

IBRD
NO 4 A



Language Services Division Library	
IP #	WB
Spencer McNamara	



International Bank for Reconstruction and Development
International Finance Corporation
International Development Association

1818 H STREET, N.W., WASHINGTON, D.C. 20433, U.S.A. TELEPHONE: EXECUTIVE 3-6360

Hold for Release until Delivery

Expected at 10:30 AM EST, October 28, 1971

As Prepared for Delivery

Address to the U.N. Economic and Social Council
by Mr. Robert S. McNamara,
President of the World Bank,
the International Finance Corporation,
and the International Development Association,
October 28, 1971: United Nations, N.Y.

I am glad to have the opportunity of addressing the Economic and Social Council in this first year of the Second Development Decade. In the First Decade, the developing nations succeeded in adding a substantial increment to their very low levels of material wealth and their average rate of growth was appreciably higher at the end of the Decade than it had been at the beginning. Paradoxically, however, in spite of this achievement, the tasks that face the developing world in the new Decade seem more, not less, formidable than before. To this theme, I wish to return in a moment.

* * * * *

Before I do so, however, let me report briefly on the affairs of the World Bank Group itself. The Group is operating at a high level of activity, meeting and in some cases surpassing the goals that I sketched out when I first met with the Council three years ago.

In the fiscal year just past, as you will have seen from our Annual Reports, the World Bank Group made loans, credits and investments amounting to the equivalent of \$2.6 billion. This compares with \$2.3 billion in 1970; \$1.9 billion in 1969; and \$1.0 billion in 1968.

To finance disbursements, which reached record levels, and to increase liquidity, the Bank borrowed nearly \$1.4 billion in 1971. These figures mean, in fact, that for each working day of the year, the Bank Group, for projects of economic development, was paying out about \$5 million of cash, was borrowing about the same amount; and was entering into \$10 million of new commitments.

Many of these commitments contained elements marking fresh departures in Bank Group policies and practices. For the first time, to mention an only partial list, the Group made loans or investments for research (in the field of agriculture); for para-medical education; for an institution created exclusively to develop a capital market in a developing country; for farmer-training mobile units; for a company to finance hotel construction; and for a pollution-control project.

In a longer time perspective, let me recall to you that the Five-Year Program which we launched in the Bank three years ago sought, as its overall objective, to double the volume of Bank Group commitments over the previous five years. That meant a total of \$11.6 billion from fiscal year 1969 through fiscal 1973. Our commitments for the first three years of the period totaled \$6.8 billion. Taking account of the operating program for the current year, and the prospects for the following year, it seems probable that the total for the five-year period will exceed \$12 billion -- more than double the level of 1964-68. As you remember, our plans also included tripling finance for education and quadrupling it for agriculture. These plans are on schedule and being met.

Another objective we have sought is to give more assistance to the very poorest among our member countries -- those with per capita incomes of \$100 or less. Our current estimate is that during the five-year period from 1969 to 1973 we will have assisted the poorest countries with a total of 215 projects. The comparable figure for the previous 23 years -- from 1946 to 1968 -- was 158.

* * * * *

Mr. Chairman, we who work in development are becoming ever more conscious that while we must continue to use an index of GNP as one measure of progress, it is an incomplete expression of what development is about. Development has to do with the whole shape and texture of human existence: it is not merely the size of the economy, but the quality of life for each member of society which is our final concern.

The pursuit of this objective has deep-reaching implications both for the developing countries and for programs of external assistance, be they bilateral or multilateral. It is no longer sufficient to strain simply for growth of output, essential though that is; development has to be seen as a composite of many factors, and bringing them into effective relationship with each other must be respected as a task of great subtlety and complexity.

The United Nations system has particular qualifications for this task. The system is imperfect in many ways, and it does not have great material resources. But it does represent a wide range of technical expertise, and the countries and individuals in the system represent virtually the whole spectrum of the human condition and of human experience. The system, potentially, has greater knowledge and higher moral authority than any other instrumentality for development that we have been able to conceive. In my judgment, it can, and should, exercise a role of leadership in our search for new solutions to the problems of the Third World.

Let me illustrate this observation by examining a number of aspects of development which, as I indicated in my address to the World Bank's Board of Governors in their Annual Meeting last month, I regard as of major importance. I refer to the problems of population, nutrition, and employment.

* * * * *

Population planning must have a much higher priority than it now receives in the development programs of most of the developing countries -- and must have it even in those countries where the symptoms of overpopulation are not yet fully evident. The reason is clear: much more time is required than is generally imagined for family-planning programs to bring about reductions in the birth rate to reasonable levels. It is becoming increasingly evident that even with the requisite political support for population programs, even with expected advances in contraceptive technology, even with much improved administration of the programs, decades will pass before the rate of growth declines to acceptable levels.

In the meantime, the world is going to get immensely more populous than it now is. The latest demographic studies indicate that even on very favorable assumptions concerning the rate at which population increase can be slowed down, the populations of the developing countries will multiply several fold. On the basis even of quite optimistic projections, we must expect that they will expand perhaps fourfold from the present level of 2.6 billion, reaching an ultimate total of nearly 10 billion.

The implications of these facts for all of us engaged in development are unmistakable. We need a twofold strategy. On the one hand, we must intensify our efforts to encourage and assist family planning, seeking to shorten the time required to reduce the rate of growth. On the other, we must also reshape development programs to take account of the fact that for some long time yet, population is going to continue to grow rapidly. The need for both these lines of action is urgent.

In the field of family planning, a more active role by the elements of the U.N. system would, I think, be widely welcomed, both by countries seeking assistance and by donor countries. The subject of fertility control is the most sensitive one in development, and the motives of national agencies working in the field are easily misinterpreted and made the subject of controversy. The U.N. system, which can validly claim to be acting on behalf of the whole family of man for the well-being of that family, is not equally vulnerable to this kind of obstruction.

The efforts of the system to assist family planning are still relatively new. It must be conceded that our activities up to now have been too modest and too fragmented to have had a major impact. But I am glad to say that patterns of more effective action are beginning to emerge. I think we can now clearly foresee that there will be a growing number of cases in which the system's assistance to population programs will represent a truly combined effort, from the planning stage into financing and execution. Certainly the Bank will bend its best efforts in this direction.

* * * * *

For some time to come, however, we must expect that excessively rapid population growth will greatly magnify and vastly complicate many other problems of development. Two of these problems -- widespread malnutrition and unemployment -- now demand attention with insistent urgency.

In the developing world, malnutrition is a pervasive and dominant fact. Almost half the population of the globe lives in areas where protein deficiency, the most severe form of malnutrition, is prevalent. Malnutrition is a leading cause of death among infants and young children; it stunts the physical growth and mental capacity of hundreds of millions of those who survive; it is the most important single cause of disease among all sections of the population. It strangles the development of human beings and of societies.

It is a fantastic circumstance that in most developing countries this state of affairs is passively accepted or at best feebly resisted. Of countries with meaningful population programs, there are deplorably few; of countries with effective national policies and programs in nutrition, there are fewer still.

Rising incomes and better income distribution probably would help to improve nutritional standards. But they will not solve the problem and, in any event, we cannot afford to wait for full economic development before we attack it. Every developing country, within the limits of its present economy, has a potential for feeding itself better than it does. Pricing policies to favor growing high-protein foods, research to adapt nutritive varieties of food to local conditions of soil and climate, programs of public education to improve the demand for better food, and assistance to manufacturers of fortified food products, are among the measures that could work well without great financial investment.

Nutrition is not a new subject in the United Nations system. It is one, however, to which the Bank now intends to sharpen its approach considerably. In recent weeks, we have joined WHO, FAO and UNICEF as a sponsor of and financial contributor to the technical work of the Protein Advisory Group, as a means of improving our access to scientific knowledge and increasing the chance of putting that knowledge to work in our own operations. Currently, we are beginning a series of consultations with other agencies to learn more about their activities in nutrition and to consider how the Bank might develop its own operations in this field. Among other things, we hope in time, working with our sister agencies, to increase the sensitivity of our member governments to the literally vital importance of this subject, to offer assistance in the planning of national nutrition programs, and to help finance specific projects in the context of such programs.

* * * * *

Although the economies of the developing countries have expanded substantially over the past decade, very few have grown fast enough to absorb the new population streaming out into the labor force. Today, I believe most experts would agree that on reasonable definitions -- including allowances for underemployment -- unemployment approximates from 20 to 25 per cent of the labor force in most developing countries. If present trends continue, unemployment is bound to become worse.

The extent and appalling consequences of joblessness in the cities have been widely dramatized. But, bad as the urban situation is, almost everywhere the problem of rural underemployment and unemployment is numerically worse; and since it involves the poorest people of the society, it is even more tragic. Typically it results from large families sharing the little work provided by tiny farms, or landless laborers who can find jobs only during limited seasons of the year. The result is an immense waste of potentially productive resources. It has been estimated that in Latin America in 1960, rural underemployment was so widespread that, in effect, it was as if one-third of the agricultural labor force was making no contribution to production at all. And today the situation probably has deteriorated still further.

Rural underemployment is a major cause of the large and often widening gap between urban and rural incomes. In most developing countries, average incomes in the towns are far higher than in the country. In metropolitan Manila, for example, the average income is almost four times that of rural areas in the Philippines.

To many in the countryside, it appears more attractive to migrate to the cities and wait there -- even without work -- in the hope of eventual employment, than to endure the poverty of underemployment in agriculture. So, solving the urban problem depends on solving the rural problem. And the solution to the rural problem must be found mainly in the rural areas. There simply is no hope, in most countries, that urban job creation will be fast enough to absorb all the underemployed from the countryside.

The imbalance between urban and farm incomes, and the consequences of that imbalance, highlight the necessity for development policies which explicitly aim at greater employment and greater equality of income distribution. The lesson of the last decade has been that we cannot simply depend on economic growth alone to solve these problems. Fiscal systems could, in theory, serve to redistribute the fruits of economic growth in a socially equitable way, but this is rare in reality because political pressures are too severe and tax collection practices are inadequate. The only effective solution is to raise the income of the poorest groups by increasing the number of productive jobs available to them.

In the agricultural sector, according to FAO, an estimated 400 million new jobs must be found between now and 1985. To make adequate progress toward this objective will require action on many fronts.

There will have to be important shifts in public policy, away from investment programs biased in favor of urban areas, away from excessive export taxes and price measures that restrict farm earnings, and away from trade policies that squeeze the farmer who has to buy manufactured inputs from high-cost domestic industries protected by high tariff walls.

In the countryside itself, the effects of the Green Revolution will have to be sustained and broadened. At present, the technology of the Revolution is strongly dependent on increased irrigation. But to benefit the majority of farmers, who can have no access to irrigation, research on new varieties of crops suitable for rainfed farming is essential. Because of the immense importance of technology to the growth of agriculture generally, the Bank, together with FAO and the United Nations Development Programme, initiated a new type of effort to ensure that the necessary funds are available to continue and expand the work of existing international agricultural research centers, and to establish new ones in promising fields. Together, the three agencies have established a consultative group of governments and organizations, public and private, interested in the necessary funding. The consultative group is aided by a Technical Advisory Committee composed of distinguished scientists from all corners of the world.

A further challenge is to assure that the benefits of the Green Revolution accrue to the small as well as to the wealthier farmers. Small farmers often work their holdings more intensively than large farmers, and often achieve a higher output per acre. There are many communities in which the reasonable redistribution of land, currently held in excessively large blocks, to the landless or to small farmers would be desirable not only on grounds of equity, but on grounds of efficiency as well.

If the poorer farmers do not benefit from the increase in output which modern technology makes possible, they cannot increase their own consumption, and the whole drive towards greater production and employment will be diminished by a sluggish market. Conversely, an increased availability of food and income to large segments of the rural population could well be self-reinforcing. It would also provide an opportunity for countries to utilize their unemployed on rural investment in transport, schools, health clinics, and irrigation -- and without the costs of food imports or inflation.

Many elements in the U.N. system -- not only FAO, but WHO, Unesco and ILO, for example -- are bringing their experience and talents to bear on the problem of small cultivators. Recent projects financed by the Bank have been directed expressly to small farmers and to an integrated approach to rural development. But we have to admit that in this whole area we are still feeling our way. None of us in the Bank or in the development community at large can yet presume that he is expert at designing the most effective institutions for helping small farmers, or at how best to launch large-scale rural works programs. All these matters manifestly need further study and experimentation.

* * * * *

The progress hoped for in the Second Development Decade also, obviously, requires continuing growth in the industrial sector. In one sense, this growth will be especially critical. In order to maintain the necessary flow of imports, developing countries will have to generate a steadily rising stream of exports, enough to increase their export earnings at an annual rate of 7 per cent during the 1970's.

The developing world as a whole can achieve this large expansion only by a very rapid growth in its manufactured exports. It is here that world demand grows most rapidly.

What is required in many countries is to reduce the relative importance of industries, usually operating with high tariff protection, which simply produce items that these countries have had to import in the past. Many countries have followed the path of import substitution to a dead end. Already short of capital, and burdened with high unemployment, they have found themselves in the uneconomic position of subsidizing, by their customs policy, capital-intensive import substitution.

More inventive and creative attitudes toward industry are now necessary. Especially during the past year, the Bank has been engaged in trying to encourage and assist such attitudes. With help from UNIDO, it has mounted a series of expert missions to look at industrial sectors or sub-sectors in its member countries and to help those countries choose the most promising lines of new industrial development. The identification of industries with potentials for export has been an important objective.

Countries that have oriented their manufacturing sectors toward export markets have fared better than those which have relied chiefly on import substitution. Their industrial growth rates -- averaging 15% or more -- have been higher, and the expansion of employment has been substantially faster.

But the necessary growth in manufactured exports will be harder to achieve in the Seventies than it was in the Sixties. Annual exports, which rose from less than \$2 billion in 1960 to \$7 billion in 1970, will have to quadruple to \$28 billion by 1980 if the targets of the Second Development Decade are to be met. That will not only require a massive effort in the developing countries, but will depend on a much more hospitable reception by the industrial nations of competitive goods from the less developed countries. Ironically, the high-income countries discriminate more against the poor than against each other. Tariffs, quotas and other barriers to imports of manufacturers are more discriminatory, and the agreement in principle to grant preferential treatment to the manufactured exports of the developing countries has only begun to be translated into action.

To urge both the more advanced countries and the less developed countries to expand their trade with one another -- the former by more freely admitting imports, and the latter by not resorting to excessive import substitution -- is not to urge that one set of countries do the other a favor. I am simply recommending that both recognize where their true mutual interests lie.

Mr. Chairman, there is one more item high on the world's economic agenda which I would like to mention today even though it is not a direct responsibility of the Bank. It is the commonly agreed necessity for a remodeling of the international monetary system, following the events of last August. In my view, the world now has the best opportunity it has had since the Bretton Woods Conference itself to take a memorable step forward in the realm of international economics.

The opportunity goes far beyond the immediate concerns of the high-income countries who have been the protagonists in recent monetary discussions. The question is world-wide, and must be solved with the interests of all nations in mind.

The stake of the less developed countries in this question is clear. Their own economic progress has been seriously impeded by international payments difficulties among the major trading nations. The apprehension in high-income countries about even temporary imbalances has led to inequity in their relations with the developing nations. It has been a chronic excuse for restrictions on imports from the poorer nations, for the tying of aid to those nations, for restrictions on exports of capital, and for reduction or stagnation in aid flows.

Aid flows, in particular, are still unsatisfactory. In spite of encouraging action by some individual countries, the over-all total is moving but slowly, if at all, toward the accepted target for official aid as a proportion of gross national product. The gains in absolute amounts are absurdly small in relation to increases in the wealth of the high-income countries themselves.

Developing countries therefore have a strong interest in the evolution of an improved international monetary and payments system. Along with the Group of Ten, they have an interest in arrangements facilitating a steady growth of both trade and aid.

All this, I think, is widely agreed by the major trading nations of the globe. What remains, however, is to give force to the rhetoric. In my opinion, that means that the reform of the monetary system must take fully into account the legitimate interests and aspirations of the less developed nations.

Whatever the final shape of the system, I hope that it will liberate the international earnings capacity of the developing countries, and the flow of development finance to them, from the vicissitudes and fluctuations of payments transactions among the rich nations. And I hope that it will take into account ways, both direct and indirect, whereby additional liquidity in the system can be made to work for the advancement of the poorer countries.

* * * * *

Mr. Chairman, let me conclude these remarks with a brief observation. The organized international development effort is now nearly a full generation old. The experience of that generation demonstrates that the work of development does not permit us to chart simple or easy courses; nor do we have any certain or convenient measure of progress. Some of the inspiration which fired the effort at the beginning has now given way to varying degrees of discouragement or indifference. The international development task no longer commands the attention of the world as it did when it was being born 25 years ago.

But to leave the development effort in the second rank of man's concerns is, to my mind, a serious misreading of history. If our work makes it possible that fewer children die and fewer parents grieve, that there is less poverty and more hope, that there is less waste and more realization of life's potential, this will be a better and a more peaceful world. The vocation we have chosen is in fact one of the highest and most fateful we could have found. There is nothing modest about the tasks which face us, and let us not be modest about what we aspire to achieve.

E N D