DEVELOPMENT— THE NEED FOR NEW DIRECTIONS

Address to

**The Swedish Bankers
Association**

by

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**Stockholm,
October 27, 1967**

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I AM PARTICULARLY HAPPY to be here today at this meeting of the Swedish Bankers Association and to be able to tell you how much we at the World Bank appreciate the splendid support and encouragement we receive from the Swedish community. In addition, I believe that at this uncertain and not altogether promising moment in world economic development, Sweden's exemplary support for the International Development Association (IDA) has an importance and a significance beyond the actual capital sums that it has made available. For I believe that the plight of the developing peoples—of the two-thirds of humanity who are striving to cross the threshold of modernization—is *the* central drama of our times. Not all the success and skill and accumulated wealth of the minority of developed peoples can right the

balance of our unstable and lopsided world unless part of these resources are effectively used, over the next 20 to 30 years, to help the developing peoples achieve a steady advance toward their goals of modern productivity, appropriate modern education and self-reliant growth.

As you probably know, IDA is par excellence an instrument for stimulating economic growth in developing lands. It normally operates only in countries where annual per capita income is \$250 or less. Its loans are repayable in 50 years, with a grace period of 10 years. They are interest free, save for a service charge of three-quarters of 1 per cent on amounts outstanding. Apart from grants, they are thus the most concessionary, the "softest" development finance available. But they are not otherwise "soft". They are all for high priority developmental purposes and are tested and scrutinized for economic viability and use with just the same rigor as is applied to lending by the World Bank itself.

The terms on which Sweden provides finance to the less developed countries give support to precisely those objectives that IDA pursues. This identity of objectives has enabled the Swedish International Development Authority (SIDA) and IDA to join together in a number of operations. But Sweden's support for IDA goes beyond this. Since IDA's establishment in 1960, your country has given most welcome financial support to the Association. Sweden's original contribution of just over \$10 million equaled 1.3 per cent of IDA's usable funds. These resources were later virtually doubled when the richer members agreed on a general replenishment, of which Sweden's share was \$15 million, or 2 per cent. But Sweden has also, *alone* among IDA's 98

members, given a further \$28 million in special annual contributions.

IDA's funds are now within sight of exhaustion. We are currently engaged in negotiations amongst the countries that have provided IDA with the bulk of its resources, and I am cautiously hopeful that our talks will result soon in a substantial replenishment of the Association's funds, enabling it to go about its business on a considerably expanded scale. Certainly there has never been a time when the calls of her poorer members on IDA have been so urgent and so justified.

TO MY MIND, Sweden's generous and positive support of IDA shows two things. It shows a belief that development is possible, that present policies should be pursued and expanded and that they promise a reasonable hope of success. But at the same time, it underlines the fact that ordinary commercial lending on a "business as usual" basis is not adequate to meet the enormous problems which developing nations must confront. Although historical analogues must be used with caution, today, in 1967, just 20 years after the first framing of the Marshall Plan, we may perhaps recall that in that strained and exhausted summer, no ordinary measures or policies would have been enough to get Europe moving again. Our worldwide crisis today may seem less acute, but, I assure you, it is vaster and deeper and even more complex. Certainly it cannot be resolved by pretending it is not there or by admitting it exists but assuming that in one way or another it will simply take itself off. Left alone, it can only grow worse. And at the back of that possible deterioration lies the risk of stark crises—in food, in work, in hope—for over half the human race. If this is not a serious challenge, I am at a loss to know what is.

LET US LOOK at two factors a little more closely—the reasonable hope of development on the one hand and the need for exceptional policies to promote it on the other.

It is no secret that we are living through a time of disillusion and distaste for economic assistance. Although the developed nations have added some \$300 billion to their combined gross national product from 1961 through 1966, the flow of official aid net of amortization has not increased much above the \$6 billion a year reached in 1961. As a share of national income, it has fallen below six-tenths of 1 per cent. The flow of private capital, it is true, rose from \$2.4 billion net of amortization in 1963 to nearly \$4 billion in 1965. But it fell back to \$3.4 billion in 1966. Furthermore, the bulk of these private funds tends to be concentrated on only a handful of the developing countries, mostly those that possess marketable mineral resources.

The reason behind this slackening of effort is not only the normal pressure of domestic priorities on governments and peoples. It is also a belief that waste, inefficiency and even dishonesty have all too often deflected resources from development; to give more aid now, it is said, would simply send good money after bad. There are few parliamentarians who do not have a favorite story of hair-raising waste—fertilizer left out in monsoon rain, grain devoured by rats, paved roads leading only to the president's country villa, foreign exchange stashed away in bank accounts abroad. Even some of the kinder critics question whether there is skill and administrative capacity enough in developing countries to absorb more capital, even if aid *were* to be increased.

It is important, therefore, to try to disperse some of this gray fog of suspicion and discouragement by constant repetition of the actual facts.

The average annual rate of economic growth of the poorer countries since the early 1950s has, in fact, surpassed 4.5 per cent—a rate that can stand comparison with the pace achieved in the 19th century by the countries that were then pioneering the industrial revolution in Western Europe and North America. In at least 25 countries, many of them what one might call the “middle income states” with per capita gross national product between \$200 and \$600 per annum, GNP grew during 1966 at a rate between 5 and 10 per cent. Among these 25 fast-growing nations, to name but a few, were Israel, Korea, Malaysia, Mexico, the Republic of China, Thailand and Venezuela. These relatively rapid growth rates have been due, without exception, to increased investment—the average percentage of GNP applied to investment in the developing countries has risen to 15 per cent; 80 per cent of all this effort has been achieved with capital provided by the developing nations themselves.

The picture of pervasive waste and failure is simply not borne out by the facts. One must suspect that the impact of good news is relatively slight on our strange human psyche, and that disasters and failures alone stay vividly in our minds. Perhaps, as King Lear suggested, we need not only to know the facts but to “sweeten our imagination,” if we are to see the development effort in its proper perspective.

It is precisely because this relatively rapid growth has been going on now for up to two decades that the absorptive capacity of the

developing countries is steadily increasing. When we at the Bank ask that IDA's resources be increased to a billion dollars a year, when we state that in the remainder of the 1960s the developing countries could effectively use several billion dollars a year more than they are now receiving in development finance, we are not taking numbers out of a hat. They are the result of careful and continuing investigation. Like anyone else we can be wrong. But the Bank's record at least suggests that we take reasonable care. And these investigations convince us not only that the flow of assistance on concessionary terms must be greatly increased, but also that the developing economies will be able, technically, managerially and administratively to absorb that flow. Equally, we are certain that the risk of serious trouble lies ahead if today's drift is allowed to continue.

The reason for this risk, I can only repeat, is *not* the developing nations' poor performance. The fact is that for good and poor performers alike, the problems of development at this stage of the world's economic history cannot be resolved by relying on the "normal" methods of international trade and investment. Many of today's problems did not confront the developing countries of earlier days when the ground rules of the international economy were being established. To develop in the mid-nineteenth century was in a number of ways an essentially different problem from trying to develop in the last third of the twentieth. The most important and dramatic contrast is the trend in population growth during the two development periods, and the profoundly different consequences arising from it.

In the 19th century, the major developed powers experienced their greatest expansion

only *after* the processes of modernization had set in. One thinks of Britain with six million people in the middle of the 18th century and, even more astonishingly, America with only five million and a virtually empty continent in 1789. The first spurt of rapid population growth provided a new mass of laborers in industry, new markets for food and helped to populate the new industrial cities. Later on, public health began to lengthen life and lessen infant mortality. Later still a more sophisticated work force became necessary to man increasingly labor-saving machines. But by that time, family size had shrunk and, in farm or town, population growth had slowed down. The pioneer nations were trebly fortunate. On the whole, their trends of population growth, urbanization and mechanization helped and reinforced each other.

FOR PRESENT-DAY developers the opposite is the case. All the various elements—population, patterns of technology, urban expansion—contradict and impede the others. A measure of public health activity has preceded modernization in developing lands. The spurt of population is taking place *ahead* of the means of feeding and absorbing it—at a time when farming is still insufficiently modernized to provide increasing food for the whole population and at a time when the trend in industry is to need fewer but more highly skilled workers. A refinery at Port Harcourt in Nigeria may cost \$12 million. But it will only employ 350 men. These unlucky disproportions are due not to vice or incompetence or perversity. They are due to a certain historical timing, to a certain place, if you like, in the queue of world development, in which newcomers cannot follow the favorable patterns of the pioneers simply because the world has moved on, conditions

have changed, and the same advantages are no longer there to be seized.

Admittedly, there are countervailing benefits. Industrial technologies have already been invented and can now be borrowed. A vast network of world commerce exists to which economies can plug themselves in. These facts give us hope of the possibility of rapid advance in the future.

But there are difficulties here, too. First of all, modern technology just cannot be superimposed wholesale on the delicate fabric of traditional ways of life. You do not, after all, erect a 10-story building on the aging foundations of a centuries-old house. Preparation by the developing countries, psychologically as well as structurally, to bear the weight and pressures of modernization can be a most delicate and time-consuming exercise.

Secondly, the technologies of modernization—the skills, the machines, the infrastructure—all demand capital. To save massively in the face of bounding population increases, to check the aspirations of peoples exposed to, and more than ever aware of, the increasing affluence of the rich countries—this takes a really dogged effort. Mobilizing the capital needed to expand the economy and get ahead of population growth will continue to demand the hardest domestic discipline.

Much of the capital needed will also have to be in the form of foreign exchange, since developing countries cannot be expected to provide all the required materials from their domestic production. It is difficult enough to raise domestic capital; but it is even more difficult to obtain sufficient foreign exchange, especially if the effort has to be conducted

through the traditional means of investment and trade. Private investment has, of course, a vital role to play in development. It assists in all the tasks of modernization and its disciplines give admirable training in efficiency and in the most rewarding use of resources. But the international flow of private capital, as I have mentioned before, tends to by-pass most of the very poor. The countries with annual incomes of \$250 per capita or less—the IDA countries—account for two-thirds at least of the number of developing countries. Yet they receive only 15 per cent of all private investment. In any case, developing countries are already confronted with massive problems of repayment. Annually, amortization, interest and dividends take around \$7 billion in reverse flows from developing to developed countries. This is about half the gross flow of all financial resources from rich to poor lands in 1965. To give a specific example, nearly one-third of the gross inflow of official capital called for in India's Fourth Plan would be needed to service loans.

We also have to recognize that international trade is not yet the resource that it clearly could become. The exports of the developing countries rose in 1959 through 1966 from \$27 billion to \$42 billion, and in a sense this was an encouraging step forward. At the same time, however, their share in world exports fell from 27 to 23 per cent; and income from exports, in the case of individual countries, continues to fluctuate from causes that lie largely beyond their control. These facts, I know, are particularly well understood here in Sweden; it was your Government, at the first United Nations Conference on Trade and Development in 1964, which with Great Britain instigated a study, since completed by the World Bank staff, of measures for defending the poor countries against the dis-

ruptions to development caused by unforeseen short-falls in their export earnings.

IN SOME MEASURE, the developing countries today, like the nations of Europe in 1947, are caught in a series of interlocking contradictions and bottlenecks which cannot be broken by purely conventional means. The need is for exceptional action on a sufficient scale. The need is to launch a contrary movement in which growth feeds saving, saving generates more growth and both together help two-thirds of humanity over the next two critical decades—critical because, although population increase will only begin to slacken over the next 20 years, the groundwork can nonetheless be laid for successful modernization and greater stability later on, say the turn of the century, now not much more than three decades ahead.

The alternative—of stagnation, frustration and disappointed hopes—will leave the great majority of our fellow men hungry, restless and reduced to a sort of delinquent despair. I, for one, do not believe that our small planet can survive half-sated and half-starved. I believe the case for exceptional responses and exceptional measures to be unanswerable.

DESPITE THE ENCOURAGING attitude of Sweden and a few other governments, including the United States and Canada, the more prosperous countries as a group have yet to agree on new initiatives which the world situation demands. We may be back to a sort of 1947, a time of decision in which we may either turn toward our problems or away from them. Let us be clear, however, that we are not confronted by a question of fundamental resources. After nearly two

decades of uninterrupted growth, the developed nations enjoy an economic elbowroom and a freedom of maneuver never before even dreamed of in human history.

In the countries of the Development Assistance Committee of the Organization for Economic Cooperation and Development, combined gross national product grows by some \$60 billion a year, a sum corresponding to approximately two-thirds of the entire income of Latin America. The United States alone, growing by between 5 and 6 per cent a year, adds over \$40 billion to an annual GNP which is now over \$730 billion, thereby acquiring each year, as an extra, almost as much as the entire GNP of India or Africa. This order of resource generation gives the developed nations the capacity to act on a completely unprecedented scale.

It is true that they confront particular difficulties—pressure in domestic budgets or vexing problems with their balance of payments. But on the budgetary aspect, it is surely not impossible to give economic assistance a somewhat higher priority when one recalls that arms spending in the world at large has passed the \$160 billion a year mark and when, in any case, an annual rise in national income at 3 to 4 per cent is now the norm. As far as balance of payments considerations are concerned, it seems to me that the richer countries have to decide whether or not they are going to accept the earmarking of a definite, adequate percentage of their increasing resources for development assistance as an immutable fact of life. The balance of payments effects of the transfer of such resources is at most very, very small in the over-all picture of external payments and receipts of the developed countries. In no

case would they be anything except a minor factor in any serious balance of payments deficit which may be experienced—well within the capabilities of mechanisms for the relief of balance of payments difficulties that from time to time afflict the wealthier countries.

But I have the impression that the tardiness in confronting the scale and nature of the world's economic crisis springs not so much from these difficulties as from discouragement and skepticism about the general effectiveness of aid to development. I have already told you of my conviction that in fact the record of the developing nations is far better than the popular image suggests, and I have tried to outline the special difficulties and deadlocks which impede more speedy and obvious success. But it may be that ten angels swearing would not, at this minute, alter the bias of opinion among the rich nations or convince them of facts they have become unaccustomed to hearing.

WHAT CAN BE DONE? I would like to suggest that the governments of the developed countries—on whose support and resources any more ambitious strategy for the 1970s will depend—decide to get away from rumor and innuendo and half facts and half truths and put themselves in the position to learn the real facts. I suggest that they invite the dozen or more leading world experts in the field of development to meet together, study the consequences of 20 years of development assistance, assess the results, clarify the errors and propose the policies which will work better in the future. In 1947, before Europe and America could enter wholeheartedly into the experiment of the Marshall Plan, an official body of experts under the leadership of Lord Franks, drawn from the participating

nations, studied the whole range of programs and policies required to achieve European recovery. Today, it is high time to work out a similar perspective of the problems of growth in the less developed countries, and to draw, for all to see, a genuinely comprehensive, objective and expert picture of where we are and where we can go from here.

We are ready at the World Bank, together with interested governments, to help to select and finance such a group of experts. I am ready to put at their disposal all the information and statistical material the Bank has accumulated and, if requested, to second staff to their their service. Such a "grand assize"—judging the world's record and prospects of growth—should in any case precede any attempt to round off our faltering "Decade of Development" with a genuine reformulation of policy.

But our present crisis of overpopulation and undernourishment, of bounding hopes and flagging performance, of vast wealth and desperate poverty, is much too urgent for this re-examination to be delayed. I hope that we can start at once to set the machinery of consultation in motion and to ensure that, by the end of 1968, the essential groundwork for policy in the seventies has been laid.

I have faith both in the good sense of governments and the generosity of peoples. I believe that if a strategy for growth is presented to them by experts of unimpeachable objectivity and honesty, based upon an entirely unbiased examination of the facts, failures and achievements of the last 20 years, and giving a reasonable guarantee of hope and progress, their response will be to accept the implications of that strategy and

to provide the resources, in capital and manpower, necessary for success.

FOR MANY YEARS after World War II, differences between nations of the East and West were the most divisive force on the world political scene. But these differences have been diminishing perceptibly, and the most ominous force that divides us today is the wide disparity between the living standards of the rich countries of the North and the poor countries of the South. It is this economic gulf—proving so difficult to bridge—which, in my judgment, represents the basic threat to our world. Today we have the resources, the experience and the knowledge to narrow the separation between the rich and poor. But we are held back by lack of direction and lack of will. We may have stolen the Promethean fire but at present we do little more than complain that it is burning our fingers.

Humanity really can do better than this. Twenty years ago, a way was shown in the rebuilding of Europe. We had a demonstration of what an unprecedented response to an unprecedented challenge can achieve in the recovery of confidence and hope. Today, the challenge lies even further beyond the reach of normal responses. Let us therefore have the audacity to seek new ways of recovering our sense of mastery and surer ways of securing our threatened future.

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