Folder Title:	Remarks at the Friedrich Ebert Foundation, March 8, 1979 - Correspondence 01
Folder ID:	1199560
Series:	Conferences, lectures and addresses
Dates:	03/01/1979 – 03/31/1979
Subfonds:	Records of President Robert S. McNamara
Fonds:	Records of the Office of the President
ISAD Reference Code:	WB IBRD/IDA EXC-10-4536S
Digitized:	06/18/2012

McNamara Papers

Friedrich Ebert Foundation, Bonn,
March 8, 1979
(vol 1)

Folder 18

814/3/1

THE INTERNATIONAL DEVELOPMENT SCENE TODAY: PROBLEMS AND PROSPECTS

Remarks at the Friedrich Ebert Foundation
Bonn, March 8, 1979

by

Robert S. McNamara
President of the World Bank

Mr. Chairman, Ladies and Gentlemen:

I am very pleased to be back here at the Foundation, and to have the opportunity to discuss with you some of the current problems and prospects of the international development scene.

I recall the discussion we had together here in early 1973. And I needn't remind you that six very turbulent years have gone by since then — years filled with events that have had an immense impact on the developing and developed countries alike.

The persistent worldwide inflation, the surge in the cost of energy, the deterioration in the developing countries' terms of trade, and the sluggish recovery from the recession in the OECD nations: all of these factors have threatened a continuation of the very great overall progress which the developing world achieved over the past quarter century.

It is these concerns that led to the Seventh Special Session of the UN General Assembly, the UNCTAD IV Meeting in Nairobi, and the protracted North-South Dialogue in Paris. These and a number of other efforts have all come, and gone. And yet the most urgent issues remain largely unresolved.

Some partial agreements have been reached, some differences have been narrowed, and some willingness to compromise has emerged.

But it is evident that neither the developed nor the developing nations, neither the capital-surplus nor the capital-deficit countries, neither the North nor the South are really satisfied with the outcome.

The result is that a certain restive and uneasy interlude has followed on the international community's unsuccessful efforts to reach fundamental agreements. There is a growing sense of dissatisfaction with the outcome of the lengthy discussions that have taken place over the past four years in these various international forums. And, thus, the atmosphere today is at best one of regret and disappointment, and at worst one of frustration and disillusionment.

It is not a promising climate in which to achieve what is needed most of all: a basic understanding of development issues and how to resolve them.

There are two types of action that can be taken to improve that climate.

One is to prevent the political aspects of the situation from hardening further into stalemate.

That is why I urged former Chancellor Willy Brandt to form an independent, high-level commission that could search for practical solutions to the growing impasse.

As you know, Herr Brandt has moved forward vigorously in this matter, has recruited a distinguished group of commissioners, has gathered an expert staff, and is at work seeking to identify for the developed and developing nations specific areas of mutual interest in what is clearly an increasingly interdependent world. All of us in the international development community are indebted to him, and to his colleagues, for accepting this complex and difficult task.

The second action I recommended is complementary to the first. I proposed that the World Bank itself should undertake, annually, a comprehensive analysis of economic and social progress in the developing world in order better to assist ourselves, and all our 134 member governments, assess the alternatives and make decisions that confront us all in the development field.

Last fall we completed the initial volume in this effort. The World Development Report deals with the fundamental problems currently facing the developing countries, and explores the relationship of those difficulties to the underlying trends of the international economy.

Many of the conclusions the Report reaches are sobering.

One of them is much more that that: it is shocking. The Report indicates that even if the projected, and optimistic, growth rates in the developing world are achieved, some 600 million individuals at the end of the century will remain trapped in absolute poverty -- a condition of life so characterized by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be beneath any reasonable definition of human decency.

What I would like to do, then, this afternoon is this.

First, I would like to examine with you the current projections for economic growth in the developing countries, and the implications of that growth for the absolute poor.

Second, I want to stress that in order to achieve even these projected levels of growth -- which are far short of the optimum -- there will be required additional efforts from both the developed and the developing nations. In particular, it will be necessary to:

- Expand international trade;
- Increase capital flows to the middle-income developing countries from private sources;
- And increase the flow of concessional assistance to the poorest countries.

Third, I want to point out that even if the additional international support is achieved, and the projected growth rates in the developing countries are realized, much greater emphasis must be placed on development strategies specifically designed to reduce absolute poverty.

And finally, I want to outline briefly some of the new ways in which we in the World Bank itself are assisting in the achievement of the twin goals of accelerating economic growth, and reducing absolute poverty. Specifically, I want to say a word or two about our new-style rural development projects, and about our new program to assist the developing countries to accelerate domestic petroleum production.

At the conclusion of my remarks, I'll be happy to take any questions you may wish to raise.

Let me begin with the World Development Report's projected economic growth in the developing countries for the period 1975-1985.

Projected Growth Rates

I should say, of course, at the outset that the purpose of the projections is not to attempt to predict the future, but rather to establish a basis for determining those actions that are necessary if greater social and economic progress is to be achieved.

The pursuit of that progress will, of course, cut across a number of vested interests and require an immense effort from the developing countries themselves.

There must, for example, be a renewed drive to mobilize domestic resources. It will not be easy for the poorest nations to raise their low savings rate, nor for the middle-income countries to maintain their current high rates, but it is essential that they do so.

In addition to strengthening their domestic savings performance, the developing countries must bolster their efforts in two other critical areas.

The first is agricultural production. In the low-income countries, action must be initiated to at least double agricultural growth rates from 1.5% to 3.0% a year.

And the second is foreign trade. Programs must be launched to increase foreign exchange earnings through export expansion in a larger number of countries.

But as essential as these actions by the developing countries are -- and they clearly constitute a formidable agenda in themselves -- they simply cannot succeed without a more realistic level of support for expanded trade and aid from the developed nations.

If one assumes that both the developing and developed nations in fact take these actions, then the projected rates of growth per capita for the period 1975-85 are 1.5% for sub-Saharan Africa, 2.8% for the low-income countries of Asia, and 3.4% for the middle-income countries. In all cases these are below the rates projected for the developed nations.

Moreover, because these projected growth rates are predicated on major additional efforts in both the developing and developed coutries, they are -- while feasible -- very far from certain.

But one thing is certain: there is no reason for the developed nations to believe that the actions suggested for them are beyond their capacity. For even if projected growth rates for the developing countries were to be achieved, overall growth in the world would still be heavily skewed in favor of the developed countries.

Now, so far we have been talking about growth rates. What about the poverty issue?

To try to grasp the magnitude of poverty in the developing world at the end of the century, we have projected the growth rates beyond 1985 for another 15 years. Admittedly, such projections are subject to large margins of error. But based on what little we do know about the interactions of social and economic factors, and the effect of various patterns of economic growth on the prospects of the poor, the projections point to a problem of shocking proportions.

As I indicated earlier, the likelihood is that even if the projected growth rates in the developing countries are achieved, some 600 million individual human beings will be living in absolute poverty at the end of the century.

That is intolerable. And it argues for intensifying our efforts both to understand the internal dynamics of poverty more clearly, and to design practical anti-poverty strategies that will work.

I will have a word to say about such strategies in a moment, but let me discuss first, briefly, those actions required from the developed nations if the projected growth rates are to be realized.

The Expansion of International Trade

The scarcity of foreign exchange is, of course, one of the major obstacles to greater economic growth in much of the developing world. Export earnings are the chief source of foreign exchange, and hence the projected growth rates depend on the achievement of the underlying assumptions of export performance.

What are those assumptions? Can they be realized?

The projections assume that exports from the developing countries will continue to rise 6% per year as they did between 1960 and 1975. While this may seem a modest objective, it cannot be achieved unless manufactured exports -- now a quarter of the total -- continue to grow at the rate of approximately 12% per annum.

This rate simply cannot be sustained if the protectionist barriers erected by the developed nations against the manufactured exports of the developing countries continue to rise as they have recently.

Even a partial resume of the new restrictive measures illustrates the severity of the problem.

- Australia, Canada, France, the United Kingdom, and the United States have imposed new quotas on the developing countries' exports of footwear.

- Actions by the EEC, Australia, Canada, Norway, Sweden, and the U.S., taken under the new protocol of the Multi-Fiber Arrangement, will have the effect of limiting the growth of developing countries' exports of clothing and textiles to about 5% per annum over the next few years, compared to over 15% per annum in the period 1967-1976.

- The United Kingdom has imposed quotas on television sets from two developing countries, and similar action has been taken in the United States and is threatened elsewhere.

The truth is that throughout the industrialized nations this trend toward protectionism is gathering momentum. There is an increasing readiness for OECD governments to extend assistance to domestic industries at the expense of developing country exports.

The popular rationale for this protectionist posture in the developed nations is, of course, that the growth in developing country exports eliminates jobs.

But while the impact on jobs in specific firms, or in particular product lines, can sometimes be serious, it is important to recognize that the negative effect of developing country exports on overall employment in the developed world has been negligible.

The fact is that developing countries today supply only a tiny portion of the manufactured goods consumed in developed countries. Less than 2%.

These low levels of market penetration have clearly made only a minuscule impact on the overall industrial structure of the importing countries.

And what the protectionist view overlooks is that the loss of jobs due to imports from the developing countries is outweighed by the increase in jobs due to the growing volume of exports to those same developing countries.

The primary concern of the industrialized nations today is, of course, greater progress in the recovery of their own domestic economies.

Less restrictive trade with the developing countries can hasten that recovery.

A more liberal import policy, as I have pointed out, will lead to a more rapid expansion of exports to the developing countries, thus providing a healthy stimulus to demand in the developed nations.

And added to that, imports from developing countries can assist in reducing inflationary pressures. In the United States, for example, while other wholesale prices rose by 66% from 1970 to 1976, those for clothing -- due to low-cost imports -- rose only 26%.

In the final analysis, a more rational framework of trade and adjustment to changing comparative advantage must be the centerpiece of any long range international economic strategy that has any realistic hope of succeeding.

Now let me turn to another facet of this same overall problem: the need for greater capital flows to the middle-income developing nations.

Capital Flows to the Middle-Income Developing Countries

Over the past five years, the amount of foreign exchange required by the middle-income developing countries to finance their imports has risen dramatically. This has been in part due to the steep increases in the cost of oil.

During the same period, the recession in many industrialized nations reduced in real terms the export earnings available to the middle-income countries to finance those imports.

Thus these countries faced a dilemma. They could either reduce their imports, thus slowing their own economic growth as well as that of the industrialized nations. Or they could try to maintain the level of their imports, and thus protect their growth, through greater reliance on external borrowing.

As you know, they chose to follow the latter course. From Europe's point of view, it is fortunate that they did. Had they chosen instead to reduce their imports, it would have put an estimated three million more out of work here in Europe, and brought on a much greater recession, But, they chose to borrow and the result was that their external financing as a percentage of GDP nearly doubled.

The bulk of these funds came from private sources, primarily commercial banks.

Net flows to middle-income developing countries from private sources increased 30% a year between 1970 and 1975.

Such explosive growth could not, of course, continue indefinitely. And it has already begun to slow down substantially.

In the projections of the future growth of these countries, the assumption is that net flows will grow by 12% a year. Even this reduced growth in lending will mean that net flows from private sources will triple and outstanding balances will quadruple between 1975 and 1985.

The question is: can such huge increases in absolute amounts be supported by the private sector?

We believe they can. But only if loan maturities are further lengthened, portfolios of individual banks further diversified, and the number of participating banks substantially increased. Well over half of all outstanding claims on developing countries are held by only 30 banks, principally in the U.S. Banks in Europe and Japan are becoming increasingly active in lending to developing countries and it is important that this trend be accelerated. Commercial banks here in the Federal Republic have played a very constructive role in lending to the developing countries in recent years, and it is important that this support continue.

Let me turn now to the problem of concessional assistance to the poorest developing countries.

Concessional Assistance to the Low-Income Countries

The development strategies of the low-income countries of Asia and Sub-Saharan Africa clearly must give priority to raising agricultural productivity, and to meeting the requirements for essential infrastructure such as roads, health and sanitation facilities, power generating capacity, and schools.

The investment needed to support that strategy is immense. As in the past, the bulk of the funds to finance these investments must come from domestic savings; already they furnish some 80 to 85% of the total.

The domestic savings of these low-income countries have been rising. But they have to be supplemented by external capital flows if the total investment requirements for even modest growth are to be met. And because most of the low-income countries have limited debt-servicing capacity, most of the external capital must be obtained on concessional terms.

What is the outlook for such assistance?

Recent trends in Official Development Assistance (ODA) from the member countries of the Development Assistance Committee (DAC) are disquieting. In relation to their GNP, ODA has declined 40% in the past 15 years.

Since 1970, when the United Nations General Assembly adopted a target of .7% of GNP for concessional aid, it has never exceeded half that level, and there has been a steady deterioration against the objective. The fact is that in 1976 and 1977 the absolute amounts were less in real terms than in 1975, 1972 or 1971.

There have, however, been significant differences within the group of DAC countries. Some of the smaller countries such as The Netherlands, Norway, and Sweden have exceeded the target. Others, such as Canada and Denmark have substantially raised their share since 1970.

But among the four largest contributors, only France was close to the .7% objective in 1977. The other three, the United States, Japan, and Germany, all contributed substantially less than half of the target ratio in 1977, and the performance of all three has deteriorated since 1970. Had these countries increased their contributions of ODA, in relation to GNP, even up to the average of the other countries, the total supply of ODA in 1977 would have been more than 25% greater.

In projecting economic growth in the low-income countries, we have assumed that ODA from DAC members will rise by approximately 5% per year in real terms. This means that in current dollars annual ODA appropriations must triple between 1977 and 1985. In relation to recent performance, such increases look formidable.

They are unlikely to be achieved, must less exceeded, unless early action is taken in Japan, Germany, and the United States to increase commitments substantially. There have been statements of intention to increase the flow of aid in all three countries. But these statementes have yet to be translated into action.

Today, it is already too late to affect the flow of disbursements significantly by 1980. Unless very substantial increases in commitments -- more than sufficient to keep pace with inflation and the real growth of GNP -- are undertaken in the next few months, and regularly thereafter, even the modest objective we have postulated for 1985 will not be achieved.

In that event, the growth rates we have projected for the low-income countries will not be realized, and the projected number of absolute poor already intolerably high, will be even greater.

Absolute Poverty in 1985 and 2000

The need to give greater attention to the problems of the absolute poor has been increasingly recognized in internatinnal discussions. But the intractability of these problems and the scale of efforts needed to reduce the numbers of absolute poor have not been fully appreciated.

The projection of 600 million absolute poor in the year 2000 does not assume a lack of progress in the remaining years of the century. But the likely rate of progress is unsatisfactory and the resultant level of poverty unacceptably high.

Now, what can be done to reduce it?

The World Bank does not have a full and complete answer to that question, nor do I know of anyone in the world who does. And that is why I urge that the Brandt Commission, the UN Overview Committee, UNCTAD, the Development Assistance Committee, and other international groups -- and above all the individual developing countries themselves -- each give serious and detailed attention to it.

But even though no one yet has a fully comprehensive answer to the problem of absolute poverty, I believe that within the present limits of our knowledge, each of the developing countries can -- and should -- set specific goals for its own society's direct attack on poverty; and that the international community, in the appropriate forums, should endorse those goals, and pledge the necessary support.

As I have emphasized, such an attack on absolute poverty can only succeed in an environment of growth. And support from the international community -- through further expansion of trade and more adequate capital flows -- is essential if optimum growth rates are to be achieved.

But though growth is an absolutely necessary condition for reducing poverty, it is not in itself a sufficient condition. For growth cannot help the poor unless it reaches the poor.

That is why any practical strategy to reduce absolute poverty must begin with the effort to assist the poor to become more productive. If they have access to land -- even if only as tenants -- that can be done through a whole range of measures.

If the poor are without land, or other productive assets, then the strategy clearly must stress greater employment opportunity, particularly in the more labor-intensive sectors.

And not only are the poor without adequate incomes, but without equitable access to essential public services: to clean water, to basic education, to preventive medical care, to electricity, to public transportation -- to those services fundamental to their health and productivity.

Since most of these services cannot be privately purchased by the poor, they must be expanded through government programs as a key element in a practical strategy to reduce poverty.

Now, I am not suggesting that any of this is easy to do. It is not.

Conditions clearly differ from society to society, but what is essential is that governments:

- Formulate attainable anti-poverty objectives;
- Define clear operational programs for achievement of those objectives;
- And determine and provide the level of resources required to meet the minimum goals.

Unless such steps are taken by the governments in developing societies, the hope to reduce absolute poverty simply cannot be translated into effective action.

Certainly no external assistance -- no matter how helpful -- can substitute for the internal political resolve necessary to take these steps.

But once that firm resolve is evident, then the international community must support these politically difficult decisions with comparable courage and generosity.

Now I would just like to say a word or two about some of the things we have been doing in the World Bank since I last met with you here at the Foundation in February 1973.

The World Bank

In the fall of that same year, 1973, the Bank's Annual Meeting was in Nairobi, and in my address to the Governors I outlined a strategy for attacking absolute poverty in the rural areas, where of course the greatest concentrations of the poor in the developing world exist. The strategy focused on the more than 100 million subsistence farmers, and their families.

One element of this strategy was expanded World Bank lending. Within the context of expanding our overall agricultural program, we proposed to give greater emphasis to projects expressly designed to increase the productivity of low-income farmers, most of whom farm two hectares or less. We have done so.

In real terms, our lending for agriculture and rural development projects over the five-year period FY1974-1978, as compared to the previous five years, was up by 145%.

And 75% of these projects contained a component specifically addressed to the needs of the small farmer. In total, they will increase the incomes -- in most cases by at least 100% -- of over sixty million poor people.

In Northern Nigeria, in West Bengal, in Mali, Thailand, Kenya, Northeastern Brazil, Southern Sudan, Upper Volta, and in many other regions in the developing world the Bank is helping design and finance these rural development projects geared to helping poor farmers become more productive.

Feeder roads, small-farmer credit, functional literacy programs, extension services, seed multiplication plots, veterinary stations, small-scale irrigation, storage and marketing facilities, health and family planning clinics -- the content of the projects varies, but the principle remains the same everywhere: involve the poor, invest in their proven potential, enhance their productivity.

It is a new approach, and we must expect some failures. But I can attest from personal observation in a number of countries that such investments can tangibly benefit the lives of literally hundreds of millions of rural poor. Our experience with these projects supports the assumption that in low-income countries it should be possible to double the agricultural growth rate, raising it from 1.5% to 3% per annum.

The Bank's efforts to assist the urban poor are at a much earlier stage, and on a much smaller scale. We have far to go, but we are making slow progress.

Two years ago, at the Bank's Annual Meeting in Manila, I expressed the hope that the Bank would be able to finance 50 urban projects during the FY1976-1980 period. It now looks as though we will meet, or possibly even exceed, that target. During the next two years we expect to process an average of more than 15 such projects per year, as compared with two or three a year in the mid-1970s.

I also pointed out at Manila that we would be expanding and redirecting our investment in other sectors in order to increase earning opportunities in the urban areas. The need for more jobs is critical. The cities of the developing world are expanding at runaway rates. The combination of high natural population growth and accelerating migration from the countryside will add well over a billion people to the urban labor pool by the end of the century.

It is obvious that on any reasonable calculation the developing countries are going to have to make massive investments if these individuals are to find productive employment.

It is sometimes argued that the costs will simply be too high; that the world just cannot afford these investments.

But the truth is really the other way round. What the world cannot afford is procrastination and delay while dangerous social pressures build.

The Bank, for its part, is determined to move forward vigorously in this sector, and to seek new and more effective solutions to the growing urban crisis.

World Bank Lending for Petroleum Production

Another field in which the Bank has greatly expanded its activity since we met in 1973 is petroleum production in developing countries. Traditionally, the energy sector has been an important part of our operations. That is particularly true of electrical power, for which the Bank has provided more financial support, in a total of 69 developing countries, than all other official multilateral and bilateral sources put together. But until recently the Bank has not been involved in lending for petroleum production because when international prices were low and petroleum supplies abundant, investment was not economically justified in many developing countries. Where it was justified, financing was, in most cases, readily available from other sources.

But the situation now, as you know, is quite different.

Our studies in the Bank indicate that:

- Current oil prices justify the exploration and development of many areas previously considered uneconomic. Crude oil production costs in most oil-importing developing countries would range between \$3 and \$6 per barrel. This compares very favorably with the price of imported oil, over \$12 per barrel, and with the costs of oil in the industrialized countries from, for example, the North Sea and Alaska.

- At present prices, some 50 to 60 oil-importing developing countries have a potential for producing petroleum oil and/or gas. However, only 14 are producers at present.

- The benefits of more intensive petroleum development in oil-importing developing countries would be substantial. It would be feasible for these countries to reduce their dependence on oil imports from about 80% in 1977 to less than 50% in 1990, even despite their continued high growth of consumption. But to achieve these results, greatly increased investments in exploration and development are required.

- Most of the oil-importing developing countries with petroleum potential at present lack the necessary technical skills and the financial resources to develop this potential. They also lack the expertise required to mobilize such resources on terms both attractive to external sources and commensurate with national interests and objectives.

Accordingly, two years ago we launched in the Bank an intensified program in the energy field, and made our first loan for petroleum production: \$150 million to India for the development of the Bombay High and Bassein offshore oil and gas fields.

This past January we expanded the Bank's initial program, and now -- where appropriate -- will consider Bank assistance for exploration as well as production of oil and natural gas.

By 1983, it is projected that the volume of the Bank's annual lending for oil development projects will exceed $1 billion a year -- and these projects, supported by the Bank, are expected to have a total cost of more than $4 billion.

The Bank's program will give priority to those developing countries that depend heavily on imported oil and have the greatest need for technical assistance. Of the 30 oil and gas projects now being prepared with the help of the Bank, approximately half are in countries with per capita incomes of less than $500 per year.

Unless these countries' energy deficits can be narrowed by exploiting indigenous sources of energy more fully, scarce foreign exchange will have to be diverted to oil imports to the detriment of long-term development and economic growth.

We are confident that the Bank can play an important catalytic role in improving the energy prospects for these countries, and we intend to do so.

Conclusion

Let me now conclude my remarks with one last point.

We are all aware that it has become axiomatic today to say that our world is rapidly becoming more interdependent.

And it is.

But the danger is that the word "interdependence" itself is becoming something of a cliché. And the trouble with clichés is not that they are not true, but rather that they are so true, and so often repeated, and so taken for granted that in the end we no longer really think very seriously about them at all.

Interdependence has entered our contemporary public rhetoric. But it has yet to enter in a truly effective way our contemporary public consciousness.

What the public in the industrialized nations needs to grasp is that a more reasonable and equitable and generous set of trade and aid relationships with the developing countries is very much in the developed world's interest, and consequently to the public's own benefit.

The truth is that cooperation with the developing world has become a vital economic necessity for the European Community, and in particular for the Federal Republic.

- The developing world supplies more than 90% of Germany's imports of crude oil, and 30% of its imports of other primary commodities.
- In 1977 the developing countries absorbed 23% of the Federal Republic's exports -- more than twice as much as did the United States (6.7%) and Eastern Europe (5.7%) put together.
- In 1977 the developing countries bought four times more manufactured goods from the Federal Republic than it bought from them.

These are the facts that turn the concept of interdependence from rhetoric into reality. Economic growth throughout the entire developed world, and particularly here in the Federal Republic, is now directly linked with the social and economic progress of the developing countries.

There is simply no question about that.

For various historical reasons, the Federal Republic's Official Development Assistance has been low in relation to the growth of its gross national product.

I am confident that you here tonight, and together with your associates and colleagues in government and the private sector, support an improvement in that.

As for the work of the World Bank itself, we look to the Federal Republic to continue to play a major role in the expansion of our operations. In particular, we are counting on your strong support for the agreed-upon doubling in the capitalization of the IBRD, and for a Sixth Replenishment of the International Development Association at a level that will provide for a substantial increase in IDA's commitment authority in real terms.

Whatever else we are to say about life in the last quarter of the twentieth century, it is clear that the overall international development effort -- with its twin objectives of accelerating economic growth, and attacking absolute poverty -- is of critical significance.

Certainly the whole character of international life in the coming century -- the century that our children, and their children, are going to spend a good deal of their lives in -- depends largely on the outcome of that effort.

It demands -- and deserves -- the very best from all of us.

Thank you very much. And now, I would be happy to take your questions.