"Accelerating Growth and Reducing Poverty: A Multilateral Strategy for Development"

Remarks
by

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to the

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Mr. Minister, Mr. President;
Ladies and Gentlemen:

It is both a pleasure and a privilege to be meeting with the members of the Atlantik-Brücke and the German Foreign Policy Association. And I thank both associations for giving me this opportunity to address such a distinguished audience.

I want to share with you this evening some thoughts on how and why the international community must act to restore the momentum of economic development in the Third World. The global recession has brought development to a virtual stop; and none have suffered more than the low-income countries. To meet this crisis, the international community needs a strategy framed with ingenuity, generosity and determination. A strategy for a better future, built on the realities of the present and the lessons of the past.

If you were to ask me what single ingredient is most vital to such a strategy, I would have to say: faith in the development process itself.
In recent years the industrial world's faith in that process has weakened. Through the Fifties and the Sixties, and even into the Seventies, the international effort to support the development process in the Third World was marked by a spirit of enthusiasm and adventure. We set off along new and untried paths of cooperation. We took wrong turnings; we stumbled up blind alleys and occasionally fell into traps. But we learned from our mistakes along the way; we improved our techniques, deepened our understanding, and built on our successes.

And what have we discovered on that journey?

We have discovered three things:

- first, that the developing countries' own efforts are the decisive factor in achieving success;

- but secondly, that international development assistance is essential to the attainment of that success;

- and thirdly, that the development process has been working.
Many expert forecasts of two and three decades ago have been confounded; development has worked better than many dared to hope.

Yet today public opinion in much of the industrialized world is suffering from "aid fatigue." There are voices raised claiming that there is really little to show for three decades of internationally supported development effort. For all the billions given, lent and spent, the world is today more crowded than it ever was with people trapped in poverty. So why, they ask, should we listen to those urging a redoubling of the effort? We shall enrich no one, they say, while surely impoverishing ourselves.

Perhaps we who are in the development assistance arena should bear a share of the blame for this "aid fatigue." In seeking to dramatize the need for a concerted effort to promote Third World development, we may sometimes have got the emphasis of our signals wrong. It is right that people should be shocked into a realization of how dreadful life is for hundreds of millions in the Third World. And they should be made aware how monumental a task we face to change that. But, in speaking up on this issue, we must take care not to drown out the accompanying message of hope.
And if that message of hope is not heard, we simply risk reinforcing a groundless but growing suspicion that the problems of the Third World, in particular those of the poorest countries, are unmanageable.

That message of hope is that development, slow process though it may be, has been demonstrably working for hundreds of millions of people in the Third World. And it will continue to work, and can be made to work for those still trapped in poverty, if the international community commits itself to a cooperative effort to ensure that.

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Let us look first, and briefly, at the historical record.

It is instructive to compare on the one hand the average rates at which the economies of today's developed countries grew over their long periods of advance to industrialization, with the rates at which the developing countries of today grew in the third quarter of this century.
According to evidence assembled and published by Professor Simon Kuznets just over a decade ago, fourteen of today's industrialized countries -- ten European countries plus the United States, Japan, Canada and Australia -- achieved together, during the period 1860-1960, an average annual per capita income growth rate of barely two percent.

At the time of their entry into modern economic growth, which for most of them was between 1830 and 1870, these countries were already economically ahead of the rest of the world, with relatively high initial levels of per capita product.

The developing countries of today found themselves at no such advantageous launching point in the middle of this century. These were countries with no history of growth, and with few, if any, of the economic preconditions for it. Moreover, rapid progress in disease eradication was steadily boosting population figures. What chance did they have of pushing economic growth ahead of population growth?

Not much, was the prevailing view. The inherent slowness of economic development, said the experts, held out possibilities of growth ranging from zero to a very small
percentage advance each year. World Bank economic reports of the Fifties and early Sixties offered predictions of growth rates for developing member countries, which were later shown in many cases, from Colombia to India, to have been pessimistic.

But what happened? Between 1955 and 1980 the developing countries as a whole achieved an annual average growth rate, not of zero, nor even of 2 percent, but of just over 3 percent. It was a remarkable performance which confounded the economists. There were doubters even as the trend was emerging. One noted economist predicted in 1960 that not one of sixty-six developing countries under study would record as fast an average annual growth rate between 1961 and 1976 as three percent. In fact eighteen did so.

Between 1955 and 1980, many developing economies grew faster than the industrial ones, with income rising faster than population in virtually all of them. Industrial bases expanded; agricultural output grew at historically high rates; education systems were rapidly developed, and literacy rates rose. Health and nutrition systems were improved, lifting life expectancy and lowering infant mortality rates.
Over the broad front, the achievements were impressive. And by far the greater share of the credit was due to the developing countries themselves. They took advantage of an international environment more favorable to growth than ever before, and worked hard to better their capacity to plan and to manage their economies efficiently. They steadily raised domestic savings and investment rates. And they put to increasingly productive use the expanding flows of external capital.

But we are, of course, talking of the performance of the developing countries as a group. And this audience hardly needs reminding that within that group there was a considerable diversity of experience.

The facts are well enough known. Between 1955 and 1970, the middle-income countries' per capita incomes were growing at an average annual rate of three and a half percent; a rate which dropped to just over 3 percent during the decade of the Seventies. But the low-income countries, accounting for 47 percent of the world's population by 1980, managed only a 2 percent annual rate of increase in per capita income. And even this rate mainly reflects the relatively strong
performance of China, and more recently, India. Income per capita in the other low-income economies, mostly in Sub-Saharan Africa and South Asia, grew at an average of 1.2 percent over the quarter century to 1980, and not at all over the past decade.

What we have been witnessing is a slow but steady reduction of the relative income gap between the industrial nations and most middle-income nations. But, at the same time, the poorest nations are being left further and further behind. While some nations have progressed rapidly to become competitive participants in the global economy, others, particularly in Sub-Saharan Africa, continue to struggle with low growth or no growth, and with extensive poverty problems.

History has shown us that it can take decades, sometimes centuries, to establish the preconditions for accelerated growth. At low-income levels it is a long, painful process to accumulate that critical mass of skilled human resources, physical infrastructure, productive capital, and effective institutions that will ignite accelerated and sustained growth.
But the experience of the newly industrializing countries should give the low-income countries hope. These front-running middle-income countries, about a score of them, in Latin America and southern Europe, and on the Pacific rim of Asia, have succeeded in accelerating their growth. They have been rapidly expanding production in both agriculture and manufacturing, and capturing increasing shares of world markets.

For example: Thailand.

Over the last twenty years, Thailand's economy has grown at a rate of almost 8 percent per year. This growth has encompassed all sectors, public and private. Exports have grown at an average annual rate of over 14 percent, and per capita income has increased from $110 in 1960 to $670 in 1980.

During those twenty years, The World Bank and its affiliates lent over $3 billion to that country. And Thailand made good use of it. Today that country is one of the developing world's most dynamic participants in world trade.

Who are we to say that their experience cannot one day be the experience of the low-income, poverty-troubled countries?
Moreover, the achievements of middle-income countries ranked just behind these frontrunners should also offer hope to the low-income countries. Their progress may have been less spectacular than that of the newly industrializing countries, but they nonetheless succeeded in doubling real income per capita in a generation.

Why, then, should there now be a feeling in many quarters of hopelessness, of helplessness and resignation over the problems of the poorest nations? None of us working in the development assistance field underestimates the awesome size of the problems, especially in Sub-Saharan Africa. We are all too familiar with them. Nor are we ignoring the fact that the global economic environment today is far less hospitable than the environment in which many developing countries made real progress in the preceding decades. But the international community's capacity to help solve these problems should be much better understood and supported.

The translation of that capacity into an agreed strategy for accelerating the low-income countries' growth and reducing their poverty is essential.
It goes without saying that, without global economic recovery, this intrinsically difficult task is made far more difficult. The low-income countries' future economic growth will depend to a large extent on export growth. As it is, they supply only 2 percent of world exports. With non-fuel commodity prices at their lowest in real terms in thirty years, and with protectionist tendencies in the industrialized countries threatening much needed export diversification efforts, particularly in Sub-Saharan Africa, improving export income will be painfully hard.

With global recession has also come stagnation in international assistance on concessional terms, greatly compounding the problems of the low-income countries who depend so heavily upon it. With few exceptions, those among them who are primary commodity exporters, as most are, do not have the productive structures yet to allow them to participate in manufactured goods trade on any meaningful scale. And without external assistance on concessional terms, it will be difficult for them to develop those structures. Rather they will be left at the mercy of world commodity prices.
The real impact of the global recession on the poorest population groups should not be underestimated. The effects of depressed commodity prices, for example, reach deep into a nation. Let me offer just one illustration which is typical of Sub-Saharan Africa, even if it concerns a middle-income country. A middle-income country, however, with a currently declining per capita GNP.

Low world prices for copper have been seriously diminishing Zambia's government revenues. The government's newly released 1983 budget is 20 percent lower in real terms than that of 1982. The recurrent health budget is one of the many areas of public expenditure to suffer a cutback. And funds for maintenance and logistical support have been the worst hit. More than 75 percent of the Ministry of Health's existing fleet of vehicles is currently inoperative because of shortages of spare parts or inadequate maintenance, or both. The consequent breakdown in the transportation network has much impeded the flow of essential supplies to support primary health care activities in rural areas.

The dangers of dependence on a single commodity, and the importance of diversification, could scarcely be better illustrated.
Similar stories could be told of almost every country of Sub-Saharan Africa and would illustrate how exposed all population groups are to the vagaries of the international economic environment. Small low-income countries, especially those of Sub-Saharan Africa, have limited policy options, and the impact on them of global recession is particularly difficult to handle.

Some signs of economic recovery have begun to appear in the United States and in some parts of Europe, and on the whole I tend to the optimist's view that the global economy is on the road to recovery. But the question remains: how strong and how lasting will it prove to be?

The international community cannot, however, just sit back and postpone international action on the problems of the low income countries and their poverty stricken populations until recovery is here. The recession has aggravated pressing problems, and made their solution that much more difficult. But let us not forget that these are problems that were already there before the downturn.
Moreover, global recovery cannot, by itself, produce accelerated growth in the low-income countries. It will produce some growth, but the expansion of world trade will be gradual, and today's gravely depressed commodity prices will take time to climb back up the scale. Furthermore, the negative results of the slowdown in investment in these countries during this period of global contraction will be felt long after the recession is over.

Global economic recovery cannot alone bring accelerated growth to the low-income countries, nor can growth alone alleviate poverty. This is partly because rising population is tending to swell the ranks of the really poor even where, as a group, they constitute a diminishing share of the total population.

Despite lagging per capita income growth, standards of social welfare in the low-income countries have been rising fast. By the end of the Seventies they had to a large extent converged with those of the better-off developing countries. And those standards continue to rise.

To take one exciting example: medical experts have recently discovered that the incidence of infant and child mortality can be reduced by one half by two simple methods.
five million children die every year of dehydration. Through a simple new method of oral rehydration, four million of those children can be saved.

As a result of the development of stable vaccines which can withstand high temperatures, it will now be possible through mass immunization to save one half of the 5 million children who each year die from a wide variety of diseases.

And what makes these technological breakthroughs so attractive is their simplicity and their low cost.

Improvements in health and nutrition have, of course, led to higher rates of population increase in both low- and middle-income developing countries. The problem of rapid population increase is particularly acute in Sub-Saharan Africa, the region with the highest fertility rate in the world.

Let me give you a typical example of how this can affect the growth prospects and quality of life of countries in that region.
Upper Volta, with a population of just over 6 million, is one of the world's poorest countries, with one of the world's highest fertility rates. If the rate is not reduced, the population requiring maternal and child health services will increase from 2 1/2 million to almost 6 1/2 million between 1980 and 2010. And the fertility rate that could cause it poses a formidable challenge to Upper Volta's prospects for economic and social progress.

Government attitudes in Sub-Saharan Africa towards population programs stretch across a wide spectrum, from a handful of countries favoring high population growth rates to countries who have explicit population control programs. Most African countries are at intermediate points on the spectrum, and they must be encouraged and helped to move steadily across it towards explicit programming. Otherwise the growth in per capita incomes will remain little or nothing. And the assault on poverty risks being overwhelmed by the sheer weight of the numbers.

While faster growth of average incomes is essential to reducing poverty, it should be remembered that in many developing countries there is a sizeable gap between average
income and the incomes of the poorer groups. Therefore the particular problems of those poorer groups must be addressed directly within the framework of an overall strategy to promote growth.

The key to that poverty reduction lies in raising the productivity of the poor themselves. Welfare programs aimed at the poor without corresponding increases in the productivity of the recipients can only be short-lived and even counterproductive.

Governments have to take measures to ensure that the employment opportunities and earning power of the poor are not limited by sickness, insufficient food and lack of education. They have also to consider that high fertility and large family size mean that an adult's earnings will be spread thin to support more dependents than in richer families.

These non-income aspects of poverty call for a commitment on the part of governments to human development programs on a wide scale. The choices facing countries, who have to choose at the margin between human development and other activities are not easy. Policy decisions will be affected by the relative emphasis each government attaches to
increasing growth, raising the incomes of the poor, and attacking the non-income aspects of poverty. The economic payoff to human development certainly eases the tradeoffs between growth and poverty reduction. But the difficulty of quantifying the costs and benefits of a human development program often compound the problem of deciding the size of its budget and the allocation of its resources among education, health, nutrition and family planning. And within each of these areas as well.

How the dilemmas surrounding the raising of the productivity of the poor are resolved will vary from country to country. Differences in political and social priorities, in income levels and growth prospects, will suggest different approaches. But in all developing countries, steps to reduce poverty and promote human development must inevitably put strong emphasis on economic returns.

However well-chosen the policy mix, widespread poverty is not going to disappear overnight. It is going to be a very long haul indeed. But progress can be made less agonizingly slow if the international community brings active and enlightened support to the effort.

Which brings me to the role the World Bank can and does play in helping to reduce poverty.
More than a decade has passed since the Bank decided to place special emphasis on direct measures to alleviate poverty, both in its lending operations and in its economic research and analysis. The Bank was not alone in this; a general consensus had emerged among bilateral and multilateral aid institutions, and among many developing countries, that greater efforts should be directed toward increasing the productivity of the poor.

This resulted in an expansion of lending by both the Bank and the International Development Association to low-income countries, and to those sectors and subsectors where assistance could be brought directly to large numbers of poor people. The focus of the Bank's attention was to be more concentrated on rural and urban development, primary education, population, health and nutrition, small-scale industries, and water supply. Bank and IDA commitments to low-income countries increased from 37 percent of the total program during the years before 1968 to 58 percent in the current 1979-83 five-year lending program.

In our last fiscal year, when we reviewed this new approach, we concluded on the basis of our experience to date that we were on the right track. A strategy embracing the twin objectives of growth and poverty alleviation seemed to be the key to securing stable and sustained development.
We now know that through our project lending we can effectively reach substantial numbers of poor people, particularly through carefully designed poverty-oriented projects. There have been mistakes and failures, and much has been learned along the way. But by and large our projects have been effective in directly increasing the productivity of small farmers. They have also enhanced productive capacity through investments in human development, in education, health and nutrition and population programs. We also know now that these new-style projects can have rates of return as high as other projects. And once they are seen to work, they are replicated by the borrowing governments, thus multiplying the benefits.

We believe that through our policy dialogue with member governments and our country economic work, we are having some success in incorporating poverty concerns into the policy-making process.

If that review smacks of self-satisfaction, let me assure you that we know only too well that there is still a huge distance to go, and that there is a vast amount still to be learned about poverty alleviation. The hundreds of millions of poor people still with us are living -- some barely living -- testimony to that fact.
Nonetheless, an important and promising start has been made, and it must certainly be pursued with vigor, by both lenders and borrowers.

It is a tragedy, therefore, that continuing efforts to alleviate poverty are now threatened by a shortage of concessional funds to help finance them. These countries need more desperately than ever the type of development aid that IDA (International Development Association) -- our special fund for the poorest countries -- offers. But aid budgets face fierce competition for public funds during the current recession. IDA's funding, as you know, has suffered from this; shortfalls in contributions from the United States have cut into our lending program. Despite their own budget problems, other donor nations, including the Federal Republic of Germany, have contributed more than they originally agreed to help compensate for U.S. shortfalls. And we are deeply grateful to them and to you for that generous understanding of the need for development assistance.

IDA funds are now almost completely restricted to borrowers among our low-income member countries, and they continue to prove an excellent investment. While helping to raise the living standards of hundreds of millions of people through its projects, those projects have been recording average rates of return near 18 percent.
I assure you IDA is no habit-forming welfare program. Twenty-seven nations have now graduated from IDA borrowing to World Bank borrowing. And a few of these, South Korea and Colombia among them, are now contributors to its resources.

But 51 low-income countries, among them 28 Sub-Saharan African countries, depend on those concessional funds. Now more than ever. They just cannot be expected to cope with the impact of the recession and the very pressing problems of poverty without that kind of help. Nor can the international community, in good conscience, seek the promotion of domestic policy reforms in those countries unless it is prepared to help produce the finance, where needed, to support those reforms.

The developing countries are passing through a painful and nerve-racking period. The global recession has dealt them, particularly the low-income countries, something akin to a heart attack. After the recession, the recovery period will be long, the convalescence expensive, and there will certainly have been some permanent damage to the tissues.
It will take a vigorous and sustained international cooperative effort to help them move forward again towards their twin objectives of accelerating growth and diminishing poverty. And it is entirely in the interests of the industrial nations that that effort be made.

In the meantime, the world is in a state of economic crisis. There is simply no other way to characterize the situation.

The crisis arises from the very real danger that the deepening recession in the Third World will abort the economic recovery in the industrial world. And a delayed recovery in the industrial world will visit even greater havoc on the stricken economies of the developing nations.

If ever there was a vicious circle with the potential to entrap us all, this must be it.

How do we break out of it, then?

There are two imperatives here:

- the flow of international capital to the Third World must not be curtailed; on the contrary it must be expanded;
the industrial world must at all costs resist the temptation to raise protectionist barriers against imports from the Third World.

On the first of these imperatives, the flow of capital:

International private capital is essential to the development process. The liquidity problems of a handful of countries that are major borrowers from the commercial banking system have had the perverse effect of reducing the availability of commercial capital to developing countries that have managed to maintain their creditworthiness through these hard times. And that notwithstanding the special arrangements set in place by the IMF, in collaboration with the banking system to ease the liquidity problems of those major borrowers. It just doesn't make much sense to penalize the many for the problems of the few. But the effects of that penalization are already being felt in the developing countries in postponed investments and curtailed imports.

The commercial banking system must not withdraw. Cutting off credit at this moment can only exacerbate a critical situation, to the ultimate detriment of both borrower and lender.
Nor must funds for the international financial institutions be blocked or reduced. The participation of these institutions in the international cooperative effort to restore growth to the developing countries is essential. The recent decision of the International Monetary Fund's Interim Committee to go ahead with recommendations for a substantial quota increase is a very welcome step. But it cannot compensate for the negative developments elsewhere in the transfer of capital to the Third World.

It is, for example, counterproductive to hold the lending of The World Bank, i.e., the IBRD, at artificially low levels at a time when markets are daily demonstrating their confidence in an institution which can obviously intermediate much larger amounts and transfer them effectively from private savings to effective investment in the Third World.

And the curtailment of IDA's ability to provide desperately needed concessional finance is extremely serious in light of the parallel shrinking of the flow of such funds on a bilateral basis.

With regard to the second imperative; an open trading system: a depressed economic environment provides fertile ground for the spread of protectionism, with nations surrendering to the position that the abandonment of open
trading by one nation calls for a matching reaction. Surely we have learned that there is no ultimate victor in such a contest. If the developing nations cannot sell, they cannot buy. And protectionist pressures increase rigidities in protectionist nations, so contributing to the inflationary cycle. Thus everyone is a loser. If growth resumes in the industrial world, the prospects of recovery in the developing countries are enhanced. But if protectionist measures persist, the benefits of recovery can only be undermined.

These twin imperatives -- maintaining capital flows and resisting protectionism -- must be met if the current economic crisis is to be defused. Curtailing those flows and raising those protectionist barriers, all in the name of belt-tightening, may seem to be the less painful way to accept austerity. But in the longer run it most certainly is not. The industrial world may find it has been tightening a belt around its neck rather than around its waist.

And the ultimate self-inflicted wound is to ignore this simple truth: the industrial world has everything to gain from economic growth in the developing world; it has everything to lose from stagnation and decline there.
That is why we talk of the mutual economic advantages in Third World development. And rightly so. It is a powerful call to common sense. And we also talk of the threat to our global security posed by economic retrogression and human despair in the developing world. And so we should. The threat is surely there.

Security is as profoundly an important issue here on the European political stage as anywhere in the world. And I need hardly remind this audience that almost every flash point of East-West confrontation in the last twenty years has been in the Third World. If through selfishness and shortsightedness we hold the developing nations back on their long and difficult march to economic maturity and decent living standards, we shall be inviting further, and more dangerous, confrontation.

Can we not agree, then, that to help the developing nations help themselves is an act of enlightened self interest?

Those who created this community of nations in Europe over a quarter century ago were men of vision. They saw that the way to prosperity and lasting peace was a commitment to international cooperation for the common good.
We need just such an enlightened commitment today. A commitment to cooperate for the common good of the global community of nations.

Let us all make that commitment.

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