FORWARD FROM PEARSONISM[1]

by Michael Lipton[2]

The Pearson Report is the last, bravest, most intelligent effort to redefine and make sense of the traditional approach to aid. It is unlikely to succeed in this aim, which is only one of several, partly because rich men are too selfish; but the real trouble is that the traditional approach to aid (as a bridge to help a country to develop on its own) has never been properly thought through. Fortunately the Report begins the movement towards the assessment of projects upon clearly stated criteria, from which a more useful approach to aid may emerge. This approach will develop, in the context of particular projects, the traditional justification for aid: that through particular projects it promotes development and thereby enables the recipient to become self-sufficient. Because this justification has so far been attempted in vague and general terms, scarce aid has gone to projects with low yields, and the whole aid programme has thereby become suspect even among the liberal elites who play so important a part in the "aid lobby".

We cannot run away from the lack of relationship between the aid per head, received by a poor country, and the growth performance achieved by that country. Numerous statisticians, including some working for the Pearson Commission, have tried and failed to find such a link. Excuses are easy to invent: not all "aid" is aid, growth is not the same as development, and even true aid may (perhaps rightly) go to the very countries with the greatest

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[1]I am grateful, for comments on an earlier draft, to Richard Jolly, Dudley Seers and John White, among others. Responsibility, for both facts and opinions remains entirely my own. And I am even less sure than usual that the opinions are right.

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difficulties in generating true development. But even when statisticians allow for these, it does not help much. Even for a group of similar poor countries, nobody has yet found a statistically significant link between non-military aid per head (even net of repayments) and any combination of development indicators such as growth, equalisation, employment, workforce-industrialisation, etc.

The aid lobby, to which I belong, has not faced this fact, rather as professional developers have refused to fact the virtually perfect overlap of poverty and tropicality. In each case the reason for the evasion is the wish to do good, and the fear that one admits defeat by recognising that climate is a constraint or that aid has been misdirected. In each case, the reasoning exposes a good heart but a muddled head. If climate affects the rate of development from a particular investment pattern, then tropical investment allocations require different choices from temperate ones[1] - perhaps, in view of the greater risks of rainfall failure, even different criteria, taking account of risk. If past aid has, in general, not demonstrably helped development, let us see how to use aid better in future. To follow instead a path of well-meaning goodwill - to argue that climate doesn't matter, or to pick happy but isolated instances where aid has triumphed - is not to further the cause of development. It is, rather, to endow those who wish developed countries to contract out of the aid effort - the Powells and the Passmen - with an intellectual respectability that they do not deserve.

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[1] Failure to realise just how different the tropics are, far from being an anticolonial revolution, has seriously hampered development by fostering misplaced imitation. The long, hardly credible delay in research into improved seeds - to exploit the special tropical prospect of year-round cropping - is a case in point.

The Pearson Report avoids the issue of the non-link between past aid and development by positing an unrealistic series of future aid targets. If all this aid could be made available, indeed it might produce a lot of development in total, even if some of it yielded very little. The cat of poverty might, in principle, be drowned in the cream of aid. However, the annual growth rate of official development assistance in 1961-68 was 3.2 per cent (in 1964-68 only 1.9 per cent). The rate of growth required to reach the Pearson target by 1975 is 14.1 per cent per year![1] As for total resource flows from rich countries to poor (including private overseas investment), they fell from 0.89 per cent of rich donors' GNP in 1960 to 0.77 per cent in 1968; the Pearson Commission expects them to rise to 1 per cent by 1975 (Table 7.2)! The big rise in public aid is especially unlikely, since 18 per cent of all public aid in 1967 - $1.5 bn. from the U.S. alone - comprised free food transfers, which donors and recipients alike want to phase out (pp. 151-2). To expect Congress to replace this food by cash is somewhat hopeful, and the Commission's discussion of this matter is quite unsatisfactory. It is true that Britain proposes to step up her aid (though not to the Pearson target), and the Commission deserves some of the credit for this. But "the problem of will", and hence of the Pearson volume target, remains obstinately stuck in the U.S. Congress.

The targets on terms of aid and tying, too, project a sharp reversal of trends in the 1960s. Neither on volume nor on terms is there much sign of the political muscle required to put history into reverse and approach Pearson targets. We, the professional developers, will of course continue to press our Governments to do what is right, pointing

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[1] Partners in Development, Annex II, Table 19. The target is that donors, as a whole, should transfer 0.70 per cent of GNP as official development assistance by 1975.

out that rich countries also have a long-term self interest in a politically stable and economically developing world, etc.[1] But a small and rather weak liberal pressure-group, to conquer entrenched self-ishness, does well to have an intellectually water-tight case.

It is not possible, in a brief note, to develop that case fully. The Pearson Report hints at it; I can only draw out the hints. The point is this. Aid is supposed to "work" by inducing rapid growth in parts of the economy that will yield much savings or earn much foreign exchange, thereby enabling the recipient to get off the aid hook. Aid thus depends for its success on a dual criterion: both on a high rate of return on the investment programme aided, and on a growing willingness to divert that return from consumption to development outlays.[2] To secure this success, donors and recipients must work together to concentrate the national development programme on sectors with satisfactory returns, properly used. But what are these sectors?

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[1] But not, I hope, that the donor's short-run balance of payments improves by aid. The UK Treasury is quite shrewd enough to realise (probably sooner rather than later) that, even if £1 given to the International Development Association ultimately brings in 30s. of exports, there are cheaper ways than gifts of achieving that result. One commentator objects succinctly, "I have never noticed propaganda efficiency to be in any way associated with intellectual consistency". In the long run I disagree, because the propagandist's morale matters too much, and because the targets of inaccurate propaganda learn - and reject. Whether Truth is often put to the worse in a free and open encounter is, of course, an open question.

[2] Economists will recognise these as versions, perhaps "pop" or perhaps "realistic", of the "social marginal product" and the "reinvestment" criterion, respectively.

The sectors to which Pearson devotes relevant attention are agriculture (pp. 32-6, 61-3) and population policy (pp. 194-99). In these sectors, the first part of our dual criterion - a high rate of return to investment in aid-receiving nations - is usually fulfilled. Although limits are placed on birth-control outlays by shortages of lady doctors and paramedical personnel, up to those limits (which aid can help remove) these outlays yield much more than comparable uses of funds.[1] Agriculture is a much bigger fund-user, which has just benefited by new techniques (based on seed breeding) that produce more output mainly by using an abundant resource, labour. Even before these new techniques became available, agriculture produced 1½-2 times as much output, per unit of new investment, as industry.[2]

Furthermore, it is not just a matter of the total yield, but of its distribution. The contribution of investments to human welfare in LDCs depends largely on the relief of poverty and joblessness. Both these forms of investment help the really poor: agriculture by growing more and cheaper food, population control by enabling the uneducated to benefit from techniques of family limitation previously confined to rich urban élites. Also both sorts of outlay help relieve the crucial job problem. On the whole, farm investment employs many more workers per £ than factory investment; and each prevented birth, 12-15 years later, reduces unemployment by one. Hence both sectors are obvious priorities for aid-financed supplements to investment, human and physical, as far as "development yield" - growth, jobs, relief or poverty - is concerned. Yet

[1] At very least fifteen times more, in India in the late 1960s. R. Cassen, "Population Control", in P. Streeten and M. Lipton (eds.) The Crisis of Indian Planning, Oxford, 1968, p. 261.

[2] M. Lipton, "Strategy for Agriculture", ibid., pp. 89-90, where it is shown that by allowing for the crudities of this "capital/output ratio" yield indicator, we in fact reinforce the conclusion.

agriculture, which employs 7 out of 10 men in the poor world, has received only some 12 per cent of aid - and family planning has received hardly any. Is this because "yield" is not the whole story?

Indeed, high developmental pay-off - more jobs and less poverty as well as more growth - is only half of our dual criterion for aid allocation. The other half is the recipient's <u>use</u> of the pay-off to become self-sufficient, i.e. to generate the taxes and savings (and to earn the foreign exchange) needed for growth without outside help. But birth control helps here too, since each new mouth to feed reduces the family's ability to save or pay taxes. So the second half of our criterion further strengthens the case for aid to raise the role, in development plans, of population-control outlays. What about farm investment? Its yield - more food, more cotton - clearly helps the recipient towards self-sufficiency in foreign exchange; and there is no reason to believe that farm income is any worse at producing saving than any other sort of income.[1]

Apart from using aid to influence the sectoral pattern of outlays, a donor has direct methods to help a poor country to get off the aid hook. As for <u>saving</u> self-sufficiency, the recipient's ideology (and hunch for what will work) must dictate which of the following paths are selected (and aided) in each case: measures

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[1]It is true that an unusually large part of farm income comprises wages or self-consumption; but wages are spent on goods <u>produced</u> by savers and profit-takers, while extra food output reduces the Government's need to spend on food imports and famine relief, and raises the producers taxable capacity. In India, regression analysis suggests that extra farm income raises <u>total</u> national saving by almost as much as extra non-farm income. E. T. Mathew, <u>Agricultural Taxation in India</u>, Asia, 1968. Further, extra farm income both <u>requires</u> and <u>is spent on</u> imports to a lesser extent than other forms of extra income.

to raise the tax take by raising rates, devising new taxes, and improving effective yields; incentives to small savings; improving borrowing facilities for public and for private sector; cutting current outlays by public and/or private sector; and raising the 'permissible' limits on deficit financing of public investment. As for foreign-exchange self-sufficiency, aid can be used to help the recipient produce or market more or better exports, to help it to substitute for imports where efficient, and even in some cases to train negotiators to bargain harder (or more subtly) about the terms of trade. These possibilities are not far-fetched; for example, the Sudan has received aid to transform her very low direct-tax take. But nobody could argue that aid policy as a whole has been informed by a wish to help recipients become more self-sufficient. The issues of aid yield and of the use of yield, while recognised in general, have not been translated into sectoral priorities for aided programmes.

The Pearson Report, by concentrating on aid[1] as a self-eliminating operation if properly channelled and sufficiently supported, implicitly redirects our attention to such priorities. However, the Report does not go into them at all deeply. The improved seeds are presented as miraculous sources of agricultural growth[2] - almost a pan-Asian panacea - and loops-'n-pills as the cure for family-planning problems (p.56) just when the serious difficulties of both these sets

[1]Only (i) true development aid, as opposed to (ii) emergency relief or (iii) international income-tax to transfer consumption from rich to poor can be truly self-eliminating. There is a real place for (ii) and (iii), but neither Pearson nor this paper deals with them

[2]Growth rates of farm output involving 1966, a pan-Asian disaster year, are the chosen means. Naturally they are much higher for 1966-8 than 1960-66; hence the post-1966 new seeds are proved to triumph (p. 33). How Green was my Revolution?

of technocratic solutions are becoming clear. We need to know more about how to change attitudes: to family size, by State provision of minimal security in old age to replace reliance upon more and more children (p. 197); to farm output, by enabling the farmer to keep the fruits of his labour instead of giving them up to cropsharing landlords, or to usurers with a sharp eye for a good crop in a debtor's field; and to the politics of allocating resources where they pay off (and relieve need), in farming and family-planning, rather than where they satisfy articulate but inefficient and well-protected pressure groups, business and labour, in the organised urban sector. Concentrating on farms and population control is the start of increasing the developmental pay-off to aid - but only the start.

The search for self-sufficiency through aid, like the search for growth, has remained at the level of huge aggregates. In this failing can be subsumed most of the reasons (from poor project evaluation to toleration for plain corruption) why aid has done rather little to produce development, except when administered in massive doses à la Taiwan. This failure is not necessary - aid is just resources, after all, and resources properly used are certain to yield that for which they are resources. The Pearson Report tentatively points towards a sectoral approach to aid.[1] If we do not get this, we shall soon

[1]This is not a proposal for applying crude donor pressures. The "loyal opposition" role of the aid donor, while controversial, is well recognised. The proposal is simply that donors translate into reality their talk about making aided programmes higher-yielding and more conducive to recipient self-sufficiency. The recipient climate (as with the Indian emphasis on "self-reliance") is often highly favourable to this. Furthermore, sectoral proposals do not imply sector-tied aid; they are proposals for new emphases within a total aided development programme, and hence must fit into a macro-framework. But too often a bad macro-framework is an excuse for bad projects. The construction of the macro-framework uses up the spare

get no aid at all. Donors, while they "aid" new capital cities and airports and hotels (or even half-utilised steel mills and dams) will become increasingly disillusioned with their allegedly spendthrift clients; recipients will rightly say "to hell with your aid"; and the whole enterprise of international development assistance will be aborted.

Economic analysis of aid must descend to sectors and projects, and support only those that promise development (equalisation and jobs as well as growth) and advance self-sufficiency. Donne said the last word on the futility of confining manifestations of love, whether sexual or international, to the sphere of large abstractions:-

> So must pure lovers' souls descend
> To affections and to faculties
> Which sense may reach and apprehend,
> Else a great Prince in prison lies.

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model-building capacity of Divitia's economics departments, and the completion of the projects that of her steel-mill-building industry; but both framework and steel-mills merely add to the bad debts of Ruritania.