Folder Title:	VPD - Senior Adviser - McNamara File - October - December 1973 - Folder 7
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Series:	Director, Development Policy Ernest Stern's Correspondence with President McNamara
Dates:	10/17/1973 - 12/27/1973
Subfonds:	Records of the Office of the Vice President, Development Policy (VPD) and the Development Policy Staff
Fonds:	Records of the Office of the Chief Economist
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VPD Senior Adviser

McNamara file

~~Development~~ Policy,
Oct. - Dec. 1973

Folder 7

McN

818/7/20

Mr. Robert S. McNamara, President December 27, 1973

Hollis B. Chenery, VP, Development Policy

IBRD/IDA Lending to the Least Developed Countries

1. Attached is a paper on Bank Group lending to the UN-designated least developed countries prepared by the Policy Planning and Program Review Department. The paper was discussed at the PRC Staff Review on November 28 and has subsequently been revised in light of the comments made there.

2. This study was prepared in response to repeated questions in the Board about Bank policy toward the least developed countries. The purpose of the paper is to provide senior management with a compilation of data to assist in responding to inquiries regarding least developed countries. The material has also provided the basis for Mr. Hoffman's response to the United Nations as to our work in the least developed countries.

3. The paper assesses our lending to these countries in relation to the policy stated in the policy paper on IDA lending (IDA/R73-7) and concludes that our operations are fully consistent with those policy objectives. The paper also points out that the UN-designated least developed countries are not a very useful group for Bank policy since they contain less than a quarter of the poor people in our member countries. Moreover, they receive more aid per capita than such larger poor countries as Bangladesh, which have been excluded from the list. Because of the political importance which is attached to the UN listing, we should occasionally assess our programs in these terms; but for general programming purposes, we prefer a broader definition of poverty groups.

4. We intend to circulate this paper to other members of senior management for information. I see no reason to send it to the Board.

Attachment

EStern/lm

bcc: Messrs. Stern, Haq, Vibert

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

818/7/19

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 17, 1973

FROM: Ernest Stern, Senior Adviser, VPD ES.

SUBJECT: State Department Study of LDCs

As you probably learned in New York, Tony Solomon is interested in heading the State study of LDCs and it is expected that he will be appointed shortly.

EStern/lm

12/18

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McN.

818/7/18

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 17, 1973

FROM: Ernest Stern, Senior Adviser, VPD

SUBJECT: Bellagio Conference on Social Science Research on Development

To bring you up to date on the preparations for the Bellagio meeting on research, attached is the final list of participants and the penultimate version of the agenda.

12/17

Attachments

EStern/lm

January 1, 1974

Bellagio Conference on
Social Science Research on Development

February 12-16, 1974

LIST OF PARTICIPANTS

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* Author of paper.

DRAFT

AGENDA

Social Science Research on Development

(Note: The time schedule shown is indicative only. The purpose is to have an informal exchange of views, and we can take as much or as little time on any of the subjects as interest dictates.)

Tuesday, February 12 — Arrival of Participants

Wednesday, February 13

9:30-9:45	Opening Statement - Mr. David Bell
9:45-10:15	Discussion of proposed agenda - Additions or Deletions
10:15-11:00	Research Priorities - Mr. David Hopper, Discussion Leader
	1. How financing institutions see priorities Brief (5 minutes) comments by each institution
11:00-11:30	Coffee
11:30-1:00	2. Research priorities as viewed in LDCs Brief (5 minutes) comments by each author

3. General Discussion. Based on presentations and background papers and to include:

a. Reaction to priorities. Are they appropriate to the most urgent needs and the existing state of knowledge.

b. What are the principal differences in the perceived priorities and why. Do these reflect different assessment of problem areas, state of knowledge or objectives.

c. How are research priorities set. Do they reflect demand and if so, whose - planners, operational agencies, aid agencies, etc. How do donor priorities affect relations in LDCs, such as relations between domestic research institutions and the government, and relations among domestic institutes.

d. How realistic are research priorities in terms of research capacities. What are the relative priorities between direct research and institution building and training. How do financing agencies' policies affect building of research capacity.

e. In light of the perceived priorities how should research portfolio be balanced between macro and micro research, methodological/theoretical work and applied work, data gathering, policy research. What is the appropriate balance between the social science disciplines. Is more interdisciplinary research necessary; feasible. How can it be promoted.

1:00-3:00 LUNCH

3:00-5:30 Resume General Discussion.

Thursday, February 14

9:30-11:00 Interrelationships in Research - Dr. I.G. Patel, Discussion Leader

1. Opening Comments: Mr. Edmar Bacha
   Mrs. Gelia Castillo
   Mr. Paul Streeten

2. General Discussion

   a. Relationships between LDC researchers and research institutes. Present situation. Nature of linkages. Principal problems and constraints. How do these relationships affect research priorities, comparative and regional studies, institution building and training.

   b. Relationships between researchers and policy makers. What is the nature of the linkage in LDCs; in donor agencies; in industrialized countries. How do policy requirements affect research priorities; the quality of research. How does the source of financing affect this link; the use of foreign researchers; collaborative research.

c. Relationships between research communities in developing and industrialized countries. What are the constraints. How are these relationships evolving; do pressures to promote collaborative research reduce its quality and make collaboration pro forma; how do financing agencies impact on these relationships; are there research areas which foreign researchers should stay away from.

d. How can research capacity be enlarged. What should priorities be - geographically and substantively. What should be the balance between training, institution building, collaborative research and contract research. What steps should LDCs take; what is the role of bilateral aid agencies, foundations, international organizations.

11:00-11:30	Coffee
11:30-1:00	Resume General Discussion
1:00-3:00	LUNCH
3:00-5:30	Resume General Discussion

<u>Friday, February 15</u>

9:30-11:00 <u>Coordination and Dissemination</u> - Mr. H.B. Chenery, Discussion Leader

1. <u>Coordination</u> - Opening Comments:
   Mrs. R. Zagorin
   Dr. Sohn
   Dean Vinyu

<u>General Discussion</u>

a. Is increased coordination necessary and/or desirable. What is the present situation. What are its costs and benefits. What will be lost and gained through increased coordination.

b. What should be the objectives of coordination and its scope. Should there be coordination of research at regional level; between financing agencies; or internationally.

Should coordination between the researchers and users be strengthened. At what stage should coordination be aimed - priorities, work in progress, institution building and training.

c. How can coordination - of whatever kind and at whatever level - be improved.

11:00-11:30 Coffee

11:30-1:00 2. <u>Dissemination</u> - Opening Comments: Mr. Onitiri
Mr. Birnbaum
Mr. Mathieson

<u>General Discussion</u>

a. There is growing dissatisfaction with the dissemination system between researchers and between researchers and policymakers. What is the situation. What are the principal deficiencies.

b. How can dissemination be improved at the national, regional and international level - among researchers and between researchers and policymakers.

c. What can financing agencies do to assist in this process.

1:00-3:00 LUNCH

3:00 <u>Assessment</u> - Discussion Leader:

Comments by participants on the utility of the meeting, the appropriateness of the topics, and on the desirability of any follow-up.

<u>Saturday, February 16</u> Departure

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3334

818/7/17

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 11, 1973

FROM: Ernest Stern, ES Senior Adviser, VPD

SUBJECT: Salary Indexing

At the pre-Board briefing of October 30 you asked that we review the practice in different countries in regard to wage indexing, and the relation of this to "incomes" policies in times of inflation. A short note on this topic, prepared by the Public Finance Division, Development Economics Department, is attached. The country coverage is limited, particularly in regard to civil servant salaries, but it would take considerable additional work to make a comprehensive inventory of wage policies. Since the issue on Bank salaries is essentially political, and this type of material presumably is only useful for background discussion, I thought we would not undertake further work until you had reviewed this note and determined whether additional material is needed.

12/11

Attachment

cc: Mr. R. Clarke

EStern/lm

Salary Indexing and Inflation

Pros and Cons of Wage Indexing

1. At times of rising prices the real incomes of wage and salary earners fall if their earnings do not keep up with the rate of increase in the cost of living. This is, in general, viewed as an undesirable outcome from the equity point of view. Moreover, a fall in the real price of labor in some activities may also distort resource allocation. Although in most instances the reactions of the groups whose real incomes are reduced set in motion pressures - of market or non-market type - which tend to redress the deterioration in the absolute or relative values of the real wages or salaries, the system through which these compensatory changes take place and the timing of these adjustments have implications for equity and efficiency as well as stabilization policies aimed at controlling inflations.

2. In periods of price stability, the cost of living does not figure significantly in the wage-salary negotiations, which deal with other conditions. In periods of rapid price escalation, however, the cost of living as a determinant of bargaining positions assumes special importance. Wage/salary indexing (often described as the cost of living clause in wage contracts) which provides for some kind of automatic adjustment according to a price index, is one method of dealing with the problem in an explicit and systematic manner.

3. The attraction of wage indexing is that under this system contractual earnings are compensated for by the rise in prices on a regular basis, requiring relatively moderate adjustments, rather than resulting in abrupt changes at irregular intervals. The difference between contractual arrangements which include indexing and those which do not is not whether

the wages should be adjusted for inflation or not - since the market will ultimately force some adjustment - but when these adjustments take place. Wage indexing is thought to minimize the inequities caused by increases in the cost of living and the distortions in resource allocation brought about by inflation. It also enables wage negotiators to concentrate on the need and scope for revising the real wage rates. By reducing uncertainty at least in one element of future changes, indexing may also facilitate long-term agreements.

4. The opponents of wage indexing, on the other hand, view it as a system where the momentum of past inflations is built into the economy by institutionalizing the interactions between the prices and the wages. According to the critics of indexing, linking wages to consumer price indices reinforces inflationary trends, and is a barrier to policies aimed at reducing the rate of inflation.

5. On balance the pros and the cons of wage indexing probably are exaggerated in terms of the performance of the total economy. Wage indexing is one method among many of adjusting wages to the price increases. In general, wages as a whole get adjusted to the inflationary trends in the long run whether the wage contracts contain explicit cost of living clauses or not. This is particularly true for the better organized, politically more powerful labor groups; for the informal, unorganized sector, wage adjustments may lag but these are also the groups which are not likely to be able to negotiate an indexing system. Even when the wage contracts contain escalation clauses, it is not difficult for governments to interfere in the implementation of these contracts for brief periods if this is warranted either to achieve a quick reversal in expectations or for other short-term policy requirements. Nonetheless, it is clear that when indexing becomes most important to labor, i.e., in periods of rapid price inflation, it is

most likely to be inconsistent with necessary "wage-restraint" policies.

Wage Indexing Experience

6. The extent of indexing in the industrialized countries varies a great deal. At one end of the spectrum are countries like Belgium and Denmark where indexing has been prevalent in one form or another since the end of the Second World War. In Belgium, indexing applies to about 90 percent of the wage earners. In Denmark, the cost of living adjustments are made twice a year, based on a "wage regulating index" which is the consumer price index adjusted to exclude the indirect taxes and subsidies. Some wage contracts in France include cost of living safeguards in the form of threshold clauses which provide for the revision of salaries of certain categories in the event that the cost of living rises by more than a certain percent. Indexing of all kinds was very widespread in Finland until 1967 when most forms of indexing were abolished as part of a stabilization program following the devaluation. Indexing of wages is also common in Italy, Norway, and the Netherlands. On the other hand, cost of living clauses are almost non-existent in Austria, Germany and Japan.

7. In the United States, the popularity of wage indexing has risen in years of inflation. The three peaks in the post-war period - when the number of wage earners covered by the cost of living clauses reached about 40-50 percent of the workers under major union contracts - occurred during the years of the Korean boom, the late fifties - especially 1958 - and the recent inflation. At present about 4.3 million workers employed under major bargaining agreements are covered by escalation clauses. The total number of wage earners whose incomes are linked to prices is estimated at about five million. In addition, some state and local government employees and the pensioners under the two major Federal pension schemes (about 1.9 million

retired civil servants and military personnel and about 28 million social security beneficiaries) are also protected by escalation clauses.

8. In the context of the incomes and prices policies in European countries, the attitudes toward wage indexing have been ambivalent. The widespread practice of indexing in Finland was abolished in order to implement the stabilization program following the 1967 devaluation. The Danish Government also tried (as part of its 12-point stabilization program in 1970) to abolish the escalator clause in wage contracts, but was not successful. In the United States, this was never a serious issue. As one author puts it, "The War Labor Board rejected the cost of living tie, the 1946 Wage Stabilization Board ignored it, the Korean Board encouraged it, and the Nixon Board assumed it within specified limits."

9. At the beginning of 1967, after the rise in consumer prices began to accelerate in the United States, the Council of Economic Advisers explicitly stated that the wage guideposts should not be adjusted to recognize the recent increases in living costs. Following the three-month freeze on prices and salaries during Phase II of the prices and incomes policy which lasted until January 1973, the statutory limits on the wage increases were 5.5 percent per year plus an allowance for fringe benefits of 0.7 percent as compared with a price increase expectation of 2.5 percent per annum. The outcome was, on the average, an annual increase of 6.4 percent in hourly earnings and 3.4 percent in the consumer prices. These trends were perfectly compatible with cost of living clauses in the wage agreements. After a relaxation of guideposts in Phase III, the United States is now applying, on a selective basis, the same ceilings on wage increases as in Phase II.

10. Since 1972, Britain has gone through two phases of the income and prices policy and the third phase has just started. The First Phase

imposed a freeze on all pay as well as prices for a period of 90 days from November 1972. The Second Phase included a statutory requirement that the total annual cost of pay increases for any group of employees be limited to the sum resulting from the payment of £1 per week plus 4 percent of the average pay bill per head for the group over the previous year, with a maximum for any one individual of £250 per year. This formula, designed to improve the relative position of the lower paid, would permit an increase in wage rates taken as a whole of about 7.5-8 percent. There was no explicit recognition of the escalation clause. In the Stage III regulations announced last month, the pay increase ceilings are set at 7 percent or £2.25 per week, with a maximum of £350 a year for each individual. In addition, threshold agreements (cost of living clauses) are allowed as follows: up to 40p a week if the price index rises by 7 percent in the 12 months; further payment of up to 40p for every percentage point rise in the index beyond 7 percent.

11. Threshold agreements were introduced for the first time to the incomes policy in Britain in order to cushion consumers against the effect of a sharp rise in the cost of living. This was explained in the Government Consultative Document as follows: "The Government recognise the public anxiety about the possible effect on prices at home of any future increases in the world prices of commodities that we have to import. They therefore propose to provide a safeguard, and the proposals below include arrangements for threshold agreements under which additional payments could be made if there were an exceptional increase in prices. Such arrangements run the risk of adding to domestic inflation if import prices rise unexpectedly fast. But Government think it right, in the interest of fairness, to accept this risk for the next 12 months in the special circumstances of Stage 3."

12. By setting an absolute ceiling to the permissible increase in wages for each individual (£350 per year) and by providing an absolute floor to the permissible increase of wages (£2.25 per week) the incomes policy of Britain in Stage III describes a system where the percentage increase in wages declines from low incomes to high incomes. Roughly at about £1,000 per year the maximum increase in wages can be as high as 15 percent. Between £2,000 and £5,000 per year the increase will be around 7 percent. Beyond a salary of £5,000 per year, the increase allowed as a percent of incomes will decline. As stated in the Green Paper, this is a fundamental principle of the Government policy. Moreover, the threshold agreements permitted under the new system will aggravate this discrimination against the high wages and salaries, since the cost of living benefits are also expressed in absolute sums rather than in terms of percentages of wages.

13. The evidence concerning the effect of wage-indexing on the increase in wage rates is inconclusive. It is not clear that the wage increases during inflationary periods have been higher either in the countries or in the industries where escalation clauses were prevalent. Although indexing was not widespread in Austria or Germany, and had limited application in Britain, wage adjustments to rising prices were necessitated in those countries as well, often by frequent renegotiations of contracts. In the United States, wage statistics from 1941 to 1972 show distinctly larger percentage increases in pay in the construction industry where cost of living escalation has been practically non-existent, than in the other situations, which, with one exception, had escalation for part or all the period. In 1970, 1971, and the first part of 1972, the average percentage increase in base pay (or pay and benefits) was distinctly larger in those settlements that did not incorporate escalation than in those that provided for cost of living adjustments.

Civil Service Salaries

14. Both in Britain and in the United States, the philosophy underlying the public policy toward the adjustment of the salaries of government employees seems to emphasize the comparability of the government salaries with the pay levels in the private sector. There is no explicit index-linking of government salaries either in the United States or in the United Kingdom. The Federal Pay Comparability Act states that: "Federal pay rates [should] be comparable with private enterprise pay rates for the same levels of work." The standards of salary adjustments are less explicit in Britain. Although many official reports, including the report of the Royal Commission on the Civil Service 1953-55 (the Priestley Report), have emphasized that "the primary principle of civil service pay should be a fair comparison with the current remuneration of outside staffs employed on broadly comparable work" the lack of principles and the triumph of expediency is still quite evident.

15. In the United States, the adjustment for the Federal salaries ordered by the President for 1974 is 4.77 percent. This is the rate of increase recommended by the Office of Management and Budget and the Civil Service Commission, which serve jointly as the President's agent for Federal pay, taking into account the recommendations of the Advisory Committee on Federal Pay as stipulated in the Federal Pay Comparability Act of 1970. In fact, the Federal Employees' Pay Council's request for a one-time cost of living bonus of $198 per employee over and above the 4.77 percent increase was rejected both by the Pay Agent (comprising the Office of Management and Budget and the Civil Service Commission) and the Advisory Committee on Federal Pay on the grounds that they could find "no legal authority under which a supplement could be granted" and since "pay in private industry to

which Federal pay is compared takes into account changes in living costs, in addition to other factors." Thus, the principle of comparability seems to include an indirect provision for taking care of increases in the cost of living.

16. Since 1964 all the annual salary adjustments for the Federal employees in the United States have been across-the-board increases for all those covered. However, a compression of the scales at high salary levels has occurred due to the $36,000 ceiling on executive, legislative, and judicial salaries. At present all workers in Grades 17 and 18 and those in the top 5 steps of Grade 16 receive the same pay; these workers will receive no increase until the problem of the pay ceiling is resolved. The 1974 pay increase will add those in Step 4 of Grade 16 to the group at the pay ceiling.

17. In the United Kingdom, salary adjustments for the civil servants will not be subject to the restrictions of Stage III ceilings. They are exempted under a special clause of the incomes program which permits the cases of "anomalies" to be treated differently, subject to the approval of the Pay Board. As a result of the biennial salary review by the Pay Research Unit, the civil servants were about to receive a salary increase of about 20 percent last January (1973) when the stabilization measures intervened. Under the Stage II regulations, the civil servants had to settle for the £1 plus 4 percent maximum which they were granted in April 1973. Under the "anomalies" provision of Stage III policy, some 400,000 civil servants are now expected to get raises as high as 20 percent.

Relevance to Compensation Policy in the IBRD

18. To achieve the twin objectives of fairness to the employees and efficiency for the institution, the fundamental principle of compensation policy in the Bank should be the maintenance of comparability or competitiveness

with the pay levels in other relevant markets. This is also a basic principle of salary administration in the United States and the United Kingdom civil service. In times of relative price stability, a system of periodic reviews that would examine all the relevant factors for the analysis of comparability may be an adequate system, although the question of how and with whom the comparisons are made will always be a complex one. In periods of rapid inflation, however, the difficulty of making objective comparisons is compounded. Not only does the choice of markets selected as points of reference become more complicated, but the timing of the studies which serve as bases for reviews as well as the interval of the revisions assume additional importance. For these reasons, a system which deals with the inflation factor separately and on an automatic basis may be a fairer, simpler, and even more efficient method of keeping the comparability of the pay levels. This may be all the more important for the Bank, where the alternative methods of reviewing comparability would involve dealing with exchange rate questions. In other words, on the assumption that the pay levels in comparable markets will be affected by the rate of price inflation, an automatic indexing of the salaries in the Bank to some relevant price index may provide an easy and efficient means of maintaining comparability.

19. The two arguments likely to be levelled against this system are (a) that the pay levels in the markets relevant for Bank employees may not be correlated with the price increases, and (b) that the pegging of pay levels below the price increases may be a deliberate policy of the member countries to achieve price stability. As regards the first argument, there is no reason to expect that the Bank employees are in a category whose employment opportunities <u>outside</u> the Bank would necessarily suffer as a result of inflation in the long run. If there are structural changes brought about by inflation which explicitly call for a reduction of the pay levels for Bank

employees - which would be unlikely - these situations can be dealt with in the periodic reviews of the real value of the salaries.

20. As regards the measures of wage-restraint aimed at reducing the inflationary pressures, it is obvious that the only link is a political one. Measures of wage-restraint in European countries are no more relevant in determination of Bank compensation levels than inflation rates in these countries are. To the extent these price or wage developments affect the conditions in the "comparable markets" for Bank employees, they can be dealt with in the periodic reviews of real wages. As far as United States income policies are concerned, the Bank is a relatively small institution and in no sense would it have a significant impact on the local economy or be considered a pace-setter. If wage indexing, formal or informal, quarterly or annually, is considered appropriate, the results should not be affected by any particular member's incomes policy.

21. In Britain the incomes policies of recent years have restricted the adjustment of wages and salaries at high levels and have favored the wage increases in the low-income groups. A similar compression has occurred in the pay schedules of the Federal employees in the United States, although for very different reasons (i.e., top salaries are tied to Congressional salaries and Congress does not consider it politically feasible to increase its own salaries at present). The salary adjustments of last May and the very recent one in the Bank have also followed this pattern by giving higher percentage increases to the employees in lower salary brackets. This may be justified as an income distribution policy - which seems to be the philosophy behind the attitude of the British Government. An income distribution policy in the context of the Bank, of course, does not make sense. If there are valid reasons for the compression of salary ranges, this should be dealt with explicitly in the review of real salary differentials and not under the guise of wage-restraint policy which is irrelevant to the institution.

OYenal
Development Economics Department
12/10/73

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Mrs. 818/7/16

TO: Mr. Robert S. McNamara

DATE: December 10, 1973

FROM: William Clark

~~Mr Stern~~ ~~(o McClenny)~~

SUBJECT: Outcome of Tidewater V

1. U.N. General Assembly on Development.

This is to be a special G.A. to examine the "mid-term review" of the working of the Second Development Decade. Its agenda will be prepared by a Preparatory Committee; there is to be included a review of the working of the U.N. Development Effort (i.e. the specialised agencies, UNDP etc.).

You promised all possible assistance in the preparation and publicising of this conference.

Philippe de Seynes later told me that he would much welcome a Bank appraisal of how its members were developing - especially as the U.N appraisal group got almost no national statistics and had agreed not to mention countries by name. He agreed that this was best done independently by us.

He is aware that the U.N. information system is simply not set up to publicise - only to muffle conflict. He would like our help, and spoke of getting Foundation help to put on a special publicity effort.

2. The World Food Conference

The best news about this was that Ed Martin was asked (last Friday evening) to head the American preparations for the Conference. Less good news was that the organisation of the conference itself was in the hands of the Secretary-General, Dr. Waldheim, and not under the control of F.A.O. and Mr. Boerma.

There is clearly a danger that the whole Conference will become part of the "Chicken War"; with America and Europe squabbling over their access to each other's markets.

We need to try and use our influence to get the agenda centred on:

1. Feeding the L.D.C.s, and building up world reserves against an immediate crop failure in the '70's.

2. Keeping up world food production in the oil shortage which will severely limit mechanised farming, and the production of fertilisers and pesticides. (These need to be "rationed" to ensure that the L.D.C.'s get a share).

3. Increasing productivity of L.D.C. agriculture, especially the smallholder who constitutes the majority.

4. Planning for the long term with an 8 billion population world.

3. Political Support for Development.

There was general agreement that the Arab boycott and the energy crisis both had led to decreasing support for Aid. This was partly escalating resentment against Arabs (who are identified, as they identify themselves, with the Third World); partly inward looking as the result of energy shortage. Each country explained why its public had gone anti-LDC; but all agreed they had for the time being.

There was some discussion (largely sparked by you) about how to get people to look at the long term, to see how aid for development could become a part of our policy for the next century.

(i) It appeared that the rich countries might be induced to think long term about trade rather than aid. Yet a danger of both protectionism and isolationism.

(ii) Disasters, such as the Sahel, could be used to get support for the poorest countries, through altruism and humanitarianism.

(iii) It is more difficult to get people to consider the "permanent disaster" of the least developed countries. But this is what is most needed. Essential to get the public to know of the state of affairs in much of Third World.

(iv) Need for targets. Targets that are both economic and social. Possibility of mid-term review of DDII restating and revising the targets; a sort of mid term Pearson that would state acceptable (to both sides) goals, towards which progress could be publicly noted.

4. Energy, Oil and the Arabs.

The impact of the Arab boycott on top of an existing energy crisis is likely to be severe on the OECD economies, and the rise in energy costs is likely to be a severe blow to the L.D.C.s. The sums paid to the virtually unpopulated oil sheikhdoms are absurdly high.

(i) There is likely to be little or no growth, even some decline, in OECD economies.

(ii) The increased cost to L.D.C.s for energy represents 25% of the aid flows, and 3 to 4% of total import costs.

(iii) The payments to Arab world will be vast, but while Arabs have a monopoly of oil, OECD countries have monopoly of investment, so it will flow back to West. Therefore no real balance of payments crisis.

There was considerable discussion of how the Arab funds could be diverted partially into development. Van Lennep's suggestion of a Horowitz plan with the OECD group subsidising the interest (note the Arabs will not pump out oil except against real assets) was felt to be politically impossible because it meant payment of further large sums to the Arabs on behalf of their fellow L.D.C.s who are solid behind the Arabs.

You suggested that we first of all get our figures clear, including the impact on LDC.s; then publicise them to all parties including the Arabs; then see whether some small part of the incremental wealth cannot be funnelled into aid. We must recognise that all Arab development organisations would be highly political.

There was a little desultory discussion of other shortages, e.g., cotton, fish, food. Problems of access to markets being replaced by problems of access to resources. Could this be ensured by global agreement e.g. in GATT? Many doubts.

It was suggested that the shortage problem and its solution by planned growth of agricultural production in both developed and developing countries would be a good way to hook American interest in Aid for development. But this was looked at without enthusiasm by Europe and Japan.

x x x x x x x x x x

Some specifics

1. UNCTAD was suggested as the body to do a study of the impact of oil shortages on LDC.s.

2. There was need in both the Population and Food conferences to give a backdrop that showed the problems when there was a world population of 8 billion. No-one seemed in charge of producing this.

3. Eppler stressed the need to keep development in the forefront of both Food and Population Conferences, e.g. what specific developments would induce parents to want less children.

WDClark:sf

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

7b 71

818/7/15

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 10, 1973

FROM: Ernest Stern, ES Senior Adviser, VPD

CONFIDENTIAL

SUBJECT: Study of U.S. Interests in Developing Countries

1. As you may know, Messrs. Kissinger and Bundy agreed some weeks ago that it would be desirable to mount a study of U.S. interests in developing countries. It is hoped that a more articulate and comprehensive statement of such interests will increase public understanding of U.S. foreign policy towards these countries. Neither Mr. Kissinger nor Mr. Bundy have provided any specific guidance to their staffs, though it was agreed that it would not be a Ford Foundation study. The present intention apparently is to have it a State study, with the Study Director reporting directly to Mr. Kissinger. Ford would provide some financial support (although why this is either necessary or desirable if it is a State study is not clear).

12/10

2. Sidney Weintraub (State) and Lloyd Jonnes (AID) visited with Messrs. Bundy and Bell last week to discuss the proposition. They discussed the general approach and discussed possible candidates for directing the study. Tony Solomon and Dick Cooper seem to be the two prime candidates. Bundy was supposed to call Solomon over the weekend to explore his availability (Tony is, at present, a consultant to Pete Flanigan). It is estimated that the study would be completed in 3-6 weeks.

3. I will keep in touch on my end, and you might wish to discuss it further with your contacts.

P.S. I also received an informal and very preliminary inquiry about my availability to direct the study. I said that I would not be prepared to leave the Bank for this.

EStern/lm

President has seen

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McN
818/7/114

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 6, 1973

FROM: Ernest Stern, ES Senior Adviser, VPD

SUBJECT: "Notes of a Rural Area Development Tourist"

The attached paper by John Lewis is interesting and worth reading, particularly the discussion of the possible conflict between decentralization and equity.

Attachment — in rural dev. File

12/6

President has seen

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

818/7/13

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: December 6, 1973

FROM: Ernest Stern, Senior Adviser, VPD

SUBJECT: Paper on Trade Liberalization

1. As you can see from the attached, I sent the draft paper on trade liberalization to Jim Grant, since he knew from the outset that we were working on it. I realize you are uncertain that the paper fits the agenda, and I have stressed this to Jim. He discussed briefly how he hoped the discussion would go; and if his hopes materialize, the paper will be very germane. He intends to discuss growing world scarcities (food, energy sources, selected minerals) and how these might be handled internationally. He thought that developed countries' action on food - where they are the principal suppliers - might be made to serve as a model. In this type of discussion the paper on trade liberalization would be very much to the point.

12/6

2. I refused Jim's request for enough (16) copies to distribute at the meeting. I am not sure whether you also have problems with the substance and specifics of the paper. If your concerns relate primarily to the agenda, you might reconsider whether we should provide copies for distribution on a standby basis - i.e. only if the discussion evolves as Jim hopes.

Attachment

President has seen

December 6, 1973

Mr. James Grant
President
Overseas Development Council
1717 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Dear Jim,

Attached is a paper we prepared for a June 1974 symposium. In the first part we discuss oil, including the new figures, and in subsequent sections we discuss non-fuel minerals. I am checking as to what additional data on oil there may be.

Also enclosed is a draft paper updating our estimates on trade liberalization. As I told you, Bob feels that the paper no longer fits the agenda and therefore is inclined not to circulate it.

Sincerely,

Ernest Stern
Senior Adviser
Development Policy

Enclosures

bcc: Mr. McNamara

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12/5 To Mr. Stern proceed as you suggest

OFFICE MEMORANDUM

3324

TO: Mr. Robert S. McNamara, President

DATE: December 3, 1973

818/7/12

FROM: E. Stern, Senior Adviser, VPD
M. A. Qureshi, Economic Adviser, IFC

SUBJECT: Export Credit Financing

1. Since the Nairobi meeting we have discussed what additional work we should undertake on export financing to determine whether the Bank Group can respond to the concerns of the developing countries and, if so, how.

12/4

2. Essentially these questions are involved:

a) What is the present situation regarding export financing?

b) What difference will export financing make to the volume of exports and to the annual foreign exchange earnings of developing countries?

c) What financial mechanisms, not involving Bank guarantees, are possible?

3. The paper prepared for Nairobi, though deficient in some respects, has defined the magnitude of the potential trade flows involved. Although necessarily speculative, the paper also estimates the potential cost in annual foreign exchange earnings if developing countries had to extend credit from their own resources. Little purpose would be served by trying to refine the overall estimates, but it would be useful to get a better feel of the requirements for export credit financing of some of the key countries involved, the difficulties which their exports are currently experiencing due to lack of credit, and the contribution which outside assistance in this field could make to their export growth and balance of payments. The focus of the additional work we undertake should therefore be on the practical problems and needs of present export financing systems, and the development of a proposal, or proposals, of an international mechanism.

4. We propose to engage a consultant with experience in trade financing. He would be associated with a Bank staff member from the Policy Planning Department assigned to this study full time.

5. The first step would be a survey of existing national export credit and/or insurance systems. Our knowledge of the IDB program is fairly complete, but we do not know nearly enough about the programs in countries such as Brazil, Mexico and India.

6. A second step would be more intensive discussions with major financial institutions. Informal discussions to date have revealed some interest in possible participation in an international effort. Such discussions also will help us define better the parameters of private sector participation.

7. In addition we would undertake informal technical discussions with a number of the principal governments involved. Thus far we have dealt principally with Israel, but the unique nature of their problem suggests that a broader range of inputs would be desirable.

8. Assuming we can locate the appropriate level consultant expeditiously, work can commence in January, survey and consultations could be finished by April and a draft proposal could be completed by the end of May.

9. We would be glad to discuss this further or initiate the work if you agree with the approach.

cc: Mr. Haq

EStern/MQureshi:lm

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

JMcN.

818/7/11

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: November 30, 1973

FROM: Ernest Stern, ~~Senior Adviser~~, VPD ES

SUBJECT: "Development Savings Banks and the Third World - A Tool for the Diffusion of Economic Power"

Mr. Loganathan is a former Bank employee. He is currently in Washington; I plan to meet with him late next week. Despite the long list of eminent testimonials, his ideas are very woolly - though his intentions are commendable. There is nothing to be gained by a meeting. A response to his letter is attached.

11/30

Attachment

EStern/lm

Mr. Stern - File Copy

12/3/73

Dear Mr. Loganathan:

Thank you for your letter of November 19 and the copy of your book which you have asked Praeger to send to me.

Unfortunately, in view of my schedule, we will not be able to arrange a meeting in early December, as you requested. However, you may be sure that your book will be read with interest and that any comments we may have will be sent to you.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. C. Loganathan
9910 Harrogate Road
Bethesda
Maryland 20034

EStern:lm
November 30, 1973

cc: Mr. Chenery

UNITED NATIONS NATIONS UNIES

ASIAN INSTITUTE FOR ECONOMIC DEVELOPMENT AND PLANNING

TEL. 815226, 815548, 815400, 815015, 815437
SRI AYUDHYA ROAD, BANGKOK, THAILAND.
P.O. BOX 2-136
CABLE: ASIANINST BANGKOK

790

19 November 1973

Mr. Robert S. McNamara
President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
WASHINGTON, D.C. 20433, U.S.A.

Dear Mr. McNamara,

"Development Savings Banks and the Third World
- A Tool for the Diffusion of Economic Power"

I have requested Praeger Publishers, New York, to forward to you a complimentary copy of the above book, of which I am the author.

The package of strategies formulated in the book, in my view, partly constitutes the essential core of an institutional approach to any type of unified planning in a mixed economy geared to an equitable distribution of wealth and income, which is one of your main concerns.

These strategies also seek to motivate the mass of the people to view and use their political power with a certain degree of balance and realism. To illustrate how crucial this factor of motivation is for balanced development, one need only pose the question whether the Third World countries in general, in the absence of appropriate strategies, could reach a stage in economic growth within the predictable future when people's expectations could be matched by fulfillment. The answer is obvious, as also the consequences. The ever increasing conflicts between the "haves" and "have nots" which, if not at least minimised, would certainly throw out of gear even the best of development plans, and may even lead to bloody revolutions, if not anarchy. It is in this context that the need for the diffusion of wealth (or, more importantly, the diffusion of the ownership of the means of production) assumes prime importance, as distinct from mere equitable distribution of income. Herein lies the main difference between dogmatic Socialism and "Democratic Socialism", advocated in my book.

../2..

UNITED NATIONS NATIONS UNIES

ASIAN INSTITUTE FOR ECONOMIC DEVELOPMENT AND PLANNING

TEL. 815226, 815548, 815400, 815015, 815437 SRI AYUDHYA ROAD, BANGKOK, THAILAND. P.O. BOX 2-136 CABLE: ASIANINST BANGKOK

140

19 November 1973

Mr. Robert S. McNamara
President
International Bank for Reconstruction
and Development
1818 H Street, N.W.
WASHINGTON, D.C. 20433, U.S.A.

Dear Mr. McNamara,

"Development Savings Banks and the Third World
- A Tool for the Diffusion of Economic Power"

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../2..

Though no econometric exercise would, in my view, be needed to test the validity of my proposals, such an exercise would be desirable to refine them and to assess the degree of success expected in each country implementing them. The acceptance of my proposals, at least in principle, need not, however, be postponed until the completion of an econometric exercise. My proposals, even without the aid of elegant econometric models, will have a positive impact and could be integrated into any national or regional plan aimed at achieving growth with a measure of social justice.

When I was Advisor in the Development Finance Companies Department of the Bank, I submitted many papers on policy issues which have a bearing, inter alia, on possible new roles of the World Bank vis-a-vis the Third World. Had your administrative circular dated April 13, 1973 on "Review of Proposed Development and Operational Policies" been issued while I was yet with the Bank in Washington D.C., I would have requested an open discussion of my views at least at departmental level. In response to a letter from Mr. Ernest Stern, I sent him several files of selected papers while I was Advisor to the Development Bank of the Philippines. My two letters to Mr. Stern dated March 30, and April 3, 1973, reflect in some degree the essence of the difference in the thinking of the Bank and mine.

I have taken the liberty of writing this letter to you to request you to give me an opportunity to appear before a small group of experts in the Bank, and to be subjected to a thorough examination on my proposals.

The purpose of my request is to satisfy the Bank that, should it accept my proposals at least in principle, it could take the initiative in not only amending and refining them, but also in bringing them to the notice of governments which are not fully committed to socialist or public-enterprise-oriented mixed economies, without any commitment on the part of the Bank. The Bank could thus avoid any discussion of political ideologies.

My book, of course, discusses political ideologies, because of the confusion in the minds of the political leaders in general of Third World countries in the interpretation of political concepts such as "Democratic Socialism", and their inability to appreciate the conflicts between their economic policies and social objectives, which in general are influenced by their political ideologies.

../3..

I am also enclosing, among other things, extracts of views expressed by professionals in other organizations on my thinking.

Sould you accede to my request, a meeting for a group discussion may be arranged during the first week of December. If need be, I am prepared to stay a few days longer. Kindly arrange for a message to be left at:

9910, Harrogate Road
Bethesda
Maryland 20034 (Telephone: (301) 3651402)

With regards,

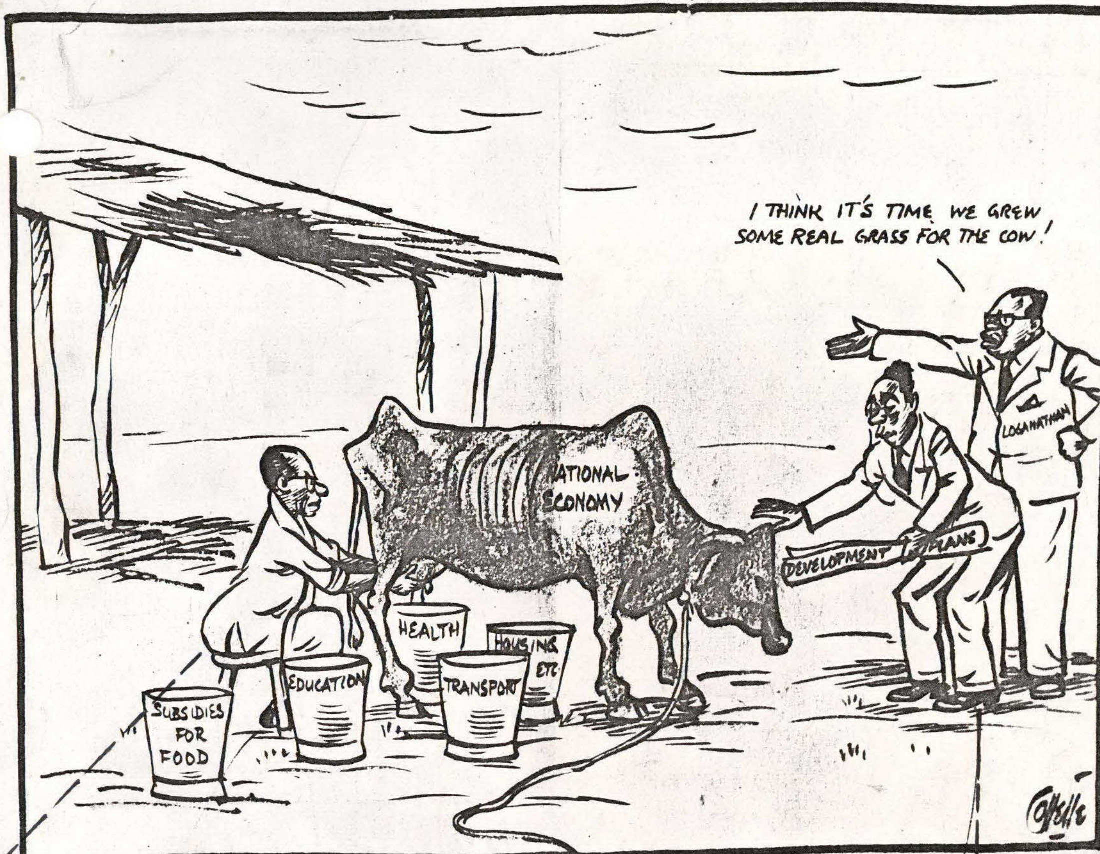
Yours sincerely,

C. Loganathan

Encls.

P.S. If required, I will arrange for a sufficient number of copies of my book to be sent to the concerned experts of the Bank. Though my book was published only on the first of last month, I have no doubt Praegers would have already sent at least one copy to the Fund/Bank Library.

cc: Mr. Ernest Stern, I.B.R.D.



---Lognathan

Prime Minister of Ceylon

CEYLON OBSERVER 1958

Minister of Finance

Extracts from the Dust Covers of Publications on "Development Savings Bank" and "Asia's Dilemma"

Extract No. 5 - Investors Chronicle (London) of September 15, 1967 in an article entitled - "Ceylon and the Private Sector" - Editorial.

> "If Ceylon fights its way out of its present difficulties success may well be due to the efforts of one man to get his ideas accepted. The man is Chelliah Loganathan ..... He has written scores of thousands of words expounding his views on how the transfer of political power to the people of Asia's newly emergent nations can be translated into economic reality."

Extract No. 6 - Mr. Harold Wincott in the Financial Times (London) of February 21, 1967 (Center page). Extract from an Article.

> "It is when you listen to Mr. Loganathan talking about his plan that you realize that here is a practical visionary who cuts through the flannel of political dogma to the heart of the problems of the modern world in its developed and underdeveloped parts alike."

Extract No. 7 - "The Eastern Economist", August 22, 1958, Editorial

> "This project will serve several objects simultaneously. It will give the common man a personal sense of participation in the great venture of development in which his Government and country are engaged. It will strengthen a real Peoples' Sector in the economy. Ownership by Government of the instruments of production including capital is no longer an indispensable part of the socialist technique. This project will demonstrate how monopolistic control of capital resources can be avoided and in a genuine sense it will be a move in the direction of democratic socialism."

Extract No. 8 - Mr. J.R. Bellerby, Institute for Research in Agricultural Economics, Oxford University - Mr. Colin Clark, Director, agreeing --- states (Comment):

> "The author seems to me to have placed a finger on the really crucial economic problem of the Asian countries. Compared with the necessity for accumulating capital at a rate materially exceeding that of the growth of numbers seeking employment, there appears to be no problem meriting equal attention. To the traveller in Asia the excess of manpower and the dearth of capital are so vividly apparent that he appreciates in a new and intimately perceptive way why the brighter intellects of the Nineteenth Century came to be gripped by the Wage Fund Theory. The fund of available capital appear, with stark clarity, to be the key to all economic progress.

"I feel that this is a case where the Roosevelt Principle should be applied. 'Pull every lever in sight, if it can do no harm.' I cannot see that any of the levers considered by Mr. Loganathan will do any harm, given proper safeguards, and they may do much good."

Extract No. 9 - Sir Sydney Caine, Director, London School of Economics and Political Science, London University.

"The proposal is very interesting and represents a bold effort to solve the current conflict between the private and public sector in the field of economic development."

Extract No. 10 - Prof. F.W. Paish, London School of Economics and Political Science, London University.

"It is an ingenious scheme which combines features of social security contribution, Savings bank and unit trust.... It does seem to provide the basis of a practical scheme."

Extract No. 11 - Prof. Lloyd G. Reynolds, Chairman, Department of Economics, Yale University, Connecticut, U.S.A.

"Your general view of the development problem is one which I very much share. Your statement of the problem strikes me as combining sound practical judgment, a sense of economic realities and devotion to democratic principles.

"There is no doubt either that the device of a development bank to foster investment in the private institution you propose is rather different from anything I have seen elsewhere. I found your whole statement most original and interesting."

Annex B

Editorials, Articles, Reports, Comments or References on Mr. Loganathan and on his studies

1. Time Magazine - 28th October 1957 (Comment).

2. Life Magazine - 4th May 1959 (Report).

3. Financial Times (London) - Center Page, Article, 21st February, 1967 (by Harold Wincot).

4. Investors' Chronicle (London) 1st September 1967, Editorial.

5. The Statist (London), 21st June 1958, Editorial.

6. OFFENE WELT (West Germany) N.R 55-1957 (Article).

7. ENT WICK LUNG Und Zusammenarbeit P1/2/71, 12 Jahrgang, Feb. 1971 (Editorial), West Germany.

8. ICC - Japan - Monthly Report - July 1958 (Article).

9. Eastern Economist - (Delhi) Editorials (a) 22nd August 1958
   (b) Fund/Bank Supplement September 1958

10. Indian Finance (Calcutta) - Editorial, Fund/Bank Supplement September 1958.

11. McGraw Hill News-letter - 9th May 1959, (Editorial)

12. Bancaria - N.4-1963, Rassegna, Dell' Associazione Bancaria Italiana (Comment).

13. Commerce (Bombay) - 2nd May, 1959 (Editorial).

14. 10 Year Plan of the Government of Ceylon - 1959 - (Commendation)

15. International Chamber of Commerce - Commission on International Investment (Paris) - Report 244, 1968 - Commendation

16. International Confederation of Free Trade Unions (ICFTU) - Commendation in special report of 1958 by its Asian Regional Organization in New Delhi and ICFTU Headquarters, Brussels.

17. U.N. Secretary General's Report No. E/C6/106/Rev. 1 dated 7th December 1970 to U.N. Economic and Social Council (Reference).

18. Asian Drama - by Gunnar Myrdal - Quotation, Vol. II, Page 824.

19. Times of Ceylon - January 31, 1958 (Comment by Sir Sydney Caine, Director, London School of Economics).

20. American Journal of Economics and Sociology - (July 1958) - Dr. A.A. Rozental of St. Louis University, U.S.A. (Footnote on adapted paper quoting applicant in support).

21. Many editorials and articles and cartoons on applicant or on his studies in almost every newspaper in Ceylon over many years.

22. References in Washington Post, New York Times, Journal of Commerce (New York), the Economist (London) etc.

23. Also Commendations by Prof. F.W. Paish - London School of Economics; Prof. Lloyd G. Reynolds - Yale University; Messrs. Colin Clark and J.R. Bellerby of Oxford University.

24. Report (1971) - Commendation - by Jack Baranson and Ardy Storitjesdijick (World Bank Experts on I.L.O. Mission to Ceylon). (Not published but available for reference).

25. International Computers, London - booklets on Loganathan Plan - 1968 and 1969.

26. 3 Year Industrial Implementation Plan (Ceylon - 1959 - official document incorporating Loganathan Plan).

27. Central Savings and Investment Trust Bill (Government of Ceylon, 10th March 1970) based on Loganathan Plan.

28. Loganathan Plan was a part of the Ten Year Development Plan Report (1959) of the Government of Ceylon.

Special Studies

1. Have developed several manuals on Project Management, etc.

2. Many papers (official) submitted as Advisor to World Bank on problems of development banking, money and capital markets, and World Bank's general approach to the problems of the Third World - Well Meant Criticisms.

3. Many papers on diverse subjects submitted in Ceylon as official documents (available for reference).

ANNEX D

The following tributes paid to me would be evidence of my contribution to the Bank of Ceylon, DFCC and DBP.

Extract No. 1 - Extract from a letter from the late Mr. H.V. Perera, Q.C., Chairman of the Bank of Ceylon written to me on my appointment as General Manager on 1st January 1953.

"I wish to say that your appointment has given me the greatest satisfaction. I have watched your progress at the Bank with great interest and have felt proud of your increasing mastery of the principles and techniques of Banking and Bank organization. It has been very gratifying to me to observe that you have at all time had in view not merely the interests of the Bank but also of our country and its people.

"I have no doubt that you will prove yourself fully worthy of the confidence placed in your ability and integrity and be an inspiration not only to the other officers of the Bank, but also to young Ceylonese who will be entering other fields which have, in the past, been closed to them."

Extract No. 2 - From Report of the Royal Commission on the Bank of Ceylon, published in 1968.

"In 1952, Mr. C. Loganathan, a comparatively young man, was appointed as the General Manager of the bank. This was a test of his managerial ability, banking skill and business acumen. Doubts have been expressed for a long time about the ability of any Ceylonese to guide the destiny of a large commercial bank with success.

"The growth of the Bank of Ceylon during the next decade can well be described as phenomenal...

"The Directors stated in evidence that the Board had the fullest confidence in the present General Manager ..."

Extract No. 3 - From Board Minute of the Bank of Ceylon passed in 1969 when I retired from the service of Bank of Ceylon.

"The Board desire to place on record his services to the Bank and trust that his splendid example will be an inspiration and encouragement to both colleagues and subordinates alike.

"The success of his stewardship as General Manager is clearly reflected in the report of the Royal Commission, appointed by the Governor General to inquire into the affairs of the Bank which traces the phenomenal growth of the Bank's business during this period.

"Mr. Loganathan's career as General Manager of the Bank of Ceylon has been marked by intense activity not only in relation to the working of the bank itself, but also in connection with the formulation of banking and economic policies in general, and the publication of the now famous "Loganathan Plan". He has introduced new systems and modern techniques in the evaluation of credit which are not second to those employed in the more advanced countries of the World and has generally contributed much in raising the stature of the Bank not only in this country but in banking circles around the world.

"We feel that while his retirement from the service of the bank will be grievious loss to us, his appointment as General Manager of the Development Finance Corporation of Ceylon will infuse into that institution a new dynamism and offer him a new challenge in a wider field of economic activity. We have no doubt that he will acquit himself in his new position with the same success and distinction that has characterised his service in the bank."

Extract No. 4 - From a letter addressed by Mr. N.E. Weerasooria, Q.C., Chairman, Development Finance Corporation of Ceylon, when I resigned to join the World Bank.

"Our association after you joined us as G.M. of DFCC has been short and in almost changing times. But I take this opportunity to thank you for your invaluable services and your co-operation and unfailing courage in situations not always pleasant.

Your severance will be a distinct loss to any Chairman in view of your long connection with the institution as a Director and lastly as its General Manager. Your wide experience of local conditions and your cognizance of world financial systems can be claimed by few others in Ceylon, if any."

Extract No. 5 - From a letter written by Chairman Virata of the Board of Governors of the Development Bank of the Philippines to an important personage about me, when my assignment with the Bank was still in force.

"..... I first met him when the World Bank at my request sent a mission to inquire into the financial set-up, organization structure, work procedures and existing capabilities of the DBP with a view to advising and helping to improve and gear it for greater responsibilities. Mr. Loganathan was sent as Chief of that mission. Later I requested that he be seconded to us to help in instituting the changes that we want to put into effect.

We have found Mr. Loganathan's advice extremely valuable, not only in the fields I mentioned above but also in policies. His innovativeness, perception, breadth of experience, professional competence, integrity and sympathy have endowed his every view on our problems.

We are in a period of transition and his assistance has been invaluable. I would be sorry to lose him; but considering the much bigger challenges facing ... today in a rapidly changing world environment, my colleagues and I would be happy to see him contributing his expertise in a much wider arena."

Record Removal Notice

File Title	Barcode No.
VPD - Senior Adviser - McNamara File - October - December 1973 - Folder 7	30124183

Document Date	Document Type
November 16, 1973	CV / Resumé

Correspondents / Participants
Members of the Managing Committee
I.F.I. Shihata, Vice President and General Counsel

Subject / Title
Chelliah Loganathan

Exception(s)
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by	Date
Vlada Alekankina	July 10, 2012

INTEROFFICE MEMORANDUM

To: Heads of all divisions
Director, Asian Institute
Director, Asian Highway
Executive Agent, Mekong Committee
Project Manager, CCOP (EA)
Specialized Agencies, UNDP and UNICEF

30 October 1973

DSD 34

From: H.B.M. Homji, Chief
Social Development Division

Subject: Invitation to attend an informal talk on "Economic Growth with Social Justice — Some Strategies", given by Mr. C. Lokanathan

Mr. C. Lokanathan, author of "Development Savings Banks and the Third World — a tool for the diffusion of economic power" (Prager Publishers, New York), is currently here as a short-term consultant with the United Nations Asian Institute for Economic Development and Planning. His earlier assignment on secondment from the World Bank was as an adviser to the Development Bank of the Philippines. He has kindly agreed to give an informal talk on: "Economic Growth with Social Justice — Some Strategies".

His talk will be of interest to those professionally interested in unified development planning, social justice and eradication of poverty. It will cover the following points:

> economic development as a means to achieve social justice; synchronizing growth efforts with social justice in the region; various models or mixes for such growth; areas of priority in a broad sense including the identification of means to achieve optimum mixes; conflicts if any and strategies to reconcile such conflicts; integrated approach to the problems of growth and social justice; identification and determination of "primary poverty" and "secondary poverty"; strategies for bringing the poverty groups to a higher level of development; direction and content of social services; nature and direction of government subsidies; relation to national social, economic and political objectives; motivation of human beings; consumption control in order to save for production investments; matching promotion with problems; reconciling between "have's and have-not's", etc.

This talk will be delivered in the Conference Room of the R.S. Hotel, 6th Floor (Room 606) on Monday, 5 November 1973 at 2:30 p.m.

You and your interested staff are cordially invited to attend.

Administration
Agriculture
Industry & Housing
Natural Resources
Population
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Statistics
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Asian Institute
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Mekong Committee
CCOP (EA)

Specialized Agencies
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3317

818/7/10

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: November 29, 1973

FROM: Ernest Stern, ES Senior Adviser, VPD

SUBJECT: Effects of Trade Liberalization for Primary Commodities

11/29

1. Attached is the paper you requested on the effects of liberalization of trade for developed countries with respect to primary commodities; it is intended for your participation in the Tidewater Conference next week.

2. The paper was prepared in the Economic Analysis and Projections Department; Mr. Tims and I would be glad to meet with you for a discussion of this paper if you desire. If no meeting is necessary, we will forward enough copies to Jim Grant for distribution to all participants.

Attachment

WTims/EStern:lm

President has seen

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McN.

818/7/9

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: November 28, 1973

FROM: Ernest Stern, Senior Adviser, VPD

SUBJECT: U.S. Position on Nutrition Paper

11/28

I inquired into the process which lead to the instructions to Mr. Sethness regarding the nutrition paper. There was a NAC meeting on the paper last week, at which AID and the Department of Agriculture supported the paper, the Federal Reserve Board opposed it (as you probably know, the FRB opposes everything on principle at the NAC), and the other agencies were non-committal. On Monday the Treasury finalized its instructions, which were cleared with AID, and these authorized cautious support for the paper but raised questions about whether the project approach was the most suitable in this field. In private discussions with Mr. Sethness, some of the AID people also understood that Mr. Sethness supported Bank activity in this area and that his principal concerns were with the project question.

EStern/lm

President has seen

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McN.

818/7-18

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: November 26, 1973

FROM: Ernest Stern, Senior Adviser, VPD

SUBJECT: U.S. National Commission on Materials Policy

Attached is a brief note on the report of the U.S. National Commission on Materials Policy. Dr. James Boyd, the Commission's Executive Director, will participate in the Symposium on Energy and Raw Materials next year, which you also plan to attend. We have the full Commission report should you be interested.

11/28

Attachment

EStern/lm

A Note on the Final Report of the US National Commission on Materials Policy

Background

1. The National Commission on Materials Policy was created by Congress on October 26, 1970 under Title II of the Resource Recovery Act of 1970 (labeled the National Materials Policy Act). The task of the Commission was "to develop national policies that will assure adequate future material supplies while maintaining an acceptable environmental quality level." The Commission was headed by Mr. Jerome L. Klaff, president of H. Klaff and Co. and a leader of the US scrap industry; Dr. James Boyd, a former president of Copper Range, acted as Executive Director.

2. The Commission completed its work last spring and submitted its final report to Mr. Nixon on June 27, 1973. Although the report has no immediate implications for the Bank's present work, its contribution to a highly complex field is a valuable one and of interest to the Bank, taking the long-range view. The report's most striking feature is its restrained, non-alarmist tone, particularly its refusal to advocate increased self-sufficiency in materials - - despite the obvious appeal of such a course to a great many lobbies and politicians in this post-OPEC era.

The Final Report

3. The report deals systematically with a wide range of relevant subjects such as supply, use, recovery, environmental factors, energy, land use, water, science and technology, etc. We shall report here mainly on the section on "International Aspects of Materials Policy," which is the most interesting to the Bank. Briefly, its message is that while ensuring an adequate supply of materials for the US presents a number of problems, these are not great or insurmountable, either singly or as a whole; dealing with them in a complex and dynamic world requires a multitude of approaches -- and continuous policy-adaptation -- rather than a search for a single dramatic solution. While contingencies may arise, these are unlikely to occur simultaneously and planning, therefore, should not solely be based on the severest set of contingency possibilities.

4. The report projects gross US materials requirements to rise from \$10.5 billion in 1972 to \$25-30 billion in 1985 (it is deliberately silent on the proportion of fuel imports); it adds that assuming appropriate policies with respect to prices, research and development of substitutes, conservation and recycling, the import bill might be \$20 or less. (This is considerably lower than other estimates around -- by the US Bureau of Mines, Stanford Research Institute, and private industry -- which run as high as \$45 billion for 1985.) The report avoids drawing a pessimistic scenario by (a) arguing that import dependence is not necessarily a bad thing, and (b) by refuting the often-heard balance-of-payments or national

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1/ Material Needs and the Environment Today and Tomorrow - Final Report of the National Commission on Material Policy, Washington DC, June 1973.

security arguments, as summarized below.

5. The report argues that the proportion of domestic consumption contributed by net materials imports provides a misleading measure; net imports represent only US acquisitions, not US dependence. Dependence should be considered in the context of the contingencies that may arise, and the policies that may dispel excessive risks. US imports of materials account for a small proportion of total imports or GNP compared to other industrialized nations. Furthermore, dependence is a two-way street, exporters depending, in turn, in importers. The key issue is not dependence but net dependence. Interdependence is a positive force which moderates conflicts. Only when the dependencies are not symmetrical, when there is a net dependence of significant magnitude for one nation, can anxieties be justified.

6. On balance of payments implications the report first argues that import charges will be offset by a number of factors (greater exports of finished products to a wider range of countries, etc.) and concludes that materials will neither make nor break the US balance of payments. The cost of materials imports can be accommodated within the healthy external accounts of a prosperous US economy, given a reasonably free and flexible monetary system. In the absence of a prosperous economy, US materials imports will only make what will be very serious problems worse by a matter of degree.

7. On national security considerations as they relate to materials policy the authors of the report urge moderation. They stress that different national security objectives carry different costs and affect materials policy discrepantly. The broader the national security objectives are defined, the higher is the probability and the number of contingencies (militarily and in materials-procurement) that the country must meet. It does not suffice to say that in the name of national security the US must prepare for the worst possible situation, since no nation has unlimited resources. The rational allocation of resources requires a clear understanding of the distinction between the necessary and the variable elements in national security. The necessary elements of the national interest have a tendency to swallow up the variable elements so that in the end all objectives are justified in the name of national survival. "The costs of a national materials policy, should this occur, become insupportable, and the net gain to the nation's security would be minimal, if it is positive at all."

8. In accordance with this balanced conception, the chapter concludes that "traditional US economic policy be maintained by relying upon market forces as the prime determinant of the mix of imports and domestic production subject to considerations of public policy involving the health and viability of domestic materials industry, national security, and fair international competition. Where dangerous and costly reliance upon imports appears to be the result of existing trends, the Government must intervene." The underlined portion was added in the final draft by some of the commissioners; we have not been able to ascertain its future operational significance. Obviously, the Government has a number of direct means (e.g. tariff policy) and a greater number of indirect means (e.g. depletion allowance, financing research and development, incentives for

recycling, and policy versus multinational corporations -- foreign tax credit, tax deferral, overseas private investment insurance, etc.) for influencing the import volume of materials. The report has a number of conclusions and recommendations on each of these (over 100 in all) but none of them are terribly new, specific, or exciting. The members of the Commission gave a great deal of thought to finding new commercial arrangements for participating in foreign natural resource development -- in view of the growing consensus that equity participation will not be as practicable in the future -- but could not come up with a new set of alternatives.

9. Incidentally, on the seabed question, the report has only a few paragraphs; it notes the seabed's vast potential and recommends that the US support and "diligently pursue" negotiation of an international agreement. On OPEC-type cartels, it states that "with the exception of petroleum, the Commission has not isolated any commodities for which the economic and political basis for such action exists."

Prospects

10. The National Commission on Materials Policy had a direct precedent in the Paley Commission of 20 years earlier (President Truman's Materials Policy Commission named after William S. Paley, its chairman). The Paley report was issued with great fanfare, took a pessimistic view on water and energy resources (predicting shortages in the second half of the century), was greeted with skepticism, and gathered dust without leading to significant legislation. The present Commission's report, on the other hand, slipped in quietly through the back door -- it was issued with a dull press release which received hardly any attention -- at a time when many of the Paley Report's predictions seem to have come true, yet it may lead to legislation and, ironically, legislation more consistent with the recommendations of the earlier report. In other words, Congress may interpret the report's findings more pessimistically and draw up inward-looking legislation, as there is plenty of room for this in the report's bureaucratic language.

11. In all this, the Administration's position is not clear. While it has attempted to tone down some of the recommendations in the final draft, its attitude appears to be one of non-commitment. The report, and particularly its chapter in "International Aspects of Materials Policy," has a State Department-like tone (liberal, in terms of trade relations), but it is significant that that very same chapter and its conclusions have been given no publicity whatsoever and no space at all in the press release of July 1, 1973 announcing the completion of the report. One possible reason for the bland nature of the recommendations and the little publicity accorded to the report may be that the report was prepared at a time when legislation and/or thinking was evolving in a number of associated fields such as energy, trade, foreign aid, and seabed mining. Further light on the Administration's views may be shed soon, since Congressional hearings on the report are about to be held in the Subcommittee on Minerals and Mining of the Senate Interior and Insular Affairs Committee.

12. One can speculate that the debate both in Congress and outside

may be a drawn out one since, though the Commission is dissolved, Dr. Boyd, its former Executive Director, is maintaining offices and a small staff as an operational base from which to publicize and presumably defend the report.

Policy Planning and Program Review Department
Development Policy Staff
November 9, 1973

McN.
818/7/7

Sir Denis Rickett, Vice President — November 1, 1973

Ernest Stern, Senior Adviser, VPD — CONFIDENTIAL

Transfer of Resources

The G-24 met on October 29 and 30 to discuss the LDC strategy for the November 1 and 2 meeting of the Working Group of the C-20 dealing with the transfer of resources to the developing countries. The preponderant opinion was that the Chairman's agenda, which was circulated last week, was too modest and related developing countries' interest too narrowly to monetary reform. The contrary view, advocated particularly by Brazil but shared by most others, was that reform is a tripartite matter - i.e. it must deal with monetary issues, trade and aid. Given the broader context, the G-24 has drawn up a supplementary list of issues which covers almost all aspects of aid ranging from such important matters as the achievement of the 0.7 target to such irrelevancies as commitment charges on Bank loans.

1/2

Although many of the items may never be made operational, there are two important suggestions to link these objectives to monetary reform. The first is a suggestion that there be deducted from the SDRs issued to any one country the amount by which that country fails to meet its aid target. The second proposes that the proceeds of the consolidation accounts be used to subsidize LDC access to capital markets.

From the few conversations I have had with Part I countries, I expect little sympathy for so broad an approach. Consequently, I expect that one result of the meetings will be numerous requests to the Bank, the Fund and UNCTAD for studies. While we obviously cannot refuse any direct request, we should try to minimize the work involved.

cc: Mr. McNamara

President has seen

FORM NO. 75
(7-73)

WORLD BANK GROUP

ROUTING SLIP	DATE October 31, 1973

NAME	ROOM NO.
Messrs. McNamara, Knapp,	RSM
Sir Denis Rickett, Chenery,	
Broches, Nurick, Adler, Stern	
Clark, Merriam	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE

REMARKS

Remarks by Senator Percy on the Floor of the Senate, October 30, 1973.

FROM	ROOM NO.	EXTENSION
Peter Riddleberger	D-920	2407

818/7/6

against property, courts-martial, and separations under less than honorable conditions, are down.

Virtually every major indicator of discipline except drug offenses has, in fact, remained or turned positive in the volunteer Army. Whatever factors contribute to this picture, it is clear that today's volunteer soldier is not causing an increase in disciplinary problems.

Many also had expected the volunteer Army to herald the demise of our National Guard and Army Reserve as viable outfits. No such demise is in sight, although we do face problems here. We have seen modest reductions in the strengths of both our Reserve Components from the December 1972 levels, a trend in fact dating from mid-1971. But current indications give us some encouragement that we may be able to restrain this decline. We have in the past several months, for example, been successful in recruiting trained, experienced, prior-service personnel into our Reserve Components to offset some of our shortfall. As you know, Reserve Component strength remains critically important, so we are very much concerned that it continue to receive close attention. Under the total force policy any future emergency buildup will have to rely upon the National Guard and Reserve rather than a draft for initial and primary augmentation of our Active forces. I expect the improving image of the volunteer Army to have the positive effect on the health of our Reserve Component recruitment that is needed.

Finally, combat readiness, which is the heart of our business, has shown significant improvement. When the draft ended, we had 13 divisions on the books, but only 10 fully formed. Of the 13 divisions, not 4 met the Army's stringent readiness standards and were considered ready for combat. By contrast, we now have all 13 divisions fully operational and 10 ready for combat. Thus, our divisions today, judged by the stringent standards reported to the Joint Chiefs of Staff, much more nearly meet their goals in terms of authorized strength, personnel job qualification, unit training, equipment on hand, and equipment serviceability than they did at the end of the draft. Six months to a year from now, I believe our readiness posture will be even better.

These simple facts and figures point to one conclusion—The Army is better today than it was at the end of the draft. But the figures are not nearly so meaningful as the subjective feel of those in the Army. I certainly don't pretend to be an expert on this but by the end of this month I will have visited all 13 of the Army's active divisions, as well as many other posts and stations. During every visit I have talked with new soldiers, with senior noncommissioned officers, with junior officers, with senior officers and commanders. I can tell you that without any question, today's Army is a far better Army, far more prepared for combat than it was at the end of the draft. I can just feel it everywhere I go. It's in the air. Discipline is better, moral is better, training is better, and equipment is better. The Army's future is indeed now.

And, what is more important, all of our vital trends, with the possible exception of drug abuse (and we are working hard and effectively on that one), are in the right direction today. Let me emphasize—your Army is good now, ready to fight, and getting better with the passage of time. I foresee no doom ahead. Six months from today we will be better, and after that, better still.

This picture that I give you of today's Army is enthusiastic and optimistic, and purposely so. I am extremely proud of today's Army and what has been done to make it work in the volunteer atmosphere. But I recognize our challenges. Benjamin Franklin once said that, "the man who expects nothing . . . shall never be disappointed." I believe he would share my belief that men who do expect something worthwhile and are willing to work hard for it, are apt to achieve it, even if the task is difficult and unfamiliar.

We are daily working on new, innovative and exciting ideas to insure that we get the right number of qualified men and women to man our Army. It will not be easy. It will perhaps be the toughest job that the U.S. Army has ever been called upon to do, but I am certain that today's Army will be equal to the challenge.

We in the Army have always needed the active support of the American people. Today, we need it even more than ever before. Even our strongest critics have recognized that the one vital element necessary for the success of the volunteer Army lies beyond the Army itself. I'm talking about public support. We need your help as we plow new ground, as we steer an uncharted course to give the country the best Army it has ever had. Without your help, we cannot succeed; with it, we cannot fail. Together, we can meet the challenges and prove worthy of the Nation's trust.

Thank you.

ROBERT McNAMARA AND THE WORLD BANK

Mr. PERCY. Mr. President, in every generation of mankind there are many talented individuals who rise to national prominence, make their contribution to this country or the world and then return quietly to the tranquillity from which they came. Only a relatively few men or women have a continuing impact on public policy. Fewer yet have the talent, intellect, diversity, and personal fortitude to have an impact in more than one field of endeavor. Robert McNamara is one such individual.

Robert McNamara has served this country with distinction as a captain of industry, a Secretary of Defense, and now as President of the World Bank. Being a catalyst in all of these fields he has been controversial. But whether one personally agrees or disagrees with Robert McNamara, there is no disagreement that he is tough minded and a brilliant innovator, and those who know him well regard him as I do, as a man of compassion—a great humanitarian.

In his present position as President of the World Bank, Mr. McNamara is committing a decade of his life to shake and move the leadership of this world on behalf of humanity. He is attempting to shake the perceptual thought structure of our generation of mankind on the issue of economic development in less developed countries. He is moving the institution that he heads, the nations that govern it, and the nations that receive loans from it, into a realization that economic growth is not economic development—that economic development means that all people in a given society must participate in and receive the proceeds from economic growth.

Two recent publications show Robert McNamara both as a humanitarian and as a catalyst in the field of economic development in less developed countries. The first article by Stephen S. Rosenfeld appeared in the July 3, 1973, issue of World magazine and is titled "Robert S. McNamara and the Wiser Use of Power." The second publication is of President McNamara's address to the Board of Governors of the IBRD in Nairobi, Kenya, September 24, 1973.

Mr. President, I ask unanimous consent that both of these publications be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

ROBERT S. McNAMARA AND THE WISER USE OF POWER

(By Stephen S. Rosenfeld)

WASHINGTON.—The straight-back hair is thinner, the half-rimmed glasses thicker than in the days when he was known as an architect of the Vietnam war—a reputation that seems to burden and spur him still. Yet the figure is as lean, the manner as intense, the mind as quick. Beginning his second five-year term as leader of the boldest development effort since Genesis, World Bank President Robert S. McNamara is doing what he plainly regards as the culminating work of his life. His fifteen-year rise to the presidency of a huge consumer-goods corporation, his seven-year stewardship of an immense military establishment—all this merely provided the training, the toughening, the incentive for this super-able and driven man to get where he is now.

On the floor by his desk is a large globe that he can spin for easy reference to the 122 countries that belong to "the Bank," as it is known in its sprawling headquarters just three blocks west of the White House. Only the Communist countries—in the Bank's careful, non-political prose, the "centrally planned economies"—do not belong, mavericks Yugoslavia and Rumania excepted. McNamara would welcome all of them. For it is the essence of his creed—*gospel* perhaps better suggests the passion behind it—that the world's essential divisions are not between Communists and non-Communists, East and West, but between rich countries with the means to lend to the Bank and poor countries with the need to borrow. The sooner the world can rise above its political quarrels, the better it can treat its economic ills. The Bank cannot solve others' political disputes, but it can, McNamara hopes, provide a measure of the vision and the money and the pressure needed to help nations do something about their peoples' desperate economic and social needs.

Five years ago, Lyndon Johnson arranged for the twenty "executive directors" of the Bank to choose McNamara. At the time, the former Ford Motor Company president and secretary of defense was widely regarded as a political basket case, his spirit seemingly broken by the travails of Vietnam. Friends from his Berkeley and Harvard days knew him as a man who had minored, so to speak, in the human condition. The public had been given only one glimpse of his concern: In a 1966 speech (in Montreal), so far from the Pentagon norm that it attracted much attention (as well as private grumps from LBJ), McNamara had drawn a close link between global violence and global poverty. Practically by itself, that speech made his Bank appointment respectable. The prevailing sense still was that he was being put out to pasture. At that point in the Vietnam War (1967–68), the Bank was thought of in Washington as a proven and worthy institution but not as a central or vital one. Its two previous presidents, George Woods and, before him, Eugene Black, were traditional bankers who had kept the Bank's profile low.

Looking back, one can see how all this suited McNamara's style. He had inherited a tight ship. It had an expert international staff, since doubled to about 1600 professionals from 100 countries (but no upper-rank women). Its blue-chip leadership and staff and its record of making "sound" loans had ensured it all the access it sought to world capital markets. Although it gives loans to some governments that on their own couldn't get in the front door of the central and private banks from which the Bank borrows, it has never lost a penny. From 1964 to 1968, the Bank committed $6 billion to help finance projects valued at upwards of $13 billion; the Bank always draws in other public and private lenders with it. Some feared McNamara's reputation as a visionary, resulting from the Montreal speech, might dry up the money. As though to quell the specter, he made his first major speech outside the Bank at the Bond Club of New York. Ever concerned not to be pegged as a wild-eyed fanatic, he declared: "[The Bank] is a development-investment institution, not a philanthropic organization and not a social-welfare institution." During his first term the Bank borrowed sufficient money to more than double its loans, committing $12 billion to finance $30–$40 billion worth of projects, exactly as McNamara had planned. He has kept old sources and found new ones—for instance, the Mideast oil states, which are to him "the largest single investment pool of medium- and long-term investable capital in the history of the world." During his second term he expects to get the Bank into an additional $50–$60 billion in projects. For a yardstick, note that American bilateral economic aid now hovers at around $1 billion a year.

McNamara took over a going operation. As one might expect of a manager of his bent, he has changed it. In sixty days he had set up a five-year planning framework; the Bank is now in its "Second Five-Year Program." There soon appeared a "programming and budgeting department," a discreet shadow of the Office of Systems Analysis he had installed in the Pentagon. Interestingly, he did not bring in a conspicuous group of new people, "whiz kids" or otherwise. His best known appointee is former AID official Hollis Chenery, a Harvard development economist who is the leading in-house policy adviser. His chief of staff is J. Burke Knapp, formerly of the Federal Reserve and State Department. Particular staff men whose ideas or programs grab him he sees for long and intensive meetings; others see him only on the elevator. For all the warmth and wit he shows private friends, he runs the Bank as an operation subordinate to his vision of its public duties. By a recent reorganization, sprung without notice, he deeply wounded scores of veteran professionals and, incidentally, thereby, gave an important boost to the Bank's "Staff Association," a fledgling union. McNamara professed to be astonished at the furor he had created.

His work habits continue to be something of a Washington legend: the hours; the quick intake of masses of new material; the capacity for framing—some say overframing—issues. He can dole out appointments to internationally known figures in five-minute pieces; he frets at holes in his schedule; his calendar bears notations like "12:00 noon—Nicaragua." On the road (sixty-six countries, 432,330 miles in his first term), he paces himself relentlessly, seeing only "presidents and peasants," as one aide put it, exhausting his escorts. Perhaps because he learned at the Pentagon not to become a captive of his own staff, he ranges wide for counsel outside the Bank, keeping open old lines to the foundations, the Urban Institute, Aspen, and like places, in order to receive fresh ideas. As a second-term gift, staff members gave him a briefcase.

More meaningfully, the Bank gave him his second term. McNamara has called himself a "citizen of the world." But he is an American and, though earlier of Republican registration, later a figure identified closely with Democrats, especially Kennedys. By tradition and voting weight, the U.S. President fills the top Bank slot. From Mr. Nixon's own distracted record on development, if nothing else, one could guess that McNamara was not his first choice for the term beginning last April. The administration had, in fact, shown political displeasure by abstaining on Bank loans to Latin countries where American private firms were under siege. McNamara was known to be unhappy about this and had publicly scored the United States for its declining performance on aid. The names of former treasury secretary David Kennedy and former commerce secretary Maurice Stans (today under indictment for obstructing justice and perjury) was floated. The "constituency"—principally of borrowers—built by McNamara loan policies and speeches effectively came to his aid. Sixteen months in advance, the Bank's twenty executive directors, including the one Nixon choice, went through the formal motions of renominating him. Some Europeans hinted that if it were not to be McNamara, they might prefer a European. McNamara had become the indispensable man.

To understand why, look closely at the development scene in 1968. In the United States, the era of foreign aid was plainly closing. One political current held that aid was a form of interventionism that could produce another Vietnam. A second held that the United States had invested billions to help develop Third World countries but had reaped neither gratitude nor stability nor—unkindest cut of all—real development. The reaction of traditional conservatives and dovish liberals alike, especially in Congress, was to urge that aid be diverted from direct, bilateral channels to multilateral channels, such as the World Bank, and further, that aid, especially on easy terms, be reduced. Thus would aid become less entangling and cheaper for the United States, if not more efficient and beneficial for the recipients.

The opportune moment for an ambitious man running an ambitious multilateral development bank, funded in the main from commercial, not congressional sources, had come. McNamara leaped. Not only did he double Bank lending—perhaps up to, if not beyond, some borrowers' absorptive capacity; he placed the Bank's money and vigor at the center of virtually every important and innovative cooperative-development activity in the non-Communist world. The Bank now runs "clubs" of donors for fifteen separate countries. It finances and coordinates the major international efforts in population and agricultural research; McNamara's quests for better birth-control methods and for technology that will do for "dry-lands" farming what the Green Revolution did for farming in irrigated areas are well launched. The Bank has lines into the U.N. Development Program, the World Health Organization, and the Food and Agricultural Organization. Its individual regional departments are large and generally more respected professionally than any of the regional development banks. Some ask if McNamara is not building an overly centralized development empire. His admirers, believe he is merely filling vacuums effectively. McNamara takes the approach that there's work to be done.

The careful bankers who led the Bank until 1968 thought chiefly in terms of safe, conventional infrastructure projects, like dams and railroads, which borrowers could most easily be induced to support and which provided to borrowers and lenders visible, quantifiable evidence of "development" and "growth"—the concepts were then roughly equated. Even by 1968, however, there was growing awareness that although a good number of the necessary infrastructure projects were already in existence, or in planning stages, no comparable increase was taking place in the general standard of living. Indeed, mass poverty was perhaps more widespread. McNamara's predecessor had reacted by undertaking loans for so-called social projects in agriculture, health, education, and the like. McNamara quickened the pace in these fields. He also undertook to shift the trust of Bank loans from, in effect, engineering projects to more comprehensive programs in particular regions of a country or sectors of an economy. It means the difference between building a dam per se, and developing a river valley; in the latter case, the loans would also go toward setting up a population program in the valley, offering local farmers new credits, and so on.

To win support for the change from lenders, borrowers, and, perhaps not least, his own bureaucracy, McNamara began preaching what was for the Bank a radically new doctrine of development. It held that economic growth must be harnessed to the abolition of poverty and misery by providing more jobs, a better diet, and a more equitable distribution of income. For ammunition, he went outside as well as in. For studies on unemployment, for example, he went to the private, Washington-based Overseas Development Council, impatiently reading some of its papers in draft. (A recent issue of *Bank Notes*, the house organ, pictures a dozen students at the Bank's staff college, using approved "labor-intensive methods," i.e., together pushing a stuck vehicle out of East African roadside mud!) In 1972, in a speech that still echoes on H street, McNamara cited studies done by a California economist (studies disputed inside the Bank) indicating that throughout the 1960s in rapidly growing Brazil, "the very rich did very well. But . . . the benefit to the poorest 40 percent of the population was only marginal." The Bank had loaned Brazil no less than $1.5 billion to nourish the kind of uneven growth he deplored. Early on, McNamara had brought in Hollis Chenery—sometime priest of growth—as chief adviser. It seemed significant that he now promoted to a key policy-planning post an unconventional Pakistani economist named Mahbub ul Haq, a man so driven to translate development into social justice that he had sometimes on his own espoused the Chinese model of state-forced development.

Himself a prime product of the free-enterprise and democratic systems, McNamara has not commended the Chinese way. One can guess he realizes how alarming it would be, not only to lenders but to some borrowers to whom talk of social justice sounds suspiciously like giving aid and comfort to their domestic political foes. Nor is there universal agreement among economists at the Bank and elsewhere, or among government officials, on the extent to which growth and redistribution of income can in fact be combined. More concerned with persuading the unconverted than with painting a subtle portrait, McNamara tends to put his case in black-and-white terms that draw frowns from many professionals. Said an Indonesian finance minister after one typical McNamara appeal, "One cannot more equitably redistribute nothing."

Nonetheless, McNamara has not shrunk from pursuing his cause. His speech chastising Brazil for headlong pursuit of growth was given in a Latin setting, Santiago. He preached population control not only to the students of Notre Dame but to the president of Mexico, a country whose need for such a program was rivaled (at least in 1971) only by its reluctance to start officially down that path. No political slouch himself, McNamara uses Anthony Eden's former press chief, William Clark, as a kind of foreign secretary. One suspects he is less concerned with being singed by the controversies he kindles than with leaving a fire burning inside the borrowing country. More than once a government has denounced McNamara's approach to a ticklish social problem, then has quietly begun adressing itself to it.

Sometimes McNamara expresses the belief that what is required is simply "political will," a decision to hitch up the world's "productive machine" for social purposes. But he has also conceded that inequities are rooted in "institutional frameworks, particularly in the distribution of political and economic power within the system." Finding it politically, if not temperamentally, out of the question to urge "redistribution" of political and economic power (i.e., revolution), McNamara argues instead that the *increments added by growth* should be distributed more fairly. He would not recut the existing pie; he would redistribute the new slices. If this logic seems strained, it must be remembered that McNamara is not a political theorist or a revolutionary or even an intellectual. He is a compassionate and calculating man whose conception of his role leads him to urge very controversial steps, even while he tries to limit disabling controversy about them.

McNamara religiously eschews intervention in local affairs. Yet discretion blinds no one involved to the fact that a government or minister or planner whose country, sector, or project gets a Bank loan thereby acquires additional power. The Bank cannot easily use loans as sticks, withholding money until, say, the government mends its social ways. It can, however, withhold loans on grounds that a country's economy is so poorly run as to make it not "credit worthy." "You are bankrupt, sir," he once told an African president, who subsequently shaped up. He told Chile's Maxist President, Salvador Allende, whose social policies are right down his alley, that the Bank could offer no new loans because his economic practices were unsound. Chileans, among other, suspected that McNamara was allowing the Bank to be misused as a collection agency for expropriated American firms.

The Bank can also use loans as carrots, rewarding "good" social policy or effective economic performance. Especially in very poor countries that lack alternative sources of development capital, the Bank can bring to bear considerable influence to induce better financial and administrative practices and more rigorous planning. Staffers concede that at times the Bank's leverage in these matters is weakened by their chief's determination to push out loans rapidly and by local nationalistic pride. But being prestigious, being multinational, being a development institution and not a sovereign state—and being rich—the Bank can usually get away with wielding power. Within the Bank, income redistribution reports are now routinely cranked into annual country surveys and loan applications. When the Bank staff forgot, apparently inadvertently, to crank income into a proposal for a loan to prosperous cattle farmers in Brazil last year, some bank directors protested. Though reportedly not so instructed by his superiors in the U.S. Treasury, the American executive director, Robert Wieczorowski, went along with the protest, and, partly for this reason, lost his job. (The Treasury Department denies this tale.)

McNamara has become known for preaching an international social gospel, which holds that between nations as well as within nations, the problems of the poor must become ever more central to the policies of the rich. The special object of his fervor is the International Development Association, the Bank's "soft-loan window" opened in 1960 to offer easy money (fifty-year loans, ten years' grace, ¾ percent interest) to countries that couldn't afford the usual Bank loans put out at (currently) 7¼ percent. Money for IDA is deeply "political": It comes not from central or commercial banks, source of Bank funds, but from subscriptions by the developed countries—in the United States, from appropriated funds. IDA credits are indeed "aid," and the United States has become increasingly reluctant to furnish them. Right now, Western Europe and Japan seem ready to have the rich countries put in $1.6 billion a year for the next three years, but the United States speaks of $1.2 billion and of reducing its share of the total from two-fifths to one-third. Says Congressman Otto Passman, key man in this matter on Capitol Hill, "IDA takes from the poor in rich countries and gives to the rich in poor countries. I hope Mr. McNamara's judgment on IDA is better than his judgment on Vietnam."

For every two dollars committed by the Bank, IDA commits only one. But because IDA credits go to the poorest of the poor—countries that otherwise would be swamped by their old debts and would get only crumbs—McNamara has invested enormous energy in that branch. His theory that the level of violence and the level of poverty are related leads him to plead for IDA with the security-oriented argument that global social justice is a Western, or rich-country, political imperative. It is undeniable, however, that for McNamara personally, the more telling argument is that aiding one's fellow man is a moral imperative. It gnaws at him that his fellow Americans, and others as well, do not feel the same compulsion to minister to the world family. The statistics speed from his tongue—the United States diverted 2.79 percent of GNP to aid in Marshall Plan days, against only .24 percent now—occasionally belying the passion behind the figures. If such appeals embarrass some audiences, they have made McNamara's one of the weightiest and widest heard moral voices in the world. Quite literally, he speaks for the disinherited of the earth.

To hear this former captain of industry and defense denouncing the world's profligate spending on consumer goods and arms is to be in the presence of an astonishingly complex and compelling man. It is a stunning thig McNamara has attempted: to turn a rich nation's bank into an instrument of massive and real deliverance for the world's poor. To be sure, the Bank's hand is not the only one at this task. But a great deal more than McNamara's pride and the Bank's position hangs on the ultimate results.

ADDRESS TO THE BOARD OF GOVERNORS

(By Robert S. McNamara, President, World Bank Group)

I. INTRODUCTION

Last year I began a discussion with you of the critical relationship of social equity to economic growth. I emphasized the need to design development strategies that would bring greater benefits to the poorest groups in the developing countries—particularly to the approximately 40% of their populations who are neither contributing significantly to economic growth nor sharing equitably in economic progress.

In the twelve months since our last meeting, we in the Bank have given high priority to further analysis of the problems of poverty in the developing countries and to an evaluation of the policies available for dealing with them. On the basis of these studies, I should like this morning to:

Discuss the nature of the poverty problem, particularly as it affects the rural areas.

Suggest some of the essential elements of a strategy for dealing with it.

And outline a plan for World Bank operations in support of this new strategy.

But before turning to these matters, I want to report to you on the results of the Bank's Five-Year Program for the fiscal years 1967–73—a program that concluded on June 30th of this year; and then to suggest the financial objectives for a second five-year plan for the years 1974–78.

II. THE BANK'S 5-YEAR PROGRAM FOR FISCAL YEARS 1969–73

It was in September of 1968 that I first met with you in this forum and outlined the goals of a Five-Year Program for the World Bank Group. You will recall what our objectives were. We stated that we were "formulating a 'development plan' for each developing country to see what the Bank Group could invest if there were no shortage of funds, and if the only limit on our activities were the capacity of our member countries to use our assistance effectively and to repay our loans on the terms on which they were lent."

Based on these analyses, we proposed to double the Bank's operations in the fiscal period 1969–73 as compared with the previous five-year period 1964–1968. That objective has been met: total financial commitments of the IBRD, IDA, and IFC, in current prices, in the 1964–1968 period, were $5.8 billion; in the 1969–1973 period, $13.4 billion. In real terms, the increase was 100%.

As indicated in the table below, in the five years we achieved a level of operations that exceeded the total of all the operations that the Bank had undertaken in the developing world in the 23 years from 1946 through 1968.

BANK GROUP FINANCIAL COMMITMENTS TO DEVELOPING COUNTRIES BY REGION

[Dollars in millions]

Region	Number of projects		Amount of commitments (current prices)	
	1946–68	1969–73	1946–68	1969–73
East Africa	78	104	$834	$1,099
West Africa	35	102	522	891
Europe, Middle East, North Africa	113	168	1,785	3,198
Latin America and Caribbean	281	176	3,554	3,734
Asia	201	210	3,927	4,496
Total	708	760	10,622	13,418

In addition to the Population Projects Department—to which has now been added the responsibility for nutritional projects—we launched other initiatives within the Bank. Among them are new departments for Industrial Projects, Urban Projects, and Tourism Projects; an Office of Environmental Affairs; an Operations Evaluation Unit; and a new program of comprehensive country economic reporting.

To achieve the doubled level of our operations, it was necessary, of course, to strengthen the Bank both organizationally and financially. Worldwide recruitment was increased and the staff was expanded by 120% during the period. We were determined in this effort to broaden its international character to the maximum degree feasible. In 1968 the staff represented 52 nationalities. It now represents 92. In 1968 the proportion of staff from our developing member countries was 19%. The proportion is now 29%, and continues to grow.

Lending more has of course meant borrowing more, and that in turn has depended on governments granting us access to their capital markets. This they have continued to do, despite unsettled conditions and monetary fluctuations. It is a mark of confidence in the Bank's financial structure that we have been able to borrow not only in our more traditional markets, but in altogether new ones, and to utilize new borrowing instruments and new channels of distribution.

Net borrowing for the five-year period has been approximately four times that of the earlier period, and our liquid reserves have risen to $3.8 billion, an increase of 170%.

Neither the increase in operations, nor the shift in emphasis toward more socially oriented sectors, has adversely affected net income. On the contrary, total net income for the five-year period was $965 million, 28% more than in the previous period, and this despite the fact that the bank's lending rate was held down to levels resulting in a substantially greater subsidy to the developing countries than in earlier years.

We have completed the Five-Year Program, then, by meeting the quantitative goals we had set for ourselves in 1968, and by making a sustained effort to improve the overall quality of our work.

But our task now is to move forward with a second Five-Year Program. Like the first, its goals and shifts in emphasis must be shaped by the evolving development situation itself.

I should like to give you my assessment of that situation.

III. THE BANK'S SECOND FIVE-YEAR PROGRAM: FY 1974–1978

Most of our developing member countries are faced with three interrelated difficulties:

An insufficiency of foreign exchange earnings from trade.

An inadequate flow of Official Development Assistance.

And an increasingly severe burden of external debt.

Each of these problems is serious in itself. But together they threaten the outcome of the entire development effort.

Let me examine each of them briefly.

The trade problem

The core of the trade problem for the bulk of the developing countries is that they cannot expand their exports rapidly enough to pay for their essential imports. These imports are themselves often the key to greater export capability—and higher foreign exchange earnings—and thus the dilemma of trade imbalances in these countries tends to become self-perpetuating.

The problem is compounded by the delay of the wealthy nations in dismantling discriminatory trade barriers against the poor countries. Our studies indicate, for example, that if the affluent nations were gradually to reduce their present protectionist trade restrictions against agricultural imports from the developing world, the poorer nations could, by 1980, increase their annual export earnings by at least $4 billion.

An acute shortage of development assistance

Secondly, the current flow of Official Development Assistance (ODA)—financial aid on concessionary terms—is acutely inadequate. Not only is it far below what the developing nations need and what the affluent nations can readily afford, but, as the attached table indicates, it is only half the modest target prescribed by the internationally accepted United Nations Strategy for the Second Development Decade.

That target called for reaching ODA levels of .7% of gross national product (GNP) by 1975. In fact, by 1975 ODA will not exceed .35%. And yet achievement of the target neither requires the people of the developed nations to reduce their already high standards of living, not to neglect their domestic priorities. It asks them to dedicate a tiny fraction of the *incremental* income—income over and above that which they already enjoy—that will accrue to them in the decade of the 70s.

During the decade, the annual GNP of these affluent nations will grow, in constant prices, from $2 trillion in 1970 to approximately $3.5 trillion in 1980: an increase in output virtually beyond one's capacity to comprehend.

In order to double the ODA flows, and thereby raises them to the targeted .7%, the developed countries would need to devote to that end less than 2% of the amount by which they themselves will grow richer during the period. The remaining 98% of their incremental income would provide them with more than sufficient funds to meet their domestic priorities.

I have heard it said in the developed countries—in the United States and elsewhere—that their domestic problems are so pressing that they require an exclusive claim on the immense incremental wealth which will accrue to their societies in future years, and that not even the 2% of this additional income which we suggest should be diverted to the developing countries, can be spared. But I believe that such critics of additional assistance to the poorer nations, when citing the needs of their own cities and countryside, fail to distinguish between two kinds of poverty: what might be termed relative poverty and absolute poverty.

Relative poverty means simply that some countries are less affluent than other countries, or that some citizens of a given country have less personal abundance than their neighbors. That has always been the case, and granted the realities of difference between regions and between individuals, will continue to be the case for decades to come.

But absolute poverty is a condition of life so degraded by disease, illiteracy, malnutrition, and squalor as to deny its victims basic human necessities.

It is a condition of life suffered by relatively few in the developed nations but by hundreds of millions of the citizens of the developing countries represented in this room. Many of you have cause to know far better than I that:

One-third to one-half of the two billion human beings in those countries suffer from hunger or malnutrition.

20% to 25% of their children die before their fifth birthdays. And millions of those who do not die lead impeded lives because their brains have been damaged, their bodies stunted, and their vitality sapped by nutritional deficiencies.

The life expectancy of the average person is 20 years less than in the affluent world. They are denied 30% of the lives those of us from developed nations enjoy. In effect, they are condemned at birth to an early death.

800 million of them are illiterate and, despite the continuing expansion of education in the years ahead, even more of their children are likely to be so.

This is absolute poverty: a condition of life so limited as to prevent realization of the potential of the genes with which one is born; a condition of life so degrading as to insult human dignity—and yet a condition of life so common as to be the lot of some 40% of the peoples of the developing countries. And are not we who tolerate such poverty, when it is within our power to reduce the number afflicted by it, failing to fulfill the fundamental obligations accepted by civilized men since the beginning of time?

I do not wish you to interpret my remarks as those of a zealot. But you have hired me to examine the problems of the developing world and to report to you the facts. These are the facts.

It is true that some citizens of the developed countries protest against increasing their assistance to the developing countries because of poverty in their own societies. They do so either because they are unacquainted with these facts; or because they fail to distinguish between relative and absolute poverty; or perhaps because they are obscuring the truth even from themselves—unwilling to admit that the principal pressure on the incremental incomes of their economies comes not from a legitimate concern for the less fortunate in their societies, but from the endless spiral of their own demands for additional consumer goods.

There are of course many grounds for development assistance: among others the expansion of trade the strengthening of international stability and the reduction of social tensions.

But in my view the fundamental case for development assistance is the moral one. The whole of human history has recognized the principle—at least in the abstract—that the rich and the powerful have a moral obligation to assist the poor and the weak. That is what the sense of community is all about—any community: the community of the family the community of nations itself.

I for one cannot believe that once the gross deficiency in the flow of Official Development Assistance is better understood; that once the degree of deprivation in the developing nations is more fully grasped; that once the true dimensions of poverty in the less privileged world are more realistically compared with the vast abundance in the affluent world (that once the people of the United States for example understand that they with 6% of the world's population consume about 35% of the world's total resources and yet in terms of economic assistance as a percent of GNP rank fourteenth among the sixteen developed nations)—I cannot believe that in the face of all this the people and governments of the rich nations will turn away in cynicism and indifference.

I should digress at this point to report briefly on progress in the negotiations of the 4th Replenishment of IDA. You are all aware that the funds of the 3rd Replenishment will be fully committed next July 1. In anticipation of that at the last annual meeting of the Governors, it was proposed that the 4th Replenishment negotiations begin in the fall of 1972 and be completed by mid-year 1973, leaving 12 months for the necessary legislative action.

That schedule has not been met. Based on meetings held here in Nairobi during the past two days, it appears that representatives of donor governments may now reach agreement on a three-year replenishment at the rate of $1,500 million per year which they would be prepared to recommend to their legislatures. However, I am bound to say to you that it is most unlikely that the necessary legislative action will be completed by June 30 or by any date soon thereafter.

As a result, there is now danger of a complete termination of IDA's activities next July 1.

The effect of such a breakdown would be devastating for the nations that depend on IDA for major support of their development programs: the countries of the Sahelian zone now suffering from the worst drought in their history; the other "least-developed" nations, designated by the United Nations as deserving of increased levels of support; Pakistan, which requires huge sums of external aid for its recovery from massive flood damage; the heavily populated nations of India, Indonesia, and Bangladesh, a total of 750 million people with incomes averaging less than $100 per capita per year; and a score of other nations.

I cannot believe that governments will permit IDA's operations to terminate. If that disaster is to be avoided, not only must governments press for the earliest possible legislative approval on the full replenishment, but an emergency plan of action to both minimize and bridge the gap mut be developed and agreed upon promptly.

The growing burden of debt

Finally, there is the growing burden of external debt in the developing world. Publicly guaranteed debt currently stands at about $80 billion, with annual debt service of approximately $7 billion.

It is important to understand what the essence of the debt problem is. It is not the fact that there is debt, nor even the size of the debt. It is, rather, the composition and dynamics of the debt: the fact that debt, and debt payments, are growing faster than the revenues required to service them.

Restricted trading opportunities, exacerbated in inadequate flows of ODA, tend to drive developing countries to over-reliance on export credits and other short-term, high-cost loans. It is these factors that threaten to increase the debt burden beyond reasonable limits. Already, since 1970, the situation in several countries—Ghana, Chile, Pakistan, India, Indonesia, and Sri Lanka among others—has led either to debt rescheduling or to unilateral defaults.

The Bank's program for fiscal years 1974–78

Given the nature of this interrelated set of problems in our developing member countries—an insufficiency in foreign exchange due to trade difficulties, the inadequate flow of ODA, and the growing debt burden—the Bank, far from relaxing the momentum of our operations over the next five years, must increase it. And that is what we intend to do.

We plan to expand both our IBRD and IDA lending at a cumulative annual rate, in real terms of 8%.[1]

For the five-year period FY 1974–78, our lending—in 1973 dollars—should total $22 billion for almost 1000 projects.

The total cost of these projects will approach $55 billion.

Our $22 billion in new commitments will constitute, in real terms, a 40% increase over the 1969–1973 period, and a 175% increase over the 1964–1968 period.

This, then, in financial terms is our plan for the Second Five-Year Program. It will represent the largest program of technical and financial assistance to developing countries ever undertaken by a single agency.

But the qualitative changes in the program will be of even greater significance than the increase in its size. We plan to place far greater emphasis on policies and projects which will begin to attack the problems of absolute poverty to which I referred earlier—far greater emphasis on assistance designed to increase the productivity of that approximately 40% of the population of our developing member countries who have neither been able to contribute significantly to national economic growth, nor to share equitably in economic progress.

In the remaining sections of this statement I would like to discuss the nature of this poverty problem, consider what means are at hand to alleviate it, and indicate what part the Bank can play.

IV. POVERTY IN THE DEVELOPING WORLD

Poverty and growth

The basic problem of poverty and growth in the developing world can be stated very simply. The growth is not equitably reaching the poor. And the poor are not significantly contributing to growth.

Despite a decade of unprecedented increase in the gross national product of the developing countries, the poorest segments of their population have received relatively little benefit. Nearly 800 million individuals—40% out of a total of two billion—survive on incomes estimated (in U.S. purchasing power) at 30 cents per day in conditions of malnutrition, illiteracy, and squalor. They are suffering poverty in the absolute sense.

Although the collection of statistics on income distribution in the developing world is a relatively recent effort, and is still quite incomplete, the data point to what is happening. Among 40 developing countries for which data are available, the upper 20% of the population receives 55% of national income in the typical country, while the lowest 20% of the population receives 5%. That is a very severe degree of inequality—considerably greater than in most of the advanced countries.

The data suggest that the decade of rapid growth has been accompanied by greater maldistribution of income in many developing countries, and that the problem is most severe in the countryside. There has been an increase in the output of mining, industry, and government—and in the incomes of the people dependent on these sectors—but the productivity and income of the small farmer have stagnated.

One can conclude that policies aimed primarily at accelerating economic growth, in most developing countries, have benefitted mainly the upper 40% of the population and the allocation of public services and investment funds has tended to strengthen rather than to offset this trend.

Reorienting development policy

The need to reorient development policies in order to provide a more equitable distribution of the benefits of economic growth is beginning to be widely discussed. But very few countries have actually made serious moves in this direction. And I should stress that unless national governments redirect their policies toward better distribution, there is very little that international agencies such as the World Bank can do to accomplish this objective.

Without intruding into matters that are the proper concern of individual governments, I would like to discuss an important first step that could lead to a more rapid acceptance of the required policy changes. This step would be to redefine the objectives and measurement of development in more operational terms. While most countries have broadened the statements of their development goals to include references to reducing unemployment and increasing the income of the poor—as well as emphasizing traditional growth in output—they still measure progress toward these complex objectives with a single measuring rod: the growth of GNP.

But the fact is that we can no more measure the achievement of multiple development objectives by the GNP alone than we can describe the quality of life in a city exclusively by its size. The Gross National Product is an index of the total value of goods and services produced by an economy; it was never intended to be a measure of their distribution.

It is important to remember that indices of the increase in gross national product implicitly weight the growth of each income group according to its existing share of total national income. Since in the developing countries the upper 40% of the population typically receive 75% of all income, the growth of GNP is essentially an index of the welfare of these upper income groups. It is quite insensitive to what happens to the poorest 40%, who collectively receive only 10–15% of the total national income.

Were we to fashion a new index which gave at least the same weight to a 1% increase in the incomes of the poorest groups in society as it gave to a 1% increase in the incomes of the well-to-do, we would get a much different picture of development in the past decade. The growth of total income in several of the largest countries in Latin America and Asia, for example, would be significantly lower than the growth as measured by the GNP.

But, in a number of cases—including for instance, Sri Lanka and Colombia—the opposite would be true. In these countries, giving equal weight to the growth of income of each citizen, regardless of his income level, would result in a more accurate assessment of development performance than does GNP because it would give credit for some redistribution of the benefits of growth toward the lower income groups.

Adopting this kind of a socially oriented measure of economic performance would be an important step in the redesign of development policies. It would require governments, and their planning and finance ministries, to look at the allocation of resources in a much more comprehensive way. For they would have to consider not only the total output of an investment but also how the benefits would be distributed. This would give practical, operational significance to the rhetorical statements of social objectives now embodied in most development plans. And it would insure that important questions of equity became an integral part of project evaluation procedures both within the developing countries and the lending agencies. We are, in fact, beginning to develop this approach in the World Bank.

Identifying the concentrations of poverty

This proposed reorientation of development strategy would require far greater precision in identifying the main concentration of the poorest people in a given society and examining much more intensively the policies and investments through which they can be reached.

Clearly, the bulk of the poor today are in the rural areas. All of our analysis indicates that this is likely to continue to be the case during the next two or three decades.[2]

At present, 70% of the population of our developing member countries and an equivalent percentage of the poor live in the countryside.

Although demographic projects indicate that 60% of the population increase in these countries (an increase of two billion people by the end of the century) is expected to take place in the urban areas—largely through internal migration—in the year 2000 more than half of the people in the developing world will still reside in the countryside.

Rapid urbanization is already creating very serious problems. Under present policies, per capita public expenditures in urban areas are typically three to four times as great as they are in rural areas. Thus, efforts to relieve rural poverty by still greater migration to the cities will result in an even more inequitable division of public expenditures and only exacerbate the existing inequalities of income.

Within the rural areas the poverty problem revolves primarily around the low productivity of the millions of small subsistence farms. The truth is that despite all the growth of the GNP, the increase in the productivity of these small family farms in the past decade has been so small as to be virtually imperceptible.

But despite the magnitude of the problem in the countryside, focusing on rural poverty raises a very fundamental question: is it a really sound strategy to devote a significant part of the world's resources to increasing the productivity of small-scale subsistence agriculture? Would it not be wiser to concentrate on the modern sector in the hope that its high rate of growth would filter down to the rural poor?

The answer, I believe, is no.

Experience demonstrates that in the short run there is only a limited transfer of benefits from the modern to the traditional sector. Disparities in income will simply widen unless action is taken which will directly benefits the poorest. In my view, therefore, there

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[1] In last year's address, I stated that our plan, in terms of current prices, was to increase financial commitments 11% per year. The "real terms" equivalent was 8%. Today, because of changes in exchange rates and accelerated price increases, a growth rate of 8% per annum in real terms, for the period FY 74–78 vs. FY 69–73, will probably require an increase in financial commitments of approximately 14% per year in current prices.

[2] It is true, of course, that millions of the victims of poverty in the developing world live in the slums of the urban areas and that their social and economic advance depends on an acceleration of the pace of industrialization. I have discussed this subject with you before and will do so again, but today I want to concentrate on the problem of poverty in the countryside where the overwhelming majority of the people live.

is no viable alternative to increasing the productivity of small-scale agriculture if any significant advance is to be made in solving the problems of absolute poverty in the rural areas.

But that does not mean there need be an irreconcilable conflict between that objective and the growth of the rest of the economy. On the contrary, it is obvious that no attempt to increase the productivity of subsistence agriculture can succeed in an environment of overall economic stagnation. The small farmers cannot prosper unless there is significant growth in other sectors, both to provide the development resources they will require, and to create the demand for their additional output.

The point is that the reverse is also true—and it is time we recognized it. Without rapid progress is smallholder agriculture throughout the developing world, there is little hope either of achieving long-term stable economic growth or of significantly reducing the levels of absolute poverty.[3]

The fact is that very little has been done over the past two decades specifically designed to increase the productivity of subsistence agriculture. Neither political programs, nor economic plans, nor international assistance—bilateral or multilateral—have given the problem serious and sustained attention. The World Bank is no exception. In our more than a quarter century of operations, less than $1 billion out of our $25 billion of lending has been devoted directly to this problem.

It is time for all of us to confront this issue head-on.

V. A STRACETY FOR RURAL DEVELOPMENT

In presenting a strategy for rural development I should like: first, to analyze the scope of the problem; second, to set a feasible goal in order to deal with it; and third, to identify the measures required to meet that goal.

The scope of the problem

Let me begin by outlining the scope of the problem in the developing countries which are members of the Bank. It is immense:

There are well over 100 million families involved—more than 700 million individuals.

The size of the average holding is small and often fragmented: more than 100 million farms are less than 5 hectares; of these, more than 50 million are less than 1 hectare.

The possession of land, and hence of political and economic power in the rural areas, is concentrated in the hands of a small minority. According to a recent FAO survey, the wealthiest 20% of the landowners in most developing countries own between 50 and 60% of the cropland. In Venezuela they own 82%; in Colombia 56%; in Brazil 53%; in the Philippines, India, and Pakistan about 50%. Conversely, the 100 million holdings of less than 5 hectares are concentrated on only 20% of the cropland.

Even the use of the land which the small farmer does have is uncertain. Tenancy arrangements are generally insecure and often extortionate. In many countries tenants have to hand over to the landlord 50–60% of their crop as rent, and yet in spite of this are faced with the constant threat of evicion. The result is that their incentive to become more productive is severely eroded.

It has often been suggested that the productivity of small-scale holdings is inherently low. But that is simply not true. Not only do we have the overwhelming evidence of Japan to disprove that proposition, but a number of recent studies on developing countries also demonstrate that, given the proper conditions, small farms can be as productive as large farms. For example, output per hectare in Guatemala, the Republic of China, India, and Brazil was substantially greater on smaller farms than on larger ones. And it is, of course, output per hectare which is the relevant measure of agricultural productivity in land-scarce, labor-surplus economies; not output per worker.

There is ample evidence that modern agricultural technology is divisible, and that small-scale operations need be no barrier to raising agricultural yields.

The question, then, is what can the developing countries do to increase the productivity of the small farmer. How can they duplicate the conditions which have led to very rapid agricultural growth in a few experimental areas and in a few countries so as to stimulate agricultural growth and combat rural poverty on a broad scale?

The first step is to set a goal. A goal is necessary both so that we can better estimate the amount of financial resources required, and so that we can have a firm basis for measuring progress.

Setting the goal

I suggest that the goal be to increase production on small farms so that by 1985 their output will be growing at the rate of 5% per year. If the goal is met, and smallholders maintain that momentum, they can double their annual output between 1985 and the end of the century.

Clearly this is an ambitious objective. A 5% rate of growth has never been achieved on a sustained basis among smallholders in any extensive areas of the developing world. Smallholder production has risen on average only about 2.5% per year in the past decade.

But if Japan in 1970 could produce 6720 kg. of grain per ha. on very small farms, then Africa with its 1270 kg. per ha., Asia with 1750 kg., and Latin America with 2060 kg. have an enormous potential for expanding productivity.

Thus, I believe the goal is feasible. It recognizes that progress will be slow during the next five to ten years while new institutions evolve, new policies take hold, and new investments are implemented. But after this initial period, the average pace of growth in smallholder agricultural productivity can be more than double today's rate and thereby benefit the lives of hundreds of millions of people.

Now, what are the means necessary to accomplish this goal?

Neither we at the Bank, nor anyone else, have very clear answers on how to bring the improved technology and other inputs to over 100 million small farmers—especially to those in dry-land areas. Nor can we be fully precise about the costs. But we do understand enough to get started. Admittedly, we will have to take some risks. We will have to improvise and experiment. And if some of the experiments fail, we will have to learn from them and start anew.

What, then, can we begin to do now?

Measures necessary to meet the goals

Though the strategy for increasing the productivity of smallholder agriculture is necessarily tentative, the following are essential elements of any comprehensive program:

Acceleration in the rate of land and tenancy reform.

Better access to credit.

Assured availability of water.

Expended extension facilites backed by intensified agricultural research.

Greater access to public services.

And most critical of all: new forms of rural institutions and organizations that will give as much attention to promoting the inherent potential and productivity of the poor as is generally given to protecting the power of the privileged.

These elements are not new. The need for them has been recognized before. But they will continue to remain little more than pious hopes unless we develop a framework of implementation, and agree to a commitment of resources commensurate with their necessity. That is what I propose.

Organizational changes

The organized structure for supporting smallholder agriculture is without doubt the most difficult problem. Let me examine this subject first and then turn to the others in sequence.

Obviously, it is not possible for governments to deal directly with over 100 million small farm families. What is required is the organization of local farm groups, which will service millions of farmers at low cost, and the creation of intermediate institutions through which governments and commercial institutions can provide the necessary technical assistance and financial resources for them.

Such institutions and organizations can take any number of forms: smallholder associations, county or district level cooperatives, various types of communes. There are, of course, many experiments already going on in different parts of the world. What is imperative is that at each organizational level financial discipline be rigorously required, and that the entire structure be oriented toward initiative and self-reliance. Experience shows that there is a greater chance of success if the institutions provide for popular participation, local leadership, and decentralization of authority.

The reorganization of government services and institutions is equally important. No program will help small farmers if it is designed by those who have no knowledge of their problems and operated by those who have no interest in their future.

The sad truth is that in most countries, the centralized administration of scarce resources—both money and skills—has usually resulted in most of them being allocated to a small group of the rich and powerful. This is not surprising since economic rationalizing, political pressure, and selfish interest often conspire to the detriment of the poor. It will clearly require courageous political leadership to make the bureaucracy more responsive to the needs of the subsistence farmers.

The ablest administrators, for example, should no longer be reserved exclusively for the urban sectors. Top engineering talent must be devoted to designing low-cost solutions to the problems of small-farm irrigation. Young graduates can be motivated to take on the problems of the rural poor, and be adequately rewarded for solving them. Educational institutions should recognize that the training in practical skills is as important as the accumulation of theoretical knowledge. In short, national managerial and intellectual resources must be redirected to serve the many instead of the few, the deprived instead of the privileged.

Acceleration of land and tenancy reform

But there are other structural changes necessary as well. And the most urgent among these is land and tenancy reform. Legislation dealing with such reform has been passed—or at least been promised—in virtually every developing country. But the rhetoric of these laws has far outdistanced their results. They have produced little re-

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[3] It is not my purpose today to discuss the food crisis presently affecting wide areas of the globe. However, any long-term solution of the food shortage, in a world in which population will increase for at least a century to come, clearly requires substantial increases in smallholder productivity. In addition, to provide insurance against the vagaries of the weather, some coordinated system of national food reserves must be established. I strongly support the efforts of the Director-General of the FAO to organize such a program, and I am fully prepared to recommend that the World Bank participate in its financing.

distribution of land, little improvement in the security of the tenant, and little consolidation of small holdings.

That is extremely regrettable. No one can pretend that genuine land and tenancy reform is easy. It is hardly surprising that members of the political power structure, who own large holdings, should resist reform. But the real issue is not whether land reform is politically easy. The real issue is whether indefinite procrastination is politically prudent. An increasingly inequitable situation will pose a growing threat to political stability.

But land and tenancy reform programs—involving reasonable land ceilings, just compensation, sensible tenancy security, and adequate incentives for land consolidation—are possible. What they require are sound policies, translated into strong laws which are neither enervated by exceptions nor riddled by loopholes. And most important of all, the laws have to incorporate effective sanctions, and be vigorously and impartially enforced.

What we must recognize is that land reform is not exclusively about land. It is about the uses—and abuses—of power, and the social structure through which it is exercised.

Better access to credit

But realistic land and tenancy reform—as essential as it is—is not enough. It is one thing to own land; it is another to make it productive. For the smallholder, operating with virtually no capital, access to credit is crucial. No matter how knowledgeable or well motivated he may be, without such credit he cannot buy improved seeds, apply the necessary fertilizer and pesticides, rent equipment, or develop his water resources. Small farmers, generally, spend less than 20% of what is required on such inputs because they simply do not have the resources.

In Asia, for example, the cost of fertilizer and pesticides required to make optimum use of the new high-yielding varieties of wheat and rice ranges from $20 to $80 per hectare. But the small farmer there is spending only $6 per hectare because that is all he can finance. And most of that $6 does not come from government or institutional sources, but from local landlords or village money lenders at usurious rates of interest.

The present institutions in the rural areas are simply not geared to meeting the needs of smallholder agriculture. In countries as disparate as Bangladesh and Iran, less than 10% of institutional credit is available to rural areas; in Thailand, the Philippines, and Mexico less than 15%; in India less than 25%. And only a fraction of this is available to the small farmer. Even then it is accompanied by stringent tests of creditworthiness, complicated application procedures, and lengthy waiting periods.

Existing commercial institutions are reluctant to make credit available to the small farmers because the administrative and supervisory costs of small loans are high. Further, the subsistence farmer is operating so close to the margin of survival that he is simply not as creditworthy as his more wealthy neighbors.

Nor do governmental credit policies always help the small farmer, even though the intention may have been to shape them for that purpose. The fact is that concern over the usurious rates the farmer pays the money lender has led to unrealistically low rates for institutional credit. The smallholder does not need credit subsidized at an annual interest rate of 6% for projects which will yield 20% or more per year. He would be much better off if he had to pay a realistic rate of interest but could actually get the money.

In reviewing their financial policies for agriculture, governments should take care that good intentions do not have self-defeating consequences. In many of our member countries, radical restructuring of interest rates is long overdue.

Assured availability of water

No less essential than credit—indeed even more so—is an assured supply of water for the smallholder. Without it, seeds, fertilizer, and pesticides are useless. This means continued research into the most productive uses of water, as well as substantial investment in irrigation and increased attention to on-farm irrigation methods.

It is estimated that the presently irrigated area in the developing world of 85 million hectares can be expanded by another 90 million hectares, but the additional cost would be high: over $130 billion. And not only is expansion of irrigated land expensive, it is a slow process. No major irrigation dam which is not already in the active design stage is likely to yield significant on-farm benefits before the mid-1980s. Although investments in major irrigation projects will continue to be an important part of national investment plans, and of Bank financing, they must be supplemented by more quick-yielding programs designed to benefit the small farmer.

This calls for much greater emphasis in on-farm investment which can take advantage of existing large irrigation projects. There are too many cases—in our experience and that of others—in which it has taken ten years or more after the dam was completed for the water actually to reach the farmers. Major irrigation schemes often preempt necessary resources for on-farm improvement. The drama of harnessing a major river may be more exciting than the prosaic task of getting a steady trickle of water to a parched hectare, but to millions of smallholders that is what is going to make the difference between success and failure. The allocation of scarce budgetary resources should reflect this reality.

Thus, development of major irrigation works, though necessary, is not enough. Too many small farmers would be left unaffected. These programs need to be supplemented by others which can bring water to farms outside major irrigation projects—and do so cheaply. Tubewells, low-lift pumps, and small dams can make major contributions to productivity. Moreover, these investments—while not always within the reach of individual poor farmers—can often be afforded by organized smallholders.

Expansion of extension services and applied research

The small farmer needs credit and water, but he needs technical information as well. And he is not getting nearly enough of it. The projected number of trained personnel who will graduate annually from existing agricultural educational institutions can at best satisfy less than half the total needs of the developing world. In the developed countries, the ratio of government agricultural agents to farm families is about 1 to 400. In developing countries, it is on average 1 to 8000. And only a small fraction of even these limited services is available to the small farmer.

It is not primarily the deficiency of funds that is delaying the necessary expansion of extension services. It is the deficiency of resolve to do more for the small farmer who desperately requires them. There is scarcely a single developing country which does not produce too many lawers, but there is no developing country which produces enough extension agents. Governments cannot control personal career objectives, but they can offer appropriate incentives, and promote vocational choices which will contribute more directly to economic development and social modernization.

Thus the annual cost of training the required extension personnel would be modest as a percentage of GNP or budgetary resources. The net cost—after deducting savings from changed allocations—would be even less. As long as the supply of extension workers is grossly inadequate, only the large farmers will benefit and the needs of the poor will be ignored.

Behind extension services, of course, lies applied research. In a sample of five major developed countries, the governments are allocating annually from $20 to $50 per farm family for such research. The comparable figures for five major developing countries are only 50 cents to $2 per farm family.

The international network of agricultural research has grown impressively. The Bank, for example, chairs the Consultative Group on International Agricultural Research, and contributes to the financing of the research institutes including the financing of the new institute for the semi-arid tropics. But very much more needs to be done at the national level to explore the special-equipment needs of the small operator, to develop new technologies for the non-cereal crops, and to help the farmer in non-irrigated areas.

General expenditures on research and development in the developing countries are notoriously low and must be increased substantially. In doing this, governments should give very high priority to strengthening that type of research which will benefit the small farmer—research to produce low-risk, inexpensive technology that he can put to immediate use.

Greater access to public services

In other areas too, public services are grossly inadequate. The income of the small farmer could be substantially increased if he were supported by better physical infrastructure. Because of the costs involved, it is not within the power of the developing countries to provide all of this infrastructure quickly to the millions who need it. But governments can provide much of it by organizing rural works programs to construct small feeder roads, small-scale irrigation and drainage systems, storage and market facilities, community schools and health centers, and other facilities which make extensive use of local labor and relatively simple skills.

There is no mystery about designing these programs. They have worked successfully at various times in experimental projects in Bangladesh, Tunisia, Indonesia, and other countries. The major handicap has been their limited scale and inadequate management. The task for governments is gradually to extend these projects to a national scale.

Basic changes are also necessary in the distribution of other public services. In the rural areas these services are not only deplorably deficient, they are often not geared to the needs of the people they are supposed to serve.

Educational systems should stress practical information in agriculture, nutrition, and family planning for those both within and outside of the formal school program. Health services should be developed which can assist in eradicating the common enervating diseases that afflict the rural poor. Electricity for rural areas should not be considered a luxury, nor should its purpose be merely to place a lightbulb in every dwelling. One of its most important uses is to supply power for production appliances, such as water pumps. Power is admittedly almost always in short supply, but urban lighting and air conditioning should no longer be given such a disproportionate priority in the national systems.

Every country must examine why it can afford to invest in higher education, but fails to offer incentives to attract teachers to rural areas; why it can staff urban medical centers and export its doctors abroad, but fails to provide doctors for the countryside; why it can build urban roads for the private automobile, but cannot build feeder roads to bring produce to market.

Resources are scarce in the developing countries, and their redistribution cannot provide enough for everyone's needs. But a major redistribution of public services is required if the small farmer is to have at least the necessary minimum of economic and social infrastructure.

The programs I have discussed above can all be initiated quickly by governments, and will make a major contribution to the goal of a 5% growth rate in the output of small-scale agriculture by 1985. And all of these programs deserve, and will have, the full support of the Bank Group.

But the fact remains that the measures I have outlined are primarily the responsibility of the developing countries. It would be a great disservice if the aid agencies were to try to convince either these countries or themselves that policies for alleviating rural poverty can be fashioned and delivered from abroad. The problem must be perceived and dealt with by the countries themselves.

But the international community can, and must, help. The resources required to achieve a 5% growth rate in the yields on small farms by 1985 are very large. One estimate would place the annual cost of on-farm investment, land and water resource development, additional training facilities, and minimum working capital requirements for smallholder agriculture at $20–25 billion by 1985. This would be about 3.5% of the combined annual GNP of the developing countries.

Part of these resources must come from additional savings generated by the farmers themselves, and part must come from redirecting resources from other sectors in the developing countries.

But some of these resources must come from the international community—in the form of services and financing which the small farmer needs.

An action program in the Bank

What can the Bank do to assist in this effort?

First of all, we expect to lend $4.4 billion in agriculture during our next five-year program (1974–78), as compared to $3.1 billion in the first five-year program (1969–73), and $872 million in the 1964–68 period.[4]

This in itself is a formidable target, but more importantly we intend to direct an increasing share of our lending to programs which directly assist the small farmer to become more productive. In the next five years we expect that about 70% of our agricultural loans will contain a component for the smallholder. We are now preparing these programs in consultation with member governments.

But we recognize that at best our lending can finance only a small portion of the total credit and investment needs of smallholder agriculture. That is why we intend to give particular attention in our economic advice to governments to those sectoral and financial policies which most affect the rural poor so that the resources to be invested by governments will have a maximum impact.

And though experimentation and innovation will remain essential, the broad policies governing the Bank's program are clear:

We are prepared to do much more to assist governments in the reform of their agricultural financial structure, and to support institutions designed to bring credit to the small farmer.

We intend to continue to invest in large irrigation projects and in the recovery of saline lands, but we will emphasize on-farm development incorporating a maximum of self-financing so that the benefits of irrigation can reach small farmers more quickly.

We will support non-irrigated agriculture, including the financing of livestock production, and in particular small-scale dairy farming in milk-deficient areas.

We are prepared to finance the expansion of training facilities for extension agents who can help raise the productivity of the rural poor.

We are prepared to finance rural works programs as well as multi-purpose rural development projects.

We are ready to assist land and tenancy reform programs by providing the follow-up logistical support required by the small farmer, and to help in the technical and financial aspects of land purchase and consolidation.

We have financed agricultural research institutions in the past and are fully prepared to do more in the future, particularly in the development of an appropriate technology for semi-arid agriculture. We propose to support investigation into the most effective uses of water at the farm level, especially in water-deficient areas. We are already assisting one such investigation in Mexico.

We will, in our lending for infrastructure, strongly urge that accounts be taken of the pressing needs of the rural areas.

VI. SUMMARY AND CONCLUSIONS

Let me now summarize and conclude the central points I have made this morning.

If we look objectively at the world today, we must agree that it is characterized by a massive degree of inequality.

The difference in living standards between the rich nations and the poor nations is a gap of gigantic proportions.

The industrial base of the wealthy nations is so great, their technological capacity so advanced, and their consequent advantages so immense that it is unrealistic to expect that the gap will narrow by the end of the century. Every indication is that it will continue to grow.

Nothing we can do is likely to prevent this. But what we can do is begin to move now to insure that absolute poverty—utter degradation—is ended.

We can contribute to this by expanding the wholly inadequate flow of Official Development Assistance.

The flow of ODA can be increased, by 1980, to the target of .7% of GNP—a target originally accepted within the United Nations for completion by 1975.

This is feasible, but it will require renewed efforts by many nations, particularly the very richest.

Further, we must recognize that a high degree of inequality exists not only between developed and developing nations but within the developing nations themselves. Studies in the Bank during this past year reinforce the preliminary conclusions I indicated to you last year: income distribution patterns are severely skewed within developing countries—more so than within developed countries—and the problem requires accelerated action by the governments of virtually all developing nations.

A minimum objective should be that the distortion in income distribution within these nations should at least stop increasing by 1975, and begin to narrow within the last half of the decade.

A major part of the program to accomplish this objective must be designed to attack the absolute poverty which exists to a totally unacceptable degree in almost all of our developing member countries: a poverty so extreme that it degrades the lives of individuals below the minimal norms of human decency. The absolute poor are not merely a tiny minority of unfortunates—a miscellaneous collection of the losers in life—a regrettable but insignificant exception to the rule. On the contrary, they constitute roughly 40% of the nearly two billion individuals living in the developing nations.

Some of the absolute poor are in urban slums, but the vast bulk of them are in the rural areas. And it is there—in the countryside—that we must confront their poverty.

We would strive to eradicate absolute poverty by the end of this century. That means in practice the elimination of malnutrition and illiteracy, the reduction of infant mortality, and the raising of life-expectancy standards to those of the developed nations.

Essential to the accomplishment of this objective is an increase in the productivity of small-scale agriculture.

Is it a realistic goal?

The answer is yes, *if* governments in the developing countries are prepared to exercise the requisite political will to make it realistic.

It is they who must decide.

As for the Bank, increased productivity of the small, subsistence farmer will be a major goal of our program of expanded activity in the FY 1974–78 period.

But no amount of outside assistance can substitute for the developing member governments' resolve to take on the task.

It will call for immense courage, for political risk is involved. The politically privileged among the landed elite are rarely enthusiastic over the steps necessary to advance rural deevlopment. This is shortsighted, of course, for in the long term they, as well as the poor, can benefit.

But if the governments of the developing world—who must measure the risks of reform against the risks of revolution—are prepared to exercise the requisite political will to assault the problem of poverty in the countryside, then the governments of the wealthy nations must display equal courage. They must be prepared to help them by removing discriminatory trade barriers and by substantially expanding Official Development Assistance.

What is at stake in these decisions is the fundamental decency of the lives of 40% of the people in the 100 developing nations which are members of this institution.

We must hope that the decisions will be the courageous ones.

If they are not, the outlook is dark.

But if the courageous decisions are made, then the pace of development can accelerate.

I believe it will. I believe it will because I believe that during the remainder of this century people everywhere will become increasingly intolerant of the inhuman inequalities which exist today.

All of the great religions teach the value of each human life. In a way that was never true in the past, we now have the power to create a decent life for all men and women. Should we not make the moral precept our guide to action? The extremes of privilege and deprivation are simply no longer acceptable.

It is development's task to deal with them.

You and I—and all of us in the international community—share that responsibility.

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[4] Figures for all three periods are in 1973 dollars.

Sir Denis Rickett, Vice President

October 30, 1973

Ernest Stern, Senior Adviser, VPD

Meetings of the G-24

We have now been asked to be present at meetings of the G-24. As you know, the G-24 is a group of developing countries which meets to discuss the LDC positions to be taken in the C-20 and its working group. The Fund and UNCTAD have been observers since the beginning. I accepted the invitation and attended the meeting on Monday (10/29) which discussed positions to be taken at the meeting of the C-20 Working Group which is meeting in Washington, November 1 and 2.

When I am unable to attend the G-24 meetings, I will ask Mr. Haq or someone from his Department to substitute for me. We will, of course, keep you informed of any points of interest.

cc: Mr. McNamara

President has seen

888/7/4

Sir Denis Rickett, Vice President

October 29, 1973

Ernest Stern, Senior Adviser, VPD

Meeting at Princeton University on the C-20

Mr McNamara to see ESj 10/30

1. I attended a meeting at Princeton University designed to bring together academic experts in international finance and representatives of LDCs involved in one or more of the working groups of the C-20. The list of questions which have been circulated to Working Group 4 were given to the participants as a basis for discussion.

2. The meeting was not well focused, and the discussion repeatedly slipped into the general aspects of monetary reform. There were, however, two points of interest. First, there was unanimous agreement among the academic participants that the present Outline of Reform contemplated a non-viable system, with several contradictions. Most thought that the concept of "stable but adjustable" exchange rates was, in fact, identical with fixed parities and occasional major adjustments. Instead, what was needed was something much more like a system of managed floating of the major currencies. Secondly, there was very little support for the proposition that Working Group 4 provided an opportunity for tackling unrelated issues of concern to the LDCs. On the contrary, it was apparent that the LDCs would have quite a lot of work to do merely to meet some minimum reform related objectives, such as an SDR distribution favoring LDCs or insulation of LDC interests from the adjustment process of deficit countries.

3. A number of technical issues were also discussed at some length. Considerable time was spent on commodity related issues. The general conclusion was that the choice between floating exchange rates and "stable but adjustable" exchange rates would have no particular impact on commodity prices. The related question of whether there was a link between stabilization of commodity prices and the type of monetary system was not pursued very far. On the question of monetary reform and debt servicing, it was thought that variation in the exchange rates would have little systematic impact on debt. The outflow of capital

President has seen

from surplus countries would, in itself, tend to reduce the need for exchange rate adjustments; it was far from clear that even borrowers in strong currencies necessarily suffer a loss, even if there is a revaluation since the discounted costs of interest and valuation may be no higher than the interest costs in deficit countries. It was recognized, however, that this long-term impact was quite distinct from the specific problems of Bank borrowers. For these shorter term problems it was agreed that a "basket of currencies" approach would provide greater equity.

Attachment

cc: Mr. McNamara

CONFERENCE - INTERNATIONAL MONETARY REFORM AND THE DEVELOPING COUNTRIES

October 26-28, 1973

J. Bhagwati	M.I.T. (Currently at Berkeley)
W. Branson	Princeton
R. Cooper	Yale
C. Diaz-Alejandro	Yale
G. Haberler	American Enterprise Institute, D.C.
A. Harberger	Princeton (from the U. of Chicago)
N. Kaldor	King's College, Cambridge, England
P. Kenen	Princeton
F. Machlup	Princeton
R. Triffin	Yale

Abrahamian	UNCTAD
Azizali Mohammed	IMF
Buhendwa	Zaire Bank
V. Bruce	Central Bank, Trinidad & Tobago
Frimpong-Ansah	Vice-Chairman, Deputies - Committee of 20
L. Jayawardena	Ministry of Planning & Employment, Sri Lan
A. Kafka	IMF
R. Lawrence	UNCTAD
Y.W. Mangasha	National Bank of Ethiopia
C. Massad	IMF
L. Orci	Bank of Mexico
P. Pereira Lira	Central Bank of Brazil
A. Phillips	Bank of Mexico
E. Stern	International Bank for Reconstruction & Developm
J. Williamson	IMF

McN.
818/7/3

Mr. Robert S. McNamara, President — October 29, 1973

Ernest Stern, Senior Adviser, VPD

World Statistical Indicators

Attached is the memorandum you requested me to draft for you in order to distribute the world statistical indicators. As soon as you have okayed it, we can issue them.

Attachment

EStern/lm

bcc: Mr. Chenery

MEMORANDUM TO THE EXECUTIVE DIRECTORS

I have asked the Development Policy Staff to prepare data relating to the major trends in world economy and major features of the economic situation in developing countries for the use of the senior staff. I believe the Board also would be interested in receiving these tables on a regular basis.

The World Economic Indicators, consisting of the attached three tables will be issued monthly. Because of the nature of the statistical material and the timing of its availability, some data will be revised monthly, some quarterly and some annually. The narrative will highlight major changes.

This is an experimental format and will undoubtedly evolve over time. The statistical data are derived in part from our own economic work and in part from other sources. While we make every effort to use the most reliable data available, our objective in presenting this material is not absolute statistical accuracy, but the timely publication of data on major trends for the information of management and the senior staff. We would welcome your suggestions on the format and on the coverage of the statistical data.

Robert S. McNamara

Attachment

cc: Vice Presidents
Department Directors

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

RSM

818/7/2

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: October 23, 1973

FROM: Ernest Stern, ~~Senior~~ Adviser, VPD

SUBJECT: Luncheon with Dr. Sen

1. Dr. Sen requested this appointment. Aside from some personal matters, he wanted to discuss the research paper in preparation for the Board and the compromise on the construction preferences.

10/24

Research Paper. Dr. Sen said he thought this an important paper which would have to be prepared carefully. A small number of Executive Directors were very skeptical about research in general and about the relevance of our research to Bank operations. I told him of our general approach, which will take cognizance of these concerns, and he seemed satisfied. However, he urged that we discuss a draft with selected Executive Directors - e.g. himself, Messrs. Isbister, Barco, Janssen - before issuing the final paper.

Construction Preferences. Dr. Sen started by objecting to the compromise of limiting preferences to countries with per capita income of $200. After an extended discussion of the non-existent alternatives, he agreed that it was the only feasible approach. However, he urged strongly that you meet with the Latin American Executive Directors to avoid a strong negative reaction from that quarter.

cc: Mr. Damry

EStern/lm

President has seen

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

RSM

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President **DATE:** October 17, 1973

818/7/1

FROM: Ernest Stern, Senior Adviser, VPD

SUBJECT: Discussion with Mr. Kastoft

1. The luncheon discussion on October 17 was general. The following points may be of interest:

10/18

A. Mr. Kastoft was quite pleased with the seminar on IDA lending policies in Nairobi; the Swedish Government also thought the meeting was useful and productive.

B. Mr. Kastoft raised the China question. He received a cable from Stockholm transmitting a Chinese news statement on their initiative at Nairobi which made it clear that China intended to replace Taiwan. He reported this to Mr. Damry. Mr. Kastoft expressed surprise that the Bank had not learned of the statement earlier. He thought any of a number of member governments with embassies in Peking would be glad to report directly on items affecting the Bank. He will suggest this to you when he meets with you next.

C. There also was some discussion of Bank policy toward Chile. Mr. Kastoft expressed the hope that we would go slowly and, for the present, do no more than send a mission to inform ourselves about the current economic situation. He intends to cover this too at his next meeting with you.

D. We also discussed the prospects for Working Group 4 of the C-20 (working group on the transfer of resources to developing countries). While the prospects for significant accomplishments are poor, we agreed that this was an important opportunity for which a substantial effort should be made. We also explored whether it would be possible to involve aid ministry staff more in this working group than is normally the case with C-20 groups.

cc: Messrs. Knapp, Chenery

EStern/lm

President has seen