

Analysis and Implications
of a
Basic Human Needs Strategy

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This review is aimed at clarifying in a preliminary way the objectives of the BHN strategy, the set of economic policies that can best promote it, and the implications for U.S. foreign economic policy if a BHN strategy is adopted as a major focus of U.S. policy towards the LDCs.

A. Basic Human Needs and Other Economic Objectives

The objective of a BHN strategy is to progressively narrow the gap between some minimum standard level of consumption, and the consumption levels of the poor--defined here as those individuals who cannot afford to reach that standard. In general, a BHN strategy aims at reducing poverty by diminishing this gap. However, a special case--the goal of completely removing the gap by a specific year--is the objective cited in most discussions of BHN strategies.*

The target group--the poor defined in absolute rather than relative terms--would tend to constitute the large majority in low-income countries, hence the often used term "poor majority." For middle-income countries, the target group might be smaller relative to the total population, but could well be large in absolute numbers.

Two propositions provide the rationale for a BHN strategy in LDCs: first, that satisfying BHN should be the fundamental objective of any development strategy and second, that current trends and strategies will not effectively address this objective. Neither of these propositions is wholly acceptable. There are other valid objectives of a development strategy, and there are other strategies that would further satisfaction of basic human needs.

*For example: Employment, Growth, and Basic Needs: A One-World Problem, International Labor Office, Geneva, 1976
The United States and World Development: Agenda 1977
Overseas Development Council, New York, 1977

Growth in GNP, employment, and income distribution are other, conceivably important elements in a development strategy. Insofar as these contribute to satisfying BHN, even a strategy focusing exclusively on BHN as an objective will tend to promote growth, employment, and a more equitable distribution of income. In particular, to the extent that a BHN strategy concentrates on the long run, the role of growth in GNP in meeting BHN in the future should be explicitly taken into account.*

Nevertheless, a properly conceived development strategy will probably also be concerned with growth, employment, and changes in income distribution apart from their effects on raising consumption of the poor. For instance, it might also address the needs of the near poor; i.e. those individuals who are able to meet basic human needs, but whose welfare standard continues to be quite low. More generally, it will likely be concerned with the capacity and performance of the economy in meeting other than basic needs. At the extreme, an exclusive BHN objective would imply that, for the same cost in resources, an outcome is preferred in which all the people perpetually consume at levels just sufficient to satisfy BHN to an outcome where, e.g., five percent of the population remains poor (i.e. basic human needs unmet) while 95 percent enjoys increasing prosperity.

To the extent that other objectives conflict with a BHN priority, the measure of relative concern for BHN is the amount of resources devoted to meeting basic human needs, compared with those allocated to attaining other objectives. It will be argued that under current economic and

*However, the more quickly the consumption gap must be closed, the more likely that resources will be allocated to satisfying BHN in the short run in ways that have less positive effects on the growth rate of GNP in the long run. This point will be elaborated later in the paper.

Technological conditions, a sizeable volume of resources could be effectively directed towards progressively raising consumption levels of the poor, in ways that would also promote growth, employment, and a more satisfactory overall distribution of income. That is, in the context of a long-run BHN strategy, economic conditions suggest that the point at which most LDCs face a very sharp trade-off or conflict between growth/employment objectives and BHN objectives is not proximate. However, political constraints--concern in the LDCs about what kind of growth and for whom, and donor country political criteria for allocating foreign assistance--may tend to sharpen the conflict between BHN and other objectives.

The second part of the rationale--that current trends and policies in most LDCs will not effectively address BHN objectives--also needs to be qualified. In many LDCs that successfully attained high rates of GNP growth in the 1960's, the situation of the poor showed little improvement. However, significant exceptions are Taiwan and Korea, which did well both in overall GNP terms and in terms of meeting BHN, through policies which allowed better utilization of resources, particularly labor. Moreover, experience with strategies formulated in the early 70's, which tend to focus on promoting employment and improving the distribution of income, is too recent and scanty to be conclusive. If, as the preceding paragraphs suggest, BHN objectives are not immediately in conflict with objectives of growth, employment and income distribution, then a strategy focusing on these latter objectives can in some measure address the BHN problem. In other words, a BHN strategy would not necessarily entail an abrupt departure from strategies which emphasize employment and redistribution of income as well as growth.

Most of the remainder of the paper assumes that raising consumption levels of the poor--i.e., those who cannot presently satisfy basic human needs--is a major, but not exclusive objective of development strategies. The discussion of how to accomplish this objective will point out the implications for GNP growth, employment, and income distribution.

B. Basic Human Needs as an Objective

The objectives of a development strategy must be concrete and measurable, in order to appraise its effectiveness. A basic human needs strategy thus calls for:

- (1) Identification of those goods and services that address and satisfy BHN, and the minimum acceptable levels of these. These levels can be expected to vary across regions, cultures, age groups, and other characteristics of the poor.
- (2) Identification of individuals or groups below the standard identified by location, personal characteristics, and economic characteristics.
- (3) Measurement of the gap between current levels of consumption and the minimum standard levels. First, this can serve as a basis for crude estimates of the resources needed to universally satisfy BHN. Secondly, the strategy in particular countries might possibly call for initially identifying and addressing the needs of the poorest of the poor--those for whom the gap is widest.*

*Such a priority is not implicit in the general concept of a basic human needs strategy, but rather would represent a political value judgment.

- (4) Information on trends in these variables over time since the concern is not just with the current gap but the prospective gap, and measuring changes in the gap over time is an indicator of success of the strategy.

The commonly listed goods and services in the BHN literature are: food, clothing, shelter, water, health, and education. Transportation and sanitation have also been mentioned in some studies, although sanitation may be associated with shelter, and transportation might be thought of as an intermediate service (a means) as opposed to a consumption service (an end). The order of listing does not necessarily reflect priorities but rather divides goods and services into those likely to be efficiently provided through private markets (food, clothing, and possibly shelter), and those which will likely be provided publicly.

The problem of measuring minimally acceptable levels of these is difficult in principle, because value judgments are involved. This is inherent in the term "needs." There are further problems that in practice, if not in principle, the decision about minimally acceptable levels is likely to be tied to resource availability: What are perceived as needs depends in part on the overall income level of a country.

These problems should not be overemphasized, to the extent that the effectiveness of the strategy will be judged in terms of moving towards the goal of satisfying BHN. What are needed are some measurable standards so that progress can be quantified. Whatever the standards, progress is certain to be slow enough that there would be time and opportunity to alter the standards, without serious losses in efficiency. Also, the costs of overshooting the true need levels are not particularly regrettable.

The goals finally arrived at can be expressed in physical units for the evidently private goods. For the publicly provided services, water can be measured in terms of volume, and education (roughly) in terms of years of schooling and/or literacy targets. Health services are more difficult to quantify, but might be measured in terms of ratios of medical personnel with supplies to numbers of poor. Publicly provided services in particular have a distance/accessibility dimension. For instance schools must be located near the poor, and must also be suited to the needs of the poor. The well-established tendency for the benefits of publicly provided services to tilt towards the nonpoor demonstrates that it is not sufficient to describe goals simply in terms of capacity.

As an example, a study of BHN in Bangladesh set minimum standard levels of 2150 calories per day for nonworkers (3300 calories per day for workers); 12 square yards of cloth per year for each woman (six yards for each man; three yards for each child); and a house consisting of two rooms (each about 150 square feet) with a tiny space for cooking for an average family of six, with access to reasonable, though not necessarily modern, toilet facilities. Health standards were discussed in terms of aiming for eradication of epidemics and mass disease, as well as insuring "adequate" attention in cases of illness, childbirth, and infant care. The study discussed targets of one doctor per 3300 people (the Asian average) and/or one medical worker per 1200 people, at the same time admitting that these targets represented not so much minimally acceptable standards, but rather

feasible goals. Educational standards were set at (i) literacy for everyone and (ii) a basic primary education for children. Water requirements were defined as one tubewell for every 20 families.*

For the privately marketed goods, these quantities can readily be translated into values using current prices. If these prices remain in effect, then the problem can be couched in terms of generating sufficient monetary income to enable the poor to purchase food, clothing, and shelter. The presumption is that given the demand private markets will respond so that--whether domestically produced or imported--the goods will become available. To the extent that the supply response cannot be taken for granted, the problem is more complex than simply providing for a prespecified level of income.**

In defining the "poor majority," A.I.D. has used a per capita income figure of \$150 (1969 prices) as a rough benchmark. The International Labor Office recently made regional estimates of poverty lines for 1972, that indicate minimum standard incomes of \$277 in Latin America, \$178 in Africa, and \$152 in Asia.***

*"Basic Needs: An Illustrative Exercise in Identification and Quantification with Reference to Bangladesh" by A. R. Khan, International Labor Office.

**For instance, there may be a shortage of foreign exchange to purchase imports. The problem of the supply response is discussed in more detail in the next section.

***See "Implementation of New Directions in Development Assistance" A.I.D. Report to the Committee on International Relations: July 1975, and "Poverty, Unemployment and Underemployment" by Peter Richards; ILO, June, 1976. Figures have been converted from 1972 to 1969 prices.

The response of private markets to demands for water facilities, health services and education is doubtful, so that the price/income calculation used for private goods is not meaningful. It can be assumed that in most LDCs these would be publicly provided, though not necessarily gratis, and therefore valued at cost.

This preliminary identification of goods and services that satisfy basic human needs suggests several positive aspects of the problem. First, basic human needs are interrelated. Most obviously, the requirements for adequate health services will decline, the more adequate are levels of provision of other elements of the strategy. Accordingly, the sum of the resource costs of directly covering each of the gaps separately is likely to be less than the cost of covering all the gaps together. These interdependencies suggest the need for an integrated approach, which in turn points to the usefulness of planning.

Secondly, while the BHN strategy has been discussed in terms of raising consumption levels of the poor, there is a substantial investment element to the goods and services provided. That is, satisfying basic human needs--by whatever means--will tend to augment the productive capacity of the economy, by increasing human resources. Education and reduction of infant malnutrition are two important examples. More generally--again from the definition of "needs"--an individual's productive capacity will be greater, the more adequate his diet, health care, etc.

The identification of groups whose consumption is below the minimally acceptable standards, as well as measurement of the gap, are perhaps not separate problems from establishing the targets, since

Information on current consumption levels provides some insights into what are minimally acceptable levels. From the standpoint of a global effort, the problem of identifying the poor by personal and economic characteristics seems massive in terms of information collection and processing. The problem is simplified somewhat by considering that the bulk of the poor are found in rural areas, and that India, Bangladesh, Indonesia, and Pakistan account for a large proportion of the entire group--perhaps 60-70 percent. More generally there are some readily identifiable, large pockets of poverty in most LDCs that could fully occupy an intensive, effective BHN effort for some time, during which information on other groups could be generated.

Identifying deficiencies in consumption of each of the goods and services that satisfies BHN is likewise a massive task. For goods provided publicly, information often already exists on availability of these services, in terms of location and capacity. However, accessibility for the poor of facilities providing health services, education, water, etc. is not known, so that deficiencies are not easily measured.

For private goods, the gap between current and standard consumption levels can be calculated in physical terms, or in terms of income, subject to the qualification about prices and supply mentioned before. As an example of the former, Table 1 gives estimates from a World Bank study of the gap for food, in terms of calories and metric tons of cereals, as well as the size and distribution of the affected population in 1975. The second table gives income deficiencies estimated by the International Labor Office.

TABLE 1

Size Of Undernourished Population, Daily Calorie Deficits
and
Annual Cereal Equivalents, 1975*

	<u>Latin America</u>	<u>Asia</u>	<u>Middle East</u>	<u>Africa</u>	<u>Total</u>
Daily Calorie Requirement	2390	2210	2450	2350	
Population With Calorie Deficits (millions and percent of total population)	112 (36)	924 (82)	94 (51)	243 (77)	1373 (71)
Population With Deficits in Excess of 250 Calories (millions and percent of total population)	71 (23)	707 (63)	61 (33)	93 (61)	932 (48)
Daily Calorie Deficits (billions)	32	283	28	69	412
Annual Cereal Equivalent (metric tons, millions)	3.3	29.5	2.9	7.2	43.0

TABLE 2

Income Deficiencies - By Region, 1972**

	<u>Latin America</u>	<u>Asia</u>	<u>Africa</u>
Poverty Line - "Poor" (1972 prices)	\$320	\$ 175	\$205
Poor Population (millions)	274	1,048	296
Poverty Line - "Seriously Poor"	\$182	\$ 99	\$117
Seriously Poor Population	118	853	239
Poverty Line - "Destitute"	\$ 91	\$ 50	\$ 58
Destitute Population	73	499	134

*From Malnutrition and Poverty: Magnitude and Policy Options by Shlomo Reutlinger and Marcelo Selowsky, World Bank, 1976

**From "Poverty, Unemployment and Underemployment" by Peter Richards, International Labor Office, 1976

Finally, to gauge the magnitude of the problem and the resources necessary to satisfy BHN, we need some idea of the outcome of forces that would operate apart from the BHN strategy. In order to progressively narrow or abolish the gap between consumption levels of the poor and BHN levels, it helps to know what will tend to happen to the gap in the future in the absence of a BHN strategy. For instance, projections of calorie deficits in Table 1 to 1990 indicate that the total population affected will increase from about 1.4 billion to 1.8 billion, with most of the increase in Asia, and that the total daily calorie deficit will increase from about 412 to 421 billion.

Some crude estimates of resource requirements to satisfy BHN have been made. One study suggests that \$125 billion (1974 prices) invested in low-income countries over the next ten years would enable the population in these countries to satisfy basic human needs.* Since there are a substantial number of poor in middle-income LDCs, this understates the total resource requirements for meeting basic human needs. A second study by the International Labor Office explores foreign resource requirements for several scenarios extending to the year 2000. Resource requirements based on recent growth patterns and the existing income distribution are calculated in the first scenario. The second scenario estimates foreign resource requirements for attaining growth rates sufficient to satisfy BHN by achieving target levels for income of the poor, assuming modest income redistribution. The two scenarios call for foreign assistance amounting (respectively) to \$22.8 and \$23.9 billion annually by 1980, \$36.3 and \$42.7 billion annually by 1990, and \$56.7 and \$81.9 billion by the year 2000 (1970 prices).**

*"Income Redistribution and the International Financing of Development"
by J. Grant and M. Haq, 1976.

**"Growth, Redistribution and Resource Use" by J. J. Stern; ILO, June, 1976.

Both of these studies are subject to serious limitations in terms of data and methodology. As with most projections, they are based on rather rigid assumptions that economic relationships prevailing in the past will continue to hold. The ILO numbers in particular are large compared with the 1975 figure of \$13.6 billion for Official Development Assistance from the DAC countries, which comprised, however, only .36 percent of their GNP. There is a further question of the relevance of these studies. Many LDCs may not find it politically desirable to adopt a BHN strategy, so that estimates of the costs of global eradication of poverty are somewhat premature.

C. The Economics of Basic Human Needs

Since the focus on BHN is relatively recent, and the strategies to attain these objectives have not yet been fully elaborated (much less implemented), the discussion is necessarily abstract. The goal is to identify factors, forces and relationships likely to be important, and organize these in a coherent framework. Only accumulation and analysis of LDC experience will enable us to meaningfully discuss just how important each of these elements is.

Adopting a country focus, the resources that are to be mobilized to address the problem might originate within the country or outside. The differential effects of foreign versus domestic resources will be noted in each case.

There are two broad approaches for using resources to reach BHN consumption targets--the income transfer approach and the resource augmenting approach. Briefly, the income transfer approach focuses on the

poor as consumers. It is mostly concerned with increasing the income of the poor through direct transfers, in the form of cash or goods and services that satisfy BHN. To the extent that supply considerations are important, they are considered separately. The resource augmenting approach views the poor as a potentially productive resource. It seeks to increase their purchasing power by augmenting their productivity, so that income and output are considered together.

These strategies are certainly not mutually exclusive. A number of factors influence the choice between the two strategies, so that within a given country, some combination of the two will generally be optimal, depending on location, timing, and specific characteristics of the target group. This section analyzes the two approaches in turn, and then discusses the problem of providing for supply of goods and services to meet BHN and the relative weights allocated to the two strategies.

1. The Income Transfer Approach

In an economy where resources are allocated efficiently, the short-run effects of an income transfer approach on output and employment are uncertain. The recipients of the transfers may work more, or more productively (since they are healthier, better informed, etc.) or less (since the strategy aims to satisfy minimal consumption levels). If the resources are generated internally (through tax revenues) then there are further effects: higher taxes on individuals in upper income brackets may induce them to work more (to maintain levels of disposable income) or less (because they are receiving less income for their work). Apart from these effects on the volume of output, there will be changes in the composition of output, resulting in a relatively higher share for those goods and services that satisfy basic human needs.

In the long run, the growth rate of total output would be diminished to the extent that current consumption is promoted, at the expense of savings that would be productively invested. Resource flows in the form of foreign aid would not necessarily have a diminishing effect on domestic saving and investment. If the resources to be transferred are generated from within the economy, then the effect on the growth rate of GNP would depend on savings/investment behavior under the new policy, as compared with the old. The traditional--though increasingly discredited--argument is that a transfer of income from the wealthy to the poor increases overall consumption, at the expense of savings and investment. Insofar as income is being redistributed to satisfy BHN, there will be little scope for saving by the poor. However, declines in saving by the wealthy will generally not be as great as the amount of income transferred, and the consequent decline in productive investment may be even less. At the same time, there is a substantial investment component to satisfaction of basic human needs, in terms of augmenting the stock of human capital.

In less developed countries, resources typically do not get allocated efficiently. In particular, there is relatively high unemployment and underemployment of labor, and techniques of production do not properly reflect factor endowments. In this case, there would be further economic effects of a transfer strategy to meet BHN that need to be examined.

In terms of short-run effects, changes in the composition of consumption towards more food, clothing, shelter, and public services might lead to a more efficient allocation of resources. The core of this argument

is that LDCs have surplus labor, and that the new composition of output in response to the income transfers would be more labor intensive. Consequently, there would be more employment, and more output. The magnitude of this effect obviously depends on how well factor markets respond to changes in the composition of demand.

Not only would more total output be available--from which to directly or indirectly satisfy BHN--but the size of the gap between consumption levels of the poor and minimum standard levels would be narrowed to the extent that employment and pre-transfer income among the poor increased.

A second short-run effect would depend on the extent to which the resources to be transferred are generated internally, through redistribution of income. Insofar as consumption by higher income groups is reduced, the composition of overall demand may become less import intensive (absolutely and relatively), thereby economizing on foreign exchange which itself may be an important short-term objective. This effect depends on the import content of goods and services that satisfy BHN, and especially on the capacity of the LDC to produce food.

If resources are initially misallocated and the BHN strategy contributes to a more efficient allocation of resources in the short run, the effects on growth of output would then be more favorable than in the previous case. Whatever the change in the average savings rate, the level of income and output will have increased, so that the rate is applied to a larger base. Thus, total savings and investment might increase, rather than decline, and GNP growth rates might thereby be greater. Growth rates

would be greater to the extent that the rate of capital formation increased, and to the extent that the incremental capital/output ratio fell because of a more labor-intensive composition of output. Finally, it may be that savings from a more even distribution of income is likely to be more productively invested than savings from a skewed distribution of income.

2. The Resource Augmenting Approach

The basis for the resource augmenting approach is that the bulk of the poor work, but their productivity (and income) is low because they have few or no assets to combine with their labor. The thrust of the strategy is to provide for more productive employment of the poor (where feasible--e.g. not the aged) by providing other resources to augment their productivity.

The most common example of this strategy is in agriculture. In this case resources such as land, seed, tools, technical know-how, and credit would be made available to the poor so that they could work more productively, and thereby generate sufficient income to satisfy BHN. For nonagricultural labor, the strategy would aim towards supporting small-scale labor-intensive industry that would more productively employ the poor.

This strategy allows for explicitly focusing on supply and demand together. Whereas the income transfer strategy is something of a one-bladed approach that mainly addresses the problem of raising the income of the poor, the resource augmenting approach is like a scissors in that it is directed towards increasing both income and output. An immediate possibility is to directly employ the poor in production of the specific

goods and services that satisfy BHN. More generally, as long as BHN goods and services are domestically produceable in sufficient quantity, the employment of the poor may be in any process in which sufficient income can be earned to satisfy BHN. If the import content of BHN goods and services is high, then the overall composition of production and employment must generate exports to purchase the requisite amount of imports, or else these imports must be provided through foreign transfers.

The strongest rationale for this approach is that resources in LDCs are currently misallocated; that capital and land should be reallocated so that the plentiful resource--unskilled labor--would be more fully employed. Accordingly, this approach is clearly an investment/growth strategy as well, in the sense that resources are directed towards raising current and future levels of output, by increasing the productive use of labor.

Even if the policy were to result in a loss of efficiency and output (e.g., if smaller farms owned by peasant cultivators are inherently less productive than large farms), it can be argued that this approach should be pursued because of the gains it offers in terms of well-being of the poor. Obviously this is a weaker rationale for the strategy, since it would then be in conflict with growth/efficiency objectives. The strategy would then need to be justified on the basis of considerations of equity and distributive justice, and might well be inferior to a transfer approach.

The effects of the resource augmenting approach depend on the type of productive resources provided to the poor (broadly, capital or land),

and the efficiency gains or losses from reallocating the resources. In the case of land, development of new land would clearly promote output and employment. The question is whether such an undertaking is economically viable. The alternative is redistribution of land. Such redistribution would be expected to increase productive employment of the poor--provided other inputs mentioned above are made available--but the effects on total output are uncertain. The scope for redistribution of land obviously depends on the concentration of ownership, and the political strength of large landholders.

In the case of tools, machines, etc., the approach is more likely to be one of redirecting investment towards the poor, rather than direct redistribution of existing assets. If these are transferred directly to the poor (e.g. farm implements, looms), then the self-employed poor can produce more and earn higher incomes. Alternatively, investment can be directed towards production processes that will employ the poor in large numbers, at wages sufficient to generate income to satisfy basic human needs.

3. The Choice Between the Two Strategies

First, it should be noted that the provision of public services will be much the same under either strategy. For health, education, and water, the problem is straightforward; resources must be mobilized (either domestically, or from abroad) by the public sector and directly allocated to provision of these services by the public sector to the poor. Setting up new facilities is clearly a matter of investment, and will enhance GNP according to the

value of the services provided. If resources are mobilized domestically through redistribution of income, the redistribution may be either in the form of higher taxes to finance new services; reallocation of existing taxes from other chapters of the budget; or within the budget allocation for these goods and services, a redirection of resources and services from the nonpoor to the poor.

Insofar as labor and participation of the poor is explicitly involved in setting up and administering public services directed towards the poor, there will be employment and income generating effects along the lines of the resource augmenting approach. Reliance on more conventional supply processes, without explicit consideration of the poor, is more characteristic of the income transfer approach.

The overall balance between an income transfer and a resource augmenting approach will affect the financing of the publicly provided services. To the extent that a successful and efficient resource augmenting approach is implemented, the poor may earn enough income to finance--in some part--provision of the public services, either by direct payments, or through taxes. To the extent that a pure transfer approach is chosen, public services will need to be offered free of charge, or else for a fee, in which case the poor must be provided with sufficient income to pay for the services.

The supply response in markets for private goods is a critical factor in both cases. Whether the income transfer approach entails monetary grants or direct provision of physical goods, public authorities must ensure

that the necessary pattern of production and/or imports will actually be realized. The resource augmenting approach might promote employment of the poor in production of goods that satisfy BHN, or in other production processes. In either case, some provision for overall availability of food, shelter, and clothing must be made.

Both approaches require political will and administrative capacity to identify and communicate with the poor. The resource augmenting strategy is administratively more complex, because it is more concerned with supply and production processes that explicitly involve the poor. The income transfer approach tends to rely more on private markets and conventional supply processes, that so far have not involved the poor.

Insofar as the resource augmenting approach results in prompt gains in efficiency and output, through a more rational allocation of resources--in particular the labor of the poor--it is clearly the preferable approach. In this case, distributional objectives reinforce objectives of growth and overall levels of output. If resources to finance this approach are provided through foreign aid, everyone (domestically) gains. To the extent that resources are generated internally, there will be costs imposed on some groups. However, the overall net costs will tend to be less than for the income transfer approach, since there is an increase in output corresponding to the increase in consumption of the poor. The income transfer approach is more immediately concerned with redistributing existing output, than with raising overall levels of output.

At some point, net gains in efficiency and output from the resource augmenting approach will become small. In particular, some of

the poor do not represent potentially productive labor. At the same time, the costs of reallocating resources may tend to rise. At this point, further application of the resource augmenting approach becomes difficult to justify, and the transfer approach becomes more appropriate.

More generally, while a resource augmenting approach may be preferable from the standpoint of growth and employment objectives, the relative importance of the income transfer approach in narrowing the gap between consumption levels of the poor and minimal acceptable levels will be greater:

- a. The sooner the gap is to be narrowed (since transfers are administratively quicker)
- b. The more completely the gap is to be narrowed (since the scope for efficient resource augmenting narrows)
- c. The larger the proportion of poor that cannot be productively employed.
- d. The less capable is the LDC of satisfying BHN under any allocation of existing resources. (In particular, transfers from abroad become appropriate; the most likely example is food).
- e. The more efficient the current allocation of existing resources. (So that altering techniques of production results in efficiency losses).
- f. The smaller the administrative and planning capability of the LDC. (Because transfers are administratively less complex).

Considering the problem of progressively narrowing the consumption gap, the general implication of these propositions is that transfers will play a larger role in the very short run--to the extent that something can and must be done right away to address the needs of the poor (a.)--and again in the long run, when possibilities for efficient resource augmenting have been exhausted (b., c., and e.). The resource augmenting approach will play a larger role in the medium term, because it is more time consuming. It is more dependent on institutional and administrative capabilities which may take time to develop, and it is more complex to administer even when these capabilities are in place.

A related implication is that a transfer approach will be more important in low-income LDCs, where needs appear more urgent (a.), at the same time that the scope for effective resource augmenting is smaller (d. and f.). Unfortunately, the potential for redistributing income is likely to be less than in middle-income LDCs, where overall income levels are higher. This points towards a greater need for foreign assistance, on concessional terms, in low-income LDCs. The next section of the paper discusses in more detail the role of foreign assistance in a BHN strategy.

D. Implications for U.S. Foreign Economic Policy

This section of the paper examines some relationships between the adoption by the LDCs of a basic human needs strategy, the implications of such an action for allocation of U.S. foreign assistance, and the consistency of such allocation with a variety of U.S. foreign policy objectives.

1. General Considerations

In the context of broad objectives of U.S. foreign policy, U.S. support of BHN strategies in LDCs basically furthers the humanitarian element in U.S. foreign policy. Such support would represent a tangible manifestation of U.S. concern for the material well-being of the poor in LDCs, and would be consistent with the "New Directions" mandate embodied in recent foreign assistance legislation.

Support of BHN strategies is also in harmony with some political and economic objectives of U.S. foreign policy. It can be argued that maldistribution of income within developing countries generates unrest and instability, and increases the likelihood of civil strife and foreign intervention. This may be generally undesirable from a U.S. standpoint, and in particular might bring about U.S. confrontation with the Soviet Bloc. To the extent that a BHN strategy then helps alleviate the income distribution problem, it would tend to contribute to the attainment of U.S. objectives of international stability and peace.

Finally, a BHN strategy--especially the resource augmenting approach--would tend to promote employment and production of goods that the poor consume, particularly food. To the extent that food production is increased, this policy would contribute to the resolution of the world food problem. This would not only further the U.S. humanitarian objective of feeding poor people, but might tend to alleviate future pressure on food prices associated with the world food problem. Also, insofar as the BHN

strategy reduced unemployment in some particular LDCs, it would address one of the many factors leading to pressures to emigrate to the U.S., and would thus tend to alleviate a significant current U.S. problem.

On the other hand, there are several instances in which support of a BHN strategy through foreign aid or other means may be in conflict with other U.S. objectives. First of all, among the governments that the U.S. is interested in assisting for the sake of other foreign policy objectives, some may not adopt a BHN strategy. The impact of foreign assistance in terms of raising consumption levels of the poor is then likely to be very small, compared with other countries. Conversely, some governments that do adopt a BHN strategy may pursue policies involving radical redistribution of income and assets (including foreign assets), in the interests of helping the poor. The political stance of a country in which such policies are carried out may well be at odds with that of the U.S.

Secondly, the U.S. may wish to allocate foreign assistance to many rather than few countries, to maximize the political benefits from such assistance. This may conflict with strictly economic criteria indicating that a concentrated effort may be more efficient because of administrative costs, information costs, and interdependencies among objectives (e.g., solving the food problem lessens the cost of solving the health problem).

Finally, the relationship of the BHN strategy to economic conditions in the U.S. might involve some important conflicts. The basic human needs strategy--particularly the resource augmenting approach--stresses the gains in efficiency and output of expanding labor-intensive production

in the LDCs. This has implications for the pattern of trade between the U.S. and the LDCs that are on the whole positive for both, but may pose problems for specific sectors. Generally LDCs will need to import more capital-intensive goods (rather than trying to produce these goods themselves) and will need to export more labor-intensive goods to finance their imports. This places some adjustment burden on those sectors of the U.S. economy competing with goods imported from LDCs.

While conflicts with other objectives should not be ignored, neither should they be overemphasized. The sharpness of the tradeoffs depends in part on the volume of resources allocated to supporting BHN strategies. A goal of completely eradicating poverty would bring some of these conflicts fully into play. A more modest commitment to reducing poverty--consistent with the limited volume of resources the U.S. is likely to be able to mobilize--allows the U.S. a greater range of choice as to how and where it wishes to support BHN strategies, so as to lessen the conflict with other objectives.

2. Allocation of Development Assistance

Given current foreign assistance legislation which mandates that bilateral development assistance be allocated according to general BHN criteria, where and in what form should this assistance be directed? The most important factor is demonstration by an LDC of an effective commitment to basic human needs, that is, the administrative capability and political power and will to address the needs of the poor. In theory, this could be measured by calculating the effects of government policies on the distribution

of income. While in practice accurate measurement is impossible, it should be feasible to gauge the general thrust and priorities of public policy, by looking at the magnitude and effectiveness of current efforts to provide services to the poor, compared with per capita GNP, total government expenditure, etc. Since the problem of generating useful information about the poor is a significant one, at least one specific indicator of commitment would be accumulation of this data by an LDC.

Among these "highly committed" countries, the form and volume of assistance should vary according to the income level of the countries. Poorer countries will need more assistance, and on more concessional terms. Middle-income LDCs will need less assistance, which can be granted on harder terms since a resource augmenting approach is more immediately practicable in such a country. However, in no way does this imply that U.S. development assistance programs should exclude middle-income countries committed to a BHN strategy. The absolute needs of these countries could be high, and aid resources could be very effective in terms of meeting basic human needs and also accomplishing other economic and political objectives. In such cases, development assistance should be precisely targeted, to assure that benefits accrue to the poor, which in this instance could well constitute a small portion of the total population.

In less committed LDCs, the U.S. response would depend on the political and economic circumstances that determine the extent of commitment to basic human needs. First, an LDC may place greater value on other economic and political objectives. For instance, there may be a preference for modern

capital-intensive industry or for the welfare of other, politically important groups. Secondly, an LDC government may place high value on improving the situation of the poor, but face severe economic and political constraints that make progress exceedingly costly in terms of resources and conflicts with other objectives. For instance, land reform may be politically or economically infeasible. More generally, a low overall level of income poses difficult constraints. Thirdly, the LDC may place high priority on BHN, without excessive constraints in terms of other objectives, but not possess the political institutions and administrative capability for going about this. This third factor is likely to be important in low-income LDCs, and in middle-income LDCs where a BHN priority is relatively new.

To the extent that these factors are immutable, allocating foreign assistance to such countries in pursuit of BHN objectives is likely to yield poor results compared with other, more committed LDCs. Foreign assistance may be diverted from the poor or it may simply substitute for domestic resources that are then reallocated to other priorities. The administrative costs to the donor of insuring that aid benefits the poor are likely to be much higher.

However, there may be some scope for using foreign assistance to change these factors; in particular, given political will and power to pursue a BHN strategy, foreign technical assistance can help develop the institutional and administrative mechanisms for an effective BHN strategy.

Secondly, foreign assistance can be aimed at easing the constraints facing LDC governments for which BHN is a priority. The problem of redistribution of income and wealth can be eased somewhat if part of the development assistance can be allocated in ways that ease the burden on the "losers" in the redistributive process. On the other hand, the scope for using foreign assistance to change political values seems very narrow indeed.

Whether foreign assistance is directed towards the factors providing for lack of effective commitment in LDCs, or towards attaining BHN objectives given these factors, the costs of assisting a BHN strategy in such an LDC are likely to be quite steep compared with more committed LDCs. In particular aid to middle-income developing countries with a low commitment to basic human needs objectives should be minimized, insofar as these countries by and large have the resources to address BHN objectives. Such absence of commitment to BHN suggests that productivity of aid measured in terms of BHN objectives would probably be very low. Allocating assistance to committed LDCs gives a bigger return in terms of impact on the poor, and also provides incentives to non-committed LDCs. Among committed LDCs, U.S. support of a BHN strategy would tend to involve assistance to a wide spectrum of countries, and not only to the poorest or least developed. However, the form of assistance would need to be carefully tailored to the circumstances of individual countries.