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ECONOMIC CRITERIA FOR FOREIGN AID

by

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R. S. Eckaus, September 1968

ECONOMIC CRITERIA FOR FOREIGN AID

1. Introduction

The rules for allocating economic assistance for development programs among countries and to various uses within countries should flow logically from the general rationale which forms the basis for foreign aid. If the final objectives were clear, consistent programs could be formulated. However, it is painfully evident that the foreign aid rationale, though sufficiently powerful to generate the provision of billions of dollars of resources annually, is at best a clouded one, articulated in many different ways within each donor and recipient country.[1] In these circumstances it is not surprising to find a variety of specific criteria proposed, more or less independently of any basic rationale, for the many decisions which must be made in a foreign aid program. Since these specific criteria are intended to be practical guides to decision-making their careful examination may be more useful for the operation of aid programs than continued debate on fundamentals.

The specific aid criteria have been advanced as the bases for decisions on how large the total aid budget should be, and, within the total budget, on the allocations among countries and even for the allocation of funds among projects within each country. Perhaps these criteria should not be taken too seriously, but treated only as slogans, useful

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[1] See R. S. Eckaus, The Rationale for Foreign Aid, M.I.T. Department of Economics Working Paper No. 26, Sept., 1968.

in task force reports, campaign speeches and messages to Congress. Yet they have been advanced as reasonable, objective criteria, almost self-evident in their justification. And, if these are not the criteria used, the mystery deepens as to how the necessary decisions are made.

Two types of decision-making procedures which can imply somewhat different criteria have been implicit in the discussion of foreign aid allocations among countries. In one approach the total amount of aid is determined by first deciding, in some manner intended to be objective, how much to give to each country. The aid total is then simply the sum of the individual country totals. The other approach accepts the specification of some total amount of aid and tries to provide a basis for allocating that total among potential claimants. Only under rather special conditions of production and patterns of welfare evaluation will these two procedures lead to identical results.[1] It is not always easy to penetrate the rhetoric and publicity surrounding aid decisions to determine which procedure has actually been used. In general, however, the approach seems to prevail of deciding first on totals which are then allocated among countries. In the presentation of foreign aid legislation to the United States Congress it is customary for the President's representatives to justify it on a country-by-country basis, as if that were the manner in which the total was determined. Yet there is little doubt

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[1]If both production functions and utility or welfare functions are homogeneous of the first degree the result of decision-making "in the small" will be the same as decision-making "in the large."

that the Congress makes its decisions, in part, at least, on the basis of the total request. It is likely also, though it is not such public knowledge, that within the administration some overall budget is set for foreign aid which is then somehow allocated among countries. The international aid consortia, meeting as they do for separate countries, seem to operate to determine total aid amounts as the sum of separate country decisions. But again, there is little doubt that each donor country delegation arrives with a budget constraint which reflects a prior decision on aid totals. The international lending agencies must also operate within a total budget constraint. The effect of such a constraint is to make inter-country comparisons unavoidable. The aid criteria to be discussed are attempts to find some way of dealing with such comparisons.

2. Are Economic Criteria Relevant?

An essay on economic criteria for foreign aid runs the risk of provoking the characterization of an exercise in futility. No sophisticated statistical techniques are needed to discover that the distribution of a substantial part of the foreign economic assistance to the less developed countries has been determined primarily by the rather specific political interests of the donor nations. The facts can be read in various ways and with different degrees of detail but on this issue there is little doubt. From 1949 to 1966 the U.S. has given almost $57 billion of economic assistance to the less developed countries of the world (all recipients except the European countries and Japan, but including Greece, Yugoslavia, Portugal and Spain). Of this amount $16.3 billion went to nine countries for which, I believe, there would be general agreement that the political rationale was overwhelming: Greece, Israel, Jordan, Korea, Laos, Taiwan, Thailand, Turkey and South Vietnam. This group of countries with 8.4 percent of the population of the less developed world received 28.9 percent of total U.S. assistance. By contrast, India and Pakistan, with lower average per capita incomes than any of the nine, and with 37 percent of the less developed world's population, received 17.4 percent of total U.S. assistance.

The U.S. certainly is not the only donor nation to be guided by its own political interests in its assistance to less developed countries. France, which devotes a larger fraction of its gross national product to foreign aid than the U.S., from 1960 through 1964 directed 83.2 percent of its aid to African nations which comprised less than 5 percent of the population of the less developed world but which either had been or still were associated politically with France.

The weight of specific political interests in determining aid allocations among nations, cannot be blinked away. Even so, the simple calculation for the U.S. suggests that the allocation of the major part of its foreign aid is not so obviously determined by narrowly defined short-term political interests. There are, in addition, the important amounts of aid made available through international agencies, in which the political motives are at least rather diffuse. Moreover, it should not be supposed that, even within the most clearly identified client countries, economic assistance is parceled among sectors and projects primarily on the basis of the political influence which can be bought. For the most part, I believe, with respect to U.S. aid, that once the country allocations are made, the ideology and rhetoric of economic assistance and growth and, to some extent, rational calculation take over in determining the uses to which the foreign assistance is put within each country. It is important, therefore, even for the client nations, to understand the implications of the economic criteria which have been proposed and used in aid programs.

3. The Varieties of Aid Criteria and Their Logic

a. Attainment of Self-Sustaining Growth. One of the goals which has been set for foreign aid, which is, therefore, a criterion for the distribution of aid, is the achievement of self-sustaining growth. It has been suggested as if it could be applied separately, country-by-country, without the need for international comparisons. It is a deceptively simple objective which, though it has been stated as if it were self-evident, conceals a number of difficult questions. The first is that of deciding when growth is "self-sustaining." Does it mean that it should be possible to achieve the desired growth solely by means of domestic resources? If that is the case, with what structure of balance of payments should it be consistent?

We have been taught recently that domestic and foreign resources are not always substitutable and that it is possible to distinguish between a foreign exchange gap and a savings gap in the requirements for growth.[1]

[1] H. Chenery and A. M. Strout, "Foreign Assistance and Economic Development," American Economic Review, Vol. 56, September 1966, pp.680-733.

The former gap arises when domestic savings are potentially available but cannot be transformed into the specific types of goods required for growth due to lack of domestic capacity and the goods must be imported. Moreover, the domestic savings cannot be converted into foreign exchange either, again because of lack of domestic capacity, in this case to produce exportables. The savings gap, on the other hand, arises when domestic savings, even if readily convertible to foreign exchange by exports, or to any required investment good by domestic production, are inadequate to achieve the growth target.

The savings gap concept is a familiar one and the role of foreign aid in easing that constraint is well known; the foreign exchange gap is less familiar and requires some clarification. It is easy to understand that the domestic resources made available by domestic saving are not always convertible into foreign resources by exporting at going prices. Prices may have to fall which means that the productivity of the domestic savings in terms of foreign exchange will fall. If demands are inelastic, as seems to be the case for some traditional exports, even falling prices will not yield more foreign exchange in total. Certainly not all exportable goods face inelastic demands but that may be the case for just those goods which are made available by domestic savings or such "goods" may be services which are not exportable at all. However, if domestic saving can be used to increase the production and export of goods whose prices would not fall, or whose demands are price elastic, the distinction between the gaps disappears over some period long enough to permit the adjustments. The foreign exchange gap concept is, therefore, reduced to the argument that the productivity of domestic resources is relatively low and falls as output increases, all of which is truer in the short run than over some longer period. Such reasoning virtually wipes out any long-run distinction between a foreign exchange gap and a savings gap in defining "self-sustaining growth." The distinction remains but confined to some short-run period and is, therefore, of limited usefulness in development analysis.

The self-sustaining growth criterion is not explicit with respect to the structure of the balance of payments with which it is consistent. If the binding constraint in the short run is foreign exchange rather than domestic savings, one can still look forward to the day when development will either create the specific domestic capacity necessary to replace the critical impacts or the domestic capacity in export gaining industries which will earn the foreign exchange. The long-run problem is one of establishing specific industries and competing effectively in foreign markets. If there is no domestic saving constraint, there is no long-run need for net capital imports to achieve the growth targets. So it is possible to foresee after a period of adjustment a condition of zero capital inflow and even the repayment of foreign debts. That would clearly be self-sustaining growth, but it is easy to imagine circumstances which are not so clear. There may be private capital imports if foreign investors seize investment opportunities. These will either increase the growth rate above the target rate or substitute for domestic saving or some of both. Since there is often some degree of imprecision as to growth targets and achievable domestic saving, it may be difficult, if not impossible, to know whether the growth achieved was just as projected and whether it could have been achieved without the capital imports.

If there is a domestic savings constraint associated with the targeted growth rate, foreign capital inflows are necessary to provide the investment resources. However, in this case also the criterion of self-sustaining growth need not imply the objective that these inflows should entirely disappear. Certainly some net foreign capital inflow is admitted under the criterion provided that it is sufficiently productive as to generate the income, savings and foreign exchange required for repayment of principal as well as return of profit and interest. Or should ability to generate enough foreign exchange to repay principle be required of the country if growth is to be considered "self-sustaining?" Some, in particular short-term, capital inflows clearly foresee repayment of principle. Other inflows might be expected to be permanent, or at least on quite long terms, if debt servicing or profit repatriation is maintained. It is impossible to always determine what is in the minds of the different categories of investors, and, in any case, repayable debt can sometimes be "rolled over" into permanent debt. Because of its imperfections, the revaluation of different categories of loans and investments in terms of a common denominator of permanent foreign capital investment cannot be left to the international capital market. So there is no single comprehensive measure of the "quality" of the net foreign capital inflows to less developed countries on the basis of which it can be decided whether they are consistent with self-sustained growth. The assessment requires that an essentially difficult and somewhat subjective evaluation be made. The appraisal of the "credit worthiness" of a country can be considered an attempt to make the evaluation. The requirement of debt repayment usually imposed is, however, not always warranted.

The self-sustaining growth criterion may be stated for any one country as minimizing the period during which a country receives aid and achieves the desired growth but then the total amount must be stipulated or some other limitation imposed on the annual allocations. Or the criterion may be the minimization of the total amount within some specified time period. Either way the criterion would only provide guidance for a particular country and would give no help in intercountry allocation of a fixed amount of aid.

The next set of problems in applying the criterion of self-sustaining growth has to do with the specification of the target growth rate itself and the date for its achievement. Without these additional specifications the self-sustaining growth criterion provides no guide to the distribution of foreign aid when there is a constraint on the total available. To illustrate this point, let us suppose that there are two potential recipients of aid, Futuria and Penuria. The first is in the process of a triumphant development program destined shortly to make it prosperously independent. The second, with limited resources, has bumbled and fumbled its way to greater poverty but has just prepared, with the aid of a platoon of Cambridge (U.S.) economists, a brilliantly conceived long-term development plan.

Is it more desirable that Futuria become "self-sufficient" in two years or that Penuria be helped to move further along its difficult road? To state that the goal of foreign aid is self-sustaining growth is simply of no help in making the necessary decisions on the allocation of aid among the two countries.

Suppose we ask the Penurians how the target growth rate and the date on which it is to be achieved with self-sufficiency is decided upon. The planmakers tell us that they are only technicians and do not make such basic political decisions. Presumably, the target rate and date was either imposed by the Penuria Aid Consortium or "agreed upon" as a target date by PAC and the Penurian Finance Minister. On what basis did PAC decide what was a "reasonable" target growth rate and a target date for self-sufficiency? On what basis did the Finance Minister decide? There is no doubt that with the same annual levels of foreign aid the earlier the date for self-sufficiency and the higher the target growth rate the more the present burden of development for Penuria, though, within limits, the effects on Penuria of setting an earlier date for self-sufficiency and a higher target growth rate can be offset by giving it more aid. Is it more desirable that Penuria be self-sufficient in ten years or that the per capita consumption of its people rise at a one-quarter percent more rapid rate and self-sufficiency be achieved only in twenty years? By foregoing consumption and increasing investment in export gaining and import substituting industries Penuria can achieve overall self-sustaining growth more quickly. To what extent should it try to follow this course? The answers to these questions determine the intertemporal distribution of the burdens and benefits of development. The criterion of "self-sustaining growth," by itself, is not an adequate basis for making decisions.

The date which is set for the achievement of self-sufficiency and the target growth rate have profound effects on the design of a development program. Their choice requires the balancing of the goals of the growth of national output, growth of domestic consumption and the growth of exports, which may to some extent conflict. There is no reason why the donor countries' preferences on these issues should be the same as those of the recipient nations. Rewarding with more foreign aid those countries which choose higher overall growth rates and earlier target dates for self-sufficiency is certainly not a policy which is neutral with respect to the otherwise unrestricted preferences of recipients. It may not even be consistent with all the goals of the U.S. or any other foreign aid program.

Does the criterion help in deciding how limited amounts of aid should be distributed among sectors and projects within a less developed country? Returning to Penuria, we think it is important to improve the educational levels of its population and so regard the education budget as critical although the foreign exchange earnings of that "investment" are questionable. How was the education budget decided upon? Was achievement of self-sustaining growth the critical factor? We ask the Education Minister, who refers us to the Plan which is the basis of the program loan by the Penuria Aid Consortium. We speak to the planmakers, and are assured that, indeed, the goal of self-sufficiency is a constraint which plays a role in determining all the sectoral allocations made by the Cambridge Model for Planning (CAMP). It should be noted, to paraphrase one of the Cambridge economists, that, "only a program approach will justify investment in education; on a project basis it can never be shown to pay off in terms of the self-sufficiency criterion. That is, an analysis of projects is required which comprehends all the constraints on development including the self-sufficiency requirement. That can be done only within the context of a comprehensive model like CAMP, for it is otherwise impossible to calculate the contributions of education to self-sufficiency. Fortunately, the Penurian Plan is now made with CAMP." That in turn requires that many issues on which the self-sustained growth criterion is silent be settled explicitly.

Though self-sustaining growth is not an operational criterion it reflects a real and legitimate concern. Foreign aid is a domestic sacrifice (in a full employment economy) and it is reasonable to ask that the sacrifice be kept to the minimum consistent with the goals of the aid program. However, the criterion of self-sustaining growth has not been sufficiently articulated nor is it sufficiently sophisticated to reflect these goals.

b. Maximizing Self-Help. One statement of goals for the U.S. aid program was that "the broad purpose of capital assistance is to encourage the recipient countries to maximize their own efforts toward development."[1] The same rough logic that argues that the domestic sacrifices entailed by foreign aid programs be kept to the minimum consistent with the goals of

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[1] _The Emerging Nations_, p.118.

the program would appear to argue that countries should be encouraged to help themselves. The issue is whether "self-help" can be made into a criterion of aid as has been proposed in recent years.

There is, first of all, the familiar problem of deciding upon an indicator of self-help. There are a variety of ways in which a country can contribute to its own development not all of them being measurable and even fewer commensurable. Election and tax reforms in Penuria may be both difficult to achieve and important parts of economic development programs. How can either be compared with elimination of the custom of the two-hour siesta in Futuria -- or in Penuria. Perhaps, it might be argued, all the effects of such reforms show up in the differences in the productivity of resources and in the rates of saving. But these ratios, as we all know are subject to a great many influences and on economic grounds alone they could be expected to be at different levels and change at different rates in the two countries even if they were in some sense "self-helping" to an equal extent. Separating the effects of various economic influences even in one country is a difficult enough task.

The average or marginal savings rates within a country has been suggested as indicators of self-help. But do we really want either rate in Penuria to rise as rapidly or be as high as in Futuria? Presumably, the programmed rates should be consistent with the development plan in each country and a consistent and optimal plan may call for a low rate of domestic savings in Penuria for some time to come. When we ask the Finance Minister how the savings rate was determined, he refers us to the Penuria Planning

Commission (PPC) for the "details." When we ask there we only start an argument. The Cambridge (U.S.) economists claim that under-developed countries really want to be self-reliant so foreign aid was entered with a negative sign in the welfare function which CAMP maximized.[1] The local economists say that it is a condition forced on them by western ideology. They would be more than happy to swallow a little more of their pride in order to obtain a little more of the benefits of foreign investment for the poverty-stricken people of their country. And their people are so poor that they do not foresee the end of their willingness to engage in prideswallowing. More than than, they can already point to a history of being willing to substitute foreign aid for domestic saving and argue that they can, if permitted, continue to achieve this goal in the future.[2]

Another, more puritanical faction in Penuria argues that the only way to achieve popular participation in development is to reduce the country's dependence on foreign assistance and such popular participation is essential. Thus, after a short time, if not immediately, reductions in foreign aid will be made up, if not more than made up by domestic saving, though presumably the logic is only true within limits.

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[1] H. Chenery and A. MacEwan, "Optimal Patterns of Growth and Aid" The Case of Pakistan," in I. Adelman and E. Thorbecke, The Theory and Design of Economic Development, (Johns Hopkins: 1966), pp.149-179, and Pakistan Development Review, Vol. VI, 1966, pp.209-242.

[2] M. Anisur Rahman, "The Welfare Economics of Foreign Aid," Pakistan Development Review, Vol. VII, 1967, pp.141-160

The right and wrong in these arguments depend on whose articulation of the Penurian welfare function we accept. Some aid may be better than no aid but the proud Penurians know full well when they are bowing to the dictates of a foreign welfare function and so should we also. As to what has happened in the past and what may be expected in the future, just a moment's reflection will rid us of any surprise we might have in finding that poor countries substitute foreign aid for domestic saving. It may be helpful in this reflection to first think of the country as setting a fixed per capita income target for some specific future date. The more foreign aid which is available, the less the domestic saving required to reach the target. If the target is not fixed but rather determined simultaneously with the domestic savings rates, it still would be reasonable to expect some substitution of foreign for domestic saving, if any aid is accepted at all.

Is the U.S. aid "wasted" on Penurian grasshoppers? Would it be considered "waste" or an understandable desire to live a little better if we are told that, at the Penurian annual per capita consumption of $100 a head, they do not increase their savings rate when their income rises a little? The Penurian savings rate is low by comparison with India, with a similar per capita income. However, in addition to the "subjective reasons" for its lower savings rate there may be "objective reasons -- a less efficient Civil Service, for instance, and, in particular, a less efficient tax collection bureau.

Thus, we again find in the case of the "self-help" criterion that the indices are unreliable and they may, as in the case of the savings rate, depend themselves on the amounts of aid given. The Cambridge economists assure us that CAMP is sufficiently comprehensive and flexible to be used as an instrument of analysis to determine when the Penurians are not acting in a manner consistent with the Penurians' own stated goals. If that is found, it may mean that the stated goals are not universably agreed upon in Penuria and several groups are pulling in different directions. Or it may mean simple inefficiency and mistakes. CAMP can help somewhat in detecting and differentiating each case. Yet we must understand that all CAMP can do is tell us what actions are consistent with optimization of the social welfare function specified for it. If the Penurians want to "eat their cake" as soon as they have a little of it rather than keeping it and using it to get more, CAMP will tell them how to do that most effectively or how to best plow back resources into investment at a high rate.[1]

There is simply no escaping the conclusion that any judgment by donor nations of the effort of recipient nations or comparison of "efforts" of recipient nations implies the application of the values of the donor nations. Donors, just as much as the governing parties of the poor countries, must examine carefully the intertemporal welfare implications of the programs they propose.

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[1]See R. S. Eckaus and K. Parikh, Planning for Growth, 1968.

c. Efficiency in the Use of Available Resources. The requirement that aid be given only if it is used efficiently has an apparent common-sense basis and considerable appeal. In the form stated it is a necessary condition. If the criterion means that aid should be given whenever it is used efficiently, it seems to be a way of deciding how much a country should receive. If the criterion is put in the form that aid should be distributed where it is used <u>most efficiently</u> it is a rule for the allocation among countries of some fixed total of aid.

The first problem with either of these criteria is again of finding an index for its application, in this case for the measurement of efficiency. There is only one type of case in which the efficiency and inefficiency distinction is an absolute one. That is when more of at least one resource and no less of other resources than would otherwise be necessary are required to produce a specific output. In this case resources are being wasted in a physical sense. But even this situation may be difficult to detect and is not necessarily unacceptable if the alternatives to such waste require accepting more undesirable social and economic conditions. Moreover, in this as in other less clear-cut cases, comparisons among countries may not be relevant because the technologies and organization which would reduce the waste might not be available everywhere. In manufacturing processes which involve heat exchange, for instance, heat losses and, therefore, fuel costs depend on the ingenuity of the design of the equipment and that ingenuity and knowledge is not universally available. Certainly waste in the physical sense should be avoided but its avoidance will not go far in determining aid allocations.

In many cases, the use of more of one productive input is accompanied by the use of less of other inputs and an economic calculation with price weights is required to determine whether one technique or another is most efficient. High or low labor productivities or land productivities are not, in themselves, indicators of economically efficient or inefficient use of labor or land. Economic efficiency depends on <u>relative</u> scarcities of productive inputs in relation to the particular types and amounts of goods desired. These relative scarcities should be reflected in the relative prices of the inputs and outputs. Within any one country one could determine whether resources were being allocated and used efficiently if prices did accurately reflect relative scarcities and goals. There is a good deal of "cost-benefit" analysis or project evaluation done on that assumption. The "if" is a big one, however, and relatively little attention is paid to the revisions required when the condition is not satisfied. Government price setting boards as well as private markets are subject to the pressures of interest groups and local monopolies. These factors create price distortions which should be taken into account in project analysis, which is a difficult thing to do. Use of international prices as estimates of true opportunity costs will be possible for some goods and services but not all. Still, for project decisions cost-benefit analysis is likely to be the best which can be done in this imperfect world, and there is hope of improving methods for doing this.

For allocations among sectors within a country the efficiency criterion has many problems but is not hopelessly difficult in application.

For allocations among countries it simply does provide a basis for decisions.[1] Relative factor scarcities, available technology and social objectives all differ among countries. Differences in factor efficiencies should, therefore, be expected among countries and are in fact encountered. Futuria has achieved a high average capital productivity, i.e., output-capital ratios, in part by restricting the construction of residential housing in which output-capital ratios are always low and has allowed rentals to rise to ration the especially scarce housing. The higher rents raise the value of output in the numerator and that contributes to increasing the ratio. Penuria has not only built more housing, relatively, but has used rent control to keep rentals down so its capital productivity has been low. If we argue with the Penurians that they should use their resources and foreign aid more efficiently, they may well respond that we have no sympathy for the plight of their badly housed population and think only about their future generations who are going to be better off anyway.

The concept of "technical absorptive capacity" is related to that of efficiency in use of resources had has also been proposed as a limitation on the amount of foreign aid given to a particular country. The idea is that the lack of technical and professional skills and complementary physical capacities limits the amount of foreign resources which can be

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[1] In their "Performance Criteria for Evaluating Economic Development Potential: An Operational Approach," Quarterly Journal of Economics, Irma Adelman and Cynthia Taft Morris devise an index for measuring the potential productivity of aid in different countries, but do not question whether this is an appropriate criterion.

used "productively" in a less developed area. However, the fall in productivity of foreign resources due to these causes may be gradual rather than abrupt, and there are ways of compensating for lack of some of the limiting factors. Foreign expertise can often substitute for domestic skills, for example. If there is not any sharp productivity cut-off point the problem remains one of deciding on the levels of efficiency which are to be required in the use of foreign aid in each country. This again involves, as do the other criteria, value judgments on the intertemporal and even the interpersonal distribution of the costs and benefits of development efforts. Thus, the requirement that aid be used efficiently, however stated, is not a criterion which can be used by itself to decide how the amounts available should be distributed among the less developed countries.

d. Priority Programs. It is, perhaps, unavoidable that each year in the U.S., it is necessary to package the foreign aid proposals to the Congress in a different type of wrapping paper. Similarly in less developed countries it seems that each plan must have its own characterization to put on the posters. In the latter case there are some slight advantages to the commitment to five year plans which may mean that the propaganda exercise is less of a drain on the time and attention of officials.

There would be nothing wrong with identifying and stressing different aspects of development problems at different times if these accentuations were not taken so seriously as to become obstacles to the balanced programming of foreign aid. Unfortunately, the slogans come to be constraints. If it is a "food and population" year or plan, investments in steel or mines may be difficult to support, however reasonable their justification.

While sectoral imbalances in Penuria require redressing, Futuria has always had just the right sectoral balance and is growing rapidly as a result. There is certainly no point in imposing Penuria's pattern of aid requirements on Futuria, nor even in supposing that Penuria's requirements will each year have a dominant and different theme.

The loans provided by international lending agencies such as the World Bank Group in the past, and, to a considerable extent, at present reflect a long commitment to a particular set of priorities. "Economic infrastructure" and, more recently, "social infrastructure" have been the chosen areas of investment of the World Bank Group. At the same time these agencies have not emphasized the relationships between the volume and pattern of such investment and the rate and composition of economic development. Such an emphasis would have led from a preoccupation with particular projects to careful attention to development programs. That might, in turn, have forced an explicit comparative evaluation of development patterns. While there has always been some attention to overall development prospects, the World Bank Group has not involved itself deeply in the specifics of development plans until recently and only in a few cases.[1] They have continued to concentrate on "infrastructure" though their list of "priorities" has been broadened recently to include education and agriculture.

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[1] The apologia of R. F. Mikesell for the World Bank group in Public International Lending for Development, New York 1966, argues that the Bank "has supported sound governmental planning," (p.63). However, his italics do not convey the content of "soundness." It seems in most cases to finally come down to a question of ability to repay loans.

While certainly representing a broadening of horizons, this cannot be counted either as a deeper perception of the implications of alternative targets for foreign exchange requirements or a new insight into the relations between the sectoral composition of investment and the intertemporal distribution of the costs and benefits of development. Those perceptions would require a definite commitment to detailed program analysis.

In two respects in particular the public, international lending agencies as well as the individual donor nations, have set specific aid criteria which reflect judgments as to desirable programs of development though the explicit implications have not been worked out. There has been a clear preference for plans which promise a "balance" in international accounts and a reduction in, or elimination of, price inflation. While in general disavowing any intention to intrude on the national sovereignty of borrowing nations in their setting of goals and choice of instruments, the World Bank Group in applying these criteria have claimed to "know best" and sided with those domestic interest groups also opposed to inflation and balance of payments crises. It is not necessary to resolve here the question as to whether the criteria are in some sense right or wrong or appropriate or inappropriate. The point is that they are criteria and do reflect preconceptions about the growth process.

4. What Criteria Should Be Used?

It is not unreasonable for donor countries to expect the recipients of foreign aid to try to become independent of gifts, to help themselves and to use resources "efficiently." It is only unreasonable to suppose that these are "objective" criteria, free of any value judgments on the part of the donors as to the behavior of the recipient countries, the sacrifices which the present populations of the less developed countries should make for the sake of future generations, their preferred combination of leisure and work, or their preservation of expensive cultural forms. Every decision taken has implications for the distribution of the burden of development, not only as between present and future generations but also within the present populations. The connections are sometimes remote in their causation but nonetheless close in their effects. For example, a decision to build a heavy machinery plant or an automobile factory instead of a fertilizer plant may, within a short time, affect the relative availabilities of food and cars.

In order to do well what aid agencies and consortia try to accomplish, it is necessary to have a comprehensive approach. So suppose we turn again to CAMP, the best available procedure, and try to use it to allocate aid among countries. To operate CAMP we would first have to specify an overall objective or welfare function to be maximized. To simplify matters, assume that the total amount of aid is determined independently of CAMP and that the value of the objective function is dependent solely on what happens in the less developed countries. The objective function would then be a weighted sum of the welfare indices for each recipient country. What should the indices be: income, income per capita, consumption, consumption per capita or employment? These are all plausible and each can be expected to lead to a somewhat different result. What weights should apply to indices for each country? If the indices are on a per capita basis, and unless there are reasons to favor individuals in one country over those in another, no other weights but total population would appear to be appropriate.

Of course, in the perfect CAMP-ian world, there is only one (long!) time horizon for all countries and perfect foresight. Thus, in the solution which CAMP provides, resources are used on the margin with equal productivity everywhere.

This result does not really help very much in the A.I.D. offices in Washington, or the offices of the I.B.R.D., where the facts which are known best are those which deny that the world is CAMP-ian. The international movement of resources is constrained. Competition is imperfect. Prices do not reflect real relative scarcities, etc. What criteria are appropriate to this world? The hardworking, well-organized, highly structured Futurian society is generating high growth rates and making effective use of all the resources available to it. The poorer, easy-going and highly-tolerant Penurian society seems to be rampant with inefficiency. How should aid be distributed amoung the two countries? It has a higher physical productivity in Futuria but prices are higher in Penuria so that value productivity is not much different. The Penurian exchange rate is controlled and probably overvalued though the degree to which it is so is not known. Calculations and comparisons of economic efficiency are, to a considerable extent, guesswork.

Under these circumstances the best one can do, I believe, is to continue to make calculated guesses about economic efficiency in allocating aid among projects within Penuria and Futuria. As for the allocation between Penuria and Futuria, there is simply no way of avoiding a decision on how much of the total each "deserves." One set of A.I.D. officials may prefer "self-help" as a criterion (the deserving poor). Still another group of A.I.D. officials may like the cooperative, non-communist Penurian society in comparison to the corporative, non-communist Futurian society. Interestingly enough, the Penurians may be proud of their tolerance and agree that it makes them more deserving than Futurians and yet resent any attempt in Washington to act consistently and allocate foreign aid within Penuria to strengthen its domestic virtues.

Though it may be politic to conceal the value judgments implicit in the allocation of aid, they must be made. We only fool ourselves if we believe that the allocations are made by objective, value-neutral criteria. Agreement on the fundamental rationale of aid would help in making the value judgments consistently. Even without such agreement, however, examination of the basic arguments suggests that countries need not always be treated equally or consistently.[1]

This leads to the last point: application of some of the economic criteria may involve more risks with respect to political change than other economic criteria. Rapid development in Penuria, given its political

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[1] R. S. Eckaus, "The Rationale for Foreign Aid."

structure, may come only through maintaining or increasing the inequality of income and wealth. Rapid development in Futuria has been achieved by sacrificing present consumption for future consumption. It may be hard to maintain such programs, however, if the "will of the people" vacillates. Likewise, such programs do depress consumption relatively and a bad monsoon or fall in the value of exports, may force consumption to dangerously low levels, as compared to programs in which change is programmed at slower rates. That is, both types of programs take economic risks, and therefore, political risks. The phenomenon of governments being unstable through economic failure is not confined to Eastern or Western Europe. The economic criteria, therefore, have implications which may not be fully appreciated in the paragraphs of the A.I.D. submission to Congress which discuss "political development." Yet it would be difficult to say which economic criteria involve greater or lesser likelihood of political instability. It is not even clear that the answer is the same for every country. Though such evaluations may not be made explicit, we should never confuse ourselves by thinking that they do not exist.