

**ADDRESS to the  
BOARD OF GOVERNORS**

**BY**

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## I. INTRODUCTION

Last year, in this forum, I discussed a number of problems which were of serious concern as the Second Development Decade got under way. Now that the trend of the decade is becoming more clearly predictable, I want to explore with you today an issue that is central not only to its success, but to the efficacy of the entire development process.

That issue is the critical relationship of social equity to economic growth.

But before turning to that, I should like to:

- Report on the Bank Group's operations in Fiscal 1972.
- Review the progress of our Five-Year Program for the fiscal years 1969-73.
- Assess the current state of development throughout our developing member countries.
- And, based on that assessment, sketch the outline of a program for the Bank for the five years 1974-78.

## II. THE BANK GROUP'S OPERATIONS IN FISCAL YEAR 1972

Let me begin by touching upon our operations during the past fiscal year. For that period, new loans, credits and investments totalled \$3.1 billion. This compares with \$2.6 billion in 1971, \$2.3 billion in 1970, \$1.9 billion in 1969, and \$1.0 billion in 1968.

To finance growing disbursements, and to increase the level of liquidity, the Bank borrowed, net of retirements, \$1.1 billion during the year. This brought our liquid reserves to \$3.2 billion—up \$700 million from June 30, 1971. Net income for the year was \$183 million, excluding a gain on revaluation of \$51 million.

The year, then, was a productive one operationally. But as I have indicated to you before, the development task before us requires that we plan on a broader scale than year-to-year operations make possible. That is why in the fall of 1968, when I

first met with you, I proposed a Five-Year Program. That Program will be completed next June 30th, and I want to report to you now on its progress.

### **III. THE BANK GROUP'S FIVE-YEAR PROGRAM**

You will recall what we set out to accomplish. Our analysis of the overall requirements for economic progress in our developing member countries convinced us that we should greatly broaden and expand the Bank Group's operations both in scope and in size.

We proposed as our overall lending objective that we should double the Bank Group's operations in the period 1969-73, as compared with the period 1964-68. Were we to achieve this goal, it would mean that during the five years the volume of lending would approach the total amount lent during the previous 23 years of the Bank's operations.

I can report to you today that we will not only meet that goal, but will surpass it.

But it was not principally the size of our operations which concerned us when we launched the Five-Year Program. We did not merely want to do more. We wanted to do more of what would contribute most to development.

Thus, within the overall lending program, we were resolved to shift our emphasis both into different sectors and into different geographical areas.

What does that mean in practice?

- In a developing world in which hunger is chronic, it means intensifying our efforts in agriculture. We have quadrupled our operations in that sector.
- In a developing world darkened by functional illiteracy, it means expanding our efforts in education. We have tripled our operations in that sector.
- In a developing world caught up in the threat of unmanageable population pressures, it means facing up to that complex and controversial problem. We have established a Population Projects Department, and we have launched important initiatives in that sector.

In our previous meetings, I have stressed the damaging effect of runaway population growth on a developing economy. I have pointed out the strains this creates both at the family and the national level for any country struggling to improve the quality of life for its people.

Overly rapid population growth simply erodes and dissipates development gains in every sector: savings evaporate, scarcities multiply, resources are stretched so thin that in the end they cannot cover the most essential needs.

While the population problem is clearly one which cannot be solved within the confines of a five-year plan, or a development decade, or indeed even during what is left of our century, it is by its very nature a problem that can grow only worse with procrastination and delay. That is why we believe the entire international community must assign it the highest priority.

The Bank's initial work in the population field consisted of sector missions to a dozen different countries and projects deliberately initiated in smaller member countries in order to provide us with working experience on a scale commensurate with our new capabilities.

But in the early summer of this year we approved far-reaching projects in two of our largest member nations: India and Indonesia.

The project in India—a joint effort with the Government of Sweden—will develop what promises to be the most advanced systems approach to the population problem in any developing country. It will provide the essential information and analysis required to shape the overall massive effort India is making to reduce its current population growth.

Both the size of India's problem, and the magnitude of its effort to solve it, can be grasped in the statistics. The nation's total population now stands at over half a billion. It is growing by an additional million each month. The government has set up an organization of 80,000 persons to administer a family planning program to serve one hundred million couples. The Bank project is designed to help support that program with the experimentation and the systems analyses required to make it effective.

Like India, Indonesia is serious in its determination to provide its people with effective family planning assistance. With a population of more than 120 million, currently growing at an annual rate of 2.5%, it ranks fifth among the world's most heavily populated countries. Some two-thirds of its people live in Java and Bali, where the average density is nearly 1600 persons per square mile.

With the participation of the United Nations Fund for Population Activities, WHO, UNESCO and UNICEF, the Bank project provides \$13 million for a greatly expanded family planning program. In addition to the construction of 300 health centers and the provision of the required vehicles and equipment, the project will help finance the training of several thousand field workers, the preparation of public school curricula, and a program of research and evaluation.

Should the overall objectives of the project be reached—and both the government and we are confident that they can—Indonesia's population by the end of the century, even though it will be twice as large as it is today, will be 50 million less than it would otherwise be.

What all this demonstrates is that our Five-Year Program has shifted the Bank's emphasis toward those sectors which in today's conditions require intensified effort: agriculture, education, and population, among a number of others.

But as I have indicated, our shifts in emphasis have been geographical as well as sectoral. In Africa, we expect to more than treble our lending over the previous five-year period.

And for the group of our poorest member countries—those whose per capita incomes average less than \$100—we will quadruple our lending.

To achieve these goals has, of course, required a substantial strengthening of the Bank Group both organizationally and financially. The professional staff, for example, by the end of the five-year period will have increased by 125%.

Recruitment of highly qualified staff, representing the broadest possible geographical experience, has been facilitated by a worldwide interest in the work of the Bank. In the past year,

more than 2400 candidates, from 98 countries, applied for 52 available openings in our Young Professionals Program.

Doubling the volume of our lending operations has meant, of course, that we had greatly to expand our borrowing capacity. This in turn depends on governments granting us access to their countries' capital markets. Despite recurrent and unsettling readjustments in the international monetary system, they have continued to do so.

Not only have we continued to borrow in our more traditional markets, but we have entered new markets as well, and have utilized new borrowing instruments, and new channels of distribution. Net borrowing for the five-year period will approximate three and three-quarter times that of the earlier period and liquid reserves will increase by about 125%.

Neither the expansion of operations nor the shift into less traditional sectors of lending has adversely affected net income. On the contrary, total net income during the five-year period will be approximately 30% higher than that of the previous period, and this despite a significant increase in the subsidy to the developing countries implicit in the Bank's lending rate.

Organizationally, then, and financially, the Bank Group will complete the first Five-Year Program in a position of strength.

But while encouragement over the Bank's operations is one thing, complacency with the state of development is quite another. And there is little danger of confusing the two if we take an objective look at the current prospects of the developing nations.

#### **IV. THE STATE OF THE DEVELOPING WORLD AND THE BANK'S PROGRAM FOR FY74-78**

In its strategy for the Second Development Decade, the United Nations set as a target that the average annual rate of growth in Gross National Product for the developing countries should be at least 6%. To make that possible, the developed countries were to increase their concessionary aid—known as Official Development Assistance—to .7% of their GNPs by 1975.

As I pointed out earlier this year at the United Nations Conference on Trade and Development in Santiago, it is now clear that the objective of .7% will not be reached. There seems little likelihood that during the first half of the decade Official Development Assistance will exceed .37% of GNP—only half of the Second Development Decade target (see attached table).

That is regrettable in the extreme, but we must be realistic. And realism dictates that we try to assess the effects of this massive shortfall in concessionary aid.

The first, and least tolerable, of the effects is that the poorer of our member countries—those with per capita GNPs of less than \$200—will be penalized the most. Their needs for Official Development Assistance are the greatest, and their chances for finding feasible alternatives are the least.

What is more, these countries collectively contain 1.1 billion people, 64% of the aggregate population of our entire developing country membership. They are the very countries which have suffered the greatest burdens of poverty during the past decade. Their GNPs grew annually at an average rate of only 4.1% and their per capita incomes at a miniscule 1.7%.

With the ODA objective only half achieved, these poorer nations have almost no hope of attaining the 6% growth target. That will condemn them to so slow an economic advance over the decade that hundreds of millions of individuals within these countries will be able to detect virtually no improvement whatever in their desperately low standards of living. Their per capita incomes will rise by no more than two dollars a year.

Projected to the end of the century—only a generation away—that means the people of the developed countries will be enjoying per capita incomes, in 1972 prices, of over \$8000 a year, while these masses of the poor (who by that time will total over two and one-quarter billion) will on average receive less than \$200 per capita, and some 800 million of these will receive less than \$100.

The deficit in development assistance will penalize the poorest countries the most. But even for those developing countries which are somewhat better off, a deficiency in ODA will cause serious economic and financial problems.

Publicly guaranteed debt in the developing world currently stands at about \$75 billion, with annual debt service of approximately \$7 billion. Debt service payments rose by 18% in 1970, and by 20% in 1971, representing twice the average rate of increase over the 1960s, and reflecting a hardening of the terms of debt as the proportion of concessionary aid in the total flow of external assistance to developing countries declined.

Given the shortfall in ODA, and the growing debt problem, it seems clear that the World Bank Group should try to continue to expand its operations. If we were to fail to make this effort, our developing member countries would be driven to an even greater dependence on higher-cost, shorter-maturity sources of external capital with the inevitable exacerbation of their debt-servicing burdens. They would have little choice, for without a reasonable flow of external finance they simply cannot meet even minimal development requirements.

For the Bank Group to relax in its resolve to do everything it feasibly can to assist in this situation would be to shirk our central responsibility: to recommend those policies, provide that technical assistance, and help finance those projects which will most effectively support our developing member countries' own struggle to advance the welfare of their people.

With careful planning and your support, we are convinced that the Bank Group can obtain the necessary funds to continue to expand its operations during a Second Five-Year Program. And that is what we propose to do.

As an overall goal, for the period FY 1974-1978, we propose to increase our financial commitments to our developing member countries by an average of 11% a year, and to shift an increasing percentage of these commitments to International Development Association credits.

If we can achieve this expanded level of operations—and I am confident that it is possible—it would mean that the World Bank Group would help finance, and provide technical assistance for some \$50 billion of capital improvements in our developing member countries during the Second Five-Year Program period. This would be in contrast to \$30 billion of such projects from 1969 to 1973, and \$13 billion from 1964 to 1968.



## V. SOCIAL EQUITY AND ECONOMIC GROWTH

Given the unfortunate shortfall in ODA, the consequent aggravation of the debt problem, and the procrastination of the developed countries in dismantling discriminatory barriers to trade from the developing countries, the Second Development Decade's 6% growth target is not going to be met by many nations and is going to be an exceptionally arduous task for many others.

But let us suppose that it were in fact to be accomplished by 1980.

Would that achievement, in itself, guarantee a significant advance in the quality of life for the majority of the two billion people who live in our developing member countries?

The frank answer is no.

The answer is no because increases in national income—as essential as they are—will not benefit the poor unless they reach the poor.

They have not reached the poor to any significant degree in most developing countries in the past, and this in spite of historically unprecedented average rates of growth throughout the sixties.

To understand this, it is useful to distinguish between three broad categories of poverty in the developing world.

First, there is great poverty in those countries, generally rather small, which simply have very few resources—natural, financial, or skilled—with which to promote growth. There is so little wealth in these nations that even if it were more equitably distributed, virtually everyone would still be very poor. These are the countries (there are 25, with populations totalling 140 million) which the United Nations has designated as the least developed and for which special measures of assistance have been approved.

Second, there are particularly impoverished regions in most of the larger developing countries—for example, the southern republics of Yugoslavia, the North East of Brazil, or the North East of Thailand. The integration of these regions into the more rapidly growing parts of the economy often poses difficult cul-

tural as well as economic problems. These areas are, however, readily identifiable geographically, and it is possible to devise and implement programs specifically aimed at increasing the productive capacities and incomes of their populations.

But it is the third category that is the largest, the most pervasive, and the most persistent poverty of all. It is the poverty of the low-income strata—roughly the poorest 40%—of the total population in all developing countries. It is they who—despite their country's gross economic growth—remain entrapped in conditions of deprivation which fall below any rational definition of human decency.

This is not simply the poverty of a highly disadvantaged country, nor of a particularly backward geographical region in an otherwise rapidly advancing country. Rather, it is the poverty of those people widely dispersed throughout every developing country who, for whatever reason, lie beyond the reach of traditional market forces and present public services. It is the poverty of those masses of the population which current government policies do not adequately encompass, and which external assistance cannot directly reach.

This poverty of the poorest 40% of the citizenry is of immense urgency since their condition is in fact far worse than national averages suggest. Our studies, for example, indicate that:

- In 10 countries, with per capita incomes averaging \$145, the poorest 40% of the population receive a per capita income of only \$50.
- In another 10 countries with per capita incomes averaging \$275, the poorest 40% of the population receive a per capita income of only \$80.

What we are dealing with here are problems that are difficult to grasp in their concrete, day-to-day realities.

When we reflect that of the more than half a billion persons living on the Indian subcontinent, some 200 million subsist on incomes that average less than \$40 a year, how are we to comprehend what that really implies? The estimate is that if India were to depend exclusively on the growth of national income to solve its massive nutrition problems, it would require more than 30 years before the poorest third of the country could afford an adequate diet.

When we reflect that of the two billion persons living in our developing member countries, nearly two-thirds—some 1.3 billion—are members of farm families, and that of these there are some 900 million whose annual incomes average less than \$100, what frame of reference are we to call on to make that fact meaningful?

To many in the affluent world, to be a farmer suggests a life of dignity and decency, free of the irritation and pollution of modern existence: a life close to nature and rich in satisfactions.

That may be what life on the land ought to be. But for hundreds of millions of these subsistence farmers, life is neither satisfying nor decent. Hunger and malnutrition menace their families. Illiteracy forecloses their futures. Disease and death visit their villages too often, stay too long, and return too soon.

Their nation may be developing, but their lives are not. The miracle of the Green Revolution may have arrived, but for the most part, the poor farmer has not been able to participate in it. He simply cannot afford to pay for the irrigation, the pesticide, the fertilizer—or perhaps even for the land itself on which his title may be vulnerable and his tenancy uncertain.

His nation may have doubled or tripled its educational budget, and in the capital city there may be an impressive university. But for 300 million children of poor farmers like himself there are still no schools—and for hundreds of millions of others if a school, no qualified teacher—and if a qualified teacher, no adequate books.

His nation may be improving its communications, and jet aircraft may be landing at its international airport in increasing numbers. But for the poor farmer who has seldom seen an airplane, and never an airport, what communications really means—and what he all too often does not have—is a simple all-weather road that would allow him to get his meager harvest to market when the time is right and the prices are good.

Let us be candid.

What these men want are jobs for their survival, food for their families, and a future for their children. They want the simple satisfaction of working toward something better: toward an end to misery, and a beginning of hope.

We are not talking here about a few maladjusted discontents.

We are talking about hundreds of millions of desperately poor people throughout the whole of the developing world. We are talking about 40% of entire populations. Development is simply not reaching them in any decisive degree. Their countries are growing in gross economic terms. But their individual lives are stagnating in human terms.

What can be done?

That is the question I want to explore with you now.

## **VI. A PLAN OF ACTION**

One must begin by analyzing the policy options which are generally proposed. They present clearly conflicting schools of thought.

One view is that governments in developing countries should make rapid economic growth the first objective, and that income redistribution and increased employment can be achieved later through fiscal and institutional changes.

Others argue that the growing pressures of poverty are so overwhelming that their widespread relief should be the central objective of development strategy, even if that entails major sacrifice in the pace of overall growth.

Of course it would be comforting to continue to believe that there is no conflict between rapid overall growth and comparable improvement in the incomes of the poor. But, unfortunately, in the real world in which we live, the evidence suggests that there is.

There is a natural tendency for growth to be concentrated in the modern sectors of the economy with little current benefit to the lowest income groups. What data there are—while admittedly incomplete—indicate that this pattern of growth has developed in many countries.

But if few dispute the fact that there exists some conflict between maximization of growth and the rapid reduction of poverty, many argue that in the long term the conflict is irrelevant since it can—given sufficient time—be resolved. In the long

term, rapid growth will increase productivity, and furnish the resources which can be redistributed to those who cannot yet be accommodated in the high-productivity, high-wage, modern sector.

The same view holds that even in the shorter term—in a decade, say—it is possible at least to reduce the conflict between rapid growth and more equitable income for the poor by shaping an economy which provides the proper incentives, which prices labor and capital correctly, which strengthens the fiscal system, and which emphasizes the right adaptive technologies.

But although this argument is correct as far as it goes, it doesn't go far enough. A decade may be the short term for a development planner. But a decade is the long term for a subsistence tenant farmer whose children are most likely to die before the age of five, whose diet is already so inadequate that he cannot stave off chronic ill health, whose illiteracy limits his future ability to learn new skills, and whose perpetual indebtedness to the money lender and dependence on the land owner leave him neither options nor hope.

On the other hand, one must recognize that if a government were to initiate policies to increase the income growth of the lowest 40% of the population—with a view to assuring that, at a minimum, their share of the nation's overall economic growth does not decline as it has in the past—there are legitimate questions as to what the impact of such policies would be on the rate of overall national growth. Would it seriously hamper it? Would it prevent it altogether? What precisely would happen?

There are at least three possible consequences of economic policies directed to more equitable income distribution which are thought to hamper growth. They are: reduced entrepreneurial incentives; lower savings rates; and the choice of obsolete technology.

Let us consider these for a moment.

It is often suggested that wide disparities in income are necessary in order to provide entrepreneurial incentives. Without arguing whether such incentives are important stimuli to productivity, one can question the amount of incentive that is required to motivate the desired degree of effort.

In a study of the income disparities of 39 developing countries, in which the income of the wealthiest 5% is measured as a multiple of the bottom 40%, there is a wide range of differences among countries. There are eight countries in which the per capita income of the top 5% is more than 30 times greater than that of the lowest 40%. There are 16 countries in which the ratio is less than 15 to one.<sup>a</sup>

But the significant point is that when one compares these two sets of countries on their per capita growth performance during the 1960s, there is no discernible relationship between the size of the incentives and the rapidity of the growth. The average rate of growth of the group of countries with the greatest disparities was not significantly different from the group with the least. This indicates that there may well be substantial scope in the developing countries for moderating the highly skewed disparities in income without crippling the incentives to greater productivity.

Similarly, flexibility in the relationship between income distribution and the volume of savings available for socially productive investment may, in fact, be far greater than is generally assumed. While it is true that higher incomes permit a higher rate of savings, the real question is what becomes of those savings. If they are used for production of luxury goods to meet a demand pattern distorted by a skewed income distribution, it is questionable whether the high savings rate is, in fact, promoting any crucial national interest. If, on the other hand, a more equitable distribution of income results in a somewhat lower gross rate of savings, but more investment in the production of essential commodities, the lower rate of growth in national income may be accompanied by an increase in the incomes of the bulk of the population.

Finally, there is the question of the choice of technology. It is often asserted that rapid economic growth demands adoption of technologies which, by their very nature, penalize employment and perpetuate poverty. The argument is that unless the modern sector is so equipped, its inefficiencies will restrict the country's capacity to export and perpetuate a costly dependence on imports for even the most basic requirements.

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<sup>a</sup>In the United States, the ratio is 5 to 1.

But here again, the argument is oversimplified. The issue is not so much modern technology versus traditional technology. The real issue is efficient technology versus inefficient technology, and the essential question is how ought one to measure that efficiency. Efficiency as such is a relative term. A technology is efficient or inefficient relative to the resources one has available. In a labor-scarce, affluent, developed economy, the most efficient technology is capital-intensive and highly automated—it produces at the lowest cost per unit in terms of the scarce resource: labor.

But in a developing economy, where labor is abundant, and sophisticated skills are scarce, it is clearly inefficient to emulate technologies which lead to high costs per unit measured in terms of the scarce resource: capital. And yet that is the result when, in the rush to industrialize, developing countries subsidize capital by creating a structure in which foreign exchange is undervalued, credit is underpriced, and tax incentives misdirected.

If government policy were directed towards promoting a price structure which reflected the scarcity values of labor and capital more realistically, the technological choice would be different. The result would be greater employment, broader income distribution, and more competitive patterns of production of precisely those labor-intensive goods which labor-scarce affluent countries need, but cannot themselves produce inexpensively.

What, then, are we to conclude from this analysis?

The answer is that while we obviously do not know as much as we want to know about the relationship of more equitable income distribution to overall economic growth, we know enough to conclude that:

- It is possible to design policies with the explicit goal of improving the conditions of life of the poorest 40% of the populations in the developing countries—and that this can be done without unacceptable penalties to the concomitant goal of national growth.
- Without specific emphasis on such programs, there will not be significant progress in reducing poverty within acceptable time periods.

We know, in effect, that there is no rational alternative to moving toward policies of greater social equity.

When the highly privileged are few and the desperately poor are many—and when the gap between them is worsening rather than improving—it is only a question of time before a decisive choice must be made between the political costs of reform and the political risks of rebellion.

That is why policies specifically designed to reduce the deprivation among the poorest 40% in developing countries are prescriptions not only of principle but of prudence. Social justice is not merely a moral imperative. It is a political imperative as well.

What, then, can be done to attack the problem of massive poverty within the developing world?

The first and obvious step is the political resolve to make the effort.

It is clear that in the end each country must make its own decision as to how and when to deal with its internal inequities. The problems of poverty are rooted deeply in the institutional frameworks, particularly in the distribution of economic and political power within the system. Outside agencies can assist but cannot solve such problems. It is governments that have the responsibility of essential domestic reform, and there is no way they can escape that responsibility. To postpone reform on the grounds of political expediency is to invite political extremism. To remain indifferent to social frustration is to foster its growth.

Political will, then, is the first requisite.

Public understanding is the second. The fact is that all of us need a clearer perception of the problem. We need both more and better quantitative data on past and current trends in employment and in income distribution. And we need them urgently. I propose that the developing countries address this task of gathering income data, and that as a practical matter they set a target date of 1975 for a greatly expanded program of censuses, sample surveys, and specific studies. The international agencies—our own included—can assist technically and financially, and provide a multilateral forum for this effort.



Third, all of us need to identify concrete policies and actions which can reduce the skewness of the income distribution. Admittedly, we are on the frontier of a new field of knowledge here, and we have far more questions than we have answers. But the urgency of the situation is such that we simply cannot wait until all the answers are in. We must begin now with what we know now. And we clearly know enough to at least make a beginning. If we make mistakes we will simply have to learn from them. But the greatest mistake of all would be for the international development community to sit back and continue to do in the future what it has done in the past: to ignore the problem. It is the time for new approaches.

What ought they to be?

- The first step should be to establish specific targets, within the development plans of individual countries, for income growth among the poorest 40% of the population. I suggest that our goal should be to increase the income of the poorest sections of society in the short run—in five years—at least as fast as the national average. In the longer run—ten years—the goal should be to increase this growth significantly faster than the national average.
- Given the intimate link between poverty and massive unemployment, unemployment and underemployment must be attacked head-on. With 20% or more of entire populations already jobless or virtually idle—and with the population explosion pouring a growing stream of new entrants into the labor pool each year—unless policies and programs are devised to absorb surplus labor into productive jobs, little can be done to improve the lot of the desperately poor. Job creation must therefore become a direct objective in itself. It will be necessary to organize rural and urban public works—the building of market roads; construction of low-cost simple housing; reforestation programs; expansion of irrigation and drainage facilities; highway maintenance, and similar low-skill, labor-intensive, and economically useful projects. The Bank will assist in financing such projects.
- Institutional reforms to redistribute economic power are critically required in many developing countries: land reform, corporate reform, tax reform, credit and banking reform, and many others. Continuation of the existing land

tenure patterns, tax laws, and banking regulations will simply assure that the present distribution of assets and income will be perpetuated. The Bank will support reforms in these areas with technical and financial assistance.

- Shifts in the patterns of public expenditure represent one of the most effective techniques a government possesses to improve the conditions of the poor. Too often these expenditures—on health, on transport, on water supply, on education, and on many other sectors—end by benefiting the already privileged far more than the mass of the disadvantaged.<sup>a</sup> This, in part, is because these services are more concentrated in the urban areas and better neighborhoods. But it is also a function of the greater participation of the highly privileged in the political process. Governments can best begin to shift public expenditure towards those who need it the most by initiating surveys on the effects of their current patterns of disbursement: where do the funds really go, and who benefits the most? The Bank will assist in such surveys and, based on them, will help design programs, to be financed by it and others, which will improve the distribution of public services.
- Finally, policies should be undertaken to eliminate distortions in the prices of land, labor, and capital. To underprice capital for the wealthy and make credit expensive for the poor; to allow liberal access to scarce resources for the privileged, and price them out of reach of the deprived; to provide subsidies for the powerful, and deny them to the powerless—these are wholly self-defeating approaches to development. Such policies lead a nation inevitably toward economic imbalance and social instability.

These, then, are the general measures which all of us in the international development community should move toward with all the urgency that we can command. We in the World Bank Group can assist our developing member countries in this effort, and we fully intend to do so.

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<sup>a</sup>This is strikingly illustrated in the access to public services. School enrollment ratios and the quality of education, for instance, are almost uniformly higher in the higher income groups. And, in a sample of 20 developing countries, the allocation of scarce foreign exchange was ten times greater for the importation of private cars than for public buses.

## VII. SUMMARY AND CONCLUSIONS

Let me summarize and conclude the argument I have put before you this morning.

Current development programs are seriously inadequate. They are inadequate because they are failing to achieve development's most fundamental goal: ending the inhuman deprivation in hundreds of millions of individual lives throughout the developing world.

Why are these programs failing?

There are two overriding reasons: the affluent nations are not moving effectively enough to assist the indigent nations; and the indigent nations are not moving effectively enough to assist the poorest 40% of their own populations.

The affluent nations have, of course, their own domestic priorities. But their growing incremental income is so immense, their technological capacity so powerful, and their whole range of advantages so disproportionately gigantic, that no rational argument can be made for their refusal to do more to assist the disadvantaged nations.

Collectively, the affluent nations are currently providing only half the targeted .7% of their GNPs in the Official Development Assistance which will make so decisive a difference to the development efforts of the poor countries. These amounts of money are miniscule in light of the fact that the collective gross national products of the developed nations, which totalled \$2000 billion in 1970, are expected to grow to more than \$3000 billion in 1980.

The rich nations are not being asked to diminish their riches in order to help the poor nations. They are only being asked to share a tiny percentage of their continually increasing wealth.

Further, the rich nations are failing the poor nations—and themselves—in another critical respect. They are refusing to give the poor nations a more reasonable opportunity to trade fairly with them. Discriminatory trade restrictions on the part of wealthy countries are indefensible on two counts: they penalize the people of the poor countries, and they penalize their own domestic consumers. The trade problem is admittedly complex,

but the essence of it is simple enough. The political pressures of special-interest groups in affluent nations are prevailing over the interests of the majority of ordinary citizens in rich and poor countries alike.

If the rich nations do not act—through both aid and trade—to diminish the widening imbalance between their own collective wealth and the aggregate poverty of the poor nations, development simply cannot succeed within any acceptable time frame. The community of nations will only become more dangerously fragmented into the privileged and the deprived, the self-satisfied and the frustrated, the complacent and the bitter. It will not be an international atmosphere conducive to tranquility.

The developed nations, then, must do more to promote at least minimal equity in the distribution of wealth among nations.

But the developing nations must do more as well.

Their internal equity problems are no less important than those of the international community at large. In the developing nations' pursuit of rapid economic growth, the poorest 40% of their populations are being largely left behind.

It is becoming increasingly clear that the critical issue within developing economies is not simply the pace of growth, but the nature of growth. The developing nations achieved an overall average annual GNP growth rate of more than the targeted 5% by the end of the sixties. But the social impact of that growth was so severely skewed, and the numbers of individuals all but passed by so absolutely immense, that the simple statistical achievement of that target was misleading.

Governments exist to promote the welfare of all of their citizens—not just that of a privileged few. Absolute egalitarianism is as chimerical as absolute laissez-faire, but what is certain is that absolute human degradation—when it reaches the proportions of 30 to 40% of an entire citizenry—cannot be ignored, cannot be suppressed, and cannot be tolerated for too long a time by any government hoping to preserve civil order.

It would be naive not to recognize that that time in many quarters of the world is running out.

The task, then, for the governments of the developing countries is to reorient their development policies in order to attack directly the personal poverty of the most deprived 40% of their populations. This the governments can do without abandoning their goals of vigorous overall economic growth. But they must be prepared to give greater priority to establishing growth targets in terms of essential human needs: in terms of nutrition, housing, health, literacy, and employment—even if it be at the cost of some reduction in the pace of advance in certain narrow and highly privileged sectors whose benefits accrue to the few.

Such a reorientation of social and economic policy is primarily a political task, and the developing countries must decide for themselves if they wish to undertake it. It will manifestly require immense resolve and courage.

The task of political leadership in the wealthy world is to match that resolve and courage with a greater commitment to equity between their own affluent nations and the grossly disadvantaged developing nations.

I believe that no one within this forum would deny that the time for significantly greater social and economic equity both among nations and within nations has indeed come.

Given more than a million years of man's life on earth, it has been long in arriving.

Now that it is here we cannot escape asking ourselves where our responsibilities lie.

It seems to me that the character of our entire era will be defined by the shape of our response.

**Projected Flow of Official Development Assistance  
Measured as a Percent of Gross National Product<sup>a</sup>**

	1970	1971	1972	1973	1974	1975
Australia	.59	.52	.59	.59	.59	.60
Austria	.13	.06	.17	.19	.22	.25
Belgium	.48	.49	.54	.58	.62	.66
Canada	.42	.37	.48	.51	.55	.59
Denmark	.38	.43	.48	.53	.58	.64
France	.68	.68	.65	.65	.65	.65
Germany	.32	.34	.33	.36	.36	.38
Italy	.16	.17	.16	.16	.16	.16
Japan	.23	.23	.28	.32	.36	.40
Netherlands	.63	.60	.70	.74	.76	.78
Norway	.32	.33	.47	.56	.67	.75
Portugal	.61	.75	.45	.45	.45	.45
Sweden	.36	.45	.50	.56	.65	.71
Switzerland	.15	.12	.22	.26	.30	.32
United Kingdom	.37	.41	.41	.41	.45	.46
United States	.31	.32	.30	.28	.26	.24
Total	.34	.35	.36	.36	.36	.37

<sup>a</sup>Countries included are members of OECD Development Assistance Committee, accounting for more than 95% of total Official Development Assistance. Figures for 1970 and 1971 are actual data. The projections for later years are based on World Bank estimates of growth of GNP, on information on budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) for 1975.

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