (unlike aid targets) make little sense, because taxation and even exchange-control policies by developed countries exercise little, if any, impact on the *net* flow of private capital to less developed countries. Moreover, by aggregating private flows into aid targets, we conceal the fact that private flows contain no grant element; indeed, since investment is thought to be riskier in poor countries, the investor habitually requires a higher rate of return there.⁷ Nor in many cases is there a net transfer of foreign exchange, because outflow of capital *plus profit repatriation* exceeds inflow of new capital.⁸ Private foreign investment, in some sectors under some circumstances, can surely make a net contribution to development; but it is in no sense aid, nor is its volume effectively controlled by donor governments. It is therefore on the 0.7 per cent target for "net aid" that attention must be concentrated.⁹

The Pearson Report does not clearly tell us *how* drastic a reversal of trends is needed to achieve this modest goal. The OECD donors' net aid/GNP ratio fell steadily from a peak of 0.54 per cent in 1961 to 0.38 per cent in 1968, the last figure available to the Commissioners,¹⁰ and fell further to 0.36 per cent in 1969 and 0.34 per cent in 1970¹¹—less than half the target percentage for 1975. Even in absolute terms, the picture is bleak. OECD net aid rose 14 per cent in dollar terms from 1964 to 1970,¹² while export goods prices rose 11 per cent¹³ and recipient populations by 15 per cent.¹⁴ Since interest payments ate up a rising share of net aid,¹⁵ the remaining net transfer—deflated to allow for rising prices of aid goods—fell by about 2½ per cent per year, per recipient person, between 1964 and 1970.

The omens for the 1970s are terrible. In August 1971, one month before the meeting at which the Pearson Commission recommended the World Bank to call donors to account for progress towards its targets, Mr Nixon announced that the USA—already the world's most gravely defaulting donor—was to cut aid by 10 per cent to protect its foreign balance. The USA (and therefore other donors too) is mean and slow about replenishment of IDA.¹⁶ As when the Report appeared (pp. 151–2), donors and recipients wish to phase out food aid, in 1967 totalling 18 per cent of all aid and £1,500 million of US aid alone; then as now, to "recognize that the political support for food aid is somewhat different from that for foreign assistance (but) that the United States should face this problem squarely" (p. 152) is hardly an adequate response to the issue. How is Congress to be persuaded to switch 40 per cent of US net aid from costless farm support¹⁷ to real resource sacrifice for other countries?

Hence the cat of poverty is not going to be drowned in the cream of aid. It therefore becomes crucial to examine the relation between the small amounts of cream available in the past (and the future) and the sleekness or thrombosis of the recipients. By definition, *sufficient* aid induces growth; and one can identify a group of countries that received very large amounts of aid¹⁸ in the 1950s and early 1960s and used it to generate self-sustaining growth, thereby cutting aid requirements in the late 1960s.¹⁹ Chenery associates Israel, Taiwan, Jordan, Greece, Puerto Rico, South Korea and Panama with this "high-aid" strategy.²⁰ Indeed, if aid helps to finance "critical-minimum-effort"²¹ rates of savings-and-growth below which self-sustained development is unlikely, one would expect it to show increasing returns: a miniscule dribble of aid is useless, a slightly bigger dribble is nearly useless, but a substantial flow produces sustained results and can thus be turned off after a while without harm. That is probably an important reason why it is so hard to find relationships between past dribbles received²² and the recipients' performance. Nevertheless, the

understanding of such relationships is vital for a future in which aid will be increasingly scarce.

III AID AND GROWTH

Several linear regressions have been carried out to relate "aid" (or some more inclusive indicator of overseas capital inflows) with recipient "growth" (or with domestic saving, which is supposed to support such inflows in creating capital to produce growth). The secondary sources citing such regressions usually specify data and primary sources extremely incompletely, and often do not clearly define the countries, periods or variables for which the regression is being carried out. This means that quantitative results cannot be interpersonally falsified (the only criterion for their scientific validity); nor can one even form an estimate of likely biases in the basic data from which the results are obtained. Apart from this, the aid variable chosen—where it can be determined—is, as will be shown, seldom suited to testing the hypothesis under review. Nevertheless, the central importance of the aid-growth relationship (and the Commissioners' apparent insecurity about it²³) perhaps make it worthwhile to set out the quantitative estimates that do exist. This is done in Table 1.

This table leaves a confused impression, partly because of conflicting results, but mainly because of conflicting methods, especially regarding treatment of causality and choices of variables and lags. One result stands out clearly: the current foreign deficit (imports less exports, visible and invisible) is inversely related to domestic saving in the same year. It is tempting, but as Mrs Stewart has shown²⁴ wholly misleading, to rename the current foreign deficit "capital inflow" or "foreign saving" and to regard the regressions as saddling it with the blame for low domestic saving; the causation is exactly the other way round. If a country (a) produces for domestic consumption roughly as much as it consumes, but (b) saves less than it invests, then (c) the gap must be filled by an excess of imports over exports. If a country (d) consumes more than it produces for domestic consumption, then even if (e) it diverts enough spending from consumption to saving to pay for its total investment, (f) it still is not saving enough to avoid an import surplus. The causation runs from deficient domestic saving to a current-account deficit, not vice versa. There is every reason to expect current-account deficits and inadequate domestic savings to be linked—the latter as cause, the former as effect—and for them to be jointly associated as causes of slow growth, because of the often deflationary steps taken to correct the deficit, and also because of the need to divert potential economic surplus to paying foreigners high interest on the often short-term loans needed to cover the deficit. But it is misleading to blame genuine long-term foreign capital—especially aid—for the inadequate domestic saving that it remedies.

Low domestic saving induces an import surplus, which retards growth. But the longer the term, and the easier the terms, on which that surplus can be financed, the better for future saving and growth. Grants (or safe depletions of reserves) are best of all, then concessional loans, then long-term commercial loans, and worst of all are short-term loans, particularly export credits, which must be repaid too soon for the borrowing country to risk turning them into useful durable capital. Foreign deficits harm growth; given the foreign deficit, the larger the share that is financed by *true capital inflow*, ideally aid, the better. Investment helps growth; while a country is poor, it may need a temporary foreign deficit to support investment; insofar as poor countries can finance growth-generating investment only by growth-retarding deficits, those deficits had better be financed in a way that helps the recipient to minimise their ill-effects and to bring them to an end, *inter alia* by raising the yield of investment as a whole, but also by increasing domestic savings capacity.

TABLE 1. AID-TYPE AND GROWTH-TYPE VARIABLES: QUANTITATIVE RELATIONSHIPS

"Dependent" variable	"Independent" variable	Sample	Quantitative results	Period	Source
I. CROSS-SECTION					
1. Growth of GDP	Aid per head	51 LDCs ^a	"No significant correlation (coefficient: 0.16)"(?) ^b	1960-65	OECD
2. Growth of GNP	Aid/GNP ratio	15 countries, Africa and Asia	$Y = 4.8 + 0.18 (0.26) A/Y$ $r^2 = 0.33$	1962-64	Griffin and Enos ^c
3. Growth of GNP	Aid/GNP ratio	12 countries Latin America	$Y = 42.97 - 6.78 (?) A/Y$ $r^2 = 0.13$	1957-64	Griffin and Enos ^d
4. "Economic growth (of GDP)"	Inflows of official capital and guaranteed export credits	40 LDCs	"No correlation"	1960-65	OECD ^e
5. "Growth"	Current foreign deficit	"Large" LDCs	"Marked positive link"	?	} Chenery, citing S. Robinson ^f
6. "Growth"	Current foreign deficit	All available LDCs	Less marked, but significant greater than domestic saving	?	
7. Domestic saving/income	Current foreign deficit	32 LDCs	$S/Y = 11.2 - 0.73 (0.11) (F/Y)$ $r^2 = 0.54$	1962-64	Griffin ^g
8. " " " " " "	" " " " " "	13 countries Asia & Mid-East	$S/Y = 16.1 - 0.82 (0.52) (F/Y)$ $r^2 = 0.71$	1962-64	Griffin ¹
9. " " " " " "	" " " " " "	ditto exc. Israel	$S/Y = 16.3 - 1.14 (0.59) (F/Y)$ $r^2 = 0.90$	"	Griffin and Enos
10. Domestic saving	" " " "	18 countries Latin America	$S = 0.1716 (0.005) Y - 0.06702 (0.204) F$ $r^2 = 0.75$	About 1960	Griffin ^h
11. Net domestic saving/income	Current foreign deficit/income	33 countries (11 LDCs) various periods	1% rise in F/Y linked with 0.58% fall in saving ratio	Various 1880-1961	Clark ^k
II. TIME-SERIES					
12. Domestic saving/income	Current foreign deficit	14 years, Colombia	$S/Y = 21.5 - 0.84 (0.29) (F/Y)$ $r^2 = 0.43$	1950-63	Griffin ¹
13. Growth in GNP per person	Aid/GNP ratio <i>last year</i>	8 years, Turkey	$g = 12.5 - 0.047 (0.011) (A/Y) (t-1)$ $r^2 = 0.62$	1957-64	Griffin and Enos
14. Domestic saving	Current foreign deficit	21 years, Brazil	$S = 1.78 + 0.15 (0.02) Y (t-1) - 0.156 (0.33) F$ $r^2 = 0.84$	1940-60	Leff
15. " " " " " "	" " " " " "	14 years, Brazil	$S = 3.16 + 0.16 (0.02) Y (t-1) + 0.594 (0.44) F$ $r^2 = 0.83$	1947-60	Leff
16. Gross investment	" " " "	21 years, Brazil	$I = 0.78 + 0.17 (?) Y (t-1) + 0.849 (?) F$ $r^2 = 0.90$	1947-60	Leff
17. Domestic saving	Capital inflow	?	Negative	?	Weisskopf, in Griffin ²

Sources: OECD is *DAC* 1968, pp. 126-8; K. B. Griffin and J. L. Enos, "Foreign Assistance: Objectives and Consequences", *Economic Development and Cultural Change*, April 1970, pp. 318-27; H. B. Chenery, in *WG*, p. 37., "Griffin 1" is in *Bulletin of the Oxford University Institute of Economics and Statistics*, May 1970, pp. 99-112 ("Foreign Capital, Domestic Savings and Economic Development") and "Griffin 2" is his "Reply" to comments in *ibid*, May 1971; C. Clark, *Population Growth and Land Use*, Macmillan, 1967, p. 268-70, cited in "Griffin 1" as is N. H. Leff, "Marginal Savings Rates in the Development Process: the Brazilian Experience", *Economic Journal*, September 1968, pp. 615-16.

Notes to Table 1 (opposite):

^a Stated to contain over 80% of populations of all LDCs, (presumably) excluding China.

^b Not stated if r , or r^2 , or the coefficient in some regression equation. If, as one should presume, it is r^2 , it is significant at 5 per cent.

^c "Using United Nations data for the period 1962-64" (full reference).

^d "We have used information collected by the US Agency for International Development."

^e No further information is given in this citation from a restricted paper (IBRD, *Economic Growth, Trade and the Balance of Payments in the Developing Countries 1960-65*, Staff Paper of 15 March, 1968).

^f Chenery says that "a number of studies" give "regression analyses [that] identify factors that are important to growth [but not necessarily] casual relationships". He cites one study as evidence of the aid-growth link, S. Robinson, "Aggregate Production Functions and Growth Models in Economic Development: a Cross-section Study", Ph.D. dissertation, Harvard University, 1969.

^g The reference in Griffin 1 is "using United Nations data", but Griffin and Enos, *loc cit.*, refer us to *UN World Economic Survey, 1965* (full reference) for this and the next two results.

^h Griffin 1 cites Inter-American Committee of the Alliance for Progress, Organization of American States, *La Brecha Externa de la America Latina, 1968-1973*, Washington, December, 1968, p. 30.

ⁱ Clark regresses net savings as a percentage of NNP at factor cost on (i) the logarithm of income per head in 1950 dollars, (ii) the decadal rate of population growth, (iii) war damage as a multiple of 1938 NNP at factor cost, (iv) a dummy variable, zero pre-1955 and 1 thereafter—variables which we must assume constant for our conclusion regarding (v) current foreign deficit/NNP at factor cost. He gives full primary data sources.

So much for the one clear result of Table 1—the correlations numbered 7, 8, 9, 10, 11, 12, 14 and 17,²⁵ suggesting that a foreign deficit is linked to its root cause, low domestic saving. The correlations 5 and 6 try to establish a stronger conclusion in the opposite sense: that, presumably over a longer period, *being permitted* to run a big foreign deficit helps poor countries, especially big ones, to grow. There is too little information in the secondary source (the only one available to me) to assess this evidence, but it gets some indirect support from correlation 16, showing gross investment rising with the foreign deficit.

This result, in a particularly plausible version—that *concessionary* means to run a foreign deficit promote growth—has recently come under spirited attack, notably by Griffin.

The first blast was DAC 1968 (correlations 1 and 4) though strictly speaking 1 does show a significant (at 5 per cent) and positive aid-growth link for 51 ldecs while no details on 4 are given. The Griffin-Enos results are based on 2, 3 and 13. Correlation 2 shows a *positive* aid-growth link for fifteen countries in Africa and Asia, significant at 10 per cent, and suggesting, like correlation 1, that a 1 per cent rise in aid/income ratios is associated with about 0.2 per cent of extra yearly income growth. Correlation 3 shows a *negative* relationship for twelve countries in Latin America, but is not significant even at 10 per cent, and suggests, not very plausibly, that a Latin American country lucky enough to get no aid in 1957–64 would have grown at 43 per cent per year, but that each 1 per cent added to GNP by aid reduces the figure of 43 by 7. Correlation 13 is not much more credible, as it means that deprivation of aid would have produced 12½ per cent yearly growth of real income per head in Turkey from 1957 to 1964, a figure never to my knowledge sustained anywhere. So we need not perhaps take too tragically the implication—although the regression coefficient is statistically significant at 0.5 per cent—that each 1 per cent added to GNP by aid cuts that 12.5 by 0.047. In other words, the only quantitative links remotely *credible* in respect of overall growth indicated and *significant* statistically—equations 1 and 2—do show a positive, though weak, association between growth and aid. Given the small aid/GNP ratios of most poor countries, the weakness of the indicators chosen for the regressions, and the familiar deficiencies of the GNP data, the capacity of regressions to suggest even this is rather surprising. Certainly one should not assert that the whole aid ragbag—bribes, concealed military support, airports and hotels, export promotion and all—has made nearly *enough* contributions to *development*. But, despite everything it seems to have made *some* contribution to *growth*. Papanek's forthcoming papers (*Economic Journal*, 1972; *Journal of Political Economy*, 1973) amply confirm this. Indeed the Indian case renders it rather surprising that the reverse can be suggested. It is in principle possible, as Griffin suggests, that aid replaces almost as much domestic saving as it encourages (though a long-period analysis would be needed to test this) and is especially prone to support ventures with low returns; but he has come nowhere near proving that such dangers outweigh the basic common-sense of "more means more". Gifts of food might sometimes make people too lazy to hunt, or might raise their metabolic rate; but the general proposition that gifts of food reduce the growth rate of bodies is not very plausible, though it is true that food is generally given to people whose bodies have been growing slowly.

Before lots more regressions are run, it is worth asking just what relationship between aid and growth we are seeking to measure. Not one of the correlations linking "aid" to other things is accompanied by information about what exactly counts as aid, or even whether repayments of capital and/or interest have been deducted from gross flows. Aid is supposed to promote growth (a) by transferring resources to raise the recipient's economic surplus, thereby helping it to "invest more than it can save", or more generally to increase the resources for growth-inducing out-

lays, including some education and health expenditures and even some part of the extra food consumption of the *working* poor as well as most conventional investment; and (b) by enabling the recipient to "import more than it can export", insofar as it is impeded from building up a base for growth by lack of foreign exchange plus imperfect substitutability of domestic for foreign resources.

The supposed contribution of aid to growth, in its resource transfer role, can be measured only by the "grant element" of gross flows of aid—grants *plus* the discounted present value of the difference between concessional terms and "normal terms". The grant element is calculated for major *donors* by DAC each year—assuming 10 per cent interest with no grace period as "normal terms"—and is typically about 80 per cent of gross DAC aid, but this varies enormously among *recipients*, and considerably for the same recipient over time. If it were possible to estimate the effects of tying in raising the price of aid-financed exports to *each recipient* (or for different years to the same recipient), the proportion of gross (crude) aid comprising such overpricing should be further deducted from gross grant-element aid, before international or intertemporal comparison of true resource inflows are made. At present, however, while it is probably about right that world tying affects three-quarters of aid and raises the prices of tied goods by a fifth, no cross-national or intertemporal estimates of the volume of tied aid *by recipient* are available. The first step towards estimating the true aid resource inflow to each ldc would be for OECD (DAC) or the World Bank to estimate grant-equivalent aid, by years and recipients. Allowing for differences in tying would be a refinement.

The contribution of aid to growth, as "import-enabler", is properly measured by net transfer (gross aid, minus capital repayments, minus interest repayments). Probably the correlations in Table 1 use the net *aid* figures (not net of interest repayments), which are far less difficult to come by on a recipient basis. A time-series of net aid (and even more of gross aid) will substantially overstate the "import-enabling" contribution in later years, as grace periods end and repayments of interest (and capital) build up. A cross-section will similarly overstate the relative amount of "import-enabling" done by aid in countries such as India, with a high ratio of loans to grants, and with aid programmes of fairly long standing, so that interest (and capital) payments on old aid loans loom large. In both cases any positive aid-growth link would be weakened. The first step towards estimating the true import-enabling aid inflow to each ldc would be for DAC or IBRD to estimate net transfer, by years and recipients. Once more, allowing for differences in tying—in this case by deducting the "overprice" component of each year's *gross* aid from that year's net transfer, which might well become negative—would be a welcome refinement. And measures of both "resource-transferring" and "import-enabling" aid should include aid from non-DAC sources.

Does one measure "aid", when relating it to growth, as a total or as a proportion of recipient income, imports, investment or population? Obviously a given total of aid will make a proportionately smaller contribution to growth of a relatively larger total base national product. Some sort of aid/income ratio, therefore, is indicated in measuring resource contribution from aid. As for import contribution, an aid/import ratio is a tempting mistake; it would make the donation of weighty aid to a small country statistically very difficult, because of its relatively high import needs. Aid is supposed to add *extra* import capacity, and once more it is relative to income that this contributes to income growth. Hence the use of aid/income ratios (though not of the aid measures) in correlations 2, 3 and 13 is justified, but it is hard to see why aid *per head* should be regressed on growth of *total* GDP in 1.

We thus need to regress "growth" on the ratio to output of (a) grant equivalent of gross aid, (b) net transfer, both preferably

after deduction for tying.²⁶ "Growth" itself presents fewer problems than usual. Differential aid has unfortunately not been so used as to promote differential birth-rate reduction, and the choice of income-per-head rather than total output therefore has little to recommend it, as it will reduce the goodness of fit for quite spurious reasons. Nor is the choice of gross or net, factor cost or market price, likely to be *very* important in time-series or cross-section analysis. It can, however, be important to measure national rather than domestic product; in mid-1971 the IBRD rejected an application for aid from the Gabon on the grounds that most benefit would accrue to persons living in France.

Pricing raises a few problems. In measuring growth, output should of course be measured at constant prices for each country—preferably with a base-year near the middle of the period under test. If a time-series is being used, aid should be deflated to allow for changing dollar-import prices to the recipient country. If recipient countries overvalue their currencies to different degrees the true value of aid both in its "resource-transferring" and its "import-enabling" role is differentially understated among observations in a cross-section analysis; this may not be too serious because the value of all tradeables in GNP (i.e. most goods, as opposed to most services) is understated too, so that the effect on the aid/GNP ratio is proportionately much smaller than on aid alone.

The final problem, and perhaps the most interesting theoretically, is the length of time we should expect to elapse before aid promotes growth.²⁷ All the cross-sections reported in Table 1 correlate observations on a country's aid (or other deficit-supporting) receipts and its growth (or savings) performance in the same period. Apart from the point, made above, that inadequate saving—perhaps partly caused by low income and slow growth—*causes* the need for deficit support, including aid, it is hard to see why extra aid-financed investment (or imports) should be expected to produce instantaneous income, especially by those who believe, with much justice, that aid has been excessively concentrated on projects with very long gestation periods. This weakening of the measured aid-growth link by the failure to lag growth is especially serious if the period under review is very short, as in correlation 2. If we are testing whether aid (or in general capital inflow) "causes" domestic saving, then not only does failure to lag saving involve us in confusing the issue with that of inadequate saving as a cause of the current foreign deficit, but also a rather long lag is needed. The theoretical link of aid to savings is that (1) aid raises the economic surplus, including investment; (2) after a time, this raises income-per-head; (3) after more time, the share of income saved also goes up.

It is not clear what precise lags between aid (or even long-term capital inflow—though there is really no point in regarding the correlations that include short-term inflows too, such as 4-12 and 14-16, as tests of whether such inflows "cause" saving or growth) and growth or savings are appropriate. One year is probably too little even for growth—think of Durgapur!—and certainly for saving. Ideally some way of sorting out a whole series of different aid-growth lags, by distributed-lag or Fourier-series or spectral analysis, would be in order. It could be argued that "import-enabling" aid, i.e. net transfer, contributes to growth *sooner* than "resource-transferring" aid, i.e. grant-element of gross flows, and should thus be lagged by less.

Ultimately, then, testing for a causal link between aid and growth involves regressing the trend rate of growth of (say) GNP at constant prices, upon *two* proportions (both suitably lagged) of that dependent variable: aid, from all sources, as net transfer and as gross grant element.²⁸ Both time-series and cross-section analysis should be tried; the effect of excluding certain *a priori* notorious "aid" transfers, donors or recipients from the cross-sections should be attempted; and alternative lag structures should at least be tried. Linearity should not be assumed. The only remotely plausible

evidence so far (correlations 1 and 2 only) does suggest some weak positive link—even measuring aid crudely, and lumping everything (from DAC sources) in, and not lagging—between aid, typically 10 per cent of recipient investment and growth. The real relationship between “good” aid and growth would perhaps be considerably stronger, but at present empirical statistics is silent on that relationship.

I recognize that it is irritating for statistical pioneers to be confronted with carping methodological criticism instead of counter-evidence. But a proper statistical test of the causal link between aid and growth would require several man-years of sustained effort. Merely to reiterate correlations, before the direction of causation or even the definition of variables has been clarified, is in this case to risk “falsisms”. There is little difference between “Coffee puts you to sleep because (since one observes that it is taken when people feel sleepy) it has a *virtus dormitiva*” and “Foreign capital retards growth because, suitably defined, it flows in while saving and growth are low”

IV AID AND SELF-RELIANT GROWTH

Whatever the weaknesses of the correlations, one cannot deny that aid has done *too little* to promote growth, not (as the Commissioners rightly emphasize) because of any widespread graft and incompetence, but because of insufficient attention to what countries, sectors or projects should be supported with what types of aid. This is largely because the “theory of aid” as a path to self-reliant growth, admirably stated by Chenery and Strout,²⁹ has never been applied when deciding whether to accept or reject aid applications, let alone whether to make them. For example, suppose we take the “two-gap” approach;³⁰ if growth in a poor country is constrained by savings shortage it requires more gross grant-equivalent aid, if by foreign-exchange shortage more net transfer, and the steps to maximise extra recipient income from any allocation (subject to whatever unavoidable commercial, political and inertial limitations may exist) need to allow for this. But the failure to apply aid-allocation theory to practical aid decisions is far more fundamental.

How is aid supposed to promote self-reliant growth? The argument runs as follows. The recipient cannot finance gross savings of more than about 10 per cent of GNP, owing to poverty. Depreciation eats up at least 3 per cent of GNP. If population is growing at $2\frac{1}{3}$ per cent per year, and 3 units of new capital are needed to produce each extra unit of output, this leaves no room at all for increased income-per-head unless there is some aid. Each extra 3 per cent of GNP supplied to the recipient as aid will permit an extra 1 per cent of growth if the domestic savings rate and the capital/output ratio stay constant. A large part of the extra income can be pre-empted for extra saving, to finance investment domestically. After a period, the domestic savings rate will have risen enough to finance investment sufficient to sustain satisfactory growth without aid.³¹

It should be noted that the extreme crudity of this model can be softened, and that the softening process itself points to criteria for aid allocation that will improve its contribution to self-reliant growth. Let us consider some criticisms.

(a) “Population growth is not a constant”. For each 1 per cent cut in population growth, there is an extra 1 per cent of income per head. This not only cuts the investment and aid needed for satisfactory growth of income-per-head. On the reasonable assumption that marginal savings rates are higher (or more easily raised by policy) than average rates—that people object less if saving or even taxation eats into *prospective* consumption than if it erodes *actual* living standards already enjoyed—this means a proportionately larger rise in domestic saving to finance ultimately self-reliant investment. Furthermore, since cutting population growth in practice

means cutting birth-rates, it reduces the share in the population of infants who must consume but cannot produce, and increases the share of women freed from pregnancy, lactation or child-minding during seasonal peaks and hence able to increase farm output; both effects increase savings rates further. Finally and more familiarly, extra children divert public outlays towards health and education services with very long time-lags before extra output (if any) is induced; fewer children *ipso facto* free public resources for more productive uses. Both the savings and the income-per-head criterion³² thus point strongly to associating aid with birth control.

(b) "The marginal capital/output ratio is not fixed, across projects or over countries or over time." There is a *prima facie* case for selecting for aid projects *and countries* where the ratio is low—or, if a country is clearly constrained *ex ante* by foreign exchange rather than total domestic-plus-foreign savings, where the marginal foreign-exchange/output ratio is low. It might be argued that such a policy, while good for short-run growth in that aid-financed capital will generate a lot of real income, is bad for long-run self-reliant growth in that the income is "wasted" in wages spent on consumption instead of going to profits that are saved and reinvested. This argument will be dealt with in detail in a forthcoming book;³³ its weaknesses can only be indicated here, by posing a few questions. (i) Do the people, on whose products wages are spent, themselves save or spend? (ii) Does extra consumption have no productive impact? (iii) Do we know that total profits rise as a result of picking projects with more capital but a lower marginal capital/output ratio? (iv) Do we know that *total* saving (company, plus personal, plus public revenue-over-expenditure surplus) rises as the profit/wage ratio rises? (v) In an open economy, how should we allow for the higher marginal propensity to import of richer people? These questions are designed to reinforce scepticism about the savings argument for pushing 88 per cent of aid, as has been done,³⁴ into the non-agricultural sector—when agriculture, allocated only 18-25 per cent of investment by the 22 poor countries for which figures are available for the 1950s and 1960s, employs—or underemploys—some 70 per cent of their population and hence enjoys a marginal capital output ratio typically one-third to a half of that of other sectors.³⁵

(c) "Many types of non-investment outlay, not financed by saving in the usual sense, support growth and could be supported by aid." This is why I incline towards the older concept of economic surplus—what is available after consumer needs are satisfied. It is perhaps easiest to look at this income terms. Incomes of people producing consumer goods and services in the normal sense are not part of the surplus.³⁶ The surplus includes incomes received by teachers and doctors as well as by workers and profit-receivers in the conventional investment-goods sectors. It also includes incomes of members of the armed forces, politicians and civil servants. An adaptation of the Harrod identity still applies—growth equals the *share* of income comprising surplus, multiplied by the *extra output* per unit of surplus. It is still a good first shot to put aid into those sectors where extra output per unit of surplus is highest. It remains true that *prima facie* agriculture and birth-control stand out as objects for aid that seeks to produce self-reliant growth.

(d) "There is not really a ratio, for any project, of extra output to extra capital; there is a series of output flows, over time; and that series will differ according to the other inputs associated with the extra capital." Ideally, it is true, projects should be ranked by their internal rate of return. In practice, enough information to do this for intersectoral aid allocations within or between recipients is seldom obtainable. Agricultural investment certainly, and (in income per-head terms) expenditure on birth prevention almost certainly, shows shorter gestation periods than most other outlays and hence even more favourable internal rates of return, as compared with crude marginal capital/output ratios.

(e) "What about income distribution?" By happy chance, the concentration of the economic surplus (including aid) on small farms is likely to benefit efficiency and equality in the same process—by providing income from work, usually from self-employment, to the rural poor. As for family planning, it is already likely to be practised by the rich, so that the extra benefits (and extra bargaining power in labour markets) from its spread are felt mainly by the poor.

V AID AND SELF-RELIANCE: BEYOND GROWTH

So we can locate sectors where aid will benefit self-reliant growth. But to what extent should growth be our objective? It is fashionable nowadays to denigrate economic growth. Most of the targets sought by its opponents—greater equality, a better environment, more satisfying work—cannot be met without more resources, both because they are costly in themselves and because of the power, in any social system, of the privileged to resist *absolute* impoverishment in the interest of the less well-off. Growth is indivisible; if the rich world stagnates in order to contemplate its own ecology, its imports from (and aid to) the poor world will at best stagnate also. Contempt for growth is also indivisible; it communicates itself readily between comfortable elites at international (growth-financed) conferences, and can too easily represent an intellectual transfer of rhetorical technology, justifying or excusing continued neglect of "the wretched of the earth" lest their proper feeding melt the polar ice-cap.

Nevertheless—here it comes—donors and recipients alike have noted that (in poor countries as in rich) growth is often *insufficient* for commensurate increases in welfare, and have sometimes jumped to the conclusion that it is *unnecessary* for them. One therefore applauds the Commissioners' attempt to set the record straight. The poor countries, and even their poorest people, have probably enjoyed more improvement in 'life-environment' in the past twenty years than in the previous two thousand. For the ordinary villager, "growth" increasingly sums up the resources needed to provide, out of the economic surplus, schooling for his children, a doctor in emergency, public distribution systems and food stores to prevent starvation when harvests fail, some sort of lighting in the village street and some sort of road to the town. Few of these items are valued, relative to others, anything like as highly in national as in individual estimations; almost all escape our measures of equality or inequality (though their ample and universal provision in rich countries is part of what we mean by calling them "developed" and an important though concealed component in their relatively high levels of equality); yet almost all are costly, and can be provided out of "economic surplus" only because part of that surplus is met by aid (and although, as its critics rightly point out, some of aid displaces private saving or seeks out low-yielding activities).

It is necessary to ask, though, whether the sequence by which aid—if sufficient and properly-directed—is supposed to produce, on the part of the recipient, self-reliant and sustained improvement applies to other aims than growth; and what sorts of allocation are required to do so. We pass here into a theoretical void. The remarks that follow are more than usually tentative.

Ultimately, there are only three aims of economic policy agreed on by, and within, almost all poor countries: faster growth, less inequality, and better composition of output.³⁷ (A fourth aim that I regard as basic, more and freer choice, is not generally agreed upon in most less developed societies or governments.) The three major intermediate aims, regarded in a developed context as necessary conditions for satisfactory attainment of the other four—long-run balance-of-payments equilibrium, containment of the rate of price increase, and high levels of employment—are also desired by most poor countries, though many recent discussions seem mistakenly to elevate employment from an intermediate aim (to

provide efficient labour use for faster growth, and a larger share of employment income for greater equality) to an ultimate end in itself.

I shall deal briefly with only one non-growth area where aid can contribute to self-reliance: the complex of goals "equality—prices—balance-of-payments". Poor countries can be set along the path towards greater equality by properly directed, self-eliminating aid to reduce the inflationary impact of expansion on prices or imports. The increase of inequality along many dimensions—above all urban-rural but also educated-illiterate, unionised-casual, employed-unemployed, racial and regional—has been a feature of post-war growth in most poor countries;³⁸ the poor have got slightly less poor, the rich have got much richer. Yet in rich countries rapid growth is usually associated with *declining* inequality.³⁹ There is something about development that turns growth from an unequalising to an equalising process. One reason is that the shortage of "growth poles" in poor countries causes new firms to cluster around them, and mobile and educated groups such as lawyers, doctors and engineers follow these sources of income to the few established centres of government, industry and communications;⁴⁰ while in rich countries labour scarcity and *mobility* means both that workers move in search of higher wages thereby (bidding them down where they are above average).

This is not the only reason, however. If it were, aid donors could safely concentrate on rapid growth in itself, and would soon create shortages of "growth poles" (and even of labour) turning the path towards greater equality; and such obvious equalising *and* growth-inducing measures as redistribution of big underfarmed land-holdings would have happened everywhere by now. There are two other important reasons why growth in poor countries has generally worsened inequality. Firstly, development policy is almost inevitably made by small and somewhat cocooned urban elites able, as in Ayub's Pakistan, to strengthen themselves by retaining the fruits of growth; here aid (especially from bilateral donors who are over-diplomatic or share interests with those elites) can do little, though it is notable that both the World Bank and the major US foundations are expressing, more and more publicly, a plainly sincere concern that their aid yield more benefits to small farmers and landless labourers.⁴¹ Secondly, governments fear that increased equality will raise consumer demand,⁴² thereby causing rapid rises in domestic prices and/or a balance-of-payments crisis and also eroding taxable capacity and marketed surpluses; this is closer to a classic self-reliance problem, in that the less developed country is, or believes it is, too poor to afford the means to greater equality, and to set itself on a path towards such equality needs outside help so given that the recipient can keep on course while dispensing with aid in the near future.

Many types of aid helpful to self-reliant growth paths—notably aid to tax-reform and to improved savings arrangements—obviously help here too. Some employment-generating aid schemes (such as World Food Programme support for labour-intensive public works with, in effect, payment in kind for the employee) directly reduce the inflationary impact of egalitarian investment allocations—though such aid produces self-reliance only if the investment produced by the extra employment *itself* helps equality. At the extremes, food aid that permitted non-inflationary employment on drainage schemes that later allow double cropping by small family farmers clearly helps the recipient country to sustain equalisation even when aid stops; food aid to employ people who build a capital-intensive modern airport does not.

VI A PROGRAMME OF AID FOR SELF-RELIANCE

One major illustration of the sort of aid promoting self-reliance in the recipient's path to greater equality, aid to land reform programmes, will illuminate some of the principles of aid for self-

reliance, a target espoused by the Pearson Report with perhaps too little by way of concrete example. By "land reform" I mean the redistribution of land from large holdings to (a) farmers too small to support their families from their existing holdings, and (b) landless labourers. Both groups, in most parts of Asia and Latin America, are forced into dependence on local patrons, chiefly landlords and moneylenders, and thus prevented from finding the education, work or place of residence where they produce and earn most. Such stagnant patterns of hereditary dependence impede the development of any dynamic economic system, capitalist or socialist. In the shorter term, the case for land reform is that very large holdings, using much land and capital and little labour per unit of output, are unsuited to the conditions of poor countries, which are always short of capital and generally short of land (or, if not, then certainly of the sorts of capital and skill needed to develop new land).

Yet land reform, quite apart from its threat to the recipient élite's interests, presents serious short-run problems. The proportion of food output marketed (net of repurchases) from 100 acres is bound to be smaller if they are divided up among twenty hungry families than if they are farmed by one big commercial farmer; the ultimate increase in *total* output, from more labour-intensive cultivation after the reform, may well not offset the decline in the *proportion* marketed, so that the amount of food marketed (and hence the permissible rate of industrialization) is slowed down. Secondly, although small farmers in poor countries use a *given* endowment of land and equipment more labour-intensively and hence more efficiently than big ones, they are often less prone to improve that endowment, lacking either the resources (e.g. to buy a tubewell) or else the wish to sacrifice an already meagre present for a traditionally uncertain future (e.g. by diverting family labour from this year's weeding to dig an irrigation channel for next year's crops). Thirdly, disruption during the reform may well reduce farm output during a transitional period. Fourthly, the gearing of integrated credit-extension-marketing services to new and often inexperienced mini-farmers, essential both for efficiency and to prevent the re-emergence after the reform of the old immobilising patronage relationships, is administratively and educationally costly. Finally, compensation can present serious problems, especially of foreign owners, who can scarcely be left out of a reform, but who may be in a position to deny market outlets to plantation exports if seriously displeased with compensation terms.

Although land reform is often thought of as *par excellence* unaidable—as so institutionally complex and locally differentiated and politically sensitive as to be purely a recipient responsibility—all these five sorts of transitional problems can be substantially relieved by aid. If carefully run and allocated, such aid—both capital and technical—can place the recipient on a path, towards greater rural equality and more farm output, than can be proceeded upon well after aid stops. For all the five problems require economic surplus to pay both technicians and investment-workers (or, for another angle, to finance the expenditure of both) who can overcome them. How can aid increase the available surplus and help channel it to such purposes?⁴³

If food marketings are to be sustained or increased during the reform, then facilities for transport, storage and co-operative processing must be provided for the small farmer, and managers of such facilities trained. If small farmers are to be encouraged to save and invest, their opportunities for doing so profitably and safely must be increased and explained; a careful and detailed survey of groundwater resources is usually the first step. If land reform, while raising long-run output, involves short-run disruption costs, those costs can be met in kind by temporary food aid (though great care is needed to avoid depressing food prices to the beneficiaries of the reform and discouraging them from marketing). Technical assistance can help to reduce the delay before the "new

class" of viable small farmers receives properly integrated credit, marketing and extension services. Finally, capital aid, if handled with imagination instead of dogmatism, can be used for "compensation loans" to Governments faced with the political need to include foreign landholdings in an effective reform; such loans might even sometimes cover the leaks into imports from spending out of the compensation to domestic landed interests.

Land reform is obviously "about equality" first, but it is certain to disappoint unless it also underpins growth. It is indeed a central argument of this paper, and of the entire case for aid, that the relief of poverty and the acquisition of dignity in impoverished societies require growth as an absolute precondition, and that aid to enlarge the economic surplus is a way to help fulfil that precondition. In what ways can such help be most fruitfully and "self-eliminatingly" given? We have argued that birth-control is both a high-yielding use of resources and one which helps families to save (or bear tax); and that agriculture has been monstrously under-aided given the relative efficiency of capital and research there, a proposition that the so-called "Green Revolution", for all its patchiness and limitations, well illustrates. (The amazing thing about basic research into improved varieties of tropical cereals is that such research was so little and so late). To measures of aid with high yield might be added those designed to diagnose and cure, rather than to augment, excess capacity; before sending or lending extra tractors or steel mills, a donor would do well to ask if scarce aid might not yield more in repairing or providing ancillary inputs for those already out of production, or on general-purpose imports of wage-goods so that workers might be paid to be worked on a multi-shift basis. If we are concerned specifically with aid generating *self-reliant* growth, however, we have to ask how the recipient can be helped to increase the share of income it can itself devote to the generation of further growth.

Birth control, as we have seen, scores here. There are more direct approaches too, mostly in the area of technical assistance: assistance in raising the yield and income-elasticity of taxation, broadening its base, and reducing evasion and avoidance; in increasing the flow of private saving, especially from one rural area to another; and in developing methods of accounting and audit, especially for public corporations, that both encourage reinvestment and provide stimuli to ensure adequate returns on it. The real problem is less what to aid, but how to aid it. This in turn involves two questions: whether aid can be linked to performance in recipient countries, and how aid can be protected from inertial, commercial and political pressures in donor countries.

It is hard to disagree with the doubts about the psychology of subjecting recipient countries to performance criteria—doubts succinctly expressed by I. G. Patel at the Columbia-Williamsburg Conference.⁴⁴ The Pearson Commission rightly diagnosed a "crisis of will" among aid donors, but recipients are at least as disillusioned with some aspects of aid (notably the promotion of uncompetitive ideologies, and exports, with which it is too often associated). In this atmosphere the *imposition* of performance criteria might produce not better performance but countries that say "To hell with your aid" and subsequently go thither without it. Indeed, it is hard to see how "donors" of, say, tied five-year credits at 5 per cent interest earn the right to impose anything whatever. The increasing practice of gearing aid to a Plan, unambiguously the responsibility of the recipient Government but discussed in a World Bank consortium or consultative group, offers at best a partial escape from this *impasse*.

The real trouble about performance criteria is twofold. First, what happens if a recipient deliberately seeks goals different from those stated by the donor—say, equality even at the cost of growth? Second, what happens to non-performers? Repeated fluctuations in aid at the donor's whim, as the Pearson Report itself points out, greatly reduce the efficiency of planning. To use such fluctuations

to punish poor performance is therefore to ensure its continuance. Moreover, the whole business of international reward and punishment in a field so imperfectly understood as development, and managed by donors whose own performances as regards both domestic development and external economic liberalism are so divergent and inadequate, is deeply distasteful. It is not quite neo-colonialism, but it is certainly paternalism, and by an ignorant and imperfect parent at that.

Yet the argument that scarce aid must not be wasted, and that the past link to growth and self-reliance has been all too weak, has almost irresistible force. There are two areas in which donors could achieve many of the benefits of performance criteria while avoiding many of the costs: improved project analysis, and reduced bias by donors among recipients. The various techniques of benefit/cost analysis of projects submitted for aid—for all their drawbacks and dubieties⁴⁵—make it possible for donors to assess a project in advance, instead of a nation in retrospect, and to allocate aid (to some extent at least) where it seems likely to do most good; certainly, however, the *distribution* of benefits from alternative projects, as well as the absolute size of such benefits, should be taken formally into account. Project appraisal is usually thought of as inadequate *ex ante* substitute for performance criteria *ex post*, largely because of the “marginality argument” that aid does not really finance the project on which it is spent (which would probably have been undertaken even without aid), but only the project which the aid just makes it worth the Government’s while to undertake. However, this argument has been grossly overstated. For most poor countries, the balance of payments is such that almost any major foreign exchange outlay is very much likelier to take place if the dollars (or whatever) are made available on concessional terms. “If you don’t pay, we’ll do it anyway, and go to the Russians or finance it by ceasing to buy your exports of something else” is an increasingly unconvincing threat.

The assessment of projects *ex ante* instead of countries *ex post* could take some of the heat out of attempts by donors to reduce aid misallocation. As regards country allocation, however, donors might at least reduce some of the random biases in their own aid programmes: towards small countries, towards their own former colonies, towards nations that “kindly” purchase their inefficiently-produced and hence overpriced exports. The scale of British aid to Malta or Malawi, or French aid to Chad or Dahomey, cannot possibly be justified by these countries’ poverty or by their use of aid: not, certainly, during an aid (and food) famine in Bengal. One of the most alarming parts of the aid scene is Britain’s apparent readiness on joining E.E.C. to divert some 15 per cent of its exiguous aid programme to the European Development Fund, which effectively means *inter alia* even less aid to India, to pay even more to French firms in tiny dictatorships in Africa.

VII DOES AID HELP?

The radical anti-aider, if he is still reading, is by now extremely impatient. Do I not realise that aid exists to serve donor interests, not recipient needs; that it aims to create dependence, not self-reliance; that cool project appraisal and reallocation away from client states would therefore be at best a dishonest facade? Well, all this is in part half-true, but not really relevant. The motive of one’s action is only distantly, if at all, relevant to its consequences. Aid is much less of a gift relationship than its name implies, but much more than cynical donors intend. Even if I pay a man to keep him my servant, he may save up until he has enough to abandon me. Moreover, the cynical view of aid places much too little emphasis on what Sir Robert Peel termed “intellectual conviction, that priceless jewel of the soul”. Nobody who knows the aid professionals—men who believe at least as deeply in Christianity and cost-benefit as in capitalism—can seriously argue that they would

wittingly or unwittingly be used as pawns in a game of aid-as-exploitation. They must face, and often fight, the pressures of domestic commerce and short-run political gain; what they believe in is *efficient* resource transfer from rich to poor.

In this paper I have tried to show that the statistical case against the effectiveness of aid is not proven; and that the commonsense of "more means more" can in future be powerfully reinforced by allocative measures to associate aid with an increasingly self-reliant path to growth and the relief of poverty. Doubters will argue that aid is an inextricable part of the neo-colonial nexus that binds poor to rich, and that it is bound to be used by wealthy elites in poor countries to strengthen their positions. Let me ask those doubters two questions. Firstly, if aid *alone* were removed from the set of relations between rich and poor countries—leaving untouched the flow of profits on private capital, the determination of commodity prices, the brain drain, the cartel sale of manufactures—would poor countries be less exploited by rich ones, solely by virtue of the withdrawal of concessional resource flows? Secondly, in the thousands of years before aid appeared—and more recently in those poor countries such as Haiti which have been boycotted by the international donor community—has there been especially notable progress in replacing selfish and exploitative domestic elites by modernising democratic leadership?

The real choice is not between model and muddle, between free and decent international arrangements and the present set-up including aid. We shall anyway have a historically evolved set of rich-poor relationships, some exploitative, some mutually beneficial. The choice is to have these relationships with or without aid. Those who feel poor countries have a "clean-break" option—autarky—might ask themselves which countries, especially which small countries, have developed that way in the past; and what degree of *internal* exploitation in a poor country would be required to develop that way now. It must also be borne in mind that in many fields of rich-poor relationships exploitation can shade into mutual advantage. A lowering of tariff barriers by rich and poor countries to each others' goods is one such field. The Pearson Report contends that another is aid towards self-reliance, strengthening the recipient as an ultimately independent economic and cultural partner; and, implicitly, that the risks to poor countries from being left to stew in their own juice are immeasurably greater than the risks of exploitation. The whole history of development appears to support that contention. It remains to work out its implications through more rational project selection. But to undermine aid, unless one has clear proof that its effects are damaging to development (or can be replaced by transformed internal management), is really a rather unfruitful contribution to international relations or the relief of poverty.

NOTES

- 1 W. A. Lewis "The Purpose of the Pearson Report", in B. Ward *et al* (eds.), *The Widening Gap: Development in the 1970's*, Columbia, 1971 (the report of the Williamsburg-Columbia Conference of February 1970—hereafter referred to as *WG*), p. 6.
- 2 This comprises concessional intergovernmental capital transfers from developed to less developed countries (i.e. "gross aid"), minus capital repayments, but *not* net of interest repayments on past aid loans. It is shown below that either "net public transfer" (obtained by deducting, from net aid, such interest) or "grant equivalent of gross aid" is a more useful concept. Strictly it is the 1.0 per cent target, for "Flow of financial resources: public and private, including export credits but net of all *capital* repaid or repatriated", that the Commission aligns in the manner Lewis indicates.
- 3 Lewis, *WG*, p. 6.
- 4 See Note 14 below. The definitions of "aid", "development" and "self-reliance" cannot be ignored, of course.
- 5 *WG*, p. 6.
- 6 *Ibid.*, p. 7.
- 7 This is confirmed by data for the USA and the UK alike. W. B. Reddaway *et al*, *Effects of UK Direct Investment Overseas (Final Report)*, Cambridge, 1968, p. 358; *Statistical Abstract of the United States 1970*, US Dept. of Commerce (Bureau of the Census) 1970, p. 766.
- 8 For Chile in particular and Latin America in general, see K. Griffin, *Underdevelopment in Spanish America*, Allen and Unwin, 1969, pp. 145, 146. For India, see M. Kidron, *Foreign Investments in India*, Oxford, 1965, p. 310. Indirect effects on visible trade *may* modify this.
- 9 A "net public transfer" or "grant equivalent" target would be still better; see below.
- 10 OECD, *Development Assistance: Efforts and Policies of the Members of the Development Assistance Committee* (hereafter DAC), 1970. *Review*, p. 181. OECD donors account for over 95 per cent of world net aid.
- 11 OECD, *Press Release A (71) 22*, Paris, 28 June 1971, p. 1.
- 12 *Ibid.*, p. 20.
- 13 UN, *Statistical Yearbook 1970*, p. 40; the index is for exports from developed countries, to which about three-quarters of all aid is tied.
- 14 *Ibid.*, p. 28. Net aid grew by 3.2 per cent yearly in 1961–8, and only 1.9 per cent yearly in 1964–8; Pearson requires 14.1 per cent growth for this 1975 target (p. 382). See also M. Lipton, "Forward from Pearsonism", *Bulletin of the Institute of Development Studies*, December 1969, p. 12.
- 15 World Bank/International Development Association, *Annual Report*, 1970, p. 46.
- 16 The International Development Association, the "soft loan" branch of the World Bank. The USA, which does not like the fact that one of the International Labour Organisation's vice-presidents is a Russian (the first ever), is also in frank default on its subscriptions there.
- 17 T. W. Schultz has argued that the sale on the market of US wheat now given as food aid would cut prices about enough to leave total US receipts from wheat sales roughly constant. See T. W. Schultz, "Value of US Farm Surpluses to Underdeveloped Countries", *Journal of Farm Economics*, 1960. Since then the US has imposed high transport costs on recipients; who is getting the "aid"?
- 18 Whether measured per head, as a proportion of imports, or as a proportion of GNP.
- 19 These low aid requirements *after* self-reliant growth is attained can then be correlated with such growth to "prove" that low aid and high growth are linked. This has been done.
- 20 H. B. Chenery, "Targets for Development", *WG*, pp. 39–41.
- 21 H. Leibenstein, *Economic Backwardness and Economic Growth*, Wiley, 1957, Chapter 8.
- 22 "External resources as a whole have only financed some 15 per cent of the investment of developing countries, and foreign aid probably only about 10 per cent" (Pearson, p. 14).
- 23 "The correlation between the amounts of aid received in the past decades and the growth performance is very weak" (p. 49). "Foreign aid has *not always* stimulated economic growth" (p. 14) "Aid... *has increased* the rate of growth in total production" (p. 48). Our italics. Examples could be multiplied, perhaps because "the Commission's first task was to satisfy itself that foreign aid serves a useful purpose and serves it well... (its) next task was to establish that foreign aid does contribute to economic growth" (Lewis, *WG*, pp. 4–5). To be fair, both Lewis and the Commissioners as a whole stress "performance criteria" to create a strong *future* link between aid and growth; comments on the efficacy of such criteria are made below.
- 24 F. Stewart, 'Comment', in *Oxford Institute Bulletin*, May 1971.
- 25 The very odd result in 15 (Brazil 1947–60) might be due to a strong

- positive correlation, during the inflationary period, between last year's income and this year's foreign deficit.
- 26 There is a risk that (a) and (b) will be collinear; if a suitable non-collinear proxy for one could be found, two-stage least-squares might be a solution; or the relationship between (a) and (b) could be sufficiently similar (or stable) for the countries (or years) under review that a regression of "growth" could be undertaken upon the linear combination of (a) and (b) giving the highest simple r^2 .
 - 27 Clearly, since a good or bad harvest can so enormously affect GNP in most poor countries, it is trend rates of growth (or, perhaps better, growth between comparable years) that should be considered. (In Table 1 it never is.)
 - 28 Just before going to press, the World Bank's 1971 Annual Report made available, on pages 70-75, the information by recipients on the basis of which the latter of these proportions might be estimated.
 - 29 H. Chenery and A. Strout, "Foreign Assistance and Economic Development", *American Economic Review*, September 1966.
 - 30 Ibid; and V. Joshi, 'Savings and Foreign Exchange Constraints,' in P. Streeten, *Unfashionable Economics: Essays in Honour of Thomas Bologh*, Weidenfeld and Nicolson, 1970.
 - 31 A similar picture can be drawn of growth without aid—on top of population growth—generating an import surplus. *Ex post* this is identical with the savings deficit. *Ex ante* (while the great majority of poor countries suffering import surplus do so mainly because they save too little to finance their rightly accelerated investment) it is possible that in a few cases rising import demands leave too little saving "over" to finance investment.
 - 32 In India, extra income-per-head generated by birth-control outlays is at least fifteen times that generated by conventional investment. R. Cassen, "Population Policy", in P. Streeten and M. Lipton (eds.), *The Crisis of Indian Planning*, Oxford, 1968.
 - 33 M. Lipton, *Why Poor People Stay Poor: Urban Bias in Underdeveloped Countries*, Temple-Smith, 1972, forthcoming.
 - 34 OECD, *Aid to Agriculture in Developing Countries*, Paris, 1968, p. 11. The footnote suggests that this figure may be an over-estimate, but it excludes the manufacturing of agricultural inputs (13.5 per cent of total aid "to agriculture"), which is really no more aid to agriculture than assistance to cotton production is aid to industry, which after all processes the product. The multilateral aid share to agriculture has recently risen (World Bank/IDA, *Annual Report 1970*, p. 7).
 - 35 E. Szczepanik, *Agricultural Capital Formation in Selected Developing Countries*, FAO Planning Studies, Rome, 1970, p. 2.
 - 36 One might subjectively define a set of incomes, of producers of "unproductive" or "unnecessary" consumer-goods from yachts to haircuts, that comprised *potential* surplus (i.e. could be diverted to investment-goods sector rewards by determined policy).
 - 37 By this last aim is meant an increase in the share of products satisfying each of the following relative to subsequent types: (a) physical needs, (b) wants genuinely chosen, (c) exogenously stimulated demands. Under certain circumstances, particular types of product (e.g. exports, if foreign exchange is undervalued; or products of sectors without monopoly power; or products satisfying the needs of the poor) should rise as a share of GNP. By "agreement on aims" is meant both that they or their implications would receive overwhelming voting majorities, and that decision-takers support them where there is no clash with self-interest. See M. Lipton, *Assessing Economic Performance*, Staples, 1968, Chapter 2.
 - 38 G. Myrdal, *Asian Drama*, Pantheon, 1968, Vol. 1, Chapter 12.
 - 39 *Assessing Economic Performance*, pp. 233-7.
 - 40 G. Myrdal, *Economic Theory and Underdeveloped Regions*, Duckworth, 1957, Chapter 3.
 - 41 Perhaps they are doing this to prevent the Green Revolution from turning red, but we are concerned with effects on the reduction of poverty, not purity of heart.
 - 42 As is implicitly argued on p. 170 above, it is a misleading formulation to suggest that it would reduce saving, mainly because if I as a poor beneficiary of greater equality spend on your product and you save the income then the saving is postponed and not prevented. The problem is to keep down the price of the investment-goods to which your saving corresponds.
 - 43 Some, not all, donor countries and multilateral agencies may be assumed to want to do this. The gradual removal of the land-reform commitment from the Alliance for Progress means that the US cannot be included at present.
 - 44 I. G. Patel, "Aid Relationship for the Seventies", *WG*, pp. 295-311.
 - 45 The most important is the use of world prices to value commodities, even if (a) sold on home markets and likely to alter world prices substantially if traded, or (b) subject to large price fluctuations or trends; I. M. D. Little and J. Mirrlees, *Manual of Industrial Cost-Benefit Analysis*, Vol. 2, OECD, Paris, 1968. Compare A. K. Sen—UNIDO, *Guidelines*, mimeo, 1970.