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Aid and Donor Countries' GNP

by Professor Hans W. Singer, Sussex * and Mohinder L. Puri, London **

The authors try to test statistically whether the flow of resources between poor and rich countries has in fact conformed to the "1 per cent" target defined by the United Nations. Basis for testing several hypotheses are data published by the Development Assistance Committee (DAC) of the OECD.

The idea of the "1 per cent" aid target has historical roots back in the fifties and was taken up by President Kennedy in early 1961 in a recommendation of a group of economic advisors; it formed part of the proposals for the first United Nations Development Decade of the 1960s. To have usefulness the target had to be defined in precise terms. At this time it became clear that the target proclaimed turned out to be a misnomer since it did not relate to "Aid" but to the total flow of financial resources from rich to poor countries. The target was originally defined as a flow of 1 p.c. of the national income of each donor country; subsequently — at the second UNCTAD Conference in New Delhi in 1968 — the target was changed to 1 p.c. of the GNP of each donor country.

Splitting up into Sub-Targets

Since this flow includes private investment, guaranteed export credits and hard loans at commercial rates of interest, it was realised that the target needed splitting up into sub-targets to identify the real aid and the flow of financial resources. The clarification of the distinction between real aid and the total flow of financial resources originates from the Pearson Commission's recommendation to establish, as a sub-target within this "1 per cent" overall target, 0.7 p.c. of the GNP as the flow of public aid, and the implicit additional target of 0.3 p.c. of the GNP as private investment, export credits and so on.

In this paper we are trying to test statistically whether the flow of resources has in fact conformed to the "1 per cent" target. Here two points need clarification. First, the shift from the national income basis to the GNP basis introduces a com-

plication. However, this complication is only minor since for statistical purposes we can assume that the GNP (although some 20 to 25 p.c. higher than national income) will, in fact, move very similarly to national income, since depreciation etc., of existing capital may be safely assumed to be a practically constant proportion of GNP. Therefore for purposes of statistical testing we have, without much worry, used GNP data for the whole decade.

Secondly, there may be some doubts about lumping together official aid, private net flows etc., into one single composite target figure, but again these doubts need not really worry us here. We are merely trying to test whether in fact the total flows concerned have been influenced by the moral commitment represented by the target, whether or not the original commitment made much sense.

Questionable Figures

The following data are based on the publications of the Development Assistance Committee (DAC) of the OECD and relate to the 16 member countries of the DAC. The figures are readily available from the annual Review of Development Assistance published by DAC from the OECD accounts of national income for the OECD member countries¹. No attempt has been made to correct the figures or adjust them in any way. Thus, for example, the high aid figures reported for Portugal and France have been reproduced without adjustment, even though in fact much of it may be in the nature of grants and administrative expenses in respect of Overseas Departments etc.

While uncritical use of the OECD figures may reduce the value of some observations based on them, there is a mitigating factor in that the fol-

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¹ United States, Canada, Australia, Sweden, Switzerland, United Kingdom, Denmark, France, Germany, Norway, Belgium, Netherlands, Austria, Italy, Japan, Portugal.

lowing note is mainly based on comparative data for the beginning and for the end of the decade of the 1960s. Thus similar biases in the reported figures for 1960–1969 may be assumed to cancel out to some extent in any discussion in terms of incremental changes during the decade.

We may begin by examining a simple hypothesis. During the decade of the 1960s, the UN proclaimed a target for the flow of total financial resources to the LDCs of 1 p.c. of national income (subsequently, in 1967 raised to 1 p.c. of GNP). This target was accepted in principle by the donor countries, and in fact part of the work of DAC was oriented towards the implementation of this target. In statistical terms, by failing to relate the share of GNP, expected to flow from individual donor countries to LDCs, progressively to the varying levels of per capita GNP of the various donor countries, the UN target set up the share of GNP represented by financial flows to LDCs as a constant (i.e. 1 p.c.) unrelated to per capita GNP. Thus if the target had been effective over the decade we would expect:

that at the end of the decade the correlation between per capita GNP and the share of GNP flowing to LDCs would be zero; and

that over the course of the decade this correlation coefficient would move in the direction of zero.

Heavier Burden for Poorer Countries

A simple test shows that none of these expectations was in effect satisfied. The correlation in 1960 between per capita GNP and total flows as percentage of GNP was $r = -0.21$, while in 1968² it was $r = -0.43$. It thus appears that the movement during the decade has in fact been away from the hypothesis of zero correlation; the mild negative correlation at the beginning of the decade has, if anything, become more pronounced (even though by itself it is statistically not clearly significant). Moreover, the negative sign of the increased correlation means that there is a tendency for the relatively poorer OECD countries to transfer a relatively higher share of their GNP to the LDCs. The spirit, if not the letter, of the UN 1 p.c. target would presuppose some progressive rather than regressive relationship, in the sense that the richer OECD countries should find it easier to reach or maintain the 1 p.c. target than the poorer OECD countries. Considering therefore, that the total target was not fulfilled in 1968 and that the total flows declined from a simple average of 0.97 p.c. for the 16 DAC countries

² To avoid random fluctuations the figures for "1960" are in fact the averages for 1959–1961 and the figures for "1968" are in fact the averages for 1967–1969, throughout this paper.

in 1960 to 0.85 p.c. in 1969³, we would have expected the richer countries to improve on their performance, and *vice versa*. In fact, the exact opposite has happened, and the chief explanation would seem to be the more rapid growth rates of the GNP of the poorer donor countries.

Ineffectiveness of the 1 p.c. Target

Thus our first conclusion must be: there is no indication that the 1 p.c. target has been effective. Over-all average performance has moved away from the 1 p.c. target; the poorer donor countries have tended to do better than the richer donor countries and in this sense there is a negative rather than a positive link between transfer capacity and the share actually transferred; and finally the movement has been away rather than towards the establishment of the share transferred to LDCs as a constant, i.e. 1 p.c.

This simple test may be repeated separately for the two components of the total flow of financial resources to the LDCs, i.e. aid or official development assistance on the one hand, and private investment on the other hand. The results confirm those previously reached. Official development assistance, expressed as a share of GNP, moved from a correlation of $r = -0.20$ with per capita income of donor countries in 1960 to a more pronounced negative correlation of $r = -0.39$ in 1968. Similarly, private flows moved from $r = -0.02$ in 1960 to $r = -0.19$ in 1968. Hence the statement which was previously made concerning the apparent ineffectiveness of the 1 p.c. target can also be made separately for the components of the total flow. It should be remembered of course that during the decade of the 1960s, there were no explicit sub-targets, corresponding to the 1 p.c. target, separately for official aid or private investment. The 0.7 p.c. target for official aid has been established for the next decade of the 1970s, but performance during the 1960s does not give much encouragement that it will be effective. It is worth noting that private investment seems to come closer to being a constant fraction of GNP — unrelated to the level of per capita GNP — than is the case with official aid, but this can hardly be described as the result of any deliberate target; this would affect private investment only in a round-about and marginal way.

Growth and Transferred Share of GNP

Another test which we might make is to correlate the growth rate of per capita GNP of the 16 countries during the decade with the change in per-

³ This, it should be repeated, is the simple unweighted average performance of each OECD country taken separately as an equally important test for the effectiveness of the 1 p.c. target.

centage of GNP transferred to developing countries. From the point of view of relating donor capacity to the burden of resources transfer, one would expect this relationship to be positive, i.e. the most rapidly growing countries would tend to increase their share of GNP transferred to LDCs more (or rather diminish it less) than the less rapidly growing countries. As far as the specific 1 p.c. target is concerned, however, one would expect a zero correlation since the percentage of GNP transferred to LDCs is set up as a constant. This hypothesis is in fact much better satisfied than the first hypothesis. The correlation between growth of per capita GNP and percentage of GNP transferred is pretty close to zero — $r = +0.10$ for total flows, $+0.04$ for official aid and $+0.04$ for private investment. The sign (for what it is worth) is positive, but the essential point is that the correlation is practically zero. There is thus no evidence that increased transfers or aid have been progressively associated with increased

donor capacity, except for the mildest trace. On the other hand, there has been a rough incremental achievement of the target in the sense that additional transfers or aid did in fact come close to representing a flat rate tax on additional incomes.

Contradictory Results

The two results of our two simple tests require some reconciliation. On the one hand, the negative correlation between per capita income and share of transfer and aid in GNP has been intensified during the decade. That is to say the relatively poorer OECD countries tended increasingly to carry a relatively heavier burden of transfer and aid (Test 1). On the other hand, there was virtually no association between incremental rate of growth of per capita GNP during the decade and the burden of transfer and aid. The reconciliation of this apparent contradiction may be sought in the well-known fact that during the

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decade of the 1960s the relatively poor OECD countries (specifically of course Japan and Italy) tended to have faster growth rates of GNP than the relatively richer countries (typically US and UK). It will be readily seen that this provides an explanation of why during the First Development Decade of the 1960s the faster growing countries tended to increase their aid faster, and yet at the same time in the overall picture the relatively poorer countries carried a heavier share of the total burden at the end of the decade than at the beginning. The rate of growth of GNP per capita was positively correlated with the rate of growth of the total flow of resources (as distinct from the percentage share to GNP of the total flow) to the mild degree of $r = +0.26$. Since it was the poorer countries which had the faster rate of growth this helps to explain the results of Test 1. The *growth rate* of GNP seems to have been more effective determinant of aid than the *per capita level* stipulated in the UN targets.

Equalisation of Shares

One final test may be made: if the concept of burden-sharing among donors as symbolised by the existence and activities of DAC, and implicit in the 1 p.c. target, were in fact operationally effective during the decade, we would expect the hypothesis that the differences among donor countries in the burden of transfer (as measured by percentage of GNP) would have diminished during the decade. This hypothesis is clearly born out by the figures. The differences in the aid burden carried by the OECD donor countries - as measured by the dispersion of the percentages of transfer of resources to LDCs around the average - were in fact clearly reduced. The corresponding dispersion for total flows was 0.55 p.c. of GNP in 1960, but fell to 0.30 p.c. in 1969. For official aid, the corresponding fall was from 0.48 p.c. to 0.33 p.c.; for private investment from 0.38 p.c. to 0.25 p.c.

We may thus conclude that the idea of burden-sharing and measurement of comparative performance based on GNP shares was most effective during the First Development Decade in the sense of *equalising* the performance of donor countries. That is to say that the donors carrying a big burden reduced their transfer and aid relatively to those donors which had been carrying a smaller burden. In this sense, but in this sense only, the target was effective - not in reaching the 1 p.c. target, not in any way in adjusting the distribution of aid to real capacity, but only in making the distribution of aid more "equitable" (in the sense of more equal) among the different donor countries.

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