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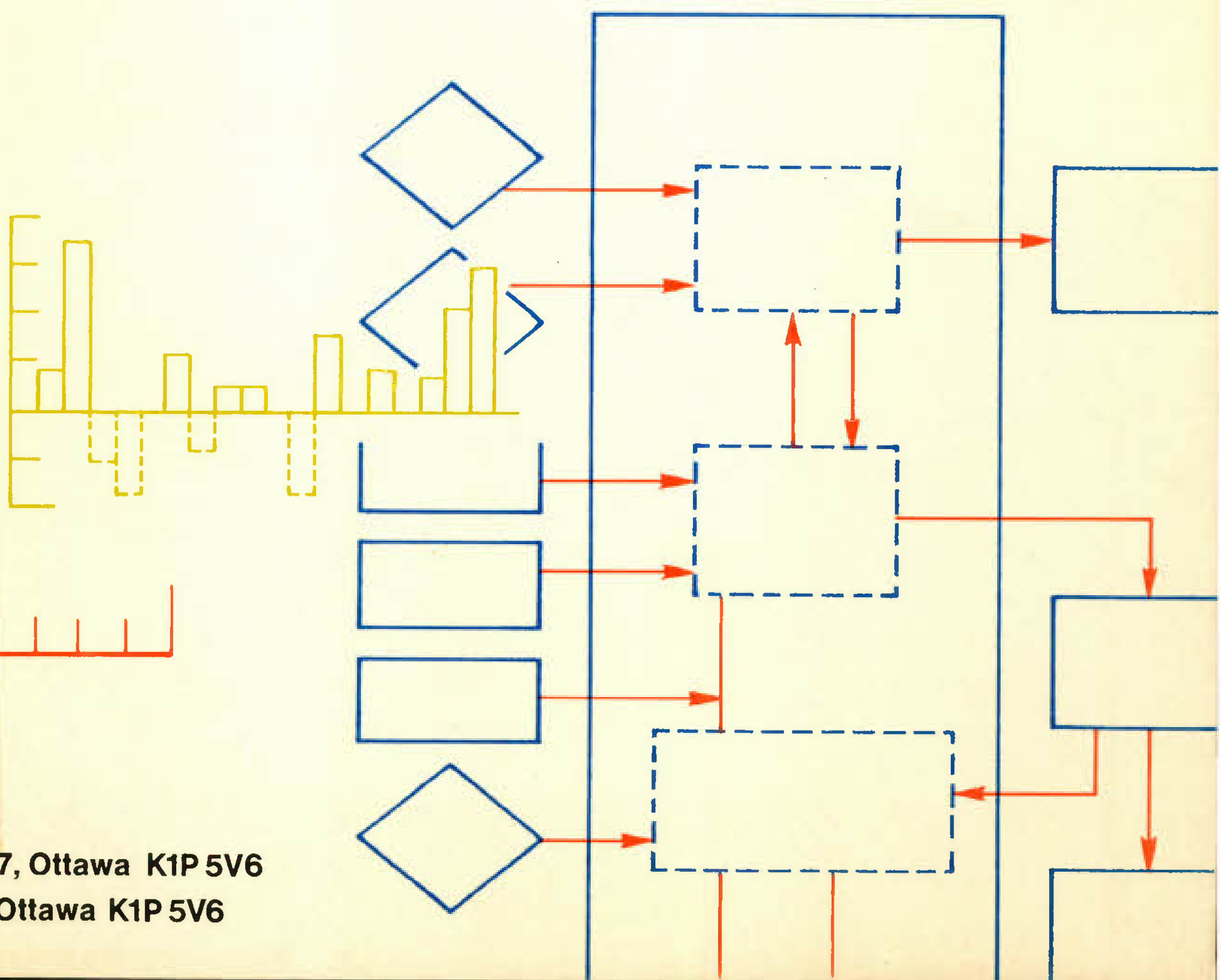

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DISCUSSION PAPER NO. 119

Conditioning Aid on Performance: Possibilities and Limitations

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RÉSUMÉ

L'auteur du présent document cherche à voir s'il est possible et souhaitable de lier l'attribution de l'aide canadienne à l'adoption de politiques spécifiques par les gouvernements bénéficiaires. On peut résumer les grandes lignes du document par les énoncés qui suivent : (1) Nous ne possédons pas réellement une compréhension suffisante des "éléments essentiels" à la réussite du développement dans aucun pays, et encore moins dans la grande variété de pays susceptibles de devenir des bénéficiaires de l'aide. (2) Néanmoins, il est possible d'identifier certains de ces éléments essentiels même si c'est toujours de façon arbitraire -- et d'établir des "indicateurs de succès" approximatifs permettant d'en mesurer la contribution. (3) L'un des problèmes que pose cette méthode tient au fait que les divers aspects du "succès", que nous pouvons mesurer de façon objective, ne sont pas toujours les plus importants, tout comme les mesures que nous pouvons établir ne sont pas toujours fiables, ou même, dans certains cas, pertinentes. (4) En outre, toute tentative d'accorder l'aide en fonction de la réalisation d'objectifs de performance déterminés peut facilement compromettre les buts de l'aide extérieure tant au plan politique qu'à celui du développement. (5) Malgré ces graves problèmes, il peut sembler souhaitable d'assurer un lien entre l'attribution de l'aide et les réalisations des pays bénéficiaires, ne serait-ce qu'en raison de la responsabilité ultime des gouvernements donneurs envers les contribuables.

(6) Deux moyens d'établir ce lien, qui permettent d'éviter les problèmes que posent les politiques d'influence directe, sont ce que nous appelons ici "l'influence indirecte" (l'effet du pouvoir de dépenser) et une "politique de banquier" modifiée), telles que décrites dans ce document. (7) Toutefois, malgré cette approche moins ouvertement interventionniste, il n'en demeure pas moins que l'application de la politique d'aide est caractérisée par une dualité conflictuelle qui ne semble pas pouvoir être évitée; il faut donc s'en accommoder et la rendre supportable en étant aussi ouvert que possible au sujet de ce que l'on fait. (8) En résumé, il est effectivement possible, dans une mesure limitée, d'accorder l'aide en fonction de la performance, mais il est probablement à déconseiller de le faire en raison de la probabilité d'effets défavorables sur les relations avec les pays bénéficiaires et aussi parce que la prétention à l'objectivité en cette matière dissimule, malheureusement, ce qui se passe réellement.

ABSTRACT

This paper reviews the feasibility and desirability of conditioning the allocation of Canadian aid on the adoption of specific policies by recipient governments. The general thrust of the paper may be summarized in the following propositions: (1) we do not really have a firm grasp of the "essentials" of successful development in any country, let alone in the wide variety of countries constituting potential aid recipients. (2) Nevertheless, it is feasible to identify, albeit always arbitrarily, some such essentials and also to devise crude "success indicators" by which to measure their achievement. (3) One problem with this procedure is that those dimensions of "success" that we can measure objectively are not necessarily the most important, nor are the measures we can make always reliable, or even, in some cases, relevant. (4) Moreover, the attempt to condition aid on the achievement of specified performance goals may easily backfire in terms of both the political and developmental objectives of aid. (5) Despite these serious problems, it may seem desirable to ensure some connection between aid allocation and recipient actions, if only because of the ultimate responsibility of donor governments to the taxpaying public. (6) Two ways to make this connection that do not suffer from the problems of outright "leverage" policies are through what is called here "indirect leverage" (the effect of the spending power) and a (modified) "banker's policy", as sketched in this paper. (7) Even with this less overtly interventionist approach, however, there is an inherent schizophrenic conflict in the conduct of aid policy that cannot, it appears, be avoided: it must therefore be lived with and made bearable by being as open about

what is being done as possible. (8) In short, it is indeed possible to condition aid on performance to a limited extent, but it is probably not advisable to do so, both because of the likelihood of adverse effects on relations with recipients and because the pretense at objectivity in all such exercises undesirably obscured what is actually going on.

CONTENTS

CONDITIONING AID ON PERFORMANCE: POSSIBILITIES AND LIMITATIONS

1. Introduction and Summary

Recent discussions of Canadian aid policy have tended more and more to focus on the possibility of conditioning aid on the performance of recipient countries. The Canadian International Development Agency's (CIDA) Strategy for International Development Cooperation 1975-1980, for example, states that "Canada will give the highest priority to development projects and programs aimed at improving the living and working conditions of the least privileged sections of the population in recipient countries....." (CIDA, 1975, 25), and elsewhere lists as "the critical problems of the poor majority -- nutrition, health, shelter, education and employment" (CIDA, 1975, 9). In the future, according to this statement, "Canadian assistance will go primarily to those countries that show a determination to mobilize domestic resources for their own development. Thus Canadian assistance will act as a support and catalyst to self-reliant efforts" (CIDA, 1975, 12).

Along the same lines, the Vice-President of CIDA recently stressed the necessity for recipients of Canadian food aid to demonstrate their "political will" by giving top priority to the growth of their domestic agriculture.[1/] This argument was put more specifically at a recent symposium on Canada and World Food, when an agrologist argued that Canada should use its food aid to require recipients to increase their agricultural budgets by an amount equal to the revenue realized through the sale of the food in domestic markets. Alternatively, he suggested that the funds thus generated could be used to finance birth-control programs. "Without such tough policies on the part of donors", the speaker went on, "the probabilities of food aid contributing in any meaningful way to improved self-sufficiency on the part of recipients are not encouraging" (Trueman, 1977a). Although this line of thought was not very favourably received at the symposium (Trueman, 1977b) and indeed goes directly against prevalent attitudes in the developing countries, which favour fewer rather than more conditions on aid (e.g., Dean, 1977) -- this is as clear a statement of the case for using aid to exert leverage on recipients' policies as has been made in Canada for some time. That such remarks make many people uncomfortable simply suggests some of the problems in trying to use aid to exert leverage over the policies of recipient governments, whether those policies relate to domestic resource mobilization, to helping the poor majority through improved nutrition, or to expanding the agricultural budget.

Some might view a move by Canada to use its aid more explicitly to reward and/or influence those whose performance on such matters was rated as "good" as reflecting the "New Realism" in aid policy foreseen in a recent OECD report (Williams, 1976, 9). Alternatively, others may see such a policy rather as an anachronistic hankering for the early days of foreign aid when everything seemed simple, and schemes for the "objective" allocation of aid abounded. Although this paper lends more support to the second alternative, the basic assumption underlying the present discussion is that it has been decided, for whatever reason, to base the allocation of Canadian aid, at least to some extent, on the adoption of policies by recipient governments that are supposed to result in a higher rate of growth of per capita income (without accentuating inequality).

Section 2 of the paper outlines briefly how such a policy of conditioning aid on performance might relate to the general motives and objectives of Canadian assistance. Section 3 then reviews even more briefly the lengthy history of the search for objectivity in aid allocation criteria over the last two decades.

Following these essentially introductory sections, the main questions taken up in the paper are then considered. Section 4 first outlines what we know (and do not know) about how to foster growth, efficiency, and equity in developing countries, with special attention to the relation of aid to the factors discussed. The main requirements for successful performance identified in Section 4 are then considered in considerable detail in Section 5, which focuses in particular on the extent to which performance in these respects can be monitored in some relatively objective fashion. In view of the considerable conceptual and technical problems pointed out in Section 5 (and the basic ignorance stressed in Section 4), Section 6 then considers briefly a few alternative approaches to aid allocation, of varying degrees of "objectivity", and concludes by stressing the inherent conflicts in any aid allocation policy. An appendix to the paper draws some useful analogies to the extensive literature on intergovernmental fiscal transfers <u>within</u> any one country.

The general thrust of the paper may be summarized in the following propositions: (1) We do not really have a firm grasp of the "essentials" of successful development in any country, let alone in the wide variety of countries constituting potential aid recipients; (2) Nevertheless, it <u>is</u> feasible to identify, albeit always arbitrarily, some such essentials and also to devise crude "success indicators" by which to measure their achievement; (3) One problem with this procedure is that those dimensions of "success" that we can measure objectively are not necessarily the most important, nor are the measures we can make always reliable, or even, in some cases, relevant; (4) Moreover, the attempt to condition aid on the achievement of specified performance goals may easily backfire in terms of both the political and developmental objectives of aid; (5) Despite these serious problems, it may seem desirable to ensure some connection between aid allocation and recipient actions, if only because of the ultimate responsibility of donor governments to the taxpaying public; (6) Two ways to make this connection that do not suffer from the problems of outright "leverage" policies are through what is called here "indirect leverage" (the effect of the spending power) and a (modified) "banker's policy", as sketched later in this paper; (7) Even with this less overtly interventionist approach, however, there is an inherent schizophrenic conflict in the conduct of aid policy that cannot, it appears, be avoided: it must therefore be lived with and made bearable by being as open about what is being done as possible; (8) In short, it is indeed possible to condition aid on performance to a limited extent, but it is probably not advisable to do so, both because of the likelihood of adverse effects on relations with recipients and because the pretense at objectivity in all such exercises undesirably obscures what is actually going on.

2. Aid Motives and Objectives

The present paper is primarily concerned not with the motives of Canadian foreign assistance but with its objectives. It is of course not possible to distinguish motives and objectives too sharply, because the latter depend to a large extent upon the former. One study of Canadian aid policy argued, for example, that because the motives for aid were mainly political "there might well be instances in which Canada must make sure that her aid (its size, content, terms, and so forth) serves its political purpose, rather than insist on its being used in the best effort toward economic development" (Triantis, 1971, 18). This author thus distinguished the "political" and "developmental" objectives and saw them as being in conflict, in at least some instances.[2/]

In contrast, CIDA (1975, 17) recently concluded that Canada's aims should be: (1) "to foster harmonious and fruitful relationships between nations", and (2) "to use increasingly a variety of policy instruments to implement its development objectives. In this context, the development assistance program.....must be more precise in its objectives and thrusts, and more efficient in effecting such transfers". No conflict between the first (political) objective and the second (development) objective was apparently foreseen, nor was the problem of how the desired greater "precision" of the development assistance program could be reconciled with the increasing desire of the developing countries to secure "automatic transfers of concessional funds" (CIDA, 1975, 9) discussed.

These difficulties are far from trivial, for the success of aid policy in achieving <u>any</u> objective may well hinge on what recipients <u>think</u> the motives of donors are. In particular, if the motives are perceived to be political or narrowly economic -- or, for that matter, "charitable" -- the effects of even the most "objective" aid allocation policy may turn out to be quite different than expected.

<u>Export Promotion</u>

At one extreme, for example, the promotion of Canadian exports might be considered as one aim of "aid" policy. In this case, the main (implicit) allocative criterion would presumably be to favour those countries that are willing and able to absorb Canadian exports, especially from those industries that are most favoured by current policy. Two recent examples that come to mind arise from our obvious desire to promote certain "high-technology" industries in the world market: nuclear reactors and transport aircraft.[3/] Although our dealings with the developing countries in these items do not constitute "aid" narrowly conceived, there is little question that these activities constitute an important part of our relations with the developing world.

Intentionally or otherwise, the allocative effect of such export promotion policies is to transfer more resources to those countries willing to "purchase" such items. These are generally the larger and richer countries in the developing world -- and, in the case of transport aircraft, usually those with an active and expanding military. There is little apparent reason why the scarce resources Canada devotes to "aiding" the less-developed countries should be distributed in this way -- and, as noted above, no "aid" is really involved. Nevertheless, there is little question that in fact we are, quite properly, seen by many in the developing world to behave in precisely this way. As a consequence, our "aid" transfers proper may at least partly be perceived by them through glasses tinted by the recognized operation of our self-interest in such activities.

<u>Political Objectives</u>

Even so, Canada is probably less tainted in this regard in recipient eyes than many other donor countries. Moreover, we have no colonial past or present claim to domination -- with the possible partial exception of some parts of the West Indies -- to reduce the "credibility before the Third World" (CIDA, 1976, 16) that we allegedly enjoy. Even our most overtly political aid -- notably, that to francophone Africa -- was motivated more by considerations of domestic than of foreign policy. Canada's relative unimportance on the world power stage may thus be thought to give it a relatively free hand to pursue its developmental objectives without being hampered unduly by deep recipient suspicion of motives. Canada has seldom played direct "political" games with its aid in the past and seems unlikely to do so in the future either, if only because in all but a few instances its aid is not large enough to give it much short-run political leverage in any case. In a broader sense, however, Triantis (1971) seems entirely correct in concluding that the basic motivations for Canadian aid are political, although perhaps not quite in the manner he meant.

The point here is simply that Canada's contributions to aid, like its contributions to the defence expenditures of the NATO alliance, are almost certainly governed in large part by the political relations among rich countries rather than by relations between the rich and the poor. If one considers development aid from the rich to the poor as an essential contribution to "the vital interests of the free world" (Ranis, 1964, 140) in the sense of purchasing increased "security", the analogy to defence expenditures becomes even closer. In fact, the Development Assistance Committee (DAC) system grew up in the first place largely because of U.S. concerns in the early 1960's for more equitable sharing of the combined "burden" of aid and defence efforts (Ranis, 1964, 144). All in all, the evidence seems strong that smaller donors like Canada to some extent "maintain aid programs only because the other Western countries have such programs, and they feel they must, too, in order to be seen to be sharing the burden" (Wall, 1973, 48).[4/]

This way of viewing Canada's aid policies suggests one explanation as to why Canada's relative ranking in the aid league table has risen in recent years while its ranking in the NATO defence spending table has gone down.[5/] Economic analysis suggests that the smaller countries in a defence alliance will, as a rule, spend less on defence than they otherwise would, because to some extent they can be "free riders" on the expenditures of larger countries (Olson and Zeckhauser, 1966). Reuber's (1968) finding that the size of a country was a significant factor in explaining how much it gave in aid, for example, supports this "alliance" hypothesis (although he did not consider it explicitly).[6/]

Even Canada, it appears, may thus not be wholly clear of suspicions concerning the purity of its humanitarian motives in distributing aid. Somewhat paradoxically, perhaps, these suspicions may even be reinforced to the extent that Canadian aid policy attempts to fill "gaps" left by other aid donors, since this will confirm recipients' perceptions of the essential unity of the donors' club and hence the implied contagion of motives among club members. All in all, this line of argument suggests that Canada may have less room than is sometimes thought, whether to take moral stances (without bearing the responsibility for converting them into action) or to exercise some influence on domestic policies without having its motives impugned by those suspicious of "imperialism" in all its multitudinous forms.

Developmental Objectives

It is commonly assumed that the fundamental objective of developmental aid is the economic development of the less-developed countries and that aid should therefore clearly be structured so as to achieve that objective as effectively and efficiently as possible. The problem with this assumption is that it is unclear what development is and how aid can help achieve it. Although Section 1 stated that development was generally understood in this paper as equivalent to the growth of per capita income, it is not in fact possible to avoid the complex issue of possible trade-offs between growth and such "developmental" concerns as more equitable income distribution, reduced levels of absolute poverty, and wider opportunities for productive employment.[7/] Moreover, in fact, we know relatively little about how to use aid to achieve even growth, let alone development more broadly conceived (see Section 4).

This fundamental ignorance is not unimportant with regard to the domestic political basis of aid. Apart from export interests and the general international political aspect mentioned above, what support aid has is probably mainly humanitarian in nature; but this by no means implies that aid supporters are uninterested in what use is made of aid. On the contrary, as Canada's internal welfare policies amply demonstrate, Canadian donors are traditionally intensely interested in what Canadian recipients do with the resources they receive. It would seem unrealistic to expect this interest to stop at the border. Those concerned with aid in Canada, as in other countries, are thus continually under pressure to reassure taxpayers that their aid is being put to good use -- which is, of course, precisely how a democracy is supposed to work.[8/]

Domestic Support for Aid

Perhaps the most important aspect of this problem, however, is the fact that in Canada, as in most donor countries, aid is not very firmly rooted in favourable public opinion (Triantis, 1971; Williams, 1975, Chap. 5; Geiger and Hansen, 1968). This weak foundation of aid policy has several interesting consequences. For example, in Canada at least, the aid organization has been relatively free from the kind of unhelpful outside criticism which has so damaged the U.S. Agency for International Development

(AID) (Tendler, 1975). The relative insulation provided by the parliamentary system is one explanation for this virtual immunity; another is the simple fact that no one cares much. Aid's unimportance in Canadian politics, like Canadian aid's unimportance in international politics, may thus render Canadian aid policy more autonomous (that is, free of the need to respond to transitory domestic political concerns) than would be the case if the aid program was larger and more politically visible.

It follows also, however, that the Canadian aid agency has to pander less to the perceived desires of the electorate than may be true in some other countries. Since these desires -- for aid to be self-limiting through encouraging self-help, for example -- constituted an important reason for the development of the leverage approach to aid in the first place, one might therefore expect there to be less pressure in this direction in Canada than in some other countries.

Bureaucratic Interests and Aid

The relative freedom of Canadian aid from domestic political pressure to impose conditions on aid may well be more than offset by the fact that this same freedom gives more rein to the probable desire of those who run the aid agency to impose such conditions and in so doing to add to their own stature and influence. It is irrelevant whether they act this way for narrowly selfish reasons or because they really believe, or have brought themselves to believe, that further extension of their power to make others "to do good unto themselves" is in the interests of mankind (including those "done to").

Even a cursory reading of the modern literature on bureaucracy (Downs, 1967; Niskanen, 1971; Hartle, 1976), suggests that one would expect aid bureaucrats, like other bureaucrats, to prefer complex, detailed, condition-laden programs to simpler transfer schemes. Because of the more tenuous political connections between the politicians in donor countries and the recipient countries than between the same politicians and, say, local regions receiving grants, one would expect there to be less offsetting political pressure to this bureaucratic urge for complexity than in the case of, say, domestic aid to regions. As noted above, the other side of lack of political support for aid is lack of political interest in the forms aid takes or in the conditions imposed on aid recipients.

The bureaucratic incentives to complicate the aid system may be offset to some extent, however, by what might be called the increasing "professionalization" of aid agency employees. To the extent that these officials see themselves not as members of their national bureaucracy but rather as members of an international "professional" group they may march to the beat of a quite different drummer -- a beat that in recent years has called for fewer rather than more conditions on aid as the relevant peer group has come increasingly to reflect the desires of developing, rather than developed, countries. The resulting schizophrenia in the pronouncements of many aid proponents, including CIDA, may thus reflect not just honest confusion about what should (can) be done but also an uneasy compromise between two groups playing different games.[9/]

This argument may perhaps be interpreted by some as a criticism of aid officials, though it is really only an attempt to explain the bureaucratic role they have to play. Furthermore, in defence of the aid agency, it is really placed in an impossible position: not only is it charged with doing several conflicting things, some of them probably impossible and most of which no one knows how to do anyway, but it is also subject to the usual constraints placed on spending departments by the central financial agencies.

It is really impossible to run an exercise as strange and, in a real sense, unknown as truly developmental aid with policies developed through the usual process of interdepartmental committees on the one hand and implemented subject to the usual financial and other controls on the other (Reid, 1969-70). The first constraint stifles the sort of task-oriented creativity so desperately needed in this field.[10/] As for the second constraint, as Tendler (1975, 43) noted about the U.S.: "the government entity charged with policing the legislative constraint frequently ended up having a power over the organization.....that spread into areas where the policing agency may have had no authority or competence" (Tendler, 1975, 43). Treasury Board pronouncements on the worth of spending on, say, airports in Saskatchewan, may have some credibility; those on, say, agricultural research in Colombia are bound to be almost useless.

Indeed, a fitting point at which to end this preliminary discussion of aid motives and objectives -- and to introduce the subsequent discussion of monitoring development performance -- concerns the classic problem of how to monitor the performance of the aid agency itself. In practice, whether the process is bilateral or multilateral, it appears that the main measure of organizational performance used both internally and externally is "moving money" (Tendler, 1975). That is, the performance of the agency (and its component parts) is judged mainly in terms of the amount of money put out in loans and grants within a given time period. The pressure of this motivation is shown by the extent to which aid suppliers are to be found out in the field generating demand for what they have to sell, rather than sitting at home calmly doling out money to the worthiest applicants, as the naive might have thought to be the case.

So long as this situation persists, no matter what is said about "toughening" aid criteria, the reality is likely to be quite different. As Tendler (1975, 101) notes in a related context, "It is difficult to see how a directive to pursue labour-using strategies can be as powerful in guiding choices as an organizational setting which continues to emit strong signals in favour of large, capital-intensive projects". The same might be said of most other attempts to change the output of a bureaucratic system without changing the rules of the bureaucratic game (Hartle, 1976): fine words do not alter real incentives. The parallel between this situation and that regarding the effectiveness of "conditions" imposed on aid in the recipient countries (discussed below) is striking.

3. Objectivity and Leverage in Aid Criteria

The attempt to derive an "objective" basis for allocating aid among potential recipients is far from new. Although in practice undoubtedly the most important, sustained, and operational preference of donors has been for countries that are financially "sound", many other possible aid allocation criteria have been articulated and discussed over the last two decades.

Among these criteria are, for example: (1) to ensure the highest achievable per capita income growth; (2) to ensure the narrowing of international per capita income differentials; (3) to permit a given annual percentage increase to everyone; and (4) to permit the aided countries to launch and sustain vigorous development efforts. Although some writers (Shonfield, 1962) favoured the first of these criteria and others (Tinbergen, 1962) the second, there can be no doubt that the most favoured criterion has long been the last -- "self-help".

Formal Models

The three major formal attempts at developing aid allocation criteria related to the "self-help" approach are probably those of Rosenstein-Rodan (1961), Chenery and Strout (1966), and Adelman and Morris (1967). Rosenstein-Rodan essentially projected aid "requirements" and postulated an international tax-transfer system to close the gap thus revealed.[11/] Although accepted by scholars as eminent as Tinbergen (1962), it is not difficult to show that both parts of this approach rest more on faith than on knowledge or science (Wall, 1973).

Adelman and Morris (1967) make an even more ambitious but equally flawed (Eckaus, 1970) attempt to quantify political and social as well as economic performance criteria. Interestingly, their conclusion (p. 275) is that it makes little sense to allocate much aid to the poorest countries because they will be unable to "do" much with it: the Lord helps those who help themselves, and a man who is starving can do little along these lines.[12/]

By far the most influential approach, however, has been that of Chenery and Strout (1966). Their model does much the same thing as Rosenstein-Rodan's (estimating savings and foreign exchange "gaps") but in a conceptually more satisfactory framework -- which also lends itself to a more explicit evaluation of performance in a more understandable way than the Adelman-Morris approach. Although the Chenery-Strout approach has also been subjected to devastating criticism (Eckaus, 1970), it is still very influential. It is, for example, uncritically presented as "the model" in a recent text on aid (Hawkins, 1970) and was used recently, albeit in a modified and restrained way, to assess aid allocation and development performance generally (Chenery and Carter, 1973).

This recent appraisal found, unsurprisingly, that on the whole the "most successful" countries did best in terms of aid (unless they chose to reduce it), while the big loser was India, largely because the allocation of aid is heavily biased towards smaller countries. This study marked a clear advance on earlier work on similar lines, however, in that it noted that in general aid and savings are not directly associated in any particular way and that "the proper test of the effectiveness of aid.....is its effect on growth or other social objectives rather than on savings....." (Chenery and Carter, 1973, 467). This point is discussed further below.

As a rule, however, most applications of the "gap" approach have stressed savings, and hence have tended to appraise aid's success in terms of its effect on savings or such other aggregative criteria as the rate of increase in national income. Certainly this emphasis was obvious in the case of the United States Agency for International Development, which unquestionably pioneered in the attempt to relate aid and consciously and systematically to "performance". Its efforts in this direction really started in 1961 in connection with the Alliance for Progress in Latin America (Nelson, 1968, 70). This effort was carried on and developed at AID throughout the next decade and was also increasingly influential in the World Bank Group.

Closely connected with the proliferation of "two-gap" models in the 1960's was an increased awareness of the desirability of ensuring that countries used aid properly (that is, to close their "dominant" gap) and a move towards "program" rather than project lending. The first led to use of aid to exert "leverage" in domestic policy and the second led to a focus on central macroeconomic policies as the ones to be lowered. Both of these policy directions really had their roots in earlier discussions, mainly by American academics.[13/]

<u>The Case for Leverage</u>

The case for leverage was clearly stated in an influential MIT study at the beginning of the 1960's in these words: "The broad purpose of capital assistance is to encourage the recipient countries to maximize their own efforts toward development.....to have the maximum leverage in persuading the under-developed countries to follow a course consistent with American and free-world interests....." (Millikan and Blackmer, 1961, 118). These two aims were taken to be in harmony because the implicit model underlying the argument was one in which development required so much capital investment that the necessary saving could be made out of domestic resources only through "repressive measures" (by which they meant Communism), and aid was seen as relieving the pressure to follow this path (p. 123).

Even at this early stage, the proponents of leverage also recognized the need for structural changes, notably with regard to land reform, where they urged that aid be used to increase productivity and to buy off the opposition of land-owners (Millikan and Blackmer, 1961, 123). But there is no question that, particularly in the early years, the main stress was placed on the mobilization of domestic resources, with the idea being to channel the most aid to those who used it most productively as measured by this criterion (Higgins, 1962).

Many other influential voices in the U.S. aid community sounded similar themes throughout the 1960's. "The adequacy of measures undertaken by the country to capture the maximum flow of savings from its own citizens" and to effect "the required institutional transformation" were constant themes in the literature of the time (Ranis, 1964, 95 and 167). Some even went so far as to suggest that "there is nothing reprehensible in a major power intervening in another country's affairs in order to help the people of that country to achieve prosperity and political freedom" and to say that "at the limit, where a government is both unrepresentative of a people's wishes and opposed to economic and social change, intervention may go so far as to utilize economic assistance to induce political change -- provided always that such intervention has a high probability of success" (Higgins, 1962, 7 and 10). Few pushed moral certitude this far, however.

More commonly, the obvious political implications of such intervention were played down by stressing "mutually good intentions _ex ante_", the likelihood that some local groups ("the planning commission") would really welcome pressure from outside aid agencies to do the "right" things in any case, as well as the alleged attainability of "a relatively objective performance index, removed from the peculiarities of intergovernmental pressure points on the one hand and the suspicions and controversies surrounding political ideology on the other" (Ranis, 1964, 171).

In short, as an excellent book summarizing much of this trend in the U.S. thought about aid put it: "Foreign aid has become a major instrument of U.S. foreign policy throughout the under-developed world;.....aid's 'influence potential' may make a much more important contribution in the long run to promoting progress than its resources contribution" (Nelson, 1968, 1 and 69). Nelson (1968, 31) identified three criteria governing U.S. aid in the 1960's: (1) the political importance of the country's stability and growth; (2) its ability to "absorb" external resources; and (3) the availability of revenues from other sources. The second of these really derived from the Chenery-Strout (1966) formulation and was seen as very closely related to the efforts made "to mobilize the country's own resources and to allocate these to the highest priority uses" (Nelson, 1968, 34).

In a fashion characteristic in this literature, even Nelson (1968, 72) an astute political scientist, lists as obvious requirements for "self-help" such points as "a favourable climate for private enterprise" without seeming to realize the extent to which this might involve fundamental political questions in many developing countries. Similarly, John Lewis (1964, 251) urged U.S. aid planners to be less passive and diffident in urging and inducing the Indian government to make private sector choices. The "truth" about what was needed for "successful" development (that is, acceptable to donors) appears to have been very clear to all these writers.

Both Lewis (1964) and Nelson (1968) in effect argued that the use of aid to exert leverage on domestic policies would not arouse resentment because the process would be one of mutual, rather than imposed, analysis and judgment. In effect, aid, and hence development, would be planned jointly by donor and recipient. Few of those who wrote on this subject seem to have seen as clearly as Mikesell (1966, 159) that aid agencies may of course disagree with recipient preferences and refuse to finance projects intended to implant them, ".....but they cannot appropriately criticize the national goals themselves without interfering with important elements of national sovereignty". Or, in David Wall's words: "An agency has only two options open to it. It can either take without question the programs of the governments of the poor countries, assume that they reflect the wishes of their peoples, and help in their achievement. Or it can set up its own criteria of soundness and efficiency and attempt, in one way or another, to impose them on recipient governments by making its aid conditional on their acceptance" (Wall, 1973, 146). The trend of the 1960's was clearly to take the second of these paths.

A Critique of Leverage

The desire to use aid to exert leverage at base is rooted in the same technocratic positivism and belief in progress which have long formed attitudes in the Western world, most particularly in the United States. The belief that life consists of a series of problems to which solutions are possible, with the result being a "better" life, is of course a relatively modern innovation which is still much less thán world-wide in scope. It is not mere chance that the strongest proponent of leverage in the 1960's was the United States before its faith in itself (and in technocratic positivism) was brought low by Vietnam.[14/]

In a sense, the attempt to use aid to lever countries into doing what "should" be done represents this positivistic attitude both at its best and worst: its best, because it is precisely this sort of blind charging at the impossible which has indeed accounted for much of mankind's progress, and its worst, because it is also this same ignorant arrogance that has led to some of the worse disasters, social as well as ecological, in history.

The potential (and desirable) role of leverage in aid policy depends of course on the role one thinks aid plays in the first place. A recent CIDA document states (rather unbelievably) that "for most of the Third World Nations, aid from the advanced countries soon resulted in destruction of their own economic structure....." (CIDA, 1976, 10) and that these pernicious results arose primarily because ".....the aid policies attempted to superimpose the Western industrial system on all those countries....." (CIDA, 1976, 12). If one really believes this, there would appear to be no role at all for the use of aid to exert leverage -- unless one assumes, as the same document appears to do, that we now know something we did not know a few years ago. This "something" appears to be that we should focus ".....assistance on priority sectors of development cooperation, as defined by those most concerned, the least privileged of the international community" (CIDA, 1976, 16).

Fulfilling this mandate turns out to involve leverage because it appears that those "defining" the priorities are often not those formally in charge of the political institutions of recipient countries. As CIDA's 1975 Strategy noted, "Many recipients have squandered resources, refused to adopt rational trade and taxation policies, avoided land reform, or delayed crucial changes in administrative systems" (CIDA, 1975, 7). In these circumstances, it is natural to ask whether aid can be used as a lever to move resistant political and social structures to do things that they would not otherwise do but that are presumably in some sense in "their" own interests.[15/] A classic statement of aid's leverage potential in this regard occurs in the same study, which notes that "finally, and most importantly, development assistance can act as the catalytic agent to effect transformation in a society in ways that other resource transfer mechanisms cannot" (CIDA, 1975, 8). The very words reflect the view of aid as "catalyst" that permeated the U.S. literature in the 1960's. What are the circumstances in which this miracle of social engineering may take place, and precisely how can it be brought about?

Even those readers who might agree with the argument of the present paper that direct leverage inevitably infringes on the political autonomy of recipients and is hence undesirable, might wonder what all the fuss is about. After all, all that leverage advocates propose to do is to attach as conditions to our aid those very priorities that the developing countries themselves have agreed upon and stress as essential.

Why should there be any problem or conflict? As seen above, both the U.S. proponents of leverage (with their stress on mutual agreement) and CIDA (with its stress on what the less developed "themselves" want) may appear to finesse the problem in this way. In fact, however, they do not.

It is true that the leverage question in its pure form arises only when the policies favoured are not identical to those favoured by the leaders -- or those small groups which constitute effective public opinion -- in the recipient countries. If the policies are identical, the only question that arises is whether aid should be allocated to reward most those who are most successful at doing what all agree must be done or to compensate those who are least successful, on the assumption in the first case that success reflects effort and in the second case that lack of success reflects need.[16/]

One possible way to exert leverage is thus simply by rewarding, *ex post facto*, those countries with a good past performance, and/or expected good future performance. This is clearly the safest route, because it not only demands less prophecy about what will work but also greatly reduces the risk of being blamed for intervention.

Leverage proponents are seldom satisfied with this modest path, however. Nelson (1968, 73) argues, for example, that a more active "persuasive" policy (possibly including sanctions) is needed for several reasons: (1) so much aid is granted for short-run political reasons that the "rewards" are unlikely to be big enough to induce behaviour changes; (2) the connection between reward and action may be too tenuous to have much impact; (3) some actions (e.g., import liberalization) need immediate external support if they are to be feasible; and (4) one needs in any case to be able to support "new leaf" governments: her example is post-1964

Brazil (p. 74). Although she is clear that "external donors thus assume a heavy burden of responsibility when they intervene vigorously and on a continuing basis in a developing country's policy formation" (Nelson, 1968, 89), she is obviously (as was AID) quite willing to take on this activist role instead of adopting the essentially passive "reward" strategy.[17/]

As already suggested, the most important aspect of the leverage question concerns the common assumption that donors and the <u>people</u> of the developing countries have common interests in conflict with those of the leaders of those countries.[18/] The use of leverage to force policies on unwilling leaders is thus justified in the putative interests of the people. In many cases the real content of such policies is concealed by treating the declarations of the various international agencies as representing <u>both</u> the wishes (and needs) of the people <u>and</u> the agreement of their leaders -- and implicitly assuming that if the latter turns out not to be true in some country, then the former should dominate.

The arrogance with which such views are stated by some of the most "anti-colonialist" people is indeed breathtaking, for this approach is, of course, simply an "enlightened" version of the old "white man's burden" colonial policy -- doing for others what is in their own best interests. What Morris (1963, 64) called "an assumption of unassailable superior knowledge" often permeates the words and conduct of leverage advocates, of whatever political persuasion. Indeed, as Shonfield (1962, 41) said of those early -- and most successful -- practitioners of leverage tactics, the IMF officials of the 1950's: "They have a kind of moral self-confidence which seems to belong to another century -- certain that however painful the decisions which they force on poor nations, they are truly defending them, for their own sakes, against their evil natures".[19/]

In some instances, the implementation of this approach involves bypassing the governments of recipient countries and dealing directly with groups outside the governmental structure, an approach which may amount to the extension of aid, in effect, to groups forming part of the political opposition, albeit perhaps for the most humanitarian of reasons. Too often, attitudes to such aid appear to reflect political judgments of "worthiness" and to be worth no more than the usually scanty information and the strength of the preconceptions on which they are based. More importantly, there is absolutely no question that bypassing formal political structures in this way constitutes a clear intrusion into the most intimate concerns of sovereign countries. Whether this intrusion is applauded or deplored depends on which side of the political fence one finds oneself -- or, more cynically, on the audience to which one is playing.[20/]

As one early discussion of the move to program aid noted, "This newer approach in effect puts the administrators of aid into the shoes of planners in the receiving country" (Hayes, 1966). This is, of course, no please for them to be now, if it ever was. The trend today is toward unintrusive and automatic policies (Helleiner, 1977), not the discretionary and deliberately intrusive ones envisaged by hard-line leverage enthusiasts. The root of the problem was well put by John White (in Helleiner, 1977), who noted that "Undoubtedly the leading ranks of the UN community contain a high proportion of people who are more dedicated to the cause of development, and have a broader view of the development process, than the political leaders of some, perhaps many, developing countries; but few of them are elected, none of them is elected by a process which is even remotely representational, and there is no supreme political authority in whose name they act".

Given the increased perception (and in some instances reality) of self-reliance in many developing countries, attempts to use aid to induce the acceptance of policies that would not otherwise be adopted are likely to be less productive of results and more productive of conflict now than was the case even a few years ago, when Hirschman and Bird (1968) were strongly critical of the whole leverage idea as exacerbating political conflicts between donors and recipients. Already some of the more advanced developing countries prefer loans on commercial terms to "concessional" aid that brings with it "free" advice, advisors, reporting requirements, and other conditions increasingly perceived as humiliating (Bird, 1976a, 21). Renewed attempts to use aid to exert leverage on recipient policies would probably result in even more of those who could "opting out" of the aid system.

The long-term result might thus be that the only (unwilling) "victims" of leverage tactics would be the poorest states, with few alternatives -- though even they are increasingly balky under the reins of external assistance (India, Tanzania). In these circumstances, it may not be too farfetched to postulate that the distribution of aid under a hard-line leverage policy would soon come to resemble that under a straight redistribution policy -- albeit probably with much less favourable political consequences. Alternatively, one might of course set the success criteria such that only the best-off could qualify -- and they could do so at no real cost to themselves. Section 5 shows that this possibility is real, given the apparently inevitable propensity to focus on quantifiable macroeconomic indicators. The real point in this case, however, is that aid would then be exerting no real leverage anyway. Instead, it would simply go as yet another garland to the winners of the development race.

The path of those advocating more conscious use of leverage in the field of aid is thus not an easy one. A more positive approach to present reality than decrying the increasing recalcitrance of aid recipients, however, might be to argue that what may be in the process of happening is the emergence of the sort of critical feedback from beneficiaries that is necessary to the successful achievement of aid's tasks. In the past, as Judith Tendler (1975, 43) put it, when the beneficiary of aid was unhappy "he accepted something unacceptable as the price of getting foreign assistance, and grumbled resentfully". The fact that the grumbling has become increasingly audible may make the task of aid administrators harder at home but, in the long run, more successful abroad, for it may mean that, finally, that painful process so often blithely referred to as "development cooperation" may in fact be getting underway.

4. What is a "Good Development Performance?"

In order to condition aid on good development performance, it is necessary to have some idea of what a "good development performance" consists. If, as a recent CIDA statement says, aid policy is to "..... ensure that proper emphasis is placed on the most crucial and urgent..... aspects of development" (CIDA, 1975, 25), then this presumes: (1) that we know what these aspects are -- indeed, the same document rather trendily lists them as food production and distribution; rural development; education and training; public health and demography; and shelter and energy -- and (2) that aid policy can "ensure" that they are "properly" emphasized. This section outlines briefly some of the characteristics which have been used or suggested as measures of good performance in the literature. It also casts doubt on the validity of this whole approach to aid allocation.

The basic point to be made was well stated in a recent OECD report which notes, correctly, that ".....there is no single-sector path or revealed way to development..... Development remains a profoundly complex and difficult task which is the responsibility of the country concerned" (Williams, 1976, 20). The fact is that no one really knows enough about the rate and pattern of that bundle of changes called "development" to speak with much authority in this field. In particular, the notion that aid authorities in donor countries understand what constitutes good development performance in another country not only presumes too much knowledge on their part but also gives them far too much responsibility in deciding what the people of the developing countries "really" want. As Tendler (1975, 11) notes, "knowledge that is still to be learned cannot, by definition, be more abundant in one part of the world than in another".

It is also impossible to reconcile this approach, even if the necessary knowledge existed, with the alleged desires to make the developing countries more self-reliant, to intervene less in their affairs, and to make aid transfers more automatic. Furthermore, as has been noted elsewhere, if donors do attempt to take on this responsibility they will probably be unsuccessful and will certainly run significant political risks (Hirschman and Bird, 1968).

To take a very simple example, aid policy tends unquestioningly to assume that more education is better than less education. Yet in the circumstances of many developing countries a principal consequence of expanding education (particularly of the traditional variety) may be to increase expectations more rapidly than the possibility of satisfying them, thus leading to discontent and perhaps heightened social and political tension. It is easy enough for those who do not have to live with the results to say that such results are simply necessary "growing pains" or that "in the long run" they will prove beneficial. It seems either unwarranted arrogance or, at the least, politically irresponsible of those who do not bear the consequences to thus pass judgment on their fellow man, however, especially when we do not in fact know much about the impact of expanded education on development, let alone on income distribution and employment.[22/]

Despite these general cautions there is, of course, a vast literature purporting to lay out the ingredients of a good development policy, albeit seldom in the necessary country-specific framework (with due allowance for a process of mutual learning and feedback). On the macroeconomic level, for example, the major criteria of good performance commonly identified in the literature include: (1) the extent to which domestic resources are mobilized, which in practice usually reduces to (a) savings "effort" and, especially, (b) tax "effort"; (2) the generation of foreign exchange earnings; and (3) the attainment and maintenance of "reasonable" stability in terms of price inflation and the balance of payments, with "effort" in this regard often being measured in terms of some monetary indicator such as (a) rate of domestic credit expansion, or (b) the size of public sector surplus on current account (or total public sector deficit).

The third of these criteria has had by far the longest run in practice, having long been the mainstay of the "letters of agreement" negotiated as part of IMF standby and loan packages. The first criterion (which is related to the third through the presumed effect of increased tax effort on reducing public sector deficits) derives originally from the traditional Harrod-Domar growth model approach -- what one high planning official in the Philippines has called "the simple arithmetic of growth" (Sicat, 1972) -- though it also fits neatly in the "savings-constrained" version of the "two-gap" approach (Chenery and Strout, 1966). Whatever its intellectual origins, there is no question that concern with the savings effort of recipient countries, and in particular with the effect of aid on that savings effort, has long been viewed as a central concern in the aid allocation process (Mikesell and Zinser, 1973). The feasibility and significance of monitoring savings and tax performance is therefore a principal concern of the next section.

Although the second macroeconomic criterion mentioned above -- the extent to which foreign exchange earnings are generated -- also flows from the "two-gap" model and should therefore, one might think, be of equal interest to those who wish to allocate aid in relation to good development performance, in fact this does not appear to be the case. Even the appearance in recent years of various weighty studies urging the desirability of more countries following the "outward-looking" path of export promotion (Little, Scitovsky and Scott, 1970)[23/] does not appear to have moved this item onto the criteria list of most aid donors.

It seems fairly clear that the possible criterion of allocating aid in accordance with the export performance of recipient countries would be feasible, generally supportive of outward-looking growth efforts, and hence probably consistent with a growth-oriented aid policy. Such a policy would also, however, conflict more directly than almost any other conceivable allocation scheme with other policy objectives (and domestic political realities). This conflict, of course, is much stronger with regard to manufactured exports than with regard to primary products, but it is probably not politically conceivable to think of rewarding the latter while (in effect) penalizing the latter. The inescapable dilemma in this area probably means that the readily quantifiable "success indicator" of improved export earnings will continue to play little role among aid allocation criteria in any donor country. Canada's ailing textile and shoe industries suggest that it provides no exception to this rule.

Somewhat curiously, perhaps, much of the actual experience in allocating aid in accordance with the third criterion (stability) mentioned above has been largely perverse in its effects. The reason is simply that the direct incentive effect of aid granted to offset a budgetary or payments deficit is of course to induce further such deficits. For this reason it is customary to accompany aid given for such reasons by various direct controls (conditions, or promises made by the recipient) which are intended, in effect, to offset the deficit-producing forces which are reinforced by the grant itself.

As with all direct control systems offsetting market forces, the battle thus launched has often been lost: it is always, it appears, easier for the person monitored to be one step ahead of the monitor than to attain the reverse situation (witness the endless loophole-closing exercises that constitute tax policy in most countries). Furthermore, even ultimately ineffective monitoring is a costly activity in terms of time and resources (including goodwill), and it may be doubted whether the game has often been worth the candle.

At best, experience suggests that it is possible, and -- some radical opinion (Payer, 1974; Hayter, 1971) to the contrary -- sometimes salutory to impose such controls for a short period of time after bad management (and/or bad luck) has brought an economy close to the brink of ruin.[24/] Even then, donors may well be laying in trouble for themselves in the future. Errant sinners seldom appreciate their sins being publicly labelled as such, and they rarely correct their ways when forced to do so: indeed, as Hirschman and Bird (1968) note, they are probably less likely to do so when bribed (with aid) than when they are persuaded without bribes.

All in all, it appears that the major macroeconomic criterion of good development performance likely to serve as a basis for aid allocation is savings "effort". Even though more recent evaluations of savings and aid have cast doubt on both the relation of aid and savings (Heller, 1975) and on the relation between savings and growth (Chenery and Carter, 1973), it is difficult to identify any other macroeconomic criterion more likely to serve as an objective aid allocation criterion.

Apart from these aggregative questions many other aspects of "good" development policy can readily be found in the literature: (1) the facilitation of efficient and unified financial markets and the related removal of various interventions in financial and exchange markets (McKinnon, 1973; Shaw, 1973); (2) the establishment of an equitable and efficient land tenure structure (Dorner, 1972; AID, 1971); (3) the sort of sectoral concentration of budgets referred to in the CIDA statement cited earlier; (4) more controversially, perhaps, the kinds of private enterprise and international-investment oriented policies referred to in some of the U.S. literature cited earlier (e.g., Nelson, 1968); (5) the efficient and honest administration of public sector undertakings.

Rather than continue this list interminably, the next section illustrates the possibilities and problems of making leverage operational by considering four types of possible conditions, or performance criteria, that might be used as a basis for allocating aid: (1) general economic policies (exchange rates, interest rate policy, savings rates, etc.) -- as illustrated by tax "effort"; (2) sectoral policies (budget allocations for agriculture, education, etc.); (3) project execution policy (which includes both procedures such as tendering and accounting as well as the organization and operation of government) -- as illustrated by the concern of lenders with the organizational form of recipient entities; and (4) structural policy (land reform, tax reform, etc.) -- as illustrated by tax reform.

In each of these four cases, it will be shown (a) that no unambiguous measure of "success" is possible, (b) that no one can be sure what "success" would look like anyway, and (c) that even successful measurement of well-understood success indicators does not avoid the possibility of serious detrimental results from a policy of leverage. This discussion focuses on what is called here as "direct leverage" understood as "actions that go beyond influence and persuasion to condition aid, explicitly or implicitly, on specified host country measures" (Nelson, 1968, 75). "Indirect leverage", or the influence of aid on recipient actions, is discussed only in passing, particularly in connection with sectoral policies.

5. Monitoring Development Performance

There are three basic questions about the use of aid for leverage: (1) How do donors know what are the "right" policies? (2) How can donors bring about the adoption of these policies? and (3) Should donors act in this way? The answers to these questions reached in the present paper may be equally briefly put: (1) Donors do not, and cannot, know what is right for someone else with much certainty; (2) Success is very difficult to measure and in any case requires the support of some influential domestic group; and (3) This condition for success in turn means inevitable political conflict. Leverage policies are not only rooted in an over-optimistic view of what we know and the extent to which we can enforce policies derived from this knowledge on others but also carry with them various dangers of exacerbating international relationships through unwarranted intervention in the affairs of sovereign states. The first of these points was stressed in Section 4, above, while the third is developed in Hirschman and Bird (1968): this argument is not repeated at length here. The present section instead focuses simply on the problems of measuring performance -- of deriving adequate and reliable "success indicators".[25/]

Macroeconomic Criteria

What is a suitable indicator of "self-help"? Perhaps the indicator most commonly mentioned is an increase in the average or marginal savings rate. These rates, however, vary in different countries at different times in accordance with natural endowments, chance, the international situation, different initial conditions and other presumably irrelevant factors (Eckaus, 1970). Even if the numbers were clearer, and we knew what they meant, a reduction in saving may often be as reasonable in a very poor country receiving aid as an increase. Much the same criticisms may be applied to other such possible criteria as attainment of self-sustaining growth, efficient resource use, and priority programs. As Eckaus (1970, 156) puts it: "There is simply no escaping the conclusion that any judgment by donor nations of the effort of recipient nations or comparison of "efforts" of recipient nations implies the application of the values of the donor nations".

Nevertheless, there is little doubt that by far the most studied criterion of "self-help" or "domestic resource mobilization" is what is generally called "tax effort", perhaps, as noted earlier, because increased taxes are often viewed as an essential ingredient of both a stabilizing and a growth-oriented policy. Even though it is neither theoretically nor empirically clear that increased aid flows will induce increased domestic savings (Mikesell and Zinser, 1973), let alone increased taxes -- indeed, a recent excellent study concluded that aid reduced taxation in 11 African countries (Heller, 1975) -- there has therefore been a marked propensity to view tax effort as a badge of good development performance, worthy of being rewarded through still further aid.

The likelihood that more aid would reduce taxes further is generally ignored, and perhaps properly so since the same study suggested aid actually did increase investment (Heller, 1975). What is harder to understand is the relationship between increased taxes and increased saving generally presumed in this approach, when in fact there is considerable evidence to suggest that increased taxes more often result in increased public consumption (Please, 1967; Heller, 1975). Indeed, if one assumes that increased taxes may also reduce private saving (Bauer, 1971), then better tax "effort" might even mean worse savings "performance"! Despite such problems, perhaps owing to the acknowledged problems with savings data -- and the realization that realized domestic savings rates in developing countries often reflect more external events than savings "effort" -- the tax effort of poor countries has always received considerable attention in international circles (Schelling, 1957; Strout and Clark, 1969; Chelliah, Baas, and Kelly, 1975). It is therefore worth considering more closely some of the problems in assessing tax performance in developing countries.[26/]

A standard with regard to tax performance may be established in at least two ways. One approach is by postulating an ideal (or, some might say, minimum) tax level and structure which any developing country which is serious about development ought to achieve. Perhaps the clearest example of this approach is found in the work of Sir Arthur Lewis (1966). Presumably such an ideal is based on both pre-determined norms and the observation that at least some countries have in fact attained the specified level, which is taken to mean that it is feasible for others to do.

An alternative approach to the establishment of a norm, which is now far more common, is to take the <u>average</u> performance of countries defined to be similar in certain respects; in effect to say, as the head of the Philippine planning office recently did, that "judging from the tax efforts of more progressively developing countries, the low tax effort in our country can only suggest that there is a wider room for further taxation" (Sicat, 1972, 3). In this formulation, the average performance of neighbouring countries is taken not only to show what a particular country <u>could</u> do if it wanted to, but also what it <u>should</u> do.

The most recent and thorough studies of the determinants of national tax ratios have been those conducted at the International Monetary Fund (IMF). The "average tax ratio" in a group of 47 developing countries is shown in a recent study, for example, to have increased from 13.6 per cent in 1966-68 to 15.1 per cent in 1969-71, with the ratio increasing in almost four-fifths of the countries and not falling significantly in any (Chelliah, Baas, and Kelly, 1975).[27/]

The presentation of figures such as this, which presumably have some general informative value, is, however, only the first step in such studies. The next step is to attempt to "explain" statistically the observed difference in tax ratios. The "explanation" of the tax ratio which fit best statistically in the most recent IMF study was in terms of the sectoral composition of the GDP, with mining making a positive and agriculture a negative contribution.

Although one might at first be surprised at the absence of such factors as the average level of income and the degree of openness of the economy from this specification, a moment's reflection may reduce the surprise considerably, given the generally close correlation of these factors to the sectoral composition of the economy. What the statistical analysis tells us, then, is that a good deal -- but by no means most! -- of the observed variations in national tax ratios is statistically associated with the shares of agriculture and mining in national output. This is perhaps interesting, but it is hardly very exciting, or of much policy significance in terms of evaluating fiscal performance.

Largely for this reason this equation with the greatest statistical merit was rejected in the IMF study in favour of a specification incorporating per capita non-export GNP, the export ratio excluding mineral exports, and, again, the share of mining in the GDP. Why was this statistically inferior equation chosen? The reasons appear to be as follows:[28/] (1) "Per capita income has considerable normative significance in considering taxable capacity and in assessing tax effort"; it should therefore be included; (2) On the other hand "there are grounds for believing that the share of the agricultural sector affects not only taxable capacity but also, perhaps more importantly, the willingness to tax"; it should therefore be excluded; (3) As for mining, however, "because of the heavy fixed investment associated with extractive industries, operations tend to be confined to a few large firms and as long as world demand conditions ensure high profitability, there exists a combination of taxable 'surplus' and administrative ease"; the mining share ought therefore to be included; (4) Finally, the non-mining export ratio is needed to "make allowance directly for the export factor in countries where mining is not so important". In short, this equation is used because the purpose of the exercise is <u>not</u> to "explain" variations in the tax ratio among different countries, but rather to measure "taxable capacity".

The successful measurement of taxable capacity used in these studies depends critically on the <u>a priori</u> justification of the explanatory variables as affecting <u>only</u> taxable capacity and not at all either demands for higher public expenditures or willingness to tax (Bahl, 1971). The problems with this approach are therefore obvious: the inherently debatable nature of the variables chosen, for instance, is surely clear from the quotations in the preceding paragraph. Per capita income, for example, is presumably included because it is a proxy for a potentially higher tax base, or a larger "taxable surplus". But income is surely as much a "demand" as it is a "supply" factor.

Similarly, to argue that the agricultural share should <u>not</u> be included because ".....many developing countries have found it difficult to tax agriculture adequately, for historical and political reasons" (Chelliah, 1971) -- an incontestably true statement! (Bird, 1974) -- and that this means that the size of the agricultural sector reflects not just capacity to tax but also willingness to tax, is hard to understand in light of the inclusion of the mining share. One might just as well say that many developing countries have, for historical and political reasons, found it easy to tax the mining sector (which is controlled by foreigners in many countries and employs relatively few people). That is, if one share can be said to affect "willingness" as well as "capacity" then so can the other, on equally firm (or infirm) grounds. The point of this discussion is simply to demonstrate that the distinction between "capacity" and "willingness" is a terribly fuzzy one: indeed, one might say that "capacity" without "willingness" is not really "capacity" -- or "effective capacity", to coin a term -- at all.

In short, it is inherently extremely difficult to specify correctly any model of (usable) taxable capacity -- to quantify what Musgrave (1969) has called the "tax handles" available to a country. Any particular specification may be criticized, as has been done above. More important, it seems conceptually impossible at this stage of our knowledge that any specification of taxable capacity can be developed, let alone measured, that will be fully satisfactory.

Nevertheless, let us accept for the moment the fiction that something called "taxable capacity" is adequately represented by regression exercises such as those summarized above. The next step then follows immediately: the calculation of <u>tax effort</u>, defined as the ratio of the actual tax ratio in a particular country to that which would be predicted on the basis of the taxable capacity equation. Since, by assumption, all capacity factors are allowed for in the equation, the observed difference -- the residual -- presumably measures the "effort" which a country makes to exploit this capacity.

In the usual form of this analysis, regression equations are used to calculate the predicted tax ratio directly, which is equivalent to saying that "taxable capacity" is that tax ratio which would result if a country utilized its tax bases to the average extent they are utilized by the sample. A tax effort ratio of less than 1.0 therefore means that the country exploits its estimated tax potential less than the average, in other words, that it has a "preference" for a level of taxation below the average, or a low tax effort.

Bearing this definition in mind, we can now look briefly at the most recent IMF calculations of "tax effort". These calculations show, for example, that in 1969-71 Brazil had by far the highest tax effort, (1.806 -- that is, it collected 80.6 per cent more taxes than predicted), followed by Tunisia, Egypt, the Ivory Coast and the Sudan. In all 22 countries had an effort index greater than 1, with Ecuador, at 1.002, just squeaking over the line -- and 25 an index of less than 1, ranging from Jamaica at 0.993 all the way down to Nepal at 0.374.

The usual interpretation of these figures is that if a country has a low index one can conclude that "......the main impediment to a higher tax ratio is the unwillingness of the government to raise taxes" (Bahl, 1971, 572). In other words, an increase in taxes is judged to be quite feasible, given the country's measured taxable capacity (in the sense used above). While those who carry out these exercises are usually scrupulous in stressing that one should not pay much attention to the rank of a particular country, they have no hesitation in putting forward the calculated index as a guide to the feasibility -- not the desirability, although this inference is in practice often drawn from these calculations -- of raising additional revenues. The lower the index, the easier it should be to do so: lucky Nepal!

In reality, however, there is no merit at all in the contention that the difference between predicted and actual values in this kind of exercise measures in any meaningful way the scope for change in any particular country, or the gap that can (or should) be closed through additional "effort". The reality which is not "explained" by the independent variables is far too complex and particularistic to be captured by this kind of mechanistic approach. There is no way that "success" in levying taxes, or the lack of it, in any country can be measured by such crude methods, as anyone with experience in any particular country can testify. In short, the tax effort approach is simply not a very useful way of analyzing evidence pertinent to the assessment of fiscal performance in any country, since in the interests of simplistic comparisons most of the relevant information (for example, on political and administrative matters) is left completely out of account.

The problems with these tax effort studies -- and to a considerable extent with <u>any</u> simple attempt to obtain "objective" performance indicators -- can now be summed up in four propositions:

(1) There is inadequate <u>a priori</u> justification for the use of the selected variables as measures of taxable capacity. Furthermore, it is far from clear that this concept can be measured in any meaningful sense. The complex problem of the relation between government revenues and expenditures -- are there differences in the demand for public services, for example? -- is only one of the many problems which are obscured in this exercise.

(2) The data are very bad. Everyone who works in the comparative game recognizes this -- presumably they have all read Oskar

Morgenstern's (1963) classic critique of the data even in the most advanced countries -- but most proceed to ignore his strictures and their own intuition. One cannot really take per capita income figures seriously in most developing countries, for example, and even the fiscal data in many countries are questionable. These data problems are not trivial; they are very serious, and no one can truthfully claim to be aware of all the biases they impart to the result. In short, any policy use of these studies is therefore suspect for this reason also (Whynes, 1974).

(3) Virtually all of the work which has been done on quantitative international comparisons is cross-sectional in nature: yet the policy inferences which are drawn from, (or, in a weaker version, supported by) this work are invariably concerned with changes in particular areas. As Kuznets (1966) has eloquently demonstrated (with respect to Chenery's early work on comparing patterns of growth), there are few exercises more questionable than drawing inferences about <u>changes</u> from data on <u>differences</u>. The choice of the sample, its comparability, the possibility of technological innovation in the tax field (the value-added tax), and the problem of "tastes" and international demonstration effects -- all these suggest what a treacherous exercise this use of cross-section data is. Cross-section data may provide -- they often do -- the only game in town. But to say this does not imply what it is too often taken to do, that we should therefore play this game, or at it.

(4) Yet another problem concerns the nature of the norm which is applied in the tax effort analysis. One difficulty here concerns the <u>distortions</u> to which Tanzi (1973) has drawn attention: if the

systems in most countries are considered bad and distorted, why should an average of these systems be used as a standard? There is no meaningful sense in which the average can be considered a standard, nor is it conceptually useful -- though it may sometimes be a persuasive argument in political or quasi-political debate -- to take the average as showing what is feasible in any particular country.

A quite different point that deserves mention is the fact that the notion of effort evoked in the IMF studies is quite different from the common notion of "effort" as representing some kind of "sacrifice". The framework of a recent UNCTAD study is interesting in this respect: The average savings ratio (S/Y) is interpreted as a measure of savings performance, while the marginal propensity to save (out of expected income) is interpreted as a measure of savings behaviour, and there is really no measure of effort except an abortive measure of the ratio of domestic savings to "surplus" (non-wage) income (Robertson, 1974). It is clear that "effort" in this context must mean something very different from what it does in the tax context outlined earlier. In effect, this study interprets the effort it takes to behave in a certain way in terms of what Musgrave (1969) calls the "ability to give up", while the IMF studies really interpret effort in terms of the "ability to collect".

In fact, it may be suggested that there are really four concepts which need to be distinguished: (1) Tax performance (as measured by the adjusted tax ratio, for example); (2) Tax elasticity (as measured, for example, by the "automatic" marginal tax rate, or the income-elasticity of the tax system); (3) Tax effort (as measured, for example, by the buoyancy of the system or some other measure of the total change in the tax ratio); and (4) Tax sacrifice or burden (as measured under some sort of progressivity norm). While the terminology in this field is already so confused as to render this attempt at redefinition no doubt hopeless, it might nevertheless be of interest to elaborate slightly on the last three of these concepts.

The cutting edge of policy in the capital formation approach to growth underlying this whole subject is, for example, the marginal rate of taxation: "The most important way to ensure an automatic increase in the ratio of government revenues to gross domestic product is to have a tax structure such that the marginal tax ratio exceeds the average" (Lewis, 1966, 116) -- or in other words an income elasticity greater than unity. The primary interest of those concerned with domestic resource mobilization must therefore be in the behaviour of the tax system over time. This behaviour has two components, however, the automatic component and the discretionary component. For some purposes, it seems suggestive to think of the former (tax elasticity) as tax "behaviour", in the sense that it is a characteristic of the existing tax structure at any point in time, while the latter, which incorporates both changes in the tax structure and changes in administrative effort, might perhaps be interpreted as an indicator of tax "effort". More precisely, one measure of tax effort might be the "buoyancy" of the tax system (its historical or *ex post* elasticity) less the automatic component due to changes in the tax base. "Effort" thus defined would then measure the political and administrative efforts to increase effective tax rates or the coverage (base) of the tax system.

The importance of paying attention to these dynamic aspects of tax performance has of course often been recognized, for example, by

Chelliah (1971). Owing to data problems, however, it has not generally been possible to separate the "automatic" and "discretionary" components in the revenue series for most countries. Recently, however, useful standard methods have been developed -- again largely at the IMF -- for this purpose and applied to such countries as Paraguay (Mansfield, 1972).

While there are many problems with this statistical exercise also, the point of mentioning it here is simply to suggest: (1) that it is concerned with more policy-relevant variables than the static studies of so-called "tax effort"; (2) that it is focused properly on the development over time of a particular system -- though no doubt, as more such data is assembled, someone will begin to make international comparisons! -- and (3) most relevant in the present context, that the results may perhaps be interpreted as suggested above. The process of separating the "elasticity" from the "buoyancy" is of course analogous to that of separating "capacity" from the residual and consequently subject to some of the same objections; but it is at least more meaningful and useful for policy purposes in that it focuses in the right place, on the margin, where policy changes in fact occur. In addition, the presentation of, in effect, three indices of tax performance (the adjusted tax ratio, tax elasticity, and discretionary changes) would be a substantial improvement over the present over-emphasis on the first index -- which is probably the least meaningful -- alone.

All the measures discussed to this point are really concerned with the "ability to collect". As suggested earlier, however, there is also the relevant question of measuring the "ability to give up", for which the term "tax sacrifice" was suggested above. Any such notion as this is fraught with all the difficulties of comparing utility: yet, there appears to be a "felt need" to say something more explicit about this relationship.

Moreover, the "tax effort" studies reviewed above embody an implicit relationship between the tax ratio and income which is unlikely to be acceptable if it were explicit.

Basically, these studies embody an implicit norm of proportionality with respect to the "ability to give up". The use of the usual tax effort formula to set the underlying standard for normative purposes presupposes that the tax ratio should increase by the same amount for equal absolute changes in per capita income at all levels of income. Because this norm is in contravention of all usual equity standards -- however questionable the latter might be -- it can be argued that progressivity should be explicitly introduced into the formula. The only authors who have done this in the literature surveyed appear to be Lotz and Morss (1967), following Bird (1964). They calculated "tax effort" using a constant progressivity standard and found (a) that the calculated equation fit better and (b) that middle-income countries showed up better and high- and low-income countries showed up worse. While there is no more reason to use this particular progressivity standard for all countries than there is to use the proportionality standard (as in the usual comparisons), this early exercise does point out an important problem in this area.

Clearly, the question of how to introduce some "progressivity standard" is a highly controversial one, and no particular formulation seems particularly persuasive, even to those who find this sort of question meaningful. The only feasible approach in fact is probably to try various standards and see which one results in a ranking which looks "about right", that is, accords with one's judgment as to the right weight to be given to divergences in income levels. The problem here is therefore exactly the same as that in choosing a progressive income tax rate schedule in any particular country, and as in that case there is no easy answer. The point of raising all these issues here is simply to emphasize that the recent "effort" measures have completely ignored this question of "sacrifice" and, in doing so, have in fact adopted a "sacrifice" standard (proportionality) which would almost certainly be unacceptable to most of those who employ these measures, if they knew what was going on.

"Tax effort" as a performance indicator has been discussed at length both because this literature presents perhaps the most developed attempt to measure performance and to demonstrate the difficulty and complexity of knowing what "success" is and of measuring it objectively. As some of the suggestions made above indicate, it is by no means conceptually impossible to derive better measures of the various dimensions of tax effort than those which have been used to date in this field. But to do so will require considerably more effort on the part of researchers than has yet been undertaken -- even assuming the requisite data are available and (even more implausibly) that increased tax "effort" is indeed a meaningful "success indicator". Similar points are made in the remainder of this section, at considerably less length, about various other "objective" criteria that might be used as a basis for allocating aid.

Sectoral Criteria

The CIDA statements quoted earlier stressed the importance of attention to priority sectors as indicating the kind of development that should be aided. In addition to the general problems in all leverage exercises of knowing what should be done and ensuring that it is done without engendering undue political problems, a few additional points may be made about this approach. In the first place, it is simply impossible for anyone who has ever been engaged in government budgeting and accounting exercises to believe that any "sectoral" numbers generated through this process are worth much. Any financial expert worth his salt can quickly rearrange the figures to have half the defence budget coming out looking like public health and sanitation. Yet if the expenditure figures are not trustworthy -- at least not without a kind of detailed general auditing that is surely inconceivable -- on what other basis could direct leverage be exerted on sectoral priorities?[29/]

Perhaps the answer lies in ignoring how government spends its money and looking at the results. How many children are in school? How many hospital beds per 1,000 population? These are the kinds of "results" which can be monitored (through, of course, the same faulty and incentive-distorted statistical screen). One problem with this approach is that such numbers can tell us nothing, or perhaps even the opposite to the truth, in the absence of information about what happens in those schools and hospitals.[30/] Another problem is that allocating aid on the basis of such measures of "success" is likely to reward most those who need help least -- unless, of course, one has postulated some appropriate "norm" for each country, that is, gone through the same perilous exercise as in the tax case discussed earlier.

All in all, no direct set of sectoral conditions on aid seems either desirable or feasible. This does not mean, however, that aid cannot influence the sectoral composition of recipient country activities. On the contrary, the mere existence of certain forms of aid influences both general and sectoral policies, quite apart from any explicit conditions to this effect. Moreover, this indirect (market) influence of aid may act to counter (or reinforce) any explicitly intended influence.

A classic, though mistaken, instance of concern on this account concerns the oft-alleged "failure" of project aid on the grounds that the resources thus made available may in fact be used to finance projects other than that explicitly aided (Singer, 1965). The fungibility of funds makes this outcome a possibility, of course, but it remains true that except in the most extreme cases project aid will encourage more expenditure (local plus aid) in total on the aided project (or, for that matter, program) than would otherwise has been incurred (Bird, 1967).

As noted in the Appendix, some leverage in this sense is inevitably exerted through the "spending power" of the richer government in even the most truly cooperative arrangement. The question is really whether this power is to be used consciously to alter the priorities of the recipient government -- as was the intent, and result, of the major federal-provincial shared-cost programs in Canada, for example. The discussion on the rights and wrongs of this approach within Canada should suffice to indicate something of the delicacy of applying it to the case of transfers between sovereign countries. Nevertheless, the fact remains that except in the most extreme cases donors can indeed induce more of what they like by directing their aid appropriately. It further follows that the most efficient form of aid from the point of view of enforcing donor's preferences -- for instance, about what constitutes good development performance -- is that aid which is most narrowly focused on the supposed ingredients of that performance: in short, project aid (or aid to a linked series of projects, to avoid some of the more obvious pitfalls).

Project Criteria

In contrast to what many writers seem to think, then, concern for successfully conditioning aid on performance criteria leads one back to the project approach rather than on to some more grandiose "program" approach related to the "central issues" of development policy. Perhaps the major economic argument against the project approach to aid has been that it has generally been associated with financing only the import costs of projects. It is of course true that foreign-exchange expenditure on projects is more readily monitored than local-cost expenditure, but it is by no means necessary to finance project import costs only, as has been common practice.

The differential ease of monitoring occurs only with respect to input-monitoring, which is not particularly relevant in principle anyway (though it will no doubt continue to dominate in practice). More attention should be paid to such aspects of inputs as the "linkage effects" exerted through the use of local subcontractors and to monitoring performance output. As argued in Hirschman and Bird (1968), and as long demonstrated in practice in many countries, detailed foreign supervision along these lines is both feasible and, very often, acceptable,at least where grounded in admittedly superior technical knowledge.

Three other aspects of what might loosely be called "project criteria" may also be mentioned here. In the first place, a classic example of indirect leverage, in this case unintended, arises when aid agencies finance only foreign-exchange costs. Given this incentive, no matter what other condition the agency attempts to impose on borrowers, the latter are placed under irresistible pressure to favour foreign-exchange intensive activities. As Tendler (1975, 75) says, the incentives thus created ".....make the extravagant project the most rational choice for a developing country to make". This "extravagance" takes several forms: (1) an increase in the foreign-exchange component of projects; (2) an increase in the number of foreign-exchange intensive projects in program; (3) an increase in the likely future demand for exchange to service these projects; (4) a capital-intensive bias against rational use of local factors; (5) missing of opportunities to exploit "linkage" effects of local public works projects; (6) continued irrational addiction to imported products. The oft-noted prevalence of these features in the most "aided" parts of the developing world is surely sufficient evidence of the power of incentive structures -- and of the relative ineffectiveness of the many "conditions" supposed to offset these bad incentives.

Another question concerns the form of aid, whether grant or loan. Wall (1973, 100) suggests ".....that recipients of grants are more likely to be willing to listen to the advice of donors than are borrowers who know that eventually donors will insist on the repayment of their loans, regardless of the purpose for which they were used". This argument may have a certain psychological truth, but it is misleading in at least two ways. First, as indeed Wall (1973, 100) himself notes in criticism of loans, foreign loans require the generation of export earnings to be serviced. This result may not be developmentally efficient, but it does require borrowers to behave differently than they might otherwise have done. In a sense, then, the choice of loans or grants is rather like that of project or program aid: the more one trusts the borrower, the more untied the funds. Secondly, loans are seldom one-shot affairs, and both donor and borrower usually know they will be seeing each other again, and often.[31/]

The moral of this tale thus appears to be two-fold: (1) at least with regard to projects which potentially affect foreign-exchange earnings, loans exert more "indirect leverage" per dollar than do grants; and (2) once again, the central question here, as throughout this entire discussion, is really one of trust. Either one trusts the recipient to make good use of the funds, or one does not. If one does not trust him, one tries, directly and indirectly, to enforce one's own preferences. But if one does not trust him, it might well be said, what is one doing giving him money in the first place? This old version of the banker's dilemma is explored a little further in Section 6 below.

A third project-related criterion may be seen at work most clearly in the lending activities of the World Bank. Particularly in its extensive program of transport and utility loans, the Bank has long preferred to deal with quasi-autonomous public entities rather than with governments as such. Explicitly and implicitly, this preference is rooted in the desire to avoid the messy arena of politics and to conduct business in what seems to be the relatively clean-cut technocratic world of the engineer (Bird, 1977a). The Bank (and other donors) have thus for years built up and secured the autonomy of entities that are in a sense politically irresponsible (at least in the short run). The rationale for this policy often boils down to the usual argument that "it's in their own best interest", with its concomitant attributes of superior knowledge and arrogance.

What is at issue here, however, is not whether it is in "their" best interests or not; it is whether an outside agency can (should) properly judge the way in which the public sector in another country should be structured -- even to carry out an activity which both are in full agreement should be carried out. In reality, there seems little reason to carry over to the field of governmental design the Bank's acknowledged expertise in financing the construction of roads and dams.

Structural Criteria

In no other area of development performance is the problem of "an alarming tendency to 'equate self-help with accepting somebody else's judgment' " (Overseas Development Institute, 1967, 27) clearer than in the controversial area of the institutional or structural reform that accompanies (is facilitated by? a necessary precondition to?) development. As noted earlier, there has from the beginning been a marked bias towards the growth objective in its various manifestations because of the lack of any generally accepted and usable measure of "equity" or, for that matter, of successful employment policy (Williams, 1975). Even a brief look at the problems of monitoring structural performance tends to reinforce this bias.

Perhaps the most difficult and controversial of these areas concerns land reform, where there is neither any real agreement on what can/should/must be done nor any easy way to evaluate whatever has been done -- or not done (Warriner, 1969; Dorner, 1972; AID, 1971). Similar problems arise with respect to that other favourite of structural reformers -- tax reform. Even assuming one can somehow work out the "appropriate" reform package for a particular country (Bird, 1977b), it is really impossible in practice to enforce "conditions" about such things.

Indeed, a classic example of a non-enforceable condition, even one "mutually agreed upon", is the formal 1961 commitment of 20 Latin American countries to engage in "substantial" tax reform. As Bird and Oldman (1968) show in an evaluation of this experience, it is highly misleading, for example, to interpret higher income tax collections as reflecting increased progressivity: instead, what they usually reflect in Latin

America is the state of world markets. More generally, the entire role of the tax system with respect to distributive goals is even more confused and uncertain than its role with respect to saving and growth: one might well be able to work out the right package for any one country in terms of the latter, but the prospects for sensible and acceptable prescriptions on the distributive side are slender indeed (Bird, 1970b).

To say this is not to say that structural changes in such policies are unimportant. On the contrary, they are very important. The point is rather that ".....the donor should resist the temptation to measure "performance" of the recipient at frequent intervals by narrow quantitative indicators, when by its very nature such performance can be assessed only over a relatively long period of time by a combination of quantitative information and qualitative judgment" (Hirschman and Bird, 1968, 14). There is no short-cut to considered, explicit, open, and largely qualitative value-judgments in appraising the performance of any economy, whether ours or someone else's. The attempt to hide the basically subjective and normative nature of such appraisals under a cloud of numbers may be politic, but it is not scientific.

A final point on "structural" leverage may be made by picking up a minor theme of recent Canadian aid policy, the focus on "regional cooperation" by groups of developing countries (CIDA, 1975, 28). Let us consider this as an example of the possible use of leverage. Those countries which band together with others to attack common problems would then presumably receive more Canadian aid than would otherwise have been the case. The resulting inducement to cooperate may indeed have some effect in bringing about more cooperation, and if cooperation is indeed beneficial in fostering development, this use of leverage may be counted as successful.

In view of the usually great tensions among neighbouring countries in the developing world, however, the greatest success in this regard will likely be achieved where the required focus of common interest is: (a) narrowest; (b) most technical; and (c) consequently, least controversial. Agricultural research in arid lands may be a good example of cooperation that may indeed be feasible and beneficial. On the other hand, if these activities are themselves desired and desirable, it is not clear why aid to them should be made conditional on regional cooperation. In short, even where leverage may be feasible, it may not make much sense to apply it.

6. Some Concluding Thoughts

A recent OECD report contains a very judicious statement relevant to the relatively limited scope for "leverage" in aid policy:

> "In the direction of economic assistance, donor agencies should encourage developing countries to envision and, as means permit, to adopt policies for a broader distribution of the benefits of development. However, the spirit and form in which aid is managed are as important to development as its economic content. The relationship is one which must be tempered with double-pride by officials of developing countries, in building confidence in the management of their own destiny, and with double-humility by development assistance agencies. For it is, and must continue to be, the policies of developing countries which determine the mobilization of resources, the priorities for their use, the division of earned increments of income between saving and consumption, and the broader distribution of the social and economic returns from past investment. (Williams, 1976, 29; emphasis added).

The continued search for leverage "handles" by aid organizations is understandable in terms of their desire to gain more control over part of their highly uncertain environment by, so to speak, "integrating forward" into the donor country. The problem arises because this attempt, if successful, results in imperialism and dependency -- and, if unsuccessful, in outright conflict. "What is uncertainty to the donor organization is sovereignty to the borrower country" (Tendler, 1975, 109). Even if Canada's "credibility before the Third World" (CIDA, 1976, 16), enabled it to exert leverage in the first place, in the final outcome, the result of (probably unsuccessful) attempts along these lines will be to diminish its stock of credibility.

In reality, development performance, however measured, has not yet played much of a role in the allocation of aid among recipient countries, nor does it seem likely to do in the future, at least in the absence of some sort of functioning international tax-transfer system (Whynes, 1974; Bird, 1976b). The prospects for the establishment of a functioning system along these lines seem exceedingly remote at the present time, but it is perhaps worth emphasizing that, even if such a system were miraculously to be put into place the issues of precisely <u>how</u> to measure performance discussed in this paper would become more, rather than less, important.

"Charity," according to Wall (1973, 127) "is almost always based on the conviction that the charitable know what is best for the recipients of their largesse". The history of domestic transfer programs in Canada provides more than adequate documentation of this thesis. No general "automatic" income-transfer mechanism of the sort envisaged for the world by Tinbergen (1962) has yet been achieved within this country. The only reason for even dreaming that such a mechanism may be achievable, albeit on a very small scale, <u>among</u> countries is the relative unimportance, and hence autonomy, of aid on the domestic political scene. One trouble with this dream is that even aid is not completely autonomous and needs <u>some</u> support, and that support has traditionally been whipped up either on "charity" or "self-interest" grounds, both of which lead to surveillance.

Only the "reparation" approach of the anti-imperialist left (Hensman, 1971) or the "equalization" approach of a full political community can avoid this problem. The prospects of the former being acceptable to donors or the latter coming to pass seem equally remote. In short, on political as on technical grounds there appear to be no aid criteria that reflect anything more than judgment anyway and none that can avoid political problems (unless, of course, the problems were avoidable in the first place).

The requisite "double-humility" of aid agencies need not, however, preclude: (1) clear statements of the sorts of policies they like to see and which they will be inclined to reward; and (2) conscious direction of aid to those projects, sectors, and programs which (for whatever reason) they prefer. But it <u>does</u> bar them from too actively drumming up business along the preferred lines, and also, except for very unusual cases, from general budget or balance-of-payments support. Whether the internal organizational drives of, and external pressures on, aid agencies to establish "conditions" can be countered in this way remains to be seen.

In a way, what is suggested here might be considered to be a return to the "banking concept" put forth by Millikan and Rostow in 1957, before that concept became lost in the mists of "self-help". As they put it, a banker simply ".....sets certain criteria for the soundness of loans and then welcomes all customers who can satisfy him that they meet the criteria" (Ranis, 1964, 92). They assumed that the criteria in question would be "objective" and focused on aid "productivity" measured in terms of increase in output, but these assumptions are not crucial to the concept. What is crucial is "that the rules governing the distribution and use of aid should be made explicit and open to discussion among all parties concerned" and "that donor governments should seek to cooperate with responsible recipient governments, individually and collectively, in the business of promoting social and economic improvements, assisting where they are able but abstaining from the imposition of their own judgments where these are at variance with those of the recipient" (Wall, 1973, 167).

Although the authors cited do not appear themselves to have taken these strictures seriously, there seems no reason why relatively small donor countries such as Canada should not deal only with those countries with, say, "progressive social policies", as is reportedly the case with the Netherlands (Williams, 1975, 67) and, especially, Sweden, which has ".....adopted an entirely 'responsive' attitude and leaves the choice of sectors wholly to the recipients, who are themselves chosen in the light of their attitude toward social development" (Williams, 1976, 173).[32/] As the OECD report goes on to note, this approach probably does little to help those people who may need help most precisely because their governments are unprogressive: but there seems no way to resolve this "donor's dilemma" short of actively aiding and abetting political revolution, which seems hardly an appropriate task for development aid.

If for some reason Canada continues to deal with countries in whose regimes it has no trust, the recommended course is clearly to confine aid to narrowly-defined projects where there is some presumption that at least some benefits will reach the poor. Indirect leverage of this sort may be acceptable, even necessary; it is also likely to be effective. None of these characteristics hold in the case of direct leverage. Even for "progressive" regimes (that is, those in which the donor has some degree of basic trust) there is no case for direct leverage. On the contrary, the aid should be less "conditional" than in the former case, thus implying greater acceptance of recipients' preferences: moreover, there is no point to imposing conditions not directly related to the aid transfers since doing so will in all likelihood be either ineffective (if they do not want to do whatever it is) or unnecessary (if they do), and in either case counterproductive.[33/]

In conclusion, then, there is clearly no reason at all for Canada to pursue the mistaken end of attempting to condition its aid on objective performance criteria. Instead, CIDA should, within its predetermined budgetary limit, concentrate its aid on those countries which, in its qualitative collective judgement, are behaving "responsibly". This aid should, to the extent possible, be given in a relatively unconditional form, with the amount and terms being arrived at as openly as possible through bilateral (or multilateral) discussions. To the limited extent that aid is given to other countries -- "irresponsible", "non-progressive", or whatever they are called -- it should be confined to narrowly-defined projects, preferably those in which Canada has some proven technical competence and which, it is thought, will be of benefit to the poor. These proposals are unquestionably modest and no doubt they will fail to satisfy either most of aid's critics or its proponents, for diverse reasons: but they are, it appears, the best compromise between feasibility and desirability that the present state of the art permits.

APPENDIX

Lessons from the Grant Literature

It was observed at several points above that parallels could readily be drawn between certain aspects of foreign aid policy and the more general phenomenon of intergovernmental fiscal transfers. These analogies may prove particularly relevant in the Canadian context, given our considerable experience with such transfers. Many of the rationales supposedly underlying grants may, for example, be applied equally well to aid, though in full recognition of the quite different "constitutional" framework of the two kinds of payment.

For instance, one traditional economic rationale for intergovernmental transfers is as, so to speak, contractual payments for spillovers (inter-jurisdictional economies and diseconomies). Increasingly, aid recipients seem to be regarding aid transfers in this light, as compensation for damages suffered as a result of the action, witting or otherwise, of the developed countries (Hensman, 1971). In reality, however, few such grant arrangements exist in any country (whether between governments at the same or different levels) owing to the great problems encountered in agreeing on satisfactory arrangements (Breton and Scott, 1978). Accordingly, even fewer transfers of this variety should realistically be expected among disparate countries, seldom bound together by even the slenderest of formal political institutions.

Two exceptions, where aid may indeed be viewed as a requited transfer, are first, where it is in effect a payment for such direct political services as a vote in an international body or membership in military alliance and, second, more generally, where aid is seen as a quid pro quo for increased "security" (Wall, 1973, 42) or for thinking (saying) the right things. As Shoup (1969, 184) notes, a large part of aid is really a contractual payment in this sense, being either: (1) "a purchase, by the government of the donor country, of services from a foreign government, for present or potential future delivery, in order that the donor government may render certain services to its own people"; or (2) "given on condition or on the assumption that the recipient country will maintain a government committed to a political, social, or business ideology satisfactory to the donor countries". The same point was put by John Lewis as follows: ".....all foreign aid carries strings and every foreign aid relationship involves bargaining.....the question is, how acceptable are the strings and how constructive the bargaining" (Lewis, 1964, 271).

An early (and somewhat confused) formulation of this view of aid, properly defined, as a contractual payment is that of Little and Clifford (1965, 83) who argued that "the donor should, in effect, be 'buying' economic development and, as the 'purchaser', have certain (non-political) rights". The point of this definition was to distinguish such 'aid' from that given for narrowly economic or political reasons, though they did not appear to realize that there is no such thing as a non-political right. They were surely correct however, in stressing the need to make the nature of the bargain clear.

On the other hand, it may be doubted whether Little and Clifford's stress on conditions for spending aid is really consistent with their redistribution argument for giving it in the first place: this "half-way house", as they (p. 94) describe it, with "development" determining the use of aid within countries but justice (morally desirable redistribution) determining its distribution among countries, seems more likely to fall between the two stools.[34/] Indeed, they recognized this inconsistency and come down in the end to saying that both choices are really expressions of donors' preferences (p. 101).

The major explicitly stated motivation for development aid is of course the redistributive one stressed by Little and Clifford (1965). Contractual payments for "services rendered" in some sense or (more doubtfully) spillovers and stabilizing transfers may also readily be disguised as redistributive. Nevertheless, there are undoubtedly some aid flows that are truly redistributive in origin and intent. An interesting question with regard to these transfers is the extent to which they are made multilaterally rather than bilaterally. (Stabilizing and, perhaps "spillover" -- or "conscience" -- payments may also be made through multilateral agencies for similar reasons, as might contractual payments for services rendered within the "alliance" framework discussed earlier.)

Considering the analogous question in the federal context -- why rich regions that wish to aid poor regions act through a central government rather than directly -- Breton and Scott (1978) suggest two reasons: (1) coordination costs (e.g. who is to get how much) may be too high to handle at the regional (country) level; and (2) the only group which clearly gains from operating bilaterally are bureaucrats in the rich regions (countries), whose power and importance would increase with the intricacy and complication of a decentralized system. The possible importance of the second point was stressed in Section 2 above. The continued important role of multilateral aid agencies appears to reflect the importance of the first point, particularly in view of the need to be seen to share the "burden" fairly.

Another common rationale for grants is to help stabilize the level of economic activity. Many such transfers exist in the world of aid also, ranging from the IMF's oil facility to much food aid (and disaster relief in general). Although many of these arrangements are formally pivoted on humanitarian or redistributive considerations, there can be little doubt that it is also to some extent in the political and economic interests of donor countries to damp down the impact of world instability on poor countries.

Stabilizing transfers have increased greatly in importance during these last few difficult years and have been moderately successful in shielding many developing countries -- especially middle-income ones -- from the worst effects of world recession (Williams, 1976). Although one consequence of success in this regard has been a substantial increase in the debts of the benefiting countries, this problem is perhaps not as serious as it sometimes is painted, both because the accompanying inflation has reduced the real burden of the debt a bit and because further debt relief for at least some countries seems likely in the future (Bird, 1976a; Helleiner, 1977).

On the other hand, such debt-relief operations themselves constitute an important class of "stabilizing transfers": Who can deny that such operations are motivated at least as much by the desire for economic (financial) and political stability as by any humanitarian wish? To say this is not to deny the usefulness in many cases of such stabilizing transfers, but at the least it would seem wise to separate them more clearly than is sometimes done from other forms of aid. This point is particularly important in the present context because it is precisely these transfers which are most often accompanied by leverage-type conditions.

Perhaps the outstanding conclusion of the literature on using grants to induce recipients to meet donor objectives is that conditional grants, particularly variable matching grants, are in theory the most efficient way to achieve this purpose (Thurow, 1966; Oates, 1972; Musgrave, 1961). This practice may be called "indirect leverage" to distinguish it from direct leverage, or the explicit imposition of policy conditions. Although fraught by data and econometric difficulties, the numerous empirical studies summarized in Bird and Slack (1978) suggest that conditional grants in fact do appear to induce recipient governments to spend more on the aided functions than they would otherwise spend. A recent empirical study on the allocative effect of intergovernmental grants within India found that Plan grants to States for project implementation were also stimulative, as theory suggests (Bahl and Pillai, 1976), indicating that matters are no different in this regard in India than in Canada.

It thus seems safe to say that from the donor's point of view, conditional grants have generally been favoured as more efficient ways of satisfying its preferences than unconditional grants; recipients have, equally unsurprisingly, traditionally taken the opposite view. Even though, as noted earlier, not all grants can really be understood within this purposive framework (Breton and Scott, 1978), the theoretical and empirical literature on the design of grants to achieve the objectives of donors is clearly highly relevant to the discussion of using aid to "lever" recipient's expenditure priorities in particular. Unfortunately, this important argument appears to have been completely overlooked by the advocates of leverage in general and the associated "program lending" in particular. This oversight has led them on the one hand to neglect unduly the potential of aid for exerting indirect leverage and on the other hand to overemphasize the possible effectiveness of program lending.

Program lending, in the general sense of making aid available for fairly broad purposes, has been strongly supported on such grounds as: (1) the allegedly greater ease of relating aid to growth; (2) the supposed greater ease of administration; and (3) its greater degree of suitability for policy linkage (Hawkins, 1970). The first of these arguments assumes we know what we are doing (see Section 4): so does the last, which also carries with it other problems. Most proponents of program lending -- Singer (1965) and Little and Clifford (1965) in the U.K. and Nelson (1968) and the U.S. paper in Overseas Development Institute (1967) in the U.S. -- as well as some opponents (Hayter, 1971) ignore the important point made above about the relatively greater efficiency of satisfying the donor's preferences through conditional rather than unconditional aid (where the latter is unrelated to particular projects or expenditure on particular functions). As Bird (1967) pointed out, conditional aid will always be "better" in this respect unless local "demand" for the service aided is completely inelastic -- a highly improbable state of affairs. It is not hard to show that in principle neglect of the inducement effects of more narrowly focused aid may easily lead to a reduction of a donor's effective influence on recipient policy as a result of a move to program loans.

Almost all aid (other than some food aid and "disaster" relief) carries with it the condition, explicit or implicit, that the resources thus transferred be saved, that is, devoted to investment rather than consumption. Two lines of concern have emerged from this condition. The first to arise focused on the possibility that donors may "subvert" this condition by increasing consumption out of their own resources. It was this concern which led, from the donor's side, to the evolution of "program aid" in the first place and to the consequent discussion both of "leverage" and of the impact of aid on saving (and tax) effort. The second, closely related, approach led to increasingly elaborate attempts to quantify the impact of aid on savings and, more broadly, on economic growth. Although more recent work (Chenery and Carter, 1973) has cast doubt on the significance of the aid-saving relationship, there is little question that donors remain very interested in the extent to which aid affects domestic savings efforts and performance. This question therefore is central to the discussion of the text.

In the field of intergovernmental grants, too, a common aim so far as donors are concerned is to influence the general fiscal performance (or capacity) of recipients. Canadians are familiar with one variant of such a scheme in the form of the federal-provincial equalization arrangements (Clark, 1969). The purpose of these grants is to offset differences in the revenue-raising capacity of the provinces. The most recent version, introduced in 1977, takes into account 29 different revenue sources (Perry, 1977): for each source, the formula essentially takes into account the size of the revenue that would be yielded if the national average tax rate applied to that source were applied to that portion of the tax base located in each province.[35/] The actual grants are calculated as the difference between "capacity" calculated in this way and expenditure "needs" (based in essence on share of population).

The incentives created by this scheme are to raise taxes on those items in which the province has a small share of the base and to lower them on those in which it has a large share (Courchene and Beavis, 1973). That this result makes little policy sense suggests something of the difficulties of developing efficient, effective, and equitable formulas in this area, even after almost 20 years of continual experience and negotiation within a single country. A similar observation could be made on the basis of Canada's extensive experience with both conditional grants and cost-sharing arrangements.

The same conclusion emerges from all studies of fiscal adjustment in federal states: the process is long, involved, continuous, messy, and essentially judgmental and political in nature. It has not proved possible <u>within</u> Canada to work out permanent, automatic mutually-agreed-upon formulas on the basis of which federal-provincial grants may be disbursed: it therefore seems optimistic, to say the least, to expect to progress very far in this direction in the much more turbulent, confused, and unknown field of international aid.

NOTES

1. "CIDA Official Stresses Necessity for Self-Help", Globe and Mail (Toronto), 25 October 1977. It is striking that neither this comment nor the other one along similar lines noted in the text appears to recognize that food aid itself very often creates disincentive effects on domestic agriculture (Isenman and Singer, 1977). In effect, what happens in the case of food aid -- as in the case of much "program" aid for general balance-of-payments support -- is that conscious political action is often required to offset the undesired incentives created by the aid, if the net effect of the aid is to be beneficial to the recipient.

2. Reuber (1969-70), on the other hand, argued that there was fundamentally no such conflict in the long run -- although he also made it plain that if there were a conflict the developmental objective should, in his view, dominate.

3. Reuber (1969-70) argues strongly that export promotion is not, and should not be, an objective of Canadian aid policy. Nevertheless, aid's effects on exports are often cited as a major benefit from aid policy (e.g., by the President of CIDA in Oram, 1977), and there is little doubt that some aid has taken the particular form it did because the Canadian capital goods industry could supply certain products (e.g., locomotives). These factors are additional to the more general point discussed in the text.

4. Even Sweden, for some years now a relatively non-conforming member of the "rich man's club", appears to have gotten into the aid field in a rather similar way (Ohlin, 1973). On the other hand, Swedish experience shows that smaller countries have considerable latitude as to just how they allocate their aid: see also later discussion in this paper.

5. For an argument explicitly linking aid and defence spending, by a strong proponent of aid, see Reid (1969-70). (Incidentally, since Sweden is not in the NATO alliance its defence spending is, as theory would suggest, much <u>higher</u> relatively than Canada's.)

6. An earlier attempt to explain the marked decline in Canada's defence expenditures in recent years noted a number of "private goods" aspects of the basic Canadian alliance with the U.S. that required us to continue to make <u>some</u> contribution, but suggested that the perceived lowering of world tension levels in the 1960's had in fact made it possible for us to contribute less to the defence component of the alliance without alienating the U.S. too much (Bird, 1970, 154). In addition, it can be argued that our declining contribution to "security" through military expenditures has, it appears, been offset to some extent by our rising contribution to "security" through aid expenditures.

If this analysis has any merit at all, however, it should also be noted that the currently impending relative rise in military expenditures may eventually impact adversely on aid expenditures insofar as the two are perceived (however dimly) to be alternative ways of paying our membership dues in the "rich man's club" of western nations.

7. The same is of course true if one defines "development" solely in terms of, say, helping the poor or "progressive" countries, as the Swedish experience indicates. In words very similar to those used later in the present paper Radetzki (1972, 70) notes about Swedish policy: "Each LDC government has a bundle of intentions which it tries to realize, sometimes unsuccessfully, with a bundle of policy measures. Some of the intentions and policies could perhaps be classified as more progressive than others. All of them tend to change with time, partly as a result of the country's actual experiences. In these circumstances, it seems presumptious for a foreigner to be guided by current political insignia, in distinguishing between progressive countries and others".

8. It is unfortunate that the official response to this pressure is sometimes to stress the link between aid and exports (Oram, 1977), as noted earlier.

9. A number of striking examples of this schizophrenia are cited in the next section with respect to leverage.

10. If there were ever a need for A.W. Johnson's (1977) "individual" rather than "representative" approach to bureaucracy, aid is it. By the "individual" approach to bureaucratic policy formulation Johnson (1977) means that the bureaucracy seeks the best policies within constraints it itself identifies; the "representative" approach is when the constraints are each "represented" to it by other bureaucrats specialized in those areas (as in the well-known bureaucratic device of the interdepartmental committee).

11. For some interesting elaborations of the Rosenstein-Rodan approach, see Dosser (1963a,b, 1964).

12. See also Adelman and Morris (1973) for a further development of their approach, stressing the perverse effects of most development efforts on income distribution.

13. It should be noted that although the Americans led the way in the development and implementation of both leverage and program lending they were by no means the only ones to do so. The French, for example, have reportedly been extensively involved in influencing the general policies of recipients (Overseas Development Institute, 1967, 15) in what looks really to be a prolonged extension of their colonial policies (Hayter, 1966). Although the German view was apparently to reject any idea of explicit intervention, in fact their policies provide a classic illustration of what is later called in this study "indirect leverage", in this case through the terms of aid, seen as "providing a certain discipline" and "encouraging sound financial policies" (Overseas Development Institute, 1967, 16).

More broadly, the propriety of leverage was also accepted, though with markedly less enthusiasm than by AID, by the OECD's Development Assistance Committee in the mid-1960's (Thorp, 1966, Chap. 5). Further, as already noted, the World Bank also came increasingly to think along similar lines, as, in a rather different context, the IMF had done for years. The Bank-sponsored Pearson Report, for example, wholeheartedly supported the leverage idea, partly on the grounds that aid needed support in the donor countries (Pearson, 1969, 6).

14. In a quite different way, it could perhaps be argued that the Communist countries are now the primary stronghold of similar simplistic beliefs.

15. It may be worth noting again that Sweden too was reportedly sorely tempted by the thought of exerting leverage on its aid recipients, though it ended up instead choosing "progressive" partners and letting them choose the projects to be aided (Ohlin, 1973, 57-58).

16. Although this question is far from easy to answer, in essence in this case the global (donor-recipient) political community is assumed to be strong enough to permit the adoption of a commonly-agreed-upon formula. The analogy to intergovernmental equalization transfers within a country is obviously strong (see Appendix) -- though the mere mention of this analogy surely indicates the improbability in present world conditions of satisfying the assumptions underlying this approach. This weakness may be deplorable, and should doubtless be fought; but it cannot be ignored.

17. It is true that the "reward" route -- which is, in the end, that favoured in the present study also -- too is not without its dangers. Some of the difficulties may be illustrated by quoting a remark attributed to George Kennan: "I do not think we should ever give economic aid where there is any tinge of pressure or blackmail. When anybody says to you 'Give us this or we will go Communist', the chances are they will not do it; and if they are so crazy as to do it, they are not worth aiding" (Schelling, 1957, 133). Millikan and Blackmer (1961), only a few pages after similarly arguing that aid

must not be given in response to "blackmail" (p. 120), in effect threaten the withdrawal of aid from countries "which choose to derive marginal advantages from the cold war or to exploit their potential for disrupting the security of the world" (p. 137).

Let us now reverse this approach from a recipient's point of view: "I do not think we should ever accept economic aid where there is any tinge of pressure or bribery. When anybody says to you, 'Don't do things we do not like and we'll give you this', the chances are they do not mean it, and if they do, they are not worth dealing with". The point here, of course, is that a "reward" may also be interpreted as a bribe, a reverse threat, or in its own way a kind of "blackmail".

18. Note that this is in sharp contrast to the common argument of the "dependence" writers, who see donors <u>and</u> leaders as being in league against the people.

19. A recent statement by the Managing Director of the IMF on the "basic principle of Fund conditionality" suggests that things have not changed much in this regard (<u>IMF Survey</u>, 10 October 1977, p.320).

20. A beautiful example of this sort of "double-think" occurs in David Wall's recent book on foreign aid. Within the space of a few pages he first deplores certain "threat structures" lying behind aid and notes, quite correctly, that "coercion is not aid; rather it is unacceptable involvement in the affairs of economically and militarily weaker countries" (Wall, 1973, 105). This is, of course, in full agreement with the position taken here. He then goes on, however, to note "that where recipient governments are seen to be following

policies all of which are detrimental to the welfare of the poorer sections of their communities, they should be removed, forcibly if necessary, and the opportunity given to the poor to seek the improvements in their lot which they desire" (p. 167). Wall's "anti-leverage" position thus brings him full circle to the very strong leverage position taken by Higgins (1962), as cited earlier. Consistency does not appear to be a strong feature of the aid literature.

21. It is interesting to note that North Vietnam and Cuba refused "program aid" from Sweden (though they accepted some project aid) because they did not want to have foreigners involved even peripherally in their central planning decisions (Ohlin, 1973, 58).

22. The recent concern with such aspects of development as employment and distribution makes it clearer than ever that the macroeconomic aspects of particular policies are often less important that their program effects: see, for instance, Bird (1975), for an example of how complex the question of policy design -- of just what constitutes a "good" policy -- becomes when one takes the employment objective alone into account. See also Berry and Urrutia (1976) and Meerman (1977) on the effects of education on income distribution.

23. This volume summarized the results of a series of country studies carried out for the Development Centre of the OECD. More recently, the National Bureau of Economic Research has issued ten further case studies along similar lines, as well as two concluding volumes, in a series on "foreign trade regimes and economic development".

24. See, for example, the IMF's reviews of experience in Greece (Gerakis, 1966), The Philippines (Savkar and Ahrensdorf, 1967), Mali (Reichardt, 1967), Spain (Hardy, 1968), Panama (Larravide, 1970), and Tunisia (Calamitsis, 1970).

25. Incidentally, in the design of any leverage program it would of course be feasible to graduate the accompanying reward or inducements: this aspect is, however, not further discussed here, and it is assumed throughout that either aid (on some fixed terms) is disbursed or it is not. Present Canadian policy is actually to vary the terms of aid with the economic conditions of the recipient country (CIDA, 1975, 30) rather than its "effort".

26. For a more extensive consideration of this question, see Bird (1976b) on which the following is largely based.

27. These figures exclude social security taxes, but other studies suggest their inclusion would not alter the results much.

28. The quotations are from various IMF publications: see Bird (1976b) for full citations.

29. Those who would go to some kind of performance or output accounting are even more out of touch with reality: see Waterston, 1965; Carden and Wildavsky, 1974.

30. Perhaps the most careful study yet of such questions has recently been completed for the World Bank (Meerman, 1977). Despite the years of effort and considerable resources put into this study, the results still leave many questions open and indicate how much more difficult monitoring is in practice than in theory.

31. For stress on the influence loans exert on debtors' behaviour see paper by German Federal Ministry for Economic Co-Operation, Overseas Development Institute, 1967.

32. In addition to the earlier references to the Swedish experience, see Edgren (1972) -- who also shows full awareness of the notion of "indirect leverage".

33. A quite different point which might be made finally is that few participants in the interminable discussions of aid appear to have considered the possible advantages of avoiding donor governments as intermediaries in the process of transferring resources from rich to poor countries. The main such advantage identified in one treatment of this issue was in fact to bypass the highly political government-to-government dealings always inherent in bilateral aid, with secondary advantages being the more direct involvement of individuals in the donor countries in the aid process and the better reading of public opinion on aid that could be obtained through the recommended device -- direct indication by taxpayers of the precise percentage, if any, of their income taxes that they wanted to go to foreign aid (Hirschman and Bird, 1968).

It is perhaps not surprising that no government appears to have been much attracted by the idea of thus introducing a little "direct democracy" into the aid process though the lack of interest by non-government aid boosters is harder to understand. Nevertheless, it is significant that the conclusion of Tendler's (1975) recent study of the organizational pressures distorting U.S. aid policy was really that only through some such device as this could a way be found out of the continual and damaging pressure to impose our order on their world. Further exploration and elaboration of the ideas sketched out roughly in this "tax credit" proposal of a decade ago might, it appears, be more rewarding than still more fruitless attempts to monitor and control the pace and quality of recipient government activity. This subject cannot, however, be further discussed in the present paper.

34. Again, see the discussion in earlier footnotes of the evolution of Sweden's aid policy.

35. Although it would be moderately simple (Clark, 1969) to take into account some measure of the actual performance or "effort" of each province, this is not in fact done in Canada.

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