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Other Ways in Which Rich Countries Affect Development

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A GREAT DEAL OF ATTENTION has been focused on the volume of aid in discussions on international aspects of development. The percentage of a country's national income going on aid is used as a measure of its virtue. In this paper I want to query this emphasis. Capital aid is only one policy, often of minor importance, among the many policies of rich countries that affect development in Africa, Asia and Latin America; in any case its effects go far beyond the relief of capital shortages.

Underlying the attention to financial aid is a rather simple model. Development is seen as consisting essentially of economic growth, measured by the national income; economic growth is seen as depending mainly on capital (and in some cases, more particularly on foreign exchange); the role of foreign "donors" is to supplement the domestic supply of savings (thus incidentally relieving any foreign exchange bottleneck). This is, for example, a basic model underlying the Pearson Report.

All of the links in this argument are open to question. In the first place, can one talk of the national income as a measure of economic growth? It adds together activities of very different significance and is in any case only a long-term indicator—a country may be making perfectly satisfactory economic progress through creating the infrastructure and the educational capacity for growth, even if its national income is stationary or falling for a few years.

More fundamentally, we must avoid the very tempting trap of saying that since poverty consists of low income per head, therefore development means economic growth. One could hardly talk of development having taken place in any true sense, i.e. in the sense of the nation having moved to a better situation, if average incomes had risen but at the same time inequalities had grown more severe, unemployment had increased, educational levels had fallen and political liberties had dwindled.[1] In

[1] The author discusses the definition of "development" more fully in a paper for the Society for International Development World Conference in New Delhi, 13–17 November 1969, since printed in "The International Development Review".

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fact, one would hesitate to say that the state of the nation had improved if it had suffered more than one of these setbacks.

Suppose, for the sake of argument, that the national income *were* a measure of development, and that it depended on the imported capital goods that can be afforded. This would not necessarily imply that it depended ultimately on the volume of aid. The terms of aid are also important. But in addition the foreign exchange supply depends very much on trends in trade, and aid donors may pursue commercial policies that are by no means helpful to poor countries. They may impose tariffs, excise duties, quotas, etc., on the exports from aid recipients. Other policies may check import substitution; for example in the U.S.–Cuba Reciprocal Trade Agreement of 1934, the United States obtained (in return for guaranteeing markets for primary commodities) Cuban guarantees not to protect their own manufacturing industries at all heavily from imports of U.S. products.

The foreign exchange supply is also affected by the freight rates charged by the shipping and other companies which have their bases (actually, even if not nominally) in industrial countries. These rates may be kept artificially high by "conference" agreements or by the regulations of cartels such as IATA. Insurance of all types is also often a heavy foreign exchange cost. Since governments tend to intervene on the side of "their own" transport and insurance companies, their positions on such questions are also ultimately among the ways in which their policy affects overseas development.

In an important minority of countries—those dependent on exports of oil and metal ores—the capital available for economic growth depends very much on the terms of concessions and rates of taxation. Here again the attitude of the metropolitan government may be crucial.

Of course the less we concern ourselves with the national income, the less significance does capital investment have. But it is far from the only determinant of the national income, anyway. We recognize now that shortage of high-level manpower can be as serious a constraint as lack of capital or even more so. It is no use having capital if there are not enough staff to prepare and carry out projects. (Iraq in the early 1950s was perhaps the classic example of wealthy stagnation.) There are many other influences on growth. An obvious one is political leadership—the capacity to work out an appropriate strategy, mobilize opinion behind it and implement it. Strategic decisions on which economic growth depend include questions such as the size of the military budget, the tax system, policy *vis-à-vis* the private sector, etc.

Since capital is not the only source of growth, let alone of development, there are many ways in which policies of rich countries affect the development of those which are poorer. The recognition of the importance of high-level manpower has led to a realization that technical assistance and overseas training can be as important as the financial elements in "aid"—though this depends of course very much on their content.

If high-level manpower is scarce, the "brain drain" can constitute an important loss. The volume of this depends in part on the immigration laws of rich countries, in particular whether those with professional qualifications find it easier to immigrate than those without such qualifications. The adequacy of the amount of education in the rich countries, especially in the fields of engineering, science and medicine, also has a big effect on the volume of migration of high-level manpower.

The Political Influence of Donor Countries

Another very important influence on development is the foreign policy of the rich countries. This has various types of impact; sometimes an aid recipient is encouraged to arm, perhaps even to buy armaments from the donor; if armed forces are directly or indirectly strengthened, this in turn may facilitate military coups with, of course, far-reaching implications for development. Military intervention by the big powers is not completely unknown, either directly (e.g. the Soviet intervention in Iran after the war, or the U.S. intervention more recently in the Dominican Republic) or through neighbours (e.g. the invasion of Guatemala) or through supporting one party in a civil war (in Vietnam and Nigeria). I shall not go into all the ramifications of the impact of military intervention on development—my point is not that its impact is necessarily negative,[2] but that it is undeniably important.

Attitudes of an aid "donor" to neighbours of recipients also have their implications. An obvious example is the influence of Britain's Rhodesian policy on Zambian development. The adoption of certain foreign policies could be much more important than aid—thus Tanzania and Zambia would probably benefit more, *even economically*, from Anglo-American pressure on Portugal to concede independence to Mozambique than from any feasible quantities of financial assistance.

There are many ways in which governments of rich countries affect the policies of aid recipients. Their embassies often follow the latter's internal politics closely and favour some political groups (even sometimes some civil servants) more than others. Since the groups which they support tend to have particular domestic policies on issues such as land reform, the effect of such intervention on development is far from random—it may well be negative in many cases, using development in the sense which I have outlined above.

What makes this especially important is that aid provides leverage. Sometimes this is quite specific in that the recipient government knows

[2] The verdict of the historian may eventually be that in this century intervention has mostly stimulated development by strengthening nationalism. This almost certainly happened in the Soviet Union, and it may well turn out to be the case in Cuba, China and Vietnam.

that by accepting aid it forgoes certain policy options which the donor would abhor, such as expropriating American companies (the Hickenlooper Amendment) or recognizing the government of East Germany (the Hallstein Doctrine). These are rarely very serious limitations, because the aid receivers may have no intention of doing what the donors prohibit, and in any case the prohibition turns out after all not to be total in all circumstances, but some erosion of bargaining power is nevertheless implicit in any such conditions. Rather more serious in developmental implications are prohibitions on recipients trading with certain countries, such as those which were imposed by the Battle Act, or the embargo which aid recipients are required to uphold on exports to Cuba and North Vietnam.

The donor also obtains power to influence policy for other reasons, which are not so much selfish as ideological. This is most obvious when it chooses particular sectors of an economy to support with aid, especially if the aided government lacks either the resources or the intention to build up these sectors itself. In addition, aid sometimes specifies so-called "performance criteria" (spelled out in "letters of intent" drafted by the donor but signed by the recipient; reports of IBRD and IMF Missions have a similar effect). Typically these conditions are designed for seemingly unexceptionable ends such as checking inflation, rather than to induce the acceptance of particular strategies. But they have of course far-reaching political implications, especially if they lead to the dismissal of civil servants, or to the abandonment of public works schemes. In general, such criteria reflect a belief in one particular route of development, leaving the economy as "open" as possible. This route is feasible for some governments, but hardly for many others.

The leverage affects not merely the policies of government but also who constitutes the government. Aid keeps in office, and is sometimes intended to do so, governments which are probably themselves the main obstacles to development, when "development" is defined in a way that includes the elimination of poverty, unemployment and gross inequality. Withdrawal of aid can make a government fall; the knowledge that certain parties are ineligible for aid from some sources may affect their chances of getting power.

More fundamentally, reliance on aid may sap the self-respect of the countries receiving it. This can have a profound effect on the formation of development strategy. It may weaken the stimulus of nationalism and it may lead to governments putting off important decisions more or less indefinitely.

Aid only part of the "package"

Compared with other relationships between two countries, therefore, aid may well be a minor influence on development, and where it does have an impact, its most important developmental implications are not so much the resources it provides as the total "package" of which it is an integral part. This may include, for example, trade preferences or exemptions discriminating in favour of the "donor", the establishment of military bases or overflying rights, a ceiling on the expansion of social services, a stronger position for certain ministers, and so on.

This is not to say that, as a generalization, aid is a "bad thing". Many countries would face severe challenges if it ceased to be available, and while for some this might turn out in the long run helpful to development, in the sense I use the word, in others (including India) the challenge might well prove far too great, even in the perspective of history. In any case, if aid comes from "small donors" and international agencies, its political elements are less likely to be damaging. One is not so sure about the bilateral programmes of some other donors, but on the whole the British aid programme (the composition of which I know in some detail) seems constructive.

Still, to assess aid is not the object of this paper; the real issue is why one of the elements in bilateral relationships attracts so much attention, for example in the Pearson report, especially since it is usually inextricably bound up with other elements. How is it that the package, which is what matters, is so often ignored? One explanation is that only aid is quantifiable (the defence for using the "national income" as an indicator of development is also that it is quantifiable), and thus easy for the social scientist to handle. But this does not seem to be a sufficient explanation; the model linking aid to development is so obviously facile. Can one hazard a guess that, possibly subconsciously, attention is concentrated on the volume of aid because many of the other elements which have been described are both complicated and awkward, especially for any political leader in a "donor" country? There is a certain lobby for transferring money—it would be difficult to arouse the same political support for lowering tariffs, reducing shipping freight rates, limiting the immigration of doctors, stopping the sale of military equipment, or supporting less conservative political groups in recipient countries. On all these questions, there are powerful and knowledgeable forces to contend with inside the bureaucracies of donor governments, apart from strong pressure groups outside.

Perhaps we can glimpse a parallel with the development of attitudes inside the industrial countries to their own problems. Not so long ago (less than 100 years) the main way of relieving poverty in Britain was charity—whether from individuals or parish officials. In retrospect, we can now see that this was entirely inadequate to change the social structure and to achieve the economic and social progress which has occurred. Indeed, in as far as it had political and social implications, charity may well have helped to consolidate the status quo. Opinions vary as to what was the influence of various aspects of policy in changing and developing the industrial countries. A big element was clearly the creation, in response to political pressures, of a fiscal system for transferring finance to the poor on the basis of objective need (rather than of "performance criteria", applied by individual poor law officials). Others have been the growth of trade unions and the enormous expansion of education. So charity was in a way an evasion of the rich-poor issue in industrial countries; perhaps concentrating heavily on aid, and treating it as a purely economic influence, provides today, for some people, a way of evading the realities of a divided world.

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