

per capita incomes have increased several fold. They too were once aid recipients, but now no longer require official development assistance to the same degree. Instead, they are destinations for private capital inflows.

Given the diverse historical experience, this Paper attempts to examine the theoretical components of growth theory, with particular attention being given to new or endogenous growth theory. While recognizing that growth is not the only goal for our aid recipients, the analysis provided here can guide our discussion of the role of aid and foreign assistance within certain theoretical confines. At a time when official bilateral assistance is coming under attack in many industrialized countries,³ and the overall level of such flows has declined, both absolutely

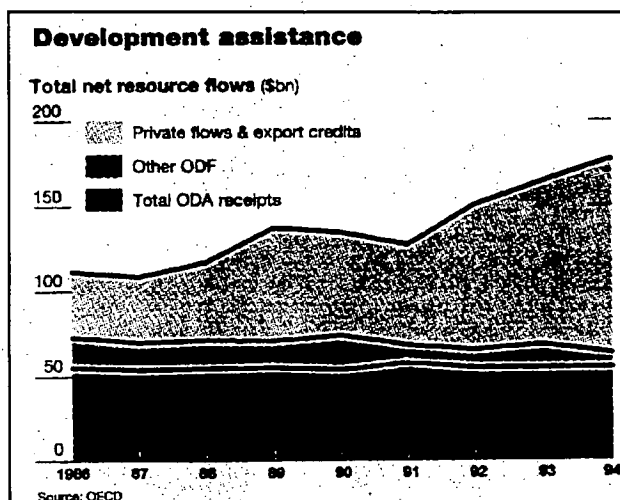


Figure 1

and in relative terms, the theoretical arguments from growth theory may be useful in informing the aid debate (see Figure 1). A discussion and analysis of Canadian aid flows over the last decade show similar pressures to those being felt elsewhere in the Western world. The general lessons from this theoretical analysis can then be drawn for Canadian aid policy. This Paper is not concerned with the specific geographic distribution of aid,⁴ nor with providing a detailed critique of Canadian aid policy over the last forty years. While acknowledging the larger debate surrounding "development", I focus on the seeming juncture at which the theoretical discussion on growth theory has arrived and its implications for the role of aid. This in turn may provide an informed backdrop against which to review the disbursement of Canadian foreign assistance in the years to come.

³ See Michael Prowse, "The Assault on Aid", *Financial Times*, November 6, 1995 and Will Hutton, "Aid that only Basket Cases Need Apply For", *Manchester Guardian Weekly*, January 28, 1996.

⁴ For a useful discussion of these issues, see previous Policy Staff Papers by Keith Christie and David Preston, "Dealing With Diversity: Canada's Economic Relations with Developing Countries", No. 95/15 (December 1995) and Nicholas Dimic, "The Geographic Distribution of Canada's Bilateral Assistance: Alternative Approaches", No. 95/11 (August 1995).