ADDRESS to the
BOARD OF GOVERNORS

BY

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Last year, in this forum, I gave you my assessment of both the direction and pace that the World Bank ought to adopt as it neared the completion of its first quarter century of existence.

Today, I should like to:

- Report to you past progress and future plans for the expansion of the Bank’s operations.
- Emphasize the increased attention we are giving to population planning, educational advance, and agricultural expansion.
- Discuss three urgent, interrelated development problems—unemployment, urbanization, and industrialization—to which the Bank and all other development institutions must direct additional effort.
- And propose an approach to the formulation of a Strategy for Development.

I. The Expansion of the Bank’s Operations

Let me begin by sketching for you the broad outline of the course we set out on last year.

Our judgment was that both the urgent needs and the unique opportunities of the global development scene called for a substantially higher volume of lending—lending that was to be financed by appropriate additional borrowing, and buttressed by
an increased level of liquidity. But we were determined that this expanded activity should conform to the same standards of prudence which have characterized the Bank’s operations since its founding.

We moved ahead with that policy of expanded lending, and by the close of FY 1969, the World Bank Group—the International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation—had increased their financing of development projects by 87% over the previous year. New loans, credits, and investments totalled $1,877 million, as compared with the FY 1968 total of $1,003 million.a

The World Bank Group, then, has accomplished in 1969 more than we had planned that it should. It has intensified its search for sound, viable, high-priority projects which will provide the maximum stimulus to development, and drawing on years of experience has immensely increased its lending activity without eroding its policy of prudence.

To finance this expanded activity, the Bank has borrowed in the world’s capital markets during this same period $1 1/4 billion at an average cost of 6.46%. The amount borrowed—80% of which was from sources outside of the United States—represented an increase of 55% over the highest previous year of the Bank’s history. Bank borrowings were increased both to support the higher level of lending and to improve liquidity: at FY 1969’s close, our cash and liquid security balances had grown by over $400 million.

Our plans for FY 1970 call for continued expansion of our operations—loans, credits, and investments should approximate $2 1/4 billion—and we will continue to put emphasis on new areas and new sectors.

aIncluded in these figures are investments by IFC totalling $93 million, which served as catalysts to seed, nurture, and bring to financial fruition aggregate investments of more than half a billion dollars in the private sectors of sixteen countries.
In view of the current market conditions, our decision last year substantially to improve the Bank's liquidity has proven particularly advantageous. It means that, pending an improvement in the capital markets, we can borrow somewhat less than in the past twelve months and yet still maintain momentum in our lending operations. Should the markets change, and provide better opportunities for borrowing, we will take advantage of it. My view remains that our liquidity can and should remain high; it clearly helps to protect the Bank's operations from unpredictable forces beyond its control.

Despite an increase in our administrative expenses, connected with the greater workload, the Bank closed out FY 1969 with a record profit of $172 million. Administrative expenses will continue to rise as volume expands further, but we expect to end FY 1970 with a profit in excess of $200 million.a

But as satisfactory as fiscal 1969 has been and as bright as the outlook is for 1970, you will recall that I stressed in our last meeting that the Bank should shape its strategy to a longer time frame than mere year-to-year planning can provide.

Thus we initiated a Five-Year Program, encompassing FY 1969 through FY 1973. The overall objective of that program is that the Bank Group should lend roughly twice as much as it had in the previous five-year period; or to put it another way, that in the new Five-Year Program it should lend a total that would approach the entire amount lent in the first 22 years of its operations. I continue to believe that this program can be achieved. If it is, the World Bank Group's new financing operations will exceed $12 billion for the period.

The performance of FY 1969, and the plans for FY 1970, must be measured, then, in terms of progress toward that objective.

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aA central key to the success of our whole Five-Year Program is, of course, the recruitment of a professional staff capable of handling the greatly increased workload. It is not merely that we need more people, but that we need the best people available on a worldwide basis. The recruitment program has been intensive this past year, and we have increased our staff by approximately 25%. We expect in the current fiscal year to expand by nearly 30% more: a total of over 60% in two years. I consider this rate of expansion to be near the practical limits of the Bank's capacity to absorb new staff effectively.
But the objective is not simply a matter of expanding the volume of lending. As I outlined to you last year, we are shifting the mix of our total operations toward new geographical areas and new sectors as well.

I indicated to you, for example, our interest in Indonesia, an immense country of 115,000,000 people with great development potential, to which—for understandable reasons—the Bank had never extended loans or credits in the past. What we have today is a clearly changing Indonesia, rising out of the turbulence and turmoil of its past. The resident mission we established there twelve months ago has explored a whole spectrum of assistance that is well within our capability to make available. In this past year alone we have extended four IDA credits totalling $51 million, and we expect to be able to do a great deal more in the years ahead.

Though the Five-Year Program aims at an increase in the level of our operations in other parts of Asia as well, particularly in the Indian subcontinent, I pointed out to you that we were convinced that more attention should be given to Latin America and Africa. That geographical shift in emphasis is well under way. We increased loans and credits to African member countries, for instance, by nearly 150% this past year. And lending operations in Latin America are rising sharply to meet our goal of more than doubling them by 1973.

But the Bank's efforts are not merely—or even mainly—quantitative in their goal. They are, above all, qualitative. We seek to provide assistance where it will contribute most to removing the roadblocks to development.

The problem is to understand precisely what these roadblocks are. It is simply not enough to propose a project here, and a project there, merely because by short-term calculation they appear profitable. This falls far short of what is required.

As a responsible, international institution, dedicated by the very title deeds of our existence to "development", it is clear
that we must know—insofar as it is possible to know—what the internal dynamics of development are. We must know how its processes affect entire societies, and enlarge or diminish their chances for both economic and social growth.

Our objective is not to search for good investments in sick economies. Our objective is to try to understand what makes economies sick in the first place, and to take those remedial steps that will encourage recuperation and health. We want to seek out those projects, those procedures, those policies that will assist economies as a whole to get into the mainstream of self-generating growth and progress.

That is what I mean when I say that the efforts of the World Bank Group are "qualitative." We are trying to invest our human and material resources in a carefully integrated manner which will contribute to the vitality, diversity, and basic institutional reform of societies. We cannot be satisfied with piecemeal solutions. What we need—and what we must design—is a comprehensive strategy that will constitute an overall plan into which particular policies and individual projects can be fitted as logical, integral parts.

When I point out, then, that we have begun to put a new emphasis on population policy, and on educational reform, and agricultural expansion—and when I add that we are planning to give a new thrust to our activities related to the problems of unemployment, urbanization, and industrial growth—I am not choosing sectors or policies at random. What we are trying to do is to form a framework in which each of these vital fields can be dealt with in an interrelated and mutually reinforcing manner.

I am proposing the search for a successful overall strategy by which development in each individual sector improves and sustains it in all the others. Thus, reduced rates of population growth can take the strains off both countryside and city. Modernized agriculture can provide more job stability, income, and hope on the land. Increased yields can feed the growing cities.
It can do even more: it can reduce the present over-rapid rate of urbanization. The agricultural revolution can stimulate the growth of a new network of decentralized regional urban communities where services, processing, and light manufacture can create more jobs outside the big cities. More productive farms, and a wealthier countryside, will provide a better market for the new heavy industry in the large urban centers. And all of this can provide a larger scale of operations from which to compete in foreign markets presently dominated by experienced outside firms from the developed countries.

I do not suggest we shall get all these equations into immediate balance. But balanced development must be our objective.

If, now, I look at each of the critical sectors separately, if I take up the three sectors which last year I stated required special attention and now add three more which we need to consider more urgently, I do not wish to imply that our aim is simply to modernize separate sectors. It is rather to deal with them in such a manner that the entire society can make the transition to modern life.

It was with this in mind that last year I spoke to you of three particular sectors to which we planned to give special attention.

II. New Emphasis on Population Planning, Educational Advance and Agricultural Expansion

A. Population

The first was the area of population planning—for the simple reason that the greatest single obstacle to the economic and social advancement of the majority of peoples in the underdeveloped world is rampant population growth.
The enhancement of human dignity, and the consequent capacity to lead a fuller, freer, more thoroughly human life, is the ultimate objective of development. Economic progress is a means to that end, but no achievable rate of economic growth will be sufficient to cope with an unlimited proliferation of people on our limited planet.

I recently dealt with this matter in detail in a public statement. My purpose was to draw attention to the essential urgency of the question as it relates to the viability of all development efforts. There is clearly a growing understanding of this point and more and more governments are expressing a willingness to deal with the problem.

To assist them, we have established a Population Projects Department within the Bank. Though it is not yet fully operative, we have already found that the immediate need is less for financial assistance than for technical advice and counsel. This we are prepared to give, in concert with other elements of the UN family. Many of our member countries are asking us for this sort of help. Further, in the future, each of the Bank's Economic Reports on a country facing a population problem will discuss with candor the government's action—or lack of action—in facing up to and dealing with the issue.

B. Education

A second sector which I emphasized in my remarks last year was education. I expressed the hope that over the period of our Five-Year Program we could improve the balance between the capital available for physical development, and the trained human resources required to use that capital efficiently. To that end, we planned to increase our lending in this field at least threefold.

We are making progress. Our combined Bank and IDA lending for education in FY 1969 was more than triple what it was in the previous year, and in the current fiscal year will rise again. But while the opportunities for educational financing are almost
limitless**, our resources clearly are not, and hence we must apply the most stringent criteria in our choice of projects.

The problem is to sort out carefully the educational priorities from country to country, and to invest as selectively as possible.

There is little dispute in the developing countries about the importance of education, but the problems of advancing it are so inextricably tangled that it is likely that many of the scarce resources devoted to it are in fact being wasted. For example:

- In many countries of Africa the dropout rate during the six years of primary school is over 70%; in large parts of Asia the rate is over 80%.

- Even among those who run the full course there is waste as an increasing number of graduates are unable to find employment. In one Asian country alone, a half million high school and college graduates—fully 10% of the total—are out of work. Many graduates who do find employment are in jobs which do not actually require the relatively costly education they have received.

These are the results of educational systems which are simply not geared to the needs or aspirations of the communities they are meant to serve. Too often antiquated systems of education are preserved because of their traditional prestige; too rarely is full attention given to modern science, useful technology or practical agriculture.

Such schools tend to prepare students for the educational ladder itself, rather than for the life they are likely to lead, and as a result there are large numbers of dropouts ill-prepared for anything. At the same time an increasingly expensive educational system puts unbearable strains on a poor country's resources.

*Four or five thousand years after the introduction of the written word, more than a third of adult mankind still remains illiterate. What is even more significant is that the absolute number of illiterates is increasing rather than diminishing. Despite all the efforts of both the UN agencies and other educational groups over the past 20 years, there are today some 800 million illiterates, 100 million more than there were in 1950.*
In sum, in many countries of the developing world—countries entangled by a web of oppressive poverty which cannot be cut through until the appropriate skills of the citizenry are honed and sharpened—the educational complex is simply not relevant to the urgent needs of the society.

In this situation, the Bank intends to hold closely to its policy of providing educational assistance only where it will contribute significantly to economic development. The objective is clear. The means are less so. But, at the minimum, they will include three shifts of emphasis:

- Greater attention to functional literacy for adults in those countries where the growing pool of adult illiterates constitutes a serious obstacle to development.
- Less emphasis on physical construction—"bricks and mortar"—and more attention to assistance in curriculum design, school administration, teacher training and long-range educational planning tied directly to the developmental strategy of the economy as a whole.
- Greater commitment to educational innovation and experimentation. In collaboration with the United Nations Development Programme and UNESCO, the Bank will finance a series of pilot projects designed to explore experimentally new ideas to maximize the contribution of educational systems to carefully planned economic development. We expect to participate in the financing of the first of these projects—a primary educational system in the Ivory Coast based on the use of television for instructional purposes—before the end of this year.

**C. Agriculture**

Still another sector to which I urged we give greater attention is agriculture, and we did. We have doubled the number of our agricultural loans this past year, and plan to expand them further in FY 1970.
We will continue to place increased emphasis on this sector, not merely because it is manifestly productive, but because whatever be the prestige or glamour of mammoth industrial projects, the fact remains that in the developing world agriculture is the indispensable foundation of a healthy economy. It is the sector that benefits the great bulk of the world’s population most directly. Moreover, one of the hardest lessons for many of the developing countries to learn is that agricultural expansion fuels and accelerates industrial growth.

After years of near stagnation, agricultural production is beginning to respond to the new agricultural technology. This year’s wheat crop in Pakistan, for example, is up 60% over the average of the past four years. Recent expansion of rice production in the Philippines has ended a half-century of dependence on rice imports, and has turned these Islands into a potential rice exporter. The significant fact is that growth rates of food grain production have hitherto barely kept up with population growth. But the outlook now for the next two decades—provided there is proper financial support—is that the world’s food supply will grow at a faster rate than its population.

There is a danger of looking upon this agricultural advance as merely a matter of applying the new “miracle seeds.” In fact, the new hybrid strains are but a single ingredient in a total technology. Water management, land reform and development, fertilizers, pesticides, transportation, regional centers for storage, marketing facilities, and credit resources are all essential components—and must be kept in proper balance if the hopes for the Green Revolution are to remain green.

Moreover, the initial problem of achieving worldwide food sufficiency will gradually give way to second-generation problems which are even more complex. There is the innate conflict between the expansion of relatively large farming, and the survival of the small, family-oriented farm. The new technology is more readily available to richer farmers, and thus can paradoxically become punitive to poorer farmers. If the less advantaged peasants are forced to leave the countryside for the city, the
whole crisis of burgeoning urbanization is adversely accelerated, and can result in even more massive problems of welfare, unemployment, and explosive tensions between the landed and the landless.

In addition, food production must be economically related to consumer demand—mass incomes must rise with the increase in farm output. Though greater supply in most of the developing world is clearly necessary today, a sudden increase could trigger an unexpected glut in local markets that would severely depress prices and destroy incentives for increased production.

There is, moreover, the possibility of widespread dislocation of international trade as the traditional food-importing nations reach indigenous self-sufficiency. Unless food-exporting nations can diversify as their traditional markets shrink, they can find themselves in substantial difficulty.

The Bank stands ready to offer both technical advice and financial assistance in all these problems. But there is something further I am convinced we ought to do. We should assume a greater role of leadership in promoting the agricultural research of today that will be the foundation of greater agricultural growth tomorrow.

The economic efficacy of such research is dramatically apparent in the case of the new “miracle seeds.” They are not the result of a miracle. They are the result of a relatively modest investment of funds, and a high degree of dedicated and creative work. The new rice strains, for example, were developed over a period of six years with a total investment of less than $15 million at the International Rice Research Institute in the Philippines.

There is an urgent need for a great deal of this innovative research in fields such as the low-cost production of additional protein; the more effective use and control of scarce water supplies; and the elimination of animal and plant diseases which in some areas reduce livestock and crops by as much as a third.
The protein problem is particularly important, since a sufficiency of calories alone does not eliminate the ravages of malnutrition. Protein deficiency is a hidden hunger which drains away alertness, energy, and effort in its victims, and leads to lethargy, susceptibility to disease, high infant mortality—and overly large families to compensate for it—poor ability to learn, mental retardation, and overall ineffectiveness in daily tasks.

Underdeveloped areas of the world have often been unfairly accused of being peopled with indolent, ambitionless citizens who fail to respond to the challenges of improving their own and their nation's lot. But it is becoming increasingly clear that caloric and protein deficiencies result in masses of undernourished people who cannot physically and mentally function as alert, energetic, and productive citizens.

Two-thirds of the world's children suffer from protein-deficient malnutrition. Some of its more serious effects become irreversible in early childhood, and hence cripple the efficiency of these hundreds of millions of citizens throughout their entire adult, working lives. Were we to accomplish within the next decade a technological breakthrough in low-cost protein production and distribution—a breakthrough on the scale of promise of the present agricultural revolution—we could loosen the grip of malnutrition on mankind, and trigger a massive advance in human energy and efficiency.

I hope, then, that the Bank, and organizations particularly experienced in such matters—the United Nations Development Programme, the Food and Agriculture Organization, the aid institutions in countries such as Canada, France, Sweden, and the United States, and the Rockefeller and Ford Foundations—can join together with the developing nations in order to launch a new and sustained effort in applied research in each of these critical areas: protein production, water management, and the reduction of animal and plant diseases.
III. The Problems of Unemployment, Urbanization, and Industrialization

I want to turn now to three other closely related problems of development which require action by the Bank: unemployment, urbanization, and industrialization.

Over the past year I have visited Latin America, Asia, and Africa. I went in order to take a realistic look at development problems at close range, and to meet with the leaders in these areas who are grappling with the issues.

These trips strengthened my view that there are immense opportunities in the developing nations for high-priority, economically sound investment. At the same time, the complexities of development are so enormous that it would be wholly naive to suppose that more money alone can solve them. There is a need—a desperate need—for additional financial support. But there is at least as great a need for more effective use of the funds presently being provided.

I can only repeat: what we need—and what we must fashion—is a more effective overall development strategy.

Everything I saw supported our decision in the Bank to give a new emphasis to population planning, educational advance, and agricultural growth. Progress in the solution of these problems is fundamental to such a strategy. But I also found that no such strategy will be complete unless it provides for an attack on the interrelated problems of unemployment, urbanization, and industrialization.

I want to discuss these issues with you for I am convinced that the Bank must play an active role in seeking new and more precise answers to these intensely complicated questions.

A. Unemployment

To begin with unemployment, the sober fact is that it is not only endemic throughout the emerging world, but is growing worse, especially in urban areas. Though the urban population
in the developing countries has been increasing at an average annual rate of over 5%, industrial employment has risen much more slowly. In Latin America, the situation is particularly serious. There the urban population has grown twice as fast as the number of jobs.

As I have pointed out, the developing countries, as a group, have managed over the past decade to sustain an average annual economic growth of more than 4½%. In view of the magnitude of their obstacles, this must be credited as a success. It proves that these nations can and do take advantage of technological progress, and will put to effective use the external aid that is offered them. But from another perspective, this rate of growth is grossly insufficient to cope with their burgeoning populations.

It is estimated that the equivalent of 20% of the entire male labor force in the developing world is currently unemployed.

The sobering fact is that the population explosion of the fifties and sixties is only now beginning to have an impact on the size of the labor force. Fully one half of the total population in the emerging world is under 20 years of age. Population planning—even at a high degree of effectiveness—cannot make a decisive impact on the unemployment problem before the end of the century.

At the present inadequate rates of economic growth, unemployment can only grow steadily worse. In India’s Fourth Five-Year Plan, for example—the Plan covering the years 1969-73—the estimate is that 19 million new jobs will be created, but that

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[a] 85% of the capital required for this growth was supplied by the developing nations; only 15% came from external sources.

[b] Not only are these countries unable to create enough jobs for the rising flood of youngsters reaching working age, but the rate of economic growth is insufficient to prevent the income disparities between rich and poor nations from increasing at an alarming pace. Today measured in terms of income per capita, that gap at its extremes is already more than $3,000. Present projections indicate that it may well widen to $9,000 by the end of the century. In the year 2000, per capita income in the United States is expected to be approximately $10,000; in Brazil, $500; and in India, $200.
23 million new workers will come into the labor force to compete for them. The result: a 4 million increase in the millions of Indians already unemployed.

Migration from the agricultural areas into the towns, in the less developed countries, is mounting rapidly. There is virtually no chance that this surge of migrants—when added to the already rapid increase of the urban labor force from the population explosion—can be provided with jobs in an economy with a growth rate of 4\%\%\%\%, or even 5\%.

Economists are divided on the question of precisely how high a growth rate is required in these nations to assure the absorption of even the new entrants into the labor pool, but it seems likely that in concert with whatever other actions may be required in a general strategy of modernization, an increase in the growth rate of at least one-third, to a level of at least 6\% is essential. That, then, must be an objective to which the developing nations set their sights.

I am confident that a 6\% growth rate—while difficult to attain—can be reached and surpassed. But, by itself it will not be enough to solve the problem of unemployment in the developing world.

In the developed countries, rapid economic growth implies full employment. But, in the developing countries this is not necessarily the case. Venezuela and Jamaica, for example, both enjoyed average growth rates of 8\% a year between 1950 and 1960, but at the end of the decade in Venezuela, unemployment was higher than at the beginning; and in Jamaica it was just as high, in spite of the fact that fully 11\% of the labor force had emigrated from the country.

What this means is that in addition to expanding their growth rates, the developing countries must adopt national policies promoting the right balance between capital and labor-inten-
sive activities, and between the supply of skilled and unskilled workers so as to maximize output through full utilization of the total labor force.

Structural unemployment, in many of these nations, has been aggravated by unwise policies: policies which favor the uneconomic use of capital-intensive technology. Imported equipment is underpriced because exchange rates are overvalued. Real interest rates are artificially low, due to inflation, and do not reflect the true value of capital. The wages of unskilled labor in the industrial sector are allowed to rise above their real value, and grow seriously out of line with those in agriculture.

In some countries, for example, the scarcity of skilled technicians contributes to the problem of unemployment among unskilled workers: for want of one skilled foreman, ten unskilled laborers may remain unemployed.

In other instances, massive urban unemployment is the result of policies which fail to stimulate labor-intensive, export-oriented industries, or reflect a lack of proper balance between rural and urban development. One of the reasons the Bank is placing such emphasis on the agricultural sector is that the new technology not only produces more food, but also provides the opportunity for greater rural employment without the massive capital investment characteristic of urban industrialization.

There is, clearly, no single all-purpose formula that will resolve the problem of unemployment. A solution must be tailored to the situation in each country. But the point I want to emphasize is that we and other institutions operating in this field must find solutions. Prolonged and mounting unemployment exacts a tremendous social cost from a nation. Let there be no doubt: social costs are real costs. And once human hopelessness and frustration have been pushed beyond the breaking point, social costs can erupt into catastrophic economic costs as well.

No one can pretend that the problem of unemployment is going to disappear in a single decade. But if we are going to
avert the violence born of human desperation, we cannot risk frittering the decade away with feeble and half-hearted measures.

The bitter irony of unemployment is that there is enough unfinished business on this planet to keep everyone employed to the maximum of his ability. What we lack is not work to be done. What we lack are innovative ideas about how to get that work done—and the courage and determination to apply the lessons we have already so painfully learned.

B. Urbanization

Directly related to unemployment is the crisis of the cities. The phenomenon of urban decay is a plague creeping over every continent, but its corrosive effects are critical in the poorer nations.

The cities of the developing countries are the centers which ought to serve as the basis of both industrial growth and social change. Instead, with a growing proportion of their inhabitants living at the very margin of existence, and the quality of life deteriorating for all, the cities are spawning a culture of poverty that threatens the economic health of entire nations.

The scale of the problem is immense. During the decade of the 1950's the urban population of the developing world expanded by about 50%. Today, the major cities are doubling in size roughly every decade. By the year 2000, their total population will be some 500% higher than today. That means that from 1.2 to 1.6 billion more people will be living—if "living" is the appropriate term—in these sprawling centers of urban decay.

The resources required to provide minimal services and infrastructure for urban populations of this magnitude are staggering.

Here again, even massive family planning programs are unlikely to mitigate this situation substantially over the next 20
years. Population planning is imperative, but at best it becomes effective only gradually. Those who will seek employment in the urban environment over the next two decades have already been born.

Rural migration accounts for more than half of urban growth, and experience illustrates that as cities grow larger they attract rather than discourage movement from the countryside. The pace of migration is typically beyond any reasonable capacity to absorb it. In the richer nations, already nearly 50% of the total population lives in the city. The poorer nations are repeating this trend, and it is ominous to reflect that their already overcrowded cities currently contain only 15% of their surging populations.

If we cannot count on even highly successful population planning programs to curb urban growth before the end of the century, what can we count on? The candid answer is that we do not know.

We do not know, for example, whether it would be wiser for the developing nations to use their limited resources in an effort to motivate villagers—through intensive rural development—to remain in the countryside; or to use these funds to invest in massive urban infrastructure. And if the investment is to be in the cities, it is not clear whether it is more efficient to expand old ones, or to build entirely new ones.

Our knowledge of how best to deal with the whole issue of urbanization remains primitive. But one point is clear: the problem must be dealt with on a comprehensive, national basis. An integrated, country-wide strategy of rural-urban development is essential. It must integrate population planning, regional specialization, and industrial growth, and put far more emphasis on economic policies specifically designed to optimize and distribute with greater equity the national per capita income.
C. Industrialization

I come now to the last of these closely related issues: industrial growth.

As I have noted, there is a persistent tendency in the developing nations to neglect the causal connection between agricultural advance and industrialization. All too often they elaborate national policies that seek to protect and promote local industries at the indirect expense of agriculture. This is shortsighted, since the agricultural sector inevitably remains both a market and a source of supply for industry. To discriminate heavily in favor of the industrial sector is only to weaken the very foundation on which every developing economy must build.

It is, of course, true that industrialization in the less developed countries often requires special inducements. Normally these nations are not in a position, in the beginning, to compete in the open international market with the more technologically advanced countries. But these initial inducements are sensible only if they can return the costs they incur at a later and more efficient stage of industrialization.

Interminable inducements are self-defeating. And that is precisely what we are witnessing in far too many developing nations today. There is excessive and indiscriminate protection of import-substitution industries which has had the predictable effect of perpetuating inefficiencies, and has seriously hampered the effort to increase export earnings.

The heart of the difficulty is that the industrial sector in such countries tends to produce altogether too wide a range of items, and continues to operate at a level far below optimum economic scale. This results in a built-in incremental cost which is often two or three times the world-market cost of comparable products. Though a moderate degree of added cost may be justifiable for a reasonable period—particularly if the effect is a true saving in foreign exchange and a genuine training in new techniques—the cost can easily escalate to prohibitive and punitive levels.
A graphic instance of the indiscriminate use of this policy of protection for indigenous industry came to light in a recent Bank study which revealed that the developing nations spent an estimated $2.1 billion in domestic resources in 1965 to manufacture automotive products which had a world market value of only $800 million. It is instructive to reflect that this "loss" in a single year of $1.3 billion approximates the total amount of resources invested in industrial development by the World Bank in its entire 23 years of operation.

Local entrepreneurs and managers—nurtured in such highly protective economic environments—have little incentive to reduce costs and improve quality, and little ability to compete effectively in the world market.

What is required in these situations are renewed efforts both to rationalize the existing industrial structure, and to stimulate additional and genuinely competitive growth. The necessary reforms may be temporarily painful. I am aware that it is not easy to reduce tariff duties and import restrictions, and to adopt realistic exchange rates. Many governments are faced with the awkward problem of opposing vested economic interests, prepared to exert heavy political pressure to preserve their privileged positions.

But the lessons of history remind us that governments too timid to initiate necessary reforms often lose not only their popularity, but their mandate as well.

For us in the Bank, the relevant question is what can we do to help the developing countries constructively and impartially in this whole complicated process of rationalizing their industrial sectors. I believe the relevant answer is: much more than we have done in the past. Our record is good. But it can be better.

In the last two years our loans to Development Banks—which are themselves organized to finance local industry—have averaged about twice the level of the preceding two years. And in
FY 1969, IFC—after five years of continued growth—nearly doubled its volume of investment.

But I believe that we must do even more. As a step in that direction we are establishing an Industrial Projects Department in the World Bank. Its purpose will be both to expand our lending in the industrial sector, and to make practical recommendations to the developing countries as to how they can best accelerate their own industrial growth.

Each developing nation has, of course, its distinctive set of problems and needs. But the common tendency is to promote industrialization by looking inward. That policy must change toward a more healthy and realistic tendency of looking outward: looking outward by putting greater emphasis on production for export; looking outward by joining in cooperative efforts to create and expand regional markets.

The developed nations have a responsibility to assist in this by dismantling the discriminatory barriers erected in the past against goods manufactured in the less advantaged countries. The capital-exporting nations, after all, have invested both money and effort in making it possible for the poorer countries to come of age industrially. It is wholly absurd for the rich countries to invest billions in developing the poorer countries, and then to refuse to be repaid in those goods which are the first fruits of development.

There is no genuine economic reason for the developed nations to fear the industrial growth of the less advantaged countries and the establishment of new patterns of international trade in manufactured goods. On the contrary, the wealthier nations should target their own growth in the direction where their greatest comparative advantage already lies: the production of goods and services requiring sophisticated levels of technology. It would be to the benefit of the world economy as a whole for the technically advanced societies to concentrate more in these fields, and gradually to relinquish the simpler and
less complicated manufacturing to those developing nations which can efficiently do the job.

Industrialization will need to be encouraged in different ways in each country. I attach great importance, therefore, to comprehensive industrial-sector reviews for each of the developing nations. These we will introduce in the months ahead as regular and integral parts of a new pattern of reporting.

D. An Expanded Program of Country Economic Reports

I am convinced that the Bank has both the opportunity and responsibility greatly to expand its program of Country Economic Reports. We can render a unique service in this matter by becoming a highly informed and impartial source of precise and professional development reports—reports that are both current and comprehensive. Our Country Economic Reports can and should become increasingly useful tools to all organizations working in the field of development. Beginning this year, therefore, we will organize a regular annual mission to each major developing country to report in detail on economic and social progress and on the prospects for the future. These missions will investigate all major sectors of the economy, and will seek to determine priorities for both investment and pre-investment activities. We will look to other relevant international organizations for assistance in their fields of specialization, and preliminary discussions have indicated that such cooperation will be willingly extended. We believe that the reports of these comprehensive missions, to be published on a regular twelve-month cycle, will be useful not only to the country itself and to the Bank, but to bilateral aid organizations and to the United Nations and its other agencies as well. They will provide an independent, objective, and wholly nonpartisan basis for evaluating progress in the Second Development Decade.

IV. Towards a Strategy for Development

These, then, are some of the problems which we in the World Bank—as well as other developmental organizations—will be
dealing with over the next few years. They are problems of a magnitude that clearly call for the adaptation of some traditional policies, the design of some wholly new ones, and the integration of both into a "Strategy for Development."

It was with this in view that just a year ago I acted on a wise suggestion of my predecessor, Mr. George Woods, who had foreseen the need for just such an advance in global development planning. It was our good fortune that Mr. Lester Pearson, Nobel Prize winner and former Prime Minister of Canada, agreed to preside over a group of distinguished world citizens to study this problem.a

I am very pleased to announce that the Pearson Commission has completed its work and its report is currently being printed. It will be distributed during our meetings this week.

As you know, though the work of the Commission has been financed by the Bank, it has been from its very outset a wholly independent effort. Its findings are not a report to the Bank, but a report to the world at large. Its recommendations are addressed to every development institution, public and private; and to every government, rich and poor. As such, the Commission Report is a public document of high importance, deserving the widest possible public distribution.

Quite apart from the merits of its specific proposals, the Report is important in that it takes a detached and objective view of issues that can sometimes be clouded by narrow and partisan considerations. There are other important studies in preparation: the UN program for the Second Development

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aIn addition to Prime Minister Pearson, the members of the Commission are: Sir Edward Boyle (United Kingdom), Member of Parliament Roberto de Oliveira Campos (Brazil), former Minister of Finance Douglas Dillon (United States), former Secretary of the Treasury Willfried Guth (Germany), Member, Board of Management, Deutsche Bank Sir W. Arthur Lewis (West Indies), Professor of Public and International Affairs, Princeton University Robert E. Marjolin (France), Professor, Faculty of Law and Economic Science, University of Paris Saburo Okita (Japan), President, Japan Economic Research Center and Special Adviser to Minister of Economic Planning
Decade; the Jackson Report on the development capacities of the UN system; reports of national commissions, including the Peterson Committee established by President Nixon. All of these studies are related and will command our consideration.

But I want to stress the importance of immediate action on the Pearson Commission Report. It represents the mature and independent views of eight distinguished men who are notable both for the wealth of their personal experience, and the variety of their national perspectives. They, and their highly competent professional staff, have worked hard and thought deeply about the problems that most interest us all. Their research has been vigorous and thorough, has included visits to every major area of the developing world, and meetings with representatives of more than 70 governments for on-the-spot discussions and evaluations.

The World Bank commissioned the Pearson Report precisely in order to stimulate discussion and debate—and prompt action—on the issues in the widest possible forum: among governments, among international agencies, among public and private organizations of every size and description which are concerned with what I believe history will regard as the most crucial task that confronted our century: the orderly development of mankind itself in an era of revolutionary technological change.

The Report will be available, in English, in the bookstores next Monday. Translations into French, German, Italian, Japanese, Spanish, and Portuguese are under way, and editions in these languages will be published within the next few weeks. Discussion of the Report—directed toward action—in both political and academic forums is being planned throughout the world. One of the first of the conferences, to be attended by prominent international specialists in the field of development economics, will meet under the auspices of Columbia University early next year at the invitation of the President of the University and the Albert Schweitzer Professor of International Development, Barbara Ward. The ecumenical movement linking the Roman
Catholic and Protestant churches plans to take discussion of the Report to every diocese and parish in the course of 1970.

For the Bank’s part, I propose to undertake a careful analysis of each of the Commission’s recommendations which in any way bears upon our work, and to submit these analyses to the Bank’s Directors with proposals for appropriate action.

Following the completion of the Directors’ review, I will propose that a report, summarizing the conclusions and decisions on each of the Commission’s recommendations relating to the Bank’s field of activity, be transmitted to the Board of Governors.

I am sure you will join me in urging that other institutions affected by the Commission’s recommendations—the United Nations Development Programme, the Food and Agriculture Organization, UNESCO, the World Health Organization, the International Labor Organization; the major bilateral aid-providing nations, particularly those which are studying expansion of their programs; the Organization for Economic Cooperation and Development, and its Development Assistance Committee; the Inter-American, Asian, and African Development Banks, and other development finance agencies—will likewise move formally to consider and act upon the Report’s conclusions.

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By any set of quantitative standards, the World Bank has made progress this past year. The most profound significance of that progress, however, cannot be measured. The advance of the human condition—which in the ultimate analysis is what our entire efforts are directed toward—cannot be summed up in a set of statistics, no matter how precise they may be.

All reality is rich in complexity, and the realities of global development are clearly no exception.
The tasks before us, then, require comprehensive action, and comprehensive action can only have its roots in comprehensive and creative thinking.

Economic development requires financial resources. Indeed, it requires far more than have yet been made available.

But the resource it requires most is creative innovation.

The World Bank Group is—at its core—an innovative, problem-solving mechanism. Its problem is to help fashion a better life for mankind in the decades ahead.

To the degree that we are innovative and resourceful, we can succeed at that task.

I believe that you and I—and all of us in this effort—could ask for no more significant a responsibility than the one we share.

It is an endeavor demanding the very best that is in us.

Its reward is the very best, too: the satisfaction of demonstrating that though man’s ancient limitations in nature may be perennial, his ancient deprivations of dignity need not be permanent.

Our disappointment is about man’s past.

Our dissatisfaction is over man’s present.

Our dedication is to man’s future.
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