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Washington, D.C.

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Hollis B. Cheney papers - McNamara discussions 1977 (Jan-July)



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Hollis B. Cheney Papers - McNamara discussions / notebooks / memoranda - 1977  
(January - July)

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE July 29, 1977

FROM: Hollis B. Chenery *HBC*

SUBJECT: Price Prospects for Major Primary Commodities

1. You had requested that the price projections in "Price Prospects for Major Primary Commodities (Report No. 814/77 of June 1977) be compared with those in the last year's edition (Report No. 814/76 of June 1976). Comparisons of past to current commodity price forecasts for 1980 are included on a regular basis in the World Economic and Social Indicators (see issue of July 22, p. 9).

2. Comparisons for both 1980 and 1985 are set out below. For the majority of commodities there are no significant differences. Notable exceptions are: (a) tropical beverages, whose prices--particularly in 1980--are now forecast to be much higher than was expected last year; (b) sugar, beef, sisal, wool, zinc and iron ore, whose long-term price prospects are now considered to be less favorable; and (c) fertilizers, whose prices in the shorter term are expected to be lower than anticipated last year because of continued excess capacity in this industry.

EGrilli/RJCheetham:nmf

Attachment

cc: Messrs. Cheetham  
Grilli

*File  
(see below)*

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
through: Hollis B. Chenery *HBC*  
FROM: Mahbub ul Haq, Director, PPR *MUH*

DATE: July 28, 1977

SUBJECT: Note on Official Development Assistance

1. The attached note on ODA (P39G77) was prepared as part of the DPS policy work program for CY77. It analyzes the main trends in the volume, origin, allocation, terms, and quality of development assistance from DAC and non-DAC donors. In bringing together various aspects of the transfer of resources, it serves as a general briefing note for your information.
2. The paper documents the near-stagnation in the real volume of DAC's ODA and the large increase but uneven distribution of OPEC aid in recent years. Although some progress has been made in improving the allocation of DAC and non-DAC aid, the paper emphasizes that foreign policy considerations will continue to impede an economically rational distribution of resource transfers.
3. Drafts of this paper and the statistical annexes have served as a source of information for the Secretariat of the Development Committee, which recently submitted its paper "Distribution, Terms and Quality of Official Development Assistance" to the Working Group on Development Finance and Policy.
4. If you agree, we would propose to update this report in July 1978.

Attachment *see Policy File*

ROUTING SLIP		DATE: July 25, 1977
NAME		ROOM NO.
Mr. Cheetham		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS:		
<p>Re attached note from Mr. McNamara which reads: "Please have prepared a 1 page tabulation comparing price projections for the major commodities in this Report with the previous Report."</p> <p>Perhaps your cover note on the Social Indicators could refer to the page where this is done.</p>		
FROM:	ROOM NO.:	EXTENSION:
H. B. Chenery		

FOR OFFICIAL USE ONLY 7/25 To Dir. Planning

DECLASSIFIED  
JAN 11 2017  
WBG ARCHIVES

Please find prepared a 1 page tabulation comparing price projections for the  
SecM77-599

FROM: The Secretary

July 22, 1977

major commodities in  
the Report with the  
previous Report.

L. Mead

PRICE PROSPECTS FOR MAJOR PRIMARY COMMODITIES

Attached for information is a report entitled "Price Prospects for Major Primary Commodities" dated June 1977 (Report No. 814/77) prepared in the Economic Analysis & Projections Department.

Price  
Prospects Department

Distribution:

- Executive Directors and Alternates
- President
- Senior Vice President, Operations
- President's Council
- Vice Presidents, IFC
- Directors and Department Heads, Bank and IFC

Mr. Robert S. McNamara

July 25, 1977

Hollis B. Chenery

Apparent Inconsistencies in the Prospects Paper

1. You inquired about some apparent inconsistencies among data within the Prospects Paper, and between these data and those in the draft of your forthcoming Annual Speech. Re-examination of the data has disclosed that some of the information in Table II.1 of Prospects (page 5) is not consistent with the rest of the Paper. This table is based on material contained in the Morawetz Paper, "Twenty-Five Years of Economic Development: 1950-1975", which was prepared several months ago and used data that have since been revised. The data used in Chart 2.1 are correct and these are reported in the Annex Tables of the Prospects Paper. Contrary to the reference on page 7, growth in per capita GNP of South Asia was slightly positive during 1970-75. We will provide you later today with a new version of Table 2.1, together with corrections to the text. We are also rechecking the material in the Speech to eliminate any inconsistencies.

2. You also inquired about the population growth rates for low income countries reported in Table 8 of the memorandum about "Prospects Sensitivities" of July 19. We have used the medium variant of the UN population growth projections throughout the Prospects work. The projected rise in the average annual increase in population to 2.6% in 1978-85 is not inconsistent with the view in your speech that the population growth rate for this group of countries will decline by the year 2000. Fertility rates have already begun to decline, but in the near future the changing age structure, in particular the increasing proportion of women of child-bearing age, would bring about a temporary increase in the overall population growth rate.

RCheetham:nmf

cc: Messrs. Cheetham  
Haq

Activity: EP/R, EC/D <sup>JV</sup> <sup>DA</sup>

OFFICE MEMORANDUM

File - Urban

TO: Mr. Robert S. McNamara

(no comment)

DATE: July 15, 1977

FROM: Hollis Chenery HRC

SUBJECT: Spatial Aspects of Development

The attached paper is a progress report on the treatment of location and regional development in Bank research, policy and economic work. It has been drafted in response to your request of April 14, 1977, that the DPS and CPS prepare a joint statement regarding possible research-cum-policy work in this area.

The attached progress report which was prepared by the Economics Department and cleared with Urban Projects Department and Agricultural and Rural Development Department, discusses the Bank's current work on spatial aspects of development, and reviews some work being planned in the DPS which is relevant to the subject.

Attachment.

cc: Mr. Baum  
Mr. Jaycox  
Mr. Yudelman  
Regional Chief Economists  
DPS Directors

JVoorhoeve/DAvramovic:crs



THE TREATMENT OF LOCATION AND REGIONAL DEVELOPMENT  
IN BANK RESEARCH AND OPERATIONAL WORK

INTRODUCTION

1. This note consists of three sections. The first section reviews the Bank ongoing and planned research work on the issues of location and regional development. The second section discusses briefly the importance of space for development policy in general. The third section comments on the element of space in the Bank's operational work.

I. BANK RESEARCH

2. By and large, the Bank has proceeded cautiously in treating spatial considerations as a major objective in research projects. However, a number of research projects incorporate space as an important aspect. Moreover, a number of research projects are in the planning stage that are of relevance in this context. Both categories of research are briefly summarized below. The issue of decentralization of economic activity, relatively neglected in the past, is now playing a more prominent role in the work program of the Economics Department.

A. Completed and Ongoing Research

3. A substantial proportion of the research efforts focusing on agricultural and industrial sector analysis have incorporated the spatial element by specifying the sector in regional terms, and by taking transport costs into account. Examples of such research projects are the multi-level planning studies on Mexico and Ivory Coast, the agricultural sector models of Portugal and Brazil, as well as the investment planning studies for major industrial sub-sectors such as fertilizers, pulp and paper, and steel. It is probably fair to state at this time that the research effort has produced the analytic tools that have a proven capability to give adequate attention to space in the formulation of a sector-wide investment program in agriculture as well as in those industrial sub-sectors that have so far been most important in Bank lending. At the same time, it should be noted that their widespread use would require expanded manpower budgets in operating departments.

4. Another area of concentration in the research program with spatial aspects is that focusing on transport sector planning, in particular several studies of feeder roads and one on urban traffic (Singapore). The feeder road studies have been of considerable benefit in transport project design and appraisal.

5. Finally, a number of studies with important spatial concerns focused on migration, labor markets, public urban services, as well as on the regional impact of rural development programs. Annex I provides a list of completed and ongoing Bank research projects dealing with spatial issues.

B. Recent Starts and Planned Studies

6. Two studies are being planned that focus on the regional dispersion of economic activity within given countries, and on the policies that may have an impact on this distribution. Preliminary work has been done on both.

- (a) One study will analyze the differences in costs of providing urban services in cities of different characteristics as a basis for allocating public investment between sectors and regions, within a social cost-benefit framework.
- (b) Another study is being formulated which will deal with incentive systems that can influence private sector investment decisions in line with regional development objectives.

7. The studies listed in para. 6 are expected to lead to a major research effort to produce and test planning tools that can assist countries in the design and implementation of a comprehensive spatial development strategy, and improve Bank economic work in this regard. The first country study of this nature is likely to focus on Colombia and will be carried out jointly with the Colombian government which has asked the Bank for assistance in this regard. Other potential candidates are Brazil, Malaysia and Turkey.

8. The possible Colombian regional study (para. 7) would have the additional advantage of providing the framework for a detailed analysis of a single city--Bogota--which is in an advanced stage of preparation. The main objective of this city study is to develop tools that can be used to estimate the spatial and economic impact of policy interventions in the urban areas. The study is expected to result in improved project development, project appraisal and policy making.

9. Following the recent Issues Paper on Rural Non-farm Employment, and the Policy Paper on Small Scale Enterprises (SSE) Development, a research project is being prepared having two broad objectives: to provide a quantitative analysis of the determinants of the level and growth of output, incomes and employment in SSEs; and to evaluate in selected countries the institutional, economic and financial aspects of policies to promote the growth of SSEs. This research will of necessity need to examine the spatial aspects of SSE development particularly since most SSEs in LDCs appear to serve local markets. In African and most Asian countries (including India), the majority of SSEs are in the rural area and towns, and it will be necessary to examine the role of agriculture in both urban and rural industrialization. Industrial and urban decentralization policies are also likely to have a considerable bearing on the location and thus the spatial development of SSEs, and will also be a focus of attention in the research.

10. So far lacking is a regional development research effort focused on predominantly rural areas. In particular, a study to identify the inter-relationships between rural areas and market towns that service them, and to provide a methodology for quantification of these linkages, has important potential for future use in the ongoing lending program in agriculture and rural development. The planned SSE studies (para. 9) should partly fill this gap. But a possible major data source for such a regional development research effort would be the monitoring and evaluation system being developed for a wide range of agricultural and rural development projects. For FY77 alone, some US\$22 million has been allocated for monitoring and evaluation components in 49 agricultural and rural development projects. However, it will take several years before the required data become available.

## II. THE IMPORTANCE OF SPACE FOR DEVELOPMENT POLICY

11. Most of the theoretical and applied work on economic development has been done without explicit attention to the element of space. The focus of analysis has traditionally been that of the country as a whole, or broad economic sectors within a country, or projects within sectors; even in the study of relations among countries, the element of space is given scant attention. To the extent concern with spatial organization or locational considerations was inevitable, it was essentially left to practitioners of other disciplines, such as regional scientists, urban and land use planners, and in the case of project preparation, engineers, to take such aspects into account.

12. Nevertheless, many development problems have locational aspects that are important. The productivity of labor and capital is not equal at all locations within a country, and there are transportation costs, the incidence of which is a function of the size of the country and the degree of dispersion of people and economic activities. So the level of development and the distribution of income are a function of the use of the available space. The formulation of investment projects is greatly improved if it is carried out in the framework of a regionally specified sector-wide investment analysis. A growing preoccupation with income differentials within an economy necessitates analysis of the impact of policies and investment programs across target groups that are often spatially identified (e.g., rural versus urban). In turn, it is increasingly realized that the physical lay-out of a city, and the efficiency with which the city overcomes the distance barrier, are important factors determining income differentials within the urban context.

13. Many LDC governments are deeply concerned with problems that have spatial aspects. The development of relatively backward areas within a country (or city), and the deconcentration of economic growth from over-populated metropolitan areas and regions to other cities and regions, are examples of common concern to many countries, including some of the industrialized countries. Similarly, growing emphasis is being placed on intra-urban problems with locational characteristics.

### III. THE ELEMENT OF SPACE IN THE BANK'S OPERATIONAL WORK

14. The philosophy underlying the lending program of the Bank in its early years reflected a perception of the economic development problem which placed great emphasis on the importance of adequate infrastructure. In fact, the argument was often made that once adequate infrastructure was in place, economic development through essentially private initiative was soon to follow. In consequence, the Bank's lending program was heavily oriented toward infrastructural investment, most of which had something to do with overcoming the constraints imposed by space: roads, railways, ports, as well as telecommunications. However, the economic implications of space were rarely explicitly considered in project analysis.

15. As experience grew, the perception of the development problems deepened, and it became clear that adequate infrastructure is a necessary but not sufficient condition for widespread economic growth. Over time, therefore, the preoccupation with infrastructure has gradually decreased, and a much broader lending program has emerged. Along with the expanded range of activities it has been realized that spatial implications of projects and policies cannot be ignored, and as a consequence concern with the spatial element is beginning to pervade the work of the Bank.

#### A. Country Economic Reports

16. In country economic work, the Bank has recently begun to respond to the need for explicit analysis of regional problems in some of its economic reports, and by conducting urban and regional studies in selected countries, e.g., Iran, Ivory Coast, Mexico, Zaire, Zambia, Pakistan, the Philippines, the Sahelian countries, Thailand (see Annex II for a list of selected Bank reports). Due to the lack of appropriate analytic tools and incomplete data sets, the early studies were largely descriptive and qualitative, rather than providing a comprehensive quantitative framework for regional policy. A certain amount of progress has been made in this respect, e.g., in two recent efforts (a large urban sector review of Korea, and a spatial analysis of Peru for the Basic Economic Report). It is expected that future country and sector economic missions will continue and expand this work and will increasingly benefit from ongoing and planned Bank research.

#### B. Projects

17. In the Bank's project work, attention to locational considerations has been inevitable. This is most obvious in the case of transportation and area-based agricultural and rural development projects. Development potential of the region(s) being served has been taken into account in an increasingly comprehensive manner in the appraisal of trunk and feeder roads, aviation projects, as well as railway projects. In agricultural and rural development projects, regional planning is an important concern in some settlement projects; regional agricultural potentials, together with the siting of complementary facilities such as marketing and distribution supply, advisory and administrative services, feeder road investments, etc., are taken into account in the design of area based projects. A number of rural development projects have

focused on the comprehensive development of backward low income rural areas through integrated projects. However, in more general terms, instances where attention is given to spatial aspects in project design and appraisal are currently greatly outweighed by areas in which spatial considerations are neglected altogether. An example is the Bank's strong preference for national power authorities, despite the tendency toward increased centralization of economic activities such preference produces.

18. There are several areas in the Bank's project work where spatial analysis is now recognized as increasingly important. In industrial sector work, increasing attention is being given to the sectoral implications of an individual project, taking the element of space explicitly into account as a basis for the analysis of the implications of alternative locations for plant investments. In urban sector work, considerable importance is attached to the spatial linkages among housing, transportation and jobs in the siting of particular projects; however, given our lack of understanding of these interdependencies, project decisions in the urban context have so far relied on informed judgement rather than comprehensive analysis.

#### GENERAL

19. In conclusion, the spatial aspects of development are receiving increasing attention in the Bank's economic reports and its operational work. A number of planned research projects dwell on the locational and regional factors in economic development. While the work program on spatial aspects is not undergoing a substantial expansion, because of the limitations on staff and research resources, it is recommended that DPS and CPS proceed with the currently planned studies in order to improve our understanding and policies in this area.

July 15, 1977  
Economics Department

LOCATION AND REGIONAL DEVELOPMENT:

Bank Research Projects and Reports

Ref. No.

- 670-04 Multi-Level Planning: Case Studies in Ivory Coast
- 670-13 Evaluation of Alternative Methods for Specifying Agricultural Sector Development Strategies: Portugal and Brazil
- 670-18 Rural Development in Africa
- 670-24 Programming in the Manufacturing Sector
- 670-29 Yemen Arab Republic Feeder Road Study
- 670-71 Ethiopia Feeder Road Study
- 670-73 Rural Development in Northeast Brazil
- 670-75 Rural and Urban Public Works
- 670-97 Urban and Regional Subsystem in Peninsular Malaysia
- 670-98 Urban Land Use Policies: Taxation and Control
- 671-14 Madagascar Feeder Road
- 671-17 The Analysis of Change in Rural Communities
- 671-18 Pricing and Financing of Urban Public Services: Water Supply and Sewerage
- 671-20 Urban Traffic Restraint (Singapore)
- 671-30 Structure of Rural Employment, Income, and Labor Markets
- 671-31 A Comparative Analysis of Rural-Urban Labor Market Interactions
- 671-37 Analyzing the Effects of Urban Housing Policies in Developing Countries
- 671-44 Agricultural Innovation and Rural Development
- 671-45 Programming and Designing Investments: Indus Basin
- 671-47 Strategic Planning to Accommodate Rapid Growth in LDC Cities

URBANIZATION, SPATIAL, REGIONAL AND RURAL DEVELOPMENT

Bank Reports

General

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- IBRD, The Assault on World Poverty -- Problems of Rural Development, Education and Health, 1975.
- Beier, et. al., The Task Ahead for the Cities of the Developing Countries, IBRD, Working Paper No. 209, July 1975.
- Yap, L., Internal Migration in Less Developed Countries: A Survey of the Literature, IBRD, Working Paper No. 215, September 1975.
- IBRD, Rural Public Works and the Bank: Background Analysis, March 24, 1976.
- IBRD, Notes on Urban Related Country Economic Work, June 11, 1976.
- IBRD, The World Bank and the Settlement of Agricultural Lands: An Issues Paper, IBRD, Economics and Resources Division, Agriculture and Rural Development Department, December 28, 1976.
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- IBRD, Development Issues in Rural Non-Farm Employment, IBRD, Report No. 1577, April 25, 1977.

East Africa

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West Africa

- IBRD, Report No. 1147-IVC 1976, Ivory Coast Basic Mission Report, Annex VI, "The Urban Sector".
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- Cohen, et. al, "Urban Growth and Economic Development in the Sahel: Demographic Projections and Operational Strategy", August 1976 (Draft).

East Asia and Pacific

- IBRD, Report No. 502-IND 1974, A Framework for Regional Planning In Indonesia.
- IBRD, JAVA: Agro-Industrial Centers for Rural Development, April 1976.
- IBRD, Report No. 574-TH, A Study of Public Finances in Thailand, Volume IV, Local Government Administration and Finance in Thailand, October 31, 1974.
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- Cheetham, R.J., and Hawkins, E.K., The Philippines: Priorities and Prospects for Development, IBRD, 1976.
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South Asia

- IBRD, Report No. 1987-PAK. Pakistan Urban Sector Survey. (Green Cover)

Europe, Middle East and North Africa

- IBRD/PBO. 1975, The Development of Kermanshahan. (Special Report)
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IBRD, Report No. 1449-ME, January 31, 1977, Urban-Development in Mexico.

Thomas, V., "The Measurement of Poverty Across Space: The Case of Peru", June 3, 1977 (Draft).

# OFFICE MEMORANDUM

*Handwritten: Noted*

*Handwritten notes:*  
July 1, 1977  
Ed for 4/25/77  
all tables for  
32557  
with 77 Prospects  
Send to Lester  
Prof. for WIDE  
mountain city  
Refined quality  
Jung

TO: Mr. Robert S. McNamara  
FROM: Hollis B. Chenery *HBC*  
SUBJECT: "Prospects 1977"

DATE July 1, 1977

1. I attach a revised version of Prospects for Developing Countries: 1978-1985. You have already seen the principal conclusions in the preparatory material for your speech to the Governors, and I will not repeat them.

2. We indicated in the debt study that the short-term outlook for developing countries is favorable, and subsequent data have strengthened this view. The IMF's current draft of the World Economic Outlook suggests that the non-oil developing countries' current account deficit will be about \$27 billion in 1977, slightly below the \$28 billion dollar deficit of 1976. The current Prospects projection is \$26 billion for our non-oil developing countries group. (We will be reporting on current trends in greater detail in our July "Survey of Current Economic Trends".)

3. These current trends are reflected in a marginal upward revision of growth rates. The developing countries (including capital deficit oil exporters) are now expected to grow at 6.4% per annum from 1977 to 1985, compared to 6.1% per annum expected a year ago. For non-oil exporting countries the projected growth is 6.2%, compared to 6.0% projected a year ago.

*Handwritten notes:*  
Jung  
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comp 7/7/77  
77 Prospects  
Jung  
Jung  
Jung  
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*Handwritten: Revised*

4. I would draw your attention to the fact that we have kept real oil prices constant to 1985. This leads to a current account surplus of \$28.9 billion for capital surplus OPEC countries and \$55.2 billion for OECD countries by 1985. I consider this unlikely. Oil prices are likely to start rising again in the early 1980s when the impact of North Sea oil has been exhausted. This is likely to produce a zero or negative balance for OECD countries and a much higher surplus for the capital surplus OPEC countries.

*Handwritten:*  
P. 15  
1977  
1977

5. The projections do not take account of fluctuations about the trend. We are preparing a sensitivity analysis to analyze the effects of somewhat lower and higher export, capital and OECD growth rates, and we will present the findings in a separate memorandum.

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6. We have reduced the number of annex tables in the process of slimming down the paper. However, all the data prepared last year is available.

7. These projections are base case estimates that do not incorporate major policy initiatives by either developing or developed countries, although some of the possible initiatives are indicated in the text. They indicate that with current growth trends a major impact on poverty is not possible. The paper is thus intended to be the starting point for next year's analysis of development alternatives.

8. I suggest that the paper now go to the PRC for discussion before being sent to the Board.

Attachment

HHughes/HBChenery:nf

cc: Mrs. Hughes

*Nat*

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE July 1, 1977

FROM: Hollis B. Chenery *HBC*SUBJECT: OECD: INTERFUTURES

1. You had asked me about the scope of the work being done by the INTERFUTURES research team under the auspices of the OECD. The Group was set up by the Council of the OECD in January 1976 for the purpose of analyzing the long-term development prospects of the advanced industrial countries. The work is intended to help the governments of the OECD member countries to formulate long-term policy options for their own development, as well as for their trade and cooperative relations with developing countries.

2. The study stems from a desire to place shorter-term interests of both industrial and developing countries within a longer-term context. At the time it was thought that some of the difficulties being encountered in the North-South dialogue were due to the overly narrow and short-term view of the future of relations between these two groups of countries.

3. The work of the research team has been divided into two main areas:

- (i) Assembling information on the main long-run determinants of relations between industrialized and developing countries. This includes work on international trade, agricultural and food production, industrial development and capital flows.
- (ii) Systematic analysis of how the developing countries themselves view their long-term prospects and the outlook for their relations with the industrialized countries. This entails working closely with experts from developing countries to formulate possible strategies for these countries.

4. The INTERFUTURES project is expected to terminate at the end of 1978, although it is running behind schedule at present. The Projections Department has been following the progress of this research effort since its inception last year. Our involvement to date has included provision of technical and analytical support and an exchange of data. We have also had informal exchanges of views on such matters as

prospects for primary commodities, trade and so on. The findings of the INTERFUTURES project will be of particular value for our own work on Development Progress and Prospects. We will continue to maintain a close working relationship with the project staff and keep you informed as results of their work become available.

RCheetham:nff

cc: Mr. Cheetham  
Mrs. Sachse

Grant to Foundation

4-13 To Dr. Chenevix  
H. H. H. H. H. H.  
"Interfutures"  
doing + how  
doesn't relate  
our "World  
Development Report  
1980"

38. Organisation for Economic Co-operation and Development (Paris)(20 months)  
-- \$75,000

This grant will provide partial support for the study of long-term growth patterns and development strategies in developing countries to be carried out by OECD's "interfutures" program. "Interfutures" is a concise description of a major research project entitled "Future development of advanced industrial societies in harmony with that of developing countries" established by OECD in December 1975 with funding over a three-year period from 14 of its member governments. Foundation grant funds will be used primarily to enable a greater participation in the project by consultants from the less-developed countries.

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 1, 1977

FROM: Hollis B. Chenery *HBC*

SUBJECT: Trade Liberalization and Export Promotion

I attach a revised and edited version of the "Trade Liberalization and Export Promotion" paper for Board distribution.

Attachment

GOhlin:nff

cc: Mrs. Hughes  
Mr. Ohlin

*7/5*  
*Approved for*  
*distribution to*  
*the Board*  
*RHS*

*Record developed to HBC*  
*6*  
*7/6*

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara  
FROM: Hollis B. Chenery *HBC*  
SUBJECT: Board Paper on Price Forecasts

DATE June 27, 1977

I attach the annual Board Paper on Price Prospects for Major Primary Commodities. The commodity coverage in this paper remains the same as in last year's paper (Report No. 814/76, June 1976).

The main conclusions of the paper are that prices, in constant terms, are expected to improve steadily for food products (other than beverages), tropical timber and metals and minerals. Prices of coffee, tea and cocoa are expected to fall from their present high levels. The secular decline in real prices of jute and sisal is expected to continue because of the pressure of synthetics.

The forecasts were reviewed at inter-Departmental meetings attended by CPS, Regional and IFC staff members and represent a Bankwide consensus.

The contents of this paper are consistent with those of the Prospects Paper.

Your clearance is requested.

Attachment

SSingh:nff

cc: Messrs. Knapp  
Karaosmanoglu  
Mrs. Hughes

*6/27*  
*lps*  
*Approved*  
*L...*



Mr. Robert S. McNamara

June 16, 1977

Hollis B. Chenery

"Assessment of Development Progress and Prospects"

This memorandum suggests ways of carrying out the study proposed to the Board for 1978 as a first step toward a continuing review and discussion of development issues. It raises questions that should be discussed at this stage but does not attempt a detailed outline of the product.

OBJECTIVES

The stated purposes of this initiative are to produce a policy document each year and to establish a process of discussion and governmental consultation on development issues that does not now exist. Although the product is necessary to establish the process, the process may eventually become equally important if experience with similar initiatives is any guide. If it does not, its impact is likely to be relatively limited.

Implicit in the objective of establishing an ongoing review process is the need to develop a staff capability within the Bank to produce the basic documentation. The following proposals are based on the premise stated in the last paragraph of your Board memorandum that we are starting a process now that we intend to improve on over the coming years.

SCOPE OF THE ANALYSIS

The central feature of the proposal is to provide an analytical framework against which specific policies can be considered. This requires three types of analysis:

- an international framework, covering LDC exports, terms of trade, capital flows, debt, etc.
- a national framework, based on representative countries or groups of countries, to bring out the priorities and interrelations among internal policies in varying situations.
- policy analysis of the type of topics indicated in your Board memorandum.

The main problem in designing studies for the Board and the Development Committee is to reconcile the need to be reasonably comprehensive at the international level, while being selective in choosing policy topics. To resolve this issue, I suggest that we design a two-year work program within which primary emphasis would be given to one related set of topics in the first year and to another set in the second year. The international framework would be updated every year, but the choice of countries for detailed analysis would vary with the policy topics. The following outline illustrates one way of covering the suggested topics over a two-year period, combined with sufficient country analysis to support the policy conclusions.

#### A. International Framework

The scope of the international framework is indicated by the current draft of the Prospects paper. It would include ten-year projections for groups of developing countries, emphasizing the effects of actions by the OECD and capital surplus OPEC countries on LDC prospects.

#### B. National Framework

I propose to retain the basic division of developing countries between poor and middle income because it is more illuminating to policy discussion than any other. Within this dichotomy, we would distinguish--as at present--Latin America, the Mediterranean and the Far Eastern countries among the middle, and South Asia and Africa among the poor.

Although projections should be made for both groups each year, it would be useful to take up the poor countries and the policy topics primarily related to them the first year and then the middle group and the next set of policy areas in the second year. Much of the raw material for long-term analysis at the country level exists in the basic economic reports already completed. In the future, coverage can be improved by joint planning.

#### C. Policy Analysis

The topics you have suggested for policy analysis include sectoral issues (food, mineral development, industry), national issues (national growth, rural and urban poverty alleviation, population), and the international issues indicated above. There should be some policy focus of each type each year. Focussing on the issues of major interest for the poor countries the first year would permit the following two-year schedule:

	<u>1978</u>	<u>1979</u>
<u>Production:</u>	Agriculture, Minerals and Energy	Industry
<u>Distribution:</u>	Rural Poverty	Urban Poverty
<u>Population:</u>	South Asia, Africa	Remainder
<u>International:</u>	ODA, Manufactured Exports	Private Investment, Debt

While a number of alternative ways of organizing the policy work can be envisioned, the important point is not to overload the agenda for the first year in terms of the amount of material and the possibilities for significant discussion. Even on this basis the main focus should be on three or four topics each year.

#### ORGANIZATION

To organize this study, it is necessary to put together a small working group that can devote a high proportion of its time to it and also to start integrating the analysis into the work programs of the departments concerned. While the work should be centered in the Development Policy Staff, it should involve regional economists and relevant parts of the CPS (agriculture, minerals, population). These requirements suggest a task force approach to start with, which would be reviewed in a year's time and restructured in a more permanent form. For the first year, however, staff members would be assigned to the Task Force as they would to a basic economic mission or other formal Bank assignment.

The following organizational arrangements are proposed:

1. A steering group to design the study and review its implementation. It should be composed of 5-6 senior members who are competent to provide both intellectual leadership and administrative control (e.g. Chenery, Stern, Hughes, van der Tak, Haq).
2. A core analytical staff of 8-10 who would spend at least 75% of their time over the next year on this study. Its director should be the most competent senior economist in the Bank who can be spared for this work. Some possibilities are Cheetham (Assistant Director, Projections Department); Stoutjesdijk (Senior Adviser, Economics Department); Srinivasan (Special Adviser, DRC); and Waide (Chief Economist, South Asia). My choice would be Cheetham on the

basis of his demonstrated organizational and analytical ability. I would hope to involve Srinivasan in the study, since he is one of the best economists in the Bank. The other members of the core group would come mainly from the Development Economics Department, Projections Department and Policy Planning Department, with 1 or 2 from CPS, depending on the choice of topics.

3. The projections unit of the Economic Projections Department has been making global projections for the past four years and does not need much reorientation. It would, however, need additional research assistants, as indicated in the attached memorandum from Helen Hughes.

4. Studies of special topics on a country basis could be drawn from the Bank's ongoing country economic work, providing they are incorporated into the work programs of the Regions. I would suggest that one person, such as Peter Wright, be given responsibility for planning this work with the Regional Chief Economists.

5. Special studies will need to be commissioned on topics that cannot be covered by the core staff. These would come partly from Bank specialists and partly from consultants, for which a budget would need to be established.

Although these proposals would require 10-12 professional man years of effort (at a full cost of perhaps a million dollars), I have assumed that most of this would be done with existing staff by a revision of departmental priorities. An accurate costing of the additional budget needed can be done once we have some agreement on the topics to be covered in the first two years.

#### LIAISON AND PRESENTATION

There have been many attempts and few successes in the type of initiative we are proposing to the Board. The U.N. provides a number of examples of ineffective world plans, even where the underlying analytical work has been quite competent (as in the Leontief study). The Alliance for Progress, which was launched by the U.S. in 1961 with great fanfare, did some very good assessments of national plans but had relatively little impact on policy because of lack of support from the main governments concerned. The D.A.C. probably comes as close to a successful operation as any, despite its limited scope, because it consults with expert groups before its proposals are given to ministers.

Although many of the questions in this area can be dealt with later, I suggest that we have some discussion of them before too long.

cc: Mr. E. Stern  
Mr. Karaosmanoglu  
Mrs. Helen Hughes  
Mr. Haq  
Mr. B. B. King

Attachment

HBChenery:di

## OFFICE MEMORANDUM

CC: King 6/20  
Duloy

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: Research Advisory Panel on Income Distribution and Employment

DATE June 16, 1977

1. You will recall that in this year's annual report on research, we stated our intention to convene a panel to survey the research carried out by the Bank in the fields of income distribution and employment. We have, first, given thought to the selection of the chairman, since he would be expected to play an active and a crucial role.

2. The chairman should, preferably, be an acknowledged expert in the field; and, if not, should at least be an eminent economist. He should be a capable chairman of a small group of diverse people. He would have to be resident sufficiently close to the Bank that periodic visits do not become a burden; this, unfortunately, rather limits the choice. He should not have been associated with the Bank in any important way, which also limits the choice.

3. After consulting with my colleagues, I have come to the conclusion that the best choice would be Professor Al Fishlow of Berkeley, who did pioneer work on income distribution in Brazil. He has recently been appointed to head up the International Programs at Yale and has also served in the State Department. Other possibilities are Sir Arthur Lewis and Professor James Tobin (formerly Council of Economic Advisors). I think, however, that they would be more appropriate in a different context.

4. Please let me know if you wish to discuss this question. Otherwise, if you agree, I will approach Fishlow. Once the chairman has been selected, we can discuss with him the other members and modus operandi, which I think should be similar to that of the Berelson Committee.

BBKing/HBChenery:nff

cc: Mr. Duloy

6/17  
D  
agree  
King

Mr. Robert S. McNamara

June 10, 1977

Hollis B. Chenery

Prospects 1977

I enclose the first draft of the 1977 "Prospects" paper.

The paper indicates the rates of growth and investment that may be expected on the basis of long-term and current trends and policy performance. It suggests that these growth rates would permit an appreciable reduction in absolute poverty in all but the lower income countries, provided developing countries adopt more appropriate policies. Substantial external assistance will be required to reduce poverty. The principal policy improvements in both developing and developed countries are indicated.

We are still revising the projections, particularly the "blow-up" totals. The argument needs to be considerably strengthened if it is to serve as the first step toward a "world development program." We expect to have a redraft by the end of the month.

Enclosure

cc: Mr. Karaosmanoglu  
Mr. Haq  
Mrs. Hughes

Hughes/Shilling/Chenery:di

OFFICE MEMORANDUM

*6/10 To Dr. Chenery*

*Please distribute the  
papers to the PR Com 6/13  
+ schedule a meeting  
for 4:30 PM Mon 6/13  
RHW*

TO: Mr. Robert S. McNamara  
FROM: Hollis B. Chenery *HBC*  
SUBJECT: Improving the Framework for International Trade:  
The Current Issues

DATE: June 10, 1977

1. Attached is a paper on "Improving the Framework for International Trade: The Current Issues".

2. The paper is essentially a summary of the analysis and conclusions presented in the papers "The Integrated Program for Commodities" and "Trade Liberalization and Export Promotion" submitted to you last month. Revised versions of these papers are enclosed.

3. We suggest that the paper be discussed by the Policy Review Committee and that the Commodity and Trade Liberalization papers be distributed as background information. If you agree, we shall prepare a policy brief for such a meeting.

Attachments - 3

Laursen/Hughes/Karaosmanoglu/Chenery:di

*Revised to Hughes.  
Burke  
BK.*



*Watermark*

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: World Economic and Social Indicators

DATE June 9, 1977

1. I am attaching the May/June issue of World Economic and Social Indicators. Some further changes, which are described in the Introduction of the Indicators, have been incorporated into this issue. The main one is the revision of the country classification by income group that you requested at the President's Council meeting on May 2. The group previously referred to as "Oil Exporting Countries" has been replaced by "Capital Surplus Oil Exporting Countries", which contains five countries: Kuwait, Libyan Arab Republic, Qatar, Saudi Arabia and United Arab Emirates. The other oil exporting countries have been distributed among appropriate income groups according to their respective per capita GNP levels. A revised list of countries by income group is shown in the Sources and Notes of the Indicators.

2. You had also requested that we provide each month a comparison of past and present price forecasts. A new table (Table IV-2), entitled "Comparison of Past and Present Commodity Price Forecasts", has been added in this issue. This table shows revised price forecasts for the years 1977, 1978 and 1980, together with the previous ones for the same periods. Differences reflect changes in the market situation since the previous forecast. A separate note outlining significant changes for specific commodities is attached (Attachment I). In keeping with past practice, price forecast data for petroleum have not been shown in the published table, but are included on the attached table prepared for your information only (Attachment II).

3. We will be providing you with the proposed quarterly survey of major changes in the international economy at the time of the July issue of Indicators. For this reason, we have not included a commentary on recent developments at this time.

Attachments

SLee/LFairall/RCheetham:nff

cc: Messrs. Clark  
Merriam  
EPD Division Chiefs

NOTES ON REVISED PRICE FORECASTS FOR SELECTED COMMODITIES

Our forecasts of international commodity prices have been recently revised. A comparison of previous forecasts with the revised ones for 1977-80 has been made in Table IV-2. Significant changes in the market situations are given below:

Sugar

The decrease in the sugar price forecast for 1977-1980 results from the likelihood of increasing protective measures against sugar imports in the United States. In addition, as a result of the price boom of 1974-75, many countries expanded their production.

Coffee

The change in the price projections for coffee reflects the sharp decline in Brazil's coffee production due to a frost in July 1975.

Cocoa

Current cocoa prices through 1980 have been revised upwards. The International Cocoa Organisation has lowered its production forecasts as supply has not been responding to high prices.

Tea

The price of tea has more than doubled during the last 12 months. The main factors effecting the price increases include; the "pull" effect of high coffee prices, increased demand and decline in production due to drought (East Africa) and political upheavals (Mozambique, Uganda).

Copra and Palm Oil

The change in the short-term price projections for these commodities reflects the drop in the output of edible/soap fats and oils below the level of the previous year and the long term trend. At the same time, the demand for fats and oils continues to be strong. The price forecasts for 1980 remain unchanged.

Iron Ore

The forecasts have been revised downward as the recovery from the slump in the steel industry has been much slower than was anticipated last year.

Tin

The price forecast for 1977 has been revised upward as the supply of tin has not been responding to high prices, as anticipated.

Lead

The price of lead has been revised upward. With severe winter conditions, there was increased demand for batteries. Consumption of lead for gasoline additives has increased despite the modest reduction in lead content of gasoline. Exports to socialist countries have increased, and this is expected to continue in the future. On the supply side, investments in lead were slow due in part to uncertainties about official policies in some of the developed countries towards reducing the use of lead in gasoline.

Zinc

Zinc prices are now projected to be lower than a year ago to reflect (1) slower recovery than was then anticipated, (2) the ensuing significant accumulation of stocks, (3) larger volume of mine output now coming on stream more quickly from investments prompted by the high prices of zinc in the early 1970s, and (4) the entry in the London Metal Exchange of greater than normal volume of North Korean zinc.

Urea

The medium-term forecasts through 1980 have been lowered from the previous ones in view of the large excess production capacity of the industry and reduced demand because of good harvests in recent seasons.

COMPARISONS OF PAST AND PRESENT COMMODITY PRICE FORECASTS  
IN CURRENT U.S. \$  
(INDEX, 1970 = 100)

SELECTED COMMODITY PRICES		1977			1978			1980		
		PREVIOUS FORECAST NOV/76	PRESENT FORECAST APR/77	% CHANGE	PREVIOUS FORECAST NOV/76	PRESENT FORECAST APR/77	% CHANGE	PREVIOUS FORECAST NOV/76	PRESENT FORECAST APR/77	% CHANGE
FOOD										
WHEAT	\$/MT	255	279	9	303	303	0	358	358	0
RICE	\$/MT	208	201	-3	240	243	1	337	337	0
MAIZE	\$/MT	205	205	0	231	231	0	267	274	3
SUGAR	C/LB	219	192	-12	320	219	-31	367	298	-19
COFFEE	C/LB	222	540	143	224	295	77	237	299	26
COCOA	C/LB	322	439	36	278	330	19	240	316	32
TEA	C/LB	141	221	57	145	211	46	155	197	27
BEEF	C/KG	134	130	-3	153	146	-5	207	184	11
COPRA	\$/MT	137	202	48	147	189	29	203	200	-2
PALM OIL	\$/MT	153	212	39	166	190	14	196	196	0
NON-FOOD										
COTTON	C/LB	254	261	3	248	240	-3	283	269	-5
JUTE	\$/MT	115	120	5	144	139	-4	175	175	0
RUBBER	C/LB	202	207	2	231	210	-9	276	258	-7
LOGS	\$/M3	298	298	0	333	333	0	423	423	0
METALS & MINERALS										
PETROLEUM	\$/BBL	969	962	-1	1046	1046	0	1200	1200	0
COAL	\$/MT	-	-	-	-	421	-	-	483	-
COPPER	C/LB	125	117	-6	162	156	-4	187	187	0
IRON ORE	\$/MT	168	151	-10	191	162	-15	236	200	-15
TIN	C/LB	222	258	16	249	264	6	276	293	6
LEAD	C/LB	163	217	33	181	210	16	226	246	9
ZINC	C/LB	284	250	-12	330	263	-20	399	334	-16
ALUMINIUM	C/LB	111	111	0	-	185	-	199	199	0
PHOSPHATE ROCK	\$/MT	309	307	-1	336	332	-1	391	395	1
UREA	\$/MT	342	276	-19	385	312	-19	460	393	-14

Source: Commodities and Export Projections Division  
Economic Analysis and Projections Department  
June 8, 1977

Mr. Robert S. McNamara

June 1, 1977

Hollis B. Chenery

Report on the Bellagio Workshop on Income Distribution

I attach the report that Srinivasan was asked to prepare on his reactions to this discussion. Much of it was summarized in the seminar that you attended.

Attachment

HBChenery:nff

[Dictated by Mr. Chenery and signed in his absence.]

Mr. Robert S. McNamara

May 18, 1977

Hollis B. Chenery

Notes on the World Development Program

This note discusses the possible scope for a World Development Program (WDP), starting from the "Approach" memorandum of April 14. It incorporates reactions from DPS directors and Ernie Stern.

I. Scope and Style

The WDP would be designed to clarify policy issues in a comprehensive analytical framework. It would thus try to fill some of the gaps between policy statements not based on adequate analysis (as in the NIEO and World Employment Program) and partial analyses of the international economy (trade, agriculture, energy, debt) that need to be put in a broader context.

The policy discussion should be put in terms of alternatives rather than of firm advocacy of a single target or policy. The coverage of topics should initially be quite selective. Even if it were analytically feasible, a global blueprint covering all development problems would tend to divert attention to its technical aspects at the expense of clarifying some of the central issues.

Topics should be selected which are of concern to both developing and developed countries and on which policy judgments will be improved by taking a global view. Priority should be given to issues on which international action is feasible; conversely, utopian objectives and policy changes (implied by many U.N. studies) should be avoided.

Issues to be Clarified

(i) The relationship to the Brandt Commission agenda should be explored as soon as possible. One possibility would be to provide similar Bank background materials to both (e.g., the 1977 Prospects paper, the Debt study, etc.), but to agree on differences in coverage and focus. Given its makeup, the Brandt Commission is likely to be more concerned with the political feasibility of broad policy alternatives; The WDP would logically have a more analytical, economic focus. However, there is still likely to be a large overlap.

(ii) Consultation with governments. Since the WDP was launched by the major developed countries, it is desirable to get a meaningful input from some of our Part II countries (and other Part I countries) at an early stage. While this can be formally initiated with our Directors, some other informal contacts would also be useful.

## II. Analytical Framework

Objectives. The main theme of the WDP should be the design of a more equitable pattern of world growth. However, this has to be put in such a way as to reconcile the interests of the poorest with those of the middle-income and advanced countries. While all will pay lip service to the elimination of poverty as a long-term objective, the proposals of the Group of 77 tend to favor the middle-income countries, just as the proposals of the advanced countries stress their interests, such as access to raw materials. While this may all be consistent if it can be shown that more equitable growth is not a zero sum game, the interests of different groups need to be recognized in any global compact.

Global Analysis. Although we do not intend to produce a comprehensive global model as a basis for the WDP, it should be possible to link our country and sector studies to the analytical framework of the Prospects studies. Up to now, this analysis has centered on international policies--commodity prices, trade and capital flows--and it will need to be extended somewhat.

For the purposes of the WDP, it will be necessary to relate the policies of both advanced and developing countries to the alleviation of poverty (however formulated). Developed countries' policies have an important effect on the growth of poor countries, but only a limited direct impact on distribution within countries. Conversely, while improved LDC policies are the most important prerequisite for poverty alleviation, they will be inadequate in many cases unless there is also increased external support for growth. These interrelations are the principal missing elements in our current global framework.

Sector Analysis. The topics on which functional/sectoral studies are needed are suggested below. Existing Bank studies provide a considerable background on all of these topics. The areas in which our knowledge is most inadequate are rural and urban poverty and basic needs, where our proposals will have to be more tentative.

The additional analytical work needed will depend very much on the degree of analytical detail that is desired in the WDP document and its supporting material. For example, an adequate policy statement on food production could probably be written with very little more background than we have in last year's Prospects paper, plus the several food policy papers since then. The same is true of export development, debt and capital flows.

Country Analysis. While some degree of country specificity is necessary to avoid excessive generalization, it is not feasible to build up the WDP from a detailed country-by-country analysis. The Prospects studies have dealt with this problem in two ways: by grouping countries by income level and region, and by giving country examples.

Since the WDP will focus on the effects of different sets of policies on different types of countries, I think we will have to make extensive use of country experience (rather than merely aggregate projections) in one way or another. Although some kind of typology will be needed, I think we should start from the set of 40 Basic Economic Reports that the Bank has completed over the period 1974-77, which cover a representative group of poor and middle-income countries. Most of the topics treated in the 1978 WDP have been discussed in a sufficient number of these country studies to permit some generalizations.

### III. Policy Areas

I agree with the formulation in the "Approach" paper that "the emphasis of the WDP should be on internal and external policies needed to meet development targets" (I would say objectives). The policy areas suggested can be grouped under three headings:

#### A. Growth and Resource Use

1. Resource mobilization; domestic savings, fiscal measures.
2. Agricultural production: food supply, productivity of small farms, etc.
3. Mineral development
4. Industrialization: relation to employment and export of manufactures.



B. Distribution and Population Growth

1. Rural poverty: income generation, public facilities.
2. Urban poverty: public services, employment creation.
3. Population (particularly its relation to socio-economic development).

C. International Policies/Programs

1. LDC exports: by country groups and products. Need for adjustments in OECD countries. Effects of policy changes.
2. Capital flows: size and allocation. Need to shift more to poorest.
3. Debt and debt service: (implications of Debt study).

This list adds industrialization--a topic of keen interest to developing countries--to the areas previously suggested.

The treatment of these topics in the WDP should comprise an overview of some 40-50 pages, plus short chapters on each of 10 or so areas. Supporting material can be as comprehensive as necessary, but need not be incorporated into the study itself. In this way one could hope to produce a document that was of some interest to policymakers and the development community.

IV. Manpower

Even if this study is done on a fairly minimal scale, it will require almost all of the manpower budgetted for policy analysis in the DPS in the relevant divisions (about 9 man-years), plus substantial support from the CPS and the regional staffs. We will need additional consultants in areas where the Bank is thin (e.g., agriculture, minerals, population). Little other policy analysis of any magnitude can be undertaken if we are going to do a decent job on the WDP.

The WDP preparation will have to be organized as a task force with firm assignments (as in the case of the Energy Task Force) and priorities for high quality personnel from different parts of the Bank. If it cannot be given such a priority, I do not think it should be attempted.

After we have discussed this matter further, I will draw up a phased work program and start looking for senior staff.

HBChenery:nff

cc: Mr. E. Stern  
DPS Directors

Mr. Robert S. McNamara

May 17, 1977

Hollis B. Chenery

Trade Papers

1. I attach drafts of the papers on "Trade Liberalization and Export Promotion" and "The Integrated Program for Commodities" as a progress report on our trade policy work.

2. You will recall that these are inputs into the overall policy paper on the basic issues in international trade we have promised you for June 10. I therefore suggest that they be discussed along with that paper. While we have completed the analysis, the trade liberalization paper still needs editing.

Attachments

HHughes/HBChenery:nff

cc: Messrs. Haq/Burki/Laursen  
Avramovic/Keesing

## OFFICE MEMORANDUM

Nate  
5-19

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: Bellagio Workshop on Income Distribution

DATE: May 12, 1977

This memorandum responds to your questions on the purpose, organization and results of the Bellagio meeting, held two weeks ago. A report by T. N. Srinivasan on the distributional issues raised will be sent to you by the end of the month. Three staff seminars are also planned, the first one on May 19 at 3:30.

Purpose

1. This workshop was planned early in 1976 to evaluate the first major results of the Bank's research program on income distribution. As you know, we embarked on this program because of the inadequacy of existing knowledge of the dimensions of poverty and of alternative approaches to government policy. Over the past four years, we have completed a major statistical comparison of sixty countries and several studies of individual countries under our cooperative program. The workshop provided a technical evaluation of much of this work and suggested priorities for future analysis. It thus provides a basis for the broader external review scheduled for this fall.

2. A second purpose was to relate our approach to that of other researchers, notably the ILO, Institute of Development Studies and leading university groups. The basis for continuing cooperation was laid in the workshops that we sponsored jointly with the Institute of Development Studies in 1973 at Bellagio and Sussex. Our cooperation with the I.D.S. has been quite successful in bringing out diverse points of view in an open discussion, and we feel that it is important to maintain this type of free discussion, particularly in the light of the politicization that has affected other official research, such as the ILO and the Leontief groups.

Organization

3. The workshop was designed to provide for sustained discussion among a small number of scholars active in the field rather than a formal conference. Bank participants consisted of six persons who have been responsible for major work in this field over several years, plus myself and two professors (Srinivasan and Streeten), who have recently joined the Bank on temporary appointments to work

in this field. This diversity was necessary because much of the work was done in specialized groups concerned with individual countries (Korea, Taiwan, Brazil, India) and topics (basic needs, rural poverty, etc.).

4. In selecting the site for the meeting, we compared Washington and Bellagio. Despite the somewhat higher travel costs, the latter was considerably cheaper, because the Rockefeller Foundation pays all living expenses and participants are willing to contribute time for which they would normally expect to be reimbursed in a Washington meeting focussed primarily on the Bank's work, which is otherwise the major cost. More important, in my view, is the intensive and prolonged interchange of views that takes place in an isolated spot compared to an urban setting. (In this respect, our decision was similar to that of the Ford Nuclear Energy group, which held its main working session in Aspen rather than New York or Washington, for similar reasons.)

#### Results

5. In the view of several participants (including myself), this was one of the most productive meetings that has been held on this subject and it will clearly have a considerable impact on the Bank's ongoing research in this field. Areas in which significant progress was made include:

- assessment of the methodology used in our principal country studies (Brazil, Korea, Taiwan) and of their policy implications.
- evaluation of Kuznets' hypothesis that income distribution normally worsens in the earlier stages of growth and of its implications for the trade-off between poverty alleviation and growth.
- refinement of the "basic needs" approach and explanation of the policy differences that flow from it.

Although significant disagreements remain on all of these subjects, the range has been narrowed and the basis for the remaining differences is better understood. (Since the political economy of poverty is at least as complex and controversial as that of nuclear power, the elimination of differences is not to be expected.)

6. Apart from the country studies under review, more than a dozen publishable papers were prepared for the conference. Instead of collecting them in a single volume, arrangements are being made to publish them in clusters in the Journal of Development Economics, the Journal of Development Studies and World Development. The rapporteur's summary of the discussion is also being edited for internal use.

7. The workshop has also provided a useful basis for the review panel that will be set up in the fall to review a somewhat broader slice of the Bank's research on distribution and employment. To provide continuity it might be useful to select one of the participants in the Bellagio meeting as a member of the review group.

HBChenery:nff

cc: Messrs. Cargill  
Chadenet  
DPS Directors

*N. Johnston*

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: H. B. Chenery and E. Stern *ES*

SUBJECT: Richard Cooper's Views on the North-South Agenda

DATE: April 18, 1977

We lunched with Cooper on April 12 and covered the major items on the North-South agenda. The following are the highlights:

1. The Common Fund. Cooper thinks that the U.S. made a constructive proposal in Geneva to consider the Common Fund, but that the outcome was confused by internal dissension in the European community and among the developing countries. He expects a more positive outcome in the next round. The U.S. is prepared to accept that a fund might be useful at some stage and is prepared to state this. However, the place to start is with individual commodity agreements.
2. CIEC. The OECD members and the U.S. would like to end the CIEC with agreement that it had been successful. There is no desire to continue it. Cooper thinks that enough has been done to warrant such a conclusion, although many issues remain to be discussed in follow-up forums. However, it would be easy for the developing countries to end on a note of confrontation, if they so wished.
3. Debt. We discussed the general situation at some length, including elements of the Bank study, which we promised to give him whenever you release it. The U.S. supports the expansion of the IMF as the main means of dealing with current debt problems, but would probably advocate some form of safety net if a sufficient expansion were not achieved.
4. The Development Committee. Cooper thought the Development Committee, about which he knows little, could be a forum for pursuing some of the CIEC issues. Trade obviously will continue to be handled by UNCTAD, and this leaves, essentially, debt management, ODA flows and technology. Cooper asked where the Bank paper on the International Resources Bank proposal stood. Stern gave some of the elements of our current thinking on the financing of minerals, including fuels, and indicated that we hoped to have a draft to show the U.S. by the end of the month. We thought it preferable to have a political view (at the summit or in the preparatory committees) of the desirability of moving into the minerals area before

*Told Lyn/Stern this came back without comment.*

*4/21*

putting a paper to the Board or the Development Committee. It would be ready for Development Committee discussion in September.

5. The Brandt Commission. Cooper asked about the status of the Commission and expressed doubts he had heard about its origins and the fact that the present administration had not been consulted. We corrected the record to the extent possible.

cc: Mr. William Clark



*file*

Office of the President

May 13, 1977

MEMORANDUM FOR MR. CHENERY

DPS has asked for 4 Professional and 5 Assistant level positions above the presently approved budget for Fiscal '78. I have told you and Mr. Karaosmanoglu that I could not authorize 4 additional Professional positions although I strongly agree with you that certain of the work for which you requested those positions should be carried on -- I believe in substitution for certain other work for which we had budgeted positions.

Of the 5 Assistant level positions, 3 have been planned for the Economic Projections Department. You point out that that Department is processing each year 10% additional data and that, particularly next year if we proceed with the World Development Program, it will be absolutely essential that the data processing capacity of the DPS be increased. I will consider this matter further before July 1. Should additional personnel be budgeted for DPS, they will be charged against the Bankwide Contingency Allowance.



Robert S. McNamara

cc: Mr. Cargill ←  
Mr. Gabriel  
Mr. Karaosmanoglu

Mr. Robert S. McNamara

April 12, 1977

Hollis B. Chenery

Budget Appeal for the DPS

1. This memorandum requests the restoration of 4 of the 6 professional staff positions that were cut from my budget request for the DPS and summarizes the consequences of not doing so. It also requests restoration of 5 assistant and 4 secretarial positions.

2. Guidelines. For the past several years the guidelines to the support departments have called for increasing the portion of the workload directly related to operations and maintaining the remainder constant. Although 28% of the productive time of the DPS is allocated to direct operational support, its professional staff has only increased by 1 (plus Peter Wright) since 1974. We have absorbed an increase of 4-5 man-years in operational support by reducing other activities. Over the period 1974-77, the other support staffs that also have a mixed workload (Financial, Legal, Administrative) have received increases in professional staff of 21%, 15% and 8%, respectively. For the first time in three years, I find it necessary to appeal against continued zero growth.

3. Adjustments within the DPS. The DPS has developed a system of program review, staff allocation and budgeting which is acknowledged by P&B to be quite thorough. To accommodate higher priority activities, such as the analysis of worldwide development prospects and of poverty-related issues, there has been a substantial reduction in some traditional areas of expertise, such as public finance, and a significant shift within divisions. However, by 1976 we reached the point at which we were in danger of going below the critical level necessary to maintain a minimum competence in the twelve subject matter divisions\*--most of which are involved in operational support, policy analysis and research--with an average staff of 7.5 professionals per division. The pattern of staff allocation has been fairly stable since then (see attachment I) and no further increase in operational support has been feasible. Although the standard reaction of P&B to our annual request for increased staff is to "take it out of something else", this can now only be done efficiently by cutting out areas of competence.

\* All except data collection, policy planning and program review.

4. Priority Increases. I request an increase of 4 professional positions for two purposes: (i) to support the expanded work program in population analysis that grew out of the Berelson report, and (ii) to prevent a further decline in the research capacity of the Development Research Center. I accept the P&B recommendation to defer the decision on increased staff for the reporting of private debt until the current study of this problem is completed.

(a) Expanded work on population (2 professional positions).

Plans for expanded coverage of population in economic reports and increased research on fertility have been discussed with you recently and are summarized in two reports forwarded to you on April 11. P&B recommends that this effort be "absorbed within the overall DED work". I have reviewed this recommendation against other departmental priorities, such as increased work on manufactured exports and poverty-related work on rural and urban development and small-scale industry. I conclude that these are of as high or higher priority as the increased work on population, which can thus only be undertaken with increased staff.

(b) Implementation of research findings (2 professional positions).

The Bank research program has produced some notable innovations in the analysis of income distribution, rural development and industrial planning that are now widely in demand in the Bank and our member countries. A small unit is required in the DRC to assist in the implementation of these techniques by prospective users, which will be partly supported by a diversion of existing staff time. However, the further diversion from research to implementation (as recommended by P&B) will reduce our research capability substantially from what it was several years ago. This is quite inconsistent with your statement to the Board that we would consider an expanded research program in FY79.

5. Of the 5 research assistants requested, 3 are related to the expanded work program on population and research implementation, one supports the work on manufactured exports and one supports the Office of the Director in EPD, which is badly overworked.

Attachments

HBChenery:nff

cc: Messrs. Cargill, Gabriel

Department/Division	FY78 Budget Position	Support to Regions/ CPS/Other		Policy Work		Research		Statistical Analysis/ Other Output		Management/Overhead		TOTAL			
		Average FY76/77	Estimated FY78	Average FY76/77	Estimated FY78	Average FY76/77	Estimated FY78	Average FY76/77	Estimated FY78	Average FY76/77	Estimated FY78	Average FY76/77	Estimated FY78		
Office of the Vice President	6							0.2	0.2	5.4	0.8	5.8	0.9	5.6	6.0
<u>Development Economics Dept.</u>															
Office of the Director	5	-	0.1	0.6	0.5	0.6	1.0	0.6	0.2	2.6		3.2		4.4	5.0
Economics of Industry	9	2.8	3.2	0.4	0.3	4.0	3.4	0.5	0.2	1.9		1.8		9.6	8.9
Urban & Regional Economics	7	2.3	1.2	0.1	0.1	3.0	3.6	0.2	0.2	2.0		1.9		7.6	7.0
Population & Human Resources															
Population	7	1.5	2.3	0.2	0.5	2.8	2.2	0.7	0.4	1.4		1.6		6.6	7.0
Education	2	0.2	0.3	0.1	0.2	1.3	1.1	0.2	0.1	0.4		0.2		2.2	1.9
Employment & Rural Development															
Employment	7	0.7	1.4	1.0	0.5	1.5	2.2	0.4	0.2	1.3		1.4		4.9	5.7
Rural Development	2	1.3	0.8	0.3	0.3	1.2	1.3	0.4	0.3	0.6		0.5		3.8	3.2
Public Finance	7	1.4	1.5	0.2	0.3	3.1	3.4	0.4	0.3	1.5		1.4		6.6	6.9
Sub-Total	46	10.2	10.8	2.9	2.7	17.5	18.2	3.4	1.9	11.7	6.8	12.0	7.5	45.7	45.6
<u>Economic Analysis &amp; Projections Dept.</u>															
Office of the Director	7	0.1	-	0.6	0.9	0.3	0.5	1.6	2.3	3.9		3.3		6.5	7.0
International Economy	5	2.2	2.3	0.6	0.8	0.3	0.3	0.5	0.6	0.9		0.9		4.5	4.9
Comparative Analysis & Projections	8	3.8	4.3	1.3	0.9	0.5	0.6	0.4	0.6	1.6		1.6		7.6	8.0
Economic & Social Data	9	2.5	3.3	0.5	0.5	0.2	0.2	4.3	3.3	1.6		1.5		9.1	8.8
External Debt	12	4.8	5.4	0.2	0.7	-	-	3.3	3.0	2.9		3.0		11.2	12.1
International Finance	5	1.3	1.7	0.6	0.6	0.1	-	1.7	1.7	1.0		1.1		4.7	5.1
Commodities & Export Projections	15	2.9	2.7	1.3	1.4	0.4	-	7.3	7.8	3.2		2.8		15.1	16.7
Sub-Total	61	17.6	19.7	5.1	5.8	1.8	1.6	19.1	19.3	15.1	8.7	14.2	8.4	58.7	60.6
<u>Policy Planning &amp; Program Review Dept.</u>															
Office of the Director	3	0.1	-	1.0	1.4	-	-	0.1	0.2	1.2		1.4		2.4	3.0
Policy Planning	6	0.4	-	4.5	4.5	-	-	0.5	0.3	1.1		1.0		6.5	5.8
Program Review	9	0.7	0.5	5.7	6.6	0.1	0.1	0.1	-	1.8		1.8		8.4	5.0
Sub-Total	18	1.2	0.5	11.2	12.5	0.1	0.1	0.7	0.5	4.1	2.6	4.2	2.8	17.3	17.8
<u>Development Research Center</u>															
Office of the Director	3	0.2	0.2	0.1	0.2	0.9	0.8	0.3	0.1	1.7		2.0		3.2	3.3
Income Distribution	7	0.2	0.2	-	-	4.7	4.4	0.3	0.3	1.0		1.3		6.2	6.2
Development Planning	5	0.4	0.4	-	-	4.0	3.7	0.2	0.1	1.0		0.9		5.6	5.1
Special Topics	5	0.4	0.8	-	-	3.5	3.3	0.3	0.1	1.1		1.0		5.3	5.2
Sub-Total	20	1.2	1.6	0.1	0.2	13.1	12.2	1.1	0.6	4.8	2.1	5.2	2.2	20.3	19.8
<u>TOTAL</u>	<u>151</u>	<u>30.2</u>	<u>32.6</u>	<u>19.3</u>	<u>21.2</u>	<u>32.5</u>	<u>32.1</u>	<u>24.5</u>	<u>22.5</u>	<u>41.1</u>	<u>a/</u>	<u>41.4</u>	<u>a/</u>	<u>147.6</u>	<u>149.8</u>

a/ Of which about 21.0 manyears are overhead, (holidays, annual/sick leave). The remaining 21.0 manyears represent the time of the VP; 5 Directors; 1 Assistant Director; 4 Senior Advisers; 2 Special Advisers; 3 Administrative staff and part of the 16 Division Chiefs' time.

a/

DPS PROFESSIONAL AND CONSULTANTS MANYEARS

	<u>FY77</u> <u>Estimate</u>	<u>FY78</u> <u>Rev. Request</u>
Direct Manpower to Regions/CPS	20.4	23.1
Support to Regions/CPS	11.1	14.2
Policy Work	22.1	23.6
Research	46.9	46.8
Other Output	21.8	19.5
Management/Overhead	<u>40.6</u>	<u>41.8</u>
Total DPS Output	<u>162.9</u>	<u>169.0</u>
of which DPS staff	147.7	153.8
Authorized Professional Positions	151	155

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 11, 1977

FROM: Hollis B. Chenery *HBC*

SUBJECT: Bank Research on Population Issues after the Berelson Report;  
The Treatment of Population in Economic Reports *File*

1. I attach the two papers on our population work that we promised you.
2. You saw an earlier draft of the paper on research. The revisions since then have been mainly in the paper's organization, in response to a variety of comments, especially those by the Research Committee.
3. The paper on population in economic work was prepared in response to your request that I report on how this should be "institutionalized". It suggests that a coordinated program of selective in-depth reports and specialist coverage for the more important countries, in conjunction with routine but systematic coverage by country economists, backed up by training and assistance from the DPS, could accomplish a very satisfactory level of coverage for most Bank countries over a five year period. There would need to be an increase of specialist resources for this, but only a modest one.
4. The budgetary implications for the DPS of a minimum effort to carry out these proposals are treated in my budget appeal.

Attachments - 2

TKing:HBC Chenery:di

*Returned 4/13*

OFFICE MEMORANDUM

9/79 12 Messrs. Tamm  
 Chenery ✓  
 Please distribute

TO: Mr. Robert S. McNamara  
 FROM: Warren C. Baum, Vice President, CPS  
 Hollis B. Chenery, Vice President, DPS  
 SUBJECT: Annual Reports on Country Economic and Sector Work

DATE: April 8, 1977  
 to members of the  
 President's Council &  
 scheduled for discussion  
 Monday 4/11/77.

1. Following our submission of the reports on Country Economic Work in April 1975 and the Status Report on Sector Work in May 1975, you asked for an annual "state of the art" review of country economic and sector work. The attached reports have been prepared by CPS and DPS in response to your request. Since the conventional definition of country economic and country sector work is a rather artificial one, we hope in future reviews to look at all country-specific economic and sector work, including work done in CPS and DPS. The present reports give a general overview of the manpower devoted by the Bank to country economic and sector work and of how effectively it is used. Some suggestions are also made as to how this use might be further improved.

APR 11 1977  
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2. Demand. As we see it, there are four principal audiences for the Bank's country-specific economic and sector work, other than work that is strictly related to projects:

- a) The Bank itself, where country analysis provides a basis for shaping our lending and technical assistance programs and keeps all levels of management, including Executive Directors, regularly informed about changes in problems and policies in the developing countries.
- b) Governments of those countries with which the Bank seeks to engage in a regular dialogue on economic policy.
- c) Other official multilateral and bilateral lenders and donors who receive the grey cover reports -- a market of special importance where there is a regular consortium or consultative group, or where there is extensive co-financing of projects.
- d) The wider public in the country itself and in the world at large, including private financing institutions and the academic community, which normally has access to Bank reports only when they are published, but often also has informal channels of communication with Bank staff.

3. The relative importance of these four audiences will vary according to the circumstances of each country at any given time, which calls for reasonable flexibility in reporting. The Regions reckon that they know their own markets. Nevertheless, given the resources the Bank devotes to country economic and sector work, there may still be some advantage in having an independent evaluation made on a selective basis, of the uses to which Bank

4/8

reports are put and of consumer reaction to them. We therefore propose to get together with the Regions to develop a specific proposal for a modest initial study of the use of Bank reports and their effectiveness in reaching those groups.

4. Content. We are concerned that not enough has been done to shift the focus of country economic work away from short-term analysis of economic and financial policies towards more in-depth exploration of long-term structural problems, including the validity of development plans and such key issues as population growth, income distribution and the social factors bearing on development. It was hoped that the introduction of the concise Country Economic Memorandum and greater reliance on IMF reports for fiscal and balance of payments analysis would assist this process by reducing the amount of updating work. Reductions in comprehensive sector surveys would similarly free resources for more intensive work on special sector problems. These shifts would allow country and sector economists to give more attention to long-term problems. Some progress is being made in this direction but more should be done.

5. Nevertheless, we must recognize the fact that country economists will have to meet a continuing demand from within the Bank and from other lenders for reports on the current economic situation and short-term prospects. At the same time country and sector economists are under constant pressure to extend their analytical work into new fields, to cover additional topics in their reports and to provide a mass of statistical information on a wide range of subjects (e.g., identifying urban and rural poverty groups, up-dating national income estimates for operational purposes, calculating shadow prices, etc.). Ultimately these demands can only be met by allocating additional resources to country economic and sector work.

6. Form. We still believe that the concepts of the Country Economic Memorandum and Sector Memorandum are sound, and that every effort should be made to keep them concise and readable, with relegation of reference material to annexes wherever possible. The CEM should become a standard document providing an up-to-date synthesis of our knowledge and understanding of the country's development problems and priorities for the use of Bank management, Executive Directors and aid groups, supplemented as appropriate by special reports analyzing particular problems in greater depth. The Sector Memoranda should similarly synthesize our understanding of problems and priorities in the sector and country concerned, and indicate the need for further work. They would draw on the results of special sector studies and on insights and information gathered during operational work. A Sector Memorandum should normally be prepared and up-dated as necessary for each country sector in which the Bank expects to be active for some time; general adoption of these memoranda throughout the Bank should be accelerated over the next few years. The Basic Economic Report should be timed in relation to the country's planning cycle; it should only be produced after a series of sector and special reports have been completed; and it should be confined to countries which



welcome Bank analysis and advice and have shown themselves responsive to it. Judged by those standards, not more than 6 or 7 Basic Economic Reports are likely to be produced each year.

7. Quality. The discussions we have had with the Regions, and the evaluations they have given us of the impact of the Bank's economic and sector work on the thinking and policies of the governments with which they deal, leaves us in no doubts that this work is generally useful and, on the whole, effective. The reviews of some individual country studies, which are summarized in the report on country economic work, tend to confirm this. The recent institution of panels comprising staff from all parts of the Bank to review basic economic and some special economic reports has proved to be a useful innovation which we propose be continued; similar panel reviews of major sector reports are getting underway. Furthermore, we have begun a series of functional reviews to examine how well issues of major importance are being treated in economic and sector reports, e.g., how effectively the analysis and policy prescriptions regarding agricultural pricing policies are handled in the economic and sector reports. These reviews are expected to lead to proposals on follow-up actions to remedy the weaknesses revealed, e.g., prototypes that Regional staff might use.

8. Our general conclusion, based on our evaluations and reviews so far, is that, overall, there has been a modest but distinct improvement in the analytical quality of country economic and sector work during the past several years. Further improvements, nonetheless, are still desirable in a number of important areas. The DPS and CPS should take the lead in promoting a better common understanding of the key development issues that need to be addressed in economic and sector work over the medium-term, and in defining appropriate standards of analysis. In reviewing country economic and sector reports and in preparing notes and examples to assist the Regions, CPS and DPS, as appropriate, should give special emphasis to the following areas: (i) issues related to economic inequality and measures to redress poverty; (ii) analysis of incentive systems; (iii) evaluation of manpower and training needs required to carry out sectoral functions effectively; and (iv) assistance in setting up local statistical programs to improve the data base for both sector and project analysis.

9. Staffing. The quality of the Bank's economic and sector work depends above all on the competence of the economists who produce it. Excluding EDI, there are over 500 economists currently employed by the Bank -- an increase of 25 per cent over the past 4 years. This increase has been mainly concentrated on the projects side, so that 40 per cent of Bank economists are now in the Regional Project Departments and CPS. Over the same period, the number of country economists has risen by 20 per cent, while the staff of DPS has remained practically stable. Turnover of country economists is still very high (at the end of 1976 over two-thirds had spent less than two years in their current assignments), and ways must be found of keeping them longer in their jobs if full advantage is to be taken of their country knowledge. There is an inherent

conflict between the routine mechanical nature of much of the Bank's country economic and sector work and the need for better, more experienced country (and sector) economists to do the creative and sophisticated kinds of analysis. The possibility of assigning research assistants to the Programs Departments to do some of the routine work has frequently been discussed but never seriously pursued. We recommend that this now be tried out in one of the Regions on an experimental basis, and that appropriate provision be made in the FY78 budget.

10. Programming and Implementation. The programming and implementation of country economic and sector work remain a problem. Planning of such work tends to be oriented around missions and short term in nature; we suggest instead that the Regions, assisted by CPS and DPS as appropriate, plan all the various country and sector work tasks to be carried out over the medium term, with a clear indication of the content of each specific task. The CPP process provides a vehicle for reviewing priorities in the economic and sector work program at the country level. It is being used increasingly for this purpose, but we need to ensure that economic and sector work programs are regularly produced and reviewed. To determine regional priorities in economic and sector work, however, country work programs need to be aggregated and related to available manpower resources on a regional basis. Since staff resources are specialized and only partially fungible, the priorities and feasibility of the work program should be reviewed both country by country and sector by sector. Regional programs can then be established of priority tasks in country and sector work that can be carried out within the constraints set by available manpower resources. This programming exercise would probably best be done annually, as part of the budget cycle and when overall manpower allocations are being considered.

11. We recognize, of course, that however well the work is initially planned by the Regions, schedules continuously have to be adapted to the convenience of the governments concerned, to the availability of outside consultants, to new and changing demands on staff time and to other unpredictable factors. This often makes it difficult to complete economic or sector work on schedule and calls for flexibility as well as discipline in execution. We consider it essential that the Regional Chief Economists, in consultation with Assistant Projects Directors, take a more active role in programming country economic and sector work, monitoring the implementation of the work program and making necessary adjustments in its priorities. Clearer assignment of responsibility in this area is of critical importance.

12. We also recommend that the Bank-wide Quarterly Progress Reports of Economic and Sector Work be replaced by two somewhat more complete semi-annual reviews in March and October. The March review would focus primarily on the economic and sector work programs proposed by the Regions and the allocation of resources to this work for the coming fiscal year, as part of the budget process. The October review would summarize developments during the previous fiscal year.

April 8, 1977

13. Information Base. There are still important gaps in data presently available on country economic and sector work, and we propose to discuss with P&B how the data system might be improved. For instance, it is not known with any accuracy how much economic and sector work is done in the Bank on each country, and this makes it extremely difficult to establish meaningful priorities.

14. Publication. One way of increasing the utility of economic and sector reports is to publish them. So long as a paper-back format is adopted, this need not involve a large amount of additional editorial work. However, of the 39 country economic reports eligible for publication during FY73-76, only 14 have been, or will be, published. Several of these have been very well received. Of the other reports, 16 were not considered suitable for publication and 9 were denied publication by governments. The problem here is that governments tend to object to the publication of documents containing frank and objective comments on their policies, even when, as in the case of the recent basic report on the Ivory Coast, the general tenor of the report is highly complimentary. The Regions are understandably concerned that the possibility of publication should not prejudice their access to confidential information, the quality of their economic dialogue or the candour of the reports. There may still be ways of minimizing the conflict among these various objectives, and we are continuing to explore the matter.

15. Conclusion. We propose to continue to keep the quality and adequacy of the Bank's country economic and sector work under review and report to you periodically on its effectiveness. We expect that the review mechanisms that we are now putting in place - especially the across-the-board functional review of key development issues - will give us a firmer basis for assessing the quality of country-specific economic work in the future. In the longer run, we feel that country economic and sector work should receive the same sort of impartial evaluation that is being developed for economic research.

Attachments

cc: Mr. J. Burke Knapp

McN  
noted

Mr. Robert S. McNamara

April 8, 1977

Hollis B. Chenery

Bergsten Testimony on Debt

You will be interested in the attached, if you  
have not already seen it.

Attachment

HBChenery:di

## OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery, Vice President, DPS

DATE: April 7, 1977

FROM: Jo W. Saxe, Chief, EPD/IF JWS

SUBJECT: Foreign Lending Activities of U.S. Commercial Banks - The U.S. Treasury View

Here is a copy of the Treasury release of Assistant Secretary Bergsten's testimony before a sub-committee of the Committee on Banking, Finance and Urban Affairs of the House of Representatives on April 5, 1977.

The essence of it is in the excerpt below:

"Financial intermediation between lenders and borrowers, which has become a familiar phenomenon within the United States (and some other countries) and had already reached sizable international dimensions before 1973, has now become a central element in the world economy as well."

"Some observers have raised concern over this evolution of events. They have suggested that foreign loans may be inherently riskier than domestic loans, with consequent risk to the stability of our own -- or even the world's -- banking system. There has been talk of an "overexposure" of U.S. banks in foreign markets."

"We believe that these concerns are greatly exaggerated. Alarms have been raised about international banking from the very creation of the Eurocurrency market in the early 1960s. Fears were voiced, primarily by individuals unfamiliar with the operations of the international economy, after the sharp increase in oil prices in late 1973. These fears have proven to be largely unfounded, and we believe that they continue to be greatly exaggerated."

The main policy action suggested is:

"Consideration of augmenting the resources available to the IMF, and perhaps other international institutions, to provide adequate official financing for international balance-of-payments purposes and thereby to backstop the private system where necessary."

The rest of it is very interesting reading too. I'm having copies made for you.

Attachment.

cc: Mrs. Hughes	Mr. Woods
Mr. Karaosmanoglu	Mr. Eccles
Mr. McPheeters	Mrs. Hardy
Mr. Ohlin (o/r)	

JWSaxe:ks



FOR RELEASE UPON DELIVERY

STATEMENT OF C. FRED BERGSTEN  
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS  
U.S. TREASURY DEPARTMENT  
BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS  
SUPERVISION, REGULATIONS AND INSURANCE  
OF THE COMMITTEE ON BANKING, FINANCE  
AND URBAN AFFAIRS  
U.S. HOUSE OF REPRESENTATIVES  
APRIL 5, 1977

The Setting

Mr. Chairman, it is a great pleasure to appear before this Subcommittee to discuss the various issues raised by the foreign lending activities of U.S. commercial banks. I will first address the dramatic changes in the world economy which have led to the sizable increase in international lending by U.S. banks, and then turn to the role played by the banks and the effects of their activities on the U.S. and world economies.

Since the massive increase in the world price of oil in late 1973, the OPEC countries as a group have been running surpluses in their current account positions -- their trade in goods and services -- of \$40-65 billion annually. Only two fundamental remedies to this situation are possible: cutbacks in total energy consumption by importing countries, and increased use of alternative energy sources. President Carter's

energy program, to be announced later this month, will pursue both objectives for the United States, and we will be urging other countries to take similar steps. Implementation of such programs will take time, however. Hence the OPEC financial surpluses -- which are now concentrated heavily in Saudi Arabia, Kuwait and the United Arab Emirates, whose own imports will increase only slowly--will probably continue, with a gradual decline for several more years.

#### The Needed Response

Two issues are thus raised for the rest of the world: how to share out its OPEC-induced current account deficit, and how to finance that deficit in the most stable possible manner. The recent expansion of international activity by U.S. banks relates directly to both.

Many commentators have focused on the sharing out of the OPEC-induced deficit between (a) industrialized countries and (b) developing countries. I do not believe that this is a useful distinction. A number of industrialized countries have in recent years experienced extremely weak balance of payments positions, exacerbated by -- but going well beyond -- the problems caused by higher oil prices. At the same time, a number of developing countries have adjusted effectively and rapidly to the new situation and have maintained strong external positions. Attention needs to be focused on the positions of individual countries, whether "industrialized" or "developing," to see whether they are playing their proper role in sharing out

the OPEC-induced current account deficit of the rest of the world.

For example, some of the strongest national economies -- notably Germany, Switzerland, the Netherlands and Japan -- have continued to run sizable current account surpluses. They thus intensify the pressure on other countries, which is already formidable because of the OPEC surpluses, by perhaps another \$12 billion this year. If these stronger countries are unwilling to help share out the OPEC-induced deficits, the problems of adjusting and financing the international payments balance are rendered much more difficult.

It is thus the policy of the United States to urge these countries to take measures which will have the effect of reducing their surpluses and, indeed, to bring them into current account deficit. The United States itself has already taken such measures. We are encouraged that some of these countries have recently taken steps in the proper direction; further action by them will help assure a stable international payment picture.

On the other side of the ledger, countries with excessive current account deficits must also adjust. Some countries, in both the industrialized and developing world, developed sizable deficits because they chose to ride out the world recession of 1974-1975 -- maintaining their planned rates of economic growth, and borrowing abroad to cover the external



deficits which resulted from the weakening of the largest industrialized markets for their exports of both commodities and manufactured goods. Hence they have had to adjust in 1976-1977, when other countries (such as the United States) were recovering from the recession. To some extent, this pattern has produced an image of economic weakness for some countries which is, rather, a simple matter of the timing of their adjustment to the massive change in world economic conditions since 1973.

Nevertheless, it is essential that such adjustments take place. The United States has urged individual countries to do so. We have strongly supported the efforts of the International Monetary Fund to help both industrialized and developing countries find sustainable adjustment paths, and indeed believe that the Fund should play a central role in supporting the evolution of a sustainable international payments picture. Private bank lending to an individual country is of course rendered much more likely, and much more likely to achieve its purposes, when that country has adopted effective adjustment measures -- especially when those measures have received the imprimatur of the International Monetary Fund.

#### Financing the Imbalances

A central premise, however, is that the non-OPEC world is going to continue to run a sizable current account deficit for several more years. Hence there will continue to be a need for sizable international financing of surpluses

and deficits, in two directions: (a) between OPEC and the rest of the world and (b) to a lesser extent, among the non-OPEC countries themselves.

We know that the OPEC countries, and other surplus countries, will export sufficient capital to provide the needed financing. There is simply no other way for them to invest the proceeds of their current account surpluses. But two key questions arise:

- will this financing be distributed to the specific countries which need it to finance their deficits?
- what will be the channels through which such financing takes place, and who will thereby take the risks associated with this (as any other) type of lending?

#### The Role of the Private Banks

Private banks, in the United States and throughout the world, have played a major role in the response to both questions. They have accepted deposits from the OPEC (and other) surplus countries, and then relent to the deficit countries which needed capital inflows to balance their positions; they and others in the private financial markets have provided about 75 percent of the total funds raised from external sources during 1974-1976. Financial intermediation between lenders and borrowers, which has become a familiar phenomenon within the United States (and some other countries) and had already reached sizable international dimensions now become a central element in the

Debt

world economy as well.

Some observers have raised concern over this evolution of events. They have suggested that foreign loans may be inherently riskier than domestic loans, with consequent risk to the stability of our own -- or even the world's -- banking system. There has been talk of an "overexposure" of U.S. banks in foreign markets.

We believe that these concerns are greatly exaggerated. Alarms have been raised about international banking from the very creation of the Eurocurrency market in the early 1960s. Fears were voiced, primarily by individuals unfamiliar with the operations of the international economy, after the sharp increase in oil prices in late 1973. These fears have proven to be largely unfounded, and we believe that they continue to be greatly exaggerated.

Losses on foreign loans have been small. In fact, loss experience has been better on foreign loans than on domestic loans. Governor Wallich, in his testimony before this Subcommittee on March 23, noted that during 1971-1975 the loss ratios on international loans of the seven largest U.S. banks were about one-third of their total loss ratios. John Early of the FDIC concluded, in his testimony before this Subcommittee, "that recent commitments to LDC's pose no real danger to the overall stability of the U.S. banking system."

In fact, there are only two major differences between domestic and international lending. First, it may be more difficult for American lenders to acquire adequate data and other information on foreign than domestic borrowers. Our own Federal Reserve System is working with the central banks of other countries to improve this situation, as indicated recently by both Chairman Burns and Governor Wallich. In addition, there may be a greater role for the International Monetary Fund to play in reducing any knowledge gap that may exist -- a matter which we are now considering with some care.

Second, lending to another country entails judgment about the credit position of the entire country as well as of the specific borrower. An individual borrower, no matter how creditworthy, might be unable to repay as scheduled if its government was forced to adopt restrictions on such payments because of problems in its overall external accounts.

We believe that the remedy to this potential problem is four-fold. First, as just noted, more information is needed. Second, surplus countries -- both in OPEC and elsewhere -- must reduce their surpluses to reduce the burden on deficit countries. Third, deficit countries, which even begin to approach having a debt service problem must undertake decisive adjustment programs of their own, with the assistance of the IMF where appropriate. Fourth, there should be adequate official financing available for deficit / as to (a) minimize countries so

the need for private lenders to assume undue risks and (b) induce deficit countries, as a quid pro quo for obtaining access to such finance, to adopt the needed adjustment measures.

With regard to the latter point, we believe that prudence dictates consideration of a further increase in the financial resources available to the International Monetary Fund, the central official component of the international monetary system. There are a variety of means by which such an increase could be achieved, and several alternatives are now under consideration. At the same time, there has been discussion of augmenting the availability of official funding through other international bodies, such as the proposed Financial Support Fund at the Organization for Economic Cooperation and Development (OECD). We are exploring all of these possibilities with other countries, and believe that it will prove possible to move over the next few months toward assuring the continued availability of sufficient official financing to meet the needs of the system.

#### Some Specific Issues

Individual countries can, of course, find themselves at times in situations where their external debt burden is too great to be met without policies which are unduly restrictive, from a domestic or international point of view. Such situations have occurred occasionally and there have been about thirty instances in the postwar years in which multilateral negotiations with creditor countries were needed to reschedule existing debts to official lenders. Remarkably, the pace of

such reschedulings has actually declined in recent years despite the massive shocks to the world economy from higher oil prices and world recession.

When such cases do arise, there are well developed international mechanisms for arranging the needed reschedulings. Any such steps are of course linked to adjustment measures which will ensure that the fundamental problem of the countries involved will be resolved in an orderly fashion. Hence no systematic problem would result even if individual country problems were to emerge occasionally, as they have in fact already done throughout the postwar period.

Concern has also been expressed in some quarters that domestic demand for bank credit will at some point dangerously reduce the amount of credit available to other countries -- or, conversely, that "excessive" loans to foreigners will drain needed funds away from our own economy. Neither outcome is at all likely.

The danger that our domestic economy would suffer from inadequate funds as a result of excessive capital exports is minimal. If capital in the U.S. becomes scarce, interest rates will tend to rise; U.S. funds will be employed at home, and indeed funds will flow in from abroad.

If our economy is expanding more rapidly than that of other countries, or if we are approaching capacity utilization of our resources, our current account deficit is likely to grow and the net inflow of funds to the United States will increase. At the same time, such an increase in the current account deficit will mean that there is a strong U.S. market for the exports of other countries--strengthening their current account position and reducing the need for them to borrow in the first place. There might be less borrowing, but there would be less need for such borrowing.

At this time in fact, there is a net inflow of foreign capital to the United States. Except for 1975, when special circumstances dictated, the United States current account has been in deficit since the increase in oil prices. Hence we have imported capital to balance our international accounts. The risk to our domestic economy of inadequate funds is minimal.

### Conclusion

Mr. Chairman, we reject the view that the international lending activities of American banks are posing grave risks to the American economy or banking system. We believe, to the contrary, that they have been remarkably successful in playing a vital role in helping to finance an unprecedented level of international trade, capital flows and payments imbalances -- and that they continue to enjoy such success. We can find

Debt  
Role of foreign banks

no adverse effects of their activity on our own economy, the soundness of our banking system, the availability of credit for domestic purposes, or the entire world economy.

To assure the maintenance of such stability, the United States has adopted a six-fold approach:

- (1) A new energy program, to be announced by the President on April 20, which will help reduce over time the magnitude of the payments imbalances which must be financed between OPEC and non-OPEC countries.
- (2) Urging the non-OPEC surplus countries to take measures to adjust their positions, to reduce the financing needs of the deficit countries.
- (3) Urging the deficit countries to adopt prudent adjustment measures, so that individual countries will not require an undue proportion of the total financing which is needed.
- (4) Support for the development of a system to provide more complete data on the economic and financial conditions of individual countries, so that lending by both private and official entities can be made on the basis of fully adequate information.
- (5) Consideration of augmenting the resources available to the IMF, and perhaps other international institutions, to provide adequate official financing for international balance-of-payments purposes and thereby to backstop the private system where necessary.



- (6) Debt rescheduling for individual countries when there is no other way to deal with their immediate problems.

Within this policy framework, Mr. Chairman, we are confident in the continued stability of international lending by American banks.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Bela Balassa (through Mr. Chenery)

SUBJECT: Club de Dakar -- 3rd Plenary Meeting

DATE: April 7, 1977.

*Delivered on  
4/19/77*

- Final Date*
1. The enclosed English translation of the Final Documents of the 3rd Plenary Meeting of the Club de Dakar, received with considerable delay, contains the conclusions reached at the meetings of the Club held last December. This memorandum briefly reports on the activities of the Club and the main resolutions contained in the document, which are deemed to be of interest for the work of the proposed Brandt Commission as well as for the Bank.
  2. According to its Constitution, the Club de Dakar aims at finding practical solutions to problems arising in the relationships of developed and developing countries. Its guiding spirit is Mohamed Diawara, the Planning Minister of the Ivory Coast, and its membership consists largely of officials of Western African countries, and officials, economists, and businessmen in developed countries, with considerable concentration in France.
  3. The deliberations of the Club de Dakar differed from many North-South meetings in that there was little animosity expressed towards the developed countries and unreasonable demands, such as the indexation of commodity prices, received little support. The resolutions adopted reflect the view that the developing countries could best prosper in the framework of a growing world economy. This purpose would be served by liberalizing trade in the developed countries and by encouraging the transfer of labor-intensive activities to the developing countries, also involving foreign direct investment.
  4. In the course of the discussion, the main conflict appeared to be between resource-poor and resource-rich countries rather than between developed and developing countries. This conflict found expression in various demands made in the resolutions of the Club, directly or indirectly, on the oil exporting countries. The relevant provisions include increasing non-reimbursable official aid to 5 percent of the export earnings of non-industrial countries with financial resources (in practice, the main oil exporters); compensating developing countries for the increase in oil prices on the quantities they imported before the oil crisis from an equalization fund to be set up from contributions of all oil-producing countries; financing research on new sources of raw materials and their possible substitutes from the proceeds of a tax on the production and consumption of raw materials, including oil; and reaching agreements among developing countries, possibly on a regional basis, on the sharing of part of the proceeds of raw material exports, again including oil.

5. Bringing non-reimbursable official aid to 5 percent of the export earnings of the main oil exporting countries alone would represent a substantially larger proportion of their GNP than the 1 percent target for the developed countries. This target has been reaffirmed, extending it -- for the first time -- to the centrally planned economies.

6. The resolutions of the Club de Dakar also called for the stabilization of export earnings. In the discussions, emphasis was given to the favorable experience of the Common Market's STABEX scheme while it was recognized that stabilizing prices does not necessarily lead to the stabilization of export earnings. This may explain that UNCTAD's common fund scheme received relatively little attention at the meetings.

7. While the resolutions dealt with issues on the world level, they were formulated with the interests of the small countries of Western Africa in mind. This orientation of the Club will be accentuated in the future, with the additional expansion of membership concentrated in countries in Western Europe other than France and in the Middle East, which latter may contribute to the industrial expansion of the countries of Western Africa.

8. The immediate problem facing the Club de Dakar is that of financing. While its annual budget is relatively modest (\$400,000), contributions provided by the governments of the Ivory Coast, Senegal, and Tunisia cover only a part of it. Yet, the Club is worthy of support as, in eschewing demagoguery and impractical schemes, it attempts to contribute to the economic development of small African countries.

cc: Messrs. Knapp, Cargill, Chaufournier

BBalassa:nc

4/4 To Dr. Chenery APR 6 1977 8:30p

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: April 1, 1977

FROM: <sup>For</sup> Hollis B. Chenery *AK*

SUBJECT: "25 Years of Development"

1. Please schedule for discussion on the President's Council on Monday 4/18 (distributed 4/5).

v. Should not the paper be appended (over note prepared)

1. I am enclosing a first draft of a paper reviewing the experience of 25 years of development from a poverty oriented viewpoint.

2. We will of course be reviewing the paper, and it will be revised in due course. However, this is a subject on which a consensus seems less important than a fresh and yet comprehensive view, and we are therefore presenting it although it is still rough in form. You might like to read it now so that we can elaborate on any themes you wish to use in your speech to the Governors.

Attachment

cc: Messrs. Karaosmanoglu, Haq, and Mrs. Hughes

to review the 45 year development from the viewpoint of LDC + DC policy makers + political leaders.  
*Done*

*1st. Secretary  
Anastasiadis  
Grad. Melburn - LSE  
Ph.D. - M.I.T.*

*Harvard - Columbia*

*Hebrew U.*

*Employment et al. - underst.  
RPO*

*Return May 20 - Portugal Minis.*

HHughes:di

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: March 29, 1977

FROM: Hollis B. Chenery *HB*

SUBJECT: Report on the Status of the International Comparisons Project (ICP)

1. I am attaching the "Second Status Report on the International Comparisons Project (ICP)" which we wish to send to the Board for information. This note was prepared by the Economic Analysis and Projections Department in response to requests from several Executive Directors for information on the current status of the project. An earlier report (No. 919) in similar format was circulated to the Board in November 1975.

2. The report describes the work which has been done in "Phase II" of the project. This includes: the addition of six countries (including four developing countries) to the ten countries covered in Phase I; updating the benchmark estimates of all the countries to 1973; and beginning the work on expansion of country coverage by less costly methods. The objectives of the final phase of the project, targeted for completion in 1978, include addition of 20-25 countries and further work on cheaper means of expanding the country coverage.

3. The likely evolution of future work on international comparisons is expected to take the form of a permanent program within the United Nations Statistical Office, with the support of a technical advisory group in which the Bank would participate. Several ways in which the Bank might contribute to this work, including research on some of the methodological problems involved in expanding country coverage, occasional data collection as a by-product of Bank economic mission work, and occasional publication are then suggested.

4. You will recall that Professor Kravis and I held a seminar for the Board following the publication of the Phase I Report. We propose to wait until the Phase II Report is published late this year to decide whether another seminar should be held.

Attachment

HBChenery/HHughes:nff

cc: Mr. Karaosmanoglu  
Mrs. Hughes  
Mr. McPheeters

*3/30*  
*Approved for distribution*  
*[Signature]*

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Document of  
The World Bank

Report No. 1541

Second Status Report on  
THE INTERNATIONAL COMPARISONS PROJECT (ICP)

March 1977

Prepared by: Economic Analysis and Projections Department  
Development Policy Staff

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The World Bank does not accept responsibility for the accuracy or completeness of the report.

Second Status Report On  
THE INTERNATIONAL COMPARISONS PROJECT (ICP)

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## I. Introduction

1. This is the second report to Board of Executive Directors on the status of the International Comparisons Project (ICP). In the first report /1, emphasis was placed on the origins of the work on international comparisons, the development of the methodology adopted for the ICP, and comparison of the preliminary results available at that time with other estimating procedures, particularly those used in the World Bank Atlas. Circulation of the first status report was followed by a seminar on the ICP for Executive Directors on December 4, 1975, conducted by Mr. Hollis B. Chenery and Professor Irving B. Kravis, technical director of the project at the University of Pennsylvania. The occasion of the first status report and seminar was the publication by the Bank of the results of the first phase of the ICP, referred to hereafter in this note as the "Phase I Report." /2

2. The purpose of the present note is to inform Executive Directors of the progress in the ICP during the past year and, in response to a number of inquiries, to identify some of the issues still outstanding in the work on international comparisons and to consider briefly how some of them might be approached. Thus, the emphasis in this report shifts from the past to the future.

3. For the sake of convenience, work on the ICP has been divided roughly into three phases. The first phase, which began in 1968 and came to a close in 1975 with the publication of the Phase I Report, was devoted primarily to the development and testing of the ICP methodology and its application to a limited group of ten pilot countries for the year 1970. In Phase II the number of countries covered has been expanded to 16, the original data revised and updated (to 1973), and work begun on the methodology required to expand both country coverage and coverage over time. In Phase III some 15-20 countries, a majority of them developing countries, will be added to the project and the entire set of benchmark comparisons will be updated to 1975.

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/1 "International Comparisons of Income and Product, Report No. 919, circulated to the Board under SecM75-809, November 21, 1975.

/2 Kravis, Kenessey, Heston and Summers, A System of International Comparisons of Gross Product and Purchasing Power, Baltimore, Johns Hopkins University Press, 1975.



4. A preliminary draft report on the second phase of the ICP has been completed and is under review by the Bank and other sponsors. Although it is not yet in final form and will not be published until later this year, a brief summary of some of the results is included in the second section of this note. Sections three and four of this note take up in somewhat more detail two of the main problems which must be faced as the ICP itself draws to a close: developing methods to extend the coverage of the ICP to non-benchmark countries (Part III), and organizing future work on international comparisons (Part IV). The final section outlines some of the ways in which the Bank might contribute to this work. Annex I contains a list of countries which have been or will be covered by the ICP, Annex II is an updated statement of the project's financial status, and Annex III shows the table of contents of the Phase II Report to be published later this year. For the information of readers, Annex IV contains a brief overview of the ICP methodology as described in the first status report to the Board, together with a simple illustration of both binary and multilateral comparisons.

## II. Phase II of the ICP

5. The second phase of the ICP was introduced as an interim phase. It was designed to extend the country coverage of Phase I, to produce a revised and expanded set of benchmark comparisons, and to begin the development of a general methodology for updating these benchmark comparisons. Preliminary consideration was also to be given to the problem of finding less costly means for expanding the country coverage of the project.

6. The collection and compilation of data for Phase II was completed during the first half of 1976; analysis was completed during the second half of the year, and a draft report was circulated to sponsors in January, 1977. The draft was considered by the World Bank Publications Committee in February, and it was decided that the Phase II Report would be published late this year by the Johns Hopkins University Press in a format similar to the Phase I Report. /1

7. The Phase II Report contains revised 1970 and new 1973 estimates for the 10 Phase I countries, /2 and both 1970 and 1973 estimates for six new countries - Belgium, Iran, Korea, Malaysia, Netherlands and the Philippines. For all 16 countries and the two reference years, comparisons are presented for GDP as a whole, for the three main components of GDP -- consumption, investment, and government, and for 36 subaggregates. The aggregated data, expressed in per capita terms, are shown below in Table 1. (Current price data from the appropriate World Bank Atlas for each of the two years are included in the table for reference.)

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/1 The table of contents of the Phase II Report is reproduced in Annex II for information.

/2 See Annex I for a summary of ICP country coverage.

Table 1: GNP/GDP per Capita, Atlas and ICP  
(Current U.S. \$)

	GNP Per Capita (Atlas)	GDP per capita		Exch. Rate Deviation Index
		Exchange Rate	ICP	
	(1)	(2)	(3)	(4)
		<u>1970</u>		
Kenya	150	143	303	2.1
India	110	100	335	3.3
Philippines	210	187	572	3.1
Korea	250	265	593	2.2
Colombia	340	338	858	2.5
Malaysia	380	397	915	2.4
Iran	380	404	975	2.4
Hungary	1,600	1,036	2,045	2.0
Italy	1,760	1,722	2,326	1.4
Japan	1,920	1,897	2,833	1.5
United Kingdom	2,270	2,195	3,027	1.4
Netherlands	2,430	2,431	3,293	1.4
Belgium	2,720	2,634	3,344	1.3
France	3,100	2,790	3,483	1.2
Germany	2,930	3,072	3,738	1.2
United States	4,760	4,854	4,854	1.0
		<u>1973</u>		
Kenya	170	184	378	2.1
India	120	129	404	3.1
Philippines	280	259	763	2.9
Korea	400	379	932	2.5
Colombia	440	440	1,126	2.6
Malaysia	570	628	1,185	1.9
Iran	870	917	1,797	2.0
Hungary	1,850	1,598	2,796	1.7
Italy	2,450	2,525	2,889	1.1
Japan	3,630	3,764	4,022	1.1
United Kingdom	3,060	3,140	3,742	1.2
Netherlands	4,330	4,402	4,239	1.0
Belgium	4,560	4,608	4,538	1.0
France	4,540	4,777	4,695	1.0
Germany	5,320	5,535	4,789	0.9
United States	6,200	6,240	6,240	1.0

Sources: Column 1 - 1972 and 1975 Atlas; Column 2 - ICP from U.N. Monthly Bulletin of Statistics; Column 3 - ICP; Column 4 - Column 3 ÷ Column 2.

8. Ranking the countries by GDP per capita clearly reveals the systematic relationship between the ICP estimates and figures derived from a straight exchange rate conversion. The ratio of real to exchange-rate-based GDP per capita, referred to in the ICP as the "exchange rate deviation index," falls as real per capita GDP rises. As the exchange rate deviation index indicates, the 1970 real GDP per capita of the other 15 countries relative to that of the United States ranged from 20 percent higher than indicated by the exchange-rate-converted figures in the cases of France and Germany, to more than three times as great in the case of India.

9. The depreciation of the dollar vis-a-vis European currencies between 1970 and 1973 brought European/U.S. exchange rates into closer alignment with purchasing power parities; the exchange rate deviation index for all the European countries is closer to one in 1973 than in 1970. The same is less uniformly true for the five lowest income countries in Table 1. For Korea and Colombia, two of the four countries with currencies that depreciated against the dollar, the exchange rate deviation index is higher in 1973 than in 1970. The large changes in exchange rates between the two years underline the unreliability of comparisons based on exchange rate conversion. The exchange-rate-converted figures in the case of Germany, for example, suggest that per capita GDP relative to that of the United States rose from 63.3 percent in 1970 to 88.7 percent in 1973. In fact, Germany's real per capita GDP (i.e., measured in international dollars) declined slightly relative to that of the United States, from 77.0 percent to 76.7 percent. The latter result is much more closely in accord with the relative growth of the real per capita GDP (i.e., as measured in constant domestic prices) between the two years in the two countries. Real GDP per capita increased by 9.5 percent in Germany and 11.6 percent in the United States.

10. The variation in the exchange rate deviation index from country to country means that the relative per capita income levels of the countries cannot be inferred from exchange-rate-converted GDP per capita. For only one pair of countries, however, does the ordinal ranking of the countries change when international prices rather than exchange rate conversions are used to value quantities. In both years, the use of international prices produces a higher per capita GDP for India than for Kenya, which is the opposite of the result obtained when exchange rates are used to convert the countries' GDP to U.S. dollars.

11. Readers of this note and the Phase II Report will notice some differences between the results of the work in Phase II and those reported in the Phase I Report for 1970, even though the sources of data and the methodology remain the same. These differences are due to several factors, but they fall essentially into two categories. First, there have been revisions to the basic national accounts of several participating countries, as well as improvements in the estimates for various components of the data as a result of the availability of new data or the correction of errors. Although these revisions have not been large in the aggregate, they underline the importance of constant review and strengthening of the data base, particularly if the results are to be used for operational or analytical purposes.

12. Second, the estimates of some of the data for the original ten countries have changed because of the inclusion of data for six new countries in the calculation of international prices. This problem was referred to in the Phase I Report (see paragraph 3, Annex IV of this note, below), and has been given more attention in Phase II. In particular, with the addition of four developing countries to the sample covered by the ICP, a more disaggregated weighting structure becomes feasible for use in compensating for the effects of countries not included. In Phase I, a three-tier breakdown (very high, high and low) was used to provide aggregate weights for approximating the effect of excluded countries. /1 In Phase II this structure has been expanded to a five-tier breakdown, in which each of the "super-countries" represents a more homogeneous group of excluded countries. /2

13. As already noted, in addition to expanded country coverage and continued refinement of the ICP methodology, Phase II had as an objective the examination of procedures for updating the benchmark comparisons. The Phase II report deals extensively with this issue as a methodological problem, and also contains a preliminary analysis of some of the results. With a complete set of benchmark data for two years (1970 and 1973), and additional data for 1967 for six countries, the ICP has estimated a time series of per capita GDP indexes for the period 1965-75. These estimates are shown below in Table 2.

Table 2: Approximate\* Indexes of Real GDP per Capita, 1965-75

	1965	1966	1967	1968	1969	1970*	1971	1972	1973*	1974	1975
Kenya	5.3	5.6	5.5*	5.6	5.8	6.2	6.2	6.1	6.1	6.3	--
India	6.9	6.6	6.8*	6.6	6.7	6.9	7.3	6.7	6.5	--	--
Philippines	11.5	11.6	11.3	11.3	11.3	11.8	12.0	11.9	12.2	12.8	14.0
Korea	8.6	9.1	9.5	10.2	11.7	12.2	13.1	13.3	14.9	16.3	--
Colombia	17.1	16.6	16.5	16.5	16.8	17.7	17.9	18.0	18.0	19.1	--
Malaysia	--	--	--	--	--	18.9	18.5	18.2	19.0	20.1	--
Iran	15.5	15.4	16.4	17.3	18.2	20.1	22.4	25.0	28.8	--	--
Hungary	34.3	35.1	37.3*	37.7	39.8	42.1	43.1	43.6	44.8	49.1	--
Italy	41.1	41.0	42.8	43.8	45.3	47.9	47.2	46.1	46.3	48.6	--
Japan	41.6	42.9	47.3*	50.5	54.7	58.4	60.6	62.4	64.5	64.6	67.0
U.K.	63.9	60.7	60.5*	60.0	59.4	62.4	62.0	60.2	60.0	62.0	62.5
Netherlands	60.5	58.2	59.7	61.0	63.4	67.8	69.1	68.3	67.9	71.3	71.4
Belgium	61.6	59.8	60.8	61.2	64.0	68.9	70.7	71.4	72.7	77.2	--
France	62.8	62.4	63.7	64.2	67.6	71.8	74.1	74.6	75.2	79.5	--
Germany	69.8	67.4	65.8	67.9	71.6	77.0	77.3	76.2	76.7	79.1	80.7
U.S.	100	100	100	100	100	100	100	100	100	100	100

\* All 1970 and 1973 figures and the 1967 figures marked with an asterisk represent full scale ICP estimates. All other figures are approximations derived by extrapolations and interpolations. See text.

/1 See Phase I Report, P. 71 ff.

/2 In addition, the base for calculating supercountry weights has been updated from the 1972 World Bank Atlas to the 1975 edition.

14. At the aggregate level, one updating method considered in Phase II is analogous to that used in the World Bank Atlas and elsewhere to link time series and to move estimates forward from an established base year or period, i.e., the use of real (constant price) growth rates or indexes. The Phase II Report points out, however, that this approach, while satisfactory for measuring relative changes in real output, overlooks the effects of changes in the terms of trade, which would have to be taken into account if the measurement of income were the objective. This, in turn, requires measurement of relative changes in purchasing power parities. For this purpose the ICP has used relative changes in GDP deflators at the aggregate level; it was this approach which was used to estimate the indexes shown in Table 2. A similar procedure is now being introduced into the calculation of GNP per capita in the World Bank Atlas and lending program guidelines in order to adjust exchange rates after a devaluation. The Phase II Report recognizes that such adjustments should be made at a disaggregated level given the rapid changes in the structure of international prices in recent years. However, aside from a brief consideration of the data requirements, analysis at a more detailed level is left to Phase III. In linking the benchmark estimates for each country with two or more observations, a forward extrapolation was made from the earlier year and a backward extrapolation from the later year. After weighting the years closer to the benchmark years more heavily, an average of the two extrapolations produced the interpolations for the intervening years.

15. Work on cheaper means for extension of the country coverage of the ICP began during Phase II. While early results appear promising, they are still too preliminary to report in this note. A consideration of some of the problems which must be overcome is included below in Part III.

### III. What Remains to be Done

16. The third phase of the ICP actually began late in 1974, when discussions leading to the participation of additional countries were undertaken with national authorities. In Phase III, 20 to 25 countries, a majority of them developing countries, will be added to the project, and a new round of benchmark comparisons centered on 1975 will be prepared for all participants. With the completion of Phase III, now targeted for mid-1978, what has always been thought of as the "research phase" of the ICP will be concluded and work on international comparisons will assume a different character. There is little doubt that upon its completion the ICP will have accomplished its original objectives, and that it will prove to be a major contribution to economic thought and understanding. The project represents the culmination of more than four decades of continuous effort to find more reliable and theoretically acceptable means of measuring comparative incomes. While further improvements and refinement will undoubtedly be made over time, the essential tenets of the ICP methodology are now well established and empirically tested.

17. With the basic methodology established and tested, with a time series of benchmark estimates prepared, and with initial work on linking these benchmark data for updating purposes well in hand, there remains one major area to which attention must be turned as the ICP itself draws to a close. Specifically, if the knowledge and experience gained from the project are to be applied to the wide range of operational and research requirements of the international community, methods must be found to extend the coverage of the comparisons to countries outside the ICP sample, and regular updating must be undertaken. This is not to say, of course, that the final ICP results will not be of great value even if no further work were done. On the contrary, the methodology is already being put to use for operational purposes, /1 and it is likely that the detailed data developed in the course of the project will provide the raw material for years of research in both theoretical and applied economics.

18. For more general purposes, what is required is a set of comprehensive annual comparisons covering all or most of the countries of the world. The expansion of the system to a large number of countries by the present methods will at best take a long time, and it is not at all certain that the resources will be available to do the job. Even with the most optimistic appraisal of the future for work on international comparisons, it is unrealistic to believe that the methods used for the ICP sample can be applied to all countries; some will be unable to supply the requisite data, others may not be willing. The question that arises now and which will still be with us for the foreseeable future is whether the experience and data of the ICP can be used to produce better estimates of real GDP per capita than exchange rate conversion for countries for which benchmark ICP estimates are not available. We will be in a better position to answer that question at the end of Phase III, when there will be comparisons for 30 or more countries. Already it is clear from the data of the 16 Phase II countries that pairs of countries with not too similar per capita incomes can be compared more meaningfully using adjustment factors based upon ICP data than on exchange rate conversions.

19. In the absence of a comprehensive set of annual comparisons of real GDP per capita, there have long been efforts to fill the gaps by less expensive and time-consuming methods. These methods normally have fallen into two general categories: the "reduced information" approach, and the "short-cut" approach. As the name implies, the reduced information approach tries to carry out ICP-type price and quantity comparisons with less data than the approximately 400 prices and 152 expenditure categories required in the present ICP approach, and/or with more easily acquired data such as those in published sources. There is a wide range of possibilities, extending from a full scale approach based on a somewhat

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/1 An example is the work currently under way in FAO to apply the ICP methods to a new system of global agricultural production indexes.

smaller number of price observations and a less detailed breakdown of expenditure on GDP, to the use of a very much reduced set of price and expenditure data sometimes covering only consumption rather than GDP as a whole.

20. A major difficulty in knowing what to make of the comparisons produced by the different versions of this approach is that there has been no adequate standard against which the results could be assessed. With the availability of the ICP results, however, it becomes possible to make some systematic comparisons between the full scale results and results obtained from a data set less complete than that used in the ICP comparisons. For example, in Phase II some limited experiments were performed for the ten Phase I countries in which expenditure categories were aggregated into 29 categories and only half the prices -- those with the highest frequency of country representation -- were retained. When this reduced information was used to make binary comparisons, the resulting Fisher quantity indexes for 1970 were within 10 percent of the full scale binary comparisons, although the relationship between pairs of countries not involving the United States were not always so close. Nevertheless, the reduced information results are much closer to the full scale results than the comparisons based on exchange rate conversions.

21. The encouragement to be derived from these results is, however, diminished by doubt that the economies gained by this degree of data reduction would be substantial enough to meet the problem in most of the countries that will not have been covered by the end of Phase III. Just halving the number of prices still necessitates a distribution of the price comparisons over the entire range of GDP, including capital formation and compensation of government employees. The former is an area for which statistical offices usually find price collection very difficult, and the latter one in which there is often a surprising paucity of nationwide (central and local) data on compensation by occupational category. Reducing the burden on the expenditure side by seeking a less detailed expenditure distribution would save only a relatively limited amount of time on the part of national statistical offices. These reductions do not go far enough for small countries with little statistical capability, and it seems unlikely that such halfway measures will prove to be worthwhile in large and complicated economies such as those represented by most of the Phase I countries. Even if the larger margins of error for GDP as a whole prove to be tolerable, the errors can be expected to increase with disaggregation and thus to diminish the usefulness of the comparisons for major components of GDP. As the real problem will be mainly at the low income extreme, even more extensive reduction in information requirements may turn out to be necessary, especially for economies that are small and simple as well as poor. Plans are being formulated for further experiments with reduced information methods during the course of Phase III.

22. In view of the foregoing, the other approach -- the so-called "short-cut" method -- takes on added significance. It may well be that, at least for aggregate GDP, the only feasible method for obtaining purchasing power parity estimates covering most countries of the world in the foreseeable future will be some sort of short-cut procedure. Several such methods were outlined briefly in the first status report of the ICP. /1 Work on short-cut methods generally falls into two categories: (1) estimates based essentially on monetary indicators (such as exchange-rate-converted GDP), and (2) estimates based on physical indicators (such as steel production, food consumption, or stock of telephones). David's "rule of four-ninths," for example, is typical of the monetary approach. /2 Income comparisons among the countries of Eastern and Western Europe carried out by the U.N. Economic Commission for Europe are among the more elaborate physical indicators studies.

23. Until now two basic problems have seriously hampered work on short-cut methods. First, as noted above, there has never been an adequate set of benchmark comparisons. While the OEEC studies of Gilbert and Kravis in the 1950's were the best produced before the ICP, they dealt for the most part with more developed countries, and the results were almost certainly distorted to some degree by the fact that data collection took place while many of the participating countries were still rebuilding war-damaged economies. Second, although most of the fundamental concepts have been with us for a long time and are well understood, there has never been a thoroughly satisfactory, empirically tested system for explaining the differences in prices which exist among countries.

24. The ICP will, for the first time, provide the necessary benchmark data for countries over a broad spectrum of relative incomes. In addition, work is currently under way in the project to examine some of the theoretical requirements of short-cut methods, and to test the results against a gradually expanding base of solid ICP estimates. In this work both monetary and physical indicators are being used, with initial emphasis on the relationship between real (ICP) and nominal (exchange rate) GDP, and the degree to which this relationship is influenced by the openness or isolation of the economy relative to the rest of the world. Early results of this work appear promising and it will continue in Phase III.

#### IV. Institutionalizing the Work on International Comparisons

25. Pulling together some of the issues already discussed in this note, it is clear that to convert the momentum generated by the ICP into a longer range, more operationally oriented effort there are four primary tasks:

/1 See Annex I, paragraph 5-7, and the bibliography.

/2 In a widely read article which appeared in the Economic Journal in 1972, P. A. David postulated a rule-of-thumb which states that the difference between the U.S. and the other country's real per capita income is only about four-ninths of the difference as expressed in nominal (or exchange rate) terms.



- a. The system of benchmark estimates should be expanded gradually to cover a larger sample of countries, particularly the poorer developing countries.
- b. Concrete methods need to be established and put into operation to expand country coverage beyond the benchmark sample using less expensive procedures. This will involve an ongoing research effort.
- c. The set of benchmark estimates will have to be kept up to date through repetition of full ICP-type comparisons from time to time; a rotating system in which each country would be updated at intervals of five to ten years has been suggested.
- d. A system of annual updates, at least for aggregate GDP, will have to be instituted covering both benchmark countries as well as those for which estimates are derived by other methods.

26. In other words, the "project" will have to become a "program." In essence, this is what the United Nations has proposed, with the concurrence, in principle, of the World Bank and other sponsors. While it will take some time to work out the details, the general outlines of such a program are already taking shape. First, there is almost universal agreement that the best location for a permanent international comparisons program would be within the structure of the U.N. Statistical Office, headquartered in New York. There are several reasons for this, among them the facts that (1) the UNSO has already acquired a great deal of experience in the substance of the work, (2) such work would complement and benefit from other UNSO programs in national accounts and prices, and (3) the UNSO is the only competent agency with the necessary mandate to collect statistics from all countries of the world, including those with centrally-planned economies. The UNSO has included a request for additional posts in its 1978-79 budget to establish the necessary core staff at U.N. headquarters, and the U.N. will be approaching several developed country member governments for additional funding of some \$1.5 million to enable the ICP to be fully integrated into the UNSO work program. An advisory group of technical experts would assist the UNSO during this phase.

27. Another element of the program under consideration within the United Nations is the need to further develop the work on international comparisons on a regional basis. This will entail greater recognition of regional requirements and circumstances in the scope and content of the work, and possibly also the development of regional programs. The primary avenue of expansion of the work in this direction will be through cooperation with the U.N. regional economic commissions and the

regional development banks. Work on international comparisons has been under way for some time in the Latin American region, where both the U.N. Economic Commission for Latin America and the Inter-American Development Bank have taken an interest. Similarly, the U.N. ECE, the CMEA, and the Common Market Commission have been involved in some aspects of the ICP work on European countries, and regional organizations in other parts of the world have expressed an interest in the project.

28. The U.N. Statistical Office intends to undertake a review of national and international requirements for information of this kind, taking into account the procedures and methodology established and the results achieved by the ICP. On the basis of this review, detailed proposals for a permanent international comparisons program will be drawn up for consideration by the Statistical Commission of the United Nations at its twentieth session early in 1979. The Commission has strongly endorsed the ICP since its inception, and approval of the UNSO proposals is expected. /1

#### V. The Future Role of the World Bank

29. Since the beginning of the project in 1968, the Bank has been a steady supporter of the ICP. As indicated in Annex II, by the completion of Phase III the Bank will have contributed more than \$600,000 to the project budget (about 24% of the total cost); in addition, Bank staff have made contributions from time to time in coordinating the project, and arranging for staffing, fund raising, and editing and publishing the ICP reports. The role of the Bank as a major sponsor is generally considered to be a significant factor in the success of the ICP.

30. The Bank's direct, financial support of the ICP has been funded primarily through the research budget. However, as the research phase of the ICP comes to a close and the transition to a permanent U.N. program begins, dependence on this type of financing will no longer be appropriate, and other support is therefore being sought as already indicated. The Bank's general contribution to the ICP will take the form of membership in the technical advisory group. In addition, the following specialized participation is envisaged:

- a. Research. There will be a continuing need for research on international comparisons, both in the methodological area (short-cuts, etc.) as well as in the application of the results to other areas of economic analysis and development policy. Some of this research will be operationally oriented and would logically be carried out in-house by Bank economic and

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/1 In its report to the Economic and Social Council on the nineteenth session, held in New Delhi in November, 1976, the Statistical Commission "expressed very strong support for continuation and expansion of the ICP, the results to date being considered most useful."

and statistical staff. Other aspects will be more theoretical in nature and would be entirely appropriate for research budget funding.

b. Data collection. In the course of normal operations Bank staff visit virtually every member country every year or so. A common objective of every economic mission is updating the Bank's information on member countries' economies; frequently, specialized statistical staff are assigned to economic missions exclusively for this purpose. Under certain circumstances it could be feasible to expand the data collection mandate of Bank staff to include collection of data required for updating or strengthening the international comparisons data base. In some cases this would require little additional effort by Bank staff but would provide a major contribution to the comparisons work. A trial mission in one country will be undertaken this year. The success of this approach will depend to some degree on the development of a simplified data collection manual, which is one of the objectives of Phase III.

c. Publication. The Bank has been the publisher of the major ICP reports to date, and would probably want to continue participation in this aspect of the work, both in order to contribute to the program and to ensure the widest possible dissemination of the results to the development community. In addition, it is likely that at an appropriate stage the Bank will wish to begin publishing annual ICP-type estimates in conjunction with other income data in such documents as the Atlas and the World Tables.

ICP country Coverage by Phase and Region

	Phase I	Phase II	Phase III	
			Firm	Possible/ <sup>1</sup>
<u>Developed Countries:</u>				
	France	Belgium	Austria	
	Germany	Netherlands	Denmark	
	Italy		Ireland	
	Japan			
	United Kingdom			
	United States			
<u>Centrally Planned:</u>				
	Hungary		Poland	
			Romania	
			Yugoslavia	
<u>Developing Countries:</u>				
<u>Africa</u>	Kenya		Ghana/ <sup>2</sup>	Cameroon
			Malawi	Ivory Coast
			Zambia	Madagascar
				Tunisia
<u>America</u>	Columbia		Brazil	Argentina
			Jamaica/ <sup>2</sup>	Peru
			Mexico	St. Lucia
			Uruguay	
<u>Europe</u>			Spain	
<u>Asia</u>	India	Iran	Pakistan	Indonesia
		Korea	Sri Lanka	Iraq
		Malaysia	Syria	Jordan
		<u>Philippines</u>	<u>Thailand</u>	
<u>Total by Phase</u>	10	6	18	10
<u>Cumulative Total</u>	10	16	34	44

<sup>1</sup> Discussion initiated with national authorities

<sup>2</sup> Strong prospect for inclusion.

International Comparison Project  
Expenditure and Funding, FY1968-78

(Thousands of U.S. dollars)

	Period 1968-70	Actual 1971	Estimate 1972	Projected 1973-77		Total 1968-77
<u>EXPENDITURE</u>						
<u>Central Staff</u>						
Univ. of Pennsylvania	481.5	66.4	86.3	84.0	96.0	803.2
UN Statistical Office	401.0	97.2	111.1	131.0	140.1	880.4
Total	882.5	163.6	197.4	215.0	236.1	1,683.6
<u>Data Collection</u>						
ICP Staff	*	19.5	25.5	21.7	24.5	*
Technical Services /2	*	25.6	68.6	108.4	11.6	*
Country Surveys	*	2.9	12.0	22.0	-	*
Total	160.3	47.1	106.2	150.5	86.1	550.2
<u>Computing and Overhead /3</u>						
	144.4	28.2	55.8	41.3	40.7	310.4
Total Expenditure	<u>1,187.2</u>	<u>238.9</u>	<u>359.5</u>	<u>406.8</u>	<u>356.9</u>	<u>2,549.3</u>
<u>FUNDING</u>						
<u>International Agencies</u>						
I.B.R.D.	212.6	90.2	130.0	90.0	90.0	612.8
U.N.	261.5	36.5	37.5	39.9	42.7	418.1
Total	474.1	126.7	167.5	129.9	132.7	1,030.9
<u>Governments</u>						
Germany	-	20.0	53.5	44.5	44.0	162.0
Netherlands /4	150.0	61.0	64.0	67.1	70.7	412.8
United Kingdom	-	-	22.5	67.0	28.6	118.1
United States /5	154.6	40.0	40.0	(40.0)	(40.0)	314.6
Others /6	21.0	13.0	14.5	30.3	4.5	83.3
Total	325.6	134.0	194.5	248.9	187.8	1,090.8
<u>Private Organizations /7</u>						
	390.0	-	-	-	-	390.9
Total Current Funding	<u>1,190.6</u>	<u>260.7</u>	<u>362.0</u>	<u>378.8</u>	<u>320.5</u>	<u>2,512.6</u>

\* Not available separately.

/1 Partially estimated; detailed data are not available for all years prior to FY1972.

/2 Includes consultants and direct costs of field experts and in-kind contributions.

/3 Includes domestic travel, translation services, office support and other overhead.

/4 Includes donations received from the Netherlands Trust Fund administered by United Nations.

/5 Excludes in-kind contributions FY1968-74; assumes continuation of present annual commitment.

/6 Includes Denmark, Hungary, Norway.

/7 Ford Foundation (384.8) and Social Science Research Council (6.0).

(Draft Phase II Report)

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Chapter 5

Results of the Binary Comparisons

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An Overview of the ICP Methodology

1. The ICP comparisons are carried out in terms of final expenditure on GDP using concepts and definitions of the U.N. System of National Accounts (SNA). A standard classification of the final expenditure on GDP, consisting of 153 detailed categories, is established. Final expenditure for each country included is allocated to these ICP categories. For most detailed categories, the procedure is to compute the purchasing power parity based on from one to a dozen representative items in consumption, and then to obtain a quantity comparison for the category by dividing the PPP into the expenditure ratio (for each country compared with the United States). The results of price and quantity comparisons of the 153 detailed categories are then aggregated into 34 "summary" categories (such as meat, transport equipment), the three main aggregates (consumption, capital formation, and government), and GDP itself.
2. The ICP presents results both of the traditional binary comparisons -- i.e., between pairs of countries -- and of new multilateral comparisons in which all countries are considered simultaneously. Binary comparisons involve computation of two quantity indices, one based on the first country's weights (or quantities) and the other based on the second country's weights (or quantities), at a common set of prices. Usually two such comparisons are made, one using the first country's prices and the other the second country's. As these will ordinarily be different the geometric mean of the two results, Fisher's "ideal" index, is also given. Binary comparisons are relatively easy to understand, and their results are not affected by the presence of a third country. However, for international institutions such as the World Bank, the multilateral comparisons are more useful as they compare all the countries included simultaneously. They require developing a single set of weights representing a group of countries which are then used for all comparisons, thus avoiding the ambiguity inherent in the binary comparisons.
3. For multilateral comparison, the ICP has established a list of critical tests and, after experimenting with many possibilities, has adopted a system which yields two sets of figures: purchasing power parities for each country's currency, and "international prices" for each commodity (or group of commodities). With these prices direct comparison of PPP between two countries gives the same result as a comparison of their PPP's relative to that of a third country (which is not true of a simple binary system). The resulting comparisons are thus said to be transitive, or circular. However, there is still another problem. The international prices are averages of the country relative prices for each commodity category, weighted by each country's quantities. Without any correction of these weights, the international prices and therefore the estimates of per capita GDP would depend on which countries happen to fall in the set. Therefore the ICP has modified these weights in an effort to make the countries included represent the various countries in the world that are not included in the set. These representative countries, referred to in the ICP as "super-countries", each carries as its weight an equal share of the total GDP of the excluded countries assigned to its income group, or tier. Total GDP of the tiers (three in Phase I, five in Phase II) is obtained from data published in the World Bank Atlas.



An Illustration of Binary and Multilateral Comparisons

1. Introduction. The purpose of this note is to illustrate the computation of purchasing power parities (PPP) /1 with hypothetical data. Section I deals with binary PPPs; Section II presents the Geary-Khamis procedure of multilateral comparison; and Section III summarizes the results. Let us begin with a hypothetical world of three countries, A, B and C, and only two commodities, meat and bread, with prices and quantities as presented below in Table 1.

Table 1: Basic Data

	Country A			Country B			Country C		
	Quan- tity	Pesos		Quan- tity	Francs		Quan- tity	Dollars	
		Price	Exp.		Price	Exp.		Price	Exp.
	Qa	Pa	PaQa	Qb	Pb	PbQb	Qc	Pc	PcQc
Meat	1	10	10	2	5	10	4	3	12
Bread	10	1	10	12	1	12	15	1	15
Total Expenditure			P 20			F 22			\$ 27

I. Binary Comparisons

2. To obtain the binary comparisons, we need to compute each country's expenditures at each other's prices. They are presented below in Table 2.

Table 2: Total Expenditures at Each Other's Prices /a

		Quantities			
		Qa	Qb	Qc	
Prices	Pa	20	32	55	(pesos)
	Pb	15	22	35	(francs)
	Pc	13	18	27	(dollars)

/a For example, the total value of the quantities of A at prices of B,  $PbQa = 15$  francs;  $PaQc = 55$  pesos;  $PcQb = 18$  dollars, etc.

3. We apply the various definitions of the binary PPP and present the results in Part A of Table 3. Part B of Table 3 shows the expenditures of country A and B in terms of the currency of country C, dollars, using various conversion factors. The last column, exchange rate deviation index, is a measure of distortion created by use of exchange rate when compared with the "ideal" PPP.

/1 Purchasing Power Parity is defined as "the number of units of national currency required to buy goods equivalent to those which can be bought with one unit of the base currency".

Table 3: A - Purchasing Power Parities

	Base Country Quantity Weights (1)	Own Country Quantity Weights (2)	Fisher "ideal" $\sqrt{(1) \times (2)}$ (3)	Market Exchange Rate (4)	Exch. rate Deviation Index (3) + (4) (5)
PPP (A/C)	$\frac{PaQc}{PcQc}$	$\frac{PaQa}{PcQa}$			
(Pesos per dollar)	$= \frac{55}{27}$  $= 2.037$	$= \frac{20}{13}$  $= 1.538$	$\sqrt{2.037 \times 1.538}$  $= 1.770$	3.0	$3 + 1.770$  $= 1.69$
PPP (B/C)	$\frac{PbQc}{PcQc}$	$\frac{PbQb}{PcQb}$			
(Francs per dollar)	$= \frac{35}{27}$  $= 1.296$	$= \frac{22}{18}$  $= 1.222$	$\sqrt{1.296 \times 1.222}$  $= 1.259$	2.0	$2 + 1.259$  $= 1.59$
PPP (A/B)	$\frac{PaQb}{PbQb}$	$\frac{PaQa}{PbQa}$			
(Pesos per franc)	$= \frac{32}{22}$  $= 1.455$	$= \frac{20}{15}$  $= 1.333$	$\sqrt{1.455 \times 1.333}$  $= 1.393$	1.5	$1.5 + 1.393$  $= 1.08$

B - Expenditures in Country C's Currency (dollars)

	At Country C's Quantity Weighted Prices	At Own Quantity Weighted Prices	At "ideal" PPP	At Market Exchange Rate	Exchange Rate Deviation Index
Country A	$20 + 2.037$ $= 9.82$	$20 + 1.538$ $= 13.00$	$20 + 1.770$ $= 11.30$	$20 + 3$ $= 6.67$	$11.30 + 6.67$ $= 1.69$
Country B	$22 + 1.296$ $= 16.98$	$22 + 1.222$ $= 18.00$	$22 + 1.259$ $= 17.47$	$22 + 2$ $= 11.00$	$17.47 + 11.00$ $= 1.59$

4. Binary comparisons depend on the choice of a base country. If we have a binary PPP of pesos per dollar and another binary PPP of francs per dollar, can we infer the binary PPP of pesos per franc? The answer is no.

For example, taking "ideal" PPPs (from Table 3)

$$(a) \text{ PPP(A/C)} = 1.770 \text{ pesos/\$}$$

$$(b) \text{ PPP (B/C)} = 1.259 \text{ francs/\$}$$

$$(c) \text{ PPP (A/B)} = 1.393 \text{ pesos/franc}$$

But  $1.770 + 1.259 = 1.406 \neq 1.393$

$$(a) + (b) \neq (c)$$

i.e.,  $\text{PPP(A/C)} + \text{PPP(B/C)} \neq \text{PPP(A/B)}$ .

This result is referred to as lack of transitivity or circularity or base country invariance of the binary comparisons.

## II. Geary-Khamis Multilateral Comparisons

5. Using the same basic data as in Table 1 above, the Geary-Khamis method involves the computation of:

(1) "International prices" for each commodity;

(2) Purchasing Power Parity (PPP) for each currency.

But (1) cannot be computed without (2) and (2) cannot be computed without (1); hence they must be determined simultaneously. Mathematically, it involves laying down conditions to be satisfied, setting up a system of equations, and then solving the system.

6. Conditions to be satisfied:

(a) For each commodity:

- (i) Divide expenditure at national prices by national PPP to get adjusted expenditure.
- (ii) Add adjusted expenditures.
- (iii) Sum should equal total quantity multiplied by the international price (international price is the quantity-weighted average of PPP-adjusted national prices).

(b) For each country:

- (i) Use international prices to get expenditure for each commodity at these prices.
- (ii) Add to get total expenditure at international prices.
- (iii) Sum should equal total expenditure divided by PPP (PPP is the ratio of total expenditure at national prices to total expenditure at international prices, i.e., the expenditure-weighted average of the ratio of national to international prices).

7. Equations. Denote:

- (i) international prices by  $P_1, P_2$  for commodities 1 and 2 (meat and bread);
- (ii) PPP's by  $PPP_a, PPP_b, PPP_c$  for countries A, B and C;
- (iii) Reciprocals of PPP's by  $K_a, K_b, K_c$ ;

To satisfy condition (a):

$$10K_a + 10K_b + 12K_c = 7P_1 \quad (1)$$

$$10K_a + 12K_b + 15K_c = 37P_2 \quad (2)$$

To satisfy condition (b):

$$P_1 + 10P_2 = 20K_a \quad (3)$$

$$2P_1 + 12P_2 = 22K_b \quad (4)$$

$$4P_1 + 15P_2 = 27K_c \quad (5)$$

One of these equations is redundant. This is easily seen. Add (1) and (2). Also add (3), (4), (5). The two sums are the same. So drop one equation. However, since PPP's are ratios, we can use one country as numeraire. Put  $K_c$  (say) = 1. We then have four equations and four unknowns  $P_1, P_2, K_a, K_b$ .

8. Solution:

$$P_1 = 3.6781 \text{ (international price of meat, in dollars)}$$

$$P_2 = 0.8192 \text{ (international price of bread, in dollars)}$$

$$K_a = 0.5935 \text{ (PPP A/C = 1.6849)}$$

$$K_b = 0.7812 \text{ (PPP B/C = 1.2801)}$$

$$K_c = 1 \text{ (PPP C/C = 1.0)}$$

9. Revised accounts. To satisfy condition (a) at national adjusted prices:

	<u>Total Exp.</u>	<u>Country A</u> <u>Adj. Exp.</u>	<u>Country B</u> <u>Adj. Exp.</u>	<u>Country C</u> <u>Adj. Exp.</u>
Meat	25.75	5.93	7.81	12.00
Bread	30.31	5.93	9.37	15.00
	<u>56.06</u>	<u>11.87</u>	<u>17.19</u>	<u>27.00</u>

To satisfy condition (b) at international prices:

	<u>Total Exp.</u>	<u>Country A</u>		<u>Country B</u>		<u>Country C</u>	
		<u>Qa</u>	<u>Exp.</u>	<u>Qb</u>	<u>Exp.</u>	<u>Qc</u>	<u>Exp.</u>
Meat	25.75	1	3.68	2	7.36	4	14.71
Bread	30.31	10	8.19	12	9.83	15	12.29
	56.06		11.87		17.19		27.00

10. Price structure. National price structures can be compared with the international price structure by dividing the national prices as adjusted (NPA) by PPP by the international price (P):

	<u>P</u>	<u>Country A</u>		<u>Country B</u>		<u>Country C</u>	
		<u>NPA</u>	<u>Ratio</u>	<u>NPA</u>	<u>Ratio</u>	<u>NPA</u>	<u>Ratio</u>
Meat	3.68	5.94	1.61	3.91	1.06	3.00	0.82
Bread	0.82	0.59	0.72	0.78	0.95	1.00	1.22

11. Circularity of Geary-Khamis. In contrast to the binary results, the Geary-Khamis PPP is "circular" or "transitive" or "base-country invariant". To see this we recompute international prices with country B as the numeraire. Then

$$\begin{aligned}
 P_1 &= 4.7076 \text{ in francs} \\
 P_2 &= 1.0480 \text{ in francs} \\
 K_a &= .7596 \text{ (PPP (A/B) = 1.3165)} \\
 K_b &= 1.0000 \text{ (PPP (B/B) = 1.0000)} \\
 K_c &= 1.2798 \text{ (PPP (C/B) = .7814)}
 \end{aligned}$$

These new PPPs and international prices (P's), denominated on Country B's currency (francs) would also satisfy conditions (a) and (b) in paragraph 6 above. The new round of calculations gives us PPP (A/B), pesos/per franc, which was not given in the first round. But for Geary-Khamis, it was not necessary to go through the second set of computations, since PPP (A/B) can be computed from PPP (A/C) and PPP (B/C):

- (i) PPP (A/C) = 1.685 (pesos/\$) From computations with Country
- (ii) PPP (B/C) = 1.280 (francs/\$) C as numeraire.
- (iii) PPP (A/B) = 1.316 (pesos/francs) From computations with Country B as numeraire.

But (iii) is also equal to:

$$PPP (A/C) + PPP (B/C) = PPP (A/B)$$

$$\text{or } 1.685 + 1.280 = 1.316.$$

### III. Summary of Results

12. In Table 4, we present the various PPPs and express each country's expenditure in a common currency, dollars. The ICP uses line (d) in preference to all others.

Table 4: Total Expenditures

	<u>Country A</u>		<u>Country B</u>		<u>Country C</u>	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
(a) At country C's quantity weighted prices	9.82	36.4	16.98	62.9	27	100
(b) At own quantity weighted prices	13.00	48.1	18.00	66.7	27	100
(c) At Fisher "ideal" PPP	11.30	41.9	17.47	64.7	27	100
(d) At Geary-Khamis PPP	11.87	44.0	17.19	63.7	27	100
(e) At market exchange rate	6.67	24.7	11.00	40.7	27	100

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President  
Through Mr. Hollis B. Chenery *HC*  
FROM: A. Karaosmanoglu, Dir., Dev. Policy *AK*  
SUBJECT: The Adequacy of International Liquidity

DATE: March 29, 1977

On the basis of a conversation with Mr. E. Sturc, I reported to you in February that the IMF was preparing a review of the liquidity needs of the world. I also reported that it would have a five-year perspective.

Attached is a summary of the paper referred to which came out last week. As you will see from the summary, the final version does not contain a long-term perspective.

Attachment

AKaraosmanoglu:mb

cc: Mrs. Hughes  
Mr. P. Wright

The Adequacy of International Liquidity

1. This paper assesses the adequacy both of credit facilities which are available from the IMF to its members and of reserve assets which have been or may be needed by its members. Despite its guarded language this paper makes some far reaching proposals -- that quotas in the Fund be increased up to one-hundred percent -- that SDR allocations of up to \$9 billion per year be made beginning in 1978 and -- that access to the Fund's facilities be considerably liberalized. The arguments used are persuasive.
2. The Fund's facilities are available to its members in more or less fixed proportion to their quotas. Consequently, what is involved is the judgement of the staff about the adequacy of quotas. This is in effect part of the Seventh General Review of Quotas which must be completed by February 1978. Another question is whether additional reserve assets should be created by the Fund by an allocation of SDRs to its members. If he believes that an allocation will be necessary during the five year basic period 'beginning January 1, 1978' the Managing Director may so propose. His proposal must be made no later than June 30, 1977.
3. The paper deals at some length with the relative advantages of credit facilities, which are conditional and must be repaid, and "owned" reserve assets, which are freely at the disposal of the country which owns them. Generally IMF credit facilities give rise to charges only when used and the charges are modest. Holding reserves entails an opportunity cost, and, because they are mostly held in short-term instruments, the return on them can be expected to be lower than the opportunity cost. But the paper relegates these consideration to the background, pointing out that both credit facilities and reserve assets are required. The central argument about reserves is that they must be large enough to enable members to avoid policies which are likely to be damaging to them or to others when confronted with "the payments disequilibria that inevitably arise." But the need for reserves can be reduced if (conditional) credit is available in "adequate" amount. Adequate amounts are defined as amounts which would induce members to accept the Fund's conditions. At present, the amounts of credit to which members have access are not believed to be so.
4. With very simple statistics the Fund staff argues that even though credit facilities have increased relative to quotas, quotas have declined so greatly in relation to imports and payments imbalances that there is a strong prima facie case for an increase in 1978 (see annex 1). The paper suggests that an increase in quotas of 75 - 100 percent (over the level which will be in effect at that time -- when the increase decided



in the Sixth Review has been made) would be desirable. This would be on the order of \$35 - 45 billion. It also concludes that access to credit should be increased (i.e., liberalized) and says that a paper is being prepared on this subject.

5. The estimate of need for the creation of reserve assets is less precise. The paper suggest that reserves at the end of 1977, which is forecast, would be "reasonably adequate" and should grow with the growth of world trade. Using a "base" for world trade of the equivalent of \$173 billion (during 1977, as forecast in the recent World Economic Outlook), growth of trade within the range 5 to 7 percent would suggest annual allocations of SDRs in the range of the equivalent of \$6 - 9 billion.

6. A recurrent theme in the discussion of reserve creation is the desirability of making SDR's "the principal reserve asset" in the international monetary system. Another theme is the need for adjustments to imbalances which are as little disruptive as possible of the country which is obliged to make them and of its trading partners.

7. The paper also argues that the availability of private credit has permitted governments to obtain reserves by borrowing from commercial banks and using the borrowed funds to increase their official foreign exchange reserves. It points out that the extent to which "non-oil" developing countries have done so in 1976 and are expected to do so in 1977. In this and other ways, these countries have "maintained their aggregate rates of reserves to imports better than the developed countries" (see annex 2). Nevertheless, it would be preferable, the Fund staff concludes, to substitute new "owned" assets (by the creation of SDRs) for these "borrowed" assets in the future. In addition, very considerable increases in IMF quotas and more liberal conditions of access to IMF credit facilities would create a more stable environment which would reduce risks which are inherent in increased use of commercial credit.

8. Finally, the paper suggests that special arrangements to borrow might be made in order to assure members that the Funds resources be sufficient to their needs pending final, formal agreement on all of these matters.

Annex 1

	Ratio of quotas to		
	<u>I m p o r t s</u>		<u>Payments imbalances: <sup>2/</sup></u>
	<u>World total</u>	<u>78 members</u>	<u>78 members</u>
1956-60	10.4	11.9 <u>1/</u>	135 <u>1/</u>
1961-65	10.5	11.4 <u>1/</u>	168 <u>1/</u>
1966-70	9.6	10.0	139
1971-75	5.9	6.0	55

---

1/ Refers to 60 countries for which data are continuously available from 1956 on, and which were Fund members from at least 1961 on.

2/ Sum of balance on current and capital account, and errors and omissions.

Annex 2. Ratio of Reserves to Imports, 1966-75<sup>1/</sup>

(In per cent)

	World	Industrial Countries	Other Developed Countries	Major Oil Exporters	Other Less Developed Countries <sup>2/</sup>
1966	37	40	31	43	27
1967	36	38	29	46	28
1968	33	34	30	45	28
1969	30	30	30	43	28
1970	29	28	28	43	29
1971	32	33	33	52	28
1972	33	37	48	63	32
1973	34	31	47	59	34
1974	26	21	29	78	25
1975	28	22	26	93	23

Source: The figures are those given in IMF *Annual Report, 1976* (Table 16).

<sup>1/</sup> Reserves are centered quarterly averages for the years shown.

<sup>2/</sup> The figures for "other less developed countries" in this table include a number of nonmembers for which aggregate imports are substantial but reserves are negligible. The ratio for less developed Fund members alone (excluding major oil exporters) is several percentage points higher in each year than that shown above.

*viator*

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 25, 1977

FROM: Hollis B. Chenery *HBC*

SUBJECT: Debt Study

1. Peter Cargill and I have discussed the debt paper, and we propose to prepare a revision that will take his concerns into account with his help and that of his staff.

2. As we would like to incorporate the findings of a current B.I.S. survey of OECD bank claims on developing countries, we propose to delay the presentation of the study to you for up to 4 weeks, when the B.I.S. has indicated that initial results will be available. If the B.I.S. results are delayed, we will proceed without them.

HHughes:nff

Cleared with and cc: Mr. Cargill

cc: Messrs. Haq  
Wood

3788 To: Dr. McNamara CC: PRC/3/77  
✓

## OFFICE MEMORANDUM

Please schedule  
for review by

TO: Mr. Robert S. McNamara

DATE: March 24, 1977

FROM: Hollis B. Chenery *HBC*The PRC.  
DnaSUBJECT: Issues Paper on Rural Non-Farm Employment

The paper examines ways in which the Bank's operations can be brought to bear on the question of increasing the economically productive employment and earnings opportunities open to rural people. There are four main points that I should like to draw to your attention.

1. The paper documents the quantitative importance of non-farm work, in both peak and slack seasons, as a source of employment and earnings for rural people;
2. Rural non-farm activities are shown to provide a wide range of goods and services essential for agricultural development and for increasing living standards in rural areas;
3. The paper examines how various policy instruments--infrastructure, vocational training, technical assistance, banking and credit, and marketing and other services--can be used to stimulate the development of rural non-farm activities;
4. The paper concludes that non-farm rural activities should not be treated as a separate sector for lending operations. Rather, it is recommended that the better approach is through (a) greater attention to non-farm components in "new style" rural development projects, (b) support for small-scale enterprises in rural towns as part of the lending program outlined in the recent DFC paper on this subject, and (c) increased emphasis in Bank lending for infrastructure investments in rural areas and towns.

At the PRC Staff Level Review of the paper this approach received general support. It was also agreed that analysis of the magnitude and significance of non-farm rural activities which the paper provides will be useful to the operating departments in the formulation of lending programs and the design of specific projects.

Since the conclusions of the paper do not pose major questions for overall Bank policy it may not be necessary to schedule a formal discussion of the paper by the Policy Review Committee. I would recommend that it be distributed for information to members of the PRC and subsequently to Executive Directors.

Mr. Robert S. McNamara

March 23, 1977

Hollis B. Chenery

AID Comments on Bank Research

I think you will be interested in the statements beginning on page D-57 of the attached AID report to Congress, which comments on the Bank's work on income distribution.

Attachment [Socio-Economic Performance Criteria for Development, February 1977, AID; to be returned to HBC]

HBCchenery:nff

*retained  
3/28*

Mr. Robert S. McNamara

February 16, 1977

Hollis E. Chenery

25 Years of Economic Development and "Prospects 1977"

25 Years of Economic Development: A Review of the Experience

1. The outline for this Review is attached. I will review the draft in early April and forward it to you by April 18.
2. We will suggest any further work that may be required on this subject at that time.

Prospects 1977

3. We propose a paper of 20-25 pages covering the medium term outlook (in contrast with but complementary to the Fund short term Outlook), and outlining the principal policy issues that arise out of changing global perspectives.
4. A draft format of tables will be prepared by Paul Meo and submitted on May 2.
5. A Department draft will be completed by May 31 and will go to you on June 7. A detailed timetable, taking account of the time when firm 1975 data becomes available, and when 1976 data can be incorporated, is attached.
6. I suggest that the final form that this paper should take be decided after we receive your reactions to the draft.

HBChenery/HHughes:nff

Attachments

cc: Messrs. Karaosmanoglu  
Haq  
Shilling  
A. Schwartz  
Meo

## REVISED OUTLINE

### Twenty-five years of economic development: a review of the experience

#### I. Aim

What has been the experience of developing countries with economic development over the past quarter-century? Has development "succeeded" or "failed"? The aim of this paper is to take a first cut at assembling and evaluating the evidence bearing on these questions.

The paper does not attempt:

(a) to survey the history of ideas about development (Paul Streeten's recent paper does this);

(b) to identify patterns of development or structural change (Kuznets and Chenery-Syrquin have done this).

#### II. The Changing Objectives of Development (this section will be brief, but documented)

To evaluate the development experience, it is first necessary to examine the objectives to which development efforts have been directed.

Largely as a result of changes in perceptions in the developing countries themselves, since the early 1970s there has been a radical shift in the literature of economic development. It is now considered that the conventional focus on maximizing GNP per capita is too narrow and that it ought to be modified by incorporating other objectives related to poverty reduction -- improving income distribution, increasing employment, fulfilling "basic needs". Some observers have tended to regard this movement as just one more "fashion". The paper will argue that the "discovery" of these additional objectives is in fact a



rediscovery of issues which were quite central in the early objectives of economic development. Seen in this historical context, the recent increase in concern with poverty reduction is the central concern of development.

III. The Evidence on Development, 1950-1975 (this will be the bulk of the paper)

In the light of the above remarks, evidence will be presented not only on GNP growth rates, but also on income distribution, employment, and basic needs.

A. Internal objectives

1. Growth of GNP, GNP per capita and population control.
2. Improving income distribution.
3. Decreasing unemployment.
4. Fulfilling "basic needs":
  - (a) nutrition
  - (b) water supply
  - (c) shelter
  - (d) literacy
  - (e) health care
  - (f) clothing

B. International objectives

1. Diminishing the gap between rich and poor countries.
2. Decreasing dependence and increasing self-reliance.
  - (a) relations with rich countries
  - (b) concentration on few commodities
  - (c) dependence on few markets
  - (d) foreign assistance
  - (e) debt

For each section (S) in Part III an attempt will be made to cover the following sub-sections:

S.1 The data

S.1.1 Cross-section (problems, findings)

S.1.2 Time series (problems, findings)

S.2 Conflicts between this objective and others

S.2.1 Theoretical problems

S.2.2 Empirical evidence (regressions etc.)

S.3 Alternative ways of achieving the objective -- what has been done re cost-effectiveness, feasibility, etc.

S.4 Implications for the future.

IV. Conclusions and Implications

Are the poor better off than they were 25 years ago? Absolute poverty -- numbers, shares; relative poverty? Success in some countries and regions, less in others. Today's prospects for the future as compared with those of 25 years ago.

D. Morawetz/H. Hughes  
February 15, 1977

PROSPECTS 1977 - TIMETABLE

February 28

Decisions on composition and regional grouping for sample panel; on universe, and on table output forms for sample panel and aggregations. These are to be summarized in a memorandum from Hughes/Shilling to Chenery.

March-April

- a) Preparation and updating of Sample Panel models, including contact with Regions.
- b) 1975 will be the base year as all debt and World Table data; updating to 1975 for the Annual Report will be completed by the beginning of April.
- c) Historical time series will be merged with projections so that summary tables for each country and for aggregations will be ready in 1975 dollars.
- d) Revisions of SIMLINK and initial parameter estimates.  
(Shilling/Schwartz)

April 29

A full set of merged tables will be available as a basis of analysis.

May

- a) Format of final tables to be submitted to you on May 2.  
(Meo)
- b) Review of data and revisions where necessary; final data to be produced for Sample Panel countries by May 23.
- c) Final estimate of SIMLINK parameters to be completed by May 23.
- d) Analysis and policy implications:

First draft	May 15
Department draft	May 31

  
(Hughes/Shilling/Schwartz)

June 7

"Prospects 1977" draft to you.

June-July

a) 1976 data will be used to update wherever available.

b) Further drafting as necessary.

August 1

Final Department draft.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Hollis B. Chenery *HBC*

SUBJECT: Review Panels on Research

DATE: February 10, 1977

1. I have periodically discussed with you the desirability of having groups of outside experts review Bank research and policy in major areas, and we have agreed to move in this direction at an appropriate time. This proposal is given a concrete form in this year's Annual Report on Research (paragraph 1.33) where we state that the most fruitful way, not only of evaluating research per se but also of observing the interrelationship between research and operations, would be to evaluate a group of completed projects on similar or related subjects en bloc. We further state that at some time during calendar 1977, when the first such bloc would be ripe for review, "it is intended that the research output under the selected heading would be reviewed by an outside panel, somewhat on the lines of the external advisory panel on population projects and research". This memorandum concerns the implementation of this proposal.

2. There appear to be four main issues:
- (a) The scope of each panel's work.
  - (b) The composition of the subject panels.
  - (c) The need for an overall advisory group concerned with development research and policy as a whole.
  - (d) The selection of subject panels for the next 12 months.

The Scope of the Panel's Work

3. For most fields of Bank research I would propose a narrower scope than that of the Berelson panel, focussing on research in relation to operations and policy rather than on all the Bank's activities including research. This more limited objective may not, however, be suitable for all sectors. In education, for example, the CPS has under consideration the possibility of a more comprehensive review, along the general lines of the Berelson panel. There is clearly no point, in such sectors, in having both.

*Mr. N. D. ...*

*I concur in your approach re I much prefer*

*"Income Distribution & Employment" is the first subject for Panel review.*

*First page copied to Baum + BB King.*

### Composition of the Subject Panels

4. The Berelson panel had five members, which seems to me a good size. The chairman should be a person of unquestioned stature who can find sufficient time to devote to a serious study. The success of the population panel can be attributed to the fact that the chairman fitted this description.

5. Two other attributes should be considered in selecting panel members. There ought to be at least one member whose experience is mainly on the policy rather than on the research side. It is also important to have at least one member who has a reasonable working knowledge of the Bank. We are not concerned solely with the merits of the research undertaken, but also its relevance to Bank operations and policy.

### The Need for a General Advisory Group

6. The idea of an outside review of all research undertaken by the Bank was put forward, at least implicitly, at last year's annual meeting on research. A review of all the Bank's research activities and their relationship to the Bank's operations would be an extremely formidable task. I think it is almost out of the question to ask highly qualified people to undertake such a task in advance of reviews of particular subjects. I therefore think that this possibility should be ruled out.

7. A second option would be to appoint a small group of "wise men" who would oversee the work of the subject panels. The terms of reference and the composition (or at least the chairman) of the subject panels would be discussed with them. The findings of the subject panels would be transmitted to them and their comments would be invited. Ultimately, they would be asked to participate in a more general review.

8. While this is a more attractive option than the first, I think there are several things against it. First, I would envisage a cycle of review panels of at least three years. It will be hard to obtain a commitment over such a period from any group of the stature that we would want. Secondly, we should consider the first several reviews as experimental. We may well wish to change the procedure as we go along. Moreover, as pointed out earlier, some panels might combine a review of both operations and research. In other words, we should not foreclose the possibility of an eclectic approach nor of changing our approach as we go along.

9. My preferred option is to leave the question of a general advisory group open for the time being. If it were decided in a year's time that such a group would be desirable, very little would be lost from their not participating in the first two or three subject panel reviews. If we decide that there are more satisfactory ways of fulfilling these purposes, we would have avoided creating a superstructure which it would be embarrassing to dismantle. This option is all that is proposed in this year's annual research report. The Joint Audit Committee in its meeting on January 28 expressed a favorable opinion of the idea.

#### Schedule of Panels

10. A subject which would be a good candidate for a review panel this year would be income distribution and employment, which are closely related. The first phase in income distribution research in the DRC--data collection and preliminary analysis--will have been largely completed by September 1977, together with a number of other studies in the field. While the identification of a comparable stage in the work on employment in the Development Economics Department is not so clear-cut, a number of studies in the employment field will have been completed by that time. I would tentatively set October 1977 as a time for this group to meet.

11. We are discussing two other possible candidates with CPS. The most promising is the field of public utilities. A number of studies on investment, design and pricing issues have been completed and there are some under way in the electricity, water and telecommunications sectors. A review of this field would be a desirable complement to that on income distribution and employment. A second possibility would be a review of transportation, which would probably include both operations and research.

12. These appear to be the best possibilities for 1977. Once the general lines along which we are to proceed are agreed, I propose that Mr. Baum and I prepare a schedule for this year with preliminary suggestions for extending it into 1978.

BBKing/HBChenery:nff

Cleared with and cc: Mr. Baum

cc: Mr. B. King

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: February 10, 1977

FROM: Hollis B. Chenery *HBC*

SUBJECT: Visit by Mr. Beltrao of the International Coffee Organisation

Mr. Beltrao is visiting you at 6:30 p.m. on Friday, February 11. His main purpose is to brief you on the world coffee situation. He may also mention his need for Bank staff advice in connection with an appraisal of the world situation which the ICO Secretariat has to prepare for its Council session in September 1977.

Current Situation

World supply and demand were already in tight balance and stocks were low when the 1975 frost in Brazil wiped out a large part of the 1976 coffee crop and reduced the 1977 prospects. Events in Angola and, to a lesser extent, Uganda also affected the flow of coffee. The result has been that coffee is now in somewhat short supply and prices are over \$2 per pound. Fears are being voiced that they may rise further, particularly if any of the major producing countries experiences bad weather. Presently, prices in real terms are close to the peak reached in the early 50's.

U.S. Interest

A Congressional Subcommittee, chaired by Benjamin S. Rosenthal (D-L, N.Y.), has scheduled hearings on coffee prices for February 22 and 23. Among other things they wish to know if prices are being manipulated in any way by vested interests. Bank staff (Commodities and LAC) have provided available information to the staff of the Congressional Committee. Our judgement is that high prices have resulted from the tight supply situation.

Bank Assistance to ICO

Mr. Beltrao has requested Bank staff participation in a meeting to discuss the analytical framework for their proposed study on world supply and demand outlook and the long range effects of high prices on production and consumption. We propose to accept because these issues form part of our regular work and the ICO study will be useful in connection with our forecasting work. We may also offer pooled information from the country economists that the Commodities Division compiles annually. However, we do not intend (nor is ICO asking) to embark on a joint study on the subject.



Mr. McNamara

- 2 -

February 10, 1977

Mr. Shamsheer Singh will be available to take notes of your meeting with Mr. Beltrao, if you so wish.

cc: Mrs. Hughes  
Mr. Shamsheer Singh

SSingh:HBChenery:di

52  
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 1, 1977

FROM: Hollis B. Chenery *HBC*SUBJECT: Debt Data CoverageA. Public Debt

1. The Bank's Debt Reporting System (DRS) reports in detail borrowing of more than one year's maturity which is public or publicly guaranteed by the borrowing country. It covers member countries which are currently borrowing from the World Bank or IDA. The information obtained is carefully checked against DAC lending country data.

2. The resulting data base provides a firm basis for debt and debt service analysis and projections. It is made available annually in the World Debt Tables (last issued on October 31, 1976). Country data is updated as it is processed, and updated country sheets are made available to Bank staff, lending agencies, banks and similar interested institutions to widen the information available on developing countries' debt.

3. The staff of our External Debt Division assists developing countries in the collection and analysis of debt information. Annex Table A indicates the missions carried out in FY75 and FY76.

B. Private (non-guaranteed) Debt

4. Since 1971, the DRS has also included a requirement that private borrowing be reported, albeit in less detail. Since this is sensitive information, only 16 countries provide or publish information (see Annex B), and it is not sufficiently detailed to permit us to make debt service projections for the future.

5. To fill this gap, we have been making estimates of private non-guaranteed debt by computing the difference between net public borrowing (as reported to the DRS) and total net borrowing reported to the IMF in balance of payments submissions. We also use national sources of information about Argentina, Brazil and Mexico. This approach has provided sound total estimates of private non-guaranteed debt for the principal borrowers. These are included in our forthcoming study of the indebtedness of developing countries, which gives estimates of developing countries' total debt by category through 1976.

6. With the increasing importance of private non-guaranteed borrowing, we consider this estimation process inadequate. We have therefore begun a study of the feasibility of extending the DRS to include private non-guaranteed debt. To evaluate the costs of various approaches we are investigating the degree of detail required in the coverage and the extent of technical assistance to reporting countries that will be necessary. Some of these costs can be absorbed by increasing the efficiency of the DRS system in dealing with public debt. It will not be possible to avoid some additional staff time and travel costs, particularly in the early years when our start-up costs must be met and when countries will require a great deal of technical assistance to place their private non-guaranteed data on a firm basis.

7. The design of the extension and our consultation with the principal reporting governments will be completed during 1977. This will in itself add to our information and enable us to proceed to regular reporting.

Attachment

HHughes:nff

cc: Mr. Cargill  
Mr. Knapp  
Mrs. Hughes  
Mr. Saxe  
Mrs. Paulson

## OFFICE MEMORANDUM

TO: Mrs. Helen Hughes, Director, EPD

DATE: January 31, 1977

FROM: Jo W. Saxe, Chief, EPD/IF JWS

SUBJECT: Private Borrowing by Developing Countries - Extension of the DRS

1. The basic requirement of our debtor reporting system (DRS) is for very detailed reporting, transaction by transaction, of borrowing abroad by any member country which is currently borrowing from the World Bank or IDA. This requirement for detailed reporting applies only to borrowing with an original maturity of more than one year, which is public or publicly guaranteed. The instructions for reporting to the DRS include a less explicit requirement that private borrowing be reported but only in broad aggregates. This requirement was incorporated in the revised instruction issued to reporting countries in 1970 in the hope that it would bring useful information into the system. But the aggregates which have been reported (by sixteen countries)<sup>1/</sup> cannot be incorporated into the more detailed information we receive about public borrowing. For example, the aggregate information on private borrowing is insufficient to permit us to make projections of service payments due in the future. Moreover, we have not had the resources either to enforce the existing requirement or to help member countries to meet it as we do in the case of reporting on public debt.

2. Until recently, we have made do with ad hoc estimates. These have been made by computing the difference between net public borrowing reported to the DRS and total net borrowing reported to the IMF in balance of payments submissions. In addition, we have found usable national sources of information about private borrowing in three countries.<sup>2/</sup>

3. These estimates and national sources are useful but are insufficiently reliable for the increasingly detailed analysis of external debt which we have been making. However, during recent years, a number of countries with the assistance of the Bank and Fund have increased their capacity to collect and report information on debt and on capital flows.<sup>3/</sup>

4. Consequently, we came to believe that we should make a thorough study of the extension of the DRS by the inclusion of borrowing from private sources without a public guarantee in sufficient detail to make it compatible with the main body of information in the system. Some developing countries may have mixed feelings about reporting on private borrowing to the Bank. For this reason alone, a study and carefully conducted discussion with them are an essential first step. Because it

<sup>1/</sup> Listed in Annex A.

<sup>2/</sup> Argentina, Brazil and Mexico. The estimates appear in the draft of The External Indebtedness of Developing Countries.

<sup>3/</sup> A list of the countries which have received assistance from Bank staff during 1975 and 1976 appears in Annex B.

Debt

can be shown that the inclusion of this information in the DRS is in the interest of the borrowers, we do not doubt that most of them will agree to take the next steps.

5. The extended system would provide full information about external debt and debt servicing. Projections of service payments could be made for all external long-term debt. In addition, as a result of recent improvements in IMF balance of payments statistics, this extension of the DRS would permit the use of the two systems in tandem. Reports to the DRS and to the IMF could be improved and reconciled. The result would be a balance sheet with a full account of external long-term liabilities along with a detailed account of transactions during any period. This would greatly improve the analysis of external debt which we now make as well as the balance of payments analysis made by Bank and Fund staff. The additional information would be useful not only to borrowers themselves but to other lending institutions, official and private.

6. In November 1976, we began a feasibility study to ensure that the system we adopt balances completeness and cost effectiveness. It is being made country-by-country, and consists of three steps.

7. The first step, now underway, is a thorough examination of the differences between reports to the DRS and the IMF mentioned above, followed by examination of very detailed IMF balance of payments reports (which are not published and which have only recently become available). We are also reviewing the detailed files of the External Debt Division to retrieve all of the information about private borrowing which is to be found in them. We are also extracting from these files and those of the IMF all the information they contain about systems of registration and control of external borrowing in each borrowing country.

8. Step two, has begun. It consists of discussions between the consultant who has been recruited to make the feasibility study, and staff members in the Bank and Fund. In this way, additional information is being obtained so that he will be in possession of all the information available in both organizations before he begins Step three. This will be missions by the consultant to a number of countries, the first being in the Latin America and Caribbean Region, where we believe the amount of private borrowing to be appreciable. These missions will supplement our information about the systems in place and enable us to reach informed judgments about extending the DRS. They will also permit the carefully conducted discussion with the authorities there, which is described above.

9. The Consultant, Mr. Robert Sammons, a very knowledgeable and experienced former member of the staff of the Federal Reserve Board, became available to us during the week of January 17, part time. It took us some time to find him because this assignment requires unusual professional experience and judgment based on intimate knowledge of systems for collecting and interpreting data of this kind, as well as

the diplomatic skill necessary to secure the cooperation of the governments involved. We expect that he will have completed his appraisal of the situation in five to seven countries in the LAC Region by mid- to late-April and will make a report on this part of the feasibility study by mid-May.

10. His work will be followed by that of another consultant in a number of East Asian countries during the late spring and early summer. By September, with his report in hand and with the results of the desk work here, which will continue throughout that period, we expect to be able to make a firm recommendation on how the DRS should be extended.

11. The principal issue of substance is the degree of detail of reporting that is to be required. This apparently technical matter is of great importance. It is in the nature of private borrowing that a large proportion of transactions consists of individually small loans where aggregate amount is also small. Conversely, a large proportion of total borrowing tends to be composed of a small number of large transactions. The mechanical application of the present DRS requirements that each transaction be reported in great detail might well result in the imposition of inordinately expensive statistical or other requirements on member countries, which might, in some cases, be vexatious or unduly restrictive. An overly elaborate system would also impose large additional costs on the Bank. We have asked Mr. Sammons very carefully to examine the potential costs and benefits of feasible reporting requirements. I hope that his recommendations will help us to simplify these requirements; for example, by asking for full detail only on transactions above some minimum size, and possibly by eliminating some of the detail in reports of past transactions.

12. I am aware that these months of preparation may seem over-long (like this memorandum), costly and cautious. But we are considering an important and costly extension of a complex system into a sensitive area. These preparatory steps are being taken in order to minimize the costs and risks involved.

Attachments.

cc: Mrs. Paulson  
Mr. Sammons

JWSaxe:ks

ANNEX A

Assistance to Member Countries

1975-1976

(by the External Debt Division)

Latin America and the Carribean

CABEI & Costa Rica  
Chile  
Colombia  
Guyana  
Haiti  
Uruguay

Europe, Middle East and North Africa

\*Afghanistan  
\*Egypt  
Syria  
\*Yugoslavia

East Asia and the Pacific

\*Indonesia  
\*Korea

South Asia

\*Bangladesh  
Sri Lanka

West Africa

Chad  
Congo  
Guinea  
\*Sierra Leone

East Africa

Sudan  
Tanzania  
\*Zaire  
Zambia

ote: The time spent in briefing regional staff to perform similar services by EDD and IFD personnel, while considerable, cannot be precisely estimated.

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\* More than one mission.

1/31/77

ANNEX B

Countries Which Have Submitted Reports on Private  
External Borrowing to the DRS

<u>Country</u>	<u>Latest report received</u>
<u>Latin America and the Carribean</u>	
Colombia	12/31/75
Costa Rica	12/31/73
Dominican Republic	12/31/74
Honduras	12/31/70
Panama	12/31/69
Paraguay	12/31/73
Uruguay	12/31/75
<u>Europe, Middle East and North Africa</u>	
Finland	12/31/75
Iceland	12/31/75
Turkey	12/31/74
Yugoslavia	12/31/75
<u>East Asia and the Pacific</u>	
China	12/31/75
Indonesia	12/31/72
Korea, Rep. of	12/31/75
Thailand	12/31/75
<u>South Asia</u>	
India	03/31/76

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Note: Information is collected and published for Argentina, Brazil and Mexico.



OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 6, 1977

FROM: Hollis B. Chenery *HBC*

SUBJECT: Review of Bank Group Research Program

Attached is the draft of the fourth annual review of the research program. If it meets with your approval, I propose to send it for printing on Monday, January 10, in order to circulate it to the Board on January 13. The Board meeting is on February 15.

Attachment

BBKing:di

*1/7*  
*Approved*  
*Low*

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 1, 1977

FROM: Hollis B. Chenery *HBC*SUBJECT: Research on Basic Needs

One of the most valuable contributions of Bank research to the understanding of poverty and basic needs is the recent publication by Reutlinger and Selowsky, Malnutrition and Poverty. Their monograph was favorably reviewed in Science (attached), it has been made required reading in AID (200 copies purchased), and the authors have been invited by the Rockefeller Foundation to arrange a conference at Bellagio on nutrition policy this summer.

This research originated in the small-scale portion of the Bank's research and policy program which we identify in our current research report as "Departmental studies." The authors are from the Development Research Center and the Development Economics Department. The original version was prepared during 1974 as one of a number of contributions to the Bank's task force on Urban Poverty (see also page 51 of the Report on Research, January 13, 1977). The conception and implementation of the research phase were entirely theirs. The total cost was on the order of one year of staff time (10 professional, 2 assistant), and about \$2,500 in other expenses.

Other examples of valuable "Departmental studies" are scattered through the Research Report. In new and difficult areas of research--such as the implementation of the "basic needs" approach--the first requirement is imaginative people who are provided enough resources to test out some of their ideas. Larger scale applications--reviewed by the Research Committee--can then develop the ideas that seem most promising.

## Attachment

cc: Messrs. W. Clark  
J. Duloy  
D. Avramovic  
M. Haq  
A. Karaosmanoglu  
S. Reutlinger  
M. Selowsky  
B. King/O. Grimes

HBC Chenery:di

forces remaining after a nuclear exchange. Among the scientists and academic experts who have become involved on either side of the issue are Leon Gouré, of the University of Miami, Richard Garwin of the IBM Corporation, and Wolfgang Panofsky and Sidney Drell, both of the Stanford Linear Accelerator Center.

The Soviet civil defense issue, already controversial, shows signs of heating up in the next year. Those who feel the program is extensive, such as Jones, even predict the end of Western civ-

ilization. Says one official source, "We have accidentally discovered a vast effort to protect Soviet defense industry and an extraordinary effort to shelter their population. . . . In my judgment the U.S. strategic forces today are incapable of inflicting the levels of damage previously assumed by higher authorities in the United States."

But another official counters, "this whole thing has become a joke. The analysis just hasn't been done to justify any conclusions at all—let alone the end of civilization." On a more elevated plane,

a secret interagency report concluded: "The recent study of Soviet civil defense has not revealed any major changes in the Soviet program since about 1971, nor does it suggest a crash program. Rather, the Soviets have been proceeding gradually but steadily to implement decisions evidently taken previously."

Apart from all the bickering, the problem seems to have caught the intelligence community napping. Several sources say that CIA, for example, has had only a few analysts studying Soviet civil defense on a part-time basis in recent

## Briefing

### Inequality the Main Cause of World Hunger

A revolutionary new view of the world food problem has been produced in that unrevolutionary organization, the World Bank.

An analysis\* prepared by two World Bank economists, Shlomo Reutlinger and Marcelo Selowsky, arrives at the following conclusions:

- Previous studies have underestimated the extent of malnutrition by about 30 percent.

- When allowance is made for the uneven distribution of food between rich and poor, it is estimated that 75 percent of the population of underdeveloped countries (some 1030 million people) receive diets with less than the recommended number of calories.

- The extent of this deficiency amounts to 400 billion calories a day, the equivalent of 38 million tons of food grain a year. This is a mere 4 percent of the world's cereal production.

- In other words, it is not so much the absolute amount of food produced, as the way it is distributed among rich and poor, that is the main cause of malnutrition.

- Yet even if incomes in underdeveloped countries increase as projected, the poor will not be able to buy themselves a substantially better diet for the foreseeable future. Thus malnutrition will not disappear in the ordinary course of economic development, unless special steps are taken to address it.

- Such steps should consist of food stamp or income transfer programs directed to the hungry. The cost of food equivalent to the calorie deficit is only about \$7 billion, but because of the diffi-

culties of getting the food only to those who need it, much larger quantities would in fact be required.

The study was released last month to the sound of numerous disclaimers that the World Bank was responsible for anything in it that anyone might find controversial.

It is based not on any new data but a reinterpretation of old data. Previous surveys have taken the total calorie consumption of a country or region, and if it exceeded the minimum calorie requirement times the number of inhabitants, have assumed there was no hunger problem. The approach followed by Reutlinger and Selowsky is to assume that food within a country is distributed not according to need but according to income. They concede that their data, being based on a mathematical model, are only approximate.—N.W.

### Glomar Explorer Said Successful After All

Contrary to previous reports, the deep-sea salvage vessel *Glomar Explorer* succeeded in its mission to retrieve a foundered Russian submarine carrying nuclear weaponry. So says *Time* magazine on the basis of information attributed to a "senior U.S. Navy officer." The *Time* story, if true, corroborates what was already clear from study of the ship's operating manual, that previous accounts were full of inconsistencies, and that conceivably, "the *Glomar Explorer* has been declared surplus because she scooped up almost everything her designers intended her to garner" (*Science*, 25 June 1976).

When news of the *Glomar Explorer*'s venture first broke in March last year, most newspapers carried a version—almost certainly put out by the CIA—ac-

ording to which the mission was a very limited success. The Russian submarine, as this version had it, was raised in one piece from a depth of 17,000 feet, but during the ascent two thirds of the wreck broke free of the *Explorer*'s grapple and plunged back to the ocean floor, never to be recovered. The piece that came up contained no missiles, no code room and no nuclear torpedoes—in fact nothing that might be the cause of public humiliation for the Russians.

The general thrust of this account has not been seriously challenged, although it was unlikely from the start that the Russian submarine would have survived intact its plummet to the bottom. The story seemed no more plausible in light of the facts in the *Explorer*'s operating manual, made available earlier this year as a part of the government's attempt to lease the ship. Neither the *Explorer* nor her associated barge could have accommodated the full length of the submarine. The whole system was custom-designed, as if the submarine was to be salvaged in pieces, of which the largest did not exceed the dimensions of the *Explorer*'s well or moon-pool. And the *Explorer* seems in fact to have spent enough time at the site, some 750 miles northwest of Oahu, Hawaii, to have sent its grapple on as many as five separate journeys to the bottom and back.

The *Time* story now reports that the "entire wreck . . . was recovered virtually intact," which is puzzling in that it implies the whole submarine was recovered in one piece. Be that as it may, the booty included "three SSN-5 surface-to-surface ballistic missiles armed with nuclear warheads and several torpedoes." There is no mention of what would have been an equally significant prize—the communications systems, code machines and ciphers. Also left hanging is the question of why we are being told all this now.

—N.W.

\*Malnutrition and Poverty. Johns Hopkins University Press, Baltimore. \$4.75.

43  
OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 28, 1977

FROM: Hollis B. Chenery *HBC*SUBJECT: IBRD Policy Vis-a-Vis Higher Income Countries

1. Attached is a policy paper on "IBRD Policy Vis-a-Vis Higher Income Countries" prepared by the Policy Planning and Program Review Department. The paper incorporates extensive comments received on an earlier draft from Messrs. Knapp, Adler, Alter, Bell, Goodman, Krieger, Stern, Wapenhans and others. The major policy conclusions have also been reflected in a note prepared at Mr. Knapp's request for inclusion in the Board paper on the "Future of the Bank".

2. I suggest that this paper should now be reviewed by the Policy Review Committee. If you agree, I will ask Mr. Haq to circulate the paper to PRC members for discussion at a time convenient to you.

Attachment - *Policy File*

HBChenery:nff

cc: Messrs. Knapp  
Cargill  
Karaosmanoglu  
Haq

*1/25*  
*OK*  
*Fin*  
*(Mr Burke)*  
*given copy*  
*(sl)*

*Attachments in "Role of  
the Bank" book.*

Mr. Robert S. McNamara

January 19, 1977

Hollis B. Chenery

DPS Work Program for CY77

1. Attached are the outlines of ten policy and issues papers planned for completion in the next six months. These outlines have been prepared in the light of the discussion we had with you on December 23, 1976.

2. While the papers on trade, global targets and ODA flows will be finished before June, we expect to continue our work in the areas of "outlook for developing countries" and "basic needs" beyond that time. It is for this reason that the outlines of the papers in these two areas remain somewhat tentative. In view of the staff limitations, we are engaging an outside consultant to prepare a preliminary paper on "the lessons of the last 25 years."

Attachments

cc: Messrs. W. Clark  
Stern  
Karaosmanoglu  
Haq  
Avramovic  
Mrs. Duloy  
Mrs. Hughes

SJBurki/MHaq:di

*1/18/77 To Dr. Chenery**2 great improvements.  
LHC*

## OFFICE MEMORANDUM

*26*  
*Attachments filed*  
*Economic Indicators*  
*book. (No MEN mark on it)*

TO: Mr. Robert S. McNamara

DATE: January 18, 1977

FROM: Hollis B. Chenery *HBC*SUBJECT: Revised Monthly World Economic and Social Indicators

1. Attached for your review is a draft revised version of the monthly World Economic Indicators, which we would like to put into production in April. The major changes embodied in this revision, and the reasons for them, are summarized below.

2. Layout. Because of the volume of data included in the Indicators and the size of some of the tables, legibility has been a problem in the present layout. We therefore propose an Atlas-type layout, together with a rearrangement of the tables to conform to standard paper without excessive reduction of type size.

3. Format. To simplify updating, processing and production, we propose to divide the Indicators into two sections:

Part I: Current Statistics, containing monthly and quarterly data which will be updated and revised on a monthly basis;

Part II: Annual data, containing time series and indicators available only on an annual basis, which will be updated once or twice a year as new data become available.

4. Content. To make the Indicators a self-contained reference document for both current statistics and comparative economic and social data, we propose to supplement the present version with:

- a. Information on borrowing in international capital markets (Table II), additional information on external debt (Tables VII 1-3), and a broad range of economic and social indicators by country and by geographic and income group (Tables VIII, and XI-XIII). Income groups will conform to current lending program guidelines, and will be revised with them each year.
- b. Graphs and charts illustrating the principal features of each table.

- c. A quarterly survey reviewing major developments in the world economy and other topics of current interest.

5. We plan to introduce the new Indicators in stages. The first stage will consist of tables with layout, format and content revised according to the attached draft, beginning in April 1977. The first analytical survey will be included with the July 1977 edition. Graphic material will be added as development of processing capability permits. Eventually, when preparation of all tabular and graphic material is fully computerized, we propose to convert the entire publishing process to computer photocomposition.

Attachment

RMcPheeters/HHughes:nff

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 11, 1977

FROM: Hollis Chenery *HCB*

SUBJECT: Bank Research on Population

1. As requested, I am sending you a report on our research program on population. It is in two parts.

2. Part One describes the current program, including both ongoing research projects and those on which some preparatory work has started. It then discusses the choices that need to be made about the future size and direction of the research program, under the assumption that it would be unrealistic to request a major increase in staff.

3. Part Two offers an overview of the whole field -- both with respect to research priorities and to the activities of other institutions in the field. This provides the background necessary to assess the adequacy and direction of the Bank's own program and future options.

4. An earlier draft of this paper was discussed with the Population Projects Department and changes and additions have been made in response to their comments. Within the time available and in view of the need to complete a set of parallel tasks, however, it was not possible to carry the discussions sufficiently far to arrive at a joint research program, nor to obtain the views of the Research Committee. We plan:

- (a) to complete the formulation of a joint research program within the next few weeks, and subsequently to consult regional staff; and
- (b) to devote the February 18 meeting of the Research Committee to population research.

All these steps could be completed and the final proposal prepared for your consideration by March 15.

Enclosure

TKing/DAvramovic/yvw

cc: Messrs. Baum  
Kanagaratnam  
B. B. King  
PHRD Staff



Mr. Robert S. McNamara

January 10, 1977

Warren C. Baum, VPCPS and Hollis B. Chenery, VPDPS

Policy Paper on Employment and Small Enterprise Development

1. A policy paper on "Small-Scale Enterprise (SSE) Development" was submitted to you on November 29 along with a memorandum from Mr. Chernick (copy attached). In that memorandum Mr. Chernick noted a number of questions still remaining, which call for further consideration. You then raised the question whether these issues should be considered before the paper was discussed by the Policy Review Committee.
2. The CPS and DPS units concerned have reviewed the matter, and are in agreement that while the questions raised are legitimate, we do not at present have sufficient knowledge to provide fully satisfactory answers to them. They propose, and we concur, that these and other questions should continue to be studied, and dealt with by one or more follow-up papers to be produced, say, a year from now. In the meantime, the Bank should continue to develop its SSE operations, preparation of which should also produce some tangible feedback for these papers.
3. Accordingly, we recommend that the PRC review the paper in its present form while the issues raised in the DPS memorandum of November 29 should be included in the policy work program of the DFC Department, collaborating with other interested departments. If you approve, the Policy Planning and Program Review Department will distribute the paper to PRC for review later this month.

Cleared with and cc - Messrs. Gordon  
van der Tak  
Haq

SBurki:DLGordon:jm

# OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 29, 1976

FROM: Sidney E. Chernick, Acting Director, PP & PR <sup>ehc.</sup>

SUBJECT: Policy Paper on Employment and Small Enterprise Development

1. The policy paper on "Employment and Small-Scale Enterprise (SSE) Development" prepared by the Development Finance Companies Department is attached, together with the minutes of the staff level discussion of an earlier draft.

2. The paper contains a large amount of very useful information, theoretical and empirical, on the subject of SSE-development. Its main recommendation is a greatly expanded emphasis on assisting SSEs on the grounds that (a) past policies and institutions have discriminated against this sector and in favor of larger firms, (b) this sector has been neglected by the Bank, (c) a vigorous SSE sector is believed to be necessary to help create productive employment and to improve incomes for the urban poor at a reasonable cost.

3. I should like to draw your attention to a number of questions that remain regarding the role of SSE:

- (i) The paper is inconclusive with regard to the actual scope for an expansion of SSE without incurring a loss in overall factor efficiency.
- (ii) The paper does not offer specific operational criteria as to which SSEs should be supported.
- (iii) It is not clear that small firms are necessarily more capital-saving for any given product than large firms.
- (iv) While on the average the small firms economize in fixed capital, the inclusion of working capital requirements would tend to reduce or might even eliminate this advantage.
- (v) While a convenient first approximation, "labor intensity" should not be a separate investment criterion; it ignores the efficiency of all factors of production together, present jobs may be expanded at the expense of future jobs, and it does not consider the distribution of incomes generated. To assess the overall return requires a more comprehensive social cost/benefit analysis.
- (vi) Large and small firms co-exist in part because interest rates are low for the former and wage rates (and incomes from self-employment) are low for the latter. Giving small business greater access to credit at reasonable interest rates could increase the capital-intensity of small firms rather than induce them to expand employment.

Mr. Robert S. McNamara

November 29, 1976

- 2 -

I suggest that these questions, in particular (ii) and (vi), be further considered in the light of ongoing operational research in the CPS.

4. We would recommend that a PRC review should be held on this paper so as to have an adequate feedback on the direction of policy and further work in this field.

Cleared with and cc: Messrs. Gordon  
van der Tak

cc: Messrs. Chenery  
Baum  
Karaosmanoglu

Attachments