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Efforts Indispensable on Both Sides

by Dr Edgar Kröller, Paris

Current international discussions on economic and social development are increasingly conducted under one central focus: the Second Development Decade (DD-II) of the United Nations. The aim is to evolve a comprehensive development strategy for the Third World in the seventies, i.e. for the less developed countries in Africa, Latin America and Asia¹.

Committees Established by ECOSOC...

Already for some time, expert discussions and political negotiations on development planning for the coming decade have taken place in international bodies, notably in the Economic and Social Council of the United Nations. ECOSOC has established a Preparatory Committee for the Second Decade. This Committee is designed as a forum to discuss the political content of the objectives and commitments for the future development strategy. The second body established by ECOSOC is the Committee for Development Planning, a group of experts under Professor Tinbergen as Chairman, which comprises also, as observers, the UN Specialised Agencies and Regional Economic Commissions as well as the EEC Commission, the OECD and COMECON. This Committee's task is to articulate the technical elements of the future strategy, e.g. the feasibility of targets and their combination into an organic and consistent whole. Both Committees are aided by the analytical work of the United Nations Centre for Development Planning, Projections and Policies.

... and other Organisations

The World Bank has created a special commission under the former Canadian Prime Minister, Lester Pearson, which has undertaken a comprehensive study as to how external assistance can be more effectively blended with the domestic efforts of developing countries to enhance its efficiency for economic growth. The United Nations Conference on Trade and Development—UNCTAD—has also developed concepts and ideas with

respect to the contribution which aid and trade policies by the richer countries can make to a more rapid economic growth of developing countries. This work has been supported by a number of econometric studies and projections of resource requirements of developing countries which complement similar analyses undertaken by the UN Centre. The Organisation of Economic Co-operation and Development—OECD—and especially its Development Assistance Committee—DAC—whose member countries constitute the main source for international development finance and growth have also discussed actively ways and means how the more advanced countries of the world can make a better contribution to the international community, particularly in the framework of DD-II. Moreover, the Jackson Report, expected for the end of the year, will contain a full analysis of the role which the United Nations Technical Assistance Programme can play in the coming decade. The UN Specialised Agencies have also focussed their work increasingly on DD-II requirements and attempt to harmonise their views in the Administrative Council on Co-ordination. The UN Regional Commissions, too, see themselves as important catalysts in the DD-II preparations.

Besides these multilateral bodies, a number of national governments, both of developed and developing countries, try to tailor their planning process for the seventies towards the requirements for a comprehensive development strategy of the Third World. There is thus no lack of institutional efforts to work out methods and techniques designed to advance the growth paths of the poorer part of the world.

The First Development Decade

Before discussing the planning for the Second Decade, it may be useful to review briefly the developments during the First Development Decade—the sixties. The term „United Nations Development Decade“ was created primarily for public relations reasons. By no means, therefore, was the first decade based on an interlocking system of objectives, means and obligations. Its

¹ With respect to the less developed countries in Europe—Greece, Turkey, Spain and Yugoslavia—the UN definition excludes them from and the OECD definition includes them in the developing world.

resolutions were permissively worded, based on „best efforts“ notions and often ambiguous.

For example, the United Nations agreed on a growth rate of total product of the developing countries of 5 p.c. per year as well as on a minimum volume of development assistance of 1 p.c. of the national income of donor countries. As to the growth target of 5 p.c., it was never clear whether it was meant as an average, compound or terminal rate, and whether it should apply as a minimum to each less developed country or as an average to the developing countries as a group. The 1 p.c. target for development assistance was later interpreted by the UN and the developing countries to refer, rather than to net national product at factor cost (national income), to gross national product at market prices, which is an average about 25 p.c. higher. Only at the Second UNCTAD at New Delhi did the donor countries reluctantly accept this new target; however, without committing themselves to a target date for its achievement.

The story of the First Decade, judging by the developments during the first eight years, is primarily one of success. The total output of developing countries rose at an average by 5 p.c. per year.

Differing Economic Progress

On the other hand, the economic progress differed substantially between countries and regions of the Third World. Africa, South America and South Asia grew by less than 5 p.c. on average whereas the developing countries in the Middle East and in Europe recorded growth rates of more than 7 p.c. per year. This growth achievement of the Third World countries was further tempered by their rapid population growth, which means that only one-half of the 5 p.c. average growth rate of product was translated into an increase of per capita income per year. As a result, although developed and developing countries increased their total output at a similar pace,

the absolute addition to per capita income was about 20 times as much in the industrialised nations as in the countries of the Third World. The reason is that the per capita income base of the industrialised countries is over 10 times higher and their population grows only half as fast. This has led to a progressive widening of the income gap between the two groups of countries.

However, the process of dichotomisation has also been operative within the group of developing countries. The more advanced among them have managed to raise their income at a much faster rate than most of the least developed countries which tend to get increasingly involved in a vicious circle since their low income does not permit to generate enough savings and investment for rapid economic growth.

Differences in Potential and Efforts

These differences among developing countries have a great influence on their aid requirements. Very poor countries cannot productively absorb a large volume of capital assistance but need primarily technical assistance and later public aid at very soft conditions. On the other hand, relatively richer developing countries can make good use of a larger share of private capital at harder terms. Other countries can benefit more from trade concessions than from development aid.

The efforts of the developing countries in the sixties have been matched by a growing response of the industrialised countries in the field of aid and trade. Development assistance of about \$ 10,000 mn per year was extended, of which over 6,000 mn came from public sources (net of repayments). In 1968 the total volume was close to \$ 13,000 mn. However, even this all-time record is on average equal only to 77 p.c. of the 1 p.c. of GNP target. The Communist countries have contributed only about 3 p.c. of the Western volume of development assistance. They would



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probably have to increase their efforts tenfold to reach the 1 p.c. norm.

Easing of Assistance Terms

With respect to easing the terms of official development assistance in the face of the growing external indebtedness of many of the developing countries, only limited progress has been made. In recent years, around one-half of the total resources flow was extended as outright grants, and the loan component had on average an interest rate of about 3.5 p.c. and a repayment period of 25 years, including 6 years grace. On the other hand, private export credits have been provided at very much harder terms.

There has been a concentration of development assistance on certain sectors. Aid to agriculture, coupled with a change in economic policies and increased self-help efforts in the recipient countries, has led to the „green revolution“ with rapidly rising yields by using new seeds in combination with irrigation and fertilisers. In the trade field, too, some progress has been made. Industrialised countries are prepared, in principle, to accord import preferences for manufactures and semi-manufactures from developing countries without reciprocity. Through this progress on the aid and trade front, the sixties have witnessed important beginnings towards a better understanding of the world's economic problems. The first fruits of this development are clearly discernible, but more and greater efforts are necessary in order to merge the hopes of the Third World with an increasing prosperity of the industrialised nations.

The Second Development Decade

It is intended to anchor the Second Development Decade on three points:

- ☐ on a specific set of development objectives;
- ☐ on a precise definition of the means which are considered necessary to achieve these objectives;
- ☐ on firm commitments of the countries with respect to their contribution towards the required means.

The relationship between social and economic objectives is a subtle one. On the one hand, a rapid increase of total product enhances the scope for the attainment of social targets, and indeed, both social and economic objectives are often mutually reinforcing. On the other hand, social objectives frequently compete with the maximisation of total output so that governments have to choose, for example, between a slower development with more social justice and a more rapid economic advance accompanied by a lopsided income distribution. This choice is a real one, considering that a more equally distribut-

ed income generally reduces the possibility to increase the savings rate and hence to free resources for investment.

Within the United Nations framework a serious effort is presently made to harmonise the various sectoral targets which have been formulated with the overall development objective. The targets which have already been formulated include an overall growth target of around 6 p.c. on average per annum for the GNP of the developing countries, a growth target of 4 p.c. for agricultural output, of 8-9 p.c. for industrial production, of 7-8 p.c. for imports; population growth is to be reduced to 2.5 p.c. per annum; in connection with this target, it has been suggested that by the end of the Decade at least half of the population in countries with population growth problems should be effectively covered by family planning services. The savings rate is to increase, on average, to 15-20 p.c. by the end of the Decade. The school enrolment rate in primary education is to increase to 100 p.c. for all the developing countries, and on the secondary level to 20 p.c. in Africa, 36 p.c. in Asia and 46 p.c. in Latin America. With respect to third-level education the suggested enrolment targets are 1.5 p.c. for Africa, 5 p.c. for Asia, and 6 p.c. for Latin America. Other targets include, per 100 persons, 10 copies of daily newspapers, five radio sets, two cinema seats, etc.

The large variety of these targets calls for both harmonisation and the setting of priorities. Still, eventually all these objectives are driven back to a given growth rate of total output (GNP) of developing countries. With respect to the achievement of this goal, different growth theories suggest different solutions, laying more stress on one or the other production factor, such as natural resources, the availability of capital or the human factor. The latter is a central one in that it embraces not only the skills which can be brought to bear on the development process but also the general attitude towards development. It is clear that in most developing countries traditional values have to make room for a more aggressive outlook with respect to the use of resources for economic growth. On balance, of course, all the production factors are important in the growth process and it would take a Prokrustian theory to isolate precisely a chain of causality between their relative contribution and the final growth achieved.

Crucial Determinant of Growth

On the other hand, it is clear that a crucial determinant of the growth process is the existing productive capacity, i.e. capital stock. Additions to this productive capacity, i.e. investment, are therefore a necessary condition for an increase of total output. Investment is financed from savings, that is domestic savings, i.e. that part

diverted from domestic consumption, and foreign savings, i.e. capital (mainly aid) inflow. Hence, an increase in investment depends upon higher savings and resource transfers.

A rapid increase of domestic savings in developing countries runs up against a number of problems. First, their relatively low per capita income makes it difficult to free a large part of available resources for investment; secondly, several of these countries find it difficult to convert all of their "planned" savings into "realised" savings. The primitive structure of their economies does not permit many investment goods to be produced in the country so that savings can only be converted into investment by earning—through exports—the foreign exchange needed to import the investment goods.

Moreover, the mobilisation of resources—savings—is only one factor. At least equally important is the efficient use of these resources for investment (a shorthand indicator of this efficiency is the marginal capital-output ratio). Substantial improvements in the efficiency of investment can be achieved through appropriate investment priorities and efforts towards an optimal resource allocation. Other means in this field would include an aggressive export promotion, an adaptation of investment priorities in the field of education towards development objectives, steps towards regional integration where this can be helpful, the creation of a favourable investment climate for private capital, curbing the rate of inflation, or better balance of payments management, etc.

Contributions in Trade ...

The Western countries will make their contributions to DD-II in the field of aid and trade; both, especially the latter, are engines for growth. In the trade field, the developing countries' claim is concentrated on commodity agreements and trade preferences for manufactures and semi-manufactures. Commodity agreements are designed to protect the exports of primary products, such as coffee, cocoa, sugar, tin and rubber, against price fluctuations in order to assure the exporting countries of steady and remunerative prices for their products. Moreover, a system of Supplementary Financing, which has been under discussion for several years, is intended to compensate developing countries for unexpected shortfalls.

Preferences for manufactures and semi-manufactures are to be based on the principle of non-reciprocity and non-discrimination. This means that the industrialised countries are called upon to import manufactures from developing countries at preferential conditions without claiming a reciprocal advantage for their exports to the developing countries. These preferences shall be applied to all the developing countries, i.e. not

only to certain groups of them which at present benefit from special arrangements, such as the countries associated with the European Common Market. While some headway has been made in this field, no progress is in sight with respect to the elimination of customs duties and quantitative restrictions for the import of processed agricultural products from developing countries; the present system virtually penalises them for every additional processing stage, for instance, when coffee is roasted, ground or converted into instant coffee.

... and Aid Field

In the aid field, the Western industrialised countries have accepted the new target referring to a resource flow of 1 p.c. of their growth national product in the form of public and private transfers. Moreover, some smaller countries have set themselves the year 1972 as the target year, but most donor countries have not yet been prepared to stipulate a date. With respect to the request by the developing countries that 75 p.c. of the total resource flow shall be disbursed from official sources, most donor countries have so far shown no sign of acceptance. They have, however, made a step forward in setting themselves a new target for the terms of official flows (which, however, falls somewhat short of a more ambitious request by the developing countries): either 70 p.c. of these flows shall be outright grants or 85 p.c. of the total official flow shall bear a "grant element" of 85 p.c. (using a discount rate of 10 p.c.).

Estimates have been made both by the UN Centre² and by UNCTAD³ to fit the target growth rate of GNP of the developing countries into a projection framework for the Second Decade which assumes certain improvements in the self-help performance of the developing countries and resource inflows under the 1 p.c. target. It is interesting to note that the two organisations have approached this framework in different ways. The United Nations Centre for Planning, Projections and Policies has based its estimates on a global target which is distributed among the individual developing countries according to the principle of convergency: fast-growing countries shall maintain their growth path and slower growing countries shall accelerate it. The UNCTAD Secretariat, on the other hand, builds up its development strategy from the level of the individual countries, based on existing development plans, hence in accordance with the countries' own accounts of their development goals and efforts. All these estimates, show, however, that the new growth objective of 6 p.c. of GNP per year is within reach, provided that suitable efforts are made on both sides.

² A Framework for International Development Strategy; E/AC.54/L.29/Rev. 1; 14th June, 1968.

³ Trade Prospects and Needs of Developing Countries; TD/34/Rev. 1; and Trade Projections for 1975 and 1980; TD/B/264; 7th August, 1969.