I. INTRODUCTION

There are few subjects more charged with emotion than the value of private investment to developing countries: and the Pearson Commission (later referred to as ‘Pearson’) as well as the D.A.C. have been accused of presenting it in too favourable a light. There were a number of papers, presented to the recent Columbia Conference on Internal Economic Development, which reacted strongly.

One of the issues, raised at that Conference by Mr. Streeten, was that of measuring the balance of payments effect of such investment [1]. This appears, prima facie, to be closely related to the issue of whether it is reasonable to present net private (or public) capital movements as a ‘transfer of resources’ without subtracting interest and dividends — whether in fact the standard D.A.C. practice is misleading. If it were reasonable to measure, as Pearson denies and Streeten maintains, the balance of payments effect of a particular investment by the net capital inflows while subtracting repatriated profits, it would also be true that subtracting repatriated profits and interest from D.A.C. figures would give the balance of payments effect of aid plus private foreign investment in developing countries. I shall be arguing that this hypothesis is wrong, but this does not imply that those who prefer to subtract dividends and interest when considering the ‘transfer of resources’ have not got a good case.

The above is the first issue I want to consider. But the second one — not raised directly by Pearson or, so far as I know, at the Columbia Conference — is the relationship between net benefit and the balance of payments effect. This is of some importance because UNCTAD and others are studying the balance of payments effect of private overseas investment (P.O.I.): while the O.E.C.D. Development Centre and UNIDO have produced, respectively, a Manual [2] and a Guidelines [3] which purport to measure the net profits of particular investments — which can certainly include P.O.I. This work seems to be unrelated at present.

These are the two main issues which I want to raise. They are certainly relevant to the question of how far private investment deserves promotion — a vast subject to which, of course, a great deal else besides is...
relevant. I shall, in a final section, permit myself merely a few reflections on this grand and infinitely debatable topic – reflections arising out of recent work on protection and project analysis.

**II. WHAT WOULD OR SHOULD HAVE HAPPENED IF THE PRIVATE OVERSEAS INVESTMENT HAD NOT TAKEN PLACE**

This is obviously crucial to any cost-benefit analysis, or to any analysis of balance of payments effects. No evaluation of any operation is possible without establishing or postulating the state of affairs both ‘with’ and ‘without’ that operation.

It has become abundantly clear, especially in recent discussions concerning the difference (if any) between the Manual and the Guidelines referred to above, that the economist must be very clear about the difference between ‘would’ and ‘should’. Does he make the comparison between the optimal state of affairs with and without, or between what he thinks is the most likely state of affairs with and without?

There is, presumably, no such dilemma for the economic historian who is not interested in optimisation. But the dilemma is real for those who are concerned (whether they like it or not) with making rather than explaining change.

The value (and the balance of payments effect) of a project often depends very much on whether or not the government will or will not promote other investments, or make other policy changes. Will it or will it not alter the quota on an important input or output? Will it or will it not alter price policies so that the output substitutes for A, which saves a lot of foreign exchange, rather than B which does not? The more actively interventionist the government, and the more often it shifts policy, the more frequent and serious is this dilemma.

Where the value of the input or output is very important in the evaluation, then it is not too difficult for the evaluator who is (however indirectly or humbly) influencing events to get off the horns of his dilemma. He can say, for example, ‘if the government will do A the estimated present value of this investment is X; if not it is only Y’. But he cannot do this for very many things without getting the sack. So the dilemma remains. It is arguable how far he should assume, and he has to assume something for twenty years or so, that the government will be apparently rational (i.e. pursue means most conducive to its apparent goals), or will continue with policies which he believes he can show to be irrational in this sense. On the one hand it can be argued that the government may sometimes consider as an end what the economist usually takes to be a means: and, on the other hand, that governments often do things without realising their side-effects, and that when such side-effects become very