

# Platform Duurzame en Solidaire Economie

Expert meeting Een Nieuwe New Deal - 16 oktober 2008

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The myth of development aid

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## *Toelichting voor de deelnemers aan de expert meeting*

*In enkele papers komt de noodzaak van vergroting van de overdracht van financiële middelen van Noord naar Zuid ter sprake. Ter aanvulling daarop het volgende:*

- *Onder de papers voor de expert meeting staat de samenvatting van het HDR 2007/2008 dat als speciaal onderwerp heeft: het klimaatprobleem en de gevolgen daarvan voor de arme landen. In dit rapport berekent het UNDP dat voor diverse klimaatdoelen in die landen (“climate proofing”, “poverty reduction in the face of climate change risks”, en voor overige voorzieningen) vanaf 2015 jaarlijks naar schatting US \$ 86 miljard (prijzen 2005) nodig zal zijn. Dat is ongeveer 0.2 % van het BBP van de rijke landen.*
- *Bij cijfers over overdrachten van Noord naar Zuid is belangrijk er rekening mee te houden dat er ook omvangrijke stromen zijn van Zuid naar Noord, vandaar het dikwijls gehoorde argument van “sigaren uit eigen doos”. Ik ga in onderstaand concepthoofdstuk in op die “reversed aid”. Als wij het hebben over de door ons noodzakelijk geachte overdrachten, dan moet hiermee rekening gehouden worden.*

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During the sixties of the 20<sup>th</sup> century, Harry Magdoff showed that the amount of development aid should be compared with the transfers of values from the South to the North: debt services, repatriation of profits, and the losses due to the deteriorating terms of trade of the so called developing countries.<sup>2</sup> Since then this issue has drawn my attention. At several occasions I have tried to underline the argument of Magdoff by making calculations of some real flows of values. The latest publication was in 2005<sup>3</sup>.

Magdoff focussed on the flows of money, including those related to trade relations. In this chapter I add another category, inspired by the discussion about the severe and worldwide ecological deteriorations. The biggest part of these deteriorations, the economies of the North are responsible for. But the consequences are felt first and foremost by the peoples of the South. Therefore this can be considered as a field of South – North transfers. The great

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<sup>1</sup> This article is a draft for a chapter in a book about *World Public Finances* edited by Francine Mestrum and Matti Kohonen. I thank Francine, Matti, en Jan Juffermans for their constructive comments on an earlier draft. More comments are welcome, to be sent to [a.w.m.keune@uvt.nl](mailto:a.w.m.keune@uvt.nl).

<sup>2</sup> Harry Magdoff: *The age of imperialism – The economics of U.S Foreign Policy*. New York / London, 1969, Monthly Review Press, chapter 4

<sup>3</sup> Lou Keune, *Development cooperation: A Hindrance for Self-Sustainable Development* (in: *Tailoring Biotechnologies*, volume 1, issue 2, winter 2006-2006)

majority of these transfers do only have the character of use values as they are not paid for with money. With reference to one of the fields of ecological deterioration, the exploitation of the biological capacity of the earth, I include the most recent data of overshoot. And for the sake of the argument I give a very rough indication of the money value of that overshoot.

### **Development cooperation: success or failure?**

This chapter discusses one of the myths about development cooperation: “The North is helping the South”. Is it really true that the North is helping the South? There are several reasons why it is important to find an answer to this question. The most important of them is that since the start of development cooperation in 1948 with the famous Point Four of Harry Truman, the results of that endeavour are not very positive. Of course, since then the conditions of living have bettered enormously in these countries. See e.g. the rise of life expectancy and the fall of illiteracy. Being that so one can question whether this is due foremost to the assistance of the North or to the initiatives of the people and institutions of those countries themselves. Successes do have many parents!

At the same time one has to recognise that despite the many programmes and projects undertaken, at least two major problems are dominating the picture. One has to do with poverty. About 40 % of world population has to live with an income lower than US \$ 2 per person per day.<sup>4</sup> That is a situation nobody can be proud about. Off course the argument of the World Bank and the International Monetary Fund is well known: the share of the very poor to the total world population is getting lower, and more and more very poor people are getting out of that situation. Being that true we have to put those findings in perspective.

First, “one dollar a day” refers to the purchasing power in New York, let’s say a newspaper.<sup>5</sup> So, in US dollars it is much less in most developing economies.<sup>6</sup> Secondly, what does it really mean when a person’s income rises from 1.8 dollar to 2.1 dollar? The very poor continue to be very poor.

The third aspect is that of the growing inequality. More and more reports, including the 2007 IMF *World Economic Outlook* (October 2007) indicate that at the world level and in far most individual countries income inequality has risen. The 2005 Human Development Report illustrates this inequality with the “champagne glass economy” graphic.<sup>7</sup>

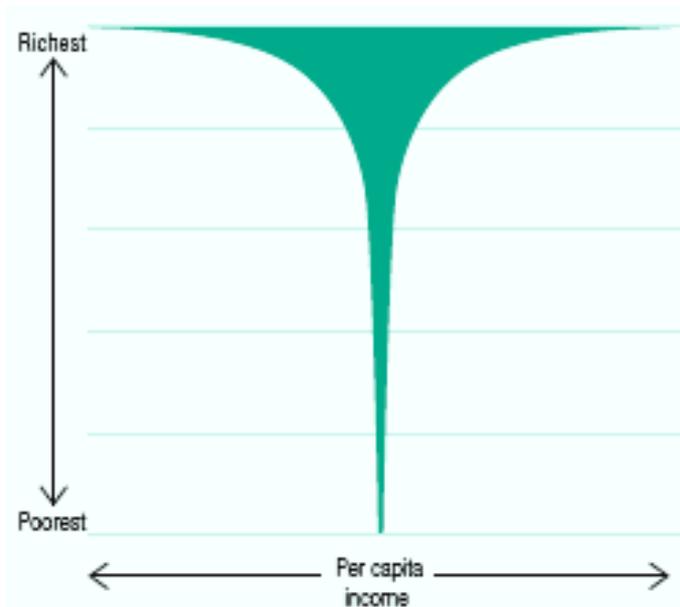
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<sup>4</sup> UNDP: *Human Development Report 2007/2008*, page 25.

<sup>5</sup> “Living on \$ 1 a day does not mean being able to afford what \$ 1 would buy when converted into local currency, but the equivalent of what \$ 1 would buy in the United States: a newspaper, a local bus ride, a bag of rice”. UNDP: *Human Development Report 2003*, page. 41.

<sup>6</sup> According to Woodward and Simms: *Growth isn’t working: the uneven distribution of benefits and costs from economic growth*. (London, New Economics Foundation, 2005) page 1, US \$ 1 a day in New York equals to \$ 0.20 to \$ 0.70 in most developing countries.

<sup>7</sup> *Human Development Report 2005*, page. 37.



**Figure A: World income distributed by percentiles of the population 2000**

This growing inequality fosters among the poor the consciousness of poverty. It stimulates, on the one hand, positive aspirations to better conditions of living, and at the same time, in case of enduring poverty, the negative expectations about the immediate and mid-term well-being. This leads to the (well known) growing gap between aspirations and expectations.

Fourthly, modern times make higher demands on people. Survival includes nowadays a broader basket of goods and services e.g. telecommunications, health services, formal education, sewage systems, etc. So, an income of one dollar a day per person in 2006 is in real terms much less than one dollar in 1950, even in condition of a comparable purchasing power.

Fifthly, how are incomes calculated? The figures about income as presented by the World Bank, the IMF, UNDP or UNCTAD are based on household expenditure surveys, or on the commonly used calculations of gross domestic product – GDP. But, research by a great number of economists including Daly<sup>8</sup>, Goudzwaard and De Lange<sup>9</sup> and Hueting<sup>10</sup>, has demonstrated that these indicators do not reflect in a just way the levels of welfare. Many social and environmental costs and also some outputs as the products of unpaid labour (like private household work) are not included. But these deteriorations and outputs do affect life severely. An example. Brent Bleys<sup>11</sup> has calculated that when a more appropriate method is used, the Index of Sustainable Economic Welfare – ISEW, then the national income of the Netherlands falls with around 60 % in 2004. What would be the results of applying the ISEW in cases of developing economies that suffer far more from ecological deteriorations?

Then the question of the survival of nature. Thanks to the worldwide discussions about climate change peoples and governments are becoming more conscious about the ecocide that

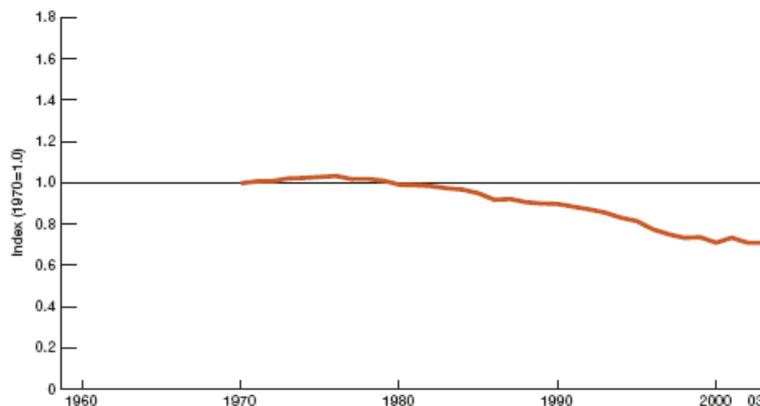
<sup>8</sup> Herman E. Daly: *Uneconomic Growth: in Theory, in Fact, in History, and in Relation to Globalization*

<sup>9</sup> Bob Goudzwaard and Harry de Lange, *Beyond poverty and affluence, toward an economy of care*. Eerdmans Grand Rapids/WCC Geneva, 1995

<sup>10</sup> Hueting, Roefie: *New scarcity and economic growth*, Amsterdam, 1980, North-Holland

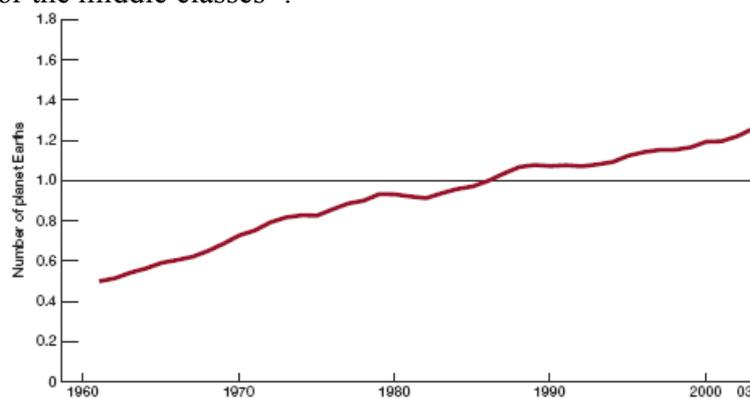
<sup>11</sup> Brent Bleys: *A Simplified Index of Sustainable Economic Welfare for the Netherlands, 1971-2004*. Brussel, Vrije Universiteit Brussel, march 2007 page 22. The ISEW includes losses like non paid ecological and health damages, and productions like e.g. non paid private household work (feeding, cleaning, nurturing, etc.).

is threatening mankind and nature. Calculations made by UNEP and the WWF demonstrate that the biological diversity has been going down since the seventies by approximately 30 %. This is illustrated by the following figure B: The Living Planet Index<sup>12</sup>.



**Figure B: The living planet index, 1970-2003**

With regard to the ecological footprint the WWF speaks of an overshoot of the biocapacity by about 25 % in 2003, see the figure C: Humanity’s Ecological Footprint<sup>13</sup>. It is well known that the daily life of the poor is more affected by ecological degradations than the life of the rich or the middle classes<sup>14</sup>.



**Figure C: Humanity’s ecological footprint, 1961-2003**

So, it’s rather problematic to speak about the success of the development cooperation. To explain the failures many elements can be put forward. One can concentrate on internal conditions of developing economies like bad government or traditional value systems. Other explications are sought in the quality of the development aid: e.g. the domination of western culture, the decisive influence of the basic self-interests of donating countries, or the lack of continuity. Recently more attention has been given to the negative consequences of free trade<sup>15</sup>. In the following will be argued that the flow of values from the South to the North (“reversed development aid”) is of underestimated importance.

### Reversed development aid

<sup>12</sup> WWF: *Living Planet Report 2006* (Geneva, 2006, WWF) figure 1.

<sup>13</sup> WWF: *Living Planet Report 2006* (Geneva, 2006, WWF) figure 2.

<sup>14</sup> See e.g. UNDP: *Human Development Report 1994*, (New York, Oxford University Press, 1994), chapter 1. And *Human Development Report 2007/2008* (2007).

<sup>15</sup> E.g. Christian Aid: *The Economics of Failure: The Real Cost of ‘Free’ Trade* (London: Christian Aid, 2005) page. 2.

Is the North really giving aid to the developing economies? When one looks at reports and statistics submitted by institutions like the World Bank, the OECD, UNDP, the European Union and others, than there is a huge and rather convincing stream of data underlying the thesis that the South is receiving aid. Above that, mostly the concept of development cooperation does include not only what is named as Official Development Aid (ODA), and the funds submitted by the many and many non-governmental institutions, but also the transfer of funds by private enterprises in the form of loans and investments. These transfers can really be observed. So, the North is giving a hand.

But, generally these reports do not include data on what the developing countries really do receive neither the magnitude of the possible reversed streams. As said, at earlier occasions I have made calculations of the reversed development aid. As in the case of Magdoff I have concentrated on the flows of monetized values, or what with reference to Magdoff's companion Paul Sweezy<sup>16</sup> could be called: priced exchange values and financial capital. But another approach is possible. The following analysis is limited to three examples of monetized flows: trade, loans, and foreign private investments. There are off course more examples of monetary flows between the North and the South. For instance tax evasion to tax havens<sup>17</sup>, or remittances by migrant workers.

Another category has to do with use values as attached to real human and natural resources. Generally speaking, the transfer (or withdrawal) of use values from the South to the North does not receive much attention. But since the fast growing number of reports and other publications about ecological exhaustions, the damages caused in developing economies by (northern) overproduction and overconsumption are getting more attention. Therefore some observations on this subject will be presented.

Most data are presented for the period 1980-2006.<sup>18</sup> Groupings of developing economies and other concepts are used as defined by UNCTAD.<sup>19</sup>

### *Terms of trade*

The meaning of the term 'development cooperation' broadened during the second half of the last century. Originally it referred to development aid and the cooperation between national and international actors involved in the designing and implementing of development programs. Especially during the sixties and seventies, a lot of attention was paid to various bottom-up strategies such as self-help programs, fundamental education, community development, the cooperative movement, intermediate technology, and land reform. From the first UNCTAD Assembly (1964), more attention was paid to the subject of world trade, in particular to the contribution it could make to the development of countries in the South. 'Trade, not aid' became the motto. It reflected the new governing model, that of "export-led economic growth". Actually this is still the dominating model, including the assumption that free world trade is the best for economic growth. Nevertheless, more and more people are doubting the rightness of this way of thinking as each day many examples are illustrating that this form of internationalization can have destructive consequences.

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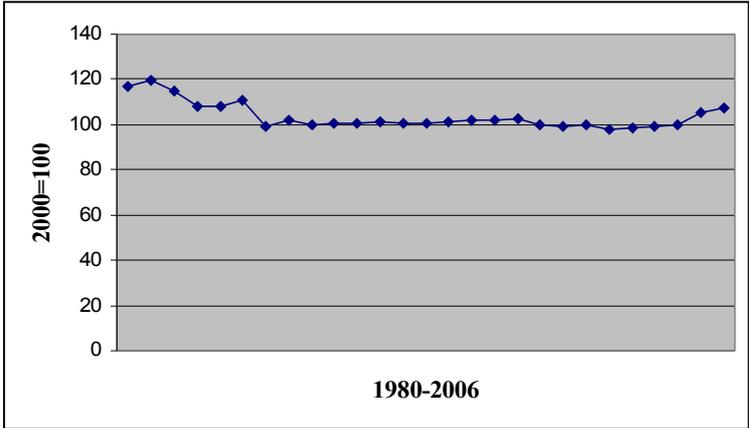
<sup>16</sup> Paul Sweezy: *The theory of capitalist development: principles of Marxian political economy*. New York, 1968, Monthly Review Press

<sup>17</sup> Including tax evasions to countries like the Netherlands. See: Francis Weyzig & Michiel van Dijk: *Tax haven and development partner - Incoherence in Dutch government policies?* Amsterdam, June 2007, SOMO

<sup>18</sup> Depending on the availability of data.

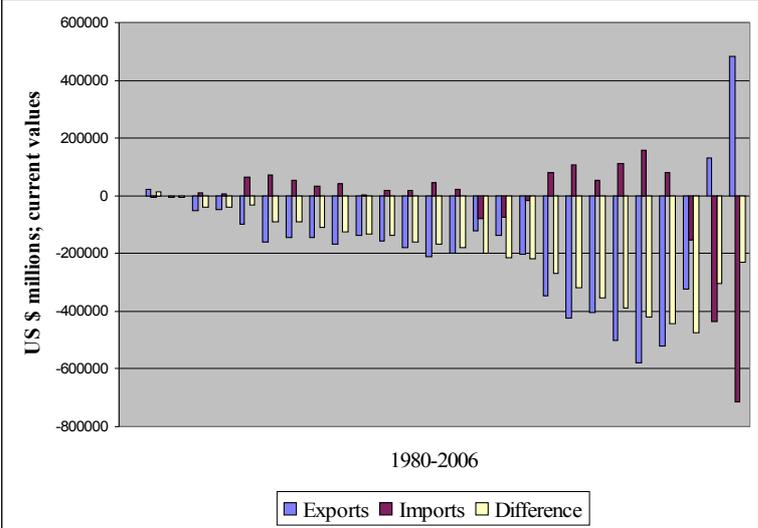
<sup>19</sup> UNCTAD: *Handbook of Statistics 2007*

Within the debate about the role of international trade attention has been given to the subject of the deteriorating terms of trade of the developing countries.<sup>20</sup> The criticism included the argument that such deterioration implicates a growing unevenness in the interchange of use values: the South has to export, in relative terms, more and more use values so to be able to import use values from the North. According to UNCTAD<sup>21</sup> the terms of trade of all developing countries has gone down slowly during the years 1980-2006, although during the last three years one can observe some betterment, see figure D.



**Figure D: Terms of trade indices; all developing countries**

As said, the deterioration of the terms of trade is slow. Nevertheless it is of great importance because of the fast growth of world trade including the international trade of developing economies. It is possible to calculate the implications of this evolution by comparing the actual monetary value<sup>22</sup> of the actual exports and imports<sup>23</sup> with the original values supposing the relative prices of that trade would not have changed. The following figure E shows the results based on data from UNCTAD: from 1982 on we see a negative balance, which is overwhelmingly caused by the lowering export prices. That negative balance grows to enormous proportions at the end of the nineties.



**Figure E: Terms of trade: gains (+) or losses (-); all developing countries**

<sup>20</sup> See e.g.: UNCTAD: *Trade and Development Report 2005* (Geneva, 2005, UNCTAD), chapter III

<sup>21</sup> UNCTAD *Handbook of Statistics 2007*, table 4.2.

<sup>22</sup> See the value indices in UNCTAD, *Handbook of Statistics 2007*, table 4.2.

<sup>23</sup> Idem table 1.1..

This graphic presents the data at a high level of aggregation, that of all countries that are labelled by UNCTAD as developing economies. In the next table 1 the results are summed up for the whole period and differentiated for the total of developing economies and for three sub groupings: major exporters of manufactured goods, major petroleum exporters, and the least developed countries.

**Table 1: Terms of trade: gains and losses (US \$ millions, current values, 1980-2006)**

	<i>All Developing Economies</i>	<i>Major exporters of manufactured goods</i>	<i>Major exporters of petroleum</i>	<i>Least developed countries</i>
<i>Exports</i>	-4.632.615	-4.707.532	-1.169.849	-435.059
<i>Imports</i>	-496.662	2.097.072	-1.552.620	166.580
<i>Difference</i>	-5.129.276	-2.610.460	-2.722.469	-268.479

All the groups of developing countries do have a negative balance of effects of the change in terms of trade.

Comparing these results <sup>24</sup>with the flow of ODA we get the following results, see table 2.

**Table 2: Terms of trade gains and losses; official development aid (US \$ millions, current values; 1980-2005)**

	<i>All Developing Economies</i>	<i>Major exporters of manufactured goods</i>	<i>Major exporters of petroleum</i>	<i>Least developed countries</i>
<i>Terms of trade gains and losses</i>	-4.898.546	-1.957.425	-2.895.955	-260.016
<i>ODA</i>	1.528.050	242.306	188.422	386.387

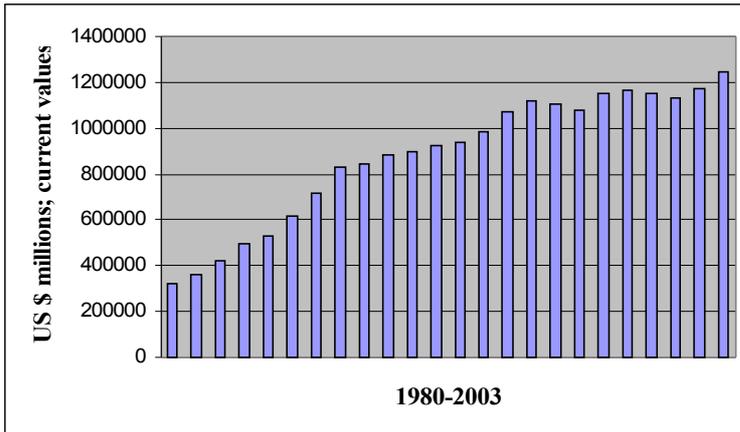
This table makes clear that the losses caused by the deteriorating terms of trade are enormous when compared with the ODA in the same period. That with the exception of the least developed countries where a slightly positive balance can be observed.

#### *Debt*

As shown by the next figure F, total external debt of developing countries is still growing.<sup>25</sup>

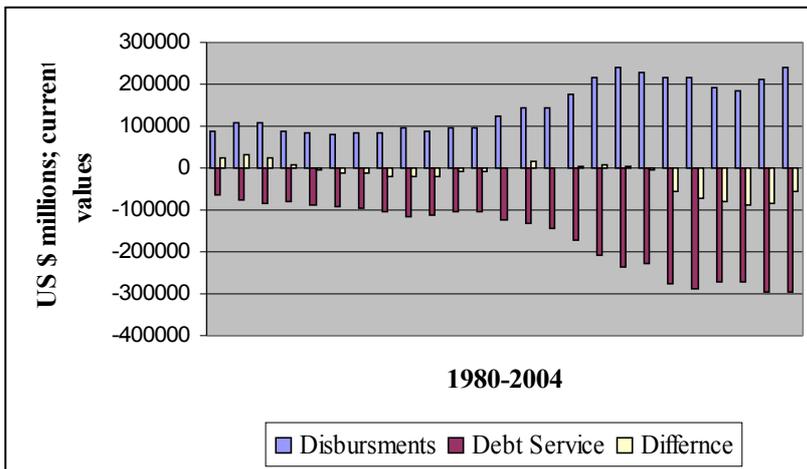
<sup>24</sup> 2006 figures are not included.

<sup>25</sup> UNCTAD *Handbook of Statistics* 2005, table 6.6, including public and private long term debt. According to The World Bank, total debt of developing countries amounted in 2005 to US \$ 2.742 billions, of which 78 % long term debt. See: *Global Development Finance 2007, The globalization of corporate finance in developing countries, II Summary and country tables*, table 2 page xxxv. New York, 2007 The World Bank



**Figure D: Long-term debt all developing countries**

Nevertheless, as the figure G shows, during most years the total of debt services<sup>26</sup> of developing countries exceeded that of the disbursements of new loans.<sup>27</sup> This means that these countries are financing the received loans themselves, and more than that.



**Figure G: Disbursements of loans, debt service, long term debts; all developing countries**

As can be read in the tables 3, this overshoot occurs at almost all levels of aggregating developing economies. The exception is constituted by the non-major exporters of petroleum or of manufactured goods, among them the least developed countries. But last mentioned countries do finance themselves the major part of received loans.

**Tables 3: Disbursements of loans, debt service (US \$ millions, current values. long term debts)**

1980-2004				
	<i>All Developing Economies</i>	<i>Major exporters of manufactured goods</i>	<i>Major exporters of petroleum</i>	<i>Non major exporters of manufactured goods or</i>

<sup>26</sup> Long-term debt service payments are the sum of principal repayments and interest payments in the year specified.

<sup>27</sup> UNCTAD *Handbook of Statistics* 2006, table 7.7. Data derived from balances of payments of developing economies.

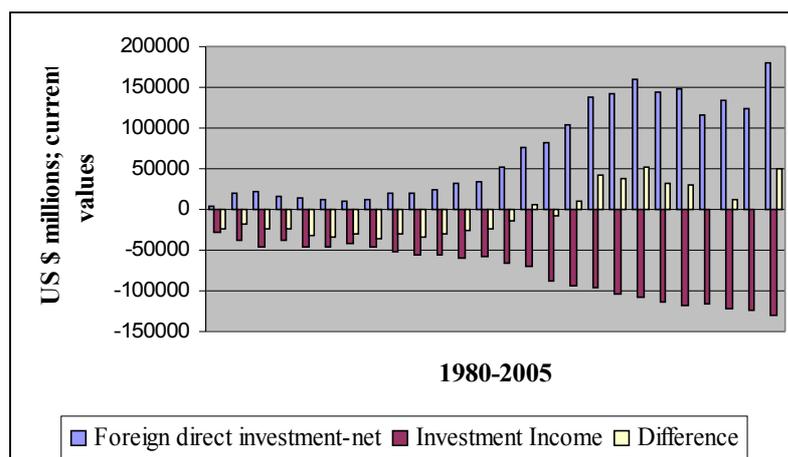
				<i>petroleum</i>
<i>Disbursements</i>	3.624.156	2.094.972	502.821	1.026.362
<i>Debt Service</i>	-4.058.544	-2.391.896	-683.528	-982.550
<i>Difference</i>	-434.388	-296.923	-180.706	43.812

1990-2004					
	<i>All Developing Economies</i>	<i>Major exporters of manufactured goods</i>	<i>Major exporters of petroleum</i>	<i>Non major exporters of manufactured goods or petroleum</i>	<i>Least developed countries</i>
<i>Disbursements</i>	2.717.252	1.670.656	325.831	720.766	88.642
<i>Debt Service</i>	-3.150.536	-1.908.231	-497.909	-743.826	-56.528
<i>Difference</i>	-433.284	-237.575	-172.078	-23.060	32.114

So, the question that arises is: who is aiding who?

#### *Foreign direct investments*

Little by little, the possible contribution of foreign private capital, especially foreign direct investment, became considered significant in both development literature as well as development policies. That significance would mostly lie in the possibilities for international business to modernize the economies of the South, to offer credit, create employment, and increase the proceeds of foreign currency. Thus the term 'development cooperation' came to include not only world trade but also investments and loans by international business, as well as traditional developmental aid. So, the next category of financial flow to be looked at concerns foreign direct investments in developing countries. These are related to profits draining from those same countries, the "investment income". The next figure H presents the data for the same period.<sup>28</sup>



**Figure H: Foreign direct investment (net), investment income; all developing countries**

<sup>28</sup> See UNCTAD, *Handbook of Statistics 2007*, table 7.1 and 7.2. These data, derived from balances of payments of developing countries, do not refer to all developing countries as for some countries data are missing. As far as foreign investments are concerned, only the direct investments are included.

Also with regard to these categories one can speak of a negative balance. Taking the period as a whole, developing countries are losing more in investment income than receiving on foreign direct investments. Only the major exporters of petroleum or of manufactured goods do present a slightly positive balance, see the next table 4.

**Table 4: Foreign direct investment-net; investment income (US \$ millions, current values, 1980-2005)**

	<i>All Developing Economies</i>	<i>Major exporters of manufactured goods</i>	<i>Major exporters of petroleum</i>	<i>Non major exporters of manufactured goods or petroleum</i>	<i>Least developed countries</i>
<i>Foreign direct investment-net</i>	1.842.056	1.268.482	127.790	445.785	39.264
<i>Investment Income</i>	-1.958.899	-1.123.327	-107.931	-727.642	-95.625
<i>Difference</i>	-116.843	145.154	19.858	-281.857	-56.360

#### *Overshoot of the biocapacity*

As shown by the graphics of the WWF mankind is using the resources of the earth in such a way that the reproduction of natural resources is lacking behind. According to the (latest) Living Planet Report 2006, that overshoot corresponds with about 25 % of the biocapacity. The footprint of the total world population was in 2003 14.1 billion gha<sup>29</sup>. Based on estimates of the conditions of sustainability only 11.2 billion gha was permitted. So, the overshoot corresponds to 2.9 billion gha.<sup>30</sup> That is an enormous amount. Who is responsible for that overshoot? The LPR gives very clear data, showing that the great majority of developing countries, including the most populous like China, India, Indonesia, Pakistan, and Nigeria do have an ecological footprint per capita below the level of sustainability: 1,78 gha. And all the countries known as high income countries (including some “developing” countries like the Arab oil states), and also many of the middle income countries (including “developing” countries like Brazil and Venezuela) show an ecological footprint above or far above the level of 1.78 gha.

What should be taken in account is that a high ecological footprint in countries like the Netherlands or the USA does not mean that those populations use only natural resources from within the boundaries of those states. All resources used are included, so also those coming from developing countries. And yet the people living in these countries are affected by the withdrawal of resources by the overshooting countries. So one can conclude that there is a massive flow of natural values from the South to the North.

How does this relate to the flow of official development aid? Is a comparison possible? We know the total sum of ODA in 2003: US \$ 56 billion.<sup>31</sup> But we don’t know the monetary value of the ecological overshoot. Only for the sake of the argument, let’s find a price of a hectare. For instance the price of a hectare agricultural soil near Timisoara, Rumania. Why not? That

<sup>29</sup> Global hectares (gha): hectares with world-average biological productivity. (WWF: *Living Planet Report 2006*, page 38)

<sup>30</sup> WWF: *Living Planet Report 2006*, page 14.

<sup>31</sup> UNCTAD: *Handbook of Statistics 2007*, table 7.6

price is €1.300<sup>32</sup>, or US \$ 1950. Taken that price the monetary value of the ecological overshoot is: US \$ 5.655 billion or hundred times the value of ODA. Of course this way of calculating does not merit the Nobel Prize. But, as said, it is to illustrate the argument: the withdrawal of natural resources from the South to the North through the system of ecological footprints is of greater value than ODA and all other monetary transfers from rich to poor.

## Conclusions

Since Harry Truman, much has been adoo about development cooperation. Great words and many billions of dollars, euro's and yen's have been spent aiming at combatting the severe poverty of billions of peoples. During those same 60 years, many positive results have been obtained in fields like health, education and infrastructures. Yet, problems of poverty and ecocide have grown dramatically. Who is to praise or to blame?

At least we can conclude that the evolution of international economic relations between the North and the South had led to vast streams of reversed development aid. Reversed, because intensified world wide relationships in the fields of trade, loans and private direct investment have led to transfers from the South to the North much greater than all transfers from the North to the South. Above that, the transfers of use values like nature values<sup>33</sup> do have a combined value of a magnitude incomparable larger than all development aid and caused mainly by overconsumption by the Northern peoples.

There is a fundamental misunderstanding about what is really going on within the South-North relationships. In stead of being "givers" the Northern are "takers" from the South. Let's start to recognize our real position of actors in this globalized world.

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<sup>32</sup> <http://www.speurders.nl/zakenentransacties/veeteelt/34218809/roemeni>

<sup>33</sup> The transfer of human use values in the form of migration has not been included. It could be interesting to recalculate the figures presented by Andre Gorz in his article: *Immigrant Labor*. *New Left Review* 61 (1970): 28-31