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Parkinson's Law and Absorptive Capacity

by George C. Abbott, Glasgow*

Parkinson's Law, or the principle that work expands to fill the time available for its completion and that the number of subordinates multiply at a fixed rate regardless of the amount of work produced was postulated by Professor Parkinson as a satire as well as a serious social comment on the development and growth of bureaucracy. Over the years it has come to be used as a shorthand expression for the inefficiency and mindless expansion of officialdom.¹ Absorptive capacity, on the other hand, is defined as the amount of capital which a country can utilise productively in the short run. This article analyses the relationship of these two concepts in the context of development aid.

Most economists, insofar as they pay any attention to Parkinson's Law, see its funny side but not its serious one. By way of contrast, the concept of absorptive capacity has been widely researched and much good work has been done to incorporate it into growth theory.² No attempt has however been made to relate the two concepts which, on reflection, are not all that far apart. The former exposes bureaucratic inefficiency and the uncontrolled growth of public expenditure. The latter attempts to measure the efficiency of capital investment expenditure. In their respective ways each deals with the efficient allocation and utilisation of resources.

The Achilles' Heel of Foreign Aid

Why then do economists concentrate on one and not the other? Can bureaucratic inefficiency and making work for work's sake be separated from the problem of resource allocation? One area of public expenditure in which these questions are of crucial importance is foreign aid. The anti-aid lobby argues that many developing countries get more aid than they can use productively, and that much of it is wasted on uneconomic projects or used to perpetuate and sustain a useless bureaucratic super-structure, all of which fits very comfortably within the purview of Parkinson's Law.

The case for cuts can also be made on the basis of the low absorptive capacity of the recipient countries. Briefly, the argument is that there is a definite limit to the number and range of public sector projects which can be effectively financed, and that this limit is reached sooner rather than later in the developing countries. Once it is reached, funds are then diverted to sub-

marginal and non-viable projects, mainly in an attempt to utilise unspent balances and to maintain existing levels of bureaucracy. In other words, Parkinson's Law takes over once the recipient country reaches its absorptive capacity.

If developing countries are getting more aid than they can use productively, then present levels of disbursements ought to be reduced. This holds whether one views the problem in terms of absorptive capacity or Parkinson's Law. However, such a conclusion is totally at variance with the view expressed by several eminent scholars and leading international organisations that the developing countries' absorptive capacity is much higher than is commonly assumed, and additional aid disbursements will not only increase it, but lead also to faster development.

Clearly there is a problem here. Both views cannot be right at the same time. Either the developing countries are getting more aid than they can use productively, or they are not. If the former is the case, then a reduction in total disbursements will *ceteris paribus* reduce the scope of operations for Parkinson's Law, and lead to greater efficiency, higher productivity and faster development. If on the other hand, the latter is true, greater efficiency, higher productivity and faster

¹ For an elaboration and illustration of the principle see C. Northcote Parkinson: *Parkinson's Law: or the pursuit of progress*, London 1957, reprinted 1960.

² See for example, John H. Adler: *Absorptive Capacity: The Concept and its Determinants*, The Brookings Institution, Washington, D. C., June 1965; Joel Dean: *Measuring the Productivity of Capital*, in: *Harvard Business Review*, Jan./Feb. 1954; H. S. Ellis, M. Wallich (eds.): *Economic Development for Latin America*, St. Martin's Press, 1961; H. Chenery, A. Strout: *Foreign Assistance and Economic Development*, in: *American Economic Review*, Vol. 56, No. 4, 1966; and J. Bhagwati and R. S. Eckaus (eds.): *Foreign Aid*, Penguin Modern Readings, 1970.

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development would seem to follow from an increase in aid funds.

However, it is not clear what this does to Parkinson's Law, i. e. whether it invalidates it or not. It does not necessarily follow that more aid which is used productively, and which increases a country's absorptive capacity will reduce the scope for Parkinson's Law. It could just as easily increase it. Parkinson's Law could in fact, be the natural corollary of the concept of absorptive capacity. Consequently, the higher a country's absorptive capacity, the greater its propensity to establish an aid bureaucracy with all its attendant inefficiencies. In a period of retrenchment and calls for less public expenditure in donor countries this makes bureaucracy the Achilles' Heel of foreign aid. The purpose of this article therefore is to try to establish the nature of the relationship of the two concepts, and to spell out the policy implications of moving from one to the other.

The Concept of Absorptive Capacity

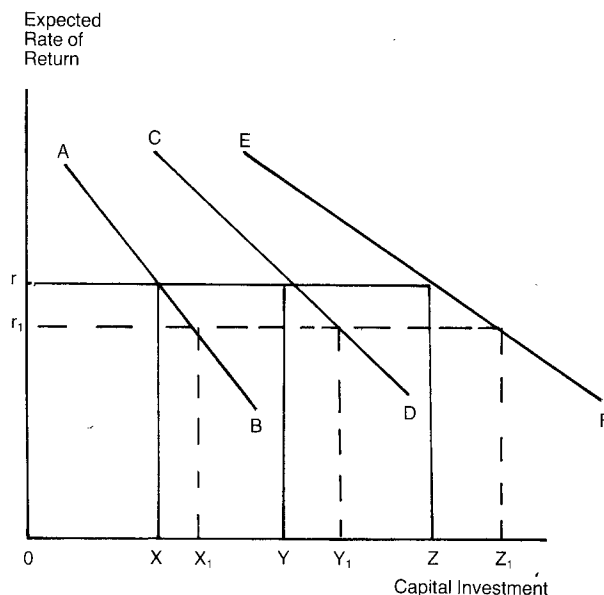
Defined as the amount of investment capital which a country can utilise effectively in the short run, the concept of absorptive capacity is essentially a short-run phenomenon. Basically it is determined by the marginal efficiency of capital (MEC) which Keynes described as "equal to the rate of discount which would make the present value of the series of annuities given by the returns expected from the capital asset during its life just equal to its supply price".³

The MEC thus expresses the relationship between the level of profit which an investor expects to earn on his investment and the going rate of interest, the supply price of capital. If investors regard a particular country or form of investment as risky and uncertain, they will demand a high rate of return on their investment. This will push up the market rate of interest which the host country will have to pay in order to attract them into the country. Faced with a high rate of interest, host countries will demand less capital which, in turn, reduces their ability to use capital productively and ultimately, their absorptive capacity.

The relationship between MEC and absorptive capacity is shown in the following diagram.

Three separate schedules are shown mainly for purposes of comparison and market differentiation, and it is assumed that the different countries compete for the available investment funds at the going rate of return.

The Relationship of Marginal Efficiency of Capital to Absorptive Capacity



The first schedule (AB) represents the MEC of the least developed of the developing countries (LLDCs), the second (CD) that of the newly industrialising countries (NICs) or the most developed of the developing countries, and the third, that of the developed countries (DCs). With an expected rate of return of r , the LLDCs will have an absorptive capacity of OX units of capital investment. For the NICs the amount will be OY , and OZ for the developed countries. If the rate fell to r_1 , the absorptive capacity of the three markets would be OX_1 , OY_1 , and OZ_1 respectively. Similarly, a rise in the expected rate of return above r would result in a contraction of the absorptive capacity of the three groups.

In a competitive market situation the major share of investment funds will be channelled to the DCs since these countries have the highest absorptive capacity. The amount which the LLDCs will be able to attract will be minimal and residual. This is consistent with empirical observation and risk analysis. What it means in practical terms is that those countries which are most in need of funds for development purposes are least able to attract them. The problem therefore is how to increase their absorptive capacity so that they can compete effectively with the other groups for the available investment capital.

In terms of the diagram this can be represented as shifting their MEC schedule (AB) outwards. When it coincides with that of the NICs (CD), an expected rate of return of r will attract the same amount of capital in both

³ J. M. Keynes: *The General Theory of Employment, Interest and Money*, New York 1936, p. 135.

groups of countries. Similarly, raising the absorptive capacity of the NICs will involve shifting their MEC schedule (CD) outwards to correspond with that of the DCs (EF). The market will be in a position of equilibrium when the MEC schedules for the different groups correspond.

However, such a condition cannot come about spontaneously within the specifications of the model. In a competitive market there is no reason why capital should move from countries with a high absorptive capacity (DCs) to those with low absorptive capacity (LLDCs), or why investors should be prepared to accept a lower return of their investments by placing them in the developing countries when they could get a higher return elsewhere. The flow of investment is thus one-directional. It can only be reversed if measures are taken to raise the absorptive capacity of the poorer countries.

Attracting Foreign Investment

Basically, this involves increasing their ability (1) to attract more foreign investors, and (2) to use capital more efficiently. The former is not a difficult operation. Foreign investors can always be persuaded to invest in a country if the terms are sufficiently attractive. At present all the developing countries to a lesser or greater extent, offer generous terms to foreign investors. It would simply be a case of providing additional inducements, tax incentives, higher capital allowances, and so on. These will of course increase the cost to the host countries in terms of the resources tied up in the administration of schemes and tax revenues forgone, something the majority of them can ill afford.

Further, the developing countries compete with each other in order to attract foreign investment, often with disastrous consequences to themselves. In their attempt to outbid each other, they invariably sell themselves short, and end up having to pay a higher price than necessary. Costs are inflated, scarce resources misallocated, and the foreign investor gains handsomely. However, the terms on which he enters the country reflect his perception of the risks of investing in that particular market. If these change, and in the developing countries they are likely to do so abruptly and quite dramatically for a variety of reasons, then he will revert to standard market analysis, in which his profit

expectations equals the rate of interest prevailing in the international capital market as a whole.

Taking a wider view of the market will cause him to withdraw his capital from the developing country and place it in the developed countries, where the operation of efficient capital markets ensures that the marginal investment earns the same rate of return in all countries. In effect, the lower the country's absorptive capacity, the smaller the inflow of capital. One is therefore back where one started, except that the developing country, having established service institutions, public corporations, state enterprises and other para-statal organisations for administering its policy of attracting foreign investment, is left with the nucleus of a massive bureaucracy. Like all bureaucracies, once it gets established, it perpetuates itself. It will create work for work's sake, thus conforming to the basic tenets of Parkinson's Law. A policy which starts out as a well-intentioned attempt to attract foreign investors and so increase the country's absorptive capacity thus ends up as an exercise in building bureaucracies.

Constraints of Absorptive Capacity

Using capital effectively is essentially a matter of ensuring that the investment pays for itself over its lifetime. Conventionally, a discount rate of 10 % is used to determine whether or not an investment project is viable. If the expected rate of return exceeds this figure, the project is considered viable, and undertaken. Conversely, if it is less than 10 % then the investment is not viable, and should not be undertaken.⁴ However, rates of return vary from country to country, between sectors and individual projects, as well as over the lifetime of individual projects. The decision whether or not to undertake a particular investment project cannot, therefore, always be finely balanced in terms of its financial and economic returns at the outset.

Further, there are many projects, particularly in the public sector, which are socially desirable, but which on the basis of their expected rate of return alone would never be undertaken. The concept of absorptive capacity does not in fact allow for the divergence between social and private rates of return. Consequently, many essential social investment projects like health, education and social welfare would be excluded, notwithstanding their high rates of social return. In the context of the developing countries this could well prove counter-productive in the sense that failure to invest in these projects could reduce the country's overall capacity to utilise capital efficiently.

There are other public projects which are necessary in order to get development going, and to provide the

⁴ In these days of double-digit inflation a 10 % discount rate would probably be considered unattractive to many investors, in which case one would have to apply a higher rate of discount, perhaps even use a discount rate in real rather than in money terms. Whatever figure one chooses though, the rate of discount is no more than a first approximation of the cost and effectiveness of an investment project.

conditions for private capital to develop the country's resources. Many of these so-called infra-structure projects yield no rate of return as such, and on a strict interpretation of efficient capital utilisation ought not to be undertaken. Such an interpretation would however ignore the complementary effect which these public projects have on private capital, and the valuable contribution which they make towards shifting the MEC schedule of private investors.

Another major constraint on their absorptive capacity is the acute shortage of professional and trained personnel with the appropriate skills and technical competence to identify viable investment projects, to prepare and evaluate the necessary technical, engineering, economic and other feasibility studies, and to implement and maintain these projects once they have been approved.⁵ The government, being the largest employer as well as the prime agent in the development process, invariably pre-empts a substantial proportion of the country's professional and trained personnel. Consequently, investment opportunities in the private sector are often not properly assessed nor the benefits of foreign investment and technological improvements realised. Obviously the developing countries should train additional personnel and equip local industries to utilise investment capital more productively, but this takes time, and will only increase the country's absorptive capacity in the long run.

Other constraints include market imperfections and structural rigidities, institutional factors, unrealistic rates of exchange, political considerations and outmoded methods of production. The majority of developing countries do not have the ability and flexibility to adapt to the requirements of rapidly changing technologies and innovative processes. Cumulatively, these factors impose severe constraints on the ability of the developing countries to utilise capital productively, particularly in the short run, the period to which the concept of absorptive capacity relates.

The Role of Foreign Aid

Foreign aid was supposed to help to remove these constraints and so increase their absorptive capacity. However, economists differ as to the effect which aid funds have had on the recipient countries. Some argue that they have provided social development, built roads, bridges, harbours and other forms of infrastructure, while technical assistance has helped to train local personnel and provide higher levels of skills, all of which have helped to raise the absorptive capacity of the recipient countries. Food aid, for its part, has fed

millions of starving mouths, and helped to sustain faltering economies. Others claim that instead of increasing the level of domestic savings, they have replaced them, allowing the latter to be invested abroad.

It has also been argued that instead of creating additional investment opportunities, aid has been used for consumption purposes, thereby further increasing the country's dependence on it. There are many who see nothing wrong with this particular strategy. Then there are some who claim that many governments use aid as a soft option. Instead of taking painful political decisions, they rely on aid to get them out of their difficulties. Finally, there are those who argue that aid is bad, that it creates dependence, encourages waste, corruption and venality, and should be stopped.⁶

There is an equally bewildering array of motives for giving aid. Aside from the moral and humanitarian reasons such as helping the poor and relieving sickness and suffering, these range from economic self-interests of securing markets and expanding business and trade opportunities to military, strategic, political and ideological considerations.⁷ However, none of these has anything to do with raising the absorptive capacity of the recipient country. They place the interests of the donor first. Their primary objective is to secure some particular advantage for the donor or to deny it to political opponents.

There have been times of course, when the interests of the donors and the recipients coincided, and the programme has sold itself. However, more often than not, this is not the case. Donor governments then have to find additional reasons to make it politically acceptable to their own legislatures as well as to the recipient country. This encouraged the proliferation of motives and spurious rationalisations, which in turn, led to the institution of additional sub-programmes, independent projects, and a whole range of ephemeral schemes. The progress is mutually self-supporting. Additional reasons beget new schemes, and new

⁵ This shortage has been overcome to a certain extent by the recruitment of foreign personnel and back-up facilities from friendly governments, regional organisations and international bodies under various technical aid agreements.

⁶ For a sample of the voluminous literature on this topic see Keith B. Griffin: *Foreign Capital, Domestic Savings and Economic Development*, Oxford University, Institute of Economics and Statistics 32, May 1970; Thomas Weisskopf: *The Impact of Foreign Capital on Domestic Savings in Underdeveloped Countries*, in: *Journal of International Economics*, Vol. 2, No. 1, Feb. 1972; Gustav F. Papanek: *Aid, Foreign Investments, Savings and Growth in Less Developed Countries*, in: *Journal of Political Economy*, Vol. 81, No. 1, Jan./Feb. 1973; and P. T. Bauer: *Dissent on Development*, London 1971.

⁷ In a fuller discussion of motives see my article "Two Concepts of Foreign Aid" in: *World Development*, Vol. 1, No. 9, September 1973.

schemes beget additional reasons, and so on. In other words, there is a bureaucratisation process at work.

This gave the donor countries greater flexibility and manoeuvrability in the administration of their programmes. It enabled them to shift the emphasis away from the long-term development needs of the recipient countries to their own economic interests, short-term political considerations, and the more immediate "ad hoc" requirements of their own foreign policy. While these considerations ensure the continuation of foreign aid, they do not raise the absorptive capacity of the recipient countries.

The attitude of the developing countries has also contributed to this state of affairs. Many of them take aid simply because it is there, and not to take it would somehow be considered wrong. Others regard it as payment for historical injustices, while a good many incorporate it into their system of economic and financial planning. The provision of many public services is in fact based on the assumption that foreign aid will be available to finance them. Very few, if any, use it to build up their absorptive capacity and ultimately to lessen their dependence on aid.

Parkinson's Law and Foreign Aid

What, then, has foreign aid achieved, and how can its utilisation be linked to the operation of Parkinson's Law? There are at least three directions in which one can look for an answer. Firstly, it has been channelled mainly into consumption. Between 1970 and 1978, the average annual rate of growth of consumption for the low income countries was 6.8 %. By comparison, gross domestic investment increased on average by 3.6 % per annum. For the middle income countries the corresponding figures were 12.3 % and 7.2 % per annum, respectively. Foreign aid thus allowed consumption consistently to outstrip gross domestic investment, and enable the recipient countries to enjoy a higher standard of living than would otherwise have been possible.

Secondly, it contributed to the rapid growth of public sector expenditure in the developing countries. This is as much a part of the philosophy of development planning as a by-product of the need to erect and sustain a bureaucratic superstructure to service a rapidly expanding public sector. Within the overall pattern of rising government expenditure, wages and salaries, the item most closely associated with the growth and expansion of bureaucracy and officialdom, have been moving steadily upwards. Data published by the IMF show that this item accounts for up to one-half

of total government expenditure.⁸ In recent years wages and salaries have risen faster, relative to other items of public expenditure for the majority of developing countries. By comparison, the trend in the developed countries has been for wages and salaries as a proportion of central government expenditure to fall. The figure is put at between 10 % and 20 % for western industrial countries.

Thirdly, the proportion of aid for budgetary purposes has increased substantially, particularly for the poorer countries. However, these countries object to having their budgets scrutinised by external bodies. Consequently, many services which would not normally fall to the public sector in donor countries, are subsidized and exempt from proper scrutiny. The expansion and employment of additional subordinates and ancillary staff which this engenders is in fact one of the essential characteristics of the operation of Parkinson's Law.

Perhaps the most convincing evidence of Parkinson's Law comes from the institutionalisation of aid. Over the years it developed from a temporary measure for raising the absorptive capacity of recipient countries to become a highly sophisticated and permanent instrument of the donors' foreign, economic and diplomatic policy. It expanded into every aspect of inter-governmental activities, and there is hardly an area of international economic relations which is not affected by it. This process of institutionalisation gave it a momentum of its own and a vested interest in self-perpetuation, requiring an expanding volume of resources to service; hence the rapid proliferation and expansion of aid programmes.

Aid in Search of Projects

However, the limited absorptive capacity of the recipient countries imposed severe constraints on the effective utilisation of these resources. It also increased the opportunities for Parkinson's Law to emerge and flourish. In short, it led to the bureaucratisation of aid. Rather than cut back on questionable programmes and insist on greater efficiency and tighter control of public expenditure, additional programmes were devised in order to utilise outstanding aid balances and to strengthen the case for increased disbursement the following year. The intention clearly was to make up in range and diversity of operations what was obviously lacking in efficiency and control. There was no incentive

⁸ It actually exceeds 50 % in a number of countries. In Mali it reached as high as 61 % in 1976, though this may have been an exceptional year.

to utilise resources efficiently or to cut waste. Instead the incentive was to provide work for available resources, and for the number of subordinate personnel to expand in accordance with Parkinson's Law.

More to the point, it gave rise to a phenomenon which can best be described as aid in search of projects; a reversal of the usual procedure of projects having to compete for limited resources. In effect, recipient countries often found themselves with more aid than viable projects to finance. Consequently, programmes tended to drag on, and to beget other programmes. There was no need to complete projects ahead of schedule, or to effect any savings of time, resources or personnel. As foreign aid expenditure grew, the differences of objectives and priorities between the bureaucrats and the policy makers widened. The former tended to emphasise the bureaucratic forms and structures of aid administration. The latter called for quick results and dramatic shifts of policy and fresh initiatives in response to international political and economic developments.

In a strange way the growing divergence pointed both sides in the same direction, and facilitated the shift from programme aid to project aid. The bureaucrats welcomed this shift of policy since it enabled them to atomise programmes, and so make them politically more acceptable without any loss of overall control. The policy makers for their part, welcomed the additional flexibility and political leverage which individual projects provided in determining such politically sensitive questions as, who got what, when and why.

Double Standards of Evaluation

This change had a number of unfortunate side-effects. Two in particular stand out. Firstly, it enabled donor countries to pick and choose which projects they would finance, including some which were clearly not viable, or directly related to the recipient's development effort. In this way they not only distorted overall development priorities, but further reduced the country's absorptive capacity at a time when precisely the opposite policy was required.

Secondly, political considerations underlying the approval of lower order and non-viable projects often resulted in double standards of evaluation in respect of identical projects submitted by different countries, and similar projects submitted by the same applicant, within the same accounting period. Donors applied the usual stringent measures in evaluating the technical, financial and economic feasibility of projects during the early stages of the financial year. However, as delays and

bottlenecks built up, they were forced to relax some of these requirements, and, as one aid administrator uncharacteristically put it, "scratch around" for projects to finance, so as not to be caught with embarrassingly large unspent balances, and to avoid the possibility of reduced allocations next time round.

Clearly in such a situation one does not stop to think of the country's absorptive capacity. One simply finds projects to finance. Whether or not this is typical of the developing countries as a whole is an interesting question. However, that is not the point at issue here. What is important is that it can be used to illustrate the nature of the relationship of absorptive capacity to Parkinson's Law. In the initial stages of aid negotiations, the concept of absorptive capacity plays a crucial role in determining aid allocations, developmental priorities and so on. Virtually any project can be justified on the grounds that it will help to increase the country's absorptive capacity. It therefore provides a rational economic basis for allocating scarce resources between competing claims, and also helps to play down the importance of political considerations.

However, once allocations are determined and the programme gets under way, bureaucracy takes over. Aid now becomes part of the ongoing process of administration, and absorptive capacity another technical term in official jargon. If problems or bottlenecks develop, one deals with them as best one can. The emphasis is placed on ensuring the continuation and expansion of the programme, which means primarily justifying the need for next year's allocation. The requirements of bureaucracy are thus not only built into the system, ultimately they control it. In other words, programmes aimed at increasing absorptive capacity end up supporting bureaucracy. One is in fact the logical extension of the other.

Neither the institutionalisation of aid nor the switch from programme to project aid has raised the absorptive capacity of the recipient countries. What they appear to have done instead is to compound the waste and inefficiency of the uncontrolled public expenditure, and give Parkinson's Law an international dimension, in the sense that aid bureaucracies in the recipient countries are financed by the donor countries. They have enabled countries to build roads that go nowhere, construct projects for which the only justification was the availability of funds, financed prestige projects, and generally provided abundant evidence of precisely the sort of phenomenon to which Parkinson's Law relates.

These developments have done more harm than good for the cause of international economic relations.

For one, they have given the developed countries a ready-made excuse for cutting back on their aid commitments. Faced with their own internal economic problems and the need to effect economies in public expenditure, they will reduce their aid programme. Considerations such as the need for social development or the capital requirements of specific countries are unlikely to carry much weight in deciding which programmes should be cut, and by how much.

New Policy of "Quid pro Quo"

Secondly, the price of aid will rise in the sense that the donors will begin to use it more aggressively to extract additional political, foreign and diplomatic advantages to exert pressure on recipient countries to adopt various policies, and to bring about certain changes in the nature, function and role of specific international organisations. Much of the good work that has already been done towards the multilateralisation of aid could well be undone in the process.

Thirdly, this new policy of "quid pro quo" aid will enable the donors to claim that aid to countries with a low absorptive capacity will not achieve effective results, i. e. will not make any significant contribution to development but will be used instead to sustain an inefficient bureaucracy. Equally, they will claim that countries with a high absorptive capacity ought to be able to attract all the capital they need for development purposes in the open market, and that aid to them will simply be used for subsidising waste and inefficiency. Either way the recipient countries lose. What is more important though, is that the concept of absorptive capacity is used in either instance as the economic counter-weight to Parkinson's Law. It is enough simply to argue that aid will not be used for promoting development (absorptive capacity) but for supporting bureaucracy and officialdom (Parkinson's Law). The evidence on the first count is at best, indecisive, and overwhelming on the second.

The main casualties of any cut back in aid are likely to be the least developed of the developing countries, principally because they have no effective bargaining strength internationally. They have no petroleum or mineral wealth, nor do they pose any threat to the peace, stability and security of the Free World. They have aligned themselves to the Group of 77, the mouthpiece of the Third World, more out of a sense of history than in the hope of receiving any practical help. Some of them also profess political and ideological sympathies with the Socialist Bloc countries but get little tangible benefits in return.

Notwithstanding these alignments, more than 70 % of all the aid they get comes from the OECD countries. They are therefore heavily dependent on the West for their economic survival. However, many of them are too small and poor to justify the administrative cost of being run as separate programmes in any major cost cutting exercise. On the other hand, they value their individuality and do not take kindly to suggestions of amalgamation and integration of services. From a bureaucratic point of view therefore, they are of marginal significance and expendable as administrative units.

On the international front, cuts in aid will be interpreted as yet another indication that the developed countries are really not interested in the plight of the poor countries, and that they use aid mainly to achieve their own political and foreign policy objectives. They will also serve to question the *bona fides* of the developed countries in the establishment of the New International Economic Order, regarded by the developing countries as essential for the peace, prosperity and stability of the world economy. Finally, they will give comfort to those who argue that the North/South dialogue is not a dialogue at all but an attempt by the rich North to extract additional concessions from the impoverished South.

Return to Programme Aid

To end on a more positive note, there are several things which the developing countries can do. They can exercise more control over public expenditure, cut down on waste and improve standards of capital productivity. They should also be prepared to accept the principle of public accountability in respect of foreign aid expenditure. This is one of the most effective ways of developing sound financial management and good housekeeping practices.

Finally, they should press for a return to programme aid. The need for this has recently been recognised and endorsed by the Brandt Commission. The developing countries should capitalize on this initiative and press for major changes in the way in which aid is disbursed and performance evaluated. This would require *inter alia*, a major rethinking of the nature and purpose of aid itself. Absorptive capacity is clearly an inappropriate concept on which to base the case for more aid for development purposes. The two operate on completely different time scales. Absorptive capacity is essentially a short-term and highly unpredictable concept. Economic development on the other hand, is a slow, comprehensive and costly long-term process, for which there are more appropriate criteria.