The present chapter seeks to focus on various debates revolving around the subject of "development aid", targeted at enhancing the social and economic development of countries and regions, as also the trends that classify aid policy overtime. It is useful and necessary to underline the distinctive nature of development aid as distinguished from other kinds of aid. In ordinary everyday usage the word "aid" refers to financial or material help provided, commonly by one country to another. However, when the main protagonists involved in the process are nation states and other politically motivated actors, this simple rendering of help across borders, takes on surcharged overtones. No matter what label is used; the subject of aid remains controversial, evoking a multiplicity of emotional and intellectual responses. What determines the magnitude and the purposes of development aid? Does moral altruism supersede the deeper national interests, in aid decisions? Is development aid unconditional? Are there lesser strings attached to development aid than ordinary aid?

A phenomenon largely of the post Second World War period, development aid has grown in importance both in size and significance. With more concern over the growing dimensions of poverty in the developing countries, development aid has emerged as the new international industry, with its own procedures and

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1 In its correct sense, the term aid refers only to those parts of capital inflow that are not provided for, by the market. It is important therefore to distinguish between foreign capital inflow and aid, as both cannot be treated as synonymous. For aid to exist, the country or agency providing the assistance, must decide on making available help which is otherwise not being provided through the market, i.e. trade. Thus while private capital movements may yield substantial benefits to less developed countries, these can hardly be considered as foreign assistance.
institutions, leading to the substantive creation of new forms of interdependency and integration in international relations. Realist thinkers view development aid largely as a tool for use by states to help maintain the status quo of the international system. For the idealists, on the other hand, aid channelled through multilateral development organisations represents a positive collective initiative on the part of member states to contribute resources towards the solution of global problems world-wide.

Donor agencies have usually justified the advance of development aid for the following few ends: relief in the form of consumer goods designed to alleviate acute suffering in the short run; reconstruction, the Marshall Plan type of aid to repair damages on account of war or other catastrophe; stabilisation aid to ease the short-term balance of payment problems, and finally long-term development aid, in the form of investable resources, designed to ease the shortage of domestic savings and to alleviate chronic poverty. Whereas the scope and the declared objective of relief and reconstruction aid is more or less short-term and limited to making available humanitarian assistance; stabilisation and project aid involves a more long term engagement, encompassing a broader agenda of concerns than the mere objective of providing help.

**REASONS FOR DEVELOPMENT AID**

The word development it may be noted came into usage in English in mid-seventeenth century and was used to convey primarily the “idea of a society passing through definite evolutionary stages.”\(^2\) The identification of development

with industrialisation was inherent and it got gradually strengthened through the centuries, till in the twentieth century the association between the two was looked upon as perfectly normal. Following the end of the Second World War, with the emergence of underdevelopment, a word coined to describe the relative condition of the colonies and ex-colonies vis-a-vis the industrialised group; the dominant notion of progressive evolution i.e. economies and societies proceed in a set course of “stages of development”, became firmly established. Each sense of the term underdeveloped connected with images of poverty-stricken societies, to which the established ideas of development were then sought to be applied. Development in this ethnocentric model inevitably meant Westernisation. Development aid thus became the means, by which the more developed states sought to shape and influence the destinies of the lesser developed.

Roger C. Riddell in his book, *Foreign Aid Reconsidered*, lists out seven possible arguments having a moral bearing on governments to provide development aid to needy countries:

3. **First**, comparing domestic living standards with those of others and contrasting domestic development with the lack of development in other countries and among certain groups in other societies, the potential donor accepts that there are problems out of which arise a moral basis for action.

4. **Second**, the potential donor government accepts that direct intervention can help to solve the problems that have been recognised as providing a moral basis for action.

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Third, the potential donor government believes not only that direct intervention in general can further the development objectives that it wishes to see achieved but that external financial and/or technical assistance to assist present development strategies will help in the achievement of its development objectives.

Fourth, the potential donor government accepts that government-to-government aid and/or donor government funds channelled multilaterally to the recipient government can assist in solving the problems that it has identified.

Fifth, the potential donor government accepts that it has a moral obligation to aid the development of defined categories of countries and through their governments defined groups within foreign countries.

Sixth, weighing the claims for other uses of government funds, the potential donor government accepts that the moral claim to assist in the development of identified countries legitimises its allocations for foreign aid.

And seventh, with its belief in an interventionist theory of development and its conviction that there is a sound moral basis for it to provide aid, the potential donor government becomes a donor government in practice. The moral basis for maintaining aid flows is legitimised either because it is convinced that its aid funds do in practice help to promote the development it desires or because it is convinced that in future, and based on the experience of past mistakes, its aid will help to promote that development.
DEVELOPMENT AID AND ITS CRITIQUE

Theoretically, development aid because of its moral connotations is less susceptible to criticism than ordinary aid. However development aid too has its share of supporters and opponents. Between the two groups, there oscillates a third larger constituency whose responses to the entire question of development aid, are inevitably “mixed.” Images of starvation, hunger and death in the developing world have usually led those otherwise critical of aid, to support in particular the case for development aid. The exposition by the noted scholar, Gunnar Myrdal is a relevant case in point:

The need for aid is continually growing and I would certainly not make any recommendation to lower the appropriations for aid but would continue to ask for more. But only development aid - directed to the simplest and least costly measures to increase food production, to provide sanitation facilities and to increase their utilization, generally to supply pure water, and also as far as possible to improve health care, particularly for poor families, and to give their children somewhat more of better schooling.  

For the purposes of the present study, a conscious effort has been made to differentiate between the different types of development aid - relief, reconstruction, stabilisation and long-term aid for development purposes - as responses have been observed to differ according to situational objectivity. There is less criticism and a nearly uniform consensus on the need to provide the relief type of development aid, i.e. aid for natural and man made disasters such as cyclones, earthquakes, famines etc. Even the second type related to reconstruction has generated lesser disagreements. It is primarily, the third, and the fourth type of

development aid, that have generated the greatest amount of controversy and debate.

For those in support, the moral basis primarily forms the fundamental starting point. That the results of development aid have been necessarily "mixed" is readily accepted by even the most staunchest of supporters. The thrust has therefore been on improving the capacity and general effectiveness of aid. The Report of the Commission on Global Governance for example, makes a strong case for the continuation of large scale concessional aid to countries that are committed to using external support for development purposes, by suggesting moderate changes in aid programmes. Aid according to the Commission's report must proceed from being a mere transfer of resources from one bureaucracy to another to an arrangement founded on the principles of interdependence, solidarity, shared contractual obligations and active participation of the people.\(^5\)

The accommodative nature of aid, its ability to make piecemeal reforms in its objectives from time to time, is visibly one of the most common strengths identified by those supporting aid. In the 1970s for example, when development aid was attacked for not being sufficiently focussed on meeting the basic needs of the poor, a whole new thinking and wave of fresh projects were undertaken by donors to demonstrate the flexibility of aid designs. In the 1980s and 1990s again when aid was criticised for not being sufficiently pro-people, new programmes of aid aimed simultaneously at both human capital investments and opening up of markets were brought in. The responsiveness of aid to criticism and adaptation of

its objectives to accommodate demands, has been one of the most distinctive characteristics of aid over the years.

Those opposing development aid, however disagree seeing no such scope for improvements. Commentators and theorists belonging to both the Left and the Right share this line of thought. On both sides, the anti-aid claims are part of much broader sets of beliefs and propositions about the nature of societies and the working of economies at sub-national, national and global levels. On the Right, the advocates of private enterprise and critics of governmental activities claim that the receipt of aid delays the self-reliance process of the recipient countries, proving to be an impediment in the very process of development. Critics belonging to the Left tradition similarly have a bias against aid and see it as a mechanism and instrument of foreign policy, perpetuating dependence, propping up authoritarian and repressive regimes and perverting the process of indigenous development.

One of the staunchest critics of aid from the Right has been the British scholar P.T. Bauer. Foreign aid according to him “is the transfer of tax payer’s money” to distant governments, contributing only marginally to the cause of development.6 Reduction of trade barriers in his opinion can promote greater development than even the most enlightened aid policy. He is therefore critical of the “completely open ended commitments” of the Western Governments towards such ends as the elimination of absolute poverty.7 The potential for development lies more in the domestic policies, attitudes and the judgements of leaders in the developing world than on the infusion of foreign aid. The phrase, “development

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aid" according to him is guilty of deception since it prejudgets the effects of aid by implying that it necessarily promotes development.

The suggestion that foreign aid is indispensable for the development of the recipients implies that the progress of persons and groups depends on external forces... There are certain substantial differences between resources developed locally and the receipt of resources gratis from abroad which bear on the effectiveness of aid as an instrument of material progress. When resources are received from abroad for nothing the valuable process of generating them is lost. When resources are both generated and used locally the personal qualities and attitudes, social institutions and economic opportunities required for their employment are encouraged to develop simultaneously. The interaction of these elements of social constituents and processes then serves as a basis for further material progress. There is plainly a great difference between the generation of resources and the acceptance of external gifts. 8

Bauer's opinion that aid encourages regressive aspects is shared by other scholars belonging to the Right. Aid grants are seen largely as encouraging a "psychology of passive dependency rather than a pro-active enterprise mind set" amongst recipient governments, undermining and suffocating the spirit of self-help and self-reliance. 9 Based on the transfer of income between governments, aid it is felt necessarily increases the role and influence of governments in the economic sphere. According to Morton, aid flows encourages political elites the main beneficiaries of aid programmes to establish power hierarchies in societies, "releasing governments from accountability." 10

Writers belonging to the Left tradition have also provided a similar hard-hitting critique of aid policies and programmes. "Aid" according to them has never been an unconditional transfer of financial resources. 11 Rather, behind its altruistic

9 Peter Burnell, Foreign Aid in a Changing World (Buckingham, 1997), p. 112.
articulations, aid flows have maintained a conservative attitude, whose thrust has been to create a strong, expanding, global capitalist economy.

Aid in general, is made available to countries whose internal political arrangements, foreign policy alignments, treatment of foreign private investment, debt-servicing record, export policies, and so on, [are] considered desirable, or at least acceptable, by the countries or institutions providing aid, and which do not appear to threaten their interests.12

Aid in other words works predominantly as an instrument of control, to perpetuate and strengthen the grip of the dominant capitalist powers and its regime over the less developed countries.

A similar view of aid and its effects may also be found in the writings of the Dependency school.13 According to these theorists, poverty in the developing world is never the original state, but the consequence of the penetration of market forces into the peripheral world from the capitalist centre.

Underdevelopment...didn’t just “happen” – nor is it solely generated within the Third World. External forces have substantially created it. In every situation of underdevelopment, there are underdevelopers – structures, powers and governments which ride the backs of the southern nations and choke off their development possibilities.14

The argument developed is primarily that many in the developing world have commercialisation thrust upon them, which results often in an economic structure which acts as a brake on economic development. Aid in such a framework is essentially identified as being part of the problem, and not the solution to poverty and underdevelopment. Viewed as a crucial element in the dominant relationship

12 Ibid., pp.15-16.
between the centre and the periphery, aid flows necessarily establish capitalist relations in the periphery perpetuating underdevelopment, reinforcing thus a pattern of dependent development.

Rehman Sobhan, a scholar working in Bangladesh on the subject of aid, provides a relevant critique from the periphery. According to him, aid to the developing world, helps spawn a class of parasites who see it primarily “as a costless resource to be consumed without obligation to provide a return. The aid system in its present configuration thus create[s] a climate for a free for all where the dominant groups see an unbroken flow of aid coming into the economy to be distributed as spoils to those with access to power.”15 In a milieu where resources, wealth, status and hence power are inequitably distributed, aid according to Sobhan works to benefit chiefly the relatively small minority of elites present in the recipient states. Less privileged groups such as small peasant farmers, landless labourers, urban unemployed and the unorganised work force, in his opinion, are left much worse off after such aid programmes are carried out.

The criticism made by Sobhan of aid, has been stated in a more crisp and hard hitting way by Thomas Sowell, who states: “the poor are a gold mine. By the time they are studied, advised, experimented with and administered to, the poor have helped many a middle class liberals to attain affluence with Government money.”16 Though Sowell does not belong to the tradition of Left scholars, the similarity of conclusions with scholars such as Sobhan and Hayter, is a case in

16 Thomas Sowell, as quoted in Bauer, n.6 p.145.
point of the similar findings which scholars from divergent intellectual traditions put forth and share, in connection with the subject of development aid.

THEMES AND TRENDS IN DEVELOPMENT AID

Economic Growth as an Approach

The end of the World War II marked the beginning of a long-term engagement of the Western powers with development issues. The immediate onset of the Cold War along with the emergence of a number of newly independent countries provided the main *raison d'être*. The period saw the simultaneous emergence of development studies as a separate discipline of intellectual inquiry and as both a discipline and an activity, development studies soon became the field by which the problems of underdevelopment could be "rationally assessed and technically managed with the aid of western guidance."\(^{17}\)

The period was marked by the gradual institutionalisation of aid and development aid became one of the most potent instruments of Western, in particular American foreign policy.\(^{18}\) The main function of a pro-aid theory in such a context was clearly to put forward an explanation of how development could be and was being assisted through aid. Two key assumptions were made to provide the rationale for aid. One, that aid constituted additional resources, and second that these in turn were important for accelerating and generating the process of

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\(^{18}\) Given the context of the Cold War, after military aid, it was development aid, which served *best* the interests of the Western bloc. A relevant example being President Kennedy's admission in 1961, of foreign aid being a "method by which the United States maintain[ed] a position of influence and control around the world, and sustain[ed] a good many countries which would definitely collapsed, or [have] pass[ed] into the Communist bloc." President Kennedy as quoted in Teresa Hayter, n.11, p.5.
development. Given these assumptions, it was immediately apparent that foreign aid theory placed a strong emphasis on the need for intervention in promoting development and on the belief that more resources led to greater development.¹⁹

One of the first scholars to elaborate on the economic purpose of providing aid, was the American, Walt Rostow.²⁰ Writing in the mid-1950s Rostow made a number of judgements about the world economy, the most influential of which were the stages of growth theory propounded by him. He attempted to generalise the "sweep of modern economic history" in a set of stages of growth, namely, the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption. The industrialised countries were in many important respects "developed" and aid according to Rostow was to be directed at achieving higher levels of economic growth. In his scheme of things, Rostow saw no contradictions between the interests of the industrialised and developing countries. Rather he put forth the point that, the fruits of development which aid would provide would add in real terms to the promotion of mutual interests between the two.

The other scholar who made a similar point in connection with aid, roughly around the same period, was Rosenstien-Rodan. He specified the purpose of aid to underdeveloped countries as "to accelerate their economic development up to a point where a satisfactory rate of growth [could] be achieved on a self-sustaining

¹⁹ The Soviets and in general the Left however disagreed with the above assumptions. Development aid was viewed primarily as an instrument of neo-colonialism, which helped prolong the survival of the Western social and economic system, without benefiting the country to whom such aid was actually directed. The Soviet Union it may be noted did give specific aid for development purposes to countries, such as aid for the Bokaro Steel Plant in India, however, it remained critical of the official Western programmes of aid.

basis.” 21 The “principal element in this transition”, according to him, was to be the efforts made by the citizens of the recipient country itself—“without these efforts, outside capital [would] be wasted. The general aim of aid (loans, grants, and technical assistance) [was] to provide in each underdeveloped country a positive incentive for maximum national effort to increase its rate of growth.” 22 His points later found elaboration in the works of other scholars.

Chenery along with Alan Strout, in an article published in 1966 elaborated on the theoretical justifications for the existence of economic aid for development. 23 In their opinion, developing countries faced primarily two main bottlenecks i.e. savings-investment and foreign exchange. Poverty or low average incomes restricted the propensity to set aside resources for saving, and since savings were crucial for investments and they (investments) in turn for growth and higher income levels, a savings-investment gap arose which seriously affected the prospects for growth. In such circumstances, they advocated that “an external fusion” would help propel the economy on to a “virtuous path of self-reinforcing growth” and further growth. Governments in the developing world were seen as the positive agent for change while domestic markets in such countries were thought to be either non-existent or incapable of growth.

The above mentioned theories of aid proved to be intellectually influential and international attention during the fifties and sixties was focussed largely as a result on the sole subject of economic growth. The adherents of growth theory

22 Ibid., p. 81.
believed that the "trickle-down" mechanism would solve the poverty and income distribution problems, if only growth was fast enough. Strategies of intervention such as aid policies were therefore defined, emphasising largely the removal of certain specific bottlenecks impeding the process of economic growth. In this excessive preoccupation with growth, the fact that the ultimate beneficiaries of development were people and that it was their welfare which was important, was often relegated to the background.

For the West, moral altruism coupled with sheer political pragmatism in the context of the Cold War served dubiously to justify the need for aid. Remarkably very little attempt was made during the Cold War to disguise the political logic of aid to countries of the developing world.24 Such aid dictated by the interests of the contenders in the Cold War often did not significantly contribute to an accelerated rate of economic growth and by the beginning of the 1970s, a number of factors actually converged to dampen the optimism about the prospects of growth in the developing world.25

First, the assumption that the effects of economic growth would necessarily trickle down, to the poorest groups within developing countries came increasingly under question. It became clear that measures of economic success such as high Gross national Product (GNP) figures were not necessarily measures or indices of welfare. Health, individual well being, quality of life, were not all determined by

24 Hollis Chenery who worked as a senior economist at the U.S Agency for International Development (USAID) and later as the Vice President for Development Policy at the World Bank; admitted to economic assistance as being one of the instruments of foreign policy, used to prevent political and economic conditions from deteriorating in countries where the preservation of the present government was much valued by his home (American) government. Hollis Chenery as quoted in Teresa Hayter, n.11, p.5.

the possession of economic assets alone. Second, it soon became clear that if wealth symbolised by increases in GNP figures were not equitably distributed throughout the population, as was happening, then the very object of development stood to be defeated.\textsuperscript{26} Third, it became apparent and without doubt that by the end of the sixties, the developing world had only barely met the growth target set by the international community, with a large segment of the poor having received no benefits or gains out of the growth process. The World Bank publication, \textit{Redistribution with Growth} edited by Hollis Chenery admitted to the fact by stating in its introductory pages itself that “more than a decade of rapid growth in underdeveloped countries had been of little or no benefit to perhaps a third of their population.”\textsuperscript{27}

Governments and theoreticians thus now relearned what they had known earlier—that economic development must surely mean not only growth in average per capita income but also \textit{reduction of poverty}. This led to more emphasis being put on the distinction between economic growth and economic development, and to distribution questions being added to the agenda for development policy, leading

\textsuperscript{26} The distinction between development and growth has been elaborated upon by Amartya Sen in “The Concept Of Development”, in Hollis Chenery and T. N. Srinivasan, ed., \textit{Handbook of Development Economics} (Amsterdam,1988), pp.13-14. He writes – “First of all, insofar as economic growth is concerned only with GNP per head, it leaves out the question of the \textit{distribution} of that GNP among the population. A second source of difference between growth and development relates to the question of \textit{externality} and \textit{non-marketability}. The GNP captures only those means of well-being that happen to be transacted in the market, and this leaves out benefits and costs that do not have a price-tag attached to them. Third even when markets do exist, the valuation of commodities in the GNP will reflect the \textit{biases} that the markets may have. Fourth, the real income enjoyed by a person in a given year reflects at best the extent of well-being enjoyed by that person at that period of time. Finally it must be noted that GNP is, in fact, a measure of the amount of the \textit{means} of well-being that people have, and it does not tell us what the people involved are succeeding in getting out of these means, given their ends.”

\textsuperscript{27} Hollis Chenery \textit{et al}, \textit{Redistribution with Growth} (London, 1974), p.iii.
to the drawing up of needs-based and welfare-related targets as well as, or in some instances in place of, growth targets. Relief of poverty became a central reason for providing aid. Disillusion with the assumed method of alleviating poverty - indirectly through accelerating the growth rate - led to an increasing emphasis on direct targeting of aid to the poor in the developing world in the seventies.

Basic Needs Approach

Two approaches gained ground during the seventies. One, the twin goals of growth and redistribution to be pursued simultaneously as highlighted in Chenery’s volume *Redistribution with Growth* and the second a more radical one, highlighting redistribution as a priority goal in comparison to growth. The common feature between the two approaches was that both rejected firmly the “trickle down” hypothesis and that both concluded that special strategies focusing on the basic needs of the poor were essential for the amelioration of poverty.

The Redistribution with Growth (RWG) school led by Chenery, emphasised more upon a strategy of *investment redistribution*, working on the logic that the income of the poor was constrained essentially by the lack of appropriate physical and human capital. It called for a reallocation or a redistribution of investment in favour of those sectors where the poor stood to benefit most. The second strand of the same approach advocated a more radical strategy focusing on the fundamental redistribution of assets such as land, massive programmes of education, touching upon the *basic needs* agenda of the people.²⁸

The chief components of the basic needs approach were (a) greater emphasis on increasing agricultural output in the traditional rural sector, (b) adoption of technologies to increase employment opportunities, (c) more equitable distribution of social programmes between urban and rural sectors, and (d) an increase in education and training with special attention to the needs of the poor. The basic needs approach was interpreted primarily in terms of minimum specified quantities of things as food, clothing, shelter, water, and sanitation which were necessary to prevent conditions of illhealth, undernourishment, etc.\textsuperscript{29}

The thesis soon influenced policy shifts. The World Bank during the Presidency of Robert S. McNamara, readily incorporated this approach in its strategy of providing development assistance. McNamara focused on the concept of "absolute poverty" which he defined as a condition of life so degraded by disease, illiteracy, malnutrition, and squalor as to deny its victims basic human necessities. His emphasis lay therefore on raising the productive capacities of the people living within the client states. Under his presidency, the Bank began to diversify from lending solely to infrastructure, to such new fields as education and poverty.

Aid flows in the seventies by and large followed the above rationale with bilateral as well as multilateral donor institutions launching programmes related to rural agricultural projects, family planning, and man power training.\textsuperscript{30} Aid for such purposes grew at a phenomenal rate, but sadly however, poverty increased, at an

\textsuperscript{29} Ibid., p.25.

\textsuperscript{30} The pioneering role in this regard was played by the International Labour Organisation (ILO), which held a world conference in 1976, on the theme of basic needs and published the report \textit{Employment Growth and Basic Needs}, setting out the new policy framework.
even faster rate. Most of the developing countries were demanding for better trading rights as a catalyst of growth and development. Dealing primarily in the trade of unprocessed primary products, the developing world desperately wanted to strengthen its bargaining position vis-a-vis the western world. The 1974 call for a New International Economic Order (NIEO) is a relevant case in point that urged the redistribution of global wealth.\textsuperscript{31} On the other hand the mood among donors became less favourable towards poverty based lending and moved instead towards more market oriented economic models.

By the late 1970s, as perceptions became clearer in the light that certain bottlenecks such as poverty had become even more severe rather than being progressively eliminated, and the assumptions upon which aid's positive contribution to development came to be questioned, resultant shifts became discernible. In asking the question as to how the poor could be better helped, a viewpoint developed with growing adherents - that the successes or failures of most developing countries were essentially dependent on the policies executed, within a developing economy itself. A body of public policy and prescription based on neo-classical economics gained prominence, making the emphasis on basic needs and poverty alleviation, a short-lived experiment.

*Neo-liberalism* as exemplified by Reagonism and Thatcherism in practice in the West, justified the rolling back of State in a number of crucial sectors. Its portrayal of the state as a predatory institution that through its interventions

\textsuperscript{31} Though the developing countries constituted quite a diversity, Brazil being staunchly anti-communist, Cuba, socialist, Saudi Arabia, conservative – it is notable that they were all able to unite around the vision of a global redistribution of economic power enshrined in the NIEO Declaration adopted at the Special session of the United Nations General Assembly in 1974.
inevitably imposed crippling inefficiencies believed that economic development was a function of the unfettered operation of the market. Rapid development was seen to be possible in the developing world, only if markets were allowed a free hand, with States playing more of a facilitating role rather than a dominant one. A reversal of the previous thinking on development, the neo-liberal strategy was primarily two-pronged. One a growth enhancing market-oriented policy brought on by trade liberalisation, devaluation of currency and the other a strategic reorientation of State responsibilities in domestic economies.

Structural Adjustment Approach

Reform measures based on the tenets of neo-liberalism, euphemistically called the Structural Adjustment Programmes, (SAP) were advocated for a large number of countries, throughout the eighties. The ten “necessary” elements of SAP, highlighted in what later came to be called the *Washington Consensus*, were:

- Fiscal discipline (strict criteria for limiting budget deficits),
- Public expenditure priorities (away from subsidies and administered prices),
- Tax reform (viz. broadening the tax base and cutting marginal tax rates),
- Financial liberalisation (meaning interest rates should ideally be market determined),
- Export Promotion (should be encouraged to induce rapid growth),
- Trade liberalisation (measures to bring down tariffs to around ten percent within ten years),
- Foreign direct investment (no barriers and “equality” with domestic firms),
- Privatisation (state enterprises should be privatised),
• Deregulation (abolition of regulations that impede the entry of new firms or restrict competition), and
• Property rights (secure rights without excessive costs).  

In the eighties, the above prescriptions of policy reforms became a standard feature of regular aid programmes. As adjustment became increasingly a precondition for development, aid came to be regularly given within the general context of assisting recipient countries to adjust. Foreign aid was seen largely as accelerating the process of growth and poverty reduction in developing countries through making it compulsory for the recipients to pursue "sound economic policies."- i.e. a policy of open trade regimes and fiscal discipline. The two premier institutions - the World Bank and the International Monetary Fund (IMF) pioneering the move, increasingly made aid conditional to reforms. SAPs and Sectoral Adjustment Loans (SALs) became the main feature and traditional project-based lending soon came to be surpassed by policy lending. Such was the influence of these two institutions that many leading donors nations like the United States of America, United Kingdom, Germany and Canada designed their bilateral aid programmes also along the lines laid down by the Bank and the Fund. By the end of the 1980s, adjustment aid extended itself to cover nearly seventy nations.

32 The term "Washington Consensus" was first coined by John Williamson, in 1989, to illustrate the belief in the universal applicability in all circumstances of the abstract law of economics within the academicians and policy makers in the western world regarding the programmes of structural adjustment. The Washington Consensus according to Williamson filed a vacuum by providing an appealing title for the economic ideology of the victor of the Cold war, the world’s only remaining superpower – the United States of America. John Williamson, Latin American Adjustment: How Much Has Happened? (Washington DC, 1990), pp.7-17.

33 Conditionality here refers to the explicit use of aid as a lever to promote objectives set by the donors which the recipient government would not otherwise have agreed to.
from the developing world. A large number of such nations belonged to the Sub-Saharan region of Africa.

How did the structural adjustment package actually work? The SAP polices called essentially for the sell off of government owned enterprises to private owners, most of who were foreign investors. This usually involved layoffs and pay cuts for workers in the privatised industries. Laying emphasis on the adoption of an export-oriented economic policy, the SAP package diverted the thrust of production from home consumption to exports. The policies also called for a reorientation of government spending, leading to reduction in public expenditures in sectors benefiting mostly the poor such as education, health, and public food distribution. Charges were levied on services provided by the government, many of which were previously available free of cost to the poor.

Aid in the eighties as a result of SAPs thus became essentially intrusive. Aid flows during this period resulted in numerous countries being gradually brought under the surveillance of international aid agencies. The flow of finances was made strictly conditional to the guarantee given by recipient countries to

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34 Jose Pinera, who was the Minister of Labour and Social Security in General Augusto Pinochet’ cabinet in the eighties, provides both an interesting and revealing account of the adjustment exercises in Chile. Says Pinera, “we simply applied the basic laws of supply and demand, of an open economy, of the efficiency of competition and free enterprise” to the Chilean situation. Recalling how determined the regime was in applying market principles to each and every aspect of the Chilean economy, he writes, “I and others on the team wanted to go further and extend the discipline of the market to the social sector: the pension system, health care, education, and the rest. We foresaw that leaving these activities in the hands of the state would only increase its power as the economy became wealthier, undoing much of what we had so far accomplished towards shortening the state’s tether. We therefore argued, if private enterprise and the market are good for producing steel, should they not also be good at producing pensions.” Pinero’s accounts such as the above are characteristic of the unchecked applications and advances of economic beliefs onto the real world. Pinera as quoted in Brendan Martin, New leaf or fig leaf? The challenge of the new Washington Consensus ((London, 2000), p.6.
initiate policy reforms. Another feature that stood out as a glaring fact with respect to aid disbursements, was the high level of indebtedness which countries had fallen into as a result of increased aid flows. The IMF and the World Bank gave structural adjustment loans, largely as a condition for the renegotiation of their external debt. The total outstanding long-term debt of developing countries (from official and private sources) which had stood at approximately US$ 62 billion in 1970 increased many folds to over 1 trillion by 1989.35

The international community dubbed the decade of the eighties as an opportunity “lost” for reducing poverty and generating development. The Washington Consensus had taken privatisation and trade liberalisation as ends in themselves, leaving the more crucial goal of sustainable, equitable and democratic growth lurking in the shadows. The failure had been demonstrated in the negative impact experiences of countries, and for the donor community it became important to restore credibility by formulating a new consensus regarding adjustments and development. It may be noted that a large part of the critics did not per se disagree with the need or the rationale behind the adjustments sought. Rather they sought to mitigate the sufferings caused due to adjustments and compliment the programme of reforms with adequate safeguards.

The experience of the adjusting countries in particular in Africa and Latin America revealed that the fruits of adjustment were not entirely rosy and that the package necessarily involved hard choices for the governments and people of the developing world. Increases in infant mortality and ill-health, and falling family incomes were widely reported. The UNICEF commissioned study, titled,

35 World Bank, World Debt Table (Washington DC), several issues.
*Adjustment with a Human Face*, for example, brought out graphically the decline in civic conditions during the period of adjustment, in ten different countries. Its authors placed the evidence, recording the irony of it all:

After nearly three decades of steady progress, child welfare sharply deteriorated in many developing countries during the first half of the 1980s. The evidence provided by the 10 country studies...shows that the nutritional status of children [had] deteriorated in all but 2 of the 10 (South Korea and Zimbabwe). Although the gravity of the deterioration and its causes vary substantially from country to country, this general increase in malnutrition clearly points to a major change in long-term trends, extending far beyond that due to the drought in Africa alone. In addition, infant and/or child mortality rates - indicators which had for two decades shown a strong downward trend - showed some reversal in trend in three of the eight countries where data is available (Chile, Brazil, and Ghana), while in others a marked deceleration in the rate of improvement was observed. The decline in the health situation of children [was] further confirmed by the increasing incidence of communicable diseases like typhoid, hepatitis, tuberculosis, gastro-intestinal diseases, malaria and yaws, observed in at least 4 out of the 10 countries analysed, as a result of the general deterioration of the living environment and of reduced prophylactic measures.

The World Health Assembly, at its 39th Assembly session on May 16, 1986, adopted a resolution calling on all Member States to ensure, in cooperation with international financing institutions, that the health and nutritional status of the most disadvantaged social groups are protected when economic adjustment policies are designed and implemented.

A similar report by the International Labour Organisation (ILO) reiterated the need for adjustment and economic reform processes to be people friendly.

Structural adjustment is not a development objective in itself, like meeting basic needs or alleviating poverty. It is a means by which those development goals can be reached in an environment which keeps changing all the time.

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37 Ibid., p.10.

38 Ibid., p.4.

By the end of the eighties five crucial elements of policy for a more satisfactory adjustment process emerged. First, a more expansionary fiscal and monetary macroeconomic policies aiming at sustaining levels of production, employment, and general human needs satisfaction over the adjustment period. Second, the introduction of targeted policies to ensure that a fair share of the inputs for economic growth (i.e., foreign exchange, credit, land, water, skills, etc.) are channelled to the poor on equitable conditions. Third, a restructuring of production to give greater emphasis to generating income and productive employment for the poorer sections of the population. Fourth, a restructuring of government expenditures on health in favour of greater cost-effectiveness and expansion of services for the poor. And finally, special support programmes – often of limited duration designed to protect the basic health and nutrition of the most vulnerable low-income groups during adjustment.

Strategically for donors the above modifications proved advantageous. Not only did the modifications have the desired sugar-coating potential but also more significantly they paved the way for a rapid increase in the pace and scale of reforms. In its modified form, by way of increased aid in the nineties to programmes of human capital development world-wide, adjustment aid soon came to be one of the most effective tools of economic diplomacy, ensuring for the rich nations unhindered progress towards a more centrally controlled globalised international economic and financial order.

Human Capital Development

The phenomenon of globalisation, the progressive integration of economies across the world through the increasingly unrestricted flow of global trade and
investments, formed the overarching background to the discussion on development in the nineties. Though globalisation was definitely not a new occurrence, however the rapid pace of economic integration, gave the phenomena a most distinct tone. The logic of closer international integration and adjustments in economic and social structures became the new buzzwords.

For the more advanced industrial nations, globalisation represented an inescapable necessity and a solution of sorts to the crisis, which had engulfed the advanced countries since the seventies. Overproduction coupled with diminishing domestic markets had forced big business houses in the West to look for markets in the developing world. Rounds of negotiations at various trade summits along with Structural Adjustment programmes made it mandatory for countries of the developing world to open up domestic markets, allowing the entry of transnational corporations. Waves of mergers and takeovers were generated, and firms in the pursuit of cheaper labour, raw materials and lower taxes encouraged a geographical restructuring of production. For most countries of the developing world, given their unequal standing in the international economic hierarchy, the above process of globalisation became an unavoidable reality.

In the nineties, two major developments, (1) the increasing trend of globalisation, and (2) the increase in poverty defined largely the terms of the development debate. For the international community the fact that living standards in some countries had actually fallen during the past thirty years and that the number of poor had registered a substantial increase, presented a formidable
challenge.\textsuperscript{40} It was estimated that around the beginning of the 1990s, approximately 13-18 million people, mostly children, died from poverty and hunger annually, which amounted to 40,000 people a day, or 1,700 people an hour.\textsuperscript{41} Not only had the gap widened between the rich and the poor - donor and recipient nations, but also disparities of greater magnitude were reported in-between communities living within nationally defined boundaries. For example, it was found that in Latin America the bulk of the costs of adjustment had fallen disproportionately on the middle and lower-income groups, while the top five percent of the population had retained or in some cases even increased their standard of living.\textsuperscript{42} For global capitalism which had emerged victorious despite the crisis of the eighties, the discussion on development became more poverty centred than ever before, forcing the need for a new conceptualisation of development and poverty.

The Washington Consensus that had governed development strategies in the eighties was reworked and a new action plan reconciling “growth” objectives with goals of “sustainability, equity and democracy” was worked out. One of the identifiable shifts between the old orthodoxical approach and the new, concerned the resurrection of the State in development literature. While previously, the State had been identified as being part of the problem, under the new Consensus close complementarity between both market and State, rather than alleged antagonism,

\textsuperscript{41} James Gustave Spaeth, President of World Resources Institute as quoted in Walden Bello, Shea Cunningham and Bill Rau, Dark Victory: The United States, Structural Adjustment and Global Poverty, London, 1994), p.51.
became the defining characteristic. Though the “new” Washington Consensus as it
came to be known, appeared to be sufficiently different from its predecessor in its
content - in spirit however, it may be noted, it retained and shared the same
underlying belief in the merits of economic liberalisation and reforms, as the old.\textsuperscript{43}
This was a significant point, especially when related to poverty and development
questions. Development and poverty issues, it needs to be noted, despite the new
phraseology adopted, more than ever before, came to be increasingly bound and
coterminous with the overall tenets of globalisation.

Under globalisation, development as an activity lost much of its functional
autonomy with development theories becoming largely appendages to the larger
project of global integration. Human capital development for example, became the
new keyword and skills and knowledge-based economies matching up to the
demands of globalisation became the new testing ground for development. The
subject of human capital development, it may be noted, was not something new.
Reference to and emphasis on “human good”, “flourishing lives” could be found in
writings of scholars as far back as the ancient period.\textsuperscript{44} The theory in the modern

\textsuperscript{43} The term the New Washington Consensus has been associated mainly with the
writings of the ex-Chief Economist of the World Bank, Joseph E. Stiglitz. The present
study for its purposes, it may be noted uses the term to denote changes within the main
consensus, changes which according to the present author were evolutionary predating
1998, the year Stiglitz first coined the term. Joseph E. Stiglitz, \textit{More Instruments and
\textsuperscript{44} For example, the writings of Confucius (551-479 BC) the famous Chinese scholar,
who once stated: “If you plan for a year, plant a seed, if for ten years, plant a tree, if
for hundred years, teach the people.” References of a similar nature were to be found
in the writings of the Greek philosopher, Aristotle too. But with the advent of
capitalism however the discourse saw a tangible shift and the identification of human
labour as a specific capital asset became more pronounced. Adam Smith for example,
in the \textit{Wealth of Nations} (1776) was one of the first, to remark upon the similarity
between human labour and a machine. He equated a man’s education to investments
made on the acquisition of “expensive machines.” Alfred Marshall, in \textit{The Principles
of Economics} (1890) too stressed upon a similar point. According to him, whereas
period witnessed a revival in the 1960s, but its biggest victory was in the nineties, when its tenets came to be adopted as the guiding principles of world development.45

The central argument of the human capital school lay chiefly in advocating that investments made in improving population quality apart from that made in physical infrastructure also significantly contributed to and enhanced economic development and welfare prospects of societies.46 For those supporting globalisation, the theory proved to be advantageous. The propositions made of increasing investments in the social sector, helped tangibly the direct interests of globalisation by consolidating most importantly (1) the requirements of a global cheap labour economy and (2) the search for new consumer markets. In the first case, an educated and healthy workforce in the developing world helped fulfil the needs of the big transnational corporations to produce goods and services at a cheaper rate.47 In the second, the same group benefitted the above corporations by becoming in turn the consumers of goods and services that these firms produced.

45 In the 1960s, human capital theory was encouraged and disseminated actively by organisations such as the OECD. The revival of the human capital theory served largely as a justification for science and technology to be given particular attention at both school and university levels.

46 The decisive factors of production, according to Theodore Schultz, one of the chief modern advocates of the human capital school, in improving the welfare of poor people were not "space, energy, and cropland" – but rather "an improvement in population quality and advances in knowledge." Theodore W. Schultz, *Investing in People: the Economics of Population Quality* (Berkeley, 1981), p.4.

47 The Pacific island of Saipan for example, produces clothes for such international fashion houses as Gap, Ralph Lauren and Tommy Finger, that are sold under a "made in America" label. Tommy Finger shirts that retail in the United Kingdom for forty pounds have a factory gate price of three pounds. Young girls from the Chinese mainland are tricked into working in Saipan. They end up as bonded labourers, working a 14 hour day, 6-7 days a week, in cramped hot, unsafe working conditions – "Globalisation: The Human Costs" on www.heureka.clara.net.
An analysis of aid statistics of the nineties reveals the above nexus between
globalisation and human capital investment. With increased openness of trade and
markets, aid towards human capital development, it may be noted, continued to
register an increase through the nineties. This increase took place in spite of the
fact that gross aid flows saw a significant decrease in real terms from US$ 61.3
billion in 1990 to US$ 53.7 billion in 2000.48 Recent figures for aid show aid flows
in the social sector to be the greatest with nearly 31 percent of all bilateral aid
allocated towards various social programmes in different countries of the
developing world.49

It must be noted that while the old Washington Consensus was more blunt
in its approach, its market fetishism an easy target, the new Washington Consensus
involved a much more sophisticated technique to manage the transition to global
capitalism.50 A relevant case being the inclusion of topics such as governance,
human rights, democracy, public action, equity etc., into the gamut of mainstream
discussion. The juxtaposition of these ideals with a corresponding programme of
economic reforms involved a much more effective technique of management than
was the case previously. The co-option of the vocabulary and demands of the
global social and environmental movements, into the agenda of development,
worked to numb and obliterate differences of opinion that might have previously
existed. A major point to be noted in this regard was that whereas previously

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49 Ibid., p.151.
differences had persisted between donor agencies, in the nineties, all of the main donors, including multilateral agencies embraced broadly similar themes.

Six broad operational norms were set to determine roughly the allocations and agenda of aid. These were:

1. **Selectivity**: give more aid to reforming countries, where it can be more effectively used. Poor countries with good policies should receive more financing than equally poor countries with weak economic management.

2. **A Good Economic Environment**: aid is effective in a good economic environment because it can help to crowd in private investment by increasing the confidence of private investors and supporting delivery of important public services acting as a catalyst for growth. On the other hand, in a poor economic environment aid can help governments to maintain poor economic policies and put off reforms which discourages private investment.

3. **Strengthening Institutions**: poor countries have been held back not by a financing gap but by an “institutions gap” and a “policy gap.” For countries with poor policy environments and poor institutions donors should reduce funding and increase support for policy dialogue and institution building.

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51 Recent years have seen a series of reviews by donors on the aid question. Foremost amongst these have been the World Bank’s own *Assessing Aid*, publication. The report lays down a set of policy recommendations to match the ability of aid, to the needs of the new globalised world economy. The six points which have been highlighted in the main text, are taken from the Bank report - *Assessing Aid: What works, what doesn’t and why?* (Washington DC, 1998).
4. **Stimulating Reform in Poor Environments**: it is possible to assist development in countries with weak institutions and policies, but the focus needs to be on supporting reforms rather than disbursing money.

5. **Participation**: an active civil society improves public services. Top-down, technical approaches to project design and service delivery have not worked in areas critical for development, and finally

6. **Donor Coordination**: coordination aids effectiveness. Proliferation of donors and poor coordination among them are major problems, which lead to aid ineffectiveness and increases the burden on recipients of coordinating, monitoring and reporting on project implementation.

Programmes of adjustments and reforms in fact, saw a substantial rise during the nineties. The decade witnessed greater efforts at coordination amongst donors, pooling their resources to support country-specific sectoral reform strategies. Sector wide approaches (SWAs) as they came to be called, provided the guiding support whereby donors pooled their resources into a common programme aimed at bringing about desired sectoral changes in select areas. These SWAs were connected with the larger programme of macro economic reforms, elaborated in the specific country-related poverty strategy papers. Aid in such circumstances came to be more centrally processed, than ever before and instead of the one-to one relationship between the donor and recipient, the consortium approach became the new defining feature.\(^\text{52}\)

Six broad areas of action were chosen for specific attention. These were:

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\(^{52}\) The Special Programme of Assistance for Africa (SPA) constitutes a relevant example of the above. The SPA is a grouping of multilateral and bilateral government donors providing programme support to countries of Sub-Saharan Africa.
• Alleviation of Poverty
• Achievement of Universal Primary Education:
• Reduction of Gender Disparities
• Decreasing Infant and Maternal Mortality
• Promoting Reproductive and Child Health, and
• Implementing National Strategies for Sustainable Development.  

Under the new Consensus, the traditional concept of poverty as material development stood to be broadened to include also the effects that poverty had on the capabilities of the poor. The crude emphasis on the “capital” aspect of human beings, was toned down and new concepts were incorporated into the original human capital thesis to give it a broader philosophical base.  

Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterized by a lack of participation in decision-making and in civil, social and cultural life.

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54 One such scholar whose work found ready incorporation in the broadening exercise was Amartya Sen. The focus on capabilities is largely attributable to Sen who writes: “If life is seen as a set of “doings and beings”, that are valuable, the exercise of assessing the quality of life takes the form of evaluating these functionings and the capability to function. This valuational exercise need not be performed by simply counting pleasures or desires (as in the utility-based accounting), or by focussing on commodities or incomes instead of doings and beings (as in the commodity-based accounting). ... The functionings themselves have to be examined, and the capability of the person to achieve them has to be appropriately valued.” See Ehtisham Ahmad, Jean Dreze, John Hills, and Amartya Sen, ed., Social Security in Developing Countries (New Delhi, paperback Indian edn, 1999), pp.7-8.

The lessons of Structural Adjustment in Africa and Latin America had brought out in clear terms the vulnerable character of the poor and as a result the new Consensus based its strategy of poverty reduction thus on the explicit programme of "empowering the poor." Interventions such as the above were justified as not only enhancing the quality of life, but providing the poor "with opportunities to make use of their abundant assets i.e. labour and increase their capacity to take advantage of the newly created possibilities."56

However, a programme of empowerment such as the above minus a strategic re-orientation in redistribution of resources, is typical of the contradictions inherent in the current development ideology. Under the new Consensus though the discussion on poverty was broadened, yet the causal chain of reasoning continued to be short, bordering on the tautological. For example, why were people poor? Because they lacked jobs. Because they were unproductive. Because they produced insufficient output. Why did they lack jobs? Why was their productivity low? Why didn’t they produce enough? These questions remained largely unasked. The hesitancy of the new Consensus to address clearly the fundamental problems of an unequal international order, but its focus instead on the causes and effects of poverty within national boundaries, is another instance of the dualism inherent in the new aid rhetoric.

Recent studies have brought out openly the increasing trends in poverty world-wide. Though globalisation has opened up "opportunities" it has also created a new class of poor consisting of retrenched civil servants and employees laid off because of austerity measures or shifts in production and the "borderline" poor,

comprising the old, children, women and other persons belonging to the landless and poorer sections. The following few facts provide a glimpse of the declining fortunes of the poor in today's world. More than 80 countries still have per capita incomes lower than what they had a decade ago. While 40 countries have sustained average per capita income growth of more than 3 percent a year since 1990, 55 countries mostly in Sub-Saharan Africa and Eastern Europe and the CIS have had declining per capita incomes. With prices of primary commodities having fallen drastically in the last decade to a point representing the lowest ever in the century, countries dependent on the trade of such commodities have seen falling shares of income. The world today is truly divided between those who benefit from globalisation and those who lose. According to recent estimates the richest 10 percent of the US population (around 25 million people) had a combined income greater than that of the poorest 43 percent of the world's people (around 2 billion people).

Given the close proximity between aid and globalisation, there is little wonder that over the last decade, there has been a growing constituency of people especially in the South voicing their opposition to aid programmes. Though aid flows in the present world represent a very small share of the total private flows they are nonetheless significant. Development assistance at present, more than in the past, involves not only a transfer of resources but also crucial policy dialogue and prescription. Whilst changes suggested by the academia and the larger world community have in fact helped to improve the design of adjustment programmes,

ameliorating their most negative consequences and to some extent reducing negative political pressures; the grant of development assistance remains controversial and a subject of much introspection in international relations.