HOW MUCH AID FOR UNDERDEVELOPED COUNTRIES?

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May 1967
1. Introduction: From Gap to Gap

How much aid do developing countries need? There have been a number of estimates of the savings gap—the difference between investment levels needed to sustain a specified rate of economic growth and the estimated funds available from a combination of domestic saving and probable capital inflows from abroad. There have also been estimates of the trade gap—the difference between estimated import level required to maintain the specified growth rate and probable foreign exchange revenues available from a combination of exports and capital inflows. More recent analysis is based on a so-called two gap approach—in which the larger of the two gaps is applied on a country-by-country basis to emerge with a combined world total. Those of the estimates that are roughly comparable emerge with a total requirement for anywhere from $10 billion to $20 billion annually by 1970 and $16 billion to 34 billion by 1975. The variation is accounted for by differences in target growth rates in the world.

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economy (ranging in the estimates from 4.1 to 5.5 per cent per year for LDCs), in behavior of exports and imports, in assumption about savings propensities in developing countries and about the relation between investment and changes in output.

A good deal of effort and analytical refinement have been injected into the analysis of LDC requirements for foreign capital, and in the process economists have been able to apply an increasingly sophisticated technique to measurement of the gap. I suggest, however, that further refinements of the aggregate gap analysis are virtually valueless as guides to policy, although they may be of considerable professional interest. Nor are the existing estimates, despite the great differences among them in input of effort and intellectual novelty, of much more value than the casual observation by Mr. George Woods that underdeveloped countries could today effectively use an additional $3 to $4 billion annually of capital from abroad. This is not to suggest that Mr. Woods' estimate should be taken any more seriously as a guide to the size of the gap than any of the econometric guesses cited above.

Gap estimation exercises are essentially a
political arithmetic, a technique for quantifying discontent. They put the seal of rationality on donors' charitable inclinations, or on the aspirations of nations that receive aid. A nation with an average annual income of $150 per head has an economic plan aimed at raising real income by say 3 per cent per head per year—a goal that, according to the planners, requires $50 million annually in gap-filling aid. Is there anyone so naive as to imagine that the contentment of its people or the stability of its government or social system will be assured by the gap-filling aid endowment? In the brief silence that follows, let me point out the obvious: the pause ensues because the gap that we are dealing with is the one that separates the aspirations of governments and people in underdeveloped countries from their present realities. This gap is not only vast, but multidimensional. It cannot be encompassed by any computations of the margin that separates savings from investment targets or exports from import requirements. This is not to say that it lacks any measurable dimensions; as we shall see, there are some. But first, let me enumerate
the dimensions. All of them are all too obviously interrelated.

(1) The aid requirement is usually discussed in terms of an economic gap. The size of this gap can roughly be measured by the difference between average income in developing countries and that in industrial nations. The economic gap also includes an element of domestic income distribution. Oil-rich countries for example have high per capita income, but very unequal distribution, and an aspect of the economic gap thereby remains unfilled.

(2) Another gap is social. The developing countries aspire to build modern urbanized societies, moving, in the well worn phrase, from status to contract in social relations.

(3) A third gap is political, reflecting a desire for mass participation in a stable political system, either in the form of parliamentary democracy, or of various forms of state socialism.

(4) A fourth gap is psychological, built from a consciousness of representing nations that are not "modern", where people are less able to utilize
the mixed blessings of contemporary technology; of belonging to colonial societies with their heritage of inferior status, often with overtones of racial inferiority; of belonging to social groups that maintain, despite themselves, feelings of inferiority born from the awareness of educational and cultural deprivation.

(5) A fifth gap, incorporating elements of all the others, is the gap in the quality of life. In industrial countries, life is usually long and reasonably healthy; people spend from ten to twenty years as students, developing their intellectual and technical skills; the majority of them are relatively insulated from real poverty; leisure time and means to enjoy it are normal constituents of life; the majority, whatever their doubts and insecurities, do not feel that other contemporary societies are clearly superior to modern industrial ones; and finally, with obvious serious exceptions, most people feel that they hold in their own hands at least some share in determining their material destiny. By and large, only a tiny fraction of people in poor
countries can boast these advantages; and that minority serves to make its countrymen more aware of the gap in the quality of their own lives.

(6) The first five gaps are overlapping differences that many people in poor countries are either directly aware of, or in the case of certain social or psychological elements, express through hostility to the policies of rich nations. The sixth gap, if we can call it one, is often not something that people in poor countries seek to close, despite its adverse effects on the quality of life and on economic standards. This is the gap in population growth rates. Governments of developing countries would generally prefer to bring population growth down to the levels prevailing in industrial countries, but individuals do not necessarily share this opinion. In many countries, family limitation is far from an universal quest; and it would require an obsessive attachment to social goals for people to wish to shorten their own life expectancies as a sub-
stitute for family planning.

Now that we know that multiple gappos is a condition of the world community, what does it have to do with how much aid developing countries need? The answer is that it depends on what gaps you want to fill. In terms of costs, the cheapest to fill is probably the population gap. It has been estimated that investments in birth control in India are of the order of one hundred times as profitable as investments in production. But this gap may be hardest of all to fill presently, in view of the existence of the first four gaps.

2. The Economic Gap

How much would it cost to fill the economic gap? It depends on the time horizon. Filling it halfway at once by raising per capita incomes to say $1000 a year, the bill would come to about $1.4 thousand billion, a sum roughly equal to the combined annual gross national product of the industrial countries, and more than two hundred times as much as the current aid flow.

If we rule out levels of philanthropy that reduce donors' incomes to zero, we could work out some equal average level of world income at about $630
per capita (1963), if the rich countries initially transferred about $600 billion annually to poor countries. These sums could naturally be reduced if the returns to investment in underdeveloped countries surpassed those in industrial countries. Then according to the implicit view expressed here, aid would flow back toward the original donors.

Neither of these alternatives are likely to win unanimous approval as methods of filling the economic gap. If adopted, they would do little to reduce most of the other gaps. For example, once government-to-government aid, somehow magically extracted from a willing public, starts hitting hundreds of billions a year, the political rewards that accrue to the dispensers of aid in the recipient countries would become substantial—the prospects for perpetual coups d'état would flourish. Nor would there be much systematic incentive to reduce other gaps in an atmosphere of megalargesse.

The reason for introducing these fantasies into the discussion is simply to demonstrate that if the goal is approximate equality of income, sights
must be set very high indeed. Even if we forgo the vision of instant equality, and aim only at equality with today's levels of income in rich countries after a generation, it means that on the average, per capita income would have to increase at the rate of 11.5 per cent annually over a twenty year period, nine times faster than the current rate. Even to reach current per capita levels of the rich nations within fifty years, by the year 2017, per capita GNP in the poor countries would have to increase by 4.2 per cent annually, three times as fast as it is now on the average.

How much foreign capital would it take to hit the 20-year target? Initially, we are talking about a $70 billion annual increase in LDC income, compared to a current annual increase of perhaps $8 billion in purchasing-power equivalent. For the fifty year target, the annual GNP increase required would initially be of the order of $25 billion. We can compute the subsequent aid requirement on the following assumptions: (1) foreign capital initially finances all of the increase in growth and is replaced progressively by
increased domestic savings; (2) the capital inflows allow LDC economies to build a sufficiently flexible structure to avoid growth restriction stemming from foreign exchange shortages; (3) each dollar invested increases value of total output by 33 1/3 cents in perpetuity, (4) rates of population growth decline by one-fourth during the period. All of these assumptions are probably invalid to some degree, but we will simply take the implicit fraud for granted.

In the first year of a twenty-year program, LDCs would be saving at their current rate of about $24 billion and rich countries would contribute $215 billion in grants. With marginal savings rates of 20 per cent, LDCs would save $41 billion in the second year, rich countries would contribute $240 billion and so on. The 20-year program aimed at bringing LDC incomes to 1965 levels in industrial countries would require an additional capital inflow of $11 thousand billion over the period, or an average of $550 billion per year. One dismaying feature of the twenty-year program is that under our assumptions, the 11.5 per cent per capita growth rate requires steady increases in foreign aid; although by 1985, domestic savings in
LDCs would be more than one-sixth of GNP, and could thereby sustain a 6 per cent rate of growth, unsupported by capital inflows.

In the slightly less fantastic fifty-year program, foreign capital requirements would total $2.1 thousand billion, starting at the rate of $93 billion in the first year, and declining to zero after thirty-two years, averaging $65 billion annually over the period, about seven times the current level of capital flows. If we allow population growth rates to decline by fifty per cent instead of by one-fourth, then the required capital inflow is a mere $1.7 thousand billion, averaging $64 billion annually over a twenty-seven year period.

In other words, there isn't enough money to fill the economic gap in any reasonable time period. Even to fill it halfway within a generation is impossible in practice.

For those who remain unconvinced, let's take a look at the success stories of economic development. Economic growth in the past fifteen years has been most rapid in a number of Communist countries, plus
Japan, Germany, Spain, Greece, Israel, Jordan, Iraq, El Salvador, Nicaragua, Trinidad, Jamaica, Venezuela, Mexico, Thailand, South Korea, and Taiwan. The Communist countries did the job by enforcing a tight squeeze on current consumption, and channeling the savings into investments, for capital plant and education. Japan and Germany had the basic skills, and the additional advantages of massive postwar aid, with further stimulus in Japan's case from the Korean war and in Germany's from cost advantages stemming from a large initial labor supply and the growth of the European market.

When we turn to success stories in underdeveloped countries, several points are clear. Table 1 lists growth rates, population, per capita aid, and export growth for the fast-growing countries (6 per cent or more annual increase in gross domestic product). First, most of the fast-growing countries are small. Ten of the thirteen countries have less than 20 million people. Second, most of them have either received massive U. S. aid, four to fifteen times the worldwide average per capita, or else struck it rich through minerals, tourism, or staple exports. Third, they
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<td>11(bauxite, tourists)</td>
<td>1.7</td>
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<td>5.9</td>
<td>12(tourists, industry)</td>
<td>39.6</td>
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<td>6.4</td>
<td>52(cotton, CACM)</td>
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<td>Trinidad</td>
<td>8.5</td>
<td>44(oil, tourists)</td>
<td>1.0</td>
<td>9.6</td>
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<tr>
<td>Iraq</td>
<td>9.4</td>
<td>7(oil)</td>
<td>7.0</td>
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<td>Israel</td>
<td>10.2</td>
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<td>Jordan</td>
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<td>241</td>
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<td>South Korea</td>
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<td>166</td>
<td>27.6</td>
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<tr>
<td>Thailand</td>
<td>6.3</td>
<td>15(rice, tin, maize)</td>
<td>29.7</td>
<td>4.9</td>
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<tr>
<td>All LDCs</td>
<td>4.8</td>
<td>27</td>
<td>1,422.1</td>
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(See Following Page for Footnotes)
The population totals include only countries receiving U. S. aid. If all LDCs were included the population total would be 2.3 billion; and aid over the 16 year period, on the basis of mid-period population, would total $18 per capita.

2 Corrected for terms of trade changes (1962=100).


4 1950-1962.
have been much more competitive in world markets than LDCs as a whole, as measured by comparative export growth rates. The only sizable countries that have grown rapidly over the 15-year period without much aid are Mexico and Thailand. Mexico benefitted substantially from the U. S. market for goods and tourism, and from access to international capital markets to help finance industry; Thailand from rice, tin and a fairly steady growth of all domestic economic sectors.

These "success" stories (with all the problems they still face barely hidden behind the facade of aggregate growth rates) account for only about six per cent of the people who live in developing countries; and have often been associated with massive aid transfers. If the remaining 94 per cent were to receive the same amounts per capita, U. S. aid appropriations would have had to reach $130 billion over the past 16 years, about three and one-half times the actual level of aid. Other donors' contributions (currently accounting for two-fifths of the aid flow) would have had to increase by the same proportions.

This gives us some indications of how much aid the developing countries need. More, much more, if they
are to bring their income levels even within hailing distance of current Northern levels by the end of this century. On the other hand, from the viewpoint of the industrial countries, the present level of aid seems to be about the right price for the diverse collection of diplomatic, military, economic, and philanthropic benefits they receive in exchange for their outlays. Aid outlays, after rising sharply from the early fifties through the early sixties, have stabilized over the past four or five years. The inference is that in view of other claims on rich nations' resources, present aid levels reflect social opportunity costs as perceived by donors.

Therefore, as might be expected, donors' and recipients' views diverge. Donors apparently are much less concerned in practice than in theory about the possible dangers stemming from a world permanently divided into rich and poor nations. Recipients, on the other hand, are much less worried in practice than in theory about the possible harmful social and political effects of excessive dependence on aid from imperialist countries. In fact, they are currently bargaining for preferential trade access to the markets of industrial
countries, and higher prices for commodities through international agreements. Both of these, if achieved, are virtually guaranteed to cement their economic and political dependence even more closely than aid, despite the apparently automatic and market-determined nature of the transfers.

Nor have the LDCs invariably demonstrated as much zeal in pursuit of domestic reforms as they have toward revisions in rich countries' aid and trade policies. In his recent study of economic policies toward less-developed countries, Professor Harry Johnson has demonstrated with balance and clarity, how the present barriers to LDC growth include not only external constraints (tariff structures that discriminate against LDCs, immigration controls, restrictions on capital movements, high-cost aid tying, etc.), but also domestic ones (excessive protection, overvalued currencies, ideological attachments to government controls that appear excessive in light of limited administrative skills; fondness for investments that are more monumental than productive; a reluctance to accept foreign private investment; domestic price systems that encourage high-cost manufacturing and
discourage agricultural development).

There has been a great deal of discussion of the remedies for LDC defections from economic grace. But since no one, despite all too frequent preconceptions to the contrary, knows all the sure formulas for economic development—or at times perhaps, any of them—we don't know whether the remedies are really remedies, necessary for promoting economic development. Overvalued currencies? Look at the ruble—or, some might say, the dollar. Pervasive government controls over the private sector? Japan's development was built on it. Excessive dependence on handouts—(in Hans Morgenthau's quaint phrase, "bum and beggar nations")? Taiwan, Israel, Jordan, South Korea, and the other success stories couldn't have gotten anywhere without passing through a "beggar" stage. Doubts about foreign capital? Mes chers collègues!

This snowballing of alleged prerequisites to development is related to another concept that has contributed to misspecifying the economic gap. The inability of economically backward nations to use massive capital transfers effectively has been defined in the expression "absorptive capacity", and it has
been claimed that LDCs are now getting all the aid they can "absorb". This expression involves a good deal of humbug, so let's try to straighten it out. If the purpose is simply to raise living standards, then absorptive capacity is not a significant barrier. The rate at which investment can be increased is likely to be a barrier, but when investment opportunities are limited, aid can switch over to consumption subsidy, which has much more elastic limits. Investment in most countries rarely rises at more than fifteen per cent per year for prolonged periods, but the rich countries have never really brought their resources to bear on the problem of raising LDC living standards. In the few cases cited in Table 1, where aid was both massive and effectively administered, most people's preconceptions about absorptive capacity for investment had to be jettisoned. And even then, the rich countries did not fully enlist the capacities of their private sectors.

This is a major weakness in the structure of aid to developing countries, because it is clear that if material progress is the aim, the rich countries have no instrument so effective as the modern corporation. Yet ideological hostilities and ignorance on both sides
have prevented any significant progress. U. S. annual manufacturing investment in all developing countries combined is less than its annual investment in Canadian manufacturing. Private investors of all OECD countries combined invest directly about $2 billion annually in developing countries, most of it for mineral extraction. The worldwide total is somewhat less than the annual domestic private investment of Belgium.

Not only is absorptive capacity reduced by inability to use private industrial initiatives effectively, and by our natural preference to think small when it comes to voting public funds for foreigners, but also because we are using the wrong intellectual framework in thinking about the problem. We often hear that aid is used unwisely in underdeveloped countries, so therefore there is something wrong. Of course there is--the countries are underdeveloped. To apply the economic efficiency standards of Western Europe or North America to gauge the investment performance of LDCs is ridiculous. If they could invest capital as effectively, maintain machinery and equipment as well, administer public and private enterprises
as smoothly, they would be rich, not poor. Waste and inefficiency should be looked on as normal companions of an accelerated development effort, not to be encouraged or placidly accepted, but as elements that can only be reduced gradually. Once we realize that different standards of performance are necessary for LDCs, then absorptive capacity becomes a flexible concept indeed, even if confined solely to investment and technical assistance.

As far as the economic gap is concerned, then, I have said that there is no practical way to fill it with the amount of aid that would be needed, from the recipients' viewpoint. From the donors', there seems to be no strong urge to raise the ante. What does this imply for the question we started out with--how much aid do developing countries need? The answer seems simple. All they can get, except when countries are too underdeveloped to handle large sums in a hurry (many African nations today might serve as cases in point).

3. And All The Other Gaps

So far, I've talked as if underdeveloped countries needed only economic aid to fill in the distance between present reality and some version of that relentless vision of a good society that dogs us all differently.
In a way—a backwards one—we might say that filling the
economic gap takes care of all the others. This is true
only in the restricted sense that all the gaps act to
some extent as barriers to bridging the others. If
one is overcome, there is *prima facie* evidence that the
others are relatively small. They interact, and filling
any of them has implications for the state of the others.

But can or should rich countries address them-
selves directly to the social, political, psychological,
cultural elements of the gap, rather than indirectly
through economic aid? An economist must tread this
ground carefully, and I will be brief. A social
anthropologist has tried to answer this question, on
the basis of African experience.

"There is much to be gained, and many mis-
conceptions can be avoided, if the economic
problem of an underdeveloped community is
framed, not in terms of the vicious circle
of poverty, Malthusian pressure or inadequate
capital formation, etc., but in terms of
strategic factors of an ultimate character,
namely its social and psychological inertia....
Economic development of an underdeveloped
people by themselves is not compatible with
maintenance of their traditional customs and
mores... What is needed is a revolution in the
totality of social, cultural and religious
institutions and habits, and thus in their
psychological attitude, their philosophy and
way of life...."
"If economic progress is deemed desirable and necessary and policy is to be formulated to achieve this end, the cart could in a certain sense be put before the horse in that economic changes can be utilized to generate the social revolution.*

The author seems to be saying that economic instruments, if properly used, may catalyze the social changes that lead to a multidimensional development. Yet we often hear that economic instruments cannot work effectively as agents of change, because they would create unacceptable strains in a rather rigid social system. The impediments to economic growth imposed by the caste system in rural India are often cited as a case in point.**

Perhaps the basic point is that students of sociology, anthropology and psychology are in a difficult position. They observe rather clearly the limitations of a strictly "economic" approach to aid, without disposing of the instruments to surmount those limitations.

There are of course aspects of aid that do go


rather directly to some of the issues of social change. To the extent that technical assistance, foreign training, subsidies to education or the Peace Corps introduce new ways of looking at issues, they may serve as catalysts for the social situation. Of course, they may also disclose strains that serve to solidify resistance to social change.

The approach suggested by the above quotations may in the short run be more practical than any attempt to operate directly on social organizations and attitudes in a world where nationalism reigns and xenophobia is the order of the day. In order to catalyze development, economic aid can be used deliberately with the advice of behavioral scientists as a lever to affect the social matrix.

This proposal has two obvious disadvantages. First, it makes heavy demands on the behavioral scientists—are they confident enough of their knowledge to be sure which catalysts will be positive and which negative in terms of any stated set of goals? Second, since the issues overlap, social change and desired political change may not go hand in hand. If social revolutions are held necessary in some instances, are
their political consequences likely to be acceptable to aid donors? I venture to guess that our ability to predict this interaction correctly is limited.

These disadvantages are, in my opinion, probably less than those that have already been incurred by insufficient attention to the non-economic elements in development. A more important role for behavioral science in the planning and review of economic aid would probably benefit the long-run interests of donors, and at the very least make clear to recipients some of the implicit inconsistencies among national modernizing objectives and their existing value systems.

Finally, a word about the population growth gap. It has been argued that rapid population growth is not necessarily a disadvantage for development—one might cite Israel, Mexico and some of the Central American countries as examples. The challenge of incorporating more people productively may stimulate positive responses, and so on. Larger populations may make possible more division of labor, economies of scale and higher real incomes. Optimum population is a vague concept—the conservationist has one idea, the economist,
the sociologist, the politician each another, and so on. It does seem clear, however, that some countries are clearly adding people too fast to please anyone who takes a national viewpoint. India, Pakistan, China, Ceylon are standard examples. If labor productivity is low, then the benefits from birth control may outweigh the costs manyfold.* To an economist, therefore, population control efforts seem well worth subsidizing, even to the point of paying bonuses for limiting births in some LDCs. Governments have often adopted the opposite device—payments to families for bearing children—so that the idea of financial incentives for influencing family size is no novelty. In cases where this is not feasible, or the need for family limitation is less urgent, government subsidy of birth control information and of the devices adopted, seems most desirable. In terms of the criterion of aid requirements, population control may often appear the most effective method for reducing the amount and time span of dependence on foreign capital, as we saw in the hypothetical example above.

4. **Conclusions**

We are a long way from felicity in the relations between rich and poor countries. There is a heritage of mistrust, reinforced by the LDCs' knowledge that they are dependent on rich countries for technological progress, for economic and technical assistance and often even for the exemplars of society's cultural standards, both popular and élite. In this hothouse of resentment and dependence, we can expect a luxuriant growth of hostility, rationalized on ideological grounds, and easily utilized as elements of broader international power conflicts.

There is no easy way around these difficulties. No levels of aid that now seem likely can accomplish the reconciliation. For that matter, there is no guarantee that vast increases in aid would reduce the resentments for long.

The obvious answer seems to be found in the political cliché--"if you can't beat them, join them." The rich countries could deliberately adopt policies aimed at fostering the social revolutions that may appear to be necessary conditions of development. As a practical matter, it may be doubted whether such
policies would have much content. It is one thing to announce support for revolutionary social and economic change. It is another thing to effect those changes by the machinery of intergovernmental relations. Nor is it likely that the rich capitalist countries would support regimes that insisted on drastic redistributions of wealth; yet the present distribution of property and power in certain Latin American countries is alleged, for example, to be inconsistent with the goal of effective progress in economic development.

Therefore, in many cases, the choice is between providing aid where the political or social conditions are inopportune, and not providing aid at all. Haiti and the Philippines may be cited as examples. In one case, donors have all but suspended aid, as an indication of political mistrust. In the other, aid has been continued, because the political consequences of no aid were assumed to be more unfavorable to donors' interests. In neither case is there much hope for rapid development, in the absence of major political and social changes. Yet it is clear that neither the withholding or granting of aid has been a major element in contributing to those changes. This is not to say
that aid can never be an effective political weapon--the recent history of Brazil and Indonesia offers testimony enough. But we may well close by asking whether the changes so induced, favorable as they may be to donors' immediate political interests, really do much to overcome the underlying social and economic weaknesses that made the weapon effective. The endless rotation of fragile regimes seem to be a trademark of many poor countries. As long as they are so easily juggled, it is evidence to me, in those countries at least, that the more enduring accomplishments of foreign aid remain largely prospective.

The ultimate gap of course lies in rich and poor countries' perceptions of the issues. Donors hypothesize a relationship among political stability, economic growth catalyzed by aid, and donors' self-interest. In fact, economic growth and political stability are often inconsistent. So the dilemma is genuine, if it is true (as I doubt) that political stability in LDCs is always preferable to political instability. Furthermore, donors try to limit the application of this hypothesis, by invoking absorptive capacity and LDC economic solecisms to rationalize inadequate aid levels.
Recipients, on the other hand, have tended to follow the normal and convenient device of putting the blame on Dad. If only aid were bigger, trade concessions greater, rich countries less neo-colonial, then, brothers, then....

In fact, of course, all parties are to some extent at fault—the rich too stingy and too free with avuncular ideology, the poor reluctant to abandon their own cherished stereotypes for the harsher reality. We will need the likes of George Marshall and our European colleagues on both sides to bridge this ultimate gap of communication, the most delicately fashioned bridge of all, its cables spun from a treasury of goodwill, its roadway built on wisdom in the affairs of men and states, its pillars sculptured from the rock of common material interests. It remains an open question whether any of us will ever attend the ribbon-cutting ceremony for this particular construction. If we do, our careers would be rewarded with a felicity that even George Marshall might have considered it a privilege to share.