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ADDRESS to the
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BY

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PRESIDENT, WORLD BANK GROUP

Washington, D.C.
September 27, 1971
Today I want to talk with you mainly about basic problems of development: nutrition, employment, income distribution, and trade. However, before doing so, let me comment briefly on the events of the past few weeks and their relation to the developing world.

It is clear that we are in for a difficult period of basic readjustments in international monetary and trade arrangements and that the repercussions may continue for some time. Although the solution of these problems is not the responsibility of the World Bank, we are deeply concerned with the manner of their resolution because of the impact it may have on the external trade of the developing countries, and on the resource flows to them.

The transfer of public and private capital to the developing countries — to which all the advanced countries are committed — is critically dependent on the operation of an exchange system that does not interfere with their continued flow. Foreign exchange difficulties have at various times induced donor countries to tie their aid to domestic procurement, to inhibit the outflow of private capital, and sometimes to limit their appropriations for public development loans and grants. In recent years a serious obstacle to the achievement of the United Nations target of a transfer of public and private capital equal to 1% of the GNP of the developed countries has been the preoccupation of some of the donor countries with the effect of such transfers on their balance of payments. Whatever steps are taken to improve the operation of the international monetary system must be such as to permit a continuing increase in capital flows to meet the targets to which the developed countries have subscribed: an increase in public development assistance from $8 billion per year in 1970 to $12.5 billion per year in 1975.

The developing countries are just as dependent for their continued growth on a rapid expansion of trade with advanced countries. Developing and developed countries alike will benefit from an international financial framework which permits smooth and rapid growth of production and trade. I will develop this subject at greater length further on.

Before turning to my main themes, I simply wish to give an indication of the degree to which the developing world is concerned both with the restoration of financial equilibrium among the major trading countries and with the formulas by which that equilibrium is achieved.
I. INTRODUCTION

In our previous meetings in this forum I have stressed the view that our era is characterized by a basic demographic shift whose consequences reach to the very heart of the development problem. Progress in both the qualitative and quantitative aspects of life of the vast majority of developing countries is severely threatened by the gross imbalance between birth and death rates.

Since we met together a year ago the world’s population has grown by more than 70 million people. For every two deaths there have been five births. Between 85 and 90% of this population growth has occurred in the poorer countries.

Development has brought death rates down in those countries, but a corresponding adjustment in the birth rate is not automatic, and to date has been negligible.

The profound implications of the resulting population explosion on development policy are not yet fully understood. I should like to explore some of those implications with you today.

Before turning to those issues, however, I want to report to you on the operations of the World Bank Group during the past year, and on our plans for the remaining period of our first Five-Year Program.

II. THE BANK GROUP’S OPERATIONS IN FISCAL YEAR 1971

During the past fiscal year our new loans, credits, and investments totalled $2.6 billion. This compares with $2.3 billion in 1970, $1.9 billion in 1969, and $1.0 billion in 1968. The total cost of these development projects, which have been financed in part by the Bank Group during the past year, amounted to $7.0 billion. For 90% of the projects, it was possible to prepare estimates of the annual rates of return to the developing countries: they average 18%.

To finance a rise in disbursements, and to increase liquid reserves, the Bank borrowed $1.37 billion during the year. This
brought its level of liquidity to $2.6 billion—up $500 million from June 30, 1970. Disbursements will continue to rise in the coming years as the increase in commitments translates into expenditures. The net flow of funds from the Bank Group to the developing countries now represents about 10% of the total received from public external sources, up from 4 or 5% a few years ago.

Our operations in 1971, as was the case in 1970, benefited from the unusually high rate of earnings on the investment of our liquid reserves with the result that the year's net income totalled $212 million.

III. THE BANK GROUP'S FIVE-YEAR PROGRAM

You will recall that in my initial address to you three years ago, I outlined a Five-Year Program for the Bank Group. Our overall objective was to double the level of investments for development in the period FY 1969-1973 as compared with the previous five years when investments had totalled $5.8 billion.

In FY 1971, the midpoint of the five-year target period was reached. What have been the results? New commitments for the first three years have totalled $6.8 billion. Taking account of the operating program for the current year, FY 1972, and the prospects for the following year, it seems probable that the final total of new investments in the five-year period will in fact exceed the initial objective of $11.6 billion, and the total cost of Bank-supported projects for the period should exceed $30 billion.

As you remember, our goals also included trebling lending in the field of education, and quadrupling it in the agricultural sector. At midpoint in the Five-Year Program, those goals are on schedule and are being met.

Another objective we have sought is to give greater emphasis to assisting the very poorest among our member countries—countries with per capita incomes of $100 or less. Our current estimate is that during the five-year period from 1969 to 1973 we will have assisted the poorest countries with a total of 215 separate projects. The comparable figure for the first 23 years of the Bank's activities—from 1946 to 1968—was 158.
The twelve months since we last met have, then, been vigorous and productive in the pursuit of our first Five-Year Program's objectives. Those objectives appeared arduous when we set out in 1968, and despite the encouraging results thus far, they remain so. But already we are planning in a preliminary way what the Bank might do in a second Five-Year Program from FY 1974 to 1978. These plans will become clearer over the next 12 months, and we will want to discuss them with the Governors at next year's meeting.

It is becoming increasingly apparent that such future plans of the World Bank Group, as well as of other bilateral and multilateral development finance agencies and, most importantly, of the developing countries themselves, must give far greater attention to the basic problems affecting the lives of the developing peoples. These problems—which stem largely from the unanticipated growth of population—include severe malnutrition, rising unemployment, and the growing inequality in the distribution of income.

Unless we deal with these fundamental issues, development will fail. The best appraised project, with the highest rate of financial return, will be of no avail if the community as a whole dissolves into bankruptcy or civil chaos.

It is to these problems and their implications for all who are engaged in development that I turn now.

IV. THE CURRENT STATUS OF POPULATION PLANNING

Events of the past year have reinforced the thoughts I expressed at our meeting in Copenhagen. You will recall that I stressed then my belief that population planning must have high priority in most of the developing countries—even in those countries where the symptoms of overpopulation are not yet fully evident. The reason is clear: much more time is required than is generally imagined in order to translate population-planning programs into reductions in the birth rate sufficiently large to result in reasonable rates of growth.

Last year I noted that 22 developing countries had adopted official population-planning policies. In launching Ghana's National Family-Planning Program in 1970—the first such national program in West Africa—the Minister of Finance stated:

\[ \text{...} \]
"The present rate of growth increases our population by 5,000 people every week . . . In simple terms, it means that as a Nation we are increasing in number faster than we can build schools to educate our youth, faster than we can construct hospitals to cater for the health needs of the people, and faster than we can develop our economy to provide jobs for the more than 140,000 new workers who enter our labour force each year. Our rate of population growth thus poses a serious threat to our ability both as individuals and as a Government to provide the reasonable needs of our people. . . . Thus we see that our population growth and our reproductive habits pose very serious problems which must be tackled realistically and effectively NOW if we are to avoid the justifiable curse of our children and those who come after them.

"We are aware that there will be some in our midst to whom these dangers are more imaginary than real. There are those in the grip of the dangerous illusion that the vast expanses of underdeveloped land invalidate the argument for the regulation of population growth in Ghana. They fail to realize that invariably the land remains undeveloped because of the lack of capital and technical skills required for its development. There are also those who still cling to the equally dangerous misconception of the prestige value of large populations in a technological age when the quality of our people is more important than their numbers."

In the past 12 months several more governments have moved in this direction. But though this trend is encouraging, one must admit that only in a handful of developing countries is the population problem perceived by the top political leadership as a matter of high priority.

It is in part due to the absence of strong political support that the measurable effect to date of population-planning programs on fertility rates is insignificant. But it is becoming increasingly evident that even with the requisite political support, even with expected advances in contraceptive technology, even with major improvements in the administration of the programs—and to all of these critical elements we must give much greater emphasis—decades will pass before the rate of
growth declines to acceptable levels. In the meantime, the world is going to get immensely more populous than it already is.

The latest demographic studies, completed within this past year, indicate that if a net reproduction rate of one (an average of two children per couple) is reached in the developing countries by the year 2040—a possible but by no means certain achievement—their present population of 2.6 billion will increase more than fivefold to nearly 14 billion. If the net reproduction rate of one could be reached two decades sooner, the ultimate size of the population of the developing countries alone would be reduced by over 4 billion, a figure substantially in excess of the planet’s total population today.

<table>
<thead>
<tr>
<th>Present Population</th>
<th>Developed Countries</th>
<th>Developing Countries</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>2.6</td>
<td>3.7</td>
<td></td>
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</table>

Ultimate Population:
- If replacement rate is reached by developing countries in 2040 and developed countries in 2020
  | 1.8 | 13.9 | 15.7 |
- If replacement rate is reached two decades earlier
  | 1.6 | 9.6  | 11.2 |

Two important conclusions can be drawn from these projections:

- Each decade of delay in addressing the population problem in developing countries will lead to an ultimate population in those nations approximately 20% larger than would otherwise be the case.
- Even on very favorable assumptions, the populations of the developing countries will continue to grow rapidly for several decades, expanding perhaps fourfold from present levels and reaching a total of nearly 10 billion.

The implications of these facts for all of us engaged in development are clear:

- We must intensify our efforts in population planning, seeking to shorten the time required to reduce the rate of growth.
- We must reshape development programs for the next
decade or two to take account of what is certain to be a continuing rapid growth of total population.

Development programs have not as yet faced up to the adjustments that the consequences of continuing population growth require. Two of these consequences—widespread malnutrition and chronic and growing unemployment—require particular attention. It is to them that I turn now.

V. MALNUTRITION AND DEVELOPMENT

Much of the most significant knowledge dealing with nutritional deficiencies—and most particularly the implications for development—has been discovered only recently. Even now the full extent of these deficiencies in the less-advantaged countries and the degree to which they seriously limit economic and social progress is only beginning to become apparent. And we have hardly even begun to develop plans to deal with the problem.

The argument I shall make is that:

- Malnutrition is widespread.
- It is a major cause of high mortality among young children.
- It limits the physical—and often the mental—growth of hundreds of millions of those who survive.
- It reduces their productivity as adults.
- It is therefore a major barrier to human development.

And yet, despite the evidence that with a relatively small per capita expenditure of resources major gains can be achieved,

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*I am indebted to Nevin Scrimshaw, Chairman of MIT’s Department of Nutrition and Chairman of the FAO/WHO/UNICEF Protein Advisory Group; and to Alan Berg, Senior Fellow, The Brookings Institution, for many of the points in this section.
there is scarcely a country in the developing world where a concerted attack on the problem is underway.

The number of childhood deaths is enormous in the poorer countries. Malnourishment severely lowers immunity to infection, and tens of millions of children succumb each year to preventable fatalities simply because they have no reserves of resistance. The Food and Agricultural Organization states that "malnutrition is the biggest single contributor to child mortality in the developing countries." And that contention is borne out by the Pan American Health Organization's reports of studies in Latin America which show malnutrition to be either the primary cause, or a major contributing factor, in 50 to 75% of the deaths of one- to four-year-olds.

How great is child mortality in the developing world?

- In India, there are large areas where deaths in the first year of life number as many as 150 to 200 per 1000 live births.

- In the United Arab Republic, the proportion of children between the ages of one and two who die is more than 100 times higher than in Sweden.

- In Cameroon, children under five, although only one-sixth of the population, account for one-half of the deaths.

- In Pakistan, the percentage of children between the ages of one and four who die is 40 times higher than in Japan.

Clearly, the first result of widespread malnutrition is high child mortality. But not all malnourished children die. Hundreds of millions of those who live—and the FAO and WHO estimate that as many as two-thirds of all surviving children in the less-developed countries have been malnourished—suffer serious deprivation of the opportunity to realize their full human potential.

It is becoming clear that the population problem and the nutrition problem are closely intertwined. In the end better nutrition will have a beneficial effect on reducing fertility, despite the short-run reduction in infant mortality. Indeed, many authorities believe that reduced infant and child mortality are preconditions for successful population control.
The deprivation often begins before the child is born. In the last three months of pregnancy, and the first two years after birth, a child’s brain reaches nearly 90% of its structural development. During this critical period, a deficit of protein can impair the brain’s growth. Autopsies have revealed that young children who die of protein-calorie malnutrition may have less than half the number of brain cells of adequately nourished children in the same age group.

While it is difficult to distinguish the effects of protein deficiency on child development from other aspects of poverty in the child’s environment, there can be no serious doubt that there is a relationship between severe malnutrition in infancy and mental retardation—mental retardation which more and more scientists are concluding is irreversible.

But malnutrition attacks not only the mind but the body as well. Protein deficiency seriously limits physical growth. The Director of the National Institute of Nutrition in India reports that 80% of the nation’s children suffer from “malnutrition dwarfism.” Low-income populations almost universally have a smaller body size. The FAO estimates that more than 300 million children from these groups suffer “grossly retarded physical growth.”

Prolonged into adulthood, the poor mental and physical growth characteristics of the early years can greatly impair the range of human capacities. Add to that the current low standards of nutrition for grown adults in much of the developing world, and it is clear why there are adverse effects on the ability to work. Workers who are easily fatigued and have low resistance to chronic illness not only are inefficient, but add substantially to the accident rate, absenteeism, and unnecessary medical expenditure. More serious still, to the extent that their mental capacity has been impaired by malnutrition in childhood, their ability to perform technical tasks is reduced. Dexterity, alertness, initiative: these are the qualities that malnutrition attacks and diminishes.

We are not speaking here of dietetic nuances, or the fancies of food faddists. We are speaking, instead, of basic nutritional deficiencies which affect the minds and bodies of human beings. But the problem is so dimly perceived, so readily dis-
missed under the pressure of other priorities that we have neither applied the knowledge now at hand, nor mobilized the resources required to broaden that knowledge further.

In one sense, of course, the ultimate cause of malnutrition is poverty. But this does not mean that we either must, or can even afford, to wait for full economic development to take place before we begin to attack the problem. On the contrary, reducing the ravages of serious malnutrition will itself accelerate economic development and thus contribute to the amelioration of poverty. And there are a number of practical steps which can be taken even within the limitations of our current knowledge and economic priorities.

As in the case of the population problem, the nutrition problem represents less a need for new and immense amounts of development capital, than a need for realistic understanding of the situation. What we already know suggests that to meet basic nutritional deficiencies of hundreds of millions of the developing peoples will not entail unacceptable costs. It has been estimated, for example, that at a cost of $8 per child per year one could make up the deficiencies of a diet that now deprives him of one-fourth of his protein need and one-third of his caloric need.

There are, in fact, many promising possibilities for increasing the nutritional value of food through low-cost agricultural and industrial solutions:

- Crop shifts—through appropriate pricing policies—from low-protein cereals to high-protein pulses.
- The introduction of higher nutritive strains of conventional cereals, such as the new high-lysine corn which doubles protein value.
- The fortification of existing basic foods to improve their nutritional value, such as the protein fortification of cereals, and the vitamin and iron fortification of wheat flour.
- The development and distribution of wholly new low-cost processed foods, particularly for the feeding of young children, using available oilseed protein.
There are, of course, many other solutions—some already available, some near at hand on the research horizon—which deserve support. But the central conclusion I wish to propose to you is that the international development community and the individual governments of the countries concerned must face up to the importance and implications of the nutrition problem.

I turn now to another serious consequence of the population explosion: unemployment.

VI. THE UNEMPLOYMENT PROBLEM

The fall in the death rates, which caused the population explosion in developing countries, disproportionately affected the youngest age groups, with the result that the major increase in population occurred initially among children under the age of 15. The growth in the labor force (i.e., in the age group 15 and over) has been slower, but is now accelerating. Between 1950 and 1960, it rose at 1.6% compared with the population growth rates of 2.3%; and in the period 1960-70 at roughly 1.9% compared with 2.6%.

Throughout the developing world the labor force will grow at an even faster rate in the 1970s than it did in the 1960s. On average it will rise by 2.3% per year. And when one reflects on the expected 2.8% growth in population for the next decade, it is clear that labor-force growth rates for the developing world as a whole will inevitably accelerate in the two or three decades immediately ahead. In Latin America these rates are already over 3%.

What these figures mean for some of the principal countries is staggering. It is estimated, for example, that the Indian labor force will grow by over 50 million in the next 10 years. This is equivalent to the combined labor force of Great Britain and the Federal Republic of Germany.

These rates of growth are far higher than the 1-1.5% per year faced by the developing countries of Western Europe a century ago—growth rates which could readily be relieved by massive emigration to the then underpopulated New World with its abundant natural resources. No such large-scale relief is available for today’s developing countries.
Available statistics and concepts of employment and unemployment are both inadequate and ambiguous in less-developed countries. However, there is ample evidence that although growth rates of national product have increased substantially over the past decade, very few developing economies have expanded fast enough to absorb the growth in their labor force. Today I believe most economists would agree that:

- Unemployment and underemployment are extremely serious in the developing countries, much more so than in the developed countries.
- On reasonable definitions—including allowances for underemployment—unemployment approximates 20-25% in most countries.
- If past patterns continue, unemployment is bound to become worse.\(^a\)

It can be misleading to speak of the employment problem. There are in fact two distinct employment problems: one urban, and one rural. Of the two, the urban problem is usually the more dramatic. Estimates of total open unemployment in most developing countries are in the range of 5 to 10% of the total labor force. But as this unemployment is very heavily concentrated in cities, the proportion of the urban labor force that is unemployed is much greater.

Urban surveys in the Sixties showed unemployment to be widespread in many developing countries. In the urban areas

\(^a\)The following table (prepared by the International Labor Organization), while suffering from the weaknesses affecting all such estimates, illustrates the magnitude of the problem. It projects an increase of 170 million in the labor force during the next decade, with only half as great an increase in the number of full-time jobs.

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<tbody>
<tr>
<td>Fully employed</td>
<td>504</td>
<td>592</td>
<td>75.3%</td>
<td>70.5%</td>
</tr>
<tr>
<td>Underemployed</td>
<td>130</td>
<td>200</td>
<td>19.4%</td>
<td>23.8%</td>
</tr>
<tr>
<td>Employed</td>
<td>634</td>
<td>792</td>
<td>94.7%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>36</td>
<td>48</td>
<td>5.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Total Labor Force</td>
<td>670</td>
<td>840</td>
<td>100.0%</td>
<td>100.0%</td>
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of Algeria it was 27% and in the Philippines 13%; in Kaduna it was 31%; in Abidjan 20%; in Kingston 19% and in Bogota 16%. The age group most adversely affected is the 15- to 24-year-olds. Nearly 40% of this age group in Ceylon's urban labor force was unemployed in 1968. Such massive unemployment among youth carries with it a very heavy social cost: there is the lost opportunity to acquire productive skills and steady work habits at the most receptive age, plus a corrosive social frustration that can ultimately erupt into open and irrational violence.

Underemployment is also common in urban areas. Far more people eke out a meager living in unproductive and excessively duplicated service activities than are actually required by the volume of work performed. It is impossible to measure precisely the extent of this phenomenon. But, for example, the proportion of the non-agricultural labor force engaged in services in most Latin American countries is between 60 to 70% and tending to rise, whereas in the developed countries of Europe it has been generally constant for several decades at between 40 to 50%.

As bad as the urban situation is, almost everywhere the rural underemployment problem is numerically worse; and since it involves the poorest people of a developing society, it is even more tragic. Typically it results from large families sharing the little work provided by tiny farms, or landless laborers who can find jobs only at peak seasons of the year. The result is an immense waste of potentially productive resources. It has been estimated that in Latin America in 1960 rural underemployment already amounted to the equivalent of one-third of the agricultural labor force. This is likely to have risen since then.

Even more important than this waste of resources is the cost of underemployment in terms of human misery. The problem is not only that people are unoccupied for so much of the year, but that the employment which they can find yields them so little income. In Brazil the poorest 20%, who are predominantly rural, had in 1960 an average income only one-sixth of the national average. Recent studies indicate that between 40 and 50% of the population of India currently have incomes below a poverty line nationally established in terms
of basic nutritional needs. And these studies suggest that the situation has worsened rather than improved in recent years.

Rural underemployment is a major cause of the large and often widening gap between urban and rural incomes. In most developing countries average incomes in the urban areas are far higher than in the rural areas. In metropolitan Manila, for example, the average income is almost four times that of rural areas in the Philippines. These inequalities are reflected in statistics on national income distribution, which often suggest less equality in developing than in developed countries. In most developed countries the share of the richest 5% is about two-thirds that of the poorest 60%. In many of the developing countries, the share of total income going to the richest 5% of families is larger than the share of the poorest 60%, and in one of the largest Latin American countries, it is almost twice as great.

Rural and urban unemployment are clearly related: that in urban areas results from the growing inequality between the incomes of those fortunate enough to obtain urban employment, and the mass of the rural poor. To many in the countryside it appears more attractive to migrate to the cities and wait there—even without work—in the hope of eventual employment, rather than to endure the poverty of underemployment in agriculture.

Although there is a good deal that can and must be done to increase the rate of growth in productive jobs in the urban areas—as I will discuss later—so long as rural underemployment exists, the income gap will exist, and migration to cities will tend to exceed the number of new jobs there. So, solving the urban problem depends on solving the rural problem. And the solution to the rural problem must be found mainly in the rural areas. There simply is no hope, in most countries, that urban job creation will be fast enough to absorb all the underemployed from the countryside.

For employment to grow at 4.5% per year in the urban areas of the developing world would be a tremendous achievement, and beyond what has been achieved in the past. Growth of manufacturing employment in developing countries between 1955 and 1965 approximated 4%, with growth of manu-
facturing output of over 7%; and in all regions of the world the gap between these rates was tending to widen. The bulk of the population of the developing world is in countries with at least 70% of the people now living in rural areas. In such countries a 4.5% growth in urban jobs would provide work for an increase to the total labor force of 1.3%—approximately one-half of the increase anticipated. The remainder must be accommodated in the rural sector, already characterized by heavy underemployment.

One of the more disturbing facts about the mounting underemployment of labor and the increase in rural poverty is that they have taken place during a period when total income was growing at an unprecedented rate. In aggregate terms, the First Development Decade (1960-1970) appears very successful: the average annual growth in GNP of the developing countries more than met the target of 5% per year. But the distribution of this GNP increase has been so unequal—as between countries, regions, and socio-economic groups—that it has finally created a reaction against growth as the primary development objective, and a demand for greater attention to employment and income distribution.a

As I have already stressed, my view is that development policies must explicitly aim at greater employment and greater equality of income distribution. The lesson of the last decade has been that we cannot simply depend on economic growth alone to solve the problems of employment and income distribution. Fiscal systems cannot be counted upon to redistribute the fruits of that growth in a socially equitable way: tax collection practices are too inadequate, and political pressures are too severe. The only effective solution is to raise the incomes of the poorest groups by increasing the number of productive jobs available to them.

But it is equally true that to frame the issue as a mutually exclusive choice between economic growth and employment is to oversimplify a very complex matter. What is required is a

aA measure of the lack of concern over the problem of income distribution is the fact that virtually no data has been gathered on it. For only 20 developing countries is there any data whatever; in only 7 of these are there even rudimentary time-series; and for none of them is the data comprehensive.
realistic search for measures which will provide satisfactory rates of both job creation and economic growth. We believe that such measures are within reach.

Let me turn now to a consideration of such actions, first in the field of agriculture and then in industry. Later, I shall discuss the requirement for an expansion of exports to provide the foreign exchange necessary to support the advances in agriculture and industry.

VII. AGRICULTURE AND RURAL DEVELOPMENT

Development programs that place the relief of poverty, the elimination of malnutrition, and the provision of employment high among their goals must give prime attention to agriculture. In the great majority of developing nations over half the labor force is engaged in that field. In the poorest countries of the world the proportion is over 80%. As we have seen, this labor force is already disproportionately poor and underemployed, but is nevertheless certain to continue to grow.

It is in the nature of the growth process that the relative importance of agriculture in every economy declines as economic development proceeds. As people grow richer they spend diminishing proportions of their incomes on food, and more on manufactured goods and services. As technology advances, proportionately fewer resources go into producing raw materials, and proportionately more into processing these materials into increasingly sophisticated manufactured goods.

The realization that at a later stage in a given society agriculture will gradually lose its primacy to other sectors does not justify neglecting it at an earlier stage. But this is just what is happening in many cases today. Public investment often favors urban areas; trade, exchange-rate and price policies often discriminate against agriculture. Excessive export taxes and rigid price controls restrict farm earnings, and squeeze the farmer who has to buy manufactured inputs and consumer goods from protected high-cost domestic industries.

Five years ago drought on the Indian subcontinent awakened the world to the precariousness of its food supply. Asian prospects appeared particularly grim. Since then progress in Asian
cereal production has been dramatic enough to justify the term revolution. But this revolution has been primarily in the production of wheat, rice, and maize, and it has been largely confined to irrigated agriculture. So far its impact has been massively felt in only a few countries: principally India, Pakistan, and the Philippines.

The Green Revolution has not solved the long-term world food problems, but it has given us confidence that they can be solved. It has reminded us that once persuaded of the urgency of the task, man's ability to solve technological problems is immense. In the same spirit, we have to see the social and economic problems of development—where mankind's record so far has been less impressive—as challenges rather than as a cause for discouragement.

The need to sustain the momentum of the Green Revolution continues to provide such challenges, both technological and socio-economic. At present, the new technology requires irrigation. But over 75% of India's arable land, and about 50% of Pakistan's are without irrigation. To benefit the majority of farmers, technological research on new varieties suitable for non-irrigated agriculture is essential.

Further agricultural research is needed in all parts of the developing world. Little research is going on for certain important crops—tubers, for example, and high-yielding pulses. Little research is going on for certain important regions—the deep-water rice areas, for example, of the Ganges and Mekong Delta. Developed countries normally spend very much more on agricultural research in relation to the size of the sector than do the developing countries. The United States, Israel, and Australia spend on agricultural research the equivalent of between 2 and 3% of the contribution that agriculture makes to the GNP; Japan and Western Europe spend about 1%. But the developing countries of Asia and Latin America spend only about one-tenth to one-fifth of 1% of agriculture's contribution to the GNP.

Because of the immense importance of this type of research, the Bank has taken a new step, and has joined with FAO and the United Nations Development Program to sponsor a consultative group to mobilize finance in order to continue and
expand the work of existing international research centers, and to establish new ones.

The social and economic challenge is to prevent the benefits of the Green Revolution from being monopolized only by wealthier farmers. So far, the more-advantaged farmers have obtained disproportionate shares of irrigation water, fertilizers, seeds, and credit. Unwise financial policies have sometimes encouraged these farmers to carry out excessive mechanization. Farm machinery has been made available at too cheap a price by allowing equipment to be imported at over-valued exchange rates, and purchased with loans bearing unrealistically low interest rates.

This is not to argue that farm mechanization in countries with rural employment problems is always unwise. Sometimes it may increase employment by multiplying the crop cycles during the year. In itself the Green Revolution should lead to an increase in employment per acre by increasing output, by encouraging double-cropping, and by stimulating the development of ancillary agricultural activities. But this can be offset by excessive mechanization.

The benefits of agricultural progress may also be limited if its effect is that the already more-advantaged large farmers expand at the expense of sharecroppers and small farmers. In India and Pakistan, agricultural incomes are largely exempt from direct taxation, and large farmers have used their windfall profits to enlarge their farms even further. In contrast, the Republic of China imposes a seven-acre limit on farm size in Taiwan, and agricultural development has in consequence been relatively labor-intensive.

What is frequently forgotten is that small farmers often work their holdings more intensively than large farmers, and often achieve a higher output per acre. Research in Colombia has shown that if land, labor, and capital are given prices appropriate to their relative scarcities, farms of less than 25 acres can be economically more efficient than substantially larger farms. Studies in India and Brazil have indicated similar findings.

All this suggests that there are many communities in which the reasonable redistribution of land, currently held in exces-
sively large blocks, to the landless or to small farmers would be desirable not only on grounds of equity, but on grounds of efficiency as well. Mere land redistribution by itself, however, is not likely to lead to more output unless those who receive it are also given the necessary assistance to finance and improve farming techniques. This will require a change in the structure of credit institutions and extension services, which typically serve large farmers.

If the poorer farmers do not benefit from the Green Revolution's increase in output, they cannot increase their own food consumption, and the whole drive towards greater productivity will be diminished by a sluggish market. Conversely, an increased availability of food and income to large segments of the rural population could well be self-reinforcing in boosting labor productivity. It would also provide an opportunity for countries to utilize their unemployed on rural investment in transport, schools, clinics, and irrigation—and without the costs of food imports or inflation. Experience with such programs in the Asian subcontinent and in Tunisia during the 1960s were encouraging, and India has recently begun to blueprint a new program of rural works.

The measures I have outlined here suggest that there need be no necessary economic conflict between the goal of helping the mass of the rural population and other goals of economic development. Land reform and practical assistance for the small farmer will benefit those who can get the highest output from the scarcest factor—land. Realistic prices for productive factors, and for output, will not only help to maximize total output, but will tend to increase employment as well. Rural works will serve both to build up rural infrastructure, and to raise incomes.

Recent projects financed by the Bank have been directed expressly to small farmers and to an integrated approach to rural development. But we have to admit that in this whole area we are still feeling our way. None of us in the Bank or in the development community at large can yet presume that we are experts at designing the most effective institutions for helping small farmers, or that we know enough about the use of labor-intensive methods of construction, or how best to
launch large-scale rural works programs. All these matters manifestly need further study and experimentation.

But the evidence now available does not indicate that greater attention to the poorer agricultural groups must inevitably entail sacrifice of economic growth. Quite the contrary, we are confident that formulas can be found for furthering at one and the same time both healthy rural growth and much more equitable income distribution.

I have argued that the solution to the worst problems of poverty and unemployment must be sought in the countryside. But under the best of circumstances, agricultural employment will not be able to grow fast enough fully to absorb the growing rural labor force. Therefore, a rapid expansion of industrial production will be required.

VIII. A STRATEGY FOR INDUSTRIALIZATION

Postwar industrial expansion in the developing world has been very impressive. In most developing countries manufacturing has been the fastest growing sector, although starting from a very small base.

Manufacturing in the developing world increased at an average rate of 6 to 7% between 1950 and 1970, exceeding the rate of increase in most of the industrial nations of today at a comparable stage of their development. Manufacturing now accounts for 17% of the combined gross domestic product of developing countries, as compared to 12% two decades earlier. Its contribution to employment creation, however, was limited. With annual increases of about 4%, manufacturing employment absorbed less than one-fifth of the approximately 200 million increase in the labor force between 1950 and 1970.

In a very real sense the contribution that manufacturing makes to economic development is understated by a simple calculation of the value of its output, or of the number of jobs it provides. For countries whose economies are dependent on the export of a few primary products, perhaps with poor long-run prospects or fluctuating prices, it contributes an important degree of diversification. Industrialization furthers the training of a skilled labor force; it encourages the emergence of man-
agers and indigenous entrepreneurs; it expands the development of a local capital market; and it tends to promote investment in infrastructure and technical facilities which might not otherwise be economically feasible. In other words, it contributes to modernization in general.

The desirability of expanding the industrial sector has therefore been obvious for many years to the governments of most developing nations. And when starting the process, those with sizable internal markets have naturally begun by producing at home items which they have had to import in the past.\(^a\)

Usually these are simple consumer goods. In order to encourage domestic production, some sort of protective policies against imports—high import duties or quota restrictions—have often been applied.

It is hard to think of any other way in which the industrialization process could get started. But once the process is under way, developing countries are confronted with an important choice which substantially affects the benefits which they can derive from industrialization. This choice is whether to continue to rely on the domestic market as the basis for industrial expansion, or to attempt to break out into foreign markets. And at this point many, if not most, of the developing countries have made the wrong choice: they have continued too far along the path of import substitution.

Experience has shown that though this pattern of industrialization may for some years be conducive to high growth rates of manufacturing output, sooner or later it faces increasing difficulties. In the first place, once imports of any product have been replaced, that industry’s growth is limited to the growth of the domestic market. To maintain industrial momentum requires import substitution in continually new products. Frequently this means moving into products less and less suited to the size of the market and the nature of the economy. Many developing countries—already short of capital, and burdened with high unemployment—have found themselves in the un-

\(^a\)Small countries, and most of the developing countries are small, have restricted possibilities for pursuing an import substitution strategy because of the extremely limited size of domestic markets.
economic position of providing high levels of protection to capital-intensive industries.

There are other difficulties as well. High levels of protection have often made it possible to maintain over-valued exchange rates. This has penalized exports, and, since most capital goods are imported, has kept the price of capital equipment low thereby encouraging the uneconomical use of labor-saving techniques.

These problems can be overcome by an alternative strategy of development which gives greater emphasis to manufacture for export. The industries stimulated by such a program will be those most suited to conditions in developing countries. Many are likely to be relatively labor-intensive, thus contributing to the solution of the employment problem, and production for foreign as well as domestic markets should help insure the benefits of large-scale production.

These advantages are not merely hypothetical. The results in countries which have oriented their manufacturing sectors towards exporting have been more promising than those relying entirely on import substitution. Their industrial growth rates—often as great as 10 to 15%—have been higher, and the expansion of employment has been substantially faster.

Among the most notable successes have been those in Korea and the Republic of China, which switched to exporting early in the industrialization process.

Undoubtedly it is easier to shift to greater exporting before the structure of manufacturing becomes fixed in a distorted high-cost pattern. Recent achievements in Mexico, Brazil, and Yugoslavia, however, suggest that it is possible for countries which have long emphasized import substitution to adjust export incentives to offset protection, and as a result to enjoy a marked increase in manufactured exports.

Policies outside the foreign trade field also are important in determining the pattern of manufacturing development and labor absorption. All too often investment in capital goods in

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*By reorienting its industrial sector from import substitution to exports, Brazil increased its export earnings from manufactured goods from $144 million to $412 million in only four years’ time (1966 to 1970).*
the developing countries has been encouraged by tax concessions and subsidized interest rates, while use of labor has been discouraged by revenue systems based primarily on payroll taxes. Such taxes are extraordinarily high in many countries of Latin America: in one, for example, they amount to 28% of the wage paid. There is no reason why education, pensions, insurance, housing, and the many other public expenditures for which these taxes are used, should not be financed in a way that has a less harmful effect on the volume of employment.

There is no conflict here between employment creation and economic growth. Industrial policies which cause prices to reflect more accurately the scarcity of capital, and the abundance of labor, will lead not only to greater output and a healthier balance of payments, but to increased employment as well.

The suggestion that developing countries base their trade and industrial policies on a clearer recognition of international opportunities and of the relative scarcities of productive factors has been made many times. I myself emphasized it in my address at this meeting two years ago. Yet the subject is often received with a good deal of scepticism. It is worth discussing why.

In the first place, it is sometimes doubted whether an appropriate labor-intensive technology exists in most branches of manufacturing industry. I agree that the choice of technology is often limited, and certainly a good many of the apparently more labor-intensive methods of production are inefficient and obsolete. Nevertheless, there is evidence that in the production of many products there is a genuine prospect for substituting labor for capital. This is particularly true in the transport, handling, and packaging of materials. There are also possibilities for more widespread use of multiple-shift operations.

There are a number of examples where differences in the relative costs of labor and capital have led to new techniques of production. In the case, for instance, of the production of plywood in Korea, what at first appears to be a manufacturing process very similar to that carried out in the United States, turns out, on inspection, to be full of innovative and indigenous variations. In America, mechanical sensors are used to detect defective pieces of timber, and the entire slab is then
discarded. In Japan, defective pieces of timber are located and cut out by hand. In Korea, the defective area—a knothole, for example—is located and patched up by hand.

Admittedly, the empirical knowledge in all these matters is incomplete. That is why the Bank is at present exploring whether there are ways in which it might encourage the development of more labor-intensive technologies. And it is why our research program is examining the possibilities of labor/capital substitution, in order to provide both ourselves and our member countries with a more complete picture of how these issues work out in practice.

An even more critical question to this general line of reasoning is whether if developing countries produce manufactured goods at competitive prices, the tendency of advanced nations to protect their existing industries will block their export. I shall turn to this issue next, both because of its effect on employment and because of its relationship to the availability of the foreign exchange required for the financing of a nation’s total development program.

IX. THE NEED FOR FOREIGN EXCHANGE

The target for the Second Development Decade, adopted by the United Nations General Assembly following our meeting in Copenhagen, calls for an average GNP growth rate of 6% during the 1970s. This acceleration of economic growth, from the 5% rate achieved in the 1960s, will require that imports grow more rapidly than national income. This explains why the U.N. General Assembly calls for an annual increase of approximately 7% in the imports of the developing countries during the Seventies, a rate confirmed by the Bank’s own projections.

Foreign exchange requirements will grow faster than this. Developing countries have had to borrow an increasing proportion of such requirements. The result has been a rapid rise in obligations for the servicing of this debt in the form of amortization and interest. The Bank’s projections indicate that these borrowings will lead to an increase in debt service substantially exceeding the rate of increase of national income. In other words, in order to attain a rate of import growth close to 7%, and meet their debt obligations, developing countries
will require foreign exchange resources to grow by over 7% a year.

Foreign exchange is available from three sources: export earnings, foreign aid, and private capital. Export earnings provide about 75% of the total; foreign aid, 15%; and foreign private capital, 10%. These are averages. Private capital, other than for investment in extractive industries, tends to go disproportionately to the somewhat more-advanced developing countries, and foreign aid is of special importance to the less-advantaged countries.

I have repeatedly stressed the need for increasing foreign aid, and in particular the aid available on concessionary terms. This is essential for the developing countries so that they can both service their debt and supplement their domestic savings. Yet even if the developed nations which have subscribed to the 1% of GNP aid target do meet their goal in full, the fact remains that the major portion of the increase in foreign exchange needed by the developing countries will have to come from increased export earnings and these must grow at a rate in excess of 7% per year, doubling in the present decade.

Let us examine the prospects for accomplishing this formidable task.

X. TRADE OBJECTIVES FOR THE 1970s

The developing world as a whole can achieve this large export expansion only by a very rapid growth in its manufactured exports. There are, of course, some exceptions. Fuel exports are growing at an average rate of 10% a year, and already account for one-third of export earnings. But three-quarters of these earnings go to six countries, containing only about one-fortieth of the population of the developing world.a

The other developing countries obtain about two-thirds of their export earnings from primary commodities, and one-third from manufactures. Most of the primary exports are foodstuffs and agricultural raw materials. These are growing very slowly. For some items the market in the richer countries is not expanding very quickly, and for others, especially foodstuffs, the

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aExcluding mainland China.
problem is aggravated by protectionist policies. Non-fuel mineral and metal exports are growing somewhat faster than agricultural products, but even so the average annual growth in the value of non-fuel primary exports probably will not exceed 3 to 4%.

If the industrialized countries would reduce tariffs and other obstacles to primary imports, this rate of growth could certainly be increased, but not enough to provide the foreign exchange that the developing countries need for rapid economic growth.

The conclusion is clear. If the developing countries are to secure the foreign exchange they need, and achieve fuller employment, they must substantially increase their manufactured exports. It is here that world demand grows most rapidly. And there is a variety of products which these countries can produce at competitive cost: products that generally have either a high labor content, or that utilize domestic materials. The major groups of manufactures which are particularly profitable for the developing countries are listed in the Appendix.

Growth in exports of manufactured goods from the developing countries has already been rapid. They have increased at an annual rate of about 15% during the period 1962-69. They started, however, from such a small base that the share of the manufactured exports of the developing countries remains only 5% of the manufactured imports of the developed nations, and one-third of 1% of their GNP.

If manufactured imports from the less-advantaged nations could continue to grow at 15% until 1980, this would be enough—if aid targets are met—to offset the slow growth of primary exports and to satisfy projected import requirements.

But a 15% rate of growth in manufactured exports will be harder to achieve in the Seventies than it was in the Sixties. To do so, annual exports, which rose from less than $2 billion in 1960 to $7 billion in 1970, will have to quadruple to $28 billion in 1980. Even if this level were to be reached by 1980, the total volume of such exports would still remain a very small part—approximately 7%—of the expected manufactured imports of the advanced countries, and only 1% of their projected GNP.
Although these exports need not all be aimed exclusively at the markets of the richer countries, the principal markets must be provided in the developed nations. The developing countries have justifiable grounds for complaint that they are being treated unfairly in their attempts to expand their manufactured exports to those markets. On the average, tariffs are higher on the kinds of manufactured goods imported from poor countries as compared to imports from rich countries. According to a recent study, tariffs on the two groups of imports average 7 and 12% in the United States, 9 and 14% in the United Kingdom, and 7 and 9% in the European Community.

Even worse than the absolute level of tariffs is their structure. Tariffs rise with the degree of fabrication. Thus, in the European Community cocoa beans imported from non-associated countries bear a 3% duty, while the tariff on processed cocoa products is 18%. In the United States, hides and skins enter duty free, but tariffs of 4 to 5% apply on leather and 8 to 10% on shoes. This margin could well offset the comparative advantages in processing found in many developing countries.

Finally, and perhaps worst of all, non-tariff barriers to trade have proliferated throughout the rich countries in recent years. Restrictions on market access exist in a variety of administrative and fiscal measures, including quotas, subsidies, valuation techniques, and preferential buying arrangements under government procurement. They too are more severe for developing countries.

An important element of the U.N. development strategy for the Seventies is the proposal that the more-developed countries grant preferential treatment to the manufactured exports of developing countries. Representatives of 18 industrialized countries have undertaken to try to implement this proposal. The European Community, the Nordic countries, and Japan have already adopted the plan, with various limitations. However, even if all 18 countries carry out their part, these measures will enable the developing nations to increase their trade by only $1 billion a year. If the remaining $20 billion of additional

Over a three- to five-year-period, approximately $400 million annually would be represented by additional imports into the European Economic Community; $400 million by additional imports into the United States; and $200 million by additional imports into other developed countries.
exports per year is to be achieved during the Seventies, the developing countries must radically change their industrial policy from import substitution to export-oriented manufacturing, and the developed countries must provide the necessary markets by greater efforts to remove discriminatory trade restrictions.

We must face the fact that expanding the volume of manufactured imports from the poor countries into the rich countries, while benefiting the majority of the citizens of the rich countries, will involve injuries to certain sectors of their economies. These injuries will be strongly—and rightly—resisted by the individuals and firms affected unless appropriate adjustment assistance policies and procedures are introduced which keep fully in step with the reduction of tariff and non-tariff barriers. Few, if any, developed countries now possess such policies and procedures.

To urge both the more-advanced countries and the less-developed countries to expand their trade with one another—the former by more freely admitting labor-intensive imports, and the latter by not resorting to excessive import substitution—is not to urge that one set of countries do the other set of countries a favor. I am simply recommending that each recognize where their true mutual interests lie.

XI. SUMMARY AND CONCLUSIONS

Let me now summarize and conclude the central case I have put before you:

- Economic development in the second half of this century is increasingly dominated by the consequences of rapid population growth. Mortality has fallen faster than fertility, and the effects of this disequilibrium require major changes in development policy if we are to achieve significant improvements in human welfare.

- In the longer run, the most important issue is effective population planning. Its goal must be to stabilize the planet’s population several decades earlier—and several billions lower—than would otherwise occur.

- Since reducing birth rates to replacement levels will
necessarily require decades, we must reshape development programs now in order to take account of what is certain to be a continuing rapid growth of population to levels heretofore considered unlikely. Two of the consequences of such growth—widespread malnutrition and chronic and growing unemployment—require particular attention.

- It is clear that malnutrition prevents realization of the full genetic potential of hundreds of millions of persons in the developing world and retards both economic and social development. But research has pointed to feasible means to make immediate progress on this neglected problem.
  
- The problems of unemployment and underemployment are already severe and will become worse as the rate of growth of the labor force accelerates in the two or three decades ahead.

- More equitable income distribution is absolutely imperative if the development process is to proceed in any meaningful manner. Policies whose effect is to favor the rich at the expense of the poor are not only manifestly unjust, but in the end are economically self-defeating. They push frustrations to the point of violence, and turn economic advance into a costly collapse of social stability.

- Poverty, inequality, and unemployment cannot be effectively dealt with by expanding the urban sector alone, but must be attacked directly in the rural areas through measures which will raise the incomes of the poorer farmers and the landless.

- To achieve accelerated economic growth, an expanding flow of foreign aid remains critically important. At best, however, it will be insufficient to meet the total foreign exchange requirements of the developing countries. Hence there must be a dramatic increase in their manufactured exports. This requires policy changes in the rich and poor countries alike: changes which will necessitate difficult economic adjustments and require astute political leadership.
The Bank Group's role in all of this is clear. Our mandate is to assist. That assistance must be both in the form of the policy advice leading to sound social and economic development programs—advice conforming to the principles I have outlined this morning—and an augmented capacity to provide financial support for those programs.

In the end, development is like life itself: complex. The danger is to oversimplify. Development has for too long been expressed simply in terms of growth of output. There is now emerging the awareness that the availability of work, the distribution of income, and the quality of life are equally important measures of development.

Although this is gradually being accepted in theory, it has yet to be translated into practice by either the developing countries or the suppliers of external capital.

It is toward this broader concept of the entire development process that the World Bank is moving. If we are to meet our mandate to our member countries—and indeed to man himself—I believe we must move even faster.

With your support, that is precisely what we propose to do.
Major Groups of Manufactured Goods Particularly Profitable for Developing Countries

(a) Processed primary products: These involve items such as vegetable oils, foodstuffs, plywood and veneer, pulp and paper products, and fabricated metal. As these products are cheaper to transport in a processed form, rather than in raw, unprocessed bulk, the countries processing them enjoy an additional advantage vis-à-vis the user markets. These goods presently account for roughly two-fifths of the manufactured exports of the developing countries.

(b) Traditional labor-intensive goods: These comprise garments, textiles, footwear, and simple engineering products. Their low labor costs make the developing countries competitive in these commodities, which currently account for another two-fifths of their manufactured exports.

(c) Newer labor-intensive industrial products: Goods such as plastic and wooden items, rattan furniture, glassware, pottery, and wigs have made their appearance in recent years. While it is difficult to distinguish them from other categories, they appear to account for about one-tenth of the total of manufactured exports.

(d) Electronic and mechanical items: A few developing countries are beginning to export a wide range of more complex products of labor-intensive manufactures, chiefly parts and components for assembly elsewhere. Exports of radios, other electrical equipment, and machine tools have also been rising. These products may have reached approximately one-tenth of the manufactured exports of developing countries, and their share is likely to increase.
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