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Article

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Intereconomics

Suggested Citation: Holloway, R. G. (1969) : Purpose of and objections to development aid, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 4, Iss. 4, pp. 126-129, <http://dx.doi.org/10.1007/BF02934809>

This Version is available at:

<http://hdl.handle.net/10419/138168>

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Purpose of and Objections to Development Aid

by R. G. Holloway, London

Why give aid? The answers generally given to this basic question are simple. Unfortunately, they are correspondingly naive. Some of the more common objections, however, are merely perverse. As might be expected, the topic attracts its own conflicting pressure groups and its own set of opinionated academics. What it needs, rather, is better logic based on a disinterested approach.

Moral Basis of Development Aid

The motivation of British aid is outlined in Cmnd 2736, "Overseas Development: The Work of the New Ministry". This states that the objective of the British aid programme is to help developing countries in their efforts to raise living standards and that the basis of the aid programme is therefore a moral one. This moral basis is not further explained and while it is easy to appreciate the moral rectitude of an individual's wish to help others and to extend this to the concept of the general will, there is considerable difficulty in assuming that a Cabinet decision to increase British aid is a decision with a moral basis. The Cabinet is not spending its own money but the revenue from burdensome taxes imposed on the British people and it can hardly be claimed that the electorate has been asked to give a mandate on this specific issue.

In fact, a public opinion poll indicated that 56 p.c. of the electorate favour a cut in aid to Africa and India, and that more people favour a cut in foreign aid than any other item of government expenditure¹.

Political Purposes

While the Government claims that the basis of the aid programme is a moral one, it also states that it can at the same time be defined in political terms. This would seem to be an admission that the moral case is a weak one. Even defined in political terms, the case for aid has weaknesses. It is openly admitted that aid is not a means of winning the friendship of individual countries—surprisingly, we even give aid to countries who have broken off diplomatic relations

with us². The Government further admits that we should not expect aid to be an insurance against political tensions, though they seem to regard it as the only partial substitute available.

This, however, does not substantiate an argument for official aid rather than private gifts and investment. It also subordinates economic development to maintaining the political status quo which is frequently repugnant to liberal thought.

In the increasing absence of genuine parliamentary democracy, discontent and unrest are frequently desirable as means of political and social advance. Consequently, it can be said that in supporting corrupt and totalitarian governments in many African and Asian states, foreign aid impedes moral and political development. Yet the Government does not insist, as it should, that aid should only go to democratic nations for fear that "a relentless Communist imperialism" may manipulate "this misery to subvert men and nations from freedom's cause"³ to achieve a different and probably preferable distribution of wealth and power. An inclination towards communism does not depend on a difference in living standards between nation-states but on the differences within communities which economic development tends to accentuate.

There is a further peculiarity in the distribution of our aid. Most of it goes to the Commonwealth. The Government supports this by stating that countries which are members of the Commonwealth have a special claim on us. But how historical links and current (supposedly commercial) ties can substantiate such a special claim is not explained. Does the Government feel that we exploited these countries in the past as many of them claim? Or is aid linked to the importance of their trade with us; or with the volume of our private investment in their mines, plantations and factories? Certainly some aid seems to have been given to forestall expropriation of our investments (but, again surprisingly, we also aid countries which have expropriated our investments)⁴.

² Hansard, 21 December 1967, Col 1453.

³ The Clay Report, Report of the Committee to strengthen the security of the Free World, US Department of State, 1963.

⁴ Hansard, 21 December 1967, Col 1454.

¹ The Sunday Times, 14 January 1968.

The Government recognises that it is in the nature of aid that we should accept an economic sacrifice when giving it, but does not explain why we should make sacrifices to assist the economic development of other nations before we have abolished poverty in our own society. One-third of the aid we give is spent by the recipients on goods and services from our industrial competitors and so is a direct cost to our reserves⁵. But the other two-thirds also involves a short-term and, so far as grant aid is concerned, a long-term cost in terms of unrequited exports and the immediate loss of professional and technical manpower which could make a substantial contribution to our own economic growth. The goods we send out which are paid for out of our own grants and loans are often goods we could have exported for dollars, marks, francs and kronor. So it is wrong to claim (as has been done) that this aid costs us nothing. Since 1962, it is true, some aid has been related to unused capacity in British industry; but the amount involved has been small and has imposed import costs for materials as well as the opportunity costs involved in not redeploying our resources to uses where there is a growing free market demand. The Government now acknowledges that tying aid to unused capacity involves the risk of deferring the structural development of the economy and endeavours to see that the use of tied aid as a subsidy to inefficient industry is avoided⁶. Recognising that aid tying can bring about cumbersome limitations on the freedom of the recipient to choose freely the most suitable sources of supply on the international market, the Development Assistance Committee member countries of OECD agreed in 1965 to endeavour to progressively reduce the scope of aid tying with a view ultimately to removing procurement restrictions to the maximum extent possible. This should benefit British exporters. But the Government has since declared that its policy is to ensure that as much aid as possible is used to supply British goods⁷.

Long-term Advantage

In the long-run, though, it is claimed that the provision of aid is to our own economic advantage. By helping to raise incomes in the developing countries we can provide expanding markets for exports and safeguard the supply of our imports and the return on our investment. But the fact that we could secure a greater advantage by investing in our own productive capacity, or in that of other high-income countries where the marginal efficiency of capital is greater than

⁵ Ministry of Overseas Development, *Overseas Development: The Work in Hand*, Cmnd 3180 and *What is British Aid?* (1967). See also A. Krassowski, *Aid and the British Balance of Payments*, Overseas Development Institute (1965).

⁶ Hansard, 2 February 1967, Col 755.

⁷ Hansard, 9 August 1966, Col 1363.

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in the less-developed countries, is beside the point since such economic self-interest is considered secondary to the moral purpose of aid. Nor, on these grounds, need we worry whether the loans will ever be repaid except through giving further loans. But, if few of these loans are likely to be amortised by consequent economic development, we are deluding ourselves as to the true cost of aid by calling them loans⁸.

Apart from the factors already considered, the moral purpose of aid is a self-delusion unless it can be shown that there is at least a strong probability that aid does in fact result in faster economic development.

Help or Hindrance?

A fairly common though minority view has been stridently stated by P. T. Bauer, Professor of Economics at the University of London, who has argued that large-scale indefinite aid has not served to bring about an appreciable rise in liv-

⁸ The World Bank has pointed out that the debt service of a few developing countries has reached such proportions that it has seemed virtually impossible for them to maintain payments unless the debts were refinanced or the schedules of repayments extended and that the total volume of debt is rapidly growing — 1965-1966 Annual Report pp. 33-34.

ing standards in underdeveloped countries or to promote their economic development?

He claims that, while foreign aid may sometimes improve economic conditions in the recipient countries, it has not generally fulfilled the expectations which it arouses and, indeed, cannot do so. On the contrary, aid often damages the development prospects of the recipients.

It is, however, very wide of the mark to claim that foreign aid is ineffective. Admittedly, foreign aid can only provide a marginal contribution to economic development; but Bauer's argument fails to recognise that foreign aid may be highly desirable as a means of minimising the economic strain and social upheaval imposed by the effort at development¹⁰ where such minimisation is itself desirable.

Professor Bauer argues that the ineffectiveness of financial aid as an instrument for development derives ultimately from its inability to substantially improve the human factors which are basic to economic development. He goes on to argue that the ineffectiveness of foreign aid is reinforced by the way in which it operates—through the frequently harmful repercussions on the policies and institutions of the recipient countries and on their allocation of resources—and, notably, by the way it is given.

Professor Bauer states that it is clear from the history of many countries that foreign aid is not a necessary condition of economic progress. He adds that if a poor country has failed to develop without aid, its provision is unlikely to lead to development but is likely to result in external dependence being taken for granted. He cites India as the most familiar case of progression from poverty to pauperism and adds Algeria, Burma, Ceylon, Ghana, Indonesia and the United Arab Republic as other examples. He does not, however, mention that their economic difficulties would most probably have been worse in the absence of this aid and that the countries which have developed without much aid usually had natural resources which attracted foreign investment.

Perhaps the best answer to the professor's contention is provided by the 1967 DAC report which

⁹ "Foreign Aid: An Instrument for Progress?" Two Views on Aid to Developing Countries, Institute of Economic Affairs (1966).

¹⁰ T. Balogh, *The Economics of Poverty*, Weldenfeld & Nicolson (1966), p. 128.

states that the poor countries with per capita incomes of under \$ 300 per year which showed growth rates appreciably above the average in the period 1960-66 were often those which received official assistance on a relatively massive scale during 1960-65¹¹.

The harmful repercussions on the institutions and policies of the recipient countries, which Professor Bauer identifies, involve the strengthening of government, both through the change in the balance of financial resources within the economy and through the extended government determination of the direction of economic activity which is associated with the support or even pressure in the donor countries for comprehensive development planning. He correctly argues that the amount of aid is often geared to the shortfall of resources required for the plan but illogically adds that governments are therefore induced to pursue inflationary policies which discourage the local population from saving and which bring about balance of payments difficulties. The truth is that foreign aid, especially when covering local as well as import costs, reduces the need for an inflationary expansion of the monetary supply in order to meet budget deficits.

Aid Centralises Power

The professor further argues that, because the flow of intergovernment aid strongly favours the development of close control over the livelihood of the population, the achievement and exercise of political power becomes a matter of acute concern and this situation enhances the stakes in the fight for political power, drawing the energies of ambitious and enterprising men from economic activity to political life. He concludes that the drastic policies often pursued in the name of comprehensive development planning and promoted by foreign aid do not augment resources: they only centralise power.

But, surely, it is better to centralise power in an educated and responsible administration than to permit the economic oligarchy of a landed aristocracy and the entrenched power of foreign monopolists to suppress an emergent entrepreneurial elite; and, too, to prevent the wasteful

¹¹ OECD, *Development Assistance Efforts and Policies: 1967 Review*.



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duplication of ventures which may frequently be ill-financed and worse managed. It is also important to ensure that avoidable gaps in the economic structure do not persist. These gaps may not offer commercial profits commensurate with the national benefit and they may also be beyond the capacity of private organisations to fill. Further, as recent experience in Ceylon has shown, private sector projects all too often tend to be for luxury goods whose supply, in accordance with Say's law, creates its own demand and which require imported materials; to the neglect of the basic industries which would better exploit indigenous resources and provide a more viable structure.

Professor Bauer points out that, in both Africa and Asia, there are many instances of agricultural and industrial projects financed with foreign aid which leave the country with structures inappropriate to its economic conditions, and which cannot be operated efficiently either for want of human or financial resources or for lack of demand. As a result, the structures become liabilities, not assets. But this is generalising from exceptions, most of which are the results of Soviet bloc aid.

Aid vs Investment

There is, however, considerable truth in his claim that both the flow of aid and its method of operation encourage and enable the recipient governments to discourage the inflow of private capital.

In this sense, official aid (both financial and technical) is an alternative to private investment and not a supplement. From the point of view of the short-term cost to the British balance of payments, too, private investment is an alternative to official aid in computing the amounts we can afford. Private investment in the less-developed countries of the sterling area is not controlled or subject to the programme of voluntary restraint but investment in the many less-developed countries which are not within the sterling area is restricted by the need to obtain exchange control approval and by the need to pay a very substantial premium to obtain the necessary foreign exchange.

In many ways, direct investment is potentially the most development-inducing form in which

external capital can be provided¹². It is also potentially more effective in providing an economic return to this country. Further, there are no a priori reasons for preferring official aid on political or moral grounds.

Extended in the wrong way, generosity can be perceived by its intended beneficiary as insulting and contemptuous; and, even if it is accepted that there is a place for official aid as well as private flows, it does not follow that this aid should be mainly bilateral as it is today. There is an inescapable element of paternalism in bilateral aid. The recipient countries, wishing to avoid the taint of neo-colonialism and the strains of cold war alignment, prefer official aid to be channelled through the international agencies. The Government recognises the advantages of giving aid through these international organisations and intends to increase its contributions. It has also recognised the disadvantages of independent aid by increasingly participating in international aid consortia. The channelling of all aid through international agencies would mean that the extension, organisation and considerable deployment of administrative talent by the Overseas Development Ministry would no longer be necessary and finance and skills could be economised.

Population Explosion

Much of our aid in its present form may be self-defeating. Certainly more of our effort should take the form of assisting the less developed countries to restrict the very rapid growth in their population or at least be conditional on their taking steps to popularise family planning. The present largely unrestricted growth in world population does not increase the total sum of human happiness but threatens, before the end of this century, an unbridgeable gap in world food supplies. FAO projections suggest that the food requirements of the developing countries will more than double by 1985 and will considerably outpace their food production (which, on a per capita basis, has declined). There is no point in giving present aid which at best defers the problem and at worst will itself create future famine at a considerably higher cost to the whole world.

¹² United Nations, *World Economic Survey 1966*, Part I: The Financing of Economic Development, pp. 57-58.

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