Doubts about Aid[1]

Keith Griffin

Liberal and progressive people have few doubts about foreign aid, or indeed about the beneficent role of foreign capital in general, of which of course aid is only one form.[2] Most of the doubts, or at least the most outspoken criticisms, seem to come from the right of the political spectrum [Bauer 1971:96-135], from people who question on philosophical grounds the case for an international redistribution of income and who argue on empirical grounds that aid in practice has strengthened the state relative to the private sector, has promoted central planning and weakened the market mechanism and more often than not has supported despotism rather than liberty.

I do not share the philosophical objections of the political right to foreign aid. I favour a more equitable distribution of world income, and have no objection to using government taxation to bring about the desired redistribution of resources and purchasing power. My doubts about aid arise not from predispositions derived from theory but from observation of the impact of aid programmes in the Third World.

The Volume of Aid

Whatever one's views on aid, however, it is important to keep it in perspective. So much has been written on the subject, particularly in the West, that one could easily get the impression that the volume of aid is considerable and increasing. This would be quite wrong. Indeed, whether one sees aid through the eyes of a donor or of a recipient, the volume of foreign aid is small, and — in several senses — lower today than two decades ago, as is confirmed by Table 1.

These data include only official aid, not flows from NGOs (from Oxfam to the Ford and Rockefeller Foundations). Moreover, the data refer to the 17 OECD countries only,[3] and therefore exclude aid provided by the socialist countries and by OPEC. Aid from the socialist countries and from non-official Western sources is of little quantitative significance and can safely be ignored. Aid from the OPEC countries, on the other hand, is more significant. Following the sharp increase in oil prices in 1973 and 1974, the major oil-exporting countries did become important aid donors. In 1980, for instance, aid from OPEC countries accounted for 1.7 per cent of their GNP or about 25 per cent of the total amount of foreign aid provided by the non-socialist countries. Nonetheless, the ratio of aid to GNP in the OPEC countries has fallen rapidly since 1975 and even the nominal amount of their aid now appears to be on the decline. Thus the data in Table 1 are unlikely to be misleading as regards general trends.

As can be seen in the first line of the Table, ODA accounts for a very small fraction of the donor countries' GNP, namely 0.35 per cent in 1981. Furthermore, the ratio of foreign aid to donor country GNP fell by 31 per cent between 1960 and 1981, because the national income of the donor countries grew at 4 per cent per year, while aid grew by only 2.2 per cent a year. In relative terms, the donor countries have become less generous.

The picture is even less flattering when one examines aid to the 34 'low-income countries' with a 1980 per capita income of $400 or less, and when one takes into account the fact that most foreign aid consists not of grants but of loans which must be repaid with interest. The net flow of *bilateral* aid to these, after deducting repayments of capital and interest, is much smaller than the gross flow, and has been falling. Between

[1] This will appear in slightly altered form as Chapter 9 in my forthcoming book, *World Hunger and the World Economy* (Macmillan, 1987).

[2] See, for example, two international reports which ably summarise liberal opinion of the time: *Partners in Development*, the Report of the Commission on International Development chaired by Lester B. Pearson (Pall Mall Press, London, 1969) and *North-South: A Programme for Survival*, the Report of the Independent Commission on International Development issues chaired by Willy Brandt (Pan Books, London, 1980).

[3] The 17 countries that are members of the OECD are Italy, New Zealand, the UK, Japan, Austria, Finland, Australia, Canada, Netherlands, Belgium, France, USA, Denmark, Federal Republic of Germany, Norway, Sweden and Switzerland.

Table 1

Official Development Assistance from the 17 OECD Countries

	1960	*1970*	*1981*
Official Development Assistance as percentage of GNP	0.51	0.34	0.35
Official Development Assistance per head of Third World population (US dollars at constant 1980 prices)	7.77	6.81	7.73
Bilateral flow to 'low-income countries' of Official Development Assistance as percentage of donor GNP	0.18	0.13	0.07

Source: IBRD, *World Development Report 1983* (Oxford University Press, 1983) World Development Indicators, Tables 1, 18 and 19
Note: All figures in the table are net of repayments of capital and interest

1960 and 1981, as can be seen in the third line of the Table, bilateral aid to such countries, as a share of donor GNP, declined by more than half and at the end of the period comprised only 0.07 of one per cent of the donor countries' GNP!

The situation is no better when viewed from the Third World. Between 1960 and 1981 there was zero growth in the amount of foreign aid received per head. Happily, however, GNP per capita increased more than three per cent a year in the Third World during this period and consequently the ratio of aid inflows to national product fell by nearly one half. As is evident from Table 1, the net amount of official development assistance per head was virtually the same at the beginning and end of the period, and in a few underdeveloped countries the net flow of official foreign aid has become negligible.

Foreign Capital and the Industrial Countries

It is widely believed that if left to its own devices private capital would naturally flow from the advanced industrial economies to the underdeveloped economies. In a sense, according to this view, foreign aid is unnecessary, since the profit-maximising behaviour of banks and of companies would lead more or less automatically to a transfer of finance capital and of private direct investment to the Third World, where capital is in short supply and the rate of return on investment should be high.

The validity of this belief, however, depends on the assumptions that the same technology is available to all countries, that there are no significant economies of large-scale production and that there are no increasing returns to investment or learning-by-doing effects.

If these assumptions are not valid, then the rate of profit and the real rate of interest could well be higher in the advanced industrial economies, so that private capital would tend to move from the poor countries to the rich and not the other way round [see Griffin 1978: Introduction and Chapter 1]. That is, if the usual neo-classical assumptions do not apply, one could well find that advanced economies are net importers of private capital, not net exporters.

In practice, most industrialised countries do appear to be net recipients of total foreign capital — even after taking foreign aid into account — and therefore, of course, *a fortiori* recipients of private capital (Table 2; the 17 OECD countries, plus Spain and Ireland, are ranked in ascending order of GNP per capita). We compare two years: 1960, when growth rates were rapid, and 1981, when real rates of interest were high.

In 1960, only five industrial countries were net exporters of capital (Spain, Netherlands, France, the United States and West Germany); four others were in balance and the remaining 10 were net importers of capital. That is, most industrialised economies enjoyed a net inflow of capital. In 1981, four countries (the UK, Japan, Netherlands and Norway) exported capital, four were in balance and 11 imported capital. Only one country, the Netherlands, had a net capital outflow in both 1960 and 1981; 15 were net recipients of foreign capital in at least one of the two years. Thus even a cursory inspection of the data is enough to dispel the notion that rich countries usually are large exporters of capital to poor countries. In fact, in 1981 only the high income oil-exporting countries of Libya, Saudi Arabia, Kuwait and the United Arab Emirates were major suppliers of capital to the rest of the world. Even this outflow has now dwindled.

Foreign Capital and Growth

Let us set this problem to one side, however, and assume that the poor countries are in fact net

Table 2

Net Foreign Capital Inflow of 19 Industrial Market Economy Countries

(per cent of GDP)

	1960	*1981*
Ireland	5	14
Spain	-3	2
Italy	0	2
New Zealand	2	2
United Kingdom	2	-3
Japan	0	-1
Austria	0	0
Finland	1	1
Australia	3	3
Canada	2	0
Netherlands	-2	-3
Belgium	1	4
France	-2	4
United States	-1	1
Denmark	1	0
West Germany	-2	0
Norway	2	-8
Sweden	1	1
Switzerland	0	2

Source: IBRD, *World Development Report 1983* (Oxford University Press, 1983) World Development Indicators, Table 5

Note: In this and subsequent tables and in the text the 'resource balance' is used as a proxy measure of net foreign capital flows. Strictly speaking, this is inaccurate as the resource balance term includes not only capital movements but also remittances and 'errors and omissions'. Our broad conclusions, however, are unaffected by the use of this slightly wider concept as a proxy for capital flows.

recipients of foreign resources, ie aid and private foreign investment. What are the consequences of this? The standard answer [see Chenery and Strout, 1966] is that foreign resources will supplement the country's domestic savings effort and thereby raise the rate of investment by the amount of the capital inflow. This, in turn, will result in a faster rate of growth of output and income and in a reduction in the incidence of poverty. If, as is thought likely, the marginal propensity to save exceeds the average, higher incomes and faster growth fuelled by foreign capital should result in a rising savings ratio, which would further accelerate growth and hasten the time at which capital imports would no longer be necessary. If, in addition, foreign capital brings with it superior technology and better management, the productivity of investment should rise, thereby providing yet another reason for growth to accelerate.

In summary, the standard view is that capital imports (i) raise the rate of investment directly, (ii) indirectly raise the domestic savings rate and hence lead to a further rise in the rate of investment, and (iii) raise the incremental output-capital ratio. The combination of these three effects implies that the rate of growth should 'explode' in countries where foreign capital inflows suddenly increase, and the rate of growth should be high and rising in countries which enjoy sustained high levels of aid and foreign private investment. In both cases therefore the recipients should experience rapid growth of per capita output and a sharp fall in poverty. This obviously is an attractive prospect to donors and recipients alike. The question is whether the process described conforms to reality or is merely the product of wishful thinking.

To help answer this question 12 countries have been selected for scrutiny. These countries were not chosen randomly but were selected for particular characteristics. Thus the data are intended merely to illustrate an argument, not to provide a definitive proof of any particular proposition. Ten of the 12 countries are classified by the World Bank as 'low-income economies'. The two exceptions are Senegal and Israel. Eight of the 12 are from Africa (the region experiencing the most serious development problems), the two largest are from Asia (the most populous underdeveloped region), and there is one each from the Caribbean and the Eastern Mediterranean. In terms of the number of countries, therefore, the sample is deliberately biased towards Africa, although in terms of population, Pakistan and Bangladesh are larger than all the others combined. In eight cases there was a very sharp rise in net capital inflows between 1960 and 1981 (our two reference years), and in the other four cases net capital inflows in both years were equivalent to at least six per cent of the country's GDP and remained fairly close to the initially high level. Thus the latter cases represent countries which have experienced sustained high levels of capital imports (Table 3).

All these countries are major recipients of foreign aid and private foreign investment. Ethiopia had the smallest net capital inflow in 1981, namely, $7.26 per capita, yet even this virtually matched the average receipts of official development assistance and represented about six per cent of the country's GDP. The next country, Zaire, received about twice as much foreign capital per head as Ethiopia and was well above world averages. The richest country in our sample, Israel, hardly deserves to be classified by the World Bank as a 'middle-income' developing economy since its per capita income is similar to that of Ireland and Spain, two 'industrial market economy' countries. Indeed, in 1981 Israel's GNP per head was nearly 37 times larger than Ethiopia's, yet Israel

Table 3

Foreign Capital and Economic Growth in 12 Selected Countries

Country	*GNP per head 1981 (US dollars)*	*Net foreign capital inflow per head, 1981 (US dollars)*	*Growth of GDP per head (per cent per annum)*	
			1960-70	*1970-81*
1. Bangladesh	140	19.70	1.2	1.6
2. Ethiopia	140	7.26	2.0	0.2
3. Zaire	210	14.44	1.4	-3.2
4. Tanzania	280	31.88	3.3	1.7
5. Haiti	300	37.41	-1.4	1.7
6. Benin	320	87.36	0.0	0.6
7. Central African Republic	320	34.50	0.0	-0.7
8. Madagascar	330	25.69	0.7	-2.3
9. Pakistan	350	29.78	3.9	1.8
10. Sudan	380	47.13	-0.8	1.0
11. Senegal	430	86.88	0.2	-0.7
12. Israel	5160	654.00	4.6	1.4

Source: IBRD, *World Development Report 1983* (Oxford University Press, 1983) World Development Indicators, Tables 1, 2, 3, 5 and 19

received 90 times more foreign capital per head than Ethiopia! That is, Ethiopia, arguably the most backward economy in the world, [ILO/JASPA 1982] received only a pittance compared to the prosperous Israel. One can hardly imagine a more regressive distribution of foreign capital.

Indeed, at least for the Table 3 countries, the higher a country's GNP per head, the more foreign capital per head it tends to receive. Yet orthodox theory, as we have seen, would lead one to expect the opposite, ie that capital would flow most strongly to the poor countries, where capital is scarce and the return on capital presumably is relatively high.

Equity requires that foreign capital should flow disproportionately to the poor countries and if the market mechanism cannot ensure this, then it becomes particularly important that official aid should discriminate strongly in favour of the poorest countries. Unfortunately, however, this does not occur. Indeed it has been apparent for a long time that foreign aid accentuates international inequality among Third World countries rather than reduces it. That is, there is a positive correlation between per capita aid and per capita income, and this is as true of aid in general[4] as of multilateral and bilateral[5] aid separately.

Let us next consider the growth performance of our sample countries. Firstly, in four cases GDP per head actually declined during 1970-81: rapidly in Zaire and Madagascar (3.2 and 2.3 per cent a year, respectively), and quite rapidly in Senegal and the Central African Republic (0.7 per cent a year in both countries). Despite above-average inflows of foreign capital — assuming, not unreasonably, that 1981 data were reasonably typical — in three of the four countries (Madagascar is a partial exception), it was not possible to prevent economic decline and a substantial increase in mass poverty. Second, in four other cases — Ethiopia, Tanzania, Pakistan and Israel — the rate of growth of per capita output was lower in 1970-81 than it had been in 1960-70. Yet in none of these countries was there a fall in foreign resource inflows.

[4] Consider, for example, the net inflow per capita of 'public and publicly guaranteed medium- and long-term loans' in 1981. The 'upper middle-income economies' received nearly 22 times more than the 'low-income economies' and more than twice as much as the 'lower middle-income economies'.

[5] For an early study of the British case see the *Report from the Select Committee on Overseas Development*, Session 1972-73, Minutes of Evidence with Appendices, Vol. II, 24 July 1973, Appendix 23 by Keith Griffin and Frances Stewart, pp.320-4. Also see footnote 11 below. It should be added that the British record in this respect is less bad than that of most donors, because of the substantial amount of UK aid that is allocated to South Asia.

Third, in only four countries, namely, Bangladesh,[6] Haiti, Benin and the Sudan, was the growth of per capita output faster in 1970-81 than in 1960-70, and in each case the increase in foreign capital imports was dramatic. Thus in Haiti the net foreign capital inflow rose from two per cent of GDP in 1960 to 12 per cent in 1981 — 10 percentage points. In the Sudan, the rise was 12 percentage points, in Bangladesh 16 percentage points, and in Benin, 31 percentage points. (For these four countries — and as an observation, not a statistically significant finding — it is notable that the increase in the rate of growth of GDP per head between 1960-70 and 1970-81 was inversely related to the growth in capital imports.)

The picture would be slightly different if one substituted 1976 for 1981 in the comparison, but the general point stands: the connection between an increase in foreign capital and an increase in the rate of growth, even if it is positive as one would expect, is very weak. Indeed, in surprisingly many cases, the rate of growth of output per head fell when capital imports increased; in the four cases where growth accelerated, the extent of acceleration appears almost to have been inversely proportional to the increase in capital imports.

Finally, nothwithstanding the fact that all 12 of our sample countries were relatively large recipients of foreign capital in 1970-81, not one managed to grow as fast as the average of the 'low-income economies'. This was mainly because of the big weight of countries in Asia, which were mostly low capital recipients, and because in Asia growth accelerated during the 1970s, whereas there was a marked slowing down of growth in our (mostly African) sample countries, with particularly high capital inflows by LDC standards. The best performance in the 1970s in our sample was in Pakistan, where the rate of growth of GDP per head was 1.8 per cent per annum, as compared to the average for all 'low-income economies' of 2.6 per cent. That is, our best performer was 31 per cent below average. Even more disturbing, the unweighted average growth rate in our 'high capital inflow' sample in 1970-81 was only 0.3 per cent per annum per head, or less than one-eighth as rapid as the average for the low-income economies as a whole. Unless foreign capital is channelled deliberately and systematically by aid donors and overseas investors to slowly growing economies (which is hardly plausible), one must doubt the beneficial effects, enumerated above, of foreign capital on growth.

Foreign Capital and Domestic Savings

A key assumption of the orthodox analysis is that capital imports are complementary rather than competitive with domestic savings, both in the short run (when foreign capital supplements local savings) and in the longer run (when higher per capita incomes lead to a higher domestic savings ratio). I have long doubted the validity of this proposition, as it seems very likely that an inflow of foreign resources in practice will result in some combination of increased expenditure on private consumption, armaments, other forms of public consumption and investment.[7] That is, once all general equilibrium effects are taken into account, one should expect that a large proportion of any injection of foreign capital ultimately will be used to finance additional consumption, and only a small proportion to finance additional investment.

This view is one way of saying that in general the increase in investment will be much less than the increase in capital imports; as a logical corollary, the domestic savings ratio will have declined. Foreign capital, far from being associated with a rise in the domestic savings ratio, is in practice associated with a fall. A further implication is that, everything else being equal, a given increase in capital imports will be associated with a less than proportional increase in the rate of growth. Admittedly, the growth rate should accelerate; but if the decline in the domestic savings rate is substantial, the acceleration is likely to be modest.

These, then, are testable propositions. It is an instructive heuristic first step, even for our non-random sample of 'high capital inflow' countries, to see how capital imports have been related to domestic savings, and hence to investment (Table 4).

A number of interesting points arise from the Table. First, in three cases (Bangladesh, Zaire and Tanzania) foreign capital imports were negative in 1960. In other words, these three countries were net suppliers of capital to the rest of the world. Bangladesh was at that time the province of East Pakistan, and was forced by the central government of Pakistan to transfer resources for the industrial development of West Pakistan [Griffin and Khan eds. 1972: Commentary to Part I]. Zaire was in its first year of independence — it did not cease to be the Belgian Congo until 30 June 1960 — and no doubt the large capital outflow was part of the pain that accompanied the birth of the new nation. Tanzania was then the colony of Tanganyika and had one year to go before independence. In each

[6] Bangladesh did not become an independent country until 1971. Prior to that it was, of course, East Pakistan.

[7] My doubts were first expressed in Spanish 20 years ago in an article published jointly with Ricardo Ffrench-Davis (1964). More refined versions appeared at regular intervals. See, for example, Griffin 1969 ch. 3; Griffin and Enos 1970; Griffin 1978: ch. 3 and its Appendix.

Table 4

Foreign Capital, Domestic Savings and Investment
(per cent of GDP)

Country	*Net foreign capital inflow*			*Gross Domestic Savings*			*Gross Investment*		
	1960	*1976*	*1981*	*1960*	*1976*	*1981*	*1960*	*1976*	*1981*
Bangladesh	-1	7	15	8	-1	2	7	6	17
Ethiopia	1	1	6	11	9	4	12	10	10
Zaire	-9	21	8	21	13	25	12	34	33
Tanzania	-5	2	14	19	19	8	14	21	22
Haiti	2	4	12	7	7	1	9	11	13
Benin	6	16	37	9	4	-2	15	20	35
Central African Republic	11	13	12	9	9	-3	20	22	9
Madagascar	6	-1	8	5	14	7	11	13	15
Pakistan	7	9	10	5	8	7	12	17	17
Sudan	0	10	12	12	8	0	12	18	13
Senegal	1	6	22	15	9	-5	16	15	17
Israel	13	34	15	14	-6	5	27	28	20

Source: IBRD, *World Development Report 1983*, (Oxford University Press, 1983) World Development Indicators, Table 5. The data for 1976 are from Table 5 of the 1978 *Report*

case, therefore, there were special reasons for the capital outflow.[8]

Second, in all 12 cases capital imports as a percentage of GDP were higher in 1981 than in 1960, and in every case but one, they were higher in 1976 than in 1960. In many cases, as mentioned earlier, the rise was dramatic; in a few, the rise was relatively slight, eg the Central African Republic and Madagascar; but in no case did capital imports fall over the period as a whole. The countries in our sample are among the relatively small number where capital imports either were high initially or rose sharply or both. In this respect they can be considered to be rather privileged.

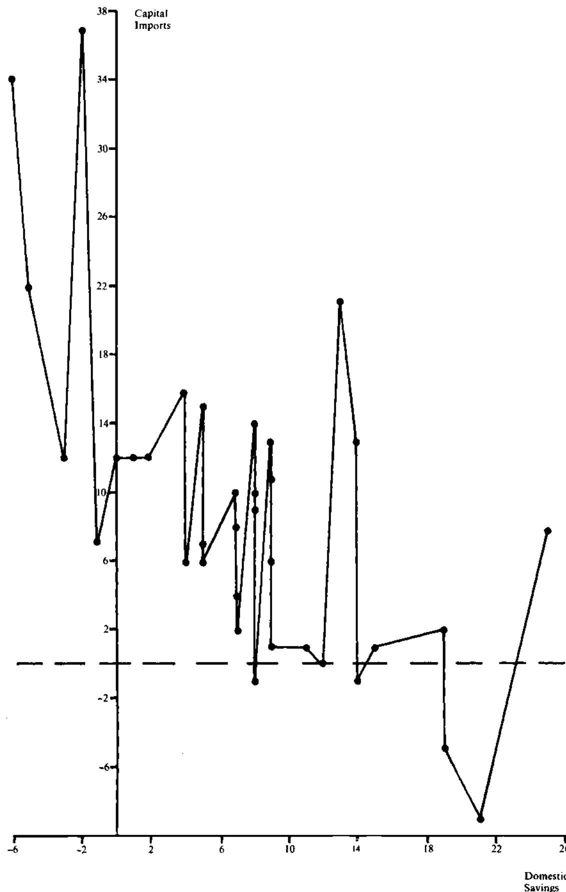
Third, in nine out of 12 cases the domestic savings ratio fell between 1960 and 1981. In these cases there was a clear inverse relationship between larger capital inflows and lower domestic savings. Moreover, fourth, in three cases the rate of domestic savings had become negative by 1981. That is, foreign capital not only financed all of the investment that took place in the country but some of the consumption as well. In another case the domestic savings rate had fallen to zero by 1981, implying that all of the investment in that year was financed with foreign resources. These four cases represent one-third of our sample.

The negative savings in Benin and Senegal are associated with an exceptionally sharp rise in capital imports. Indeed the increased inflow of foreign capital was greater in these two countries than in any other country in our sample, viz., 31 percentage points in Benin and 21 in Senegal. In the Sudan, too, the zero savings rate was associated with a substantial increase in foreign capital from nothing in 1960 to 12 per cent of GDP in 1981. In the Central African Republic the domestic savings rate declined from nine per cent of GDP in 1960 to minus three per cent in 1981, although capital imports increased by only one percentage point of GDP to 12 per cent.

Fifth, quite apart from changes in savings rates and in the rate of foreign capital inflow, the data in Table 4 suggest that countries which receive large amounts of foreign capital are likely to save rather little and, conversely, countries which receive little foreign capital are likely to have relatively high domestic savings. This can readily be seen in Fig. 1, where we

[8] This does not imply, however, that conditions in these three countries were unique. Several countries in our sample, for instance, achieved independence in 1960, viz., Benin, Central African Republic, Madagascar and Senegal.

Fig. 1



plot for each of our 12 countries for 1960, 1976 and 1981 gross domestic savings against net foreign capital inflows (both expressed as a percentage of GDP). The inverse relationship is very clear[9] and is consistent with the results obtained in some other studies. [See, for example, Weisskopf 1972; Newlyn 1977, ch. 4. For some counter examples, however, see Lipton 1972.]

It is a characteristic of the social sciences, however, that there are always counter-examples to any generalisation. Our sixth point consists of three exceptions to the rule that savings and capital inflows are inversely associated. In Zaire, Madagascar and Pakistan the savings rate was higher in 1981 than in 1960 and rose roughly in parallel with a rise in foreign capital inflows. Thus the inverse relationship we have identified is far from inevitable. There is, however, a sting in the tail: in all three cases the rate of growth of output per head declined, despite higher savings, larger capital imports and greater investment! In Pakistan the growth rate fell by more than a half and in Zaire and Madagascar the growth rate became negative. Clearly aid, private foreign investment and a greater savings effort were unable to prevent a sharp deterioration in macroeconomic performance.

Foreign Capital and Investment

Normally, of course, the outcome is not quite so disappointing. Our analysis indicates that capital imports should lead to a rise in total investment, but by less than the amount of foreign capital received. Higher investment, in turn, should result in faster growth, everything else being equal.

The data in Table 4 tend to support the hypothesis as regards investment. In nine countries gross investment as a percentage of GDP was higher in 1981 than in 1960. This is what one would expect. In three cases, however, the investment ratio fell. In Ethiopia the fall was from 12 per cent of GDP to 10 per cent and reflects a decision by the military government to seek a military solution to the country's political and social problems. In Israel the fall in the investment rate was even larger — from 27 to 20 per cent of GDP — and was caused by a huge increase in military expenditure.[10] In the Central African Republic the rate of investment plummeted after 1976 and as a consequence per capita income was lower at the end of the 1970s than at the beginning.

At the other extreme, the rate of investment increased by more than the rise in foreign capital in Zaire, Madagascar and Pakistan where, as we have seen, the domestic savings ratio rose.

In between are the countries where investment increased but by less, usually much less, than the rise in capital imports: Senegal capital inflows increased by 21 per cent of GDP, but the investment ratio rose by only one percentage point); Sudan, 12 and one percentage points; Haiti, 10 and four percentage points. If one considers the unweighted average of the 12 countries, gross investment increased by 4.5 per cent of GDP while capital imports rose by 11.6 per cent of GDP. That is, the increase in investment was equivalent to only 39 per cent of the increase in foreign capital.

Investment and Growth

Still, investment did increase on average. What is remarkable is that the rate of growth of GDP per head

[9] The regression equation is: $S = 12.0 - 0.48\ F$; $R^2 = 0.40$ where S = gross domestic savings as a percentage of GDP and F = net foreign capital inflow as a percentage of GDP.

[10] Between 1972 and 1980 military expenditure in Israel rose from 17.6 to 31.2 per cent of GNP.

increased in only four countries, as we saw earlier. In the other eight countries the rate of growth was lower in 1970-81 than in 1960-70, although in five of these the investment ratio increased. There is thus a strong suspicion that increased inflows of foreign capital might have led to a decline in the productivity of investment. Moreover, in some cases the decline in the productivity of investment might have been greater than the increase in the rate of investment, so that the rate of growth of output fell.

There are reasons to believe that foreign aid in particular often distorts the pattern of investment in such a way that the productivity of investment falls. First, the major motives of aid donors are not to increase efficiency and growth. Bilateral donors have made it clear that their primary motive is to promote the political, diplomatic, industrial and commercial interests of the country offering foreign assistance. Given that aid is not intended to accelerate growth, it is unlikely that efficiency and growth would increase except by chance. For example, the Economic Support Fund of the US Agency for International Development is explicitly intended to provide support to countries on the basis of US political and security interests, and about 40 per cent of all US bilateral aid comes from this Fund.[11]

Next, in order to maximise the political impact of their foreign assistance, donors often prefer large and prominent projects which can stand as monuments to their generosity. Such projects, although possibly successful in political terms, are unlikely to represent an efficient use of investment resources or to make a substantial contribution to growth. The bias in favour of large, monumental projects is not confined to bilateral donors. The EEC, for example, concentrates much of its assistance on large-scale infrastructural projects. All of us want to be *seen* to be generous. Moreover, donor agencies understandably wish to minimise their costs of administration, and this predisposes them to favour a small number of large projects rather than a large number of small projects. The problem, however, is that a strategy that minimises the cost of providing foreign aid is unlikely to coincide with a strategy designed to make the most effective use of investible resources. What is good for the donor may not be particularly good for the recipient.

Finally, there is the knotty problem of tied aid. Most aid is tied in at least one of three different ways: to projects, to capital rather than recurrent costs, and (in the case of bilateral aid) to purchases from the donor country. For example, in the UK over 60 per cent of our foreign aid is bilateral and 80 per cent of this is tied to purchases from the donor country; in Canada, 80 per cent of CIDA's aid is tied to procurement in Canada.

Tied aid introduces a series of inefficiencies into Third World countries. It biases investment towards highly capital- and foreign exchange-intensive projects. It artificially increases the capital costs of aid-financed projects, since goods obtained under tied aid will tend to be significantly more expensive than similar goods obtained at world prices. And it will also tend to increase the operating costs of aid-financed projects, since tied aid is likely to lead to a continuing flow of relatively expensive imports in the form of spare parts and ancillary equipment complementary to the aid-financed imports. The ultimate effect of all this[12] is to reduce the competitiveness of recipient countries, to alter the pattern of investment and lower its productivity and to reduce the rate of growth below what it otherwise would have been.

Inequality, Poverty and Political Repression

Perhaps growth would not matter very much if it could be shown that foreign capital, and especially foreign aid, helps to reduce inequality and poverty and to promote social justice and freedom. Unfortunately, however, it is impossible to demonstrate this. Indeed, I would go further: donor countries can in principle concentrate their aid on the poorest countries (although in practice they do not do so), but it is almost impossible for donor countries to ensure that their aid reaches the poorest people even if they wished to do so [see Mosley 1981; Independent Group on British Aid 1982, 1984). The most a donor can do is to support governments whose domestic policies are designed to ensure that the benefits of economic activity accrue to the poor in full measure.

Alas, there is very little evidence that the governments in the countries in our sample have made much effort to reduce inequality in the distribution of income and wealth. Moreover, circumstantial evidence suggests that the concentration on industry and the neglect of rural development have led to greatly increased inequality in most countries. In fact, the problem is more serious than this. Probably, the standard of living of many poor people, particularly those in the rural areas, has fallen substantially in the last 10 or 15 years. The neglect of the countryside has been so extreme that in most countries agricultural production has failed to keep pace with the expansion of the population (Table 5).

[11] Political, military and strategic interests dominate the US aid programme and account for the fact that Israel and Egypt in 1981-2 received 31.4 per cent of total US bilateral assistance: OECD, *Development Cooperation*, 1984, p.233.

[12] *Editorial Note:* The evidence suggests that tying raises the cost of purchases by 20 to 50 per cent: J. White, *The Politics of Foreign Aid*, St. Martins, London, 1972, p.151.

Table 5

Size and Performance of the Agricultural Sector

	Growth of agricultural output per head, 1970-81 (per cent per annum)	*Percentage of labour force in agriculture, 1980*
Bangladesh	-0.2	74
Ethiopia	-1.1	80
Zaire	-1.5	75
Tanzania	2.1	83
Haiti	-0.6	74
Benin	n.a.	46
Central African Republic	0.0	88
Madagascar	-2.3	87
Pakistan	-0.4	57
Sudan	-0.8	72
Senegal	-0.1	77
Israel	n.a.	7

Source: IBRD, *World Development Report 1983* (Oxford University Press, 1983) World Development Indicators, Tables 2, 19 and 21

In nine out of our 12 countries the agricultural labour force accounts for at least 72 per cent of the total. The fate of the poor depends primarily upon the performance of this sector — less so in Benin, Pakistan, and obviously Israel; but in general if agriculture performs badly, poverty will increase.

Data on agricultural performance exist for 10 of our countries. In only one, Tanzania, did agricultural output per head increase. In one other (the Central African Republic) there has been stagnation since 1970, and a precipitous decline in the 10 years before that. In each of the remaining eight countries per capita agricultural output fell in 1970-81: gently in Bangladesh and Senegal, rapidly in Ethiopia, Zaire and Madagascar, and in the other three (Haiti, Pakistan and the Sudan) by between 0.4 and 0.8 per cent a year. In all eight of these countries, therefore, and possibly in the Central African Republic too, there is a strong presumption that mass poverty has increased. And this has occurred despite a substantial inflow of foreign capital.

The poor have been neglected by their own governments. Many governments are dictatorships — usually a military dictatorship — and actively and violently suppress the poor. Judging by our sample, it could well be argued that this applied to a greater or lesser extent to Bangladesh, Pakistan, Ethiopia, Zaire, Sudan, and Haiti.

In practice foreign aid is doing little to promote growth in the Third World, and less to alleviate poverty. In the end it appears to be doing little more than sustaining corrupt and often vicious regimes in power, sometimes deliberately (Guatemala, El Salvador) and sometimes perhaps not. In either event, the time may have come to abandon the enterprise, to set ourselves the goal, not of increasing foreign aid, but of reducing it gradually over, say, the next five years to the minimum necessary to meet humanitarian calls for emergency assistance. [For a similar proposal see Seers 1983: 181-2.] We may well do more to help the poor in future by being less paternalistic, by supporting those in the Third World who favour a policy of self-reliance[13] and by discontinuing long-term programmes of foreign assistance.

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[13] See, for example, Sobhan, 1982. Shortly after Bangladesh became independent, I emphasised the danger for domestic resource mobilisation of relying on foreign aid: see Robinson and Griffin (eds.) 1974: 138-9.

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