Address to the U.N. Economic and Social Council
by Mr. Robert S. McNamara,
President of the World Bank,
the International Finance Corporation,
and the International Development Association,
October 27, 1969: United Nations, N.Y.

Mr. President and Members of the Council:

I am pleased to have the opportunity of reporting to you on my first full year as President of the World Bank Group.

You will recall that in the statement I prepared for the Council last December, after my first months in office, I noted that we had measured our capabilities within the Bank against the urgencies of global development requirements, and that our assessment was that we both could and should greatly expand our volume of operations.

It was clear to us that the opportunities for sound, constructive development lending were significantly increasing, and that the wise course for the Bank was to gear itself to meet and maintain the momentum of activity that could best take advantage of this newly evolving situation.

We were determined not to depart from the high standard of prudence that has been the hallmark of the Bank since its inception, but we were convinced that a greater level of lending -- financed by new borrowing and a substantial improvement in our liquidity -- was fully feasible. This has proved to be the case, for by the end of FY 1969 the three agencies of the World Bank Group -- the International Bank for Reconstruction and Development, the International Development Association, and the International Finance Corporation -- had, in concert, increased their financing of development projects by 87% over the preceding year. New loans, credits, and investments totaled $1,877 million, as against $1,003 million in FY 1968.
During this period we went to the capital markets of the world, and borrowed $1-1/4 billion at an average cost of 6.46%. The total borrowed was 55% more than the highest previous year of the Bank's operations. The high level of borrowing not only supported the expansion in Bank lending but served to increase our liquidity as well -- by the end of FY 1969 we had bolstered our cash and liquid security balances by $400 million.

That we were able to borrow so substantially at a relatively modest cost in a period of sharply rising interest rates is indicative of the confidence with which the capital markets regard our World Bank securities. Nor is that confidence misplaced. Backed by the immense reserves and safeguards that are guaranteed by our international Articles of Agreement, these securities are among the safest investments on earth.

FY 1969 was, then, an encouraging year. But we intend to make FY 1970 an even better one. We expect to expand our loans, credits, and investments to approximately $2-1/4 billion.

As I indicated in my statement to you last December, the Bank has progressed beyond the stage where it can rely on year-to-year budgeting as an adequate base for planning its operations. That is why we launched a Five-Year Program, covering the period FY 1969 through FY 1973. We believed it would be possible for the Bank Group during that period to double its lending over the previous five years -- which is to say, that its volume of operations during the Five-Year Program should approach the total of all the operations of the institutions first 22 years of activity. If we succeed, our new development financing operations will exceed $12 billion.

I believe we will succeed. We are on schedule. Our interim targets are being met. Our expansion is moving ahead smoothly. But I want to stress that it is not simply a question of enlarging the volume of our lending that is at stake here. Lending money for lending's sake is not our objective. We are lending for development -- and not simply for development in general, but for very specific high-priority projects and programs that fit into an overall strategy.

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You will recall that last year I indicated that the Bank would shift its emphasis, both to new geographical areas and to new economic sectors. Geographically, I pledged more attention to Africa and Latin America, without in any way neglecting our interest elsewhere. Our loans and credits to African member countries increased by nearly 150% during the year, and our operations in Latin America are rising rapidly in order to meet our goal of more than doubling them by 1973. We have established a resident mission in Indonesia -- a country in which the World Bank Group had never made an investment before -- and in the past year have extended four IDA credits, totaling $51 million. We expect to do a great deal more in the years ahead in this immense nation, as well as in its regional neighbors throughout Southeast Asia.
As for sectoral emphasis, I pointed out that there were three sectors to which we were convinced the Bank should give much greater attention. The first was population policy. Fully admitting the complexity and delicacy of the issue, one cannot escape the fact that overly rapid population growth is the greatest single obstacle to the economic and social advancement of the majority of peoples in the underdeveloped world.

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.

Development efforts are already being substantially impeded by burgeoning birth rates. Eventually they will be swamped entirely if nothing is done to moderate them. More and more governments are recognizing this truth, and are seeking the Bank's assistance to find moderate, moral and manageable means to deal effectively with the issue. We have responded by setting up a new Population Projects Department within the Bank, and are prepared to offer technical advice and counsel -- as well as financing where feasible -- to help developing countries face and solve this problem. In these efforts we have sought and obtained the willing cooperation of the United Nations and of the World Health Organization.

Another sector singled out last year for greater emphasis was agriculture. However much industrialization may contribute to their economic progress, few developing nations can escape the need to build their economies on a productive agricultural foundation. It is for this reason that we have doubled the number of our agricultural loans this past year, and will continue this expansion in the current year.

Much has been made of the "miracle seeds" and the consequent agricultural revolution. It is indeed a revolution, but it is manifestly not a miracle. The new hybrid strains of wheat and rice -- strains that have produced such record yields in Southeast Asia -- are the product of creative and dedicated research, but relatively modest investment of funds. It is precisely this sort of investment in basic -- and yet highly applicable -- research that can trigger immense benefits to the whole of the developing world. I am particularly hopeful that the Bank can join with other members of the UN family, as well as with appropriate bilateral aid organizations, and private groups such as the Ford and Rockefeller Foundations to launch a similar innovative thrust in applied research in other immensely promising fields such as the low-cost production of protein; the management of the world's scarce water supplies; and the control of plant and animal diseases.

The new seeds are, of course, only a single element in a total technology -- a technology involving the more rational use of land and water, of fertilizers and insecticides, of transportation and storage, and of credit.
facilities and marketing techniques -- a technology which must mesh all these elements into a balanced program if the promise of the agricultural revolution is to be fully realized. Nor can one overlook the future problems that will arise out of this very agricultural progress: the problems of the small farmers who suddenly cannot compete with the wealthier landowners who can better afford the new techniques; the problems of the already overcrowded cities increasingly swollen by a migrating peasantry; the problems of the food-exporting countries who find their trade patterns dislocated as their markets suddenly begin to shrink. A sudden surge of agricultural production -- as welcome as it is in the context of threatening famine -- does not by itself lead to balanced development.

Economic disequilibrium can best be avoided in such circumstances by forging a comprehensive development strategy. We in the Bank are prepared to offer advice and technical assistance to countries seeking to mobilize the new agricultural technology as part of such a strategy. In this effort we shall be working closely with FAO.

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Yet another sector I indicated last year we would push forward in is the critical field of education. Here there is little dispute about the necessity for more educational investment, but some divergence of view about its direction. Our Bank Group lending for education tripled this past year over the previous one, and will expand again in the coming months. But the needs are so vast, and the resources so relatively meager, that we must apply the most stringent criteria to our investments. Education is a sector in which unhappily it is possible for a nation to waste scarce and irreplaceable resources with the very best of intentions. There are areas of the developing world in which the dropout rate in the first six years of primary school is in excess of 80%. And there are areas where students remain in school, and graduate successfully, and yet cannot find jobs. In one Asian nation, half a million high school and college graduates are out of work. There are areas of the world in which the educational system expands far more rapidly than any reasonable absorptive capacity of the economy to put to practical use its tradition-bound and overly theoretical curricula. To help meet these problems, the Bank's efforts in education will shift away from physical construction, and concentrate more on school administration, teacher training, curriculum design, innovative instruction techniques, and long-range educational planning tied directly to the development strategy of the economy as a whole. We shall continue to look to Unesco for its valuable assistance in these activities.

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Population policy, agriculture, education -- these were sectors I singled out last year for a new emphasis in the Bank, and that is precisely what we have given them. In visits to Latin America, Africa and Asia over the past twelve months, I found ample proof that our judgment was sound in shifting a greater degree of attention to these matters. But I found, too, another trio
of interrelated problems to which we must now give increased attention. They are the problems of unemployment, urbanization, and industrialization.

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The proportions of unemployment are massive. The estimate is that the equivalent of 20% of the entire male labor force in the developing world is now without work. What is even more ominous is that the situation is growing worse rather than better. In Latin America alone, the urban population is growing twice as fast as the number of jobs. When one reflects that one-half of the total population in the developing world is under 20 years of age, the dimensions of the dilemma begin to become apparent. As desperately needed as effective family planning is, even if it were to be utilized massively it cannot be expected substantially to affect the employment picture much before the end of the century. Hundreds of millions of youngsters -- already born -- will be flooding the job market throughout the next two decades.

What can be done to arrest the spreading cancer of joblessness? The very first step is to realize its seriousness. I welcome, therefore, the vigor with which the Director General of ILO has been stressing this problem in his recent public statements. As he has so wisely pointed out, persistent unemployment exacts social costs as well as economic costs. It can push frustrations to the breaking point and erupt into irrational urban violence. Unemployment not only robs a man of his pay envelope, but of his pride as well. His hope turns to bitterness, his ambition to inactivity, and his dedication to desperation. A developing nation simply cannot afford massive unemployment: it cannot afford it economically, it cannot afford it socially, and it cannot afford it psychologically.

What, then, are nations to do? Clearly they must shape their policies in the direction of increasing economic growth rates. In most of the populous developing countries, a minimum annual rate growth of 6% is both essential and, I believe, attainable. But in itself it will not be enough to resolve the unemployment issue. It is equally necessary to find the right balance between capital and labor-intensive enterprises, and between the supply of skilled and unskilled workers so as to make better use of the full labor force.

In some of these nations there has been an understandable, but unwise, tendency to move too quickly into capital-intensive technology. Imported equipment is underpriced because the 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 other nations, there is too little encouragement of labor-intensive, export-oriented industries, or of a more realistic balance between rural and urban development. One of the most valuable by-products of the new agricultural technology is that it can provide a direct stimulus to rural employment, and thus moderate the steady drift of the population from the countryside to the city.
It would, of course, be wholly naive to suppose that unemployment can be eliminated within the span of the 70s, but it would be even more naive to imagine that we can afford to let this problem take care of itself. It simply will not. It will grow worse. It will become critical. It will ultimately reach the flash point of human frustration, and explode into catastrophic social and political turbulence.

We in the World Bank Group cannot eliminate unemployment in the developing world, but we can achieve a better, more practical understanding of its dynamics, and of the measures best calculated to mitigate it in a given economic environment. That is what we intend to do, and our advice and counsel will be available to all of our member countries who seek it.

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I have mentioned the steady drift today from the countryside to the cities. That is a phenomenon the world over, but its effects in the underdeveloped countries are even more serious than in the developed 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. The major cities of the developing nations are now doubling in size roughly every decade, and by the end of the century their population is likely to be some 500% higher than today. With perhaps as many as 1.5 billion more people living in them by then, the task of supplying essential services and minimally decent living conditions within these sprawling centers is staggering.

What practical steps can be taken in this situation? Here again, family planning is essential, but cannot be expected to modify the surge of population much before the century's close. With rural migration accounting for fully half the urban growth, there is some possibility that this movement may be mitigated by much more intensive investment in rural development. But this at best can only slow the trend, not reverse it.

We simply do not yet understand the dynamics of urbanization in sufficient depth to be fully certain of the most efficient solutions. Should the developing nations use their limited resources in an effort to motivate villagers -- through intensive rural development -- to remain in the countryside? Or should the funds be invested in massive urban infrastructure? If the latter, should heavy investments be made to expand the older cities, or is it wiser to build entirely new ones? We do not know. 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 it must emphasize those economic policies which will optimize and distribute more equitably the national income.

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This leads inevitably to the last of these interrelated issues: industrialization. Here the problem is not so much to convince the emerging nations that they should industrialize, but rather to assist them to do so in a manner that most effectively contributes to their overall balanced growth. In particular, the developing countries must avoid protecting and promoting local industries at the cost of agricultural advance, for a productive countryside serves both as a source of supply and an important domestic market for industry.

It is true, of course, that industrialization in developing countries often requires special inducements. But the temptation is to invest heavily in import-substitute industries, and to surround them with so much protectionism that little incentive is generated to keep them competitive and efficient. Large, interminable inducements are self-defeating and that is precisely what we are seeing in far too many developing nations today.

What is required is a national policy designed to make the existing industrial structure more export-oriented, and to let the forces of competition sharpen its efficiency. This, admittedly, sometimes necessitates painful reforms in tariff duties and import restrictions -- reforms that are often politically unpopular. One can sympathize with these difficulties. But the larger question is whether any government can maintain its popularity -- or even its mandate -- by continually deferring those steps which are essential to the long-term health of the industrial sector.

Nor does the full burden of reform lie on the developing nations alone in this matter. The technologically advanced nations have a reciprocal responsibility to remove import restrictions against those products which the emerging world can efficiently supply. Trade discrimination against such products makes no economic sense whatever, for it is the richer nations that have spent billions of dollars precisely in order to assist the less advantaged countries to take their initial steps toward industrialization. And for the advanced nations to refuse now to allow the recipients of this assistance to compete reasonably in domestic markets is only to turn their back on their own investments. Over-protectionism on either side of the development gap is uneconomic and short-sighted.

The World Bank Group has sought to stimulate industrial growth in the developing countries. Over the past two years it has doubled its level of lending to development banks -- banks that are using these funds specifically to finance local industry. And in FY 1969, IFC -- after five years of steady growth -- nearly doubled its investments to $93 million. This helped in turn to catalyze investments of more than half a billion dollars in the private
sectors of sixteen countries. But we believe that we can do much more in the field of industrialization. As a step in that direction, we are establishing an Industrial Projects Department within the World Bank. Its purpose will be both to expand our lending in this sector, and to make practical recommendations to developing countries as to how they can best accelerate their own industrial growth. Our staff has been in touch with UNIDO concerning these plans and we shall make every effort to assure that our activities and those of UNIDO are complementary and coordinated.

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Mr. President, I want to lay particular stress on an issue that was repeatedly raised at our own recent Board of Governors annual meeting. It concerns the operations of our International Development Association. As you know, there has been considerable delay in completing the Second Replenishment, which finally became effective in July of this year. This delay would have been far more harmful to IDA's operations were it not for the fact that a majority of the Part I countries made advance contributions untied to the actual completion date of the Second Replenishment. These advance contributions of $245 million, together with special supplementary contributions from certain governments and net income transferred from the IARD, allowed us to make IDA commitments of $385 million during FY 1969, as compared with only $106.5 million in FY 1968. Under the current schedule, our remaining IDA resources -- including those from the completed Second Replenishment -- will have been committed by June 30, 1971. To insure continued IDA operations after that time, a Third Replenishment will have to become effective by that date.

Experience indicates that at least a full year is necessary for the contributing countries to complete legislative action within their own governments. This means that we have only nine months in which to complete the negotiation of the Third Replenishment. I hope, Mr. President, that all those countries which participate in the financing of IDA cooperate in getting these negotiations under way promptly, so that by June 30, 1970 IDA's Executive Directors can have before them specific proposals for the Third Replenishment agreed upon by all the contributing governments.

I need hardly stress the importance of this timetable. It is essential if we are to maintain the momentum of IDA's operations.

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I want to make brief reference now, Mr. President, to the resolution adopted by the United Nations Trade and Development Board in September concerning supplementary finance. This is an important subject and one to which the Bank staff has devoted much attention, initially in the preparation of a staff report requested by the first UNCTAD Conference, then by participating in a consideration of that report and of alternative proposals in various UNCTAD bodies. The effect of the September resolution is formally to resubmit the matter to the Bank to see whether a new and more flexible supplementary finance scheme can be evolved which conforms to several
specific guidelines agreed upon by the Trade and Development Board. Our staff is now actively pursuing this matter and I expect to schedule a discussion of it by our Executive Directors as soon as possible.

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Mr. President, the World Bank Group's relationship with other members of the UN family has continued to grow during this past year, and I am convinced that there are an increasing number of problems which can best be met by close and coordinated cooperation. Our collaboration with the United Nations Development Programme continues to be vigorous, and I believe, highly beneficial to both organizations. In our expanded agricultural lending, we are relying even more heavily on the special staff that has been set up within the Food and Agricultural Organization to help us identify and prepare projects. As you know, we in the Bank finance 75% of the cost of this FAO staff, and we have recently advanced the necessary funds to double its size. We have comparable collaboration, as well, with Unesco in the identification and preparation of educational projects, and expect these to expand in line with our accelerated lending program in this sector. Population planning is still another field in which cooperation can be particularly effective. The World Health Organization and the UN itself are deeply concerned over this critical issue, and we have at the moment a joint mission in Indonesia exploring how we can best assist the Government in its population planning. We look forward to continuing useful and productive joint efforts in other countries.

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Mr. President, together with the UNDP, we in the World Bank Group have given a great deal of thought as to how we might best serve the growing role of the UN family in the broad field of development. As I have noted, we are collaborating closely already in a number of specific sectors. But we have come to the conclusion that we can do more. It has seemed to us that our most valuable contribution to the UN family should arise out of the quarter century of experience that we have had in development economics. We have, therefore, determined to greatly expand our 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. Accordingly, beginning this year we will organize a regular annual mission to each major developing country in order to report on economic and social progress, and on 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 operations. We will draw on the expertise of other relevant international organizations for assistance in their particular fields of specialization, and our preliminary discussions have indicated that this will be forthcoming. We believe that the reports of these comprehensive missions -- to be compiled on a regular twelve-month cycle -- will be of benefit not only to the country itself and to the Bank, but to other UN agencies and to bilateral aid organizations as well. They will also provide a basis for evaluating progress in the Second Development Decade.

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Eleven months ago I asked the former Prime Minister of Canada, Nobel Prize Winner, and former President of the United Nations General Assembly, Mr. Lester Pearson, to form a commission of high caliber and competence to survey the entire development situation. Its objective was to study the consequences of twenty years of development assistance, assess the results, and propose policies which will work better in the future.

As you are aware, Mr. Pearson took on that job; put together just such a distinguished commission; recruited an international staff of high professional competence; and set about the work with his characteristic energy and dedication. Some seventy governments were consulted; regional meetings were held throughout the whole of the developing world; and months of precise and profound thinking were devoted to forging a set of comprehensive recommendations.

The World Bank Group, as you know, financed this effort. But it did so with the full understanding that the Commission's Report would not be directed to the Bank, but to the world at large.

Mr. President, the Bank for its part intends to study in detail every recommendation of the Pearson Commission that in any way bears upon its work, and I shall submit appropriate recommendations for prompt action to our Executive Directors.

But the Report goes far beyond the particular mandate of the World Bank Group. And hence I would urge that every member government of ECOSOC -- as well as each of the UN agencies -- give the most serious consideration to this document, and submit it to the fullest discussion and debate. Not every government, not every agency, not every institution will agree with every recommendation. That is not important. What is important is that governments and agencies and institutions that do agree with specific recommendations should transform that agreement into action, and move forward to implement specific proposals without delay.

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Mr. President, I should like to close by referring to the Pearson Commission's answer to the question: "Does the international development effort have a clear, tangible, attainable goal?" The Commissioners' answer was an unequivocal "Yes." They stated:

"The goal of the international development effort is to put the less developed countries as soon as possible in a position where they can realize their aspirations with regard to economic progress without relying on foreign aid. This goal will not be reached at once. The illusion of 'instant development' -- as we have already said -- only leads to frustration and disappointment. But can the majority of the developing countries achieve self-sustaining growth by the end of the century? For us the answer is clearly yes. In our view, the record of the past twenty years
justifies that answer. We live at a time when the ability to transform the world is only limited by faintness of heart or narrowing of vision. We can now set ourselves goals that would have seemed chimerical a few decades ago and, working together, we can reach them."

Mr. President, that is a view we in the World Bank Group share and that is a goal to which we fully dedicate ourselves.