

Comment on “Aid and Development Policy in the 1990s,” by Arjun Sengupta

Henrik Fugmann

Of course one has to be careful in commenting on a paper by Arjun. First, because he is excellent and his very substantive paper is a testimony to that, and second because the rest of us is not easy to convince.

Let me start off by saying that I do not agree with the general attitude that seems to be that any international monetary system should have as an integral part development assistance and aid. The monetary system has its objectives and means, and development policy has its own objectives. Of course those two systems interact, but the more you confuse or mingle the two together the less likely we are to make progress. History has taught us that linking the two systems is not advisable. John Williamson has made that point on the SDR; the development link to the SDR effectively killed the SDR.

I agree basically on many issues and goals in Arjun’s paper, but I do not agree with the implicit philosophy and some of his remedies. The paper contains all the right things: he says the right things on liberalisation and market economy, but it still seems to me when you read the paper as a whole, that it is a little bit paying lip service to these principles. I am afraid you are back to the idea of the 1960s of throwing more money at the problems and then hoping they will be solved.

The one issue I definitely agree with is on trade policies and free market access, and it is gratifying that Arjun Sengupta can keep up optimism after four years in Europe.

To come to the support groups or development contracts, this is something which runs counter to a more liberal, more market oriented outward looking approach, and I don’t see that it will secure a burden sharing. What it will secure is an even more politicised process than you have seen so far. I don’t think you can really compare it to the support groups in the arrears strategy of the IMF, but if you set down the support group like the one you propose now, it will be permanent and much broader, and it will be difficult to keep that together. I am not sure that you will have the best result by sort of regionalising or making groups of that kind.

There is also too little emphasis on the developing countries’ own responsibility. You talk about pursuing policies in good faith, and you talk about commitments which have to be monitored and not actual results. You have to do both. Policy commitments are important to monitor because you can achieve certain results by different means and obviously the donors and

the international institutions should have a say in the means as long as you borrow from them. Also these support groups would be too weak vis-a-vis recipient countries. They have no political backbone, they will dilute the international financial institutions' responsibility whose advice they are going to take.

Apart from the lack of stress of developing countries' own responsibilities it is also, and recent experiences has shown that, of prime importance to get industrial countries to get their own houses in order, because otherwise you will never get the necessary political support to do anything. You have to look at development aid and plans, and structural reforms of the World Bank together with the IMF software, i.e. policy advice, and, to a limited extent, its money. And of course, the process down that road has been started some years ago and more has to be done in that direction. But here we still have the fact that cross-conditionality in some broad sense of the word is still a no-no. Then secondly, and that speaks in favour of support groups or development compacts, the ideal would also be to let national aid administrations coordinate much more closely with the IFIs. But they still want to have their own national flags planted. Also, because there is a movement towards more tied aid it will be very difficult to have national aid administrations coordinate.

Then Arjun is addressing the interesting issue of resources for aid. I think you would have great difficulties in convincing populations in industrial countries that they are in a position of declining margins of utility of income. To the extent that they have any sense of that, it will go for environmental purposes. In Europe, at least, it will also go for Eastern Europe. To try to convince them of the need for an international tax for developing countries is more than difficult. One can also look at the present difficulties in the Community in adjusting fiscal deficits and getting growth underway. The two main topics in Europe are the environment and CIS. It will be difficult in getting any further than that. Arjun may be able, if he stays on in Brussels long enough, to convince the EEC Commission to come up with the proposal for an international tax for that purpose but I am sure the member states will not accede to it.

There is a need to make an even stronger case for concentrating on what you have called the 'silent revolution': the spread of the market gospel, and try to convince politicians that that is what we need. The most important sin of industrial countries is bias in trade, protectionism and bilateralism. Look at the GATT Round and see the US lack of leadership and also for that matter the EEC. In general, the signs of a breakdown of the multilateral system in various areas is the most worrying aspect for developing countries and for smaller developing and industrial countries in general. There is absolutely no leadership at present, even the G-7 does not work in spite of all the rhetoric.

Finally, on the EEC adopting certain developing countries: you have to have a general liberalisation of trade, multilaterally and unilaterally. The agreements of the EEC with Poland, Hungary and Czechoslovakia are highly inadequate, from those countries' point of view. And we have not been successful as economists or civil servants in convincing politicians of the blessing of trade liberalisation.

It should not be too difficult for the EEC to suggest a few selected developing countries. However, it will be extremely difficult to choose. Spain will look at Latin America to find partners, France will look at certain areas of Africa, the United Kingdom will look at different areas of Africa, Germany has enough in Eastern Europe and CIS, and others will look at the poorer sectors, so I am not too optimistic about that. This is an additional argument in favour of general trade liberalisation.

In my view, we should address two most important issues, namely the lack of political will for international cooperation (which is much more an issue today than it was 10 or 15 years ago) and the tendency of breakdown of the multilateral system.