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McNamara's Wishful Thinking

According to World Bank President McNamara it is impossible to wipe off the heavy indebtedness encumbering the developing countries except by larger foreign currency earnings — which means, by larger exports. This being so, the President recommended in his speech at the IMF/IBRD meeting in Washington that the developing countries should increase their exports quite dramatically, namely, from \$ 7 bn hitherto to \$ 28 bn in 1980. At the same time he admonished the countries of the Third World to bear their comparative advantages in mind and concentrate on labour-intensive types of production to overcome their unemployment problem. To the industrialised nations he appealed to abolish at long last all discrimination in trade with developing countries and open their markets to industrial products from the Third World.

Observers are tempted to ask what was the purpose of this naive lecture on functional division of labour in the world economy. Because apart from the point that the recommendation to industrialised nations to stop discriminatory trade practices against developing countries coincides with US impediments to commerce even among the industrialised countries, McNamara with his demands has given the impression that it is merely a question of good will on both sides whether an end can be put to the chronic malaise caused by foreign currency needs exceeding external earnings.

Certainly the developing countries would be well advised to produce exportable goods and get away from the concept of an industrialisation which is oriented entirely towards their own — far too narrow — domestic markets. But whether rising unemployment ratios can thereby be eliminated in the long term is very questionable. For though the developing countries have a comparative advantage in low wage costs, experience in the past ten years has demonstrated that the types of production capable of absorbing 20-25 p.c. of unemployed workers are not those which hold out a promise of long-term success in export markets.

That is why the World Bank President was quite right in presenting a gloomy forecast for the exports of labour-intensive agricultural produce and raw materials from the developing countries

because of the general erosion of prices and the slow expansion of demand. But in doing so he virtually conceded that a massive expansion of exports does not necessarily lead to higher employment rates. Underemployment is not a quantitative problem alone but a qualitative one as well, and in this regard the World Bank President has omitted an important item from his catalogue of recommendations — a reference to the need for increased educational investments in all Third World countries.

As for the demand for unimpeded access to the markets of the industrialised states, the system of EEC tariff preferences—which McNamara described as exemplary—has shown that the marketability of the developing countries' exports does not only depend on lowering the trade barriers, but even more on the quality of the products and their distribution to fit market needs. Moreover, seeing that in most of the industrialised countries development aid is none too popular as it is, it would really be too much to expect them to accept a development strategy which is based entirely on comparative cost advantages. Because such a strategy would have the consequence that the industrialised nations would not only help to build up competitive industries in developing countries by rendering monetary aid, but that they would also be required to expose their own industries knowingly to additional competitive pressure by lowering obstacles to trade. This would undoubtedly mean a structural underemployment as quite a few of the industries concerned, like the textile sector, have already difficulty in eking out a marginal existence. How little readiness there is for such measures today may be judged from the EEC tariff preferences which McNamara praised: the problematic farm sector was in fact deliberately disregarded.

Leaving aside the complete lack up till now of a requisite system of supranational readjustment grants to deal with such structural underemployment as may be fostered in this context, and seeing the difficulties which the industrialised nations evidently experience in adhering to the one-per-cent clause to which they have subscribed, this proposal of the World Bank President seems to be also no more than wishful thinking.

Hans-Gunter Schoop