

Priority for two fundamental objectives

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As one surveys the international development scene today, it is clear that there are two fundamental objectives that must command the priorities of us all.

One is to accelerate overall economic growth in the developing countries, and the other is to reduce the massive dimensions of absolute poverty.

In the *World Development Report, 1978* the initial volume in a new annual series of world Bank analyses of economic and social progress in the developing world, these two issues are examined in detail.

Based on a number of feasible — though admittedly optimistic — assumptions, projections for the period 1975-1985 indicate that the low income countries could increase their overall growth rate from roughly 4 to about 5 per cent, and that the middle-income countries could sustain their current growth of about 6 per cent.

These are not, however, predictions of what will actually happen. They are prospects which are far from certain. To achieve them, both the developing countries themselves, and the developed nations, must increase their efforts.

The developing countries must, for example, mobilize even greater domestic savings than they do now. This will call for difficult reforms in a number of sensitive areas of public policy.

Further, they must expand their export programs, and their agricultural productivity — which in the case of the low-income countries would mean doubling their current agricultural growth rates, raising them from 1.5 per cent to 3.0 per cent a year: a difficult but attainable goal.

But if the developing countries were to do all of this — as necessary as it is — they simply could not achieve the projected levels of economic growth without substantially greater support from the developed nations.

That support is required, first of all, in the matter of trade. Just as the developing countries have begun to demonstrate their natural comparative advantage in certain labour-intensive manufactures, a new threat of protectionism is gathering momentum in the developed world.

This is both inequitable and shortsighted since it denies the developing countries the only long-range economic strategy that can ultimately decrease their dependence on foreign assistance.

Already the developing world constitutes an important and growing market for the exports of the industrialized nations, stimulating demand and helping to hasten their own economic recovery. But if the developing countries are to import even more goods and services from the OECD nations — which they both need and want to do — then they must be allowed in return to export more to those same nations in order to earn the foreign exchange necessary to do so.

In the end, excessive protectionism is self-defeating for everyone: for consumers, who are denied less expensive, and hence less inflationary, imports; and for producers who are denied competitive access to expanding markets.

What is required is a more rational framework of international trade that will reduce protectionism on both sides by promoting the dismantling of non-tariff barriers, and by broadening the scope of true comparative advantage. In the industrial countries this will require initiating adjustment procedures that can ease the shift of capital and labour away from marginal industries into more competitive and productive sectors.

The expansion of international trade is, then, essential to the economic growth the developing countries so desperately need.

Another requirement, particularly for the middle-income developing nations, is the continued assurance of adequate capital flows from both the multilateral financial institutions and the private capital markets.

In the recession that followed the economic turbulence of the early 1970s, the middle-income countries had to rely on heavy borrowing abroad to maintain their development momentum. The international development institutions, and the commercial banks, responded to that need, and debt obligations rose swiftly.

This was, on the whole, a very positive phenomenon, and assisted the recovery process in the developed as well as the developing nations. But as the debt grew, there began

to be some anxiety that prudent levels might be exceeded.

The World Bank has followed these developments closely, and has concluded that the potential dangers lie not so much in the absolute amounts of the debt itself, but rather in a generally burdensome maturity structure and in liquidity problems that will affect a limited number of borrowers.

The poorest developing countries, because of their limited debt-servicing capacity must of necessity depend on capital at concessional terms, and are in urgent need of greater Official Development Assistance.

If the poorest countries are to attain the very modest economic growth levels projected for the period 1975-1985, there must be an end to the virtual stagnation in ODA flows, and an increase of at least 5 per cent a year in real terms.

Though some of the smaller countries of the Development Assistance Committee have made a strong showing, the overall trend in Official Development Assistance is very disappointing. In relation to combined GNP, ODA has declined from .52 per cent in 1960 to .31 per cent in 1977.

But increasing economic growth — as essential as it is — is not the sole objective of the development task. Reducing the massive and cruel dimensions of absolute poverty is equally imperative.

And it is here that the *World Development Report* comes to its most shocking conclusion: that even if the growth rates projected for the developing countries were to be achieved by 1985 — which is by no means certain — and even if that growth were to continue for another 15 years, it seems likely that at the end of the century there would still remain some 600 million individuals trapped in absolute poverty.

Those years will clearly demand a more determined effort from us all if the central goals of development — sustained economic growth, and the reduction of absolute poverty — are to have any realistic chance of succeeding.

We must be candid about the choices that confront us.

There are no easy alternatives.

But to relax in the development effort, to lose momentum, to procrastinate, to let problems fester and grow worse — that choice can benefit neither us, nor those others who must follow after us.