Open access • Journal Article • DOI:10.1007/BF02928322

Massive transfers of resources — Source link

George C. Abbott

Institutions: University of Glasgow

Published on: 01 Jan 1983 - Intereconomics (Hamburg: Verlag Weltarchiv)

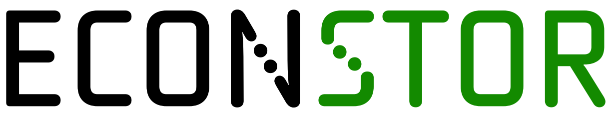
Topics: International development, Demand management, Absorptive capacity, Social policy and Capacity utilization

Related papers:

- Foreign Policy Interests and International Disaster Assistance
- Theory and Practice of Foreign Aid: Introduction
- Global Public Goods, Governance Risk, and International Energy
- Institutional Innovation in International Governance to End Hunger
- Rules to Live by: The Human Rights Approach to Development

Share this paper:

View more about this paper here: https://typeset.io/papers/massive-transfers-of-resources-181rdf2mcg



Make Your Publications Visible.

A Service of

Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Abbott, George C.

Article — Digitized Version

Massive transfers of resources

Intereconomics

Suggested Citation: Abbott, George C. (1983) : Massive transfers of resources, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 18, Iss. 1, pp. 18-27, https://doi.org/10.1007/BF02928322

This Version is available at:
http://hdl.handle.net/10419/139841

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Massive Transfers of Resources

by George C. Abbott, Glasgow*

What lies behind the call for massive transfers of resources from the rich to the poor countries? What proposals for such transfers have been made? Do these proposals represent an application of Keynesianism to the problems of international development and, if so, is this application legitimate?

Almost two decades have elapsed since the developed countries formally pledged themselves to provide 1 % of their combined national incomes to help the developing countries. Over the years they have repeatedly reaffirmed their commitment to this target, the so-called 1 % aid target, with the result that it has become the standard by which their aid performance is measured.

However, preoccupation with this target to the almost total exclusion of other considerations has tended to obscure the fact that massive transfers of resources have been taking place annually since the commitment was first made. In 1960 for example, the developing countries received a net total of $ 6 billion in resource flows. In 1970 the figure rose to $ 19 billion and by 1980 it was up to $ 89 billion, an amount which by any account must be regarded as massive. What then lies behind the call for massive transfers of resources from the rich to the poor countries? Is it simply a call for more aid to meet the increasing cost of development, or does it represent an important breakthrough in demand management and the extension of Keynesianism to the international economy?

Clearly there are important conceptual differences and policy implications between the two. The former is unlikely to find favour with the developed countries, given their disillusionment with aid and the singular lack of success stories. As a form of Keynesianism, the latter can however lay claim to a certain amount of academic and intellectual respectability and, a priori, stands a better chance of being adopted by the developed countries as a way out of their present economic difficulties. The outcome seems to depend very largely on the interpretation one places on the concept. The purpose of this article is therefore, firstly, to examine the basis of the call for massive transfers of resources and to determine what, if anything, is new about it. Secondly, it outlines and evaluates some of the proposals which have been advanced, and thirdly, it assesses the applicability and relevance of Keynesianism to the problems of international development.

* University of Glasgow.

Concepts and Origin of the Present Debate

Most of the early literature in development theory, having been taken over wholesale as it were from capital theory, identified capital and the lack of it as the critical factor in the development process. The developing countries were poor and underdeveloped principally because they lacked capital. If this missing ingredient could be provided in sufficient quantities, all would be well. The various development constraints and bottlenecks would be broken and these countries launched on the path to self-sustained growth. This simple scenario provided the theoretical justification for the institution of foreign aid programmes to promote the development of the poor countries. Foreign aid became synonymous with capital flows and fitted neatly into the theoretical constructs of capital theory.

As an exogenous factor foreign aid was presumed to have three essential characteristics. Firstly, it was regarded basically as filling the gap between the level of domestic resources on the one hand, and the financial requirements of development on the other. Secondly, it was supposed to perform the dual function of supplementing domestic savings as well as being the catalyst for stimulating additional savings. Thirdly, it had a terminal date which, though not precisely determinable in advance, was at least theoretically identified with the achievement of a specific objective,

i.e. the "take-off", into self-sustaining growth. It was thus a temporary phenomenon which would disappear once the recipient countries were launched on the road to development.

The European Recovery Programme, or the Marshall Plan as it is commonly called, provided the context in which to test these hypotheses on a grand scale. Under this programme the US provided massive transfers of resources for the recovery and reconstruction of those economies which had been damaged or destroyed by the war. The programme itself was completed ahead of schedule and the results exceeded the expectations of most observers. It seemed to prove conclusively that the injection of external resources on an massive scale was vital to economic growth and recovery.

However, the application of this concept to the developing countries was a very different proposition. The initial burst of enthusiasm was not carried over to them. No aid programmes of similar size or dimensions were instituted and those that were failed to make any major breakthrough on the problems of development. The failure to produce quick results was explained in the literature by the profound differences between growth and development. To paraphrase the debate: growth was something that took place in the developed countries where the economic and social infrastructure and all the essential pre-requisites already existed (hence the success of the Marshall Plan). Development, on the other hand, was what the developing countries needed. It was a comprehensive process involving major structural changes and a long-term commitment in terms of foreign capital on flows. There were no simple or single solutions.

Once the problem of development was defined in these terms, theory parted company with practice. No country was prepared, or could realistically be expected, to enter into a long-term commitment to finance the development of another. Other more politically acceptable reasons had to be found to justify the annual expenditure of vast sums of public funds on the poor countries. These took a variety of forms: moral and humanitarian, military and strategic, political and ideological, and enlightened economic self-interest. Ultimately they led to the institutionalisation of aid as an integral part of economic and foreign policy.

Foreign aid programmes became a mixed bag of confused and conflicting considerations, in which perhaps the most outstanding characteristic was the donor countries' insistence on value for money, in other words, getting something in return. Under this new dispensation, the distinction between aid and other capital flows became blurred, and aid was asked to do a lot of things for which it was patently unsuited. Consequently, as total resource flows increased, the achievements of aid became more difficult to identify.

Aid Target

The developing countries' response to this state of affairs was to call for more aid in the form of a long-term commitment to an internationally agreed target. The developed countries went along with the idea of an aid target not, it would seem, out of any abiding long-term commitment to the cause of development per se, but rather for more practical reasons. To have resisted would have been construed as anti-development, anti-Third World and all that these terms imply. They therefore accepted the principle but found it impossible in practice to achieve the target.

The adoption of a target completely divorced aid from capital theory. It now became a residual factor which was dependent on (i) the health and prosperity of the donor's economy, (ii) the availability of surplus funds and (iii) the opportunity cost of these funds, defining this term to include political and other considerations. The benefits which it was supposed to bring to the recipient countries were relegated to a subsidiary and sequential role.

During the 1960s when the international economy was relatively prosperous, there was no need to question the vast dichotomy between theory and practice. Although they did not actually reach the target, in the aggregate net resource flows from the rich to the poor countries showed a healthy upward trend. Honour, in a manner of speaking, was satisfied all round. However, all that changed with the 1970s. The collapse of the Bretton Woods System ushered in a period of acute instability and uncertainty in the international financial system. Speculation and the switch to commodities helped to fuel the boom in commodity prices, which was itself brought to an abrupt end by the 1973 oil crisis.

The effects of the oil crisis were cataclysmic. *Inter alia,* they divided the world sharply into oil-exporting and oil-importing countries. While the former piled up huge surpluses as a result of the quadrupling of oil prices, the latter were plunged into deficit to the tune of some $ 60 billion. Within the latter category, the oil-importing developing countries were affected on two fronts. Firstly, they suffered the direct effects of the increased cost for imports of oil and oil-related products. Secondly, the effects of the crisis on the economies of the developed countries fed through to them in terms of

reduced demand for their exports. In the case of the developed countries the oil crisis played a major role not only in pushing international inflation rates into double figures, but also in precipitating the 1974-1976 world recession.

In retrospect, this recession turned out to be remarkably short-lived and mild by comparison with later events. However, at the time it was regarded as the worst recession which the world economy had experienced since the 1930s. Once the analogy was made, it was in a sense inevitable that the analysis and policy options would flow out of depression economics and demand management. In other words, what was needed to pull the international economy out of the recession was a massive injection of public funds to stimulate demand, raise the level of output and to restore full employment.

The identification and analysis of the problem were quite straightforward. On the one hand, there was high unemployment and excess productive capacity in the developed countries, and on the other, there was a lack of effective demand in the developing countries. A massive transfer of resources (purchasing power) from the former to the latter would stimulate the demand for exports from the developed countries, increase output and employment and help to pull the world economy out of recession.

Such a proposal would be mutually beneficial to the donor and the recipient countries. The former would gain in two main ways. Firstly, there were the short-term counter-cyclical benefits of reducing excess capacity and providing employment at home. Secondly, in the longer run, the proposal would help to regenerate industries and restructure the domestic economy. The latter would gain additional resources to pay for vital imports of capital goods and so be able to push on with their development. Their lower labour costs would enable them to expand their production possibilities by moving into new industries in which they enjoy a comparative advantage over the developed countries. There would therefore be a significant shift of production to the developing countries based on a new international division of labour.

Revival of Keynesianism

Basically the proposal was an attempt to apply economic theory to the harsh realities of international economic and political relations at several levels. In its simplest and most direct form, it was a revival of Keynesianism and demand management. A massive injection of public funds would provide a well-needed counter-cyclical boost to a flagging world economy. Keynesianism worked during the 1930s. It should work during the present recession. That, briefly, was how the analysis ran. However, the evidence on this score is inconclusive. For example, it is difficult to say for certain whether Keynesianism was responsible for pulling the world economy out of the Great Depression, or whether it was Germany's rearmament programme and the fear of war which drove the other industrial countries to undertake massive programmes of public expenditure.

There was in fact no reason a priori to suggest that a good dose of Keynesianism would have worked. Indeed, the evidence pointed to precisely the opposite conclusion. A massive injection of public expenditure in the context of economic stagnation and rampant inflation (the so-called phenomenon of "stagflation") which characterised the economies of the industrial countries would have considerably aggravated the situation. It would have increased the money supply and the level of domestic inflation. It would also have created additional unemployment and delayed their economic recovery. In almost every respect therefore, it would have run counter to their overriding policy objective of reducing inflation and the level of public sector expenditure.

While conceptually Keynesianism made sound economic sense, the existence of "stagflation" in the industrial countries limited its practical relevance to these economies. The concept was accordingly extended to the international economy as a whole. In this way, the lack of effective demand in one sector (the developing countries) could be stimulated and used to reduce excess productive capacity in the other (the developed countries), without any of the embarrassing complications of a national economy. A massive transfer of resources from the industrial to the developing countries would thus not only "prime the pump" in the latter countries, but also reduce excess capacity in the developed countries and ultimately lead to world recovery.

The extension of Keynesianism to the international economy was further justified by the mutual benefits which it would bring to both sides. This was a completely new dimension to the concept. Keynesianism was in fact developed against the background of economic nationalism and protectionism which prevailed during the 1930s. Each country was expected to look after its own national interests. Pump-priming and demand management were thus regarded as the responsibility of the government to get the domestic economy out of the depression. The benefits were seen as accruing to

the domestic economy rather than to the international economy as a whole. In other words, Keynesianism did not have an international dimension.

However, this is precisely the area in which the new version of Keynesianism is expected to operate. For this to happen, though, one has to make a number of assumptions which strike at the roots of Keynesianism itself. For example, one must assume that there is no intrinsic difference between the economic nationalism of the 1930s and the principles of interdependence and internationalism as enshrined in the basic documents of various international institutions (i.e. the United Nations, the IMF and the World Bank) which provide the philosophical justification for international economic and political relations since the end of the last world war. One has also to assume that the economic self-interest of the earlier period can somehow be equated with the principle of mutual interests on which the new version of Keynesianism rests.

Mutual Benefits and Interests

Neither of these assumptions is tenable. Conceptually, there is a fundamental distinction between self-interest and mutual interests or benefits. The basic political entity in which the former concept operated was the nation state, the principal duty of which is to protect and promote the interests (howsoever these are defined) of its citizens. The pursuit of national interests in fact took many forms and, as the experience of the 1930s showed, were in the main economically wasteful, socially divisive and, above all, internationally catastrophic. The post-war era of interdependence and internationalism was supposed to make the single-mindedness and selfishness of the nation state superfluous. Competition would give way to international cooperation in which both the developed and developing countries shared the responsibility for international development and derived mutual benefits from it.

Secondly, the concept of mutual benefits presumes *inter alia* that both beneficiaries can control the supply of funds, which in the final analysis is the source of benefits. This is not, however, the case. Whereas the donors can increase or decrease the amount of funds, depending on their perceptions of needs and their own domestic problems, effective action on the part of the recipient countries is limited to their ability to refuse or reduce the inflow. Unlike the donors, they cannot unilaterally increase the supply. The benefits which they derive are at best indirect and dependent on the donor countries. This asymmetrical relation makes a nonsense of the concept of mutual benefits.

The notion of mutuality of interests is also open to question. It suggests for example, that there is an identity of aims, ideals and objectives between the developed and developing countries. In other words, it assumes that both groups of countries not only have a mutual interest in achieving the same basic objectives, but do actually work together to achieve them. This is very difficult to accept in any but the most general and moralistic sense. The developed countries clearly have very different national as well as international goals and objectives to those of the developing countries. This is perhaps the most obvious lesson to come out of the oil crisis and subsequent international economic and political developments. Even among themselves they are not agreed as to the priorities and emphasis which should be accorded specific policies. The perpetual haggling and disagreements among the members of the EC, for instance, give the lie to any claim to coherence and a commonality of interests of its members.

The concept of mutual benefits was in fact introduced in order to make the proposal politically acceptable to the donor countries. In the context of the mid 1970s, the call for increased resource transfers per se would have fallen on deaf ears. The developed countries were preoccupied with trying to cope with the oil crisis, international inflation, rising unemployment and a whole range of domestic problems. In addition, the anti-aid lobby had made significant progress in turning public opinion against aid. The political will did not therefore exist.

This had to be created by showing that the proposal would benefit the donors as well. However, there were problems with this particular scenario. Having rendered suspect the prevailing philosophy, a new basis had to be found which was both politically acceptable and academically respectable, hence the recourse to Keynesianism. The massive transfer of resources would not only help to solve domestic economic problems but also satisfy a long-standing international commitment. Foreign aid was thus effectively married to Keynesianism, but not without some considerable embarrassment to both concepts.

For example, the concept of foreign aid was stretched to include the idea of doing something for oneself (the developed countries) while at the same time doing something for others (the developing countries). The mutuality of interests presumed in this dual role in turn coalesced for the greater good of mankind; a strange mixture of good practical politics and international morality. In the process Keynesianism was itself transformed into an instrument of foreign and international economic policy; a far cry from the original

concept of demand management in a closed economy. Neither concept can in fact perform these new roles without a serious conceptual double-think. This, more than anything else, explains why the new style international Keynesianism has failed to make an impact.

Some Proposals for International Transfers

Several proposals for international transfers, including a number of variants, have appeared in recent years. It is not possible to discuss all of them in this paper. A brief outline of some of the more widely discussed ones will suffice.

☐ *The Mexican Proposal.*[1] In 1978 the Mexican government proposed that a Fund of $ 15 billion should be established with funds provided by governments in strong balance-of-payments and financial positions. This fund would issue bonds with a 15 year maturity, and denominated in SDRs, on international capital markets. Subscribers to the fund would include the governments and central banks of surplus countries, commercial banks, and institutions such as pension funds and insurance companies. The rate of interest would be related to market conditions and the fund's creditworthiness, which would itself be guaranteed by those developed countries participating in the scheme. The fund would be administered by an existing institution such as the World Bank or possibly a new institution created for the purpose.

This fund would be used to provide long-term loans (15 years) to purchase capital goods from both developed and developing countries for sectoral development, project financing and perhaps private firms in developing countries. Such loans would be made only for projects or investment programmes which were expected to yield an acceptable rate of return. In terms of overall objectives, the fund would attempt to match the purchase of such goods from countries with spare industrial capacity to the needs of the developing countries, and "to reallocate resources from sectors in which they have lost comparative advantage to capital goods sectors in which they still have it".

☐ *Venezuelan Proposal.*[2] Basically the objective of this proposal was to channel the combined excess savings of OPEC and OECD countries to the developing countries on a long-term basis. Initially, loans would be targetted towards projects which required inputs from industries in OECD countries with excess capacity. This

[1] "Proposal for a Long-Term Facility for Financing Purchases of Capital Goods by Developing Countries", put forward by the Mexican Government at the meeting of the Development Committee, Mexico City, April 1978.

[2] This proposal was worked out during the course of 1977 and presented by the President at a press conference after the meeting of OPEC ministers in Caracas in December 1977.

PUBLICATIONS OF THE HWWA-INSTITUT FÜR WIRTSCHAFTSFORSCHUNG-HAMBURG

To be published shortly

Henry Krägenau

INTERNATIONALE DIREKTINVESTITIONEN
- Ergänzungsband 1982 -
(International Direct Investment – Supplementary Volume 1982)

This is the third supplementary volume to the book "International Direct Investment", which was first published by the HWWA-Institut für Wirtschaftsforschung-Hamburg in 1975. This volume of statistical material covers direct investment by 14 major industrialised countries (USA, Canada, Federal Republic of Germany, France, Italy, Belgium/Luxembourg, the Netherlands, the United Kingdom, Denmark, Ireland, Switzerland, Sweden, Japan) as well as direct investment in these countries. In addition to the supplementing of data series – normally up to 1979/80 – older data have also been included so that the book can also be useful to those who do not possess the previous volumes. Data for individual countries on production abroad and on the production of foreign companies in the country in which investments are held are included for the first time.

DIN A4, 376 pages, 1982, price paperbound DM 54,– ISBN 3-87895-226-0

VERLAG WELTARCHIV GMBH – HAMBURG

emphasis would persist only until the intensified efforts of the OECD countries to restructure their industries began to pay off. Once new patterns of comparative advantage were established, funds would be directed to such sectors as energy and minerals and their related inputs and infrastructure, including indirect basic needs.

The size of the fund was put at between $ 16 and $ 20 billion per annum for a period of between 5 and 10 years. About 75 % to 80 % of these funds were to be raised by selling Triple A long-term (12-20 years) "OPEC Development Bonds" in international capital markets. OPEC countries would themselves agree to purchase between 20 and 25 % of the bond issue, and would act as "first guarantor" of the bonds taken by the private sector. The World Bank Group, the administrator of the scheme, might act as second guarantor. The rest of the funds would be subscribed by the OECD countries either out of their existing aid budgets or by increased aid allocations.

Between 20 and 25 % of the total amount raised would be allocated to basic needs projects in the least developed countries, presumably mainly on concessional terms. The rest would be loaned at commercial rates on a long-term basis to finance bankable projects in other developing countries.

□ *OECD/DAC Proposal.*[3] This called for a major expansion in the co-financing operations of multilateral development lending institutions with the private international banking system, so as to provide additional funds on non-concessional terms for the developing countries. These funds were to be spent on such sectors as energy, food production, raw materials and processing. The amount of funds envisaged was modest by comparison with other proposals. No firm figures were quoted but conservative estimates put the amount at $ 10 billion a year. Later estimates reduced this figure.

□ *The Mitsubishi Research Institute Proposal.*[4] A more ambitious plan for a Global Infrastructure Fund was proposed by the Mitsubishi Research Institute of Japan. It was based on the idea that the current recession and stagnation of private investment and technological innovation could be ended by a massive programme of public investment expenditure on a global scale. The proposal called for an annual expenditure of $ 13 billion per annum which, allowing for the multiplier effect, would rise to an annual figure of $ 25 billion. In all, it was estimated that by the end of the century total expenditure would have run to $ 500 billion.

The original contribution would take the form of official development assistance, of which $ 5 billion was to be contributed collectively by the USA, Germany and Japan. A further $ 5 billion was to come from OPEC members and the rest, $ 3 billion from other industrial countries. A new organisation would be needed to administer these funds, which would be used principally to finance a variety of "super projects", such as the greening of deserts, the erection of a large-scale plant for the collection of solar energy, a large transcontinental canal in Nicaragua, and a dam across the Bering Straits.

□ *A New World Development Plan – A Proposal.*[5] Professor Tinbergen and his Dutch colleagues called for a New World Employment Plan based on an optimal international division of labour for the world as a whole. Their proposal attempted to combine the need for "positive anticipatory structural readjustment of industries" in the industrial countries and the need for large-scale transfers of resources as advocated by the Brandt Report. These transfers would be used to finance (a) big infrastructural programmes which were too costly for individual governments, and (b) integrated rural development schemes and the furthering of small-scale industries in the developing countries.

□ *The Swedish Proposal.*[6] The proposal for a massive transfer of resources was also supported by Sweden in a Working Paper by its Permanent Mission to the United Nations. Again this proposal linked the existence of excess capacity and unemployment in the developed countries to the unsatisfied needs of the developing countries, particularly the poorer ones. Although the proposal was worked out in broad details, it did not mention the cost of the scheme. It did however envisage that the resources would support the process of industrialisation in developing countries while at the same time have a stimulative effect on output and employment in developed countries and facilitate long-term structural transformation of their economies through the creation of greater scope for shifts and changeovers from contracting to expanding sectors.

The scheme would be funded by the excess savings of the OECD and OPEC countries. They would be

[3] "A Proposal for Stepped-Up Co-Financing for Investment in Developing Countries", OECD, Paris, May 1979.

[4] "A Proposition for the Global Infrastructure Fund", presented by Masaki Nakajima, President, Mitsubishi Research Institute, Tokyo, August 1978.

[5] "A New World Development Plan – A Proposal", by J. Tinbergen, J. M. den Uyl, J. P. Pronk, and W. Kok. Paper prepared for the Lysebu Symposium on "Massive Transfers of Resources – Concepts and Realities", Oslo, 1-4 March 1981.

[6] "Massive Transfer of Resources: Background and Problems for Further Analytical Work", Document by Permanent Mission of Sweden to United Nations, 3 May 1978.

loaned to the developing countries at commercial rates of interest, though some attempt could be made to steer them to those countries or sectors with a high absorptive capacity. It was however recognised that in the longer run it might become necessary to use concessional aid flows to increase the absorptive capacity of poorer countries and regions.

Resource Flows

Although these proposals differ in detail, they are all intended to serve the same basic purpose of eliciting a major response from the developed countries. The first question one must ask therefore is what has been happening to resource flows in recent years. The record during the 1970s is in fact quite impressive. Net total resource flows actually more than quadrupled over the period. Non-concessional flows alone rose from $ 11 billion to $ 55 billion. The table shows the net total resources received by the developing countries from all sources between 1970 and 1980.

Several factors are responsible for this substantial improvement in overall performance. Only two need be mentioned. Firstly, as a result of the quadrupling of the price of oil and the need to recycle their surplus oil funds, the members of OPEC have increased their resource flows to the developing countries. Secondly, the effects of international inflation particularly since 1975, have added a purely monetary boost to the figures. Even allowing for these factors, the OECD estimated that net total external resource flows rose between 5 % and 6 % per annum in real terms during the 1970s.

"This has been sufficient to enable current account deficits to be sustained at a considerably higher magnitude in relation to GNP. In other words, the last decade has seen a significant stepping up of capital importing by the developing countries".[7]

The call seems therefore to be for a massive transfer of additional resources which, depending on the proposal one chooses, ranges from $ 3 to $ 5 billion per annum (building to a total of $ 15 billion in 3 to 5 years) to $ 16 to $ 20 billion per annum, or a maximum of $ 200 billion in 10 years. The Japanese proposal is even more ambitious. It envisages an additional expenditure of $ 500 billion by the end of the century. The range of these proposals suggests that their proponents do not have a clear perception of the nature of the problem. For example, would an additional expenditure of $ 3 to $ 4 billion a year have significantly altered the course of the recession? The proponents of both the Venezuelan and the Japanese proposals would surely argue to the contrary.

Again, was the problem basically one of insufficiency of demand in the aggregate or global sense, or was it related to specific sectors? If the latter were the case, would it not have made more sense to argue for a more efficient allocation of existing resources rather than an increase in net disbursements, i.e. to switch resources from industries in decline to those with greater growth potential and so pull the economy out of the recession. Conceptually, this would have been justified by the "locomotive" theory of recovery which was very much in vogue during the latter half of the 1970s. Obviously, if one accepts this premise, then the case for a massive transfer of resources falls away. On the other hand, is it realistic to call for a doubling of resources in ten years time, which is roughly what the Venezuelan proposal envisages? Where will these additional resources come from? It cannot be assumed that the members of OPEC will be prepared to carry the main burden of financing these flows. Conditions in the international oil market have changed radically within the last few years.

[7] O E C D : 1981 Review, Development Cooperation, Paris 1981, p. 60.

Table

Net Total Resources Received by the Developing Countries from all Sources, 1970-1980

(Net Disbursements, $ billion)

Items	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Official Development Assistance	8.05	9.29	9.88	11.62	15.33	19.33	19.02	20.16	23.75	28.91	33.46
Bilateral	6.98	7.96	8.49	9.66	12.51	15.49	15.15	15.19	17.75	22.71	25.75
Multilateral	1.07	1.33	1.39	1.96	2.82	3.84	3.87	4.97	6.00	6.20	7.71
Non-Concessional Flows	10.92	11.80	13.29	19.75	19.71	34.34	38.57	43.39	56.08	54.95	55.49
Bilateral	10.23	10.90	12.28	18.47	17.88	31.76	35.89	40.45	52.99	50.99	50.69
Multilateral	0.69	0.90	1.01	1.28	1.83	2.58	2.68	2.94	3.09	4.16	4.80
Total Receipts	18.97	21.09	23.17	31.37	35.04	53.67	57.59	63.35	79.83	83.86	88.95

S o u r c e : OECD: 1981 Review, Development Cooperation, Paris 1981, Table A. 1., p. 172 (abridged).

Although they continue to amass substantial surpluses on current account, their outlook and approach to the problem of recycling have changed. So, too, have their perceptions of the priorities and problems of the international economy.

For example, they have to safeguard their international investments. This invariably means increasing and diversifying their asset holdings in the developed market economies, not the developing countries where the absorptive capacity is low and the proper investment climate and guarantees have to be created. Any major upsurge in resource flows is likely therefore to find its way to the developed countries and a few fast-growing middle and high income countries. They will certainly by-pass the vast majority of the developing countries where the need for additional long-term concessional funds is greatest.

Further, it does not make sense for them to agree to a massive increase in resource transfers to the developing countries. As a group their contributions already exceed the internationally agreed 1 % target. In a sense, therefore, they can claim that their international moral obligations have been honoured, and that it is not they, but the OECD countries which should be doing more to help the poor countries. However, the members of the OECD presently account for more than 70 % of all resource flows to the developing countries and multilateral institutions. On this basis they can argue that they are currently carrying a disproportionate share of the burden of providing resources for the developing countries, and that it is OPEC as the principal beneficiaries of the two oil crises which should make a greater effort. They can also point to the CMEA countries which for some strange and inexplicable reason have been excluded from any responsibility for contributing to the recovery of the international economy.

One does not have to pursue these points. It is enough merely to make them show that from the donor countries' point of view the proposals are bound to encounter many serious political problems at the international level. Even if one assumed away these problems, one is still left with such equally intractable problems as the composition of the new funds, who will decide the division between private and public flows, who gets what, and for what purposes, will the funds be for balance of payment support, project or programme assistance, debt relief, or what? It cannot be assumed that these questions will be answered when the time comes. Criteria of allocative efficiency, financial constraints, and requirements, sectoral distributions and social justice will inevitably conflict with political and diplomatic considerations. One needs clear directives and criteria at the outset. None of the proposals offer much help in these directions.[8]

Keynesianism and International Development

Conceptually, the idea of a counter-cyclical device for stimulating demand is very appealing. It makes sound economic sense if, instead of lying idle and under-utilised, resources are used for the mutual benefit of the donor and recipient countries. However, once one passes beyond this general proposition all sorts of awkward problems arise. Firstly, it assumes that the depressed industries in the developed countries produce the type of capital goods and equipment which are needed for development, and that the fall in domestic demand can simply be taken up by transferring purchasing power to the developing countries.

This is a gross oversimplification of actual events. The overall pattern of demand is in fact different for the two groups of countries, and the type of goods available for export will not necessarily be the same as those which will be induced by a massive transfer of resources. For example, there is considerable slack in the shipbuilding industry in the developed countries which is due not to short-term cyclical variations in demand, but rather to overcapacity and oversupply in the industry as a whole. To attempt to reduce this excess capacity by stimulating the developing countries' demand for shipping could well saddle these countries with a lot of unwanted and unsuitable ships as well as lead to further overproduction in the industry. On the other hand, if there were a massive transfer of "free" (i.e. untied) resources, there is no guarantee that the shipbuilding industry would benefit.

Secondly, there is considerable variation in the import demand pattern in the developing countries, and it is not enough to talk in general terms. The pattern of demand for imports in the high income developing countries is clearly different to that of, say, the least developed countries. The former, particularly those with well-developed industrial sectors and fast-growing exports could probably increase their imports to mop up excess production in the developed countries without too much dislocation to their domestic economies. The latter group of countries, being mainly exporters of agricultural commodities, experience wide fluctuations in their export earnings annually. These, in turn, impose

[8] For a fuller discussion of the relative advantages and disadvantages of these proposals, see Michael Stewart: A Survey of Some Recent Proposals for International Facilities, Juli 1979, UNDP/UNCTAD Project INT/75/015, UNCTAD, Geneva.

severe constraints on their ability to plan their own development or the extent to which they can accommodate massive capital inflows. One needs therefore to know which countries, sectors and industries will benefit, whether they are the right ones in terms of their counter-cyclical potential, how the benefits will be distributed internally, etc., in short, a lot more about the proposed beneficiaries than is presently known. Otherwise one could well end up distorting the development process and defeating the whole purpose of the scheme.

Thirdly, the scheme will in fact subsidise the wrong industries in the developed countries. Part of the industrial decline in these countries can fairly be ascribed to the present world recession. Much of it, however, is due to industries which, in a manner of speaking, are "all played out". They are inefficient, have lost their markets, and are riddled with restrictive industrial and business practices. Counter-cyclical measures to stimulate demand for their products and to keep them going would be tantamount to "senile industry" protection. Further protecting these industries will divert resources from the long-term job of regenerating and restructuring the industrial base for future prosperity. The gains of short-term counter-cyclical measures have got to be offset against the need for long-term structural adjustment. The two cannot be assumed to be identical.

Most of the proposals attempt to get round this problem by assuming that one is basically an extension of the other, and that counter-cyclical policies or Keynesian demand management will lead into and prime the pump for fundamental structural changes and long-term development. The analysis is thus brought full circle. Economic development is identified as and equated with a series of short-term counter-cyclical measures for managing the domestic economy. In other words, Keynesianism and economic development become one and the same thing.

Apart from being logically inconsistent, there is in fact no evidence to support the thesis that putting people to work digging holes and filling them back in again, a well-known example of Keynesian pump priming, will necessarily lead to economic development. If that were all there is to development, there would be an awful lot of very large holes throughout the developing countries. The creation of jobs, like all other economic activities must be related to specific objectives and end uses. To say this is not, of course, to deny the existence or the scale of unemployment in the developing countries and its grave social costs and consequences, but rather to suggest that the proponents have not thought through the intellectual basis or practical consequences of their proposals.

Fourthly, the proposals can, and probably will, be construed in some quarters as an attempt by the developed countries to maintain their ailing industries at the expense of the developing countries and to influence their pattern of demand for imports. It is also not clear how, or whether, the restructuring of industries in the developed countries will benefit the developing countries. If resources are shifted out of industries which are in decline and put into those that are dynamic and profitable, the principal beneficiaries will be the developed, not the developing countries. The new capital-intensive, technology-oriented industries will not cater for the demands of the developing countries. Further, the internationalisation of production envisaged under the proposals is itself based on the international division of labour and the theory of comparative advantage, which many developing countries regard as the cause of their present state of underdevelopment and dependency.

Fifthly, there is the question of timing. It takes time to mount a scheme of the size and dimension mentioned. Projects have to be drawn up, feasibility studies undertaken, funds approved, negotiations conducted, and so on. There seems to be a strong presumption in the proposals that (i) there is a stock of investment projects in the developing countries ready and waiting to be activated and (ii) these countries have a high absorptive capacity, or alternatively one that can be adapted and expanded to accommodate a massive inflow of investment capital.

Neither of these presumptions can be sustained. Insofar as there exists a stock of investment projects waiting to be financed, one must assume that these are of a lower priority or that their rates of return are lower than those which are currently undertaken. Otherwise present development priorities are wrong and valuable resources are being misallocated. It could also mean that projects proliferate to match the available finance. In other words, Parkinson's Law takes over from absorptive capacity. The real point is, the concept of absorptive capacity is too nebulous to bear the weight of any major international political or economic policy initiative.[9]

The investment projects which have been identified as likely candidates for financing, e.g. energy supplies, are clearly intended to benefit the developed countries. However, even if one managed to get the process

[9] Cf. George C. Abbott: Parkinson's Law and Absorptive Capacity, in: INTERECONOMICS, No. 4, 1981, pp. 171-177.

started in time to initiate a counter-cyclical movement, one is faced with the problem of how and when to reverse the scheme. Can this be done without inflicting serious social, economic and political consequences on the developing countries? Wrong timing can in fact fuel international inflation which is something the developed countries want to avoid at all costs.

Concluding Remarks

Finally, the last time anything like this was tried, it proved a dismal failure. The 1929 Colonial Development Act was passed for precisely the same reasons as are now being used to justify massive transfers. It was intended to serve the dual purpose of promoting British exports and providing employment in the depressed areas, and for aiding and developing agriculture and industry in the colonies and thus promoting trade with the United Kingdom. The Act was considered so vital to British interests that it was rushed through Parliament on a Friday afternoon, and the mutuality of its benefits was stressed repeatedly by both sides of the House in the debate.

However, once the Act was passed, things began to go wrong. The colonies failed to respond on a scale large enough to revive British exports or to make an impact on the unemployment problem, despite repeated requests from the British Treasury for quick action. Those that tried to take full advantage of the scheme ended up with a massive debt problem. As the Depression deepened, the programme was cut back, and eventually overtaken by the war.

During the eleven years of its existence, 596 schemes involving a total estimated expenditure of more than £ 19 million (excluding supplementary schemes and reallocations) were recommended for assistance. However, actual disbursements ran to less than one-third of this amount. When account is taken of total repayments which amounted to about 37 % of all loans made, the amount by which the colonies benefitted was considerably less than was originally anticipated. In fact, it has been argued that the Act not only failed to achieve any of its objectives but may have militated against the development of the colonies.[10]

The mistakes of this misguided policy were finally swept away by the formulation of a new colonial development policy of providing funds for schemes to promote the development of the resources of the colonies and the welfare of their peoples. The idea of doing something for the colonies while at the same time helping to revive the domestic economy was shown to be a fiction. Notwithstanding the lessons of history, the developed countries seem intent on making the same mistake again.

Once the world economy pulls out of the present recession, one of the principal arguments for massive transfers in the present context disappears, and the developing countries will still be left with their problems. Counter-cyclical measures are indeed necessary. So, too, are massive transfers, but the case for each rests on very different grounds, and it would be wrong to try to marry them. A few developing countries may gain but the vast majority, particularly the poorer ones, will lose. They should not therefore let themselves be side-tracked. The debate is about massive transfers of resources for debts and development purposes, not about "senile industry" protection and structural adjustment in the developed countries.

---

[10] Cf. George C. Abbott: A Re-Examination of the 1929 Colonial Development Act, in: The Economic History Review, Second Series, Vol. XXIV, No. 1, February 1971, pp. 68-81.

WELTKONJUNKTUR DIENST

Annual subscription rate DM 80,–

ISSN 0342-6335

This quarterly report – compiled by the Department on Business Cycles and Statistics of the Hamburg Institute for International Economics – analyses and forecasts the economic development of the most important Western industrial nations and of the international raw materials markets.

VERLAG WELTARCHIV GMBH – HAMBURG