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Realistic rather than Provocative Strategy

Interview with Dr Wilfried Guth, Member of the Pearson Commission, Frankfurt

QUESTION: Dr Guth, developing countries and regions differ widely from one another. Is it possible and permissible to analyse the past and provide a future strategy for the developing world, without taking into consideration the specific environments of the area or the country?

ANSWER: The diversity of environments of the various less developed countries is, indeed, immense. Let us just take as an example the size of different nations. India's largest state has more people than any European country; Africa's Gabon has fewer people than a single borough of London. The diversity in per capita income, income distribution, social and political conditions etc., is equally striking. But they all have in common that they are struggling to reduce poverty, i.e. to accelerate their economic growth and to improve the social conditions for their population. Of course, economic policies to achieve these aims cannot be exactly the same everywhere; they depend on the size of the economy, the availability of natural resources, the level of savings and many other factors. This is why we have not tried in the Pearson Report to present a ready-made blueprint for a development program.

Yet, I am convinced by experience and observation that

the fundamental lessons of development which can be learnt from the record of the past, and the basic principles for a development strategy of the future hardly differ from country to country. Think of such questions as the role of the private sector, the need to improve local agriculture, the educational system—the answers will be very much alike. What we have been concerned with in our Report are these basic principles of sound development.

Population Growth and Food Supply

QUESTION: The Pearson Report has stated in its thorough review of the First Development Decade that the two main problems of the developing world are population growth and food supply. Are there hopeful prospects with regard to these two problems?

ANSWER: The excessive growth of population in the LDC's is indeed the greatest single obstacle to economic growth. The problems of food supply are connected with the first question in an obvious way. Thus, efforts towards a better control of population growth will by themselves do a great deal to solve the second problem.

In spite of the great weight we have given in the Report to

adequate population policies we left no doubt that the developed countries should not in our opinion force the LDC's to launch population programs by tying aid to these programs. Population control policies must be decided upon by each country in full sovereignty and responsibility. But we recommend that the LDC's should get any necessary support to identify their population problems. Where this identification leads to an active program we recommend that these countries should receive substantial aid to carry it out. We furthermore recommend that world scientists make joint efforts to improve methods of birth control. If these recommendations are accepted in the big overpopulated countries of Asia I have no doubt that the population problem can be greatly eased. But I have no hope for a quick solution in spite of visible progress in a number of countries.

As far as the food supply is concerned it must be pointed out that impressive steps forward have been achieved. The frequently used expression "green revolution" is no mere slogan, since dramatic increases in food production have taken place during the past years. Especially since 1966 there have been changes in both technologies (new seeds and fer-

tilizers) and agricultural policies. Examples such as India and Pakistan may illustrate the achievements. During the period 1960-1966 India's average annual growth of food production was almost nil (0.1 p.c.). But since 1966 this rate has jumped to 7.2 p.c. The data for Pakistan show comparable achievements. There the growth rate of agricultural production rose from a former 1.5 p.c. annually to 7.1 p.c. since 1966. Pakistan's wheat production alone increased by 50 p.c. in two years. These changes together with a further pronounced emphasis on agricultural development give promise that no sustained shortages in food supply will occur in the coming decade, provided the great majority of developing countries follow such policies.

Development of a Realistic Strategy

QUESTION: The strategy developed by the Commission for the Second Development Decade seems to us not as specific and progressive as often expected. There is the pledge for stronger assistance by industrial countries through easier credit conditions and more government aid. A more provocative demand would have been, for example, the annulment of interstate indebtedness between developed and developing countries. What were the reasons for the rather reserved demands in the Report?

ANSWER: Our aim was to develop a realistic rather than a provocative strategy. Why we have not been more specific I have tried to explain in answering your first question.

The annulment of the aid indebtedness between Governments would in my view have serious disadvantages as against the more moderate policies we recommend. The cancellation of debts would probably weaken the political will in the industrialised countries to give more aid in the future. It would seem-

ingly justify the critics who say development aid is a bottomless barrel. Furthermore, the aid relationship should be understood as a partnership between the LDC's and the industrialised countries and each partnership must be based on mutual rights and obligations. The LDC's obligations are to deploy the received aid in the most effective way and to make maximum development efforts of their own. The industrialised countries' obligation is to provide the LDC's with a continuous flow of aid which grows with the rise of their own incomes. If the bilateral debt burden were to be cancelled it is almost certain that the LDC's would be less concerned about their performance and the strengthening of their repayment capacity.

I do not think, however, that our demands are rather "reserved". To request that in the future no aid credit should be given at an interest rate higher than 2 p.c. is in my view quite dramatic a proposal. We have also said very clearly that debt relief operations will be necessary in many cases and that they should be carried out so as to avoid the need for repeated reschedulings. With such policies adopted, existing debt problems can be solved in my opinion.

Intensified Private Direct Investment

QUESTION: Does the Report suggest concrete steps to be taken by industrial and developing nations in order to intensify private direct investment?

ANSWER: Altogether we made ten recommendations to expand private direct investment and increase its efficiency. I will try to summarise the most important ones:

☐ The LDC's are called upon to identify and remove disincentives to foreign private investment. In addition they should preserve the greatest possible stability in their laws and ad-

ministrative regulations affecting foreign investment.

☐ The industrialised countries should strengthen their incentive systems (tax and financial incentives). The successful operation of the DEG (Deutsche Entwicklungsgesellschaft) is quoted as an example for other countries.

☐ International agencies like the World Bank group's IFC (International Finance Corporation) should become more active in the field of project identification and investment promotion work.

We have also stressed that application of the partnership principle is particularly important in this field. Multinational companies carry a great responsibility to spread their technical know-how, to educate local workers and to provide opportunities for local entrepreneurs. It is only then that developing countries will consider foreign direct investment as a clear benefit.

QUESTION: Trade liberalisation and customs preferences are two rather old demands of the developing countries. But neither UNCTAD nor other international bodies have been able to achieve much progress in this respect. Could you comment on the future possibilities regarding these two important problems?

ANSWER: Pressures on Governments to gradually remove remaining restrictions must continue and the necessary structural changes in the developed countries must be accepted by all concerned. Our recommendations in this field are more or less in line with the UNCTAD proposals. I admit, that as far as further trade liberalisation in the developed countries is concerned the signs are not propitious. The agricultural problem is particularly complex and difficult. But the current state of negotiations between the OECD and UNCTAD gives reason to hope that some progress towards a

system of non-reciprocal tariff preferences may be made shortly. Apart from these moves, of particular importance in my opinion is the expansion of trade among the LDC's themselves. Here we have made some practical proposals, concerning a payments system to facilitate such trade.

Reorganisation of Aid Administration

QUESTION: Intensification of aid through international organisations is another proposal of the Report. The high number of different international organisations, and the absence of Eastern aid through them prevent a more effective functioning of these bodies. Has the Pearson Commission been asked to give its advice on a reorganisation of international aid administration?

ANSWER: The Commission has not been asked specifically to give advice on the reorganisation of the international aid administration. However, it was unavoidable that we looked into this question as there are obviously severe shortcomings of the present framework. First, there is in our view, an unnecessary duplication of surveying and advisory activities and therefore a waste of precious manpower, a "Parkinson effect" on a world-wide scale. This question has already been analyzed by a special group under Sir Robert Jackson. Secondly, there is not yet sufficient coordination between the World Bank, the most highly qualified and best equipped institution in the field and such other bodies as the International Monetary Fund, the GATT and the regional development banks. There is no consensus on performance criteria and on allocation principles with the effect that aid distribution is effected without a common ra-

tionale behind it. Countries without traditional political ties to one or the other of the great donor nations suffer disadvantages under this system.

The Commission has made a number of recommendations aimed at an improvement of co-ordination between the various bilateral and multilateral donors. It has also suggested that the President of the World Bank convenes a conference to discuss the question whether the creation of a new coordinating machinery is advisable. We have been reluctant to be more precise in this particular recommendation as we recognise that such changes can only be devised by those operating in the field.

QUESTION: What have the developing countries themselves to do in order to contribute to a much higher extent towards their more rapid development?

ANSWER: In the 1960's 85 p.c. of total investment was financed from domestic sources. This ratio shows, that the greatest part of the development effort must be made by the LDC's themselves. The Commission emphasises that the performance of the LDC's should be one of the decisive criteria for the allocation of additional aid. Performance has of course many aspects. We have stressed in particular the need to increase savings and exports. Many other factors are to be mentioned, such as the improvement of the educational system and of the governmental machinery, the need for sound monetary policies etc.

Higher Quantity and Quality of Aid

QUESTION: The future importance of the Report will depend on its practical impact on development policy. However,

the task of transforming scientific suggestions into policies is no longer an assignment of the Commissioners but of politicians. Are you optimistic with regard to a more vigorous action by politicians—mainly in the USA—during the Second Development Decade?

ANSWER: I am basically hopeful that the importance of the problem will be more clearly recognised, otherwise I wouldn't have dedicated so much time during the last twelve months to the work of the Commission. If you look at the statements of the various governments commenting on the report I feel a cautious optimism is justified. As you know Chancellor Brandt in his inauguration speech expressed our government's intention to consider the recommendations of the Pearson Commission. More specifically he announced his governments determination to increase the official development aid volume by 11 p.c. annually in order to fulfil the recommendation of the Pearson Commission to spend at least 0.7 p.c. of the GNP on official aid by 1975. It is true, in the US Congress the general climate for development aid is not good at present. But I have no doubt that the Government will try to step up its contributions to development aid particularly if the balance of payments situation improves in the future. In the trade field the recent US proposals suggest general non-reciprocal tax concessions for manufactured goods from the LDC's.

In general I expect no dramatic increases in the commitments to development aid. But I hope that the Commission's recommendations will provoke a world-wide reconsideration of the whole issue, which will gradually lead to a higher quantity and quality of aid.