The Decade of Development— A Study in Frustration?

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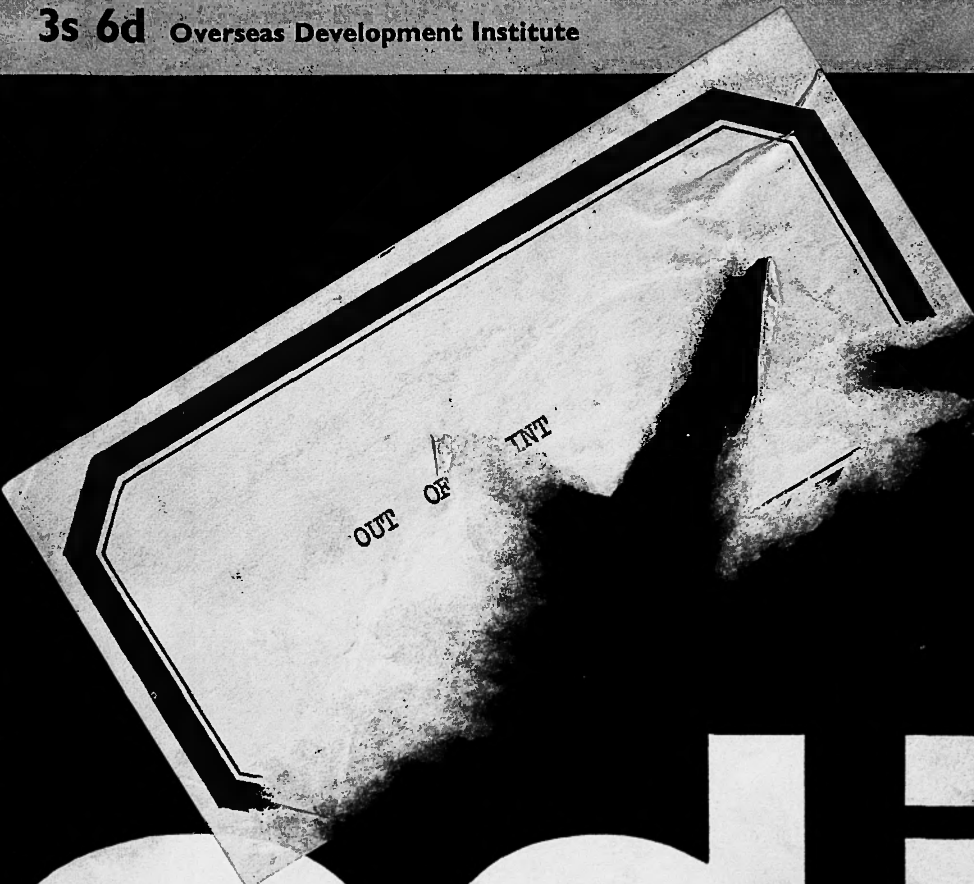

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The Decade of Development— A Study in Frustration?

I

When I proposed the title for this lecture, I did mean there to be a question mark after 'frustration' – that typical way of hedging one's bets. The statement 'A Study in Frustration' is a little too strong, because, in fact, looking back over these five years of the Decade, I would say that one of the remarkable points is the number of things that we have learnt about the processes of development. These could in turn be the springboard for better action in the rest of the Decade. So, if you do not mind, I am going to put that query back, and I hope that I shall be able to show you why.

The 'fifties' were the time when the whole process of development came to be seen as a world-wide pattern in which the already developed countries formed a wealthy, fully modernised 'North' and the developing continents formed the aspiring, underdeveloped, uncertain 'South'. And this contrast quickly entered language of cliché. In fact, I am not sure that one of the great problems that those of us who are trying to deal with explanation and communication may not be that we over-communicate; we communicate like mad; we communicate so much that, in a very short time, the ideas that were fresh when we thought them up do not sound fresh any more. People get the idea that something has been done about a problem because it is constantly being talked about. And I fear that, with the Decade of Development, the sheer force of repetition is making it difficult to get a freshness of approach, and therefore a freshness of attack, in this field. So if I appear to begin with some of the clichés, try to think of them not as clichés, but as truisms; then remind yourselves, with Chesterton, that truisms are also true.

In the fifties, then, we got used to the concept of a 'North' and a 'South'. The whole idea of a Decade of Development lay in the belief that we could so hasten up development in the 'South' of our planet that, in fact, ten years could be taken as a meaningful period for basic change. This was our first reaction to the discovery of the disparities between North and South, the discovery that in a world which was modernising itself as a whole planetary society, some parts of it were modernising or had modernised themselves very much more rapidly than the rest.

No doubt all of you will recall what are the general targets of the Decade of Development. They are that the $3\frac{1}{2}\%$ annual rate of growth in gross national product – quite a respectable rate of growth – achieved by the 'Southern' developing countries in the 'fifties' should be brought up to a 5% rate of growth, and that, if possible, it should be pushed up towards 6% at the end of the Decade. In addition, it was hoped that the share of the developing countries in world trade would go up from 26% to 28% – rather a modest little target which gives the developing countries no more than the share they enjoyed at the beginning of the 1950's. It was also hoped that the terms of trade, which, after the end of the post-Korean war boom, had moved rather sharply against the primary producing countries, might move back, if not by the whole twelve lost points, then at least by eight. Last of all, it was hoped that the developed countries, to be defined by some criterion of national income, say $700 *per capita*, would aim by the middle of the Decade of Development, to be giving 1% of their national income in economic assistance. Such aid would be recognisable as genuine assistance. For example, it would not consist of commercial loans for five years at 8% – which have an uncomfortable way of creeping into aid when no one is looking.

These, broadly speaking, were the targets of the decade. One important point to be made from the outset is their equal emphasis upon aid *and* trade. The uneven balance in the world economy between the wealthy group largely in the North, with *per capita* incomes of $700 and more, and the rest of the developing world with national incomes *per capita* of $200 and less, cannot be set right simply by transfers of skills, resources and investment. There is also an extremely urgent problem of imbalance in international trade, one masked by the consequences first of the war and then of the post-Korean war boom, but which by the end of the 1950's was beginning to emerge as one of the basic causes of uneven development.

Such were the aims five years ago. Let us begin by trying to see where we are now, half way through the Decade. In some ways, it has not gone too badly. But the reason is that it has gone *so* well for the developed countries that their success has been 'trickle-down' or residual effects on the developers. Yet at the end of the five years, the gap between rich nations and poor is greater still, not because the poor have necessarily grown poorer, but because the rich have got richer by so much more. This disproportion can be measured in a number of ways. For instance, most of the developed countries, to be found in the main round the North Atlantic, have got back to rates of growth of about 5% to 6% a year, or rather they have either maintained them, as in Europe, or got back to them, as in the United States. This has meant, on top of their original wealth, a surge forward in the whole level of their economy. To give you only one example, in 1964 the United States *added* to its national income the equivalent of the entire national income of the African continent – some 30,000 million dollars. This shows the sort of built-in accelerating process which growth on top of wealth implies.

In trade, the terms of trade have moved back a little in favour of the primary producers, but in a very uneven way. If you are in the minerals business, you have done very nicely. If you are in natural fibres, you have continued to do miserably. If you are in temperate food, the position is not very good, unless, of course, you are a protected western farmer. Tropical products go up and down in the usual way. But cocoa faces a really desperate crisis with prices lower than at any time since the great slump of the Thirties. In other words, there has been an overall recovery in the terms of trade of primary producers of about eight points. But if your particular commodity has not been in the favourable bracket, then you are no better off and possibly worse off than you were at the end of the 1950's.

The relative shares in world trade have not improved. This is not because the trade of the developing world has not been going up. It has. But the share of the developed countries and their trade with each other – which, after all, makes up over 70% of world trade – has increased even more. In fact, in this whole picture, the old biblical phrase that 'to him who hath shall be given' – which, of course, is the law of unredeemed economics – has been working with perfect clarity and precision over the last five years.

This pattern of change has its impact upon economic assistance. It is not that the rich are giving less. At the beginning of the Sixties their capital transfers moved up quite sharply to seven to eight billion dollars a year (though this figure does include some rather more dubious and 'commercial' forms of aid). But since that increase, assistance has stayed on a plateau. During the same period, however, the rich have been getting very much richer. Therefore, proportionately to national income, their assistance has begun to fall. Nearly all the developed countries now, with the exception of France, give well below 1% of national income, and this percentage, at the moment, is tending to fall further. So once more we see the phenomenon, not of an absolute fall, but of a relative change in favour of the richer countries. That, I think, sums up where we are today – not a disastrous deterioration, indeed, quite a few grounds for hope. But nearly all of it is "trickle-down" hope, the by-product of the fact that the rich countries have been doing very well indeed. The vast majority of mankind in over one hundred developing countries are roughly where they were before – with rates of increase in *per capita* income of 2% a year and less. If one excludes the five or six nations – such as Greece or Taiwan or Israel – who are growing at phenomenal rates of over 7% *per capita* a year – the world in the mid-Sixties has made no progress in lessening the North-South gap.

II

When we ask why the developing countries have, on the whole, failed to share in the upward élan of the wealthier states, we begin, I think, to reach the new thinking of the Sixties. It consists of a much more judicious estimate of the difficulties in the way of development. The old optimism of 'development in a decade' is giving way to a wiser sense of 'development in half a century.' The obstacles are better defined, the strategies for overcoming them more rational.

But before we begin the problems more precisely, I would like to say a word about the psychological background against which we tend to discuss the issues of development. We have perhaps been a little misled by some of our own – I will not say 'jargon' because that is too strong a word – but our own 'shorthand' in talking about development. We have coined such phrases as 'break-through' and 'take-off' and so forth, and we have an idea, I think, of economies all 'hastening onwards to felicity' – as Miss Jane Austen might have put it – and have forgotten how long, how devious, how difficult the process can be. Economies do not only go forward. They go backward. They remain stationary. Developed economies have often appeared to come to thresholds of decision, of choice, of change of direction, yet have in fact repeatedly muffed the chance. If we look back over the history of fully developed economies such as the British economy or that of the United States, we can choose a number of past decades during which we would have hesitated to call them 'dynamic' at all. The Twenties and the Thirties are a good enough example of my point. The whole concept of dynamic growth as being the *normal* state of an economy is relatively new and something about which we still, in spite of our 'shorthand', do not know too much. When

I was growing up and first learning about economics, the North Atlantic economies – it was in the Thirties – were going through what one can perhaps call a very constipated patch. We were not taught 'growth' economics because so little growth was observable around us. Our theories of dynamism today spring from the fact that, once more, since the war our economies have apparently got back into the habits of growth.

But it is quite possible that the theories we derive from the behaviour of our well-established economies do not apply too handily to infant economies struggling in the first stages of change. We have a lot to learn and this fact should teach us a certain caution in our assessment of where, at any precise moment, an economy has arrived in the matter of dynamism or momentum. But this is not a wholly pessimistic point. There is also matter here for optimism. In the big penumbra of still under-developed economies, we cannot be absolutely certain at which point a phase of acceleration may not set in. We cannot predict it will start. But equally we need not be discouraged by any certainty that it will not. To give you one example, it seems to me that, quite apart from the vagaries of monsoon weather, agriculture in Pakistan is beginning to show new dynamic features. The last big period of growth came half a century ago with the tremendous structural changes of irrigation in the Punjab. But since the war, the farm situation has been more or less static and has even deteriorated in some places because of salinisation. But over the last five years a new and decisive break-through appears to be taking place. Tube wells, which provide enough water to make the use of fertiliser profitable, subsidies for both wells and fertiliser, a far greater emphasis on marketing – these are elements in a policy which seems to have raised the rate of growth in agriculture from the 1% of the Fifties – which left the food supply below the scale of population growth – to about 3.5% which begins to put Pakistan ahead of it. Thus I think Pakistan may well be an interesting example of my argument – that we never can be absolutely sure at which point previous inputs of capital and previous developments of trained personnel may not, through some alchemy of circumstances, begin to produce the sort of dynamism that makes 'take-off' possible.

The present fact of relative stagnation in the developing world and the relative lack of progress over the last five years must not, therefore, be taken to mean that dynamism will be indefinitely delayed and that the 'South' can never, for a variety of often discreditable reasons, hope to catch up. The moment at which momentum begins to take hold and become a habit was unpredictable in the 'North'. So it is in the 'South'. There is no cause for discouragement. But there *is* need for much more analysis, for more well-designed strategies and for very much more determination. It must be our hope that the Sixties are bringing all three.

First, then – analysis. What are the blocks to more rapid development? The first I want to pick out lies in the political fact of colonial and semi-colonial dependence. Most of the 'Southern' economies were first introduced to modernisation by the western industrial countries. But the process did not leave them strictly in command of their own economies and in the first decades of the new impact, they were not in the position to take a number of decisions which could, at various points, have changed the pattern and quality of their economic life.

They had been stimulated to the beginnings of economic growth by the need of the industrial powers of the North Atlantic for raw materials, for tropical products and, up to a point, for temperate food supplies. Western investment went to the other continents to open up mines, farms and plantations and Western trade organised the international markets needed to exchange 'Southern' primary products for 'Northern' manufactures. The resulting pattern was one of a very strong development of the local import/export sector but there followed very little 'spread effect' from this sector to the rest of the economy. The transactions did not naturally generate much local credit because they remained something of a closed circuit largely under foreign control. The raw materials were sent out to pay for the original investment. Profits, capital gains and sometimes a tenfold amortization returned to the metropolitan investors. What local purchasing power was generated was mopped up by the sale of Western manufactures imported through large Western trading companies. Since the process did not stimulate much credit locally, little capital was available for investment in the modernisation of food-producing agriculture. It is typical of Asia, Africa and Latin America that the old forms of agriculture have persisted largely unchanged, outside the plantations and – in a few areas – the peasants' cash crops. Nor was capital available for local industry. There were few local entrepreneurs and, in any case, the satisfaction of the market with Western manufactures was part of the essential pattern.

In this situation only strong, direct governmental intervention would have modified the situation. On the one hand, it could have transformed the agricultural scene. The peasant/landlord relationship could have been changed in Asia, freehold introduced into the communal tribal agriculture of Africa, the *latifundia* abolished in Latin America. On the other, industry could have been stimulated by governmental decisions in the field of mobilising savings and of building up protective tariffs behind which local enterprise could have started to grow. But these were precisely the kind of decisions which are not ordinarily taken by colonial governments. Part of the reason was their traditional philosophy of *laissez faire*. Part lay in the fact that it was not in the interest of their own trading and investing circles. Even where governments were not directly colonial – as in Latin America – the small ruling groups preferred to work with the foreign investors for limited personal gains rather than risk general reforms in the economy – one reason for Latin America's long economic stagnation. All through the colonial and semi-colonial world, the century since the 1850's has seen a fair amount of economic stimulus and development. But since the continents lacked either the governmental power or the governmental will to break the bottlenecks, the barriers to a wider modernisation remained intact and growth was confined to a narrow sector.

These inhibitions can be clearly seen in the striking contrast between India and Japan. In colonial India there was, in fact, a certain amount of industrial development, particularly where entrepreneurial talent was locally strong, as it was in and around Bombay. But if we compare the relative snail's pace of Indian industrial growth between 1870 and 1920 with the forced draft industrialisation of Japan over the same period, it can be seen, I think, that India chiefly lacked an apparatus of political decision for breaking the deadlocks which the process of growth does not overcome of itself. In Japan, a root and branch land reform, the compensation of landlords in government bonds which could only be invested in new government-established industries, the mobilisation of credit in country and town, the drive to literacy, government sponsorship of overseas training – in short, an entire battery of development strategies was carried out by a vigorous and resourceful government. In India, there was no sponsorship of industry, land reform was not touched – in spite of the increasing debt of the peasants – no particular push for general education occurred and the Indian government could not even impose a tariff until 1920. It was in fact only after 1947, with the establishment of full, independent, decision-making machinery, that India began to tackle economic problems Japan had been dealing with since the 1870's.

It does not, of course, always follow that when the local government does get the power to make its own economic decisions, it makes only the right ones. My point is that, practically speaking, up to the very end of the colonial period, local leaders were in no position to make any decisions at all. Yet in any process of development there has to be a decision-making power to deal with blocks and barriers which the sheer momentum of the economic process itself does not overcome.

Another whole range of structural difficulties have arisen from the time sequences of development – from the timing of inventions and changes, the order in which they appeared and the differing consequences of different sequencies of cause and effect. These are not easy for us to grasp in the West for we know our own history best and tend to generalise from our own experience. But just because we were the pioneers, we missed many contradictions which were simply not present in the early phases of development among the industrial nations of the North Atlantic. I do not need to underline the most obvious contradiction. It is the best-known and perhaps the most discussed. But it must at least be mentioned. Even with the fairly moderate health measures which are available in the developing world today, life expectancy has been about doubled. In fact, if we wanted to pick on one of the real achievements of the last twenty years in the developing world, we would point out that the expectation of life has lengthened from twenty-five years to forty-five years.

True, it is still twenty years behind the life expectancy in the developed world. But a twenty year lengthening of life coupled with traditional rates of fertility and rather less infantile mortality has sent the population growth spurting ahead of any possible modernisation of the economy. This is the situation throughout the developing world. Since 1960, at least a score of censuses have been held, under United Nations auspices, in developing countries, in nine of them for the first time. I believe I am right in saying that in every state – with the possible exception of Liberia – population was found to be higher than had been expected and the rates of expansion to be more rapid. Most of the estimates of population increases made towards the end of the Fifties are now being revised upwards. In Pakistan and India it is already up to 2.8%. It probably should be 2.9% and by 1970 it is pretty well certain to be 3%. Central America has reached the fabulous figure of 3.5% already. Most of Latin America, outside Argentina, is at or moving rapidly towards the 3% level. It is such figures as these that have reduced the growth in *per capita* income to almost nil in the developing world. And it is this rate of increase, produced by health measures in advance of most other forms of modernisation, that creates dilemmas for developing economies today which the Atlantic world largely avoided. There, almost without exception, the whole process of modernisation and of the accumulation of savings had passed the critical stage by the time population growth began to grow with really startling speed. In fact, in spite of Malthus's gloom about growing population pressure, many early economists in Britain argued that the new industrial system would break down because of a labour shortage. Lack of manpower would force up wages, squeeze out profits and bring investments to an end.

In the event, it seems to have worked in reverse. Growth of population, occurring *after* a breakthrough into greater mechanisation and productivity, acts as a spur to further growth. Once the apparatus of supply has been created, an increase in demand, *via* the formation of new families, acts as a steady stimulus to further expansion of the tools and machines and whole capability of the economy to satisfy yet further demand.

I think we should take notice of all this reversal of the early gloom about the rigid limits of expansion. The classical economists believed in the ineluctable tendency of costs to outpace profits, once supplies – of resources, of labour, of capital – began to become used up and scarce (in other words, at the margin). In fact, technology has increased productivity in such a startling way that, in any but the very short run, the margin recedes and recedes. Profits and wages go up together and the incentives to invest and the ability to consume, far from being contradictory, reinforce each other in the modern mass consumption economy. Ricardo, Malthus, Nassau Senior, Mill, even Marx were all proved over-pessimistic. This is one more reason for avoiding discouragement today – and putting a question mark after the word 'frustration'.

But the outlook is not necessarily the same when population expands *ahead* of productivity. This is the real Malthusian trap. To introduce the full technology of modernisation – in farming and industry – requires greater saving. But longer lives and new mouths push up consumption at the expense of saving. I need not labour the point; but it is important to remember that the reversal of the time factor of the West – industry first, health later – spared the Atlantic nations this profound dilemma.

Now let us look at another problem caused by differences in timing. The technology which is dominant in the world today is not always appropriate to the needs of the developing countries – and this for a very simple reason. The whole weight of economic research and of investment in further research is virtually confined to the developed countries and has, for fifty years and more, taken the form of trying to find labour-saving methods of production. In other words, modern technology is largely designed to substitute machines for manpower. In addition, it is designed more and more for large units and for large markets. But large-scale, labour-saving technologies constitute, at this stage of development, the least suitable methods of production for continents such as Asia where the one abundant resource is labour or for countries like many African countries in which the one potentially competitive resource is labour that is still relatively cheap.

This is a disproportion which the developed world never knew since it invented and pioneered and adapted its technology to its own needs as the process of development went on. But now the technology exists in its own right and can be purchased and introduced into societies in which in fact it is quite inappropriate. One can see the consequences of this maladjustment very clearly in some parts of Africa today. Inexperienced governments, trying out their hand in economic decision-making, find it terribly tempting to buy the most up-to-date machinery which persuasive gentlemen from the North Atlantic arena come to sell them. These salesmen call their efforts 'investment'. In fact they only offer suppliers' credits at fairly high rates of interest and at prices which tend to be far above the international level. They are, as it were, plumping down great gobbits of advanced industrial technology into countries where there is neither the market nor the skills nor the managerial capacity nor indeed any of the pre-conditions for such a technology to work successfully.

These policies constitute not only a big block in the way of development, but they do little to improve economic relations between North and South. They are bound, as in Ghana today, to precipitate a crisis in the balance of payments. For how can these suppliers' credits be repaid when they have been invested in industrial structures which have absolutely no hope of paying their way? They were not related organically to any accurate economic analysis in the first place. They were fancy goods sold from the Western shop window and they are inappropriate in technology and inappropriate as a stimulus to growth inside the economy. The factory chimneys may smoke indeed, but they are factories operating at one-third of capacity and producing goods which nobody can afford to buy locally and which do not compete on the world market. Under such conditions, a country may nominally industrialise and 'develop' but in fact its standard of living actually falls.

This disproportion in technology also spills over into the field of trade. In the developed world, the use of substitutes constantly goes up because contemporary research is largely concentrated upon the products of the industrial countries. If, as a cheap by-product of petro-chemicals, Western industry can produce a substitute, say, for binder twine which is only half the price of sisal, the consequences from the point of view of the petro-chemical interests – which are large, efficient and able to afford the research – are obviously very satisfactory. But for Tanganyika and for large parts of Kenya the elimination of sisal would mean a total disaster for their limited range of exports. I do not argue that no adjustments should be made. I simply point out that in the present world pattern of research, the adjustments are continuously having to be made by those countries which can least afford to do so, which have least economic choice and flexibility and are least able to adjust to rapid change. Thus the concentration of successful research in the developed North has its effect not only on the technology of investment, but the technology of trade as well. This is one reason why, in the whole balance of trade between the developed and the developing countries, there is a built-in tendency for some of the old 19th century advantages in the division of labour to be whittled away and the pendulum to swing against the primary producers.

Now let me speak of a disproportion or structural difficulty not so much in the technological as in the psychological field. In one sense it may not be very important that the developing South feels itself a late-comer in the new system of science and technology. Fifty years from now, the distinction will not matter since what we are witnessing is the steady transformation of the whole human race by science and technology. In the short run, however, the result of being a later-comer is that aims and ambitions tend to be determined not by local experience but by the world's vast shop window of new and desirable techniques and objects. This 'demonstration effect' offered by the fully developed societies creates quite special problems for new governments. Countries which have just acquired the means of political and economic decision-making want quickly to command the whole range of opportunities which, they know, give wealth and scale and all kinds of elbow room to the already developed countries. They want to jump, in one 'big leap forward', the gap between their restrictions and other nations' opportunities. Their people want it, too. This is the essence of what Adlai Stevenson used to call 'the revolution of rising expectations.'

A special twist to this thinking is given by the colonial experience. Nationalist leaders have tended to think that the economic basis of colonialism is sheer exploitation. The old metropolitan powers held back local development in their own interests. Abolish colonialism, so runs the argument, and the balance will be automatically redressed and full-scale modernisation achieved. The degree to which the process of development lasts over several decades and depends upon a whole range of inputs – above all, the inputs of trained minds and skills – tends to be overlooked or, when it is not forgotten, resisted and resented. Thus there exists a disproportion, a profound psychological disproportion between what governments want, and what in actual fact they can quickly have. This kind of mood – which easily breeds political disaffection – was simply unknown years ago because people did not know then what other people could have. Development then was a relatively blind process in which the pioneers were only working within their own imaginative limits. But now, nations who come behind are working, if you like, within imaginative limits fixed by systems already so sophisticated, so complex, so thoroughly trained, that their range of possibility far surpasses anything that can be achieved quickly or in the short run by inexperienced societies. 'Between the dream and the reality falls the shadow' – and it is a shadow of disappointment and frustration and potential political unrest.

These, then, are some of the built-in difficulties which exist not because governments in the developing South are less responsible, efficient, realistic, modest, hard-working or grateful than their critics think they should be but because they are facing the problems of modernisation in the second half of the twentieth, not the nineteenth century. There are, of course, other difficulties which I have not mentioned – for instance, the degree to which the earlier industrial breakthroughs, in the days before petro-chemicals and nuclear energy, were based on forms of energy and on minerals which the South lacked. But the difficulties I have mentioned – colonial dependence, health before growth, inappropriate technology, unbalanced trade and over-stimulated ambitions – are quite enough to explain the Southern 'lag' without resorting to cultural or – God forbid – racial criticisms.

III

But if we recognise the difficulties more clearly, I think we have also made progress in picking out some of the strategic points for the most effective attack upon the difficulties. In the Fifties, development philosophy tended to be dominated by theories evolved – probably unconsciously – during the period of the Marshall Plan. Then a relatively small injection of critically needed credit – in the shape of foreign exchange – was the catalyst which enabled nineteen well-established economies to achieve a new momentum of growth and to do so in half a decade. The argument, transferred to the developing nations, pointed to their difficulty in finding capital – or credit – in their present low state of productivity and suggested that if the critical element of extra savings was injected from outside, the processes of accelerating expansion, leading to 'take-off' into sustained growth, would be set in motion, possibly in not much less than a decade.

The theory has not been entirely barren. Over the last ten years, a number of economies – Mexico, Greece, Israel, Taiwan – have swung upwards and reached the stage at which 'abnormal' assistance is no longer essential. But in the great mass of newly-independent and ex-colonial states, we now realise that a simple injection of outside capital into societies whose structures, institutions and habits are not yet ready for change is like pouring water on leached soil. It simply drains off – all too often, incidentally, into private pockets or overseas banking accounts. If I were to make one generalisation about the Sixties, it is that the earlier rather naïve theories about growth have given way to a much better grasp on the pre-conditions of a successful development policy.

I have only time to pick out three or four examples of what I mean and I will relate them as far as I can to the points of inherited difficulty which we have discussed. I believe we are on the verge of some kind of breakthrough in the field of population control. Two of the governments with the greatest problem and the largest population – India and Pakistan – are preparing to put a wholly new emphasis on population policy in their next Plans. At the same time, the biological sciences are making striking advances in their understanding of the control of fertility. Western Europe and Japan have already shown that rapid growth in population can, given the appropriate cultural background, be brought under control. Taking all these factors together, I would risk the guess that twenty years from now, the lessening of population growth will not be the overriding priority it is rightly felt to be today. In fact, I suspect we shall be giving far greater attention to the social aspects of population policy – strengthening and enriching family life, enhancing the status, education and opportunities of women, seeking to base relations between the sexes not on license but on friendship and respect.

My next point concerns decision-making and the preparation of new governments for the policies of development. Clearly the gap between what is administratively possible in a new state with, say, as in the Congo, thirty graduates for a population of 14 million and the administrative demands of fullscale industrial modernisation lies at the root of the frustrations we have already noticed. Far more attention is being paid in the Sixties to the essential inputs of mind and skill and experience. Education has surged forward, especially in Africa, to become the essential priority of modernisation; technical assistance to schooling at every level has become the largest category of aid in manpower and new strategies are being evolved after the pioneering efforts of the Ashby Report in Nigeria to relate educational strategy to the proposed pattern of development. The 'manpower budget' is an invention of this decade. The U.N. Special Fund and, among private organisations, the Ford Foundation, are doing new work in the field of administrative training – with institutes and university courses for public administration – while such bodies as the World Bank, the International Monetary Fund and regional financial institutions are increasing their training programmes for officials in the financial and economic field.

Another vital aspect of this emphasis on training is the effort very greatly to increase the number of people who are actually working in the field of development planning. Some of the universities are taking this up. The World Bank has a programme. The United Nations has set up its own institute. The Regional Commissions are interested. The numbers are still much too small – in fact, development planners and economists look like becoming one of the world's chief bottlenecks. But at least a serious start has been made. And it is part of a wider realisation that investment in brains is going to be perhaps even more important than investment in tools and should certainly precede any massive increase in physical investment.

Another aspect of the shortage of trained brains is the shortage of people who can get projects ready for financing. In the last two or three years the cry has been raised, specially in Africa: 'we would give more assistance if only projects were available into which the assistance could go.' Absorbability is the new catchword. But the response should be not to deplore the low rate of potential absorption but to devote more assistance and skills to the preparation of projects. This is, in one sense, simply another aspect of the right administrative approach. But it requires special skills, or rather, special teams of skill and this again is an uncomfortable bottleneck. True, the World Bank, the International Development Association and the Special Fund are all urgently concerned with feasibility studies. Within the A.I.D. in Washington, the section dealing with the preparation of projects is being extended. So the right response is beginning to appear. And to it we might add the work of the Special Fund in undertaking its preliminary surveys of resources. In many countries in the developing world, particularly in Africa, not yet 10% of local resources have been surveyed. Thus the surveys will open up a wide, new field for investment.

To this category of effective preparation and survey we should add creative foreign enterprise. One of the great arguments for foreign capital is, of course, that companies which are genuinely interested in investment – and not simply in suppliers' credits – go in to find out those projects which make a profit. If anything is needed as a priority in the industrialisation of the developing 'South', it is to get away from industries which, however prestigious, do not make a profit, and to set up the enterprises which produce a margin for ploughing back. Experienced and responsible foreign enterprise comes in only for such constructive purposes. It is not interested in failure. Developing governments should not be either. Unhappily, the hangover from colonialism and neo-colonialism still disrupts this whole potentially creative field. I doubt if the developed world is sufficiently aware of the difficulties experienced by local governments when more than a certain proportion of their private industrial sector is foreign owned. If we think of what General de Gaulle has to say about 'American infiltration' into the strong, developed French economy, it is perhaps easier to imagine what the reactions must be in a country like Nigeria where, on a recent estimate, the Ministers were confronted with the fact that 75% of the industrial sector might end up under foreign control. They had to conclude that, valuable as the investment would be, much as they wanted it and ready as they were to give every kind of tariff and tax concession to acquire it, politically, they could not afford any such disproportion.

One would therefore hope to see in this essential field of investment a far greater study of alternative methods of local participation – development banks holding part of the equity, greater readiness of foreign companies to increase the scale of local investing, tax payments in the form of shares, possible experiments in what one might call 'rolling investment.' Under such schemes a private firm goes into the foreign country for a specific period and opens up a new field of investment. During that time, high profits are earned and the capital is completely amortized. But by the end of, say, thirty to forty years, local ownership will have taken over. This idea of foreign enterprise as the spearhead opening up new fields for ultimate local control could, I think, be politically very attractive to many of the developing countries and entails no loss to the investing company. Incidentally, as a technique it applies equally well to industrial or agricultural enterprise. The company which establishes a nucleus sugar plantation with peasant growers as co-operative shareholders and hands over to them after two or three decades of development is contributing just as much to the wealth of the country as by any array of smoking factory chimneys. But perhaps the Sixties are seeing a proper emphasis put back on agricultural investment. That farming and industry are the Janus-headed symbol of successful development, each supporting and supplementing the other, does seem to be more widely understood than in earlier days of post-colonial development.

Now I would like to turn to the new perspectives in the field of trade. In recent years, this whole area has been studied in a pioneering way through the United Nations and I would date the beginning of the process from the Haberler Report in 1958. Since then, various studies have continued to bring out the degree to which the whole bias in world trade has tended to be *against* the developing countries. This fact has been so fully discussed that I do not need to go into it in any great detail here. Part of the problem we have already examined – the tendency of the developed countries, given their new technology, to need the primary producers less; therefore market forces tend to favour industrial producers and to weaken primary prices. Again, the Western tariff structure discriminates against local processing. It allows in raw materials without tariffs but goes on to higher and higher protection as more and more of the processing is done locally, ending up with the celebrated textile quotas which are designed to see that cheap 'Southern' textiles do not disrupt old-established, high-cost Atlantic producers. Such quotas, we may note, prevent Indian textiles from knocking out British firms as they once, in the early 19th century, wiped out the hand-workers of Bengal. However, one must also admit that Lancashire has gone further to accommodate

Asian competition than have most textile companies in continental Europe.

These and other disproportions have led the United Nations, through its Trade and Development Conference, to try to focus the attention of the developed world on the degree to which, by a whole sum of largely unconscious discriminations, they have so fixed world trade that the major part of its advantages tend to accrue to the rich and not to the poor. As a result, a new range of proposals are before us now for dealing with the disproportions. Stabilisation of prices, one-way free trade, free entry for tropical products, permission to set up local tariff protection without any reciprocity – all these belong to the new approach. Perhaps one of the most interesting possibilities lies in encouragement to local developing areas such as Central America or Latin America or parts of Africa to build up their own internal common markets within which they can get the advantages of the scale of market they need for full modernisation. All this belongs to a new realisation of the degree to which the patterns of world trade have to be altered by specific political decisions, since the uncorrected trend of the process itself tends, as with so many other things, to be to the advantage of the rich and not of the poor.

To this picture I would like to add one factor which straddles both trade and aid. I have in mind the whole problem of compensatory finance. Here too, I think, we are beginning to get a new focus. It is quite clear, from the experiments in controlling the prices of raw materials that have been made already, that the direct control of prices is pretty unhandy. It tends to lead to rigidities, to monopoly positions, to the encouragement of substitutes, to problems of control over the market, to disciplines which may be very difficult to maintain since they demand that governments apply quotas to their country's own production. Yet something must be done to counter the instability of prices. They tend to fluctuate, in fact, on an average by at least 12% a year and this makes the forecasting and planning of development on the basis of an uncertain basic income impossibly difficult.

But one way round this obstacle is obviously to be far more expansive, far more adventurous in the field of compensatory finance designed to offset the fluctuations in primary income. Already a modest scheme is being operated by the International Monetary Fund which gives primary producers virtually automatic access to the first part of their I.M.F. quotas. This goes some way towards enabling them to maintain the kind of income they could have expected if their export prices had not fluctuated. But, to my mind, this does not go far enough. If we really accept the need to alter the underlying bias in world trade against the developing nations and are ready to make a bold excursion into the field of both aid and trade, I suggest that the most effective line of approach might lie in a frontal attack upon the problem of world liquidity, that is, working capital for world trade.

Here is one proposal that has been put forward which I would like to repeat with the strongest possible endorsement. In order to maintain the present rate of increase in world trade – which is about 5% a year – we have to accept the fact that gold is an uncertain and inadequate base while sterling is too weak to fill in the gap and the dollar is certain to cease to be in surplus soon. The sources of world liquidity are thus inadequate to the needed rate of expansion, and, such as they are, are already shrinking. But gold, sterling and dollars need not be the only source of credit. The proposal is that each year the IMF should be empowered to issue certificates equal to a 5% increase in world trade – the percentage could be lower in years of potentially inflationary expansion. These certificates could be lodged with the World Bank as part of its near-liquid resources. But through its subsidiary, the International Development Authority, it would issue an equivalent amount of credit for long-term development loans to the poorer countries. This would amount in fact to compensatory finance on a fairly generous scale. It could then be competed for on equal terms by the developed countries and would thus provide liquidity, maintain the expansion of world trade and give the developing countries the first chance to use the new credits. It seems to me, therefore, to be a scheme which offers solutions to a number of the problems of our economic system and which goes to the root of more of our difficulties than any other single solution. All our expedients are important – whether it is a question of 1% of G.N.P. for aid, more stable prices, more equitable tariffs or more technical assistance. But this plan for compensatory finance and world liquidity seems to me to cover more of the difficulties than any other strategy available at present.

IV

I hope I have said enough to suggest both that the obstacles to development in the poor 'South' are formidable and deep-rooted and that there are solutions available, provided the rich nations take the world's economic imbalance seriously.

But this requires vision, courage and determination and we come to the final question whether we are going in fact to do anything about it. Here, surely, we confront the issue of political will. The decisions involved are difficult both for governments and for peoples in the Western world. As many economists from Professor J. K. Galbraith onwards have pointed out, nearly all our economic training has been in the field of *scarcity*. When large programmes are proposed, the instincts of government and people alike are still, with the one exception of the arms effort, to protest that 'we cannot afford it.' Now I do not deny that particular developed countries may have particular difficulties with their balance of payments – although, with most aid tied to sterling or dollar or franc purchases (as the case may be), the drain is not as great as some critics make out. For instance, in the case of British aid which, I suppose, runs at an annual level of some £200 millions a year, the uncovered part, according to estimates made recently for the Overseas Development Institute, is not more than £60 millions. (Nor do the critics bother to throw in some of the consequences – for future trade – if all aid were to cease.) But the point I want to make here is that if we look at the developed 'North' as a whole, there is a fantastic disproportion between what the industrialised powers are prepared to think 'essential' in terms of arms and what they cry 'bankruptcy' over in terms of aid.

Annual spending on arms by all the developed nations amounts to some $120,000 millions a year; aid from all sources about $9,000 millions. How are we to justify such a fantastic disproportion? Shall we say that our arms spending gives us more secure value for our money? Hardly, when all the billions piled up leaves us with so little security that humanity feels itself living on the brink of extinction. Shall we say it is less wasteful? Hardly, when every arms programme is littered with obsolete weapons and rockets that blew up on the launching pad. Shall we claim that there is something intrinsically more wasteful and costly about expenditure on aid rather than arms? Here, surely, we enter the realm of sheer fantasy. For the plain truth is that in spite of our arms spending, we grow more wealthy year by year. More than that, part of our increased wealth is due to the readiness of governments to pour out money on weapons and thus provide a stimulus to demand that might otherwise be lacking.

One of the chief features of our Western defence effort is that it constitutes the only very large form of public spending which, in the folk habits of tribal man, we accept as perfectly legitimate. It has therefore become the biggest regulator and sustainer of our market economy. This fact is perhaps particularly relevant in the United States where the tendency is to think that most other forms of government expenditure are so many invitations to a socialism that creeps or gallops (depending on your point of view). But if arms spending – the most sterile, surely, of all forms of spending – can act as a sustainer of demand and a stimulus to growth, how can we argue that an aid programme would not have the same effect? If we accept that sustained stimulus to demand is the key to economic expansion in our developed world, it is simply sophistry to draw a fine distinction between the tractor and the tank, and to argue that while the tank is a legitimate and normal method of keeping an enormous range of public demand steady, the tractor is not and in some mysterious way will even ruin the economy.

In short, we have accepted that there are certain things we must do in hate and fear. But there seem to be very few things that we are prepared to do on a similar scale in the cause of neighbourliness and good will. At the root of the problem of aid lies the fact that our imagination is not released in this field. We will spend 7 and 8% of national income on arms. We will swallow incredible wastes and losses – Skybolts, TSR2's – and never let them discredit the notion of defence. We will go grimly on, spending and spending, for a security that eludes us. Our imagination, still rooted in tribalism, accepts all this. But no comparable mood sustains our efforts of construction and aid. And so I would say that ultimately in the pattern of world development, in the balance between rich and poor, in the disproportion between our own wealthy economies and the poverty of the rest of the world, policy will finally be decided neither by the techniques nor the difficulties which I have been describing. It will be decided by an act of acceptance and an act of will. Aid as a policy will be safe when it is seen as the normal attribute of a developed society in the age of affluence.

At this point, we must go back to the supposedly liberal and humane roots of our civilization and say that if this kind of decision is beyond us, then we shall not redeem the wealth that is ours. The scale of it is new. There has never been, in the whole history of mankind, the opportunity to do so much, the certainty that so much will work, the excitement of knowing that the tools are ready. But, if these facts convey nothing to our imagination, then nothing much will happen and our society, dull in spirit, poor in generosity, will lose its claims to civilisation and with it, in all probability, its power to survive.

And now at the end I would like to suggest that in spite of our present economic difficulties, a special responsibility rests with the people of Britain. We are one of the leading industrial members in one of the few worldwide associations to include rich and poor nations, coloured and white, ex-imperial and ex-colonial, North and South. Within this association of the Commonwealth we all meet and discuss and talk and are close in that kind of contact which comes from long established friendship. There is also nothing in the field of economic development that the Commonwealth does not in fact possess. Membership includes the most wealthy – think of the standards of living in Australia and Canada – and the most old, experienced and technically skilful – among whom I think we may count ourselves. It covers the vast problems of Asia in which almost unlimited amounts of aid could be swallowed up by vast economies and it also includes the small economies of Africa where it is manpower and technical training that is the great problem. There is such a training ground here, such a field of experiment, such need and such contact, such problems, yet such opportunity. If this great organisation cannot take a lead in a future strategy of world development, I wonder if it can be taken at all. The fairest hope, therefore, for the future of the Commonwealth would be that it can become this forcing house, this experimental field, this exciting partnership in the work of development. In such a partnership, we could be pace setters. In such company, we could play our part in re-making the face of the earth.

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German Aid

One of the series studying the aid contributions of the main donor countries, German Aid analyses the content and purpose of the West German effort. The growth of an Aid programme, the volume and types of assistance given, technical and academic programmes in Germany, private investment, trade, participation of non-government bodies and public opinion are some of the subjects that are studied in detail.

The author emphasises the single-mindedness of German policy and the systematic approach to problems that is often in marked contrast to British thinking on the subject. The object is the promotion of development.

While there is a great deal that is wrong with the German programme there is also a continual search for right methods and a striving for more efficiency.

This study does three things: it describes in detail all the more important aspects of German overseas aid policy and practice; it offers an assessment of the nature and design of German aid; and it draws attention to a number of areas of German aid policy in which there appear to be lessons of particular interest to Great Britain.

The analyses are supported by comprehensive tables and statistics. As the portrait of a donor the study is limited to sources of aid, policy, and structure of the programme.

The study is one of ODI's series on donor countries financed by the Nuffield Foundation. The author, John White, is a member of the Institute's research staff.

French Aid

In preparation

French Aid in proportion to national income is the highest in the world. Almost all of it is concentrated in Africa.

This study begins with a general description of French aid – its administration, distribution and the amounts involved. It goes on to examine the character of French aid and the French desire to 'deploy' its aid outside Africa; as well as the motives compelling France to continue the high level of aid to Africa.

A section on the historic background discusses the peculiar features of French colonialism and the special nature of France's relationship with her past colonies to whom the bulk of her aid is given.

The economic background to the French aid programme is described in detail: the mechanisms of the Franc zone and its effects on aid; special trade arrangements; the association of Madagascar and the African States with the European Common Market; the advantages derived from this aid programme by French private firms and individuals.

The study is concentrated upon French aid to ex-colonies in Africa south of the Sahara. (Only Algeria receives substantial aid outside this area.)

French aid to Africa south of the Sahara has been the subject of much interesting study in Paris, but comparatively little of this is known in Britain. Much, however, is relevant to what Britain is doing elsewhere in Africa and the author points to the absurdity of Britain and France working in separate compartments when both could learn much from each other.

This study is being prepared by Teresa Hayter, a research officer of ODI.