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Politics v. Economics in Capital Aid

Part of the criticism levied against development aid is the oft-repeated reproach that in the case of almost all donor countries the means they allocate for capital aid have ceased to grow. Therefore, with the gross amount available from donor countries remaining virtually constant while repayment liabilities of the recipient countries rise, the net amounts of aid decrease. The conclusions which the developing countries draw from this trend are as simple as they are in the last resort erroneous: In their view their development problems arise exclusively from too little capital aid and this leads them to criticise all the more severely the donor countries for their reluctance to pay.

Such an interpretation confuses cause and effect and reveals a political argument of questionable validity. The Scientific Advisory Board of the Federal Ministry for Economic Cooperation has recently looked at some of the practices that have grown up in this field—practices which have become dear to donors and recipients alike—and has put them in proper perspective.

The demand for constant or even rising net capital aid for a single developing country is a case in point. It makes sense only when it is made in relation to capital aid which is rendered unconditionally and for political reason. As far as economically orientated capital aid is concerned, any net aid is determined, not only by the amount of the money invested, but also by its effectiveness in developing the country concerned, the recipient country's own efforts and the terms on which the aid is granted. The amount of the net aid is by itself no criterion by which to judge the amount required.

Any aid policy that is predominantly or exclusively motivated by political considerations always tends to take the form of outright grants or interest-free loans for extremely long or even indefinite periods. Little thought is given in these cases to the selection of suitable projects that fit into a general development programme. There is no incentive for the recipient country to help itself; only when interest and redemption payments have to be made does the need for effort become evident. Moreover, a policy of boundless generosity disguises the limited absorptive capacity of the developing countries, turning them into permanent debtors, depending forever for their livelihood on the industrial countries. Donor countries are all too often guilty of failing to ascertain how much aid recipient countries are actually capable of absorbing.

Capital aid granted on economic principles is strictly guided by the possibilities that exist for development in a given country. Such a policy does not rely exclusively on criteria like the profitability of individual projects, but takes into account all the relevant economic and social effects of the aid on the whole of the country. Economic principles make it imperative to pay due regard to the limits of the absorptive capacity of the developing countries, for their excessive indebtedness must be taken seriously as a sign that a change in aid policy is indicated.

It is beyond doubt that development aid was originally set in motion for political motives, with economic reasons coming to the fore only gradually. But as long as bilateral aid continues to play a dominant part, the process of turning development aid into an economic proposition is bound to make only slow progress. As relations between two countries in their capacity of donor and recipient proceed predominantly from special political ties and aims, it would seem advisable to grant capital aid increasingly on a multilateral basis through the medium of international organisations, for in this manner aid can be applied where it does most good. The developing countries would certainly be better advised if, instead of constantly clamouring for more and more aid, they got the donor countries to change over to multilateral aid.

Wolfgang Reisener