

Comment on “Aid and Development Policy in the 1990s,” by Arjun Sengupta

Gerald Helleiner

There is much in Arjun’s paper with which I can agree, there is a great deal with which I cannot, so I will concentrate on the latter.

Firstly, let all of us be clear, as to where the aid ‘problem’ is, where it is actually located. To be quite explicit, we are talking now primarily of low-income countries (we may put in India and China or not, depending on our definition), that is, of that part of the world which is being ‘delinked’ from the globalised system, of which we have been speaking. It is Sub-Saharan Africa, where the events of the past decade have been most serious, where the debt crisis continues to worsen, and where there are really no signs of recovery.

A principal problem for the low-income countries and particularly those in Sub-Saharan Africa, is undoubtedly the underfunding of the programmes to which they are already committed (to the IMF, the World Bank and the donors). When one speaks of ‘credible commitments’, one has to include donor commitments of various kinds, I don’t mean simply the 0.7 per cent target. I mean the quite explicit commitments to individual countries made at the time that they embarked upon stabilisation and adjustment programmes and which have not fully been met.

Secondly, there is the problem of the ‘aid relationship’, as I.G. Patel called it so many years ago. (‘Aid fatigue’, by the way, was a phrase that originated in 1969 with the Pearson report, which was also the time that I.G. Patel wrote his famous paper on the aid relationship.) There are serious difficulties, which I think Arjun has glossed over, in the way in which donors and the Fund and Bank interact with a recipient. In low-income countries, particularly the small ones, the sheer transactions costs of dealing with aid donors is significant. But I speak of broader issues which fall under the heading of ‘conditionality’. I doubt whether Arjun’s focus on policy commitments can be the full story. He will remember Edmar Bacha’s proposals to the G-24, at the time when they were working together, that both performance and policy commitment should be relevant. If you can perform without doing exactly that which the donors or the Fund or the Bank tell you, why should donors complain? If you do precisely that which the Fund and Bank tell you and it turns out to be wrong and you do something else, why should you be punished for that? I simply reject the focus that Arjun urges upon us on policy commitment as the basis for the aid relationship and on conditionality.

The asymmetry of power in the traditional donor-recipient relationship is one which, if I've understood him correctly, Arjun proposes to worsen. The traditional objective of those who sought to ease the aid relationship, is to increase the proportion of the flow which is non-discretionary. If in Arjun's system you grant to the donor the right to provide further rewards for good behaviour in the sphere of trade, GSP or whatever, you open the door to precisely the kind of bullying and abuse which we have seen too much of in the last decade. If your intellectual property laws are not precisely the way they are in the donor country, you are punished! If you don't abide by service industry regulations which are precisely the way someone else says that they should be, you are punished! These discretionary possibilities increase the capacity of the party that is already stronger to punish those who are behaving in ways the donor considers inappropriate.

I still prefer greater automaticity in resource flows to low-income-countries, not total automaticity, nobody is suggesting that, but a greater degree than we at present have. We have gone to a shorter leash already. Arjun's proposal is to shorten the leash, if I have understood him correctly, still more, and increase the number of instruments to persuade recalcitrant governments to do the right thing. I should add that the essence of the Enterprise for the Americas Initiative (the Bush Initiative for Latin America), is precisely to reward those who behave appropriately. This is a recipe for further bullying; and I suspect that this is not what the aid recipients would be keen on hearing.

More substantively, Arjun overstates the degree of consensus on his third strand of minimum conditionality. There is no difficulty with the basic macro and fiscal/monetary side; you have to get the macro sums right. However, when one gets into the sphere of deregulation and into the sphere of integrating with the world economy, there is a great deal of room for sophisticated and functional interaction with the international economy and sophisticated and functional – as opposed to ideologically rooted – deregulation. I had thought that there was already in Washington some retreat to a more moderate and nuanced approach to the elaboration of trade policy, policies toward the external economy, and policies on the deregulation and privatisation of the domestic economy. I am afraid I find Arjun's 'deregulation' heading, in the way in which he phrases the argument in respect of openness, a little too crude. I would want to see exactly what he proposes to put under that heading.

I disagree with Ariel Buira that in order to obtain export expansion, it is necessary in general to liberalise imports. It may have been in Mexico. It is not, however, what Korea did. There is an ongoing discussion of the efficacy of alternative ways of liberalising, and the efficacy of selective and targeted instruments in the sphere of industrial and agricultural policy. (Some of the

instruments are commercial policy instruments, some are in the financial sphere.) Dispersion in the incentive system is not a total disaster in all circumstances, in all places. I would be wary of requiring the degree of uniformity in the incentive structure that seems to be implied in Arjun's demand for increased openness.

One also wants nuances in approaches to the spheres of intellectual property, the services sector, and foreign direct investment. Otherwise one ends, as Canada and Mexico are, with policy convergence with the policies of the major power with which they most interact, regardless whether those policies are appropriate in any sense but that they are required in order to extract reciprocal concessions from the larger power. Fine-tuning of these regulation and openness instruments in general yields rapidly diminishing returns once you have the macro-balance right, once you have the real exchange rate, in particular, right. There is no firm evidence that total factor productivity grows faster with less dispersion, or a more uniform incentive structure. The World Bank's work is continuing on this but it is clearly agnostic thus far; as is some work by a number of colleagues in 17 countries with which I am engaged under WIDER auspices. It is very difficult to find relationships between ongoing productivity change, as opposed to 'one-off' static reallocation, and the trade regime. There may sometimes be some, but it hasn't yet been demonstrated.

What about the reasons for the current aid fatigue? Arjun argues that the problem is not a diminution of social justice instincts and humanitarianism in the industrial countries, but rather a widespread view that aid is not effective; and that if one imposed his conditions – as opposed to allowing countries to develop programmes that they themselves 'own' – the imposed conditions would persuade the electorate that aid would now work. I suspect this is wrong on two counts. Firstly, aid that is imposed, or conditioned (as opposed to locally owned programmes), will not function well. Such programmes haven't typically worked in the past – which is not to say that some identical programmes developed from within may not be highly successful, they have been. Secondly, the reason for electoral discontent is not a perception that growth has not been fast. On the contrary, I think the growth of discontent is at its greatest in the non-governmental organisations, which perceive that the kinds of programmes which Arjun urges, do not address directly the poverty issues and cater to their humanitarian instincts in the way in which they have believed in the past. If we go further in this direction I suspect that the non-governmental organisations will be less enthusiastic about aid, rather than more, and they may well be right.

It is important to underline the distinction that Arjun has made between the provision of assistance to those most affected by adjustment programmes, and the target (which I believe now to be the World Bank's, and certainly

UNICEF's), which is to address poverty directly. These two objectives generate quite different results. I prefer addressing poverty directly, precisely because the political system will generate the heat and the pressure to protect those who are most directly affected, whereas there is nothing comparable to protect the truly vulnerable and poor. If Arjun relies on instincts of social justice – which he believes to be unchanged in the North (I don't believe it is true in the US or the UK or Canada, I don't know the other countries as well). He must realise that those who take that line will not be too happy with the way in which he comes down on that critical distinction. What concerns me most is that the non-governmental organisations, with their humanitarian instincts, are losing faith in the aid process and are very concerned about the nature of conditionality. Future further underfunding could thus be a risk.

In terms of funding, I suspect the earmarking that Arjun suggests in the income-tax system is a non-starter; and I won't want to say much about that.

One last word. I think the world cannot now rely on US leadership. The US political structure has changed. It now emphasises international interests and humanitarianism and social justice less than it once did. There is a particularly cramped and insular US worldview. The US has had the worst or second worst aid record for the past decade in terms of per cent of GNP. It has amongst the worst record of aid flows to the least developed countries. It draws on world savings rather than supplying them, it has a massive amount of external debt. It was a laggard in Paris Club reform for the lowest income countries; it still is, although it instantly turns around, on strategic grounds, for Egypt and Poland. It is holding up the treaties on global warming and environmental diversity in Rio. It held up the IMF quota expansion and held it down when it was finally agreed. It will hold up IDA-10. It delayed the World Bank's expansion of resources. It is the largest in arrears to the United Nations. It has been the strongest unilateral actor or bully, in the trade sphere in recent years.

This is not where one looks for initiatives in this sphere. It is Europe that has the major aid flows collectively. It has the major trade flows as well. There is no need to wait at each step until the US comes on side. There must be some way in which global action can take place in the 1990s and beyond. Action is possible in particular spheres, not in all, which doesn't depend on US agreement, for instance with regard to IDA-10 or the size of the IMF, or SDR issues. There are alternative leaders and/or collective arrangements which must be considered when we have a globe that needs this kind of assistance so much and when the traditional leader is so likely to be inactive.