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THE PROGRESS OF ECONOMIC DEVELOPMENT

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Economics Roundtable Session of
the Fifty-first National Foreign
Trade Convention, November 18,
1964, New York City, New York.*



IN THE last 15 or 20 years we have all learned a great deal about economic development, which we think of as something that is really new. The Articles of Agreement of the World Bank which were written at Bretton Woods a little over 20 years ago, referred to the economic development in the less developed areas of the world as a major objective. The documents establishing the United Nations also referred specifically to the problems of development as a major task for international action. This is significant because it indicates a new departure, in contrast with what has happened before, say, for the last 250 years.

We have had development and economic growth for a long time—certainly for the last 250 years. But it didn't go under that name; it used to be simply called "progress." However, this progress was confined to the countries of Western Europe and to the countries which the League of Nations used to call "countries of recent settlement"—meaning the United States, Canada, Australia, South Africa, and perhaps also such places as Argentina. It is difficult to find in the literature of the 19th century any indication that economic development, as it took place in Western Europe and the other parts of the world just referred to, would also be something to be expected in the "colonial territories" as they were called at that time. In those days people made placid assumption

that economic growth was something that was a specialty of what we now call the West; that for the rest of the world stagnation or simply no growth was the normal thing to be expected.

Since then things have changed. This, I think, is a major departure of the last 20 years: economic development now is taking place all over the world. It is taking place continuously and without any significant wavering. If I were to put my remark in quantitative terms I would say that economic growth has proceeded in the last 15 years or so at a rate of something like 4 per cent per annum. Now, 4 per cent doesn't mean really very much in our daily reckoning; there isn't very much difference between $3\frac{1}{2}$ per cent or 5 per cent or 4 per cent. What it means—and this is maybe a better way of putting the same proposition—is that in the last 17 or 20 years the total income of the underdeveloped areas of the world has just about doubled. This, I suggest, is a major accomplishment of the era in which we live. We don't always realize that this is taking place, because we are constantly concerned and preoccupied with difficulties here and there, with one country after another running out of funds, one country after another having problems with its development programs and so on.

But, after everything is said and done, what is happening still adds up to a large measure of accomplishment, an accomplish-

ment which I don't think can any longer be considered as simply a temporary deviation from the normal situation of no-growth, but must be considered as something that has permanently changed the economic history of the world.

Is Development Fast Enough?

Now, in order to evaluate whether this 4 per cent has been much or little, it is not enough to refer back to past history and say it is more than ever happened before—because as we have seen nothing happened before—but we have to relate it to some kind of objective criterion. In order to do that you have to relate first the growth rate of 4 per cent to the population growth which, of course, offsets to a considerable extent this accomplishment. Population growth in the underdeveloped parts of the world has in recent years been running at a rate of something like 2 per cent, or perhaps a bit higher. So we are left with a rate of income growth per capita of $1\frac{1}{2}$ per cent on the average.

The question then is whether this $1\frac{1}{2}$ per cent per capita growth rate is adequate. The answer is a matter of judgment—judgment as to what is considered a “significant” rate of growth: what do people feel when their family income goes up by 1, or $1\frac{1}{2}$, or 2 per cent per year?

One way of looking at this problem is to see how long it takes for a family, for a social class, for a group, to achieve a doubling of its income. You can read in any compound interest table that a 1 per cent rate requires approximately 70 years to double in income. Well, I suggest that 70 years is too long a time to wait for such doubling of income. It takes almost three generations. There, 1 per cent would not be enough.

What then would be enough? I would suggest something in the order of $2\frac{1}{2}$ per cent might be a reasonable standard and an adequate accomplishment, because it means that per capita income doubles within 28 years, a period which is well within the life span of a generation. It means that on the whole people are twice as well off as their parents and four times as well off as their grandparents.

This, then, I would consider a reasonable and adequate rate of growth. Have we achieved this? On the basis of the previously mentioned figures the answer is no, but we have come close to it. We have come close to it on the average, and we have reached it in important parts of the world. In some countries we have done even better.

Let me now go on to try to see why this has happened. Why has it happened only the last 20 years? Why didn't it happen 50 years ago? Obviously, the fact that many countries have become independent has something to do with the development accomplishments

in such parts of the world as Africa. But a variety of other circumstances also have had something to do with it. Perhaps the most important factor is that in recent years underdeveloped countries have obtained considerable assistance in the form of capital movements — support through grants and loans on conventional and non-conventional terms.

The Role of Foreign Assistance

These capital movements as estimated by the OECD, have in recent years, added up to something in the order of \$8½ billion a year, and last year they came to \$9 billion. These figures include public and private grants and loans from all sources advanced to the underdeveloped countries of the world. (I should add at this point that my concern is exclusively with what is known as the free world —I plead ignorance to speak about the area of the world behind the Iron Curtain).

How important has the contribution of the advanced countries of the world to the underdeveloped countries been? From the point of view of the advanced countries taken together this flow of capital and grants has been somewhat less than 1 per cent of the Gross National Product. Only one country, perhaps two, have contributed to this flow in one form or another more than 1 per cent of the Gross National Product.

From the point of view of the recipient countries, however, this contribution has been a major factor in the availability of resources for development purposes. In order to appreciate its significance, we must look at it in the context of the resources of the recipient countries. Total investment in the underdeveloped countries has probably been in the order of \$24 billion a year. This figure is of course uncertain, particularly since it is made up of many national figures that are uncertain, and there are all kinds of problems of adding them up at unrealistic exchange rates, but if you add and subtract and correct you still come out with a figure of this general magnitude. If you relate that then to the flow of foreign assistance in the broad sense, of \$8½ billion, you find that approximately one-third of the investment resources of the underdeveloped world have come from the advanced countries.

In some countries this proportion has of course been much larger and in others it has been smaller; and in some places the foreign contribution to capital formation was insignificant. But, when you take an average this is where you come out.

If you then compare this one-third contribution to aggregate economic growth with population growth rates you come to the rather startling and perhaps not very pleasant conclusion that if it hadn't been for the flow of the capital from the advanced countries to the underdeveloped countries, an

increase in the per capita income would not have taken place.

This is obviously one of those gross overstatements which, in order to make it correct would need many more footnotes than you would wish to listen to. They would keep you here for much longer than you would care to stay.

But, like all such overstatements, there is an element of truth in it and the element of truth simply is that from the point of view of the recipient countries foreign assistance, including the flow of private capital has been a major element in making growth possible. This is not to say that the underdeveloped countries themselves have not done well because, after all, two-thirds of their capital formation have come from their own resources and one should not play up the one-third coming from abroad without paying respect to the achievement of the countries to mobilize, under very difficult circumstances, two-thirds of their total.

Unsolved Problems

Let me now go one step further and indicate now what the major problems are which economic development is facing at this juncture. There is some indication that the rate of growth of the underdeveloped world has been slowing down in recent years. I do not want to exaggerate this since I believe that there are some hopeful signs that the decline

in growth rates, which took place two or three years ago, is coming to an end and that perhaps an increase of growth rates may be in the making. But, it is quite clear that the problems that have caused this slowing down still have to be solved, if the development process is not to run up against recurring—and growing—resistance.

There are three major problems which have arisen. In the first place, economic development has not only been uneven as between regions and countries, but it also has been highly uneven within most economies of the world.

Specifically, it turned out—contrary to the expectations of some of my colleagues in the field of economics—that industrial development and the development of social overhead capital, the kind of investment with which the World Bank is very much concerned, seems to offer less of a problem than the remaining sector of the economies, namely, agriculture. This is where the real difficulty seems to lie. In many underdeveloped countries the agricultural sector has been sadly lagging behind, to the point that in a number of countries an agricultural production per capita is smaller than it was 10 or 15 years ago. Depending upon which of the latest reports you read, you find that food production the world over has just about kept pace with the population growth or, according to some more pessimistic estimates food production has already fallen behind the population growth.

Unfortunately, it is not easy to devise an answer to this most difficult problem, largely I suspect, because we have not adequately dealt with it. We have not done enough to find a solution to the problem, partly because the underdeveloped countries themselves have been so much concerned with industrial development as compared with agriculture, and partly because the advanced countries have been reluctant to focus on agricultural development because there is a danger of their being accused of keeping the underdeveloped countries from becoming industrialized.

Somewhat related to the field of agriculture, but perhaps of importance if looked at from a different angle, is the second problem, and that is that the foreign exchange proceeds of the underdeveloped countries have not kept pace with the growth of the countries themselves. This is clearly shown in all trade statistics—one of the few pieces of reliable information that is regularly available.

These statistics show that in the last 20 years world trade has expanded at a rate never before achieved and that we now have much more international trade than we have ever had before. But they also show that most of the expansion has taken place in trade between the advanced countries and from the advanced countries to the underdeveloped countries, while exports from the underdeveloped countries have not significantly risen.

Why? In my opinion, the answer is: only to a lesser extent because the underdeveloped countries have not managed their affairs efficiently. It is well known that many underdeveloped countries have neglected the export sectors of their economies and there are many things that have been done wrong. But even after some of the blame is put on them, you still cannot escape the conclusion that the trouble with exports from many underdeveloped countries is that they simply are in the wrong kind of business. They are in the wrong kind of business in the sense that they have to sell commodities for which demand doesn't rise very fast.

Look at coffee. Look at cocoa. Look at natural rubber. Look at basic foodstuffs and industrial raw materials and you find that these commodities are constantly under pressure. They are under pressure because the demand for them rises only very slowly. Some of the commodities are under pressure because more and more synthetic substitutes come into the picture and some are under pressure because the advanced countries themselves have managed to produce them more cheaply.

The third problem that plagues underdeveloped countries that I want to mention follows directly from the second. Because of the slow growth of the export earnings, many of the underdeveloped countries are now facing a serious debt problem. In the early postwar period underdeveloped coun-

tries found it relatively easy to get loans and private investment from advanced countries. This is no longer true because these loans and investments were made in the expectation that the export earnings of the underdeveloped countries would keep pace with their growth. This, as I said before, was not the case and as the result many countries now face debt problems of serious proportions. I am not saying that the underdeveloped countries are bankrupt; far from it. But I do say that a number of underdeveloped countries have growing difficulties meeting their debt service obligations, particularly in the next three or four years.

The situation is acute in the next three years or so, because many of the underdeveloped countries have incurred—I should add, with the encouragement of many of their suppliers—debts which are simply too short to be paid off comfortably. It is clear that one should not finance a major industrial installation or a big power plant on five or six-year credits—but this is exactly what has happened. Some countries found it easy to secure short and medium-term accommodations from suppliers or financial institutions. They now have what the people concerned with debt service call a “debt bulge.” Over the next three years some of the countries I have in mind face the prospects of having to set aside something like 25 to 30 per cent of their foreign exchange earnings to meet their debt service obligations.

Clearly, this is not a comfortable position to be in—for two reasons. In the first place, it means that they have to forego imports which are essential to maintain their development process. Secondly, under these conditions, it becomes inadvisable for the countries to incur further debts and for lenders to lend them at conventional rates.

The result of all this is that if development is to continue the need arises of providing more capital to underdeveloped countries on terms which are benignly called “non-conventional.” I am referring to grants and loans on very generous terms.

The Outlook

This then is the story of the progress of development so far. If I may, I will take another minute or so to say what the outlook appears to be. In spite of the difficulties which I indicated and because of the accomplishment which I mentioned before, I believe the outlook is rather favorable for the continued growth of the underdeveloped countries. It is inconceivable that the underdeveloped countries will now again slow down and sink back in the morass of underdevelopment. I believe that they will do everything in their own power to continue the growth process which they have started on and I also believe that the advanced countries will continue their support of this development process.

It is certainly not an accident that in one of the last speeches during the American presidential election campaign, President Johnson went on record with the following proposition: that he considers it unthinkable that the advanced countries can continue their own growth as they have done in the last few years and for many decades before, while at the same time the underdeveloped countries are falling behind. I believe this is inconceivable, not only on moral and human grounds, but also on political grounds. It is inconceivable to live in a world in which you go back to the 19th century situation where one-third of the world was advancing while the rest was standing still. This, I think, is the overriding argument for the continued support through capital and technical assistance, advice and guidance to the underdeveloped countries of the world. The recognition of this has gone very far among all the advanced countries; it is an assurance that this development will continue.

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