

## Towards an International Welfare State?<sup>1</sup>

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The Pearson Report has presented the conventional wisdom on the function of aid in the development process - a set of views which are widely accepted by economists and administrators. The picture which emerges can be baldly but not too misleadingly summarised as follows.<sup>3</sup>

In the early stages of development, the attempt to increase the rate of growth causes an excess of investment over domestic savings, and hence a balance of payments deficit. But as incomes increase as a result of the investment, so will the level of savings grow, and in time will rise at a faster rate than the growth in investment. Eventually local savings (together with the resources which can be tapped through private overseas investment) will be sufficient to meet the investment required to finance an "acceptable" rate of growth, and there will be no further need for aid. The developing country will then have reached the stage of "self-sustained growth." Thus aid, sensibly applied, will help countries to get through this essentially interim period, and should be organised in such a way as to make this period as short as possible. Thus the primary function of aid must be to promote economic growth; in so far as aid for consumption seems to be

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<sup>3</sup>See for example, pages 124-126 of the Pearson Report. In all justice, however, it should be pointed out that the Pearson Report recognises that this picture does not cover all cases. It does not, however, appear to see the limitations of its model.

at the expense of aid for growth, it is to be avoided. The conclusion is frequently drawn that aid must be concentrated on those countries and activities with the greatest potential for growth.

This model is popular among economists and aid administrators for several reasons. By suggesting one criterion for aid (the promotion of economic growth) it seems more scientific than the haphazard and various criteria under which aid has tended to be given in practice. It implies that aid is essentially a temporary phenomenon - that some period can be seen in the future when aid will no longer be required. This makes it more saleable to politicians and their constituents. Since aid for growth appears to lead to a situation in which countries can support themselves, it has a more "moral" flavour than consumption aid - morality, as Little and Clifford have pointed out, being defined in Samuel Smilesian terms. Lastly, administrators object to consumption aid which, they argue with some justice, is difficult to organise and causes bad feeling between donors and recipients.

There are a number of obvious objections to these arguments. First, although aid, as the Pearson Report suggests, may lead to a situation in which many countries are able to sustain a 6 percent growth rate without recourse to concessionary finance, this may do little if anything to reduce the gap between rich and poor countries. Indeed, in absolute terms the projections suggested in the Pearson Report could imply a widening of that gap. This calls in question the whole concept of an "acceptable" rate of growth. Is any rate which does not substantially reduce this gap acceptable, and to whom is it acceptable?

Secondly, there are a number of countries, including some which are loosely described as the least-developed countries, where the optimistic assumptions of the model seem to have little relation to reality. Many of these countries have a low absorptive capacity for productive investment - at least in the short run.

If aid is based on growth criteria, such countries, although very poor, will come very low in the list of donors' priorities. Moreover, not only may the gap between savings and investment increase as a concomitant to development, but the actual level of savings may decline. As countries develop their social and economic infrastructure, they will be faced with maintenance costs that may far outweigh the growth in incomes which such services may make possible. If the aid to such countries is limited to the promotion of investment, they may be helped to build hospitals and schools but will not be helped to run them, or to build roads but not to maintain them. The maintenance of these infrastructure services may thus impose heavy burdens on budgets and the balance of payments.

A country of this kind may thus be faced by two unattractive alternatives. It can remain in budgetary and balance of payments equilibrium by means, in particular, of failure to expand its social and economic infrastructure. But the absorptive capacity for productive investment is frequently limited by the lack of educated and skilled people and poor states of health, as well as by deficiencies in communications and other infrastructure services. Thus low levels of living are perpetuated. Alternatively, a policy of expanding the social and economic infrastructure may be pursued, irrespective of short run growth prospects. This may well lead to a fall in the level of savings and involve severe budgetary and balance of payments difficulties. The choice may lie between stagnation and development into bankruptcy.

Even in the long run, the model which we have described may have little relevance for such countries. Unless large mineral deposits are discovered, it is as difficult to imagine, say, Upper Volta reaching a stage of self-sustained growth as it would be to suppose such a stage in Snowdonia or the Western Highlands of Scotland if they were independent

countries. Thus a consistent application of the principle of concentrating aid on those places which have prospects of reaching the Nirvanah of self-sustained growth would necessarily involve giving least aid to some countries which are most in need. It is a recipe for increasing both the absolute and relative gaps between very rich and very poor countries. But such a paradoxical conclusion follows directly from the attempt to use economic growth prospects as the sole criterion for aid, and to refuse to provide aid towards consumption.

At this point it is useful to draw a parallel between international aid policies and the transfers which are made internally in nearly all industrial countries from the richer people and regions to poorer people and regions. These transfers are made in many ways. Poor people and regions may be helped in order to establish a national minimum of incomes or services aid may be given to encourage growth or self-help; people and regions may be helped on the basis of an automatic formula related to needs; or help may be given on an ad hoc basis to meet needs as they arise or as they make themselves heard. Although objections are frequently raised to such welfare state policies, or to particular aspects of them, it has become widely accepted (especially since the depression of the 1930's) that there is a case for internal transfers, and that these transfers need not be solely designed to promote economic growth.

It is easy to see why such policies, although to some extent accepted in the context of internal policies in all western countries, are not yet accepted in the context of the relations between countries. The political pressures which led to the acceptance of welfare state principles inside countries are far weaker as between countries. Governments have powers to prevent (or at least restrict) the abuse of internal consumption aid, but may consider that the machinery which would be required to prevent abuse on an international level would

involve political difficulties and embarrassment. But most of all, international aid has grown up in a period of economic nationalism, when policies have had to be justified on the basis of some alleged "national" interest. And although we may all in some sense consider ourselves as "members of one another", the membership tends to be very weak as between the resident of Stoke on Trent, Pittsburgh or Düsseldorf and the villager of Somalia or Botswana. All this, of course, is merely an illustration of Myrdal's arguments about the weakness of the "spread" effects of economic growth from rich to poor countries.

But since the principle of economic aid for particular developmental purposes has come to be accepted over the past decades, it is only a matter of time before the problem comes to be seen in this wider context, and serious consideration is given to the application of distributive policies on a world-wide basis. This will involve the giving of aid for consumption as well as for investment, and the placing of aid on a continuing basis - that is, a recognition of the need for aid so long as there are rich and poor countries. It is in the context of some of the least-developed countries that the problem will arise as a matter of some urgency. Many of them are benefiting from post-colonial aid relationships, but there is strong pressure inside the donor countries concerned - mainly Britain and France - to phase out consumption aid as soon as possible. If and when this happens, certain countries will face a crisis which may have to be resolved internationally.

If we pursue the parallel of national welfare state policies, various approaches could be made to the problem of providing aid on a continuing basis for such countries, and of making it available for both consumption and investment. Thus international minima could be established for certain public services, and countries given aid to meet

them. Again, aid could be provided on the basis of some agreed formula which measured relative need. Or aid could be provided on an ad hoc basis to meet needs as they were brought to the notice of the donors. If there are countries which are likely to require aid for an indefinite period ahead, assistance on an ad hoc basis is likely to be the least satisfactory of these approaches. They will be inhibited from expanding essential services if they are not assured of recurrent aid for some time ahead. If the problems of such countries are to be met, the choice lies between some system of international minima or an international formula, or some system combining the two.

Each of these approaches has its advantages and disadvantages. An international minimum (however defined) could ensure that no country fell below what was regarded as a basic level of income or services. It might, however, be difficult to decide on minimum standards which suited the needs of all countries. The scheme might work unfairly as between one recipient and another; a country with high cost levels would benefit more from the establishment of international minima for basic services than one which had kept its costs low. Administratively a system of international minima could be very difficult to operate, and might create tensions between donor countries or agencies and the recipients. A scheme involving an automatic formula would be easier to operate and fairer in operation. It would, however, involve considerable statistical difficulties in view of the inadequacy of the information on indicators of need in most of the least-developed countries.

This is a line of approach whose possibilities and problems are totally ignored in the Pearson Report. In this sense, the Report is essentially one for the 1960's rather than the 1970's. The problem for the 1970's is how can aid be placed on a continuing basis and how can it be used to support consumption as well as invest-

ment in those countries where this is needed. If these problems are to be taken seriously, the following questions (which are by no means an exhaustive list) need to be considered.

First, what should be the purpose of international transfers on a continuing basis? If the aim is to improve levels of living in the poorest countries, which levels of living should be its concern? Should it be particular social services such as health or education, or should it attempt to cover a wider range of needs?

Secondly, how should it be run? It is possible that any scheme to be acceptable would have to be run by an international agency. If this is so, what kind of agency should it be, and what should its relations be with donors and recipients? How far could or should the agency interfere in the internal policies of recipient countries? How could it ensure a continuous flow of resources from donor countries?

Thirdly, what resources would be required and how would they be obtained and transferred? The answer to this must depend on the purposes of the scheme, but certain problems are apparent. If the need is, say, for doctors and teachers, can western-trained people be usefully transferred in large numbers to such countries? Or would the need be better met by enabling poor countries to employ their own people and stopping the brain drain from them? If the need is for freely useable foreign exchange, would this involve some kind of international income tax, and how would this be organized?

Fourthly, can the unfavourable effects of such aid on political and social structures in recipient countries be minimised? It is argued that aid along these lines could be demoralising or could slow down necessary social change. How true are these arguments, and how far could these effects - if at all probable - be minimised? It is

incidentally of interest to compare some of the arguments about the demoralising effects of international welfare state policies with the arguments about the demoralising effects of outdoor relief at the time of the 1834 Poor Law Act. Even the Malthusian arguments have a strange similarity.

Lastly, and perhaps most difficult of all, who should the recipients be and on what principles should they be selected? The organisers of a scheme might be faced with the choice of either drawing a politically unacceptable line between beneficiaries and non-beneficiaries, or of including so many countries as to reduce to a minimal level the benefit to countries in special need.

Perhaps what is needed is a new mission which would take these questions seriously, and take the first steps towards an aid programme for the 1970's. Certainly, they are not questions which can long continue to be ignored internationally.