grow faster, catching up or forging ahead. Those that suffer from institutional drag may experience a prolonged mis-match between their institutions (both government and industry) and the growth potential of new technologies. Recent evidence showing large increases in net private capital flows to certain developing countries may be evidence that many countries in the developing world are taking advantage of the diffusion of technology and catching up (convergence).[19] Yet many remain trapped in a low demand level stage, with little hope of improving their lot.

Essentially, depending on one's beliefs about modelling, the debate starts to fold in on itself. In a recent Brookings paper, Mankiw[20] argues that a closer look at the empirical problems of neoclassical models shows that they have a problem adjusting for human capital. Mankiw argues that, in a typical country, about two-thirds of all labour income derives from investments in improving workers' skills, much higher than normally estimated in a production function because technology is relatively freely available. If this is taken into account, some of the empirical problems of convergence disappear. For his part, Romer makes the point that returns to education in poor countries should be much higher if this were the case and that a "reverse brain drain" would be the result.

Thus, we have the classic situation in economic theory. Two strongly held positions, and camps, led by famous theoreticians. Neither can explain the empirical question completely as to why some economies grow faster than others, yet the theory is converging, with both neoclassicists and endogenous growth advocates admitting that the key theoretical underpinnings of both point to the importance of investment in human capital and the benefits to poorer countries of access to and the transfer of technology.

6. Theory: The Macroeconomic Contribution of Aid

Within the general debate on "development", growth is seen as a necessary, but not always a sufficient criterion for development success. "Development" must also contribute to equity and poverty reduction, at least in due course. Aid therefore also seeks to have an impact on this broader conceptualization of development, not just on growth. For the purposes of the analysis in this Paper,

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[19] "Private Capital Flows to Developing Countries Suffer Setbacks, But Recover", IMF Survey, November 20, 1995.

[20] Gregory Mankiw, "The Growth of Nations", Brookings Papers on Economic Activity, September 1995. The Brookings Institution.