Foreign Assistance and the New International Economic Order

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Foreign assistance has been an integral part of the existing international economic order. It was the major link sustaining a tenuous relationship between the dominant economic forces moving towards an unprecedented affluence and the large periphery of poverty-ridden economies of the developing world. It served the function which private or public charity performs in traditional societies. It tended to delay the demand for ensuring a fair and dignified share to the developing countries in the material gains of human progress. The progress of mankind in harnessing world's natural resources and in the application of science to productive processes has so far benefitted a small part of the world population though it has a great potential for increasing prosperity on a global scale. International community has not yet acquired a global perspective in determining its strategy for dealing with economic issues.

Some change in thinking on international economic relations is reflected in recent literature [58, 59] though it still does not go far enough to question the basic premises on which the current thought-structure is organized. Most of the proposals and suggestions emanating from official or intellectual sources are modifications and marginal improvements within the existing theoretical system underlying the relationship between developed and developing countries [25, 39, 40]. An analysis of the basic concepts is essential to see what changes in the existing system are being attempted and resisted and where the main attack on the intellectual basis of current system needs to be focussed.[1]

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[1]More recently, the concern for environment and depletion of natural resources of the world has logically led to the beginnings of global approach. A study by Barbara Ward [60] being an unofficial report commissioned by the Secretary General of the United Nations Conference on Human Environment and the Club of Rome studies [33,34], pioneering the effort at systematising the global approach, are cases in point.

In this article an attempt has been made to initiate a discussion on these lines. The first section raises some questions about the existing global economic order. In the second section has been indicated the required direction of change in the international economic order. The third section is devoted to an analysis of foreign assistance policy in relation to a new order of world economy. The concluding section shows realisation of the difficulties in attaining a new international economic order within a politically meaningful period. Certain suggestions are, therefore, made regarding the basis of an alternative approach, which the developing countries may adopt.

I

The existing international economic order is a carry-over from the period when it was perfectly acceptable to consider economic relationships in terms of classical general economic equilibrium model. This was applied to domestic economic management as well as international economic relations. The assumption was (with the qualifications well understood and accepted) that the resource allocation would be efficient when it is allowed to be guided by the market forces of demand and supply within a country. Distribution problems kept bothering classical economists—mainly because of the limit on the availability of natural resources resulting in rent—but lost practical significance after the discovery of new continents. International trade was expected to remove the limiting effect of the lack of mobility of factors of production across national frontiers. This was a beautiful world with perfect competition, free enterprise and free international trade (with tariffs striking a little discordant note) [15].

Of course, the world was practically never as indicated by classical economics. This did not bother dominant thinkers in a seemingly orderly functioning world. But in the thirties there was a rude shock to the basic concept itself as a result of Great Depression which proved too stubborn for known remedies. The need for effective government intervention was accepted. The flexibility of prices and wages could no longer be assumed [26, 28]. The power of large corporations and organized labour was more obviously recognized in the fifties and sixties with the governments trying to actively intervene for correcting distortions [13, 52]. Nationalization of monopolies and semi-monopolies was accepted in Europe as one of the solutions [42]. It was discussed as a possible way of dealing with some problems like energy even in USA in the seventies.[2] Much earlier, it was recognized that agriculture where supply originates from a large number of competing units and where supply adjustments are not quick, can not compete with industry organized increasingly on the basis of big corporations with semi-monopoly power and organized labour in a position to push up wages. Support prices for agriculture were fixed in U.S. and in European countries to overcome this limitation of agriculture. Protection to domestic agriculture and industries which clearly had lost their competitive advantage was justified on non-economic considerations in Europe, North America and Japan [24, 36]. The Socialist countries were, in any case, not operating a market system.

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[2]A. US Senate Report makes this interesting observation: "The projects required are so large and expensive, and the risks so great, that Government will be the cornerstone of any programme designed to meet energy goals that are established." It goes on to emphasize that there will be required "a change in the traditional attitudes of Government and industry as to their respective roles" [54].

While the classical model became increasingly irrelevant in the national economies, the international economic system continued to be based on the principle of laissez-faire. The trade among nations, the belief continued, would allocate resources more equitably than it would among different sections of the same society. International markets were supposed to be more perfect than national markets. There was need for protection to the farmers in a country but not to the farming countries in the world. This belief continued despite the fact that across borders, movement of factors of production was limited and only trade in goods was the proxy for a full flexibility in the development and allocation of resources. Theory continued to emphasize factor price equalization resulting from international trade against growing evidence of glaring actual difference [44].

The industrial nations faced a crisis arising from this dichotomy in the theoretical basis of national and international economic organization. The disruptive forces of inter-war period led to the setting up of Bretton Woods institutions in the late forties for effective observance of the rules of the game. But relatively free international trade with fixed exchange rates was proving inconsistent with a commitment to full employment and collective bargaining at home. The reform of International Monetary Fund in the late sixties and seventies was the consequence of further experience in this field.[3] The European countries formed an internal grouping to increase their own bargaining power in international trade [47].

These were adjustments of relations within the industrial nations. The system, however, continues to reflect the reality of economic power concentrated in a few industrial and financial centres. The developing countries were mainly political dependencies in the early forties. Their interests could not be reflected in the organization of world economy at that stage. Since then the trade among developed countries has grown tremendously and their inter-dependence is much more important than their dependence on trade with the developing countries.[4] The reform prior to 1973 continued to reflect the consensus of large industrial nations on areas of their own major concern [22, 57].

The international economic system organized on the basis of predominant economic position of a few countries obviously had considerable impact on developing countries. It was never conceived as an effective vehicle for progress and prosperity in the greater part of this world. It is stating the obvious that it has not proved a helpful factor in realizing this objective. Some of the limitations of the present system from the point of view of developing countries can be easily recounted.

Firstly, on the question of trade, there is no effective mechanism for protecting producers of raw materials and commodities from unwarranted world price fluctuations or against a secular decline in their prices

[3]Demonetization of gold and general acceptance of fluctuating exchange rates are two of the most significant changes. For a history of monetary reform, see [29,63].

[4]This is more apparent than real. The large money volume of trade mainly reflects their high wage costs, as the low money volume of trade originating in the developing countries reflects depressed prices for their produce and low wages. Cause and effect get mixed up, as the change in oil price showed. The share of oil exporting countries in world trade became different almost instantaneously.

relative to manufactured goods.[5] The need for such protection and smooth redirection of productive resources to other activities where necessary is recognized nationally. Its application internationally remains an anathema [11].

Secondly, there is no institutional arrangement for the equitable distribution of financial resources being generated in the world as a result of the operation of international monetary system. Within countries, there are attempts to redirect credit in favour of those who would not otherwise get credit on pure market considerations. There is no extension of this principle in international field. International credit mechanism continues to provide bulk of the credit to the developed industrialized reserve currency countries. Only in 1976, a marginal change in the system was accepted on the question of profits arising from the sale of gold [23,62]. Major part of the gains in operating an international money system—either because dollar and sterling are used as reserve currencies, or because SDR's are distributed according to quota in the IMF—accrue to developed countries. They are recipients of assistance from the world community.

Thirdly, the technology is heavily concentrated in a few countries and in the hands of a few multinational corporations. The price charged for technology always includes an element of monopoly rent, because it is the answer by mankind to the constraint of "Land" or natural resources. Its economics works on the same principle. The scarcity of technology replaces the scarcity of land and is subjected to rent.[6]

The developing countries "buy" the products of technology and seldom the technology itself.[7] The price is always high enough to give the developed countries a surplus for ensuring a better distribution within their societies as also to maintain large investment in retaining their lead in technology. The system is, therefore, self-perpetuating. The users of the product of technology ultimately pay for the development of technology. These users include those in developing countries. But technology does not belong to them and, hence, the monopoly rent accrues to developed industrial nations, perpetuating the transfer of resources from developing to developed countries [46,48,55,56].

Fourthly, there is the problem of the "feudal" structure of the present world organization [2]. An unduly large proportion of world's natural resources

[5]The other problem of quantitative restrictions against manufactured goods from developing countries is based on a fallacious argument that low-cost competition is a violation of the premises on which existing order is based; it is not a shortcoming inherent in the system itself.

[6]Ricardo was concerned that ultimately all gains of human progress would go to owners of "land" [41]. The way technology has been handled has transferred these gains to countries with advanced technology. Only recently, however, one type of land owners viz. oil producers have been able to reassert their share because technology had not been directed for a long time towards replacing this source of energy [16,45].

[7]Sale of technology in this argument implies the widest possible coverage. Not only direct sale of pure technology, but also the sale of capital goods which embody a combination of raw material and technology, consumer durables and other manufactured goods are included. To understand the argument fully, one should recall the first transactions between East India Company and Indian traders [30]. The products of "technology" were exchanged at favourable rates against raw materials. Only the forms of this exchange have changed. The reality has persisted. Profits are no longer as high as in East India Company days because of internal redistribution policies in the developed countries.

is controlled by the developed nations. The large continental nations start from the base of a favourable ratio of natural resources to population. The majority of world's population is required under the present system to eke out a living from a meagre base of land and other natural resources available per individual, however equitably divided within each country. The only active factor is labour improved in its application by skills and organization. Capital, unless it is infused from outside, is past labour and can only result from the surplus production over and above the basic needs. The reasons for this surplus remaining low have long been recognized.

Taking all these factors together, there is a continuous bias in the system favouring the developed industrial nations. They are able to devote huge resources towards technological development, which attracts scientists and technically qualified people from developing countries also. This cost of developing the technology is paid for by all users, but its scarcity rent goes to industrial and technologically advanced nations. The monopolistic organization of technology is matched against almost perfect competition in commodities. The terms of trade, if these could be measured to reflect the lowering of the cost of producing manufactured goods as a result of improvements in organization and technology, would show very large movements in favour of industrially advanced nations. The surplus generates capital which is used to increase labour productivity. International credit creation and financial movements largely supplement the efforts of developed industrial nations.

This discussion is not intended as a polemical condemnation of developed nations or point out "exploitation". The main purpose is to attack the underlying assumption in the entire intellectual approach towards the problems of developing countries. The assumption which is never stated in polite conversation but can be traced in any intelligent discussion is that the poor countries are responsible for their poverty. If they are poor, it has to be their fault. It has been the foundation of theoretical discussions which always start by "preconditions" of growth [3, 49]. The change in attitudes and basis of social organization in favour of systems worked out in the Western societies is regarded as a pre-requisite of growth. The implication is that the failure to change is the real reason for poverty. Points of strength in the cultural background of a country which function as a mechanism for getting the least expensive solution to a problem are not studied in the context of an existing situation. Developing countries are required to adopt the cultural and social base which functioned well in the West and produced results in the form of greater material progress. This arises from the assumption that there has to be something basically wrong in the country, if it is poor. Once this is corrected, it would be on the road to progress. The search is so thorough for finding what is wrong that a whole way of life is destroyed without creating something new.

In assistance policies this attitude is more clearly reflected. It is for the developing countries to set their own house in order. The strategy of development should be adopted as considered right by aid-givers. There is no obligation on the aid-givers to provide assistance in sufficient quantum to implement an agreed development strategy. There is no concept of "partnership" in aid relationship which Pearson Commission was advocating [38]. All the obligation is on the "poor" and none on the "rich".

It is traditional good sense to blame the poor for their poverty. Societies have done this for centuries in relation to individuals. The recognition that the economic system and the socio-political organization of the society have a role in perpetuating or reducing inequalities is a relatively recent phenomenon. This has not yet permeated fully in international analysis of the problems.

The responsibility of the poor to themselves is quite clear. They are the sufferers. They have to do everything to improve their situation. They will benefit from it. But it is no concern of those who are not willing to assume a reciprocal responsibility to provide help in the form and in the magnitude which would produce results. Assistance in the form of an uncertain, variable quantity depending on the availability of surpluses and changing public mood in countries providing assistance with the real content of such assistance vitiated by unwarranted tax on the poor for subsidizing producers in the developed countries through tying of aid, is not likely to form a basis on which a shared common responsibility can emerge. A compact between developed and developing countries [32] can emerge only when the starting point is accepted that the developing countries have a right to get this assistance because their poverty is the outcome of the mal-functioning of international economic system. The logical next step would be to combine the assistance with the reform of the system. Otherwise all assistance would be a waste.

II

A basic change is required in the moral basis of international economic order.[8] The moral basis of the existing economic order provides an excuse for the rich countries to enjoy a way of life permitted by their present resource endowment and whatever gains accrue to them as a result of foreign trade organized on the basis of free operation of the market except when this is modified by them in the interest of helping their less efficient producers. The belief which is not explicitly stated is that the rich countries' workers are inherently more efficient producers. They have therefore "earned" their better life. The system is entirely free and distributes rewards and opportunities in a free and just manner among all countries. It is for the poor countries to take advantage of these opportunities and to improve their lot.

The above view held sway for some time. It has became difficult to continue to adhere to this view with the ability of the suppliers of one key raw material—petroleum—to raise the price of their product [16]. They simply restored the parity of petroleum price to the price of other manufactured goods to the level prevailing thirty or forty years back. Adjustment of one price was enough to change their position from capital recipient to capital-exporting nations. This gave rise to the demand for indexation. Whatever practical problems may be cited against indexation, the moral position is incontrovertible. Why should a continuous decline in the price of raw materials (in terms of exchange value for manufactures) be a permanent feature of the organisation of international economic system. Even if it is unavoidable for whatever reason, the beneficiaries of the system cannot claim that the victims of this system have no right to seek redress.[9]

[8]For literature on the new international economic order, see [18,19,20,21,31,48,50,51,53].
[9]This analysis is based on the Brief on Fossil Fuel Resources in [34].

An unfortunate part of the system is that the beneficiaries have not used the material resources acquired in this fashion in advancing well-being on a wide scale. There is a widespread waste of world's precious resources on a scale which is almost suicidal. The energy crisis could not emerge so early in the stage of economic development, if the way of life developed by Western societies was not so immensely wasteful of energy resources. The United States could be self-sufficient in energy by introducing certain easily manageable changes in the mode of city transport. An efficient public transport system and cities organized not on the assumption of personalized transport could make considerable difference to the energy needs of Western industrial nations.

Economic system was originally a response to satisfy human needs. With the passage of time, a very efficient mechanism has been developed to create new human desires and to generate a new level of dissatisfaction so that the economic system can be kept functioning. Thus the whole economic system is upside down. The cost is in terms of the waste of natural resources. The developed countries with about one-third of world's population consume bulk of world's natural resources. Even without fully subscribing to the theses of the Club of Rome regarding finite limits to world's natural resources [33], it is easy to see that the arithmetic is not right. The waste of resources in the modern way of life (on which a full treatise could be written) cannot be sustained on the basis of technological development alone.[10] If the entire world population seeks to adopt the same way of life, resource constraints in a physical sense would appear almost immediately. For instance, world's proven oil reserves would last for 37 years on static assumptions of present use. A 5 percent annual growth rate would reduce the period to 21 years. But if the entire world seeks to live in the same manner as U.S.A. and has same per capita use of oil, the depletion would be complete in 8 years. This is too short a period for technological innovation.

There is at the same time a waste of human resources due to poverty in a very large part of the world. Under-nourishment and malnutrition do not allow the full development of physical and mental capabilities of a large part of the population.

The rest follows due to lack of educational and health facilities. In this case, the major responsibility of the poor countries lies in relation to population policies. To the extent the problem is magnified by an esxplosive population growth in the developing countries, they have to assume responsibility for correcting it. While it is relevant to recall that in a comparable period of growth of population in Europe, the discovery of new continents helped absorb increased population, developing countries can derive some benefit from advances in knowledge about population policy, attitudes and techniques of population control.

The new moral basis of an international economic order should be the elimination of waste. The waste of human resources in developing poor countries because of an ineffective population policy needs to be avoided. But

[10]The elaborate and attractive packaging, strong sales effort through display and advertising, a very large entertainment industry substantially supported by advertisement, built-in pressure toward obsolescene are part of a system which devotes considerable effort towards creating demand in preference to meeting existing needs, with scant regard for the scarcity of natural resources. For a popular version of the argument, see [37].

the psychological and sociological factors associated with the present attitudes can be corrected only in the context of a progressing society. Population control would, in an effective sense, only follow success in achieving an integrated social and material progress in these countries. Recent experience has shown that such an overall economic progress would require a basic chnage in international economic relationships. Thus an avoidance of waste in the developed countries and correcting the distribution of world's income by adjusting the mechanism of trade relations, re-distribution of internationally created credit and sharing of technology would be essential to this new moral basis. Foreign assistance or transfer of financial resources at concessional interest rates to developing countries would in this case be a marginal factor for helping the countries that are not in a position to benefit from the new pattern at the present stage of their development and more generally for the period during which the transition is to be made.

III

Foreign assistance largely comprises of loans from developed to developing countries. This is not new. Loans for development were obtained by a large number of countries which are today among capital-exporting countries. Loans are even now provided by capital-surplus countries to developed deficit countries. These latter transactions are not regarded assistance. Only loans to developing countries are called foreign assistance [1,4,7,9,10,14,43,61].

Theoretically, capital should move from capital-surplus to labour-surplus economies, where it would find a higher rate of return. The new element in international lending is the attempt to insulate interest rates on such transactions from market forces. The interest rates are fixed substantially below those which would emerge from market forces. This could be done by providing a direct subsidy to the borrowing country. The aid-giving country could agree to pay half or three-quarter of the interest cost on the market borrowing of a developing country. In this case, the meaning of aid or assistance would be quite clear and quantifiable. However, the donor countries try to achieve a variety of objectives in an aid relationship. The economic development of the developing countries is only one element in a package of objectives in an aid transaction. This is the only rational justification for the selection of complicated financial procedures for aid relationship. The donors decide, therefore, to give loans on a government-to-government basis with conditions attached to loans. There is project tying and country tying of funds lent, apart from intangible considerations in the allocation of funds. There is also considerable resistance to multilateral institutional arrangements compared to bilateral relations which are admittedly more costly.

Aid or assistance in this system of accounting refers to the total amount lent on concessional rates. The concessionality or grant element with reference to a supposed market interest rate is worked out separately. The quantification of aid with reference to amounts lent obviously overstates the advantage received by the developing countries.

The real amount of aid is the difference between what it does cost the borrower to obtain assistance and what it would have cost, if the same amount was borrowed from the market, minus the cost involved in buying goods from a particular source and the "cost" of modifying priorities in response to the promise of aid or accepting conditions for aid.

The first element in this approach is the degree of concessionality. It has to have a reference point. A loan is made at 4 percent. How concessional is this rate of interest? The lending country obviously has low real interest rates. It has a surplus of capital. If the reference is to the interest rates prevailing in lending countries, the concessionality is low. On the other hand real interest rates are quite high in the borrowing country, reflecting capital scarcity and the need to obtain capital from capital-rich low-interest sources. Almost any interest rate would be concessional for the borrower, if reference is to the real interest rate in the borrowing country.

The only logical and practical method of calculating concessionality is to measure the interest rate a country would have to pay in case it was borrowing directly on its own. This also raises problems because the rate would be different from country to country. A particular country borrowing in times of economic difficulties would have to agree to pay a high interest rate. An economically more successful country or a country situated near the lending country may have to pay a lower interest rate. The same country may pay different interest rates at different times on account of changing evaluation of economic situation. But there is one source where these differences are averaged. The World Bank borrows from the market, adds administrative cost and charges an interest rate which would make it a commercially viable institution. This situation prevailed except for a brief period of "negative spread" in Bank lending. From 1970 to early 1976, the Bank was charging interest rates on loans somewhat lower than current borrowing rates. It has now returned to the commercial principle of charging a premium over its borrowing rates. Thus, its lending rate may be regarded as the commercial rate, involving virtually no concessionality.[11] The concessionality of other lenders can be measured against this rate. The present practice in various agencies has been to measure concessionality against a hypothetical interest rate of 10 percent. A view is developing that in the light of the rise in actual interest rates in the world and growing demand for meeting balance of payments deficit, the interest rate for reference should be higher than 10 percent for measuring concessionality. There is, in fact, no basis for any particular interest rate as a reference point. Also there is no reason why it should remain constant. The rate should be changed in the light of market conditions. The rate at which World Bank was able to lend was considerably below 10 percent. It is only now that this rate is tending to approximate 9 percent. By definition, there is no concessionality in World Bank loans. No cost is involved for developed countries in such lendings in addition to initial subscription of capital.

The concessionality in the lending of other countries should be measured with reference to World Bank and other regional institutions. However, in bilateral lending, adjustment would have to be made for various types of restraints and costs added to the use of aid funds.

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[11]The lower rate at which World Bank can borrow from the market and lend to developing countries is based on the collective credit-worthiness built by developing and developed countries through a record of no defaults on World Bank loans. The lower interest rates are the result of institutional advance in the world just as bank credit to agriculture releases less privileged borrowers from the traditional money-lenders.

The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) has specified standards for aid.[12] The 1972 DAC Terms Recommendation of 84 percent grant element was collectively exceeded by DAC countries in 1975 (89 percent). The grant element was measured with reference to 10 percent interest rate and made no allowance for conditions attached to the loans.

To the extent the borrowers pay high cost for tied imports under aid, this is to be regarded a reverse flow of aid from developing to developed countries. No data is compiled on a regular basis on the high cost of tied aid to recepient countries. Sixty percent of DAC bilateral assistance was tied in 1975. It is estimated that prices are 15 to 20 percent higher in the case of procurement under tied aid. The element of higher cost may be as high as 30 percent in some cases [17]. Given the difficulty of analysing such over-charging, the existing data generally under-estimates the cost of tied aid. This is a clear grant from the developing countries, as debt repayment is for the total amount of aid.

The grant element as a concept also needs examination. The concept is based on the assumption that the borrowed amount could be invested at 10 percent interest and the income could be used to repay the loan. The assumption that the amount is invested to get a return enabling repayment is not always true. Where the aid donors determine or share a priority dictating utilisation of the loan for purposes not yielding a financial return, the whole concept of grant element is questionable. Such priorities as family planning, health, education require grant rather than "grant element". The "grant element" of food assistance with reference to a commercial rate of interest is even more difficult to imagine.

Yet another element in the conceptual framework of aid is the net aid inflow. The published data presents net aid flows by deducting from gross aid disbursements the principal repayment on loans. This has two limitations. One, the repayment is in terms of free flexible and completely unconditional foreign exchange. Fresh inflow of aid is tied to specific uses and sources of supply. The two are qualitatively not the same. The net figure has to be used with considerable qualification. Two, the net figure is derived by deducting only capital repayment. Interest payment in the presently used system of national accounting is a current charge. It has to come out of current earnings and cannot, therefore, be regarded as a deduction from capital flows. However, in its application to an understanding of net impact of aid, it is important to know the net inflow of resources. In its transactions with the world, the aid-receiving country gets less net inflow of resources than published data about net assistance indicates. It is legitimate even in conventional accounting to capitalize interest for a certain period before the project has reached a stage to acquire capacity to start servicing the debt. Any interest payment during the phase when a country is not regarded as viable for full commercial borrowing should in fact be capitalized.

Aid is often used, with the common agreement between donors and recipients, for uses for which normal borrowed funds are not likely to be employed. It is realized that gains from some of the basic development effort would

[12]From here onwards the OECD figures have been considerably relied upon [35].

flow over a longer period. A proper income base for interest payment would not develop in the short run. To regard interest payments as a current charge which can be paid out of current income generated from the utilization of the loan is to carry theory to the point of fiction in a poor country.

Finally, there are a number of questions relating to the quality of data on resource flow and Official Development Assistance (ODA). The data is based on each donor country's own classification of various transactions as assistance. Thus, a substantial part of total assistance is in the form of technical assistance of varying degrees of usefulness.[13] As an extreme example, such technical assistance may include salaries of teachers for alien-language elite schools. Cost of aid administration is in some cases included by donor countries in total aid. Distribution of assistance by recipient countries also indicates that in some cases, assistance is obviously related to considerations other than the objective of economic development or improving the living conditions of a large population.[14] Such qualitative aspects are not reflected in figures, compiled by OECD. Further analysis by a group composed of both donor and recipient countries could alone refine the concept so that it would reflect more accurately the sacrifice made by the donor countries (as distinct from the expenditure associated with national objectives) and net gain to the recipients.

The available data relating to foreign aid needs to be used with the qualifications indicated above. However, even existing data shows that foreign assistance plays limited role in the overall relationship between the developed and developing world. Gross ODA received by developing countries in 1975 was $ 14.99 billion. This includes debt rescheduling as new aid as well as contributions to international agencies. Net ODA from OECD countries (excluding debt postponement) was $ 13 billion. This compares with $ 5.9 billion as the average for 1964-66. The deflator computed for ODA by OECD has gone up from 88 in 1965 to 190 in 1975. In real terms, there is virtually no increase in ODA during this period. OPEC members provided commitments of concessional assistance of $ 4.7 billion in 1975. Disbursements amounted to $ 2.7 billion.

The significance of these figures may be judged by placing these in the perspective of overall relationship among the developed and developing nations. The DAC countries provided such assistance to the extent of 0.36 percent of their GNP in 1975. In the case of OPEC the ratio was 1.35 percent. The ODA provided by OECD countries is at present 7 percent of the amount spent by these countries on defence.

The developing countries relied on a total net flow of external resources to the extent of about 6 percent of their GNP in 1973 and 1974. Over the same period, DAC countries' ODA formed only about 1.6 percent of recipient countries GNP. About 10 percent of the gross investment in developing countries was financed with the help of concessional assistance. The balance of

[13]The ratio of technical assistance was 20.8 percent in 1975 when related to gross disbursements of ODA. The ratio would be about 36 percent if computed in relation to net bilateral ODA.

[14]In 1975, an African "nation" called Re′ Union or "Bourbon" was listed by Development Cooperation Review (1976) as receiving foreign assistance amounting to $250.84 million. This was the highest allocation to any individual country in Africa. On an area of 968.5 sq. miles, it has a population of 466,000. In the case of Papua New Guinea the net receipt of ODA was $297.53 million. Bilateral ODA to Israel in 1975 was $466.16 million.

90 percent of the financing was by the countries themselves. The average growth rate in developing countries may not be affected significantly by a change in the volume of foreign aid by a sizeable margin. An increase of ODA by 20 percent would increase investment by 2 percent and growth rate by a fraction [32].

Such a global analysis, of course, conceals the importance of ODA for a number of low-income developing countries. There would probably remain the need for a concerted international action for improving conditions in a number of very poor developing countries where domestic effort is limited by the difficulty of squeezing consumption below a minimum level. However, the global data shows that the economic impact of present net transfers to the developing countries in the form of international assistance taken together with the conditions attached is not enough to provide a major element of relationship between the developed and developing countries.

A related question is about the future prospects of assistance. The target of 0.7 percent of developed countries' income as ODA is a meaningful one. Its non-acceptance by some of the major industrial countries does not lend much hope for its realization in the foreseeable future by OECD countries as a group. It would require considerable effort to keep the ratio of assistance to developed countries' GNP from sliding further.[15] Continued inflation and growth in the developed countries would require larger monetary allocations for assistance to developing countries for moving towards prescribed ratio targets.

On the part of the recipient countries, those most in need and in a position to utilize assistance have already run into heavy debt burden. In their case, debt servicing is rising rapidly, reducing net aid availability. The internal logic of foreign assistance provided in the form of loans is to take a constant annual gross flow to zero net flow over a pre-determined period. The solution is either in terms of larger gross flow every year or periodic debt rescheduling. An increasing gross aid flow every year has limitations arising from tying of the bulk of aid to projects and specific purchases from donor countries. The recipient country must every year commit more of its flexibly usable foreign exchange for debt servicing, replacing it with tied foreign exchange committed to financing projects acceptable to donor countries. Local currency financing of the recipient country must also grow rapidly to take care of (a) recurring expenditure on completed social service projects (b) higher debt servicing charges and (c) larger requirements for new projects for which new aid is to be committed.[16]

The growth in debt servicing of the developing countries has been faster than the growth in foreign trade. Also, it is higher than the expansion of domestic economic bases. The debt servicing of non-oil developing countries is estimated to have roughly doubled from $ 9.1 billion in 1973 to $17.8 billion in 1976. Over the same period, export growth is estimated at roughly 50 percent from $ 80 billion to $ 123 billion. The three series placed together show

[15]The increase in the ratio in 1975, apart from the very real effort made by smaller donor countries, was largely due to higher food aid by United States, related significantly to prices of foodgrains.

[16]Foreign assistance is generally provided to meet foreign exchange component of projects and only in some cases a part of local currency requirements.

clearly that the solution in terms of higher gross assistance (with the tying procedures in force) can only lead to increasing tensions in the economies of developing countries.

In fact, the moral attitude towards debt and the conservative financial instincts carried from commercial to aid relationship start operating quite early. The financial institutions and agencies involved in aid relationship have two different planes of argument. In global terms, larger gross assistance to maintain a certain net flow is acceptable as a valid proposition. On a micro level, the same institutions dealing with an individual country are alarmed by the debt situation and traditional indicators of credit-worthiness. Any country in debt difficulty is necessarily regarded as having been delinquent in economic policies. The global problem of debt burden of developing countries, basic causes of this broader issue and the distinction between the aid content of debt and commercial content are not significant in micro discussions.

The solution has so far been in terms of accepting an occasional rescheduling as an exceptional case, though the exceptions are mounting to a general problem. The rescheduling is generally for short periods and tends to pile up the problem in the future.

The need is for segregating the problem of debt arising in the context of long-term development prospects for developing countries. The terms of aid (defined to include all aspects) need to be reviewed in the light of experience and the legacy of past accumulated debt has to be seen in the light of realistic future prospects for the growth of the economies of developing countries and their export expansion. The United Kingdom, for instance, has made an assessment that in the light of realistic prospects for the foreseeable future, its assistance for low-income developing countries should be purely grant. Unless other countries are convinced that the growth prospects of these countries are so much better that they must accept a debt liability for the future, a general review by all agencies may be necessary. The assessment by the United States in the immediate post-war situation for Marshal Plan was that the bulk of assistance should be in the form of grants.

In particular, there is a growing concern in the development community throughout the world that the standard of social services should be raised in the developing countries. The developing countries are keen to adopt a development strategy focussed on balanced social and economic development [4,5,12]. The aid-giving countries, influenced by growing public opinion pressure in their own countries for relating aid directly to the welfare of common man, have been concentrating on projects in social sectors. Obviously the loan-financing which was related to projects in the area of industry and power generation cannot be considered equally applicable to efforts for primary education, population control, malaria eradication, development of rural health and sanitation. Providing loans for financing such services appears to be carrying traditional commercial economics to absurd limits. Even in most prosperous countries of the world, social services are not entirely run on commercial basis. Expecting the poorest of the Third World to bear a debt burden for improved water supply or primary schools can only be based on rather unrealistic estimates of the productivity increases resulting from such services in the not too distant future.

A logical follow-up of the approach focussing attention on social sectors would be the realisation by more affluent parts of the world that they would be willing to finance such development with outright grants. The grant-element is not the same thing as grant. The grant-element is based on the assumption of an immediately productive investment. The type of investment implicit in social sector development whose benefits accrue over a long period (and are not capable of being taxed for debt repayment) cannot be the basis for calculating grant-element. Such invetment has to be financed by outright grants in countries where social development has to precede the full development of a strong economic base.

Foreign assistance, provided as tied loans, even on concessional rates of interest, does not provide an answer to the problems of economic development which are highly complex. Loans have a place in traditional investment fields, while new initiatives in development policy would need to be supported by grants. The developed countries have evolved social service programmes financed by taxation on the well-to-do classes. Those bearing such burdens realize that the cost is worth the overall benefits. A rich man cannot ensure his own health in an unhealthy surrounding. The health standards of this planet cannot be maintained with the majority of the population unable to realize minimum health and nutrition standards.

The commercial loans for commercial enterprises should be available to the developing countries following the accepted sequence for the transfer of capital. The surplus (balance of payments) countries should be channelling back their increments in reserves to deficit countries as loans. These loans would be repaid only when the deficit countries are enabled to move to the surplus position. A continuous conversion of free foreign exchange into tied assistance cannot go very far.

The main problem in the existing arrangement is the inconsistency between different sets of international policies. The trade policies of the developed countries are designed to maintain a surplus balance of payments vis-a-vis the developing countries. At the same time foreign assistance policies are designed on the premise that developing countries should be narrowing down their balance of payments deficit and move to a surplus balance of payments situation. The only way developing countries as a group can repay their debt to developed countries is by having a surplus balance of payments position. Looking at the inconsistency between trade and debt and aid policies of developed countries, it appears dfficult to appreciate that these countries are really seriously contemplating a repayment of debt. The only form of repayment in international trade and finance is goods which are not acceptable for fear of damage to domestic industries. This is the well-known German reparations dilemma [27].

At the same time international financial and credit policy is inconsistent with assistance policy. The international finance is based on reserve currency assets, which implies lending of surplus international funds to capital surplus countries. The benefit of all international reserve accumulation has gone to the countries with reserve currencies. Reserve creation in the form of SDRs has provided allocations on the basis of quota, supplying bulk of additional resources to those in the least need of utilizing. These countries in receipt of large freely usable funds at relatively low interest rates channel a part of it as tied assistance. An institutional framework designed to channel surplus funds to developing deficit countries (to finance deficit emerging as a result of investment and development programme) within accepted limits and internationally agreed overall framework of policies could remove this anomaly. The setting up of the Trust Fund under IMF as also the earlier Oil Facility indicate some movements in this direction.

IV

The analysis of foreign assistance shows its inadequacy as the major economic link between developed and developing countries in the context of an international economic system designed to distribute the fruits of human progress in an inequitable manner. Any hope for removing glaring inequalities among nations on the basis of foreign assistance appears foredoomed. Rise of individual countries on the basis of favourable circumstances, or specially rich resource endowment, cannot be regarded as sufficient evidence for a global solution. Basic questions on which attention has to be focussed for sustained development of the developing countries relate to international support for maintaining agricultural incomes in developing countries, the price at which technology is made available to developing countries (including the technology content of manufactured consumer and capital goods) and market access for the exports of manufactured goods from developing countries. Foreign assistance would have a role in the new framework in providing social services where these are most needed as part of international obligation. Development finance in the traditional sense should be based increasingly on institutional development for channelling surplus funds to developing countries.

The changes are justified on the basis of an extension of accepted developments in economic theory of international trade and finance. There is evidence of recognition for changes in these directions in the intellectual circles in the developing countries. At the political level, the governments faced with the immediate political realities of a limited time-horizon are unable to move as rapidly as the developing countries would want to. There is a desire to accommodate changes in a dynamic framework so that there is minimum impact on the present life-style in the West. The compulsions in the developing countries are, however, for a much more rapid change in the system. The economic strains are being increasingly reflected in political tensions.

Developing countries may thus have to consider alternatives which can be more readily implemented. An option which may become increasingly relevant is opting out of the system, adopting more vigorous standards of living and the regimentation of societies necessary for enforcing them. It may involve generally using the type of isolation from the rest of the world which USSR, China and even Japan resorted to in their early phase of development. It may be necessary for this option to be viable that the developing countries increase their own mutual cooperation. The whole frame of economic reference may have to be modified by them for giving adequate weightage to development within and in cooperation with other developing countries, to the exclusion of developed parts of the world. Though not entirely, recent Chinese experience has a good deal to offer in the further elaboration of this alternative.

One element of this alternative is the acceptance of "poverty" (defined not as deprivation but the antonym of "affluence") as the norm.[17] The cultures of developing countries evolved over the centuries allowed people to live at peace with the generally prevalent poverty and not finding it abhorrent or repellent. These cultures of poverty have elements of strength in providing greater social security for the poor and a set of values in which governments can have a sense of achievement without ostentation. It is necessary, irrespective of which alternative is pursued, that the cultural and moral value pressures should bring back styles of life in vogue which avoid use of imported goods, ideas, and techniques.

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[17]As has been argued earlier, the moral basis of the international economic order needs to be re-defined. The logical domestic extension of this argument will be a re-interpretation of the moral basis of development strategies. The "nirvana" for developing countries cannot be a mass-consumption society. ". . . .development objectives and strategy for the developing countries of today cannot be formulated on the basis of expectations of attaining a mass-consumption society. We have to set our sights low for the time being" [6].

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