# MEASURES FOR THE ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

Report by a Group of Experts
appointed by the Secretary-General
of the United Nations

UNITED NATIONS

Department of Economic Affairs

New York

May 1951

E/1986
ST/ECA/10

3 May 1951

UNITED NATIONS PUBLICATIONS

Sales No.: 1951.II.B.2

## SECRETARY-GENERAL'S PREFACE

This report on measures for the economic development of underdeveloped countries should be regarded as a counterpart to the earlier report on national and international measures required to achieve full employment in economically more developed countries.[1] It was prepared by a group of experts whom I appointed at the invitation of the Economic and Social Council after the Council adopted a far-reaching series of recommendations following an exhaustive discussion of the earlier report. Like the earlier document, the present report represents the unanimous view of its authors, who acted in their personal capacities and whose recommendations are put forward on their own responsibility.

The group was composed of Alberto Baltra Cortez, Professor of Economics, National University of Chile; D. R. Gadgil, Director, Gokhale Institute of Politics and Economics, Poona, India; George Hakim, Counselor, Legation of Lebanon, Washington, D.C.; W. Arthur Lewis, Professor of Political Economy, University of Manchester, England; and Theodore W. Schultz, Chairman, Department of Economics, University of Chicago, U.S.A. At the request of the group, George Hakim served as Chairman.

The Economic and Social Council invited me to appoint a group of experts to study the problem of reducing unemployment and under-employment in under-developed countries in the light of the current world economic situation and of the requirements of economic development, and to transmit the report to Member Governments and to the Economic, Employment and Development Commission. The Commission in turn has been requested by the Council to examine the report and to submit to the Council any comments and recommendations for action which seem appropriate. I am particularly pleased to make this report available for general discussion because it covers a subject which I commended to the fifth session of the General Assembly for consideration in the development of a Twenty-Year Programme for Achieving Peace through the United Nations. In my Memorandum to the

[1] *National and International Measures for Full Employment*, December 1949, U.N. Sales No. 1949.II.A.3.

General Assembly I called upon the Members of the United Nations to develop, in the interest of the economic development of under-developed countries, a sound and active programme for the encouragement of broad-scale capital investment, using all appropriate private, governmental and inter-governmental resources.

One set of the recommendations contained in the report calls upon the governments of the under-developed countries to create the pre-conditions and institutional framework required for economic development, and to take vigorous action to promote a more complete and more efficient utilization of their own economic resources. Several of these recommendations involve actions on the part of governments in which they could be greatly assisted by the United Nations and the specialized agencies through the expanded programme of technical assistance which is now in full operation. I can assure the under-developed countries that the agencies participating in the United Nations Technical Assistance Programme are at all times ready to consider their requests for assistance and to provide such assistance to the full extent of their facilities.

Another set of the recommendations is addressed to the economically more developed countries; these recommendations concern mainly certain commercial policies which relate to the economic development of the under-developed countries.

Finally, a group of recommendations is addressed to the United Nations and other international agencies. In my statement to the fifth session of the General Assembly concerning a Twenty-Year Peace Programme, I expressed the hope that steps would be taken that would lead to substantial progress in solving problems of financing of economic development on an adequate scale. I suggested that what may be needed was a strengthening of the resources of the International Bank and other international organizations operating in this field, or that additional methods of financing certain types of capital expenditures in under-developed countries may be needed. The last set of the experts' unanimous recommendations deals directly with these questions.

With the object of facilitating the discussion of this report I have arranged to have included, as a supplement to this document, copies of resolutions dealing with the financing of economic development of under-developed countries adopted by the fifth session of the General Assembly and by the eleventh and twelfth sessions of the Economic and Social Council.

During the preparation of the report the experts were informed of work already done or currently being undertaken on problems in this field by the secretariats of the United Nations and of the specialized agencies.

On behalf of the United Nations, I extend thanks to the experts for the contribution which they have made in regard to a problem which has been described as constituting the most important single element of an expanding world economy which, in turn, was essential for the solution of the problem of full employment. I also wish to thank the institutions with which the experts are associated for their willingness to release them from their normal duties so that they might be free to undertake this important task.

Secretary-General

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## LETTER OF TRANSMITTAL TO THE SECRETARY-GENERAL

We have the honour to submit herewith our report on "Measures for the Economic Development of Under-Developed Countries".

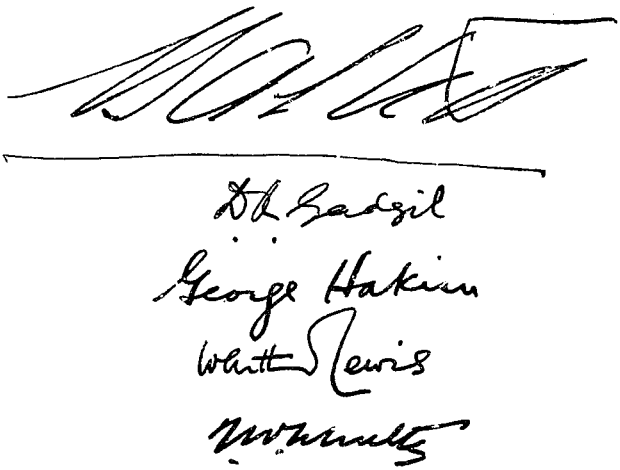
We are happy to be able to present a unanimous report containing recommendations for national and international measures to promote economic development.

In view of the wide scope of our report and its general character, we have not dealt with specific problems of particular under-developed countries or regions.

At the request of the group, George Hakim served as Chairman.

We wish to express our gratitude for the valuable assistance given us by the Secretariat of the United Nations.

Respectfully yours,



New York
26 April 1951

# Part 1

# INTRODUCTION

*Chapter I*

## TERMS OF REFERENCE

1. By resolution 290 (XI) of the Economic and Social Council of the United Nations, we were asked:

> "To prepare, in the light of the current world economic situation and of the requirements of economic development, a report on unemployment and under-employment in under-developed countries, and the national and international measures required to reduce such unemployment and under-employment."[1]

2. We have had some difficulty in interpreting the term "under-developed countries". We use it to mean countries in which per capita real income is low when compared with the per capita real incomes of the United States of America, Canada, Australasia and Western Europe. In this sense, an adequate synonym would be "poor countries".

3. What causes the difficulty of interpretation is the potential limit to development which is set by poverty of resources, in the sense that it is theoretically possible that a country be poor because its resources are poor, and in spite of the resources which it has being as fully developed as current knowledge permits. We have been able to ignore this theoretical difficulty because we do not believe that there are any such countries. We certainly do not hold the view that all countries are capable of reaching the same level of per capita production; differences in the resources of different

[1] A resolution of the General Assembly of the United Nations (408 (V)) also asked us specially to give consideration to

"(i) Ways and means of preventing any aggravation of the problems of unemployment and under-employment in under-developed countries that may occur as a result of the mechanization of production in certain branches of industry and agriculture;

"(ii) Measures of social security designed to ensure that there will be no interruption in the income of workers temporarily unemployed through mechanization or technological progress, taking into account the work of the International Labour Organisation in this field."

In chapter II and elsewhere in our report, we have given consideration to sub-paragraph (i). However, as we could not enter into a detailed discussion of various social security measures, we have not given specific consideration to sub-paragraph (ii).

countries are a real factor in differences of per capita income. On the other hand we believe that, whatever their resources may be, all countries are currently in a position where their national incomes could be greatly increased by better utilization of what they have.

4. Chapter II of our report discusses the nature of unemployment and under-employment in under-developed countries. In our opinion, the principal way to reduce unemployment and under-employment in the under-developed countries is through economic development. Hence our report concentrates on the measures for the economic development of under-developed countries.

5. The report is organized as follows. After an introductory analysis of unemployment in chapter II, we discuss the social and political requisites for economic development, which is a plant that flourishes only in suitable environments. This is the subject matter of chapters III and IV.

6. Given the appropriate framework, economic development will proceed by way of improvement of technology, and of investment of capital. These processes can be speeded up by means of legal and administrative measures which we discuss respectively in chapters V and VI. We next draw attention to the fact that, though new technology and capital will raise the national income, the effect of this on the average standard of living may nevertheless be small if population is growing rapidly. This problem is discussed in chapter VII.

7. It follows from the discussions in all these chapters that the tempo of economic development may be speeded if governments plan wisely. Some problems of economic planning are therefore treated in chapters VIII and IX.

8. The first nine chapters of the report deal with measures which the under-developed countries can take on their own initiative, to help themselves. In the two chapters that remain we discuss ways in which the developed countries can assist the under-developed. Within this category fall loans, grants, technical assistance, and terms of trade.

9. The report concludes with our recommendations.

*Chapter II*

## UNEMPLOYMENT AND ECONOMIC DEVELOPMENT

10. Unemployment in the under-developed countries falls into four categories, viz., cyclical, seasonal, technological and disguised.

11. Cyclical fluctuations cause some unemployment in under-developed countries, but their major effect in such countries is that most people get lower incomes. Under-developed countries are capable of generating cyclical fluctuations of their own, but in practice their cyclical fluctuations result from, or are dominated by, movements generated by the industrial countries. The subject of cyclical unemployment in the industrial countries was investigated by a previous group of experts, similarly appointed by the Economic and Social Council. We therefore have regarded this subject as outside our terms of reference. We note that in the opinion of that group the problem of full employment with which it dealt could not be solved—"except in the context of an expanding world economy of which the economic development of under-developed countries would form the most important single element".[1]

12. Seasonal unemployment in agriculture is usually brought about by natural circumstances. It may sometimes be possible to get over the effects of these by adopting different techniques or by combining resources differently. Ordinarily, the only way to maintain employment in agriculture throughout the year is by making such improvements as will enable the land to be productively employed for longer periods. Where this cannot be done, employment in agriculture will continue to be seasonal, and the only way of meeting the difficulty would be to find employment for the agriculturalist in other occupations for the rest of the year. Migrations from the poorer agricultural areas to other areas for meeting the extra demand at the peak of the season is a familiar phenomenon. Further development of agriculture in any area which gives rise to such seasonal demand may provide additional em-

[1] *National and International Measures for Full Employment*, E/1584, United Nations Publications, Sales No. 1949.II.A.3, page 12.

ployment opportunities not only within the area itself but also, according to the measure of development, to near or distant areas. For coping with large-scale seasonal unemployment, governments can plan programmes of seasonal public works.

13. The agriculturalist who is seasonally unemployed may also find employment in non-farm occupations, either in rural or urban areas. Of these, employment in rural domestic industry seems to be the largest and the most generally available. However, domestic industry, rural or urban, is itself often subject to seasonal unemployment or general under-employment. Seasonal unemployment in domestic industry is usually associated with a markedly seasonal demand for products and with limitations of resources on the part of the producer which make it impossible for him to produce for stock during the slack season or to buy raw materials in advance. Seasonal unemployment in domestic industry is also bound up with the question of the total demand for the products of that type of industry. This question leads us to the problem of technological unemployment.

14. Technological unemployment is to be found both in developed and in under-developed countries. In both cases, the cause is the same. A new technology will have displaced an old technology. This is not by itself enough to cause unemployment. But it may do so if the number of workers now required is less than before; and even if this is not so, it will cause some distress if the old workers are unable to adopt the new technique, and cannot find any alternative occupation. The hardship created by technological progress is greatest when the gap between the old and the new technology is so great that knowledge of the old technique is rendered almost valueless, and old workers have to seek employment mostly in unskilled occupations and may have to travel long distances before finding it. For this reason, technological unemployment is likely to be less important in advanced countries than in under-developed countries which are experiencing the effects of a technological revolution in other countries, or which are undergoing rapid development themselves.

15. A special case of technological unemployment is that which is due to improvements not in the technique of production but in the technique of organization. There are many industries in many countries where the same output could be secured with the same quantity of equipment, the same production techniques, and a smaller quantity of labour, if only the management were more efficient. Shortage of administrative ability is as great a bottleneck

in under-developed countries as is shortage of capital. As managerial ability improves, a considerable displacement of labour becomes possible, and this kind of technological unemployment creates the same problems as any other, unless new employment opportunities are created to absorb the unemployed.

16. Rapid economic development is paradoxically the greatest cause of and the greatest cure for technological unemployment. It provides the cure by providing new opportunities for employment. It may often happen, however, that those who are displaced are not able to take advantage of the new employment. In such a case technological progress is partly wasted. New techniques are more usefully applied to sectors of the economy where the labour which is thus released can easily find alternative employment. Thus, labour-saving technology is not of great value to an economy which is over-populated. There the search should be rather for technologies which increase the yield of land per acre, or which enable large numbers of persons to be employed in secondary industries for a small expenditure of capital. Some technological unemployment cannot be prevented; rather there should be a twofold policy, to concentrate labour-saving improvements upon sectors of the economy where labour is adaptable, and to press forward with creating new opportunities for employment by means of economic development. Some further consideration is given to this problem in chapter VIII.

17. Rapid economic development is also the only fundamental remedy for disguised unemployment. The significance of the term "disguised" is that it is applied only to persons who are not normally engaged in wage employment. The disguised unemployed are those persons who work on their own account and who are so numerous, relatively to the resources with which they work, that if a number of them were withdrawn for work in other sectors of the economy, the total output of the sector from which they were withdrawn would not be diminished even though no significant reorganization occurred in this sector, and no significant substitution of capital. The term is not applied to wage labour; presumably employers will not employ a labourer for wages unless his labour increases the total product. The use of the word "unemployment" in this connexion is, therefore, somewhat misleading, since it is more often confined to wage-labourers whose status is recorded in unemployment statistics. We prefer to use, hereafter, the less precise but more familiar term "under-employment", which is used in our terms of reference.

18. It should be noted that we have not included a category for wage labourers whose unemployment is not cyclical, seasonal or technological. It may be thought that such a category is needed for countries where population is too large in relation to resources. Over-population is not, however, a cause of unemployment of wage labour. If the wage system is flexible, the whole population can find employment at some low level of wages. There is no correlation between unemployment rates and density of population.

19. Under-employment is due to a deficiency of the resources which are necessary to employ productively the available supply of labour. It is usually associated with family employment where, in agriculture or industry, the unit of production and of the supply of labour is the family; it exists because the resources of the family are too small to keep all working members of the family fully employed throughout the year and because there exist no opportunities for directing a part of the supply away into other occupations at appropriate times. Under-employment in agriculture arises mainly out of the limited supply of land available to the average farming unit; it arises in domestic industry out of a limitation of the demand for the products of that industry in relation to the number of producers engaged in it—this is really an aspect of technological unemployment. Even if the number of workers in a domestic industry contracts from generation to generation, this may not afford full employment to those remaining in it if the demand for the products of the industry is also contracting steadily because of the growing competition of the products of modern industry.

20. Quantitative measurement of under-employment is difficult. Reference may, however, be made to certain estimates which have been framed in relation to particular regions to indicate the magnitude of the problem. These estimates are usually made on the basis of a concept of an agricultural surplus population. We quote below some of these estimates, though we are not in a position to say to what extent they are accurate. In a study made by the Royal Institute of International Affairs of the situation in Eastern and Southeastern Europe, agricultural surplus population was defined as "the number of people engaged in agriculture (active and dependents) who, in any given conditions of agricultural production, could be removed from the land without reducing agricultural output". As a result of this study, the lowest estimate of surplus population, based on pre-war data, was placed between 20

and 25 per cent for the Eastern European region.[2] Recent estimates on a similar basis made for Southern Italy also yield high figures of a surplus population.[3] An estimate based on the actual labour requirements of cultivation in Egypt placed the surplus in that country in 1937 at about one-half of the farm population.[4] Similar estimates have not been made for the Asiatic countries; it seems, however, safe to assume that for many regions of India and Pakistan, and for parts of the Philippines and Indonesia, the surplus cannot be less than the pre-war average for the East European region.

21. The main remedy for under-employment is to create new employment opportunities. Where more land can be brought into cultivation, this will afford some relief. But, in most countries where under-employment is acute, nearly all the cultivable land is already cultivated. Effort has then to be concentrated upon creating new industries off the land, of which manufacturing industries comprise the largest and usually the most promising category. Thus, the most urgent problem of these countries is industrialization.

22. It will be seen that we are led by the analysis both of technological unemployment and of under-employment to the same point, namely, that new employment must be created rapidly. This is the task of economic development. And this is the reason why the emphasis of our report is upon economic development rather than upon unemployment.

[2] These estimates were prepared by the Committee on Reconstruction for the Royal Institute of International Affairs, London, and are contained in the Committee's *Memorandum on Agricultural Surplus Population*, 1943.

[3] The *Economic Survey of Europe in 1949*, United Nations Publications, Sales No. 1950.II.E.1., pages 68 and 69.

[4] Doreen Warriner *Land and Poverty in the Middle East*, Royal Institute of International Affairs, London and New York, 1948, page 33.

Part 2

# MEASURES REQUIRING DOMESTIC ACTION

*Chapter III*

## PRE-CONDITIONS OF ECONOMIC DEVELOPMENT

23. Economic progress will not occur unless the atmosphere is favourable to it. The people of a country must desire progress, and their social, economic, legal and political institutions must be favourable to it. In this chapter, we discuss the psychological and social pre-requisites of progress. The next chapter discusses questions which are more clearly a matter for legal or administrative action.

24. Economic progress will not be desired in a community where the people do not realise that progress is possible. Progress occurs only where people believe that man can, by conscious effort, master nature. This is a lesson which the human mind has been a long time learning. Where it has been learnt, human beings are experimental in their attitude to material techniques, to social institutions, and so on. This experimental or scientific attitude is one of the pre-conditions of progress. The greatest progress will occur in those countries where education is widespread and where it encourages an experimental outlook.

25. Even where people know that a greater abundance of goods and services is possible, they may not consider it to be worth the effort. Lack of interest in material things may be due to the prevalence of an other-worldly philosophy which discourages material wants. It may also be due to a relative preference for leisure. In the latter case, the amount of work people wish to perform will be small, but they will not necessarily be averse to measures which increase the productivity of such work as they do. A high preference for leisure is not consistent with great material possessions, but it is not necessarily inconsistent with economic progress.

26. Alternatively, people may be unwilling to make the effort to produce wealth if the social prestige which they desire is more easily acquired in other ways. Thus, in feudal or aristocratic societies where power is inherited rather than earned, and where little respect is accorded to wealth which has been created in the first or second generation, the energies of ambitious men are not attracted so much to the production of wealth as to the acquisition

of skills which may secure entry into the strongholds of power — to the acquisition of military skill, or the skill of the hunt, or the skill of the lawyer or priest. In such societies, the production of wealth is frequently held in contempt as a profession for well-bred young men. By contrast, economic progress is rapid in countries where the successful organizers of economic activity are among the more highly prized members of the community.

27. Where wealth confers power, and is desired, there may nevertheless be lack of enterprise for a variety of reasons.

28. In the first place, men are in general unlikely to make efforts where they cannot secure the fruit of their efforts. Thus, little progress occurs in countries where governments are too weak to protect property or where civil disorder is endemic. Neither is there progress where governments act arbitrarily in requisitioning property — as happened in the past on frequent military campaigns.

29. Even the demands of the family may discourage initiative if family obligations extend over a wide network of persons, and if enterprising members of the family resent being subject to the claims of their more distant relatives.

30. In societies where production is left to private enterprise, initiative will be weak unless the property institution creates incentives. Thus, livestock cannot be improved if all pasture land must be used in common; neither can improved rotations be practised in agriculture if the enterprising farmer is not allowed to enclose his land. In some African communities where land has been held in common, the introduction of permanent agriculture has produced tensions because of the desire of the progressive farmer to protect his investment in a particular piece of land. Private enterprise and communal property are not always consistent with each other and with economic progress.

31. Defects of the law are also frequently a reason why a man cannot secure the fruit of his efforts to himself. For example, the law governing the relations between landlord and tenant may not adequately protect the right of the tenant to unexhausted investment which he has made in the land. Some of these legal defects are discussed in the next chapter.

32. In the second place, producers may be prevented from innovating by custom or by law. In some societies, for example, the techniques and rituals of agriculture are prescribed by priests, and an innovator would be committing sacrilege. Or the technique may be prescribed by law, as in the edicts of Colbert, the seventeenth

century French statesman. Even in the most advanced societies, pressures are frequently organized to prevent the adoption of technological improvements.

33. Thirdly, potential enterprisers may be denied opportunity by the social system. To begin with, in any society inequalities of wealth may deny equality of opportunity to the greater part of the population, and keep ignorant many persons who, given the opportunity, would contribute to raising the national income. This is at its worst where the society is stratified by caste, colour, or creed, and where whole sections of the population are deprived of opportunity by law, by custom, or by chicanery. Rapid economic progress is seldom found in societies which do not have vertical mobility or where a section of society is seeking to maintain special privileges to itself.

34. The social system may also deny to enterprisers the resources they need for organizing new units of production. Thus it may not be possible to recruit labour, because it is tied to the soil by law, or because caste restrictions prevent labour from moving to new occupations. Or land may be concentrated in the hands of a small number of persons who are unwilling, often for reasons of political prestige, to sell it to persons outside their group. Or the banking system may discriminate against borrowers of a particular race or creed. Horizontal mobility of resources is, like vertical social mobility, a pre-requisite of economic progress.

35. Potential enterprisers may also be excluded by monopolistic organization of production. Sometimes this results from the concentration of wealth in a few hands. Or it may be the organized pressure of a number of small producers, banded together to protect themselves against competition. In either case, the monopoly may be backed also by legal restriction on free entry. Rapid economic progress is bound to damage some persons whose fortunes are tied up with old techniques.

36. There is a sense in which rapid economic progress is impossible without painful readjustments. Ancient philosophies have to be scrapped; old social institutions have to disintegrate; bonds of caste, creed and race have to be burst; and large numbers of persons who cannot keep up with progress have to have their expectations of a comfortable life frustrated. Very few communities are willing to pay the full price of rapid economic progress.

37. In our judgment, there are a number of under-developed countries where the concentration of economic and political power

in the hands of a small class, whose main interest is the preservation of its own wealth and privileges, rules out the prospect of much economic progress until a social revolution has effected a shift in the distribution of income and power.

38. There cannot be rapid economic progress unless the leaders of a country at all levels — politicians, teachers, engineers, business leaders, trade unionists, priests, journalists — desire economic progress for the country, and are willing to pay its price, which is the creation of a society from which economic, political and social privileges have been eleminated. On the other hand, given leadership and the public will to advance, all problems of economic development are soluble. We wish to emphasize that the masses of the people take their cue from those who are in authority over them. If the leaders are reactionary, selfish and corrupt, the masses in turn are dispirited, and seem to lack initiative. But if the leaders win the confidence of the country, and prove themselves to be vigorous in eradicating privilege and gross inequalities, they can inspire the masses with an enthusiasm for progress which carries all before it.

*Chapter IV*

## ECONOMIC ORGANIZATION

39. Economic progress depends to a large extent upon the adoption by governments of appropriate administrative and legislative action, both in the public and private sectors. The public sector may predominate or it may be of secondary importance. Since various combinations of public and private activities are possible, the preferred combinations reflect the values and beliefs of the particular community. We shall not endeavour to explain the existing community preferences affecting the economic framework. Instead, we shall restrict ourselves to those organizational requirements which appear to us to be important in order to increase the tempo of economic development.

40. We begin with the public sector. There is general agreement that certain spheres of social life must be organized by the government, and we pass rapidly through these spheres. This brings us to two borderlands, where the proportion between public and private activity varies widely from country to country. In the first borderland, we meet the functions which some governments perform because private enterprise fails to perform them sufficiently. In the second borderland are functions which private enterprise is anxious to perform, but which some governments prefer to reserve to themselves. It is this second borderland which gives rise to the greatest controversy. Even after the limits of the public sector of the economy are drawn, there remain functions for the government to perform in that sector of the economy which is left to private enterprise. These we discuss in the second half of the chapter.

### The Public Sector

41. The first thing that is demanded of governments is that they should be efficient and honest. This is hard to achieve in any country, and is particularly hard in some under-developed countries where skilled technicians and administrators are scarce, and where traditions of honest administration are lacking.

42. Next, governments must discharge adequately the functions which are everywhere expected of them, and devote to these func-

tions a sufficient proportion of their budgets. They must ensure that an adequate proportion of the national income is devoted to roads and communications, to education, to public health, and to other public and social services. Adequate expenditure on education, in particular, is so important that we shall discuss this subject separately in the next chapter.

43. In addition to the functions governments normally perform, there is a large borderland of functions which they ought to perform for the simple reason that they are important, and are not carried out, or not carried out sufficiently, by private effort. This borderland exists in any country, but it is wider in under-developed countries than it is in developed countries, because private enterprise in the latter is more knowledgeable and more enterprising than in the former. We mention some of these functions below.

44. One important function in this category is market research and prospecting. For example, geological survey by governments needs to be carried to a further point in under-developed than in developed countries; it needs to approach nearer to prospecting, even if there is no intention to undertake government mining, because it cannot be assumed that there will be a sufficiency of private prospectors in far off places. Again, in agriculture the government must take the lead in experimenting with new crops, both for their biological suitability, and also for their commercial acceptability in home or foreign markets. Similarly, the prospects of manufacturing industry may well be misconceived in a community where there are few persons with industrial experience; accordingly the government should play a leading part in assembling information, and in assessing the prospects of new industries. The establishment of industrial development corporations, which is now becoming the rule in under-developed countries, recognizes the importance of this service. In this entire field of market research and prospecting, under-developed countries tend to be too dependent upon the accidental interest of foreign enterprises. They can and should organize these functions better as essential public services.

45. A second borderland function goes a stage beyond prospecting, and actually establishes and operates new industries which private effort is neglecting, either through lack of knowledge, or through fear of risk. This type of operation, for example, played an important part in initiating industrialization in Japan. The

government established new industries, and, once they were operating successfully, subsequently sold or leased the industries to private enterprise.

46. A third borderland function is the creation of financial institutions to mobilize savings and to channel them into desirable private enterprise. The provision of capital to the small private farmer and artisan, for example, is one of the most urgent ways of increasing productivity, but it is one which is often neglected or not efficiently done by commercial institutions. Similarly, in countries where there is little experience of manufacturing, it is hard to mobilize capital for new industries without the help of a publicly supported industrial development bank. The subject of mobilizing capital is so important that we deal with it at length in two later chapters; in chapter VI, "Domestic Capital Formation", and in chapter XI, "External Capital".

47. In addition to the borderland of functions which private enterprise neglects, there is another borderland of functions which it is anxious to perform, but which it performs at excessive cost to the public. This includes those industries where the wastes of competition would be so great, relatively to the wastes of monopoly, that these industries are best conducted as monopolies. This case includes certain kinds of public utilities, of agencies for marketing agricultural produce, and of factories for processing the output of small farmers. In some cases, the appropriate remedy is to organize co-operative marketing or production; but the co-operative method, though invaluable as an educative process, may prove frail commercially if it is applied to large undertakings, the administration of which is beyond the competence of small producers. In other cases, the appropriate remedy may be to surround the private monopoly with legal controls. And in still other cases the appropriate remedy is public operation.

48. A special problem to be faced in this borderland is the costliness of foreign enterprise. The current earnings on capital invested in United States manufacturing industry average between 15 and 20 per cent, and naturally such capital cannot be attracted into the under-developed countries except at even higher rates. Many countries are reluctant to purchase development at this price. They prefer to reserve certain industries to their governments, or at least to their own nationals, and they try to raise the external capital they need more cheaply on public account.

49. Beyond this borderland lies the economic sector in which private enterprise operates as efficiently as public enterprise, if

efficiency is measured purely in terms of the ratio between the input of resources and the output of product. In most countries this sector is left to private enterprise. There is, however, much dispute as to the size of this sector.

50. In the first place, there are sectors which some governments wish to reserve to themselves for larger reasons of public policy. This is very common for industries closely related to defence, such as the oil industry, or the manufacture of armaments. It is also applied to other industries which are considered to be basic, such as public utilities.

51. Again, some people believe that the rewards demanded by private entrepreneurs, including domestic entrepreneurs, are always too high, and that this is particularly so in under-developed countries. Economic development by private enterprise requires the government to co-operate with, and sometimes even to woo private capitalists. If it tries to regulate them too closely, enterprise may be discouraged; and, indeed, in any case the power of private capitalists may well be so large that they inevitably dominate the government instead of the government being able to control them. This is suggested as the reason why economic development by private enterprise is often associated with the creation of large private fortunes.

52. When this is the case, no half-way house is possible between development by the enrichment of private entrepreneurs, and the alternative of confining new industries to public enterprise. In this case, the under-developed countries have a difficult choice to make. When new development is confined to public enterprise, its speed will be determined by the rate at which governments can mobilize capital, skill and enterprise, and its efficiency will be determined by what governments (often rather weak) can manage to attain. We do not have to commit ourselves on this issue, or on the other very controversial question whether public operation is not also preferable for non-economic reasons, even where it is not more efficient than private enterprise. Every country must decide for itself where it wishes to draw the limits of the public sector.

### The Private Sector

53. However, even when the limits of the public sector are drawn, the government retains important functions in the private sector.

54. In the first place, as a link between its own activities and those of private persons, it has an interest in seeing that its own development expenditures do not give rise to "unearned increments". It is a difficult and highly technical matter to frame legislation for this purpose, but many of the governments of the developed countries are already experimenting in this sphere, with greater or lesser success.

55. Next, private enterprise will not yield its best results unless legal and social institutions are such that the private initiator secures the fruit of his own effort. Of the many spheres where this is relevant, the most important sphere which is widely neglected in under-developed countries is the contract between the cultivator and his landlard. Tenancy legislation should protect the tenant against arbitrary disturbance, giving him secure tenure so long as he practices good husbandry. And it should protect his right to compensation, upon termination of the tenancy, for any unexhausted improvements which he has effected.

56. In many cases, even more radical reform is needed than legislation protecting tenants. In many under-developed countries, the cultivators of the soil are exploited mercilessly by a landlord class which performs no useful social function. This class contrives to secure to itself the major part of any increase in agricultural yields, and is thus a millstone around the necks of the tenants, discouraging them from making improvements in agriculture and, in any case, leaving them too little income from which they might save to invest in the land. In such countries land reform, abolishing this landlord class, is an urgent pre-requisite of agricultural progress. Land reform is not, of course, the only pre-requisite; capital must be made available to the farmers; extension work must be organized; the size of the unit of cultivation must be reconsidered; and so on. But land reform in these countries would be the first step necessary for releasing the productive energies of the people.

57. The burden of private debt upon the small farmer comes within the same category. Where this is so large as to discourage initiative, governments have sometimes to create machinery for wiping out excessive debt. At the same time, it may be necessary to pass legislation which will protect the small farmer from becoming committed to an excessive debt burden. And, in addition, governments have the duty of creating credit institutions and insurance schemes which satisfy the farmers' legitimate needs for credit.

58. Next, a number of cases are covered by the principle that the government must sometimes compel all the firms in a particular industry to adopt some measure which the majority desire, but which cannot be brought into effect unless they all participate. Thus compulsory standardization of products is sometimes required in manufacturing industry. So also is compulsory grading and marking of some agricultural products. In soil conservation, some measures are useless unless all the farmers in the appropriate area are compelled to participate; and the same is true of measures controlling the spread of diseases of plants or livestock.

59. Or the government may be required to take the initiative in organizing co-operative measures which stop short of compulsion. This is obvious enough in the fields of agricultural co-operation where many of the governments of under-developed countries now operate actively. Another important sphere which is less widely recognized is the planning of an industrial centre. Some manufacturing industries flourish with difficulty in isolation, because of their interdependence: they use common services, such as power, and they buy each other's products and by-products. Hence, if an industrial centre is to be created from scratch, it may be desirable to arrange for as many complementary industries as possible to be started at about the same time in the same place. The initiative in making and executing a plan which has the effect of bringing many private entrepreneurs together in this way must usually rest upon the government, and is an important function of an industrial development corporation.

60. Another problem which faces the government in the private sector is the degree of efficiency in the use of labour by private enterprise. In countries where labour is abundant and underemployment rife, this problem is of secondary importance when compared with the problem of creating new employent opportunities. But, as labour becomes scarce, economic progress depends upon more efficient use of human effort.

61. Two of the methods of achieving greater efficiency are so important that we reserve them for separate chapters, namely, the use of better techniques, and the use of more capital. In this chapter, we mention three other aspects of the problem. First, efficiency is to some extent a function of the amount of pressure which is put upon entrepreneurs. This pressure may be supplied by competition; or it may arise from trade union pressure upon wages, which drives entrepreneurs to improve their technique; or it may result from government actions. Secondly, efficiency is

sometimes kept down by restrictive practices imposed by labour, in collective agreements or otherwise, for the purpose of protecting the employment opportunities of particular groups of workers. This is a problem for which we offer no solution. Thirdly, efficiency is to some extent a function of the scale on which economic activities are carried out. This has wider and narrower contexts, which call for more extensive treatment.

62. In its widest context, it relates to the size of the market itself. As Adam Smith pointed out, the division of labour is limited by the extent of the market. Some under-developed countries are so small that their internal market is not large enough to support large-scale industries. The best solution may be to co-operate with other countries in the same region. This does not necessarily involve political federation, though sometimes such federation is also desirable on other grounds. The creation of a customs union is a less radical possibility. Still less radical is the creation of a free trade area; and failing even this, it is possible to make preferential tariff arrangements for promoting economic development. All these types of policy, which involve discrimination in international trade, have given rise to controversy. Their use was, however, sanctioned by the Havana Charter for an International Trade Organization, which laid down the conditions on which they might be operated. There are many small countries whose prospects of economic development will remain small until they enter into close economic relations with their neighbours.

63. Given the scope of the market, the number of firms may be too large or too small for efficiency. In large markets of well-developed countries, it is often possible to leave the solution of this problem to the ordinary operation of competitive forces. But in less efficiently working markets, it is necessary to take measures either to promote more competition, or to reduce competition, as the case may be, with the purpose either of increasing or reducing the number of operating units. Closely related to this is the problem of standardization of the production of industry and the rationalization of the production plans of individual units. It is often pointed out that action along these lines offers a way of increasing considerably the productivity of industry without much reorganization. Its possibility and its desirability depend upon the government being able to persuade industrialists to fall into line and co-ordinate their activities; and also to control their activities if they evince a tendency to exploit a quasi-monopolistic position at the cost of the public.

64. The treatment of monopoly presents a problem to the governments of under-developed countries. Monopoly is a necessary instrument of economic development in situations where risks have to be taken which would not be taken except on the basis of a franchise. Sometimes, monopoly is also an instrument of efficiency, either because the scale of operations needs to be large, or because the firms in an industry need to have their activities co-ordinated directly by agreement, rather then indirectly by competition. On the other hand, monopoly concentrates economic power and some communities may prefer greater decentralization of power, even at the cost of somewhat lower economic efficiency. Every country has to make this choice for itself.

65. Where the pattern that emerges includes many small units of operation, the government can help to increase their efficiency by providing services which the firms can use in common. Thus, in agriculture, the government can organize education, credit, processing and marketing facilities, and so on. In manufacturing industry, it can similarly organize training facilities, market research, power, or managerial advice. In the mineral industry, many governments help small units by organizing finance, assaying, the crushing of ores, marketing or other facilities. This means of aiding efficiency provides the governments of under-developed countries with one of their most important duties, and we shall return to it in the closing paragraphs of this chapter.

66. But first we wish to consider in greater detail the choice between large and small-scale enterprise in that sector of the economy where it matters most to most under-developed countries, namely, in agriculture. Here we find both situations: units that are too large, and units that are too small.

67. In some countries the farms are too large, either in the sense that to increase the number of farms would increase the national income, or in the sense that it would distribute the national income more equitably. Many such countries are engaged in breaking up large estates.

68. In most under-developed countries, however, the problem is exactly the reverse of this: there are too many agricultural holdings. Sometimes the amount of land worked by the average farmer is adequate, but each farmer is working several plots widely separated from each other. Where this is the case, and where, as is usually, but not always, the case, the result is undesirable,

the remedy may be to pass legislation providing compulsorily for the consolidation of holdings.

69. More usually, the trouble is that there are too many farmers. There is no fundamental remedy for this, except either to bring new land under cultivation, or to create new industries more rapidly than the population is growing, so that the pressure on the land may be reduced. This is a very urgent problem in many areas. Meanwhile, co-operative farming can be encouraged. And legislation to prevent the further splitting up of holdings may also be required.

70. The settlement of new lands also gives the government the opportunity to experiment with new forms of tenure. The family farm is the ideal of most democratic peoples, and in the long run, subject to economies of scale, can develop a high level of efficiency as a result of the incentives of working on one's own account; especially if there is provision for enforcing rules of good husbandry. Where economies of scale are significant, the efficiency of the family farm may be supported, as we have already indicated, by organizing some functions co-operatively or through government agencies, such as credit, marketing or machinery pools. Nevertheless, where economies of scale are significant, the small farm has to face the challenge of alternative systems of potentially high efficiency, such as the collective farm or mixed systems of co-operation between government agency and family farm, an example of which is that practiced in the Gezira area of the Sudan.

71. There remains one major sphere of government interest in the operations of private enterprise. One of the functions of an economic system is to allocate scarce resources between competing uses. In the private sector, this is done mainly by the system of prices. This system operates with more efficiency at some times, in some places, and in some sectors, than at others, and the government has a duty to watch and to correct faulty operation of the system. Misallocation of resources may arise from several causes, such as failure of prices faithfully to reflect real social costs, or failure of entrepreneurs to look sufficiently far ahead in time, or it may even arise from price controls which the government is compelled to impose in the interest of social justice. The allocation of resources cannot therefore be left entirely to the working of the price system. The government is involved, in greater or in lesser degree, in trying to influence the movement of resources in directions which it considers to be more appropriate.

72. An important example of this is the crowding of capital investment into a few sectors of the economy, to the neglect of other sectors, which is a common feature of under-developed countries, and to which we refer in chapter VI. Another important example is the misuse of agricultural land which makes it necessary for some governments to try, by taxation or other means, to deflect land from less to more productive uses. A third example is the misallocation of resources in space. In manufacturing industry, it might be considered desirable to discourage concentration of activity in some centres; on the other hand location of industry may be encouraged in under-developed rural areas where labour and other resources are available or manufacturing establishments may be planned to work in close co-operation with existing domestic industries.

73. Government control of the allocation of private resources is a difficult problem which raises many questions of objectives, of judgment, and of techniques. We discuss the subject further in chapters VIII and IX.

### Conclusion

74. Our analysis of the functions of the government in the private sector has been arranged by examining the principles that should guide government action. We summarize this material by re-arranging it to show what is required of the government in each of three major economic activities, namely, in agriculture, in domestic industry, and in modern industry.

75. In agriculture, the chief functions of the government are:

(*a*) To assure the actual cultivators, by adequate land tenure legislation, enough continuity and a sufficient share of the increased fruits of his labour to induce him to invest all the capital needed in the venture, to adopt the most improved techniques suitable to his circumstances and to put forth intensive effort for increased production. Action is also necessary to provide the cultivator with adequate facilities for borrowing the necessary funds;

(*b*) To enable the cultivator to start operations with adequate equipment and if possible, without a heavy debt burden;

(*c*) To organize the agricultural unit so as to obtain efficient production. The typical production unit in most under-developed countries is the family farm. Its present efficiency can be increased (i) by consolidating fragmented holdings; this presents obstacles

but they can be overcome, and (ii) by increasing the size of the unit to the optimum required for efficient handling on a family basis. The possibility of this depends on the success of development in dealing with the problem of surplus agricultural labour. If this can be achieved, the family farm should prove, in most regions and for the bulk of the products, the most efficient socio-economic unit.

(*d*) To create some types of co-operative organizations for certain essential supplementary activities, which are most economically carried out by many family farms working together, e.g., financing, marketing, and processing of agricultural products. Some types of co-operative organizations must be created for the purpose.

76. In domestic industry, the typical unit will continue to be based on family labour. Co-operative organization for the same purposes as in agriculture is equally urgent in this sphere. A special problem related to this field is the regulated and progressive improvement of techniques and adoption of improved appliances. This is, however, not a matter for individual artisans but for a co-ordinated and directed policy in the development programme.

77. In modern industry, the chief problems are the determination of:

(*a*) The size, number and location of units. This will be indicated with varying degrees of precision in the development programme; and

(*b*) The extent to which production in industry should be planned as a co-ordinated whole. Standardization of production and rationalization of production plans of individual units, which will help to attain maximum production, would be possible only with full co-ordination.

*Chapter V*

## TECHNOLOGY

78. One of the most striking features of under-developed countries is their low level of technology. In certain fields of production, some of these countries have made no improvements in technology for centuries. In some parts of the Middle East, for example, agricultural techniques are no better today then they were in the times of the Pharaohs. In fact, in the field of irrigation there has been definite retrogression. Areas which were prosperous over fifteen hundred years ago as a result of well-developed irrigation systems have been overrun by the desert and only the ruins of old Roman towns remain as evidence of their past prosperity.

79. As a result of the remarkable progress of science during the past two hundred years, the gap in technology between the developed and the under-developed countries has grown wider and wider. This gap is even more impressive than is the great inequality in wealth which separates them; the two are not unrelated. On the basis of a long cumulative scientific tradition, the advanced countries of Europe and America have made great strides in technological development which have led to remarkable increases in productivity. While some of this new technology has reached the under-developed countries, it has only affected certain limited sectors of their economies, and has not permeated their social and economic structure; the main fields of production are largely untouched. Unless a special effort is made, the process of technological development in the under-developed countries will be relatively slow, and the gap in technology will continue to grow wider as the cumulative scientific progress of the developed countries accelerates.

80. It is to be noted, however, that the mere existence of a wide gap in technology itself presents the under-developed countries with a wide scope for advance in this field. There is available in the developed countries a large store of tested technical and scientific knowledge which they can readily appropriate. It is true that the cumulative character of technological progress, and the traditions and culture patterns which it brings about, make it easier for the developed countries to achieve a more rapid and continuous advance in technology. On the other hand, if the ob-

stacles to the absorption of new technology are overcome, the existence of highly productive methods and processes, which do not have to be discovered anew, but are available for transmission and appropriation, lays open wide opportunities for the under-developed countries to profit from experience already gained and results already well-established. They may, under favourable conditions and with the necessary efforts and organization, be able to achieve a more rapid advance, which would make it possible for them gradually to narrow the gap that separates them from the developed countries.

81. We believe that it is possible to achieve a fairly rapid increase in productivity in the under-developed countries by the use of relatively simple and inexpensive technological improvements, particularly in the field of agriculture. It should be possible to increase the yield of many agricultural crops 50 per cent within two decades or less by the use of fertilizers, insecticides, better seeds and better crop rotation. Such higher yields have been achieved in the past in some under-developed countries, of which Japan and Egypt are examples. Once such technological improvements are introduced and their higher productivity is proved in practice, their use is likely to spread rapidly by the force of example within any particular area, and even from one area to another. Such improvements are very significant for raising the per capita income of under-developed countries, in most of which agriculture contributes a high proportion of the total national product.

82. It must, however, be recognized that there are serious obstacles to any general technological advance in the under-developed countries. The absorption of new technology in these countries is a particularly difficult and costly process. Even in the case of relatively simple agricultural improvements already referred to, there is need for a well-developed administration in government departments of agriculture, well-staffed with experts and technicians and having an extension service that can reach and teach the farmers. In general, it is also necessary to have a basic minimum level of education and literacy among the actual producers in order to achieve widespread advances in technology. It is a whole process of education which has to be developed at all levels. It is necessary to build up the educational institutions, without which this whole process cannot be developed and maintained at the proper level of effectiveness. The first major obstacle to the general advance in technology in under-developed countries is therefore the lack of an educational and administrative structure through which the producers can learn the new technology.

83. Neither must education be conceived merely as a process of transmitting techniques. For what is required is a radical change in the outlook of the peoples of the under-developed countries. The progress in technology in Western Europe and the United States of America is based on a long scientific tradition, a conception of nature leading to a spirit of exploration, discovery and experimentation. A further obstacle to the absorption of new technology is the social structure of some under-developed countries. The people of these countries will not be receptive unless the basic social and economic institutions are such as to stimulate incentive and initiative. For example, even with a most efficient extension service, a share tenant with insecure tenure will have little interest in new technology. In many countries, social reform is as much a prerequisite of technological progress as is a change of outlook. We have already discussed these matters in some detail in chapters III and IV.

84. Another major obstacle to the absorption of technology by the under-developed countries is the lack of capital, without which technology cannot be utilized or cannot bear its full fruits. The adoption of technological improvements requires the use of capital goods which are in a true sense the carriers and embodiments of improved technology. In most of the under-developed countries, the producers are generally too poor to buy even relatively inexpensive producers goods, such as improved seeds, fertilizers and insecticides. But in most cases, whether in agriculture or in manufacturing, the cost of such capital goods as agricultural and industrial machinery is far beyond the purchasing power of the producers. Moreover, before any general advance in technology can be made and the full fruits of technological improvements in the major fields of production can be reaped, large investments of capital will have to be made in basic industries and facilities, such as electric power, irrigation and means of communication and transportation. We cannot over-emphasize the fact that capital and technology are joint inputs in one process, the use of either of which involves necessarily the use of the other. Technological progress involves necessarily the investment of capital in human beings and in training and instructing them in the new technology, in administrative processes for its transmission, in capital goods embodying it, and in capital works and facilities supporting and developing the whole process.

85. Assuming that the basic requirements are met, we may now discuss some special problems that arise in transferring technology to under-developed countries.

86. First, the technology of developed countries needs frequently to be adapted to the needs of under-developed countries before it is suitable for them. For example, fertilizer trials are needed to discover what is suitable to local environments; new strains of plants and livestock must be bred; new crop rotations must be found; manufacturing processes and equipment may have to be adjusted to local climatic and other conditions.

87. Again, the economic emphasis of experimental work is different in some under-developed countries from what it is in the developed. One instance of this is the fact that in developed countries much technological enquiry is designed to save labour, whereas in some under-developed countries, where labour is over-abundant, the problem is rather to find fruitful new techniques which are capital-saving. Another instance is that students of fuel-economy in industrial countries have concentrated their thought upon coal and oil, which these countries possess in relative abundance; whereas the scientists of other countries may well come to concentrate upon other basic sources of energy available to them, or energy taken directly from the sun, or even atomic energy.

88. It follows that the technology of developed countries cannot simply be transferred. Large sums of money must be spent on research into the special needs of under-developed countries. Some of this work can very usefully be done inside the research institutes of developed countries, where, indeed, much of it has been done in the past. But there is needed also a vast multiplication of research institutions inside the under-developed countries themselves.

89. Problems arise also in training the higher personnel required to plan and execute economic development. Obviously, the under-developed countries will need to import much technical and administrative staff. This, however, is not enough. In the first place, the developed countries are themselves short of technicians who easily find well-paid jobs at home, and who are not therefore available in sufficient numbers for the under-developed countries. This is likely to prove a major bottleneck in economic development. Various technical assistance agencies, United Nations and others, are trying to step up the flow of technical staff, and we would urge upon the governments, the employers, and the peoples of developed countries, the importance of their co-operating by releasing staff to such agencies.

90. A second problem created by the employment of foreign personnel is the difference between their remuneration and that of

local personnel. In the experience of many under-developed countries, the great disparity between the salaries of foreign personnel, whether employed by government or by foreign companies, and those of local personnel, has been a cause of great resentment and is associated with imperialist domination and exploitation. It is important, in this connexion, that local technical personnel be used wherever available in preference to foreign personnel in order to avoid the charge that foreigners are taking the place of nationals of the under-developed country.

91. Plans for economic development need to begin with the expansion of the domestic institutions for training the personnel required at all levels. Even apart from the cost and scarcity of foreign technicians, domestic training in the environment where people are to work has obvious advantages. Moreover, no development is lasting or self-generating which is merely imposed from above, or imported from abroad. The new education and techniques will show large results only when they are completely assimilated, and begin to develop on lines of a native tradition.

92. In this task, the training of technicians is relatively simple. More difficult is the training of administrators, since the qualities required for successful administration are difficult to impart in any training institution. They have to be learned on the job. This is one of the spheres where the democratic way of life is superior to all others as a condition for economic development. Men learn administration by participating in it. They therefore learn fastest in countries where self-governing institutions are most widespread, embracing central and local government, right down to the level of the village, the co-operative movement, trade unions and the hundred and one other voluntary or official groups in which free peoples love to foregather. By contrast, only a privileged clique may learn the techniques of administration in those colonial or other countries where the majority of the people are excluded from participation in government, either as administrative officers, or at the political level; or from participation in private business at executive levels. This exclusion is sometimes even defended by reference to the alleged interests of the people themselves, who, it is said, must first learn the arts of administration before they can safely be allowed to practise them. We consider this defence to be mistaken even where it is genuine, which is not always the case. There is no way of learning administration except by practising it.

93. The training of business executives presents the same sort of difficulty, in that it has to be learned on the job. Here again,

privilege restricts development. For example, in some under-developed countries where modern commerce or industry or mining is in the hands of a small class or a restricted number of groups, the highest managerial employment is largely confined to their ranks. Similarly, where the activities are largely in the hands of foreigners of different race, it is not uncommon for the local people to be denied employment in the higher ranks. Some governments have tried to meet this situation by legislation compelling foreign firms to employ and train nationals. It should be noted that many countries which are now highly developed, at some stage sent many young people abroad to work in foreign businesses, for the purpose of acquiring managerial techniques; Germany and Japan are well-known examples of this. Special difficulties stand in the way of coloured people finding such employment in white countries, and special assistance might be given for this purpose by the technical assistance agencies. The training of business managers is of the highest importance. In many industries, in many countries, output could be increased very substantially with the same equipment and the same labour force, if only more efficient managers were available. Some governments are also using their development corporations to assist local entrepreneurs in the management of small businesses.

94. Finally, we must draw attention to some special problems of what, for want of a better term, has come to be called "mass education". As we have pointed out several times, to secure rapid economic progress involves capturing the enthusiasm of the masses for improvement and making new knowledge available to them directly. This can happen only if hope is held out to them of progressive attainment of a just social order. To arouse their enthusiasm is a matter of popular political leadership. To reach them with new technology, however, is an educational task, which requires a vast multiplication of teachers in the field, and a whole new body of techniques of adult education, by radio, screen, and other means of visual and oral demonstration.

95. For information on techniques, it is sufficient to refer to UNESCO, which is making special studies of this subject. We wish to draw attention rather to one point where the training of personnel is affected. It is impossible to reach the masses if only men of the highest qualifications are to be employed as teachers, physicians, dentists, bridge-builders, agricultural extension workers, or the like. There must also be a vast outpouring of men who have received no more than one or two years' training, to

work in spheres where a four or six years' training is usually demanded in developed countries. Some of the peoples of under-developed countries resent attempts to expand this type of training, because they consider that the dignity of their country requires that only the best should be used. There is also some danger that international institutions may set too high standards of competence for the local technicians whose employment they have to approve. We consider these attitudes to be mistaken. There is much to be done that can be done after a short training, and much that can be done better after a short training than it is done by persons further removed from the people. Economic development will be held up if under-developed countries are compelled to adopt the expensive standards of the more advanced countries.

*Chapter VI*

## DOMESTIC CAPITAL FORMATION

96. It is a commonplace that economic progress is a function, among other things, of the rate of new capital formation. In most countries where rapid economic progress is occurring, net capital formation at home is at least 10 per cent of the national income, and in some it is substantially higher. By contrast, in most under-developed countries net capital formation is not as high as 5 per cent of the national income, even when foreign investment is included. In many of these countries, the savings have been sufficient only to keep up with population growth, so that only a negligible amount of new capital, if any, has actually become available for increasing the average standard of living. How to increase the rate of capital formation is therefore a question of great urgency. In part III of this report we shall consider the contribution that might be made by transfers of capital from abroad. This chapter discusses the domestic problem.

### Hoarding

97. We deal first with the possibility of financing part of the required capital investment not by increasing savings, but by using the gold and foreign exchange which lie in the hoards of some private individuals in under-developed countries. It is not possible to be certain about the size of these hoards. Enquiry suggests that they are specially important in two areas, namely, in South and Southeast Asia and in the Middle East. It is estimated that in some of the countries in these areas, private gold hoards are as large as 10 per cent of the national income. These hoards could, of course, be used only once; if spent over five years, they would contribute, on this estimate, 2 per cent of the national income to capital formation during five years. This figure is small but is certainly not to be neglected.

98. It is very desirable that governments should try to get these hoards used for capital formation. It is, however, also very difficult. They cannot easily be requisitioned, because information about their whereabouts is scanty. In our opinion, it is unlikely that the

release of private boards will contribute much to capital formation in the near future.

99. Some hoarding is also done by governments of under-developed countries, for example, in those cases where the law requires that the local currency, or savings banks deposits, must be backed as to 100 per cent by foreign exchange. This high percentage unnecessarily sterilizes foreign exchange to the extent of that part of the money supply which the government will never be required to redeem in foreign exchange. However, the sums involved here are again not large.

100. The major source of increased domestic capital formation must be increased savings. The rate of saving varies between under-developed countries, and tends to be higher in those with the higher per capita income. It is also a function of the distribution of income among classes and individuals in a society, tending to be higher in societies where the distribution of income from modern industry and commerce is more unequal. The rate of saving also depends on the extent to which economic activity is controlled by foreign corporations. To increase savings is partly a matter of institutions, partly a matter of taxation, and partly a matter of inflation, and we discuss the subject under these main heads.

### Savings Institutions

101. The effect of savings institutions on the level of saving depends partly on their number and accessibility, and partly on the interest rate they pay. The latter is a difficult problem. Capital is scarce in under-developed countries, and the real rate of return on investment is very high. Nevertheless, their savings institutions frequently offer rates of only 2 or 3 per cent. It is possible, but not certain, that higher rates within the practicable range would stimulate greater saving. The subject requires more study than we have been able to give it and also some experimentation.

102. In some under-developed countries, people would save more if there were better savings institutions. People with low incomes save through savings banks, co-operative savings societies, mutual societies, social security agencies and similar institutions. They might save more if these institutions were more widespread, and if more persons were employed by governments to organize them, and to urge people to save more.

103. The middle classes save through such institutions, and also through insurance companies and, to a lesser extent, through investment in their own enterprises or in bonds and shares. It is also possible that the organization of a stock market, where the business is potentially large enough, might stimulate a little more middle-class saving.

104. The higher income classes probably save as much as they desire to do and are probably not handicapped for lack of institutions. It is possible that they might save a little more voluntarily if there were better opportunities for making profitable investments. The main problems presented by these classes are rather how to divert their savings from less to more useful purposes and how to compel them to reduce consumption.

105. Too much saving tends to go either into hoards of gold or foreign exchange, or else into a limited range of investments. Hoarding we have already discussed. The investments tend to be limited to land ownership, to real estate, and to well-established lines of commerce. An excessive preference for purchasing land leads merely to its over-valuation; it does not absorb any resources that could otherwise be used elsewhere for capital formation. Over-investment in buildings in metropolitan cities is a feature of some under-developed countries, especially if inflation is taking place. Possibly the simplest way of preventing it is to control new building by restrictive licensing. Some mal-investment of savings may also occur where large corporations plough back undistributed profits into extending their own concerns, and where a more diffused investment through the economy would bring larger returns to the economy as a whole.

106. Mal-investment of savings is an important problem in under-developed countries. It is specially acute where inflation is taking place, but is a problem at all times. It can be tackled in three ways. One way to divert savings from less to more desirable purposes is to make the latter as safe and as profitable as the former, e.g., by government guarantee, or by franchise. A second way is to license new investment, either by control of building, or by control of the import or installation of new machinery. A third way is to tax savings away and to feed the proceeds into more desirable investments through the channel of public financial institutions, such as agricultural or industrial banks, which lend to private enterprise. We shall return to these institutions in the concluding paragraphs of this chapter.

### Taxation

107. We come next to means of increasing savings by compulsorily reducing consumption. In this connexion, we must discuss separately the taxation of foreign and of domestic incomes.

108. In some under-developed countries, there are foreign companies which make and export exorbitant profits. Most frequently, the major reason why profits are exorbitant is that the local government has signed away some natural resource, usually a mineral, or some monopoly such as a public utility, without demanding an adequate royalty or rental in return; doing this sometimes through genuine ignorance, sometimes through its own corruption, and sometimes through external political pressure. The agreements under which these concessions operate, sometimes make it illegal for the government to revise the terms of the concession, or to impose additional taxation.

109. Whether profits are exorbitant or not, the governments of under-developed countries would also in some cases derive more taxes from foreign enterprises, if the governments of the capital exporting countries would universally adopt arrangements for exempting foreign earned income from double taxation. We return to this matter in chapter XI.

110. It is theoretically possible to increase domestic capital formation by reducing consumption below its present level, but we doubt whether this will prove to be practicable in most countries. Where people are organized to protect their standard of living, it is unlikely that they will permit themselves to be squeezed; they are more likely to change the government that tries this policy. Indeed, in these days, the problem of many democratic countries is rather how to prevent consumption from rising faster than production, under political pressure. We do not minimize the possibility that, in some countries, a highly popular leadership can succeed in getting the people to co-operate voluntarily in limiting consumption in order to increase capital formation. In some under-developed countries it may be necessary even to increase the consumption levels of some classes whose standards of living are the most depressed.

111. People of middle and higher incomes in many under-developed countries are well known for their tendency to conspicuous consumption, and there is no doubt that a fall in their consumption would be in the public interest. It is not, however, easy to achieve.

The middle classes have an important part to play in making and executing development programmes, whether as administrators, as scientists or as private entrepreneurs. Governments have therefore to step warily in attempting to reduce the consumption of the middle classes, lest the effect be to inhibit development.

112. Reducing the consumption of the wealthiest classes seldom raises this particular difficulty. It is not, however, easy to achieve simply by taxing them since their reaction to taxation is more to reduce their savings than to reduce their consumption. It does not, of course, follow that the rich should not be taxed; on the contrary, we have already pointed out, in paragraph 106, that it may be desirable to tax the rich in order to get hold of their savings and to use their savings for more desirable types of capital formation. But our concern at present is not with diverting savings from one channel to another, but with increasing savings by reducing consumption. To achieve the latter effect, taxation is not enough; it is necessary also to use controls which ration luxury consumption, such as import controls, and special taxes on luxuries. Possibly, the total sum released in this way for capital formation will not be large. But, on the other hand, attempts to control the consumption of the rich have real political value if the government is trying to win the confidence and the co-operation of the low and middle income groups for its development programme.

113. We have so far been discussing means of increasing savings by reducing consumption. It may, however, be possible to increase savings by holding consumption constant while production increases or, at least, by allowing it to rise only in lesser proportion. This is less difficult to achieve. It is the normal way that countries have developed in the past. Starting from a position where savings were a small portion of the national income, they have climbed to a position where savings are a much larger portion of the national income, by increasing production faster than consumption. The mechanism has been growing inequality of income, development giving rise to large profits which were ploughed back in the creation of large private fortunes. In these days, the creation of large private fortunes is less likely to be permitted. The problem is then to siphon off the increase of production into the hands of government, rather than into profits, and to create financial institutions which enable the government to use the proceeds for capital formation. This is easier than would be a policy involving an absolute fall in consumption.

114. In countries where production per head is not increasing, even this source of savings is not possible. Such countries are not likely to begin to make substantial progress, unless foreign capital is brought in from abroad, or else unless highly centralized measures are adopted to increase savings and reduce mass consumption.

115. Some countries have found a source of savings by taking advantage of a temporary, or a permanent, improvement in their terms of trade. The method is not to let exporters or producers get the full benefit of the increased prices of their goods in foreign countries. This can be done by imposing an export tax which varies directly with the foreign price, or by establishing a government marketing agency which buys produce at a low price and sells it at a higher price. Sizeable sums have been siphoned off by governments in this way. The difficulty is to know what part of the proceeds can safely be used to finance capital formation, and what part must be held in reserve against cyclical deterioration of the terms of trade.

### Using Idle Resources

116. In a few countries, capital formation is taking place without reducing consumption, through people using their spare time for capital works. Much can be done in this way by individuals working on their property. This, for example, is obvious where people own their own houses and use their spare time to build them, to keep them in repair, and to improve them. It is also an important part of the case for land reform, since peasants who have a permanent interest in the land and in its product, will often "turn sand into gold".

117. In addition to these individual efforts, community spare time work on capital formation can be of considerable value. The villagers, for example, can build their own roads, schools or wells, and can do much afforestation or soil conservation work for themselves. Such work needs to be organized by community leaders, and the government may also need to make some contribution, for example, to cover the cost of imported materials or of machinery. This work is valuable not only because it creates capital without reducing consumption, but also because it is a means of awakening the interest of what are sometimes rather stagnant communities. Development is a dynamic process. Any means of arousing the enthusiasm of the masses of the people and of stimulating them to want further improvement is strongly to be supported.

118. This subject leads directly to considering the possibility of creating capital by employing the under-employed to work for wages on public works. In many under-developed areas, the population on the land is so great that large numbers could be withdrawn from agriculture without any fall in agricultural output and with very little change of capital techniques. If this labour were employed on public works, capital would be created without any fall in other output, or in total consumption. In addition to this source of labour, there are also usually large numbers in seasonal unemployment who might do such work in the off-seasons.

119. In modern industrial countries, the existence of unemployment, or of this sort of under-employment, would make it possible to increase capital formation rapidly, without cutting consumption and without inflation. The government could create money, and use it to pay the wages of people employed on public works. These wage-earners would in turn spend some of their earnings on buying goods and services, and the additional purchasing power thus created would draw still more persons into employment. Thus, the existence of unemployment would make possible a rapid simultaneous expansion of both consumption and investment.

120. Unfortunately, in under-developed countries, the process is not so simple. In the first place, the tendency to import of some of these countries is high. In countries where this is so, the workers would spend a large part of their new incomes on buying imported goods; or else on buying goods from other persons who would, in turn, buy imported goods. Foreign exchange would thus be necessary to support the programme. This could not be printed; it would have to be secured either by taxation of foreign exchange or by borrowing abroad. If the government could not get extra foreign exchange to finance this part of the programme, the extra money would have to remain at home where it would add to the total monetary circulation and to inflationary pressure.

121. The second reason why the process is more complicated in the under-developed countries is that output responds less easily to an increase in effective demand, even when there is unemployed labour. Rapid response is found where there is unemployed factory equipment to match the unemployed labour, but this is seldom the case in under-developed countries. In these countries, an increase in the effective demand does not increase output or increases it very little; its main effect is to cause prices to rise. This price rise, in effect, transfers consumer goods to the newly employed from those

who were previously consuming them. The consumption of the previously employed is correspondingly reduced and though the process begins with the creation of money, in the end the aggregate effects are the same as they would be if the process had been financed instead by levying taxes.

122. In effect, even though resources may be under-employed in an under-developed country, adding to production involves either taxing the rest of the community or getting extra savings from the rest of the community, or borrowing money abroad; or persuading the people to work for their own benefit without wages.

### Inflation

123. Since it is hard to increase voluntary saving very much in countries where the standard of living is very low, and since a compulsory reduction of consumption by means of taxation is also unpopular, it is sometimes suggested that these countries should pursue the path of inflation. This actually gives the illusion that the standard of living is rising, because it raises money incomes. By the time the public realizes that prices are rising even faster, the creation of new capital is already taking place.

124. It is probably not possible to have rapid economic development without some inflation; but it is also clear that under-developed countries have much to lose from inflation. This disease is even more dangerous to them than it is to industrial countries, insofar as the output of the under-developed countries is less responsive to increases in purchasing power. Thus, in the extreme case, inflation may actually cause the flow of goods on to the market to be reduced since, if food prices rise relatively to other prices, the farmers may consume more at home. Or, if the inflation is suppressed, and goods in consequence disappear from the markets and from the shops, production may fall if the farmers decide to reduce their crops rather than to hold increasing sums of money. Again, inflation distorts the profitability of various types of enterprise and encourages people to put too much capital into speculative enterprises and into hoards of gold and foreign exchange. Inflation also discourages the inflow of foreign investment, which is particularly important to under-developed countries. And, by reducing the real value of small savings, it also discourages the lower and middle income groups from continuing to save. Thus, once it has started, inflation generates forces which reinforce it and make it cumulatively more difficult to end.

125. It should be noted that creating money to provide employment for the unemployed gives rise to inflation only when the labour is employed for capital formation. If it is employed in order to increase the production of consumer goods, no such difficulty arises, since the increased flow of money is matched by an increased flow of goods. There is still trouble in the foreign exchanges, but this can be minimised by producing, as far as possible, goods which earn foreign exchange, either as exports or as substitutes for imports. There is no substantial danger of inflation in creating money to employ surplus labour in ways that add to consumption; the difficulties arise only if this labour is put to producing capital goods. Nevertheless, since the obstacle to employing this labour is usually insufficiency of capital equipment, surplus labour cannot be employed even to produce consumption goods until some means of financing the creation of this capital equipment is first found.

126. There are nonetheless two possibilities for financing capital formation by creating money. The first arises out of the fact that if capital equipment could somehow be found to employ some of the unemployed, and if new money were then created to pay their wages in producing consumption goods, then these workers would save part of their incomes, and their savings could be used to pay further workers to produce capital works. Secondly, in all underdeveloped countries the demand for money increases steadily, even when no inflation is occurring, either because of the growth of the national income, or because of the increase of the monetary sector of the economy at the expense of the subsistence sector. This secular increase in money holdings represents an annual addition to the borrowing powers of the government, which can safely be used to finance capital formation. Both these items, however, are small. Taken together, they do not permit capital formation to be financed by credit creation without inflation even to as small an extent as one per cent of the national income annually.

127. Potentially, the existence of under-employment offers to under-developed countries an opportunity for rapidly expanding annual output. But the opportunity cannot be seized until some new source of capital can be found to provide the equipment with which the under-employed are to work. Either domestic consumption must fall, relatively to output, or foreign investment must become available.

### Public Lending Agencies

128. It seems probable that quite a large part of the new capital which becomes available in under-developed countries will pass through the hands of their governments. Much of the domestic saving will have been created by government policies lowering consumption relatively to production, or will have been diverted into the national treasury by government taxation of profits and rents. And much of the foreign capital will be in the form of inter-governmental loans.

129. This creates a danger that too large a part of the available capital will be used to finance public undertakings, while private enterprise is relatively starved of capital. Such a course would be an error. Under-developed countries have a great need for investment in the public sector. But they have an equally great need for extra capital in the hands of small farmers and in the manufacturing sector.

130. The danger can be met if the government uses some of the capital to finance institutions for lending to private enterprise. Most governments have already entered this sphere by starting farm credit institutions and development banks. Neither of these has anywhere received a fraction of the sum of money which is needed to raise agricultural productivity and to increase the importance of manufacturing industry in the economy — the two major tasks of economic development. Expansion of the funds at the disposal of these institutions lending to private producers must be a major feature of economic development.

### Conclusion

131. We do not wish to appear to despair of any substantial results coming out of the effort at augmenting internal resources for economic development. The various items mentioned by us would, all taken together, make an appreciable difference to the situation. A fuller mobilization of domestic savings for capital formation is possible in many directions, and we attach equal importance to their better utilization. The pace could be made to increase quickly, especially if in the early years of a vigorous effort at economic development a large part of the increase of the national income could be diverted into capital formation. Important results may flow even from a modest beginning.

*Chapter VII*

## POPULATION GROWTH

132. The rate of population growth is an important element in economic development.

133. Population is growing rapidly in some under-developed areas. The Secretariat of the United Nations has made the following estimates:

TABLE 1

| | *Population mid-1949 (millions)* | *Percentage rate of growth per annum (1940/50)* | *Expected percentage rate of growth per annum (1950/60)* |
|---|---|---|---|
| Latin America | 158 | 1.89 | 2.25 |
| Africa excluding Egypt | 178 | 1.20 | 1.25 |
| Middle East including Egypt | 94 | 1.25 | 1.50 |
| South Central Asia[a] | 436 | 1.02 | 1.50 |
| Far East excluding Japan[b] | 661 | 0.48 | 0.75 |

[a] Includes India, Pakistan, Ceylon, the Maldive Islands and the adjacent areas of Nepal and Bhutan.

[b] Includes Burma, China (including Formosa), Korea, Mongolian People's Republic, Philippines, Thailand, British Borneo, Federation of Malaya, Hong Kong, Indonesia, Indochina, Macau, Timor, Singapore and New Guinea.

134. The rate of population is increasing because mortality rates are falling while fertility rates remain unchanged. The fall in mortality rates is due to spectacular advances in medical knowledge, and is expected to accelerate in the next ten years. In one or two countries, the annual rate of population increase is already very near to what appears to be the maximum probable rate, namely 3½ per cent annually, which corresponds to a birth rate of 45 per thousand and a death rate of 10 per thousand.

135. The belief that economic development must inevitably be dissipated in population growth causes pessimism in some quarters. We do not share this view. If vigorous effort is put into developing the under-developed countries, we see no reason why their national incomes should not rise at rates higher than the rates at which their populations are currently increasing, or may be expected to increase. The problem is difficult, but it is not insoluble.

136. Neither do we share the view that population growth can be substantially diminished by refraining from economic development. The rate of growth of population is now first and foremost a function of the extent to which medical knowledge is made available to the people. It is true that the spread of medical services is itself to some extent a function of the rate of economic development. But we believe that, over the next ten years or so, these factors will remain largely independent. Medical knowledge will spread, and the population will increase, whether economic development takes place or not.

137. It follows that it is urgent to develop the under-developed countries so that their production may grow at least as fast as their population will grow, and if possible, that production may grow much faster.

138. We distinguish three cases of the effects of population growth. First, the case where its effect is to raise the average standard of living. Secondly, the case where the standard of living is unaffected. And, thirdly, the case where population growth lowers the standard of living.

139. Population growth raises the standard of living in cases where a larger population presents opportunities for human specialization, or for the use of indivisible resources, which are not available to a smaller population. Thus, despite the apprehension frequently expressed in western countries during the earlier stages of economic development that the population would outrun production, it is clear, when we view the process as a whole, that population growth contributed importantly to economic development.

140. It seems probable, however, that this favourable case is found only in regions where the kinds of resources that are necessary for industrial development are present in large quantity, relatively to the existing population. There is inadequate information about the resources of most of the under-developed countries. Moreover, the kind of resources required for industrialization may change significantly with scientific progress. Nevertheless, it is our present guess that not many parts of the under-developed world would benefit from having a larger population. The possible exceptions include parts of Africa, parts of Latin America, some of the islands of Southeast Asia and parts of the Middle East.

141. Population growth will be costless only where natural resources are abundantly available for the extra population to work

with; for example, where there is much open land suitable for cultivation. In other cases, resources for the extra population to use have to be created out of the savings of the community; savings which could alternatively have been used to increase the average standard of living. Accordingly, even where the growth of population seems to be leaving the average standard of living unchanged, the truth may that it is preventing the standard of living from rising.

142. The cost of population in this sense is high. Estimates of the proportion of the national income which must be saved in order to provide capital for a 1 per cent increase of population vary between 2 per cent and 5 per cent of the national income. Hence, an under-developed country in which population is increasing at the not uncommon rate of 1½ per cent per annum, probably needs nearly as much as it is normally likely to save, merely to cope with population growth; under these circumstances, it can do little to raise the average standard of living.

143. There are countries where present savings are not high enough to keep the standard of living constant, with population rising at its current rate; in such countries, the standard of living would fall, but for funds from abroad. These are countries where the population is already so large, relatively to resources, that the standard of living is very low, and the capacity to save is very small. In the limiting case, no net capital formation is occurring, and the country is driven to borrow abroad merely to feed its people.

144. To some extent, the problems of countries whose population is too small, and of countries whose population is too large, might be met simultaneously by migration. Much of the economic development of the nineteenth century depended upon the great international migrations with which it was associated, and without which the world's wealth could not have grown so rapidly. In these days, international migration is much restricted by political barriers, and some part of this restriction hinders economic development. We do not feel, however, that there is any recommendation that we can usefully make on this subject.

145. The history of the last two centuries suggests three generalizations. First, where resources are adequate, production can increase more rapidly than population, so that the standard of living may rise even though population is growing rapidly. Secondly, where this happens, the combination of a rising standard of living, and of the new ways of life associated with economic development,

causes the birth rate to fall, until it gets so low that the population may for a while almost be stable, or may even fall. And thirdly, the gap between mortality and fertility rates takes a long time to close —so long that in the meantime the population may have multiplied threefold or more.

146. There are many countries where a further increase of population must, all things considered, be found to be an adverse factor. Such countries cannot afford to wait on the slow cultural effects of modernization to bring their fertility and mortality rates into balance, since in the meantime their populations will increase with disastrous consequences. It is, therefore, important that thought be given to discovering ways and means, which are consistent with the values and culture of each of the peoples concerned, of speeding up the reduction of fertility rates. We urgently commend this subject to the Population Commission of the United Nations, and to other experts in this field.

*Chapter VIII*

## DEVELOPMENT PLANNING: PRIORITIES

147. In this and the succeeding chapter, we are concerned with the proper disposal of resources between different uses. This chapter discusses the principles which should guide the choice of targets for development programmes, while the succeeding chapter discusses the techniques which governments may use in influencing the movement of resources from less to more desired goals.

148. Economic analysis provides two general principles for the use of resources. One is the marginal principle. Resources should be used in such a way that a transfer of marginal units from one use to another could not increase welfare. This tautology is simple and evident; nevertheless, it is frequently ignored in practice. Its most important corollary is that one should not think of any single industry or economic activity as more important than any other, and should not therefore concentrate all resources in one particular part of the economy. Progress must be made on all fronts simultaneously. In planning for a particular industry or activity, one must not put resources into it beyond the point where a transfer of marginal units to some other activity would increase total welfare.

149. These generalizations are to be considered in the light of the second general principle which economic analysis provides. This second principle arises from the fact that large movements of resources within the economy will have effects which are disproportionately different from marginal movements. In consequence, the planner must satisfy himself not only that further marginal movements would serve no useful purpose, but also that there is nothing to be gained by large movements of resources, amounting to a considerable alteration in the structure of the economy. The first of these conditions is often satisfied where the second is not.

150. In under-developed countries, major structural readjustments are much more needed than they are in advanced countries which have already equipped themselves with the basic requirements for economic development. The marginal principle, there-

fore, though still valid, is often of secondary usefulness. This makes the task of economic calculation all the more difficult. For, if one is working at the margin, the cost and the productivity of small movements of resources can be estimated with fair accuracy, if only because many such movements are occurring all the time. But if one is working in terms of large structural readjustments, both cost and productivity are difficult to measure and one is left to rely much more on qualitative judgments which can be checked only by the event itself.

151. When we add to this difficulty the further fact that no two countries are exactly alike in their resources or their development potentialities, it will easily be seen that no simple generalizations can be set out to act as concrete guides to development planning. Those who are responsible must soak themselves thoroughly in the facts of each particular case and must then use their best judgment as to what will be the most desirable directions of movement.

152. Nevertheless, when this is said, it remains true that there are a number of problems which crop up all the time in development planning, and about which some general observations may usefully be made. In the rest of this chapter, we discuss five of these problems which are often presented in the form of choices between alternatives, namely:

(*a*) Between consumption and investment;

(*b*) Between investment in human beings and investment in material capital;

(*c*) Between public works and other productive activity;

(*d*) Between autarchy and foreign trade; and

(*e*) Between industry and agriculture.

153. It is hardly necessary to emphasize that all these antitheses are false. Progress must be made on all fronts simultaneously and in a balanced way. The problem in each case is only that of relative emphasis: how far one should go in both directions.

### Consumption and Investment

154. Up to a point, the choice between consumption and investment is the choice of the rate at which economic development is to be pursued. We have already discussed, in chapter VI, the factors that govern the rate of domestic saving; and we shall be dealing, in chapter XI, with investment that is financed from abroad. Total

investment must be kept within the limits set by the minimum level below which consumption is not to fall.

### Human Investment and Material Investment

155. A choice that is frequently debated is, how large a proportion of resources should be absorbed by social services in a development programme.

156. It should first be noted that not all expansion of social services is at the expense of an alternative use of resources. A large part of the provision of social services results merely in the transfer of the power to consume from one class of the community to another —from rich to poor, or from employed to unemployed, or from healthy to sick, or from unmarried to married, or whatever the case may be. We are not concerned here with mere transfers of consumption, or with the general question of the desirability of social services. From the angle of economic development, the social services are relevant only in so far as they infringe upon development, either by absorbing resources which would otherwise be used for capital formation, or by reacting upon productivity in other ways.

157. There are two ways in which expansion of the social services may commonly be at the expense of capital formation. The first way is where the persons who are taxed to pay the cost (not necessarily exclusively the rich) react to taxation by reducing their savings rather than their consumption. In some countries with an advanced system of social services, the fiscal effort to finance these services has reduced the propensity to save; but it must also be mentioned that, in some stages, the social service funds of some countries actually accumulate balances and may thus be a source of saving.

158. The other way in which the expansion of social services may reduce capital formation is when those who are taxed to finance the services succeed in shifting the tax. For example, a large part of social service payments to manual workers is usually intended to be financed from their wages, either directly by periodic deductions, or indirectly by a rise in prices. In some communities, however, the workers are strong enough to resist this social service levy and, ultimately, after a general price inflation, manage to restore themselves to the same level of real wages as they had before. The tax may have been shifted to other classes, or the government

may have been forced to reduce its expenditures on public works or other capital formation in order to find the money for social services.

159. This analysis of the ways in which expansion of the social services may be at the expense of capital formation must not be read as a judgment that, all things considered, such expansion is necessarily undesirable. The point is merely that any substantial expansion of social services must usually be accompanied by other measures designed to maintain or to increase the propensity to save. Moreover, even where social services are expanded at the expense of material capital, it does not follow that there are adverse effects on productivity. It may merely be that the community is investing in people rather than in material capital.

160. In our opinion, most under-developed countries are in the situation that investment in people is likely to prove as productive, in the purely material sense, as any investment in material resources, and in many cases investment in people would lead to a greater increase of the flow of goods and services than would follow upon any comparable investment in material capital. This is most obvious in two spheres, the sphere of public health, and the sphere of education.

161. Not all expenditure on public health increases productivity. What is most productive is expenditure which reduces the incidence of debilitating diseases, such as malaria, yaws, hookworm, sleeping sickness or bilharzia, and expenditure for the improvement of diets, which increases the capacity to work. These two types of public health expenditure should have the highest priority in any development programme.

162. Similarly, not all expenditure on education increases productivity, and some types of expenditure yield more immediate results than other types. Up to a few years ago, the first goal of educational authorities in under-developed countries was to get as many children into schools as possible, and to make the whole population literate as soon as possible. This is still an important goal, but it has receded somewhat in importance as the needs of economic development have revealed more urgent educational problems.

163. Top priority is now accorded to three different educational tasks. The first task relates to agricultural extension services. In communities where the majority of the people work as small

farmers, this is of the highest priority. In many of these countries the yield of agriculture is very low because of ignorance of modern techniques. Estimates of the possibility of increasing yields vary widely. We believe that an increase of 50 per cent in two decades or less would be possible even without any substantial increase in capital or any substantial reorganization of the agricultural system, if farmers were taught modern techniques — mainly the use of fertilizers and of seed control. For this to be achieved, there must be a very big effort at spreading agricultural extension services; something approaching a total of 1 per cent of the national income should be spent annually in under-developed countries upon such services, including agricultural research. We can think of no other investment that is likely to yield bigger returns in the immediate future.

164. The second educational task is to provide, at the level of university training, men capable of framing and executing development programmes. This includes administrative officers for government and business, and technicians of all kinds — engineers, agricultural scientists, physicians, teachers and so on. Scarcity of such persons is one of the major bottle-necks in the development of under-developed countries.

165. The third educational task is to train skilled personnel of the kind required for a development programme — manual workers, craftsmen, medical assistants, and such.

166. We have already discussed, in chapter V, the steps that are required so that new technologies may be absorbed by the peoples of under-developed countries. It is sufficient to record here the opinion that most development programmes accord too low a priority to investment in human beings, and provide correspondingly for relatively too high a priority to investment in material capital.

### Public Works

167. It is hard to find the right balance between investments in public works and other investment. In some countries, expansion of public works is now obviously more urgent than is any other material investment, whereas in some other countries it seems clear that development planning is drawing into public works capital that would be more productively employed in agriculture or manufacturing or other activities.

168. In countries at the lowest level of development, lack of basic facilities is frequently a major bottle-neck. Transport, communications, water supplies and electric power are necessary, before other types of economic activity can begin to move forward rapidly. In such a case, development planning is easier since the government can more or less confine its attention to providing these basic facilities.

169. In some other countries which have passed this level, the shortage of capital in agriculture and in manufacturing is more acute. There is, however, the danger that, since development plans are made by governments, and since governments are directly engaged in public works and are not, in most cases, directly engaged in other productive industry, some governments tend to consider, in detail, the need of their countries for further public works, and to overlook, or to give less attention to, the need of their countries for other productive capital. The end result, in many cases, is that some capital is absorbed into public works which would be more productively employed in other activities.

170. The greatest sufferer is usually small-scale farming. Governments may be aware of the need to provide public works in farming areas, especially roads and, to an extent now increasingly realized, water supplies, conservation works, and electric power. It is, however, also important that the capital used directly by the farmer himself should be greatly increased. Much money spent, for example, on improving highways beyond essential standards would be more productive if it were spent on providing the farmers with better equipment, more good livestock, processing facilities and such. If small-scale agriculture is to be better equipped, as it must be if there is to be substantial economic development, then the provision of capital through government institutions must be greatly multiplied. Yet this is an item for which very little provision is made in most development programmes.

171. Public works sometimes also absorb too much capital, not because they are not necessary, but because they are done on too costly a scale. A good government likes to do properly whatever it may be doing, and especially to leave behind it structures which are permanent and outstanding. Most under-developed countries, however, cannot afford the luxury of doing things properly in this sense. What they need is the cheapest structure that will do the job. Frequently, too, what they need is a structure which will be pulled down in twenty or thirty years, rather than a permanent

memorial. Capital is so scarce that it should, in general, be spread over many simple structures rather than being concentrated on some outstanding work.

172. The defect of too costly a scale of public works relates to a common complaint in under-developed countries that, because development plans are made in the capital city, resources tend to be concentrated on works sited in the capital, or on a few projects that "look good" from the capital. Thus, the road programme will provide for a few elegant highways, instead of concentrating on creating a multitude of farm-to-market roads which cannot be demonstrated spectacularly to tourists. Or vast resources will be poured into controlling a single river, where the same money would yield much more if spent on a multitude of wells and small streams. Sometimes these are the right policies; one major work may be more economical than several small ones. We are arguing not for *a priori* judgment, but for careful choice between alternatives. This is partly an administrative problem. Development planning should be geographically decentralized as much as is practicable.

173. The high standards which some under-developed countries set themselves, sometimes have also the effect of inhibiting the growth of public works because these works come to be more costly than the government can afford. For example, in pioneer settlement of new lands in the nineteenth century, the settlers often created their own public works for themselves as they went along. With their own hands, and roughly, they built their roads, schools, public buildings, water supplies and other facilities, at a minimum cost. Today, in some countries, governments are expected when opening new lands, to cut down forests, to build good roads, and to provide schools, water supplies and other community needs, before the first settlers move in; and where the government cannot raise the money required for this heavy initial investment, settlement is sometimes held up.

174. Governments are also expected, in many under-developed countries, to pay much higher wages, and to offer much better conditions of work than can be obtained from private enterprise or by working on one's own land. The construction of public works thus imposes a tax on the community for the benefit of a particular class of government employees. There are some countries where this is a factor holding up development.

175. The difficulties created by excessively high standards can to some extent be avoided by encouraging local communities to

create their own public works with their own hands; the villagers, for example, building their own roads, dams, schools and so on, using their own labour, with a contribution from the government to cover the cost of materials and of technical services. Obviously this is possible only for a limited range of public works. But, wherever it is possible it has the merits, not only of financial cheapness, but also of identifying the people with their own development schemes, and of arousing that mass desire for improvement and mass participation in development which is the secret of rapid progress.

## Foreign Trade

176. Most of the governments of under-developed countries tend to be driven towards autarchic measures, and to be sharply criticized by more advanced countries for moving in that direction. This is a sphere where argument usually generates more heat than light. But it is also one of the oldest issues in economic analysis, and one where the theoretical principles involved can be stated without controversy.

177. The question is whether to import a particular commodity or to produce it at home; the restriction of luxury imports raises other less-disputed issues. The answer depends on three calculations: first, an estimate of the amount of resources required to produce one unit of the commodity at home; second, an estimate of how much this same quantity of resources could instead produce of another commodity which could most profitably be exported; and third, a comparison, via the terms of trade, of the quantity of the first commodity that could be produced at home with the quantity of the same commodity which could be imported if the second commodity were produced instead and sold abroad.

178. The difficulties that arise in applying this test are not theoretical but practical. To begin with, some critics of autarchy believe that the matter can be tested simply by comparing the import price of the commodity with the domestic price of producing it. This is quite false, and the controversies have arisen in connexion with the three factors that make it false.

179. First, it is not always relevant to compare the money cost of producing a commodity at home with the amount of money that could be obtained by producing an export product with the same quantity of resources. For example, the imported product may be replaced by using labour which would otherwise remain

unemployed because it could not be utilized to produce an export commodity, for which the export market is already overcrowded; and even if the export market would absorb the product, it might be willing to do so only at a much lower price.

180. Secondly, the cost of producing a commodity at home may be a function either of the quantity produced or of the length of time for which the industry has been established. This "infant industry" case has been recognized for well over a century.

181. Or, thirdly, the relative prices of imported and exported products may be subject to such uncertainty that a country prefers to diminish its dependence on foreign trade. This is the substance of the case for "diversification" of the economy. Too many under-developed countries are dependent on an export commodity whose price fluctuates widely. Where possible, something may be gained by developing other export commodities. But most primary commodities fluctuate together even though they do not fluctuate in the same degree; hence, a country which exports several primary commodities is only a shade more secure than a country that exports a smaller range. Neither is the uncertainty confined to cyclical fluctuations, which could be met by international stabilization policies. There is also great uncertainty about the secular trend of the terms of trade between primary and manufactured commodities. And further uncertainty about the extent to which governments of industrial countries may intervene to move the terms of trade in their favour by the adoption of certain policies.

182. All the factors enumerated in the last three paragraphs drive under-developed countries in the same direction: they seek to reduce their dependence on the export of primary commodities. This is a reasonable policy for them to follow, in so far as it results from rational calculation on the lines indicated above. What is important is not the direction in which they move, but the rational process which leads them there. Foreign trade policy should be tested not by whether it is more or less autarchic, or creates more or less diversification, but by whether it leads to a situation where, all things considered, nothing is produced at home which could in practice be bought abroad for a smaller quantity of resources; and, vice versa, that nothing is bought abroad which could be produced at home for a smaller quantity of resources.

183. In practice, rapid economic development imposes its own pattern upon foreign trade. Rapid development may impose a strain upon the foreign exchanges if it causes the need for imports

to rise swiftly, and if they are not covered by external grants or loans. Foreign exchange is often one of the bottle-necks in development. When these circumstances exist it is of the highest priority in development to encourage industries which are foreign exchange earning (export industries) or foreign exchange saving (substitutes for imports). Some countries may well find that in the initial stages of rapid development, foreign trade grows to be not a smaller but a larger part of their economy. There is no reason why they should be disturbed by this, so long as the general trend of their policy is towards a situation where marginal resources earn the same amount whether they are employed in domestic or in foreign trade.

### Industry and Agriculture

184. The dispute over the industrialization of under-developed countries is usually conducted in relation to foreign trade. As far as this aspect of the matter goes, therefore, nothing need be added to what has already been said in the preceding section. Whether it pays to make manufactured goods at home or to import them is a matter simply for calculation, bearing in mind the possibility of using unemployed labour or other idle resources, the infant industry problem, and the uncertainty of the terms of trade. These matters taken together will in most under-developed countries amply justify some degree of protection.

185. Even apart from considerations of foreign trade, however, the proportion of resources devoted respectively to agriculture and to manufacturing is a matter of considerable importance. Like everything else, it should be governed by the general rules laid down in the opening paragraphs of this chapter. That is to say, the proportions should be such that neither by marginal movements nor by major structural changes can the national income be increased. The second of these tests is of the utmost importance in developing manufacturing industry. To test the profitability of manufacturing simply by starting one new factory will give the wrong answer, since, where one might fail, fifty might nevertheless succeed if properly integrated so as to form a new industrial network. The costs and advantages of industrialization must always be assessed both in the small and in the large.

186. As economic development proceeds, manpower shifts from agriculture into manufacturing industry, because technical progress makes it possible for the population to be fed from the labours of

a smaller and smaller proportion of itself. The labour thus released moves from agriculture into other occupations.

187. In a country where there is no surplus labour, industrialization waits upon agricultural improvement, because industry should receive only those persons whose labour is no longer required in the production of food. The improvement of agriculture and the development of industry thus go hand in hand, but there is nevertheless an important sense in which the former is of prior urgency.

188. The reverse is the case in a country where population is so large in relation to cultivable land, that the land is carrying more people than can be fully employed in agriculture. In such a situation, technical changes which reduce the number of people required per acre are of no value; investment in agricultural machinery, for example, would be wasteful, except in so far as it enables new lands to be cultivated which could not otherwise be used. Technical changes which increase yield per acre are still of the greatest importance, since in such countries yields are usually so low that the population lives on a very low level of subsistence. But it is frequently found that substantial technical progress in agriculture is not possible without reducing the numbers engaged in agriculture. In this case, a programme of agricultural improvement has to start by developing manufacturing industries which will absorb the surplus population of agriculture. In some underdeveloped countries, especially in Asia, the development of manufacturing industry is for this reason, apart from others, of the highest priority.

189. It is thus clear that there is no need to choose between developing agriculture and developing industry; both must be pursued. In countries that are short of labour the way to industrialization lies through the improvement of agriculture; while, in countries that have a surplus rural population, the way to the improvement of agriculture lies partly through the development of manufacturing industry. In either case, both must figure largely in any development programme.

190. It remains to be added that manufacturing industries vary widely in their requirements of power, skill, capital, heavy raw materials, and so on, and that each country must be careful to choose those industries in which it has a comparative advantage. While the importance to be attached to heavy or basic industry in the initial stages of the development programme has to be

determined in the light of considerations set out by us so far, special priority may also have to be given to these industries, if a country fears that it will not be able to obtain a steady and continuous supply of capital goods required for its development.

191. Special consideration has to be given to the position of domestic industry. A resolution of the General Assembly of the United Nations has called our attention to the aggravation of the problem of unemployment as a result of increased mechanization of production in certain branches of industry and agriculture. We have referred above to mechanization in agriculture. It should not be difficult to regulate the progress of mechanization in agriculture so as not to increase unemployment. The problem in domestic industry is not equally easy. Industrialization must be an important and integral feature of a programme of development; and the growth of modern industry is bound to exert pressure on domestic industry. To counteract this pressure, domestic industry must increase efficiency by making, among other things, improvements in its technique, and many of these would be labour saving. Development which increases rapidly the domestic demand for consumer goods may partly ease the situation. However, in most under-developed countries serious consideration will have to be given to steady improvement in the technique and organization of domestic industry, to demarcation of the fields of domestic industry and modern factory industry, and to bringing about greater integration between the two types. The developments in Japan in the last half-century seem to us the most instructive in relation to a comprehensive and integrated organization of cottage and small-scale industries, the organization of institutes for improvements of techniques of these industries and the manner in which activities of domestic and factory industry are combined in individual industries.

*Chapter IX*

## DEVELOPMENT PLANNING: TECHNIQUES

192. The preceding chapter discussed the allocation of resources between the various types of economic activity, i.e., the objectives of development planning. This chapter is concerned with the process of formulating development programmes and of putting them into effect.

193. The first stage of planning is the survey: to find out what resources are available and what are the potentialities of development. Here the work to be done may be sub-divided into technical surveys and economic surveys.

194. Most under-developed countries have few technical surveys of their resources, and as a consequence they do not really know what their development possibilities are, and are not really in a position to begin development planning. Their need, at this stage, is to establish survey organizations. They need geological surveys, to find out what minerals they possess, and what underground sources of water and of oil. They need soil surveys, and experiments to discover what new crops can be grown successfully. They need engineering surveys, of routes for roads, of communications and of the possibilities of irrigation, hydro-electric power, and new supplies of water. And they need market surveys, of the home market and of foreign markets, to indicate what new manufacturing industries might succeed. Too low a priority has been given to this work in the past. In consequence, one of the bottle-necks now holding up economic development is simply the fact that governments do not know what is possible in their territories.

195. Economic surveys are of two kinds. One is a survey of economic institutions. What are the institutions for stimulating and mobilizing domestic savings? Can the flow of capital into agriculture and into industry be improved through government agricultural or development banks? Are tenants adequately protected by the law? Does the existing commercial law inspire the confidence of persons entering into contracts? Is the scale of organization of economic activities adequate, in agriculture, in industry, in marketing and in transport, or is some rationalization

needed? And so on. We have discussed these matters in some detail in preceding chapters. We emphasize here only the fact that some governments are apt to overlook the importance of this aspect of economic planning, because they think of planning primarily in terms of money and of figures. There is, on the contrary, an important sense in which it is true that if the institutions are right, the figures will look after themselves.

196. The other kind of economic survey is that which takes stock of the current use of the community's resources. This is expressed in various accounts. First, there is the manpower budget which shows the numbers and occupations of the people, and which stems from censuses and from other inquiries. Similar budgets show the utilization of land as between different industries; or the utilization of foreign exchange earnings, or of other scarce resources. Then, there are industry studies, showing the input of factors into each industry, and the output of products; from these studies can be derived such information as the net output of each industry, productivity, the cost of expanding the industry, the nature of the resources required for further expansion, and so on. Another account shows the distribution of income between various social classes in the community. This in turn leads to accounts showing the expenditure of personal incomes, and of savings. Finally, much of this information can be crystallized into the form of national income accounts, which show, summarily, how the national income is produced, distributed and spent.

197. All these types of surveys need to be established on a permanent basis. It is not enough that *ad hoc* studies be made from time to time, since the situation and its potentialities are changing all the time. On the other hand, it is also true that the hardest part of this type of work is the initial survey; that once the initial survey has been made, keeping it up to date is relatively easy; and that the initial survey can provide most of the information which is needed to begin development planning. The sphere of surveying is one where technical assistance from abroad can be most helpful. Outside experts can be brought in for relatively short periods to assist in the initial surveys, in setting up the permanent organization, and in training local people to carry on. All underdeveloped countries should make the fullest use of technical assistance available from abroad for the purpose of setting up their survey organizations.

198. We come next to planning. The term "plan" is used in many different senses, of which we distinguish four. First, in some

countries it refers only to the making of a programme for public expenditure, extending over from one to say ten years. Secondly, it refers sometimes to the setting of production targets, whether for private or for public enterprise, in terms of the input of manpower, of capital or of other scarce resources, or else in terms of output. Thirdly, the word may be used to describe a statement which sets targets for the economy as a whole, purporting to allocate all scarce resources among the various branches of the economy. And fourthly, the word is sometimes used to describe the means which the government uses to try to enforce upon private enterprise the targets which have been previously determined.[1] We shall consider each of these four matters separately.

### Planning Public Expenditure

199. In recent years, several governments have adopted the practice of drawing up plans for public expenditure covering several succeeding years; e.g., five-year plans. Some relate to all public expenditures; others relate only to public capital formation.

200. The practice is highly to be recommended to underdeveloped countries. In the process of drawing up the first of these programmes, the several agencies of the government are compelled to look ahead, to re-examine their objectives, and to determine their priorities; such programmes should include the proposals for all government agencies, including public corporations. When these departmental plans are put together, the central planning authorities are able to relate them to each other, and further to set priorities in the light of the total sums likely to be available for public expenditure. There thus emerges a programme which enables the financial authorities to make their arrangements well in advance, and which sets the engineers and other technicians precise tasks for a considerable period ahead. It is a considerable advantage to the government to have its objectives thus precisely stated. And it is also a considerable advantage to private persons to know what the government proposes.

201. The main danger of this multi-annual planning is equally obvious. Since no one can foretell the future, even over so short a period as five years, it would be a disadvantage to be bound strictly

[1] The word has also other meanings. In some of the literature, it is synonymous with geographical zoning, or "town and country planning". There is also a highly specialized economic theory literature in which it refers to the working of an economy exclusively by central direction, where each production unit uses the resources allocated to it by quota, and disposes of its product also by direction.

to a multi-annual plan. Any such plan must be subject to constant revision. A technique which has been tried for ensuring that, say, a five-year plan is never out of date, is to revise the entire plan every year, and to make each revision cover a five-year period, so that the plan is never out of date. No device can ensure that the plan will always take account of changed circumstances. On the other hand, a plan is needed because, though we cannot foretell the future, we also cannot act rationally without making plans for the future, in the light of whatever information is available at the time.

### Production Goals

202. The urge to set production goals springs from the contention that sources will be misallocated unless the government takes special steps to encourage movement in the right direction. Thus it may wish some industries to expand and others to contract. Needless to say, the mere setting of such targets is not planning in any useful sense of the word, since the real economic situation does not begin to be affected until steps are taken to move resources in the directions indicated. It is, nevertheless, to be observed that the publication of such goals is much more frequent than is the adoption of measures to move resources; the illusion of planning is more frequent than the reality.

203. If the number of industries which the government wishes to affect is small, and the total movement of resources involved is not significant, it may be safe for the government to set a limited number of goals without troubling to plan for the whole economy. However, as soon as the quantity of resources involved becomes large in relation to the economy, it is dangerous to plan for particular industries, without first considering the reactions upon the whole economy.

### Comprehensive Planning

204. In practice, the signal that the time has come for comprehensive planning is usually provided by the emergence of shortages. Because of the demands being made upon the economy, some resource or other becomes acutely scarce, e.g., labour, or food, or foreign exchange, and the symptoms of inflation appear. This scarce resource may then have to be rationed, and this cannot be done satisfactorily without knowing how important it is in every part of the economy.

205. The main purpose of comprehensive planning is to ensure that the various plans which are being made are consistent with each other and with the total resources available.

206. Consistency of plans with the total resources available is tested by making budgets for all resources which are likely to be scarce. For example, a manpower budget will show, on one side, the manpower available; on the other side, it will show how much manpower each sector of the economy will require if it is to produce what is asked of it. Both sides must add to the same total in any realistic plan. Furthermore, by comparing the figures showing how the resource is to be distributed between sectors with the figures which show how it is currently distributed, one can see at once how much reallocation is called for by the plans; and, in the light of the techniques available for bringing about redistribution, one can judge whether the plan is realistic or not. Similar budgets can be made, by sub-division, for various kinds of manpower which are not interchangeable with each other, or for land, for foreign exchange, for capital, or for whatever factor is likely to be in scarce supply.

207. In testing the consistency of programmes with each other, the sort of question one wishes to answer is: whether the programmes for producing electricity are consistent with the programmes for developing new industries and other uses for electricity; or whether the programmes for stimulating agricultural production are consistent with the programmes for building roads, for enlarging the ports, for processing facilities, and so on. To answer these questions one must know for each industry the quantity of each factor of production which is needed to produce one unit of product, and the stages through which the product passes on its way to the consumer. For this purpose the newly developed technique of describing the economy by means of an input-output matrix may hold some possibilities.

208. The most difficult part of testing for consistency is to test whether the results of plans now being put into effect will be consistent with each other, say, in five years' time. For example, will the goods that the new industries will be turning out then be the goods that people will then want to buy, given the size and distribution of the national income which is planned for five years ahead? As income grows, will the supply of savings be consistent with planned investment? Will the demand for foreign exchange be consistent with its planned supply?

209. It is obvious that precise and accurate answers cannot be given to these questions. Exact information is seldom available on the required co-efficients, such as input-output relations and consumption functions, and even if it were available for any one moment of time, it would cease to be accurate with the passage of time. Moreover, much depends on factors which cannot be predicted, such as the effect of the weather on agricultural yields, or the effect of cyclical fluctuations on the terms of trade. No sensible person would pretend that he can test with certainty the consistency of the various parts of a plan. As with the choice of priorities, much depends on the good judgment of those who have to decide these matters.

210. It must, however, be emphasized that tests for consistency are necessary even though they are bound to be imperfect. We are always having to make decisions on the basis of inadequate information; what is important is that we should use all the information we possess, and organize it rationally. To act as if it were complete would be foolish; but it would be equally foolish to make plans without first marshalling all the relevant information that is available.

211. Finally, it should specially be noted that in this section "comprehensive planning" means nothing more than assembling all available information on paper, and using it to throw light upon particular projects. It does not mean making and enforcing a plan upon every sector of the economy. How many sectors of the economy the government should seek to control is a separate question. All that we say in this section is that, whether controls are few or many, they should have as their background a comprehensive analysis of the interrelations of the economy.

### Putting Plans into Operation

212. Merely to announce goals is not planning if measures are not put into operation which will move resources in the required directions.

213. The first question which the government has to decide with respect to the attainment of the announced goals, is how much it should do itself, and how much it should leave to private enterprise. The second question is, for that part of the plan which is left to private enterprise, how should the government ensure that private enterprise moves in the right direction.

214. We are not expected to enter into a political debate on the limits of government enterprise, and we do not propose to do this. We wish to make only two points. First, the list of functions which the government must fulfil is much larger than is generally realized in most under-developed countries. And secondly, if the governments of such countries were to try to do all the things which they and only they can do, they would find themselves so fully occupied that they would be reluctant to take on anything that could be done better or equally well by private enterprise.

215. We have already discussed at length various governmental functions, the inadequate fulfilment of which handicaps economic development. Here we mention only one or two which stand out in the light of the priorities discussed in the preceding chapter. For example, the governments of under-developed countries have special responsibilities for promoting industrialization, by such means as establishing marketing surveys, building industrial centres, financing technical training, setting up development corporations and development banks and so on. Similarly, very few governments are tackling adequately their responsibility for the improvement of agriculture, by providing capital for small farmers, financing an extension service, or trying to ensure a sound economic structure for agriculture. These are two spheres where governments could make a very large contribution to economic development if they would play their part.

216. For that part of the development programme which is left to private enterprise, the government has a choice of two methods of trying to secure that private enterprise carries out the programme. First, it can, by means of taxation and subsidy, so adjust the economy that private enterprise finds it most profitable to do the things which the programme calls for, and therefore moves naturally into those directions without other controls. Alternatively, the government can try to direct private enterprise, by licence, quota and authorizations, thus making it illegal for private enterprise to do a number of otherwise very profitable things. For short, we call the first of these the method of inducement, and the second the method of direction.

217. Each method has its disadvantages which are the corresponding advantages of the other. Thus, inducement is sometimes costly, works slowly at best of times and in some situations does not work at all. Direction, on the other hand, can be worked only by a bureaucracy, which is itself costly and liable to corruption. It gives rise to black markets; it causes great irritation and frustra-

tion which is of considerable political significance, especially when applied to labour; and it cannot be applied to new foreign resources that have to be attracted from abroad. Inducement is best where one is trying to move only marginal quantities of resources which are highly sensitive to differential rewards. But if the quantities to be moved are large, and the movement must be rapid, it usually has to be done by direction.

218. Each government must choose for itself the appropriate combination of inducement and direction as means of controlling private enterprise. In either case, of course, it is difficult to achieve precise objectives. The most that governments can hope to do is to start resources moving in the desired directions; the movement can seldom be controlled precisely in quantity or speed.

219. A further consequence of the difficulty of controlling the economy is that it is better to concentrate on operating a few strategic controls than to try to control every nook and cranny of the economy. What is strategic varies from economy to economy; it may be land, or labour, or foreign exchange, or finance, or some other scarce factor. A factor is strategic in this sense if it is essential to most economic activities, if the government is able to control the whole of its supply, and if entrepreneurs cannot easily substitute other factors for it. By controlling a small number of strategic factors, the government can thus determine the pattern of the whole economy.

220. One of the most difficult problems connected with the planning and directing of economic activity is the tendency towards excessive centralization which discourages individual effort. The only way of meeting this is to be on one's guard constantly and to ensure that the political and economic planning mechanism provide the fullest scope, at each stage, for individual and local participation. Apart from any emergency decision or action, the preparation of plans and the determination of goals should be effected by a process of building up from local and regional proposals and the implementation or execution of plans should also be made through a series of graded regional and local authorities, enjoying as large a measure as possible of autonomy in adjustment and adaptation.

Part 3

# MEASURES REQUIRING INTERNATIONAL ACTION

*Chapter X*

## TERMS OF TRADE

221. The ability to have large exports and to obtain favourable terms for them is of great importance for all under-developed countries. It is of particular importance to countries in whose economies international trade plays a substantial part.

222. If the proceeds of exports are substantial and stable, under-developed countries may be able to satisfy their needs of imports of capital goods for development largely out of these proceeds, and thus to keep down the volume of borrowing. This may also make it easier for them to make repayments in later years. Moreover, a healthy balance-of-payments position may have an effect in easing the terms and conditions on which external capital can be obtained by these countries. The volume of exports and their terms are also important because a number of countries depend, even for their budgetary stability and in a direct way, on incomes arising out of the exports of one or two staple commodities. For example, in Venezuela, exports of petroleum account for 97 per cent of the credit side of the balance of payments, and for almost 60 per cent of the revenue of the fiscal budget. If to this part of the revenue is added the 18 per cent of the revenue received from customs duties paid on merchandise imported with foreign exchange produced by petroleum, the contribution of petroleum to the budget amounts to about three-quarters of the total. In Chile, to cite another case, copper produces almost 50 per cent of the credit side of the balance of payments, and directly or indirectly, a sum approximating 33 per cent of the budget revenue; for each American cent by which the price of a pound of this metal varies, the Chilean Treasury receives or loses the approximate amount of $4 million in tax revenues. In Egypt, cotton in either fibre or seed form contributes 88 per cent of the credit side of the balance of payments; in Turkey, tobacco and fruit 53 per cent.

223. It may also be pointed out that the ratio of exports to the national income of under-developed countries is high to an extent not often realized. For the under-developed countries as a whole, the ratio of exports to the national income appears to be not much less than 20 per cent.

224. Favourable and stable terms of trade are therefore a matter of the utmost importance to under-developed countries, and have rightly

been a matter of attention by the Economic and Social Council of the United Nations. We welcome the fact that, at its twelfth session, the Economic and Social Council has referred further study of the terms of trade of under-developed countries to another group of experts, and it is partly for this reason that we do not discuss the subject at greater length.

225. The position of under-developed countries in respect of their export proceeds and terms of trade is traditionally precarious and vulnerable. Their exports consist mainly of primary commodities. For reasons well explored in economic analysis, primary commodities, especially industrial raw materials, are subject to particularly violent swings in prices. Nor can the fall of primary commodity prices be compensated for by an increase in volume of exports. Often effects of changes in quantities are added to those of changes in prices, with the result that the values of total exports may vary from year to year as much as 30 per cent; changes in the same direction may also go on for consecutive years, resulting in a total fall in value of more than 50 per cent within a few years.

### Cyclical Fluctuations

226. The cyclical movements of the terms of trade have attracted the greatest attention. These fluctuations are of such a nature as to be almost incompatible with steady development policies and steady rate of investment in under-developed countries, and should therefore be eliminated as far as possible. The onus for eliminating these fluctuations rests upon the industrial countries of the world, and appropriate policies to this end have been recommended by another group of experts. What is important to under-developed countries is not just the maintenance of their import capacity, but the maintenance of their import capacity without excessive indebtedness.

227. Meanwhile, the under-developed countries can take individual action to reduce the incidence of the trade cycle upon their economies. It is possible to stabilize their internal flow of purchasing power by establishing their own counter-cyclical devices. The essence of such devices is to accumulate foreign exchange during the boom period, which can be spent during the slump, and to prevent domestic prices from fluctuating with foreign prices. This can be done in various ways, such as by varying export and import taxes with changes in foreign prices or by establishing marketing agencies which disconnect domestic from foreign prices.

## Secular Movements

228. The secular movements of the terms of trade over long periods have also occasioned the under-developed countries some anxiety. The terms of trade between primary and manufactured commodities entering into international trade moved against primary commodities for the sixty years between 1873 and 1937. During this period primary commodities lost nearly 40 per cent of their value in terms of manufactures. A considerable deterioration in 1937 and 1938 was followed by improvement in the succeeding years; different countries were affected in very different ways, according to the market for their product, the type of commodity sold, and the timing of their exports in relation to required imports.

229. The future level of the terms of trade depends on the rates at which the supplies of primary and manufactured products expand, and upon relative demands. This fact has a great bearing upon the approach of various countries to the subject of economic development. Some industrial countries are interested in participating in developing the under-developed countries mainly because they hope that one of the results will be a great expansion of the supply of primary products. Some of the under-developed countries, on the other hand, are so anxious to avoid the over-expansion of the production of primary commodities that they over-concentrate their energies on developing industries, and neglect the important task of raising the productivity of their agriculture.

## Action by Developed Countries

230. We cannot leave this subject without drawing attention to two ways in which some policies of some industrial countries unfairly hold up the development of the under-developed countries and depress their terms of trade. First, some industrial countries persist in subsidizing within their own boundaries the production of some commodities which could be produced more cheaply by the under-developed countries. They thereby sometimes even create a glut of these commodities, and force under-developed countries to divert their resources into less profitable sectors, or even to leave them unemployed. The best known of these cases is the protection accorded to sugar beet in the United States of America and Europe. Other affected commodities are meat and wool. These objections do not, however, apply to subsidies the purpose of which is to restrict production in developed countries or to hold some part of the domestic output off the market.

231. Secondly, some industrial countries export also primary commodities which they produce in competition with the under-developed

countries. In recent years, the United States of America in particular has pursued a policy of subsidizing export of some such commodities. This reduces the opportunities of under-developed countries to expand in these fields, moves the terms of trade against them, and contributes to the disequilibrium of world trade.

232. The practices discussed in the two preceding paragraphs limit economic development in the under-developed countries. They are also inequitable and the developed countries should be asked to discontinue them.

233. Another problem which is beginning to assume major importance for under-developed countries is the question of physical supply of capital goods. This question is another aspect of the terms of trade problem in so far as it is feared that any interruption of the present supply of capital goods will make it necessary to pay higher prices for them in the future, and will depreciate the real value of the present export proceeds and other accumulated assets of under-developed countries. This fear is based on experience during the Second World War and the immediate post-war period. The case of Chile, whose prices for copper remained fixed during 1942 to 1946 while the price of her imports kept on rising with world market prices, may be quoted as an illustration of the kind of inequities and obstacles to economic development which may arise. Not only did the current terms of trade deteriorate, but the accumulated balances were heavily depreciated in real buying power as a result of the time lag between exports and the date when it became possible to obtain required imports. It is, of course, always possible that the fears of rising prices will prove unjustified and that, on the contrary, prices will fall and under-developed countries will, in fact, benefit from an appreciation of their accumulated balances.

234. One of the main difficulties and dangers to development programmes of under-developed countries is the risk that required capital goods may not be available in time at crucial stages in the execution of these programmes. This risk should be avoided; under-developed countries should be provided with an equitable share of capital goods and other materials required for maintaining their programmes of economic development, and the necessary priorities should be allotted by the developed countries for this purpose. Considering the large productive capacities of the highly industrialized countries and the great importance to be attached to uninterrupted progress of development programmes in the under-developed countries, we are of the opinion that it should be possible to find ways of adjusting the production and exports of the industrialized countries in such a manner as to avoid the risk of interruption of development programmes.

*Chapter XI*

## EXTERNAL CAPITAL

235. To what extent do the under-developed countries need capital from abroad, whether by grant or by loan, if their standards of living are to rise appreciably? This is clearly a very difficult question to answer. It involves making very hazardous guesses as to their present national incomes, their rates of population increase, and the cost and productivity of different types of investment. Since statistical information about most of these countries is very scanty, the limits of error are at best very wide. In the circumstances, we have debated at some length whether it would serve any useful purpose to suggest any figures in this sphere, and whether we should not merely leave the matter by saying that these countries will progress faster if they get more capital, and more slowly if they get less. We have, however, come to the conclusion that there is so little understanding of the magnitude of what is involved that we would be failing in our duty if we did not indicate that, in our opinion, the transfer of capital that is required to raise rapidly the living standards of under-developed countries is far beyond what is currently envisaged.

236. In table 2, which appears on page 76, we show the result of the best estimates we have been able to make. This table shows the capital required by the under-developed countries of the world for two purposes—to increase the national income by transferring population out of agriculture into non-farm occupations, and to increase agricultural yields.

237. In column 6 of the table we estimate how much capital is needed to provide new employment outside agriculture in these countries. This is one of the two principal ways by which the national income will be raised, the other way being the improvement of agriculture. The importance of this new employment, which we call for short "industrialization", varies from country to country in accordance with the pressure of population and the prospects for improving agricultural yields. But it is everywhere of the highest priority, whether because of the superior productivity of industry, or because the improvement of agricultural techniques will reduce the need for labour in agriculture, or because the land is already overcrowded.

238. We have assumed an annual transfer out of agriculture of 1 per cent of the total working population into employment other than

TABLE 2

CAPITAL REQUIRED BY UNDER-DEVELOPED AREAS ANNUALLY IN INDUSTRY AND AGRICULTURE TO RAISE THEIR NATIONAL INCOME PER CAPITA BY 2 PER CENT ANNUALLY

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|
| | | *Expected rate of annual population increase 1950-1960 (per cent)* | *National income 1949* | *Net domestic savings 1949* | *Needed for* | | | |
| *Area* | *Population mid-1949 (millions)* | | | | *Industrialization* | *Agriculture* | *Total needed* | *Deficit (Col. 8 minus col. 5)* |
| | | | *(million dollars)* | | | | | |
| Latin America .. | 158 | 2.25 | 24,000 | 1,990 | 1,580 | 960 | 2,540 | 550 |
| Africa, excluding Egypt ..... | 178 | 1.25 | 13,200 | 720 | 1,780 | 528 | 2,308 | 1,588 |
| Middle East, including Egypt. | 94 | 1.50 | 9,000 | 540 | 940 | 360 | 1,300 | 760 |
| South Central Asia[a] ..... | 436 | 1.50 | 24,000 | 1,200 | 4,360 | 960 | 5,320 | 4,120 |
| Far East, excluding Japan[b] ... | 661 | 0.75 | 26,400 | 790 | 6,610 | 1,056 | 7,666 | 6,876 |
| TOTAL | 1,527 | 1.25 | 96,600 | 5,240 | 15,270 | 3,864 | 19,134 | 13,894 |

[a] Includes India, Pakistan, Ceylon, the Maldive Islands and the adjacent areas of Nepal and Rhutan.
[b] Includes Burma, China (including Formosa), Korea, Mongolian People's Republic, Philippines, Thailand, British Borneo, Federation of Malaya, Hong Kong, Indonesia, Indochina, Macao, Timor, Singapore and New Guinea.

in agriculture. In one sense, this may seem rather a high rate of transfer, since in most countries it would increase industrial output by more than 10 per cent per annum. On the other hand, at present rates of population growth it would still not be enough in most areas to reduce the absolute number of persons engaged in agriculture. Neither is a 10 per cent increase in industrial production in any way unusual for countries which are just beginning their industrial development.

239. We have taken $2,500 as the amount of capital required for each person absorbed into non-agricultural employment. This is an average which takes into account the low amounts required by those who go into light industries, and the very high amounts required in heavy industries and in public utilities. It also includes expenditure on industrial research and on training. This gives us the figure in column 6, of $15,270 million a year for the under-developed world as a whole, of which 70 per cent is required for Asia. It should be noted that the cost of industrialization, as a ratio of the national income, varies inversely with national income per capita. Industrialization requires a larger part of the national income in poor countries than it does in rich countries, because as between countries the cost of industrial capital per worker does not vary very much.

240. For agriculture, we have assumed that these countries should spend 1 per cent of their national incomes on agricultural extension services and research; and that a further 3 per cent per annum should be invested in agricultural capital on and off the farms. This produces the figures in column 7.

241. The sum of the figures in columns 6 and 7 is about $19 billion a year. If anyone thinks this large, he should compare it with net investment in the United States of America, which now runs at between $25 and $30 billion a year for a population one-tenth the size of that which we are considering, and for an economy that is already highly developed. On the contrary, it should be noted that our estimates include only what is directly required for industry and for agriculture. The total capital requirement, including the capital required for social overheads, greatly exceeds $19 billion.

242. If the investment of $19 billion were made in industry and agriculture, by how much per annum would production increase? We have assumed an annual shift of 1 per cent of the total working population into industry. This should originate national income to the extent of about 2 per cent, after allowing for capital charges. In countries which have surplus labour in agriculture, this would be equivalent to an annual net increase in the national income of 2 per cent. But, in other

countries, the net increase is equal only to the difference between the productivity of labour in industry and the productivity of labour in agriculture, from which it has been withdrawn. We may assume that, over the under-developed world as a whole, the shift might increase the national income by 1½ per cent per annum.

243. It is even more difficult to estimate the possible improvement of agricultural yields. There is abundant testimony that, by using carefully selected seeds, by universal adoption of fertilizers, and by further provision of water, the yield per acre of agriculture might be increased by fully 50 per cent within two decades or less. The main obstacle to this is lack of knowledge of new techniques, and the time such knowledge takes to spread. This is why we have provided for spending 1 per cent of the national income on agricultural extension services and research, since we consider both that a really big effort is involved, far beyond anything now contemplated in these countries, and also that this is potentially a most profitable investment. On a conservative estimate, we would expect investment in agriculture at the levels provided for to raise the yield of agriculture per acre by an average 2½ per cent per annum over the next ten to twenty years; this is equivalent to an increase of say 1 per cent per annum in national income.

244. It will be observed that a disproportionately higher yield is expected from the investment in agriculture than from the investment in industry. This is so because, in the first place, there is such a leeway in agricultural yields which might be made up rapidly; after this, the yield of agriculture would increase more slowly. It is also so because industrial investment takes longer to pay handsome dividends, because of the economies of large scale. With the passage of time, we would expect the yield of industrial investment to grow cumulatively, and the yield of agricultural investment to decline.

245. It follows from the figures we are using that an annual investment of about $19 billion, which is about 20 per cent of the national incomes of these countries in 1949, might raise their national income by about 2½ per cent per annum. This is not, however, the amount by which their standard of living will increase. For their populations are growing rapidly, and population growth will absorb some of the increased income. Column 3 of the table shows the rate at which populations are expected to grow in the next decade. By how much this will affect the standard of living cannot be calculated. We guess that, with the national income increasing annually by 2½ per cent as a result of the assumed investment, and with population increasing at 1¼ per cent, the per capita national income might rise annually by about 2 per cent.

246. We turn now to column 9, which shows that, in the year 1949, domestic savings fell short of what our estimate requires by nearly $14 billion. This is not to say that the under-developed countries need to import as much as $14 billion annually. In the first place, their domestic savings could be increased above the 1949 level, by adopting the measures discussed in chapter VI. And, in the second place, if this investment occurred, and raised national incomes as estimated, some part of the increase could be siphoned off into increasing domestic savings. Even when allowance is made for these increases, however, it remains the case that a 2 per cent increase in the per capita national incomes cannot be brought about without an annual capital import well in excess of $10 billion. The distribution of this requirement is very uneven. Some countries, for example the Union of South Africa and some Latin American countries, already save more than this estimate requires. The largest requirement is for the poorest countries—which at present receive least. About 80 per cent would be needed by the countries of South Central Asia and the Far East.

247. Ten billion dollars annually is a large sum in relation to the past history of these countries. The annual inflow of capital into the under-developed world in the 1920's averaged not more than $500 million. The current inflow, including grants and loans, does not exceed $1,500 million, and is probably nearer $1,000 million, which, on these calculations would, when added to the present level of domestic savings, increase the per capita national income of the under-developed world as a whole only by about three-quarters of 1 per cent per annum; the geographic distribution of the current investment is actually very uneven. It is in order to emphasize that, if these countries are to progress more rapidly in the future than they have done in the past or are doing at present, the inflow of capital must be multiplied several-fold, that we have thought it worthwhile to give these estimates of the order of magnitude involved. We do not ask that these figures be taken exactly. We wish only to emphasize that the order of magnitude involved is well in excess of what is now generally believed. When members of the United Nations speak about rapidly increasing the standards of living of the under-developed world, they should realize that what they are talking about involves a transfer of several billion dollars every year.

248. These amounts are large, but they are not beyond the capacity of the developed countries to provide. The national incomes of the countries of Western Europe, Australasia, the United States and Canada aggregate about $350 billion a year. If they were to transfer 2 per cent of this amount annually to the under-developed countries, it would be equal to $7 billion a year. Neither would this be a very high target. In

1905-1913, the United Kingdom exported capital to the extent of an annual average of £143 million, which was 7 per cent of her annual national income. And, similarly, loans and grants from the United States of America have been running at over 3 per cent of her national income in the past five years.

249. In the light of the large sums that are required, it is urgent to consider how the inflow of capital into the under-developed countries might be stepped up. We do this under three heads: private investment, government lending, and grants-in-aid.

### Private Investment

250. Private buying of foreign government bonds, which was, at one time, the largest category of foreign investment, has now virtually ceased. The European capital markets have had little capital to spare for this purpose, and have, in some cases, been prohibited by their governments from undertaking foreign lending. The New York market, on the other hand, has still not recovered from its shock in the 1930's, when some governments suspended payment on some of their borrowings in the previous decade.

251. It is difficult to estimate both the demand for and the supply of this type of capital. On the supply side, while it is true that the individual investor is no longer likely to be interested, it is nevertheless true that institutional lenders, such as banks and insurance companies, which have now everywhere superseded the individual lender in importance in the capital market, might well be attracted by the bonds of many countries which have never defaulted. We are informed that one important obstacle to this in the United States of America is that many insurance companies are not permitted to invest in foreign bonds. If this obstacle were removed, we would expect that some governments of under-developed countries would be able to borrow on reasonable terms.

252. The demand may not, however, be large since only the borrowers with the best credit could hope to borrow more cheaply in the open market than they can borrow from the Export-Import Bank, or from the International Bank.

253. Private purchase of the bonds of private enterprises operating abroad has never been large, and is not likely to become significant.

254. Practically all the private foreign investment now taking place is direct investment in undertakings which are effectively controlled in the capital-exporting countries. Most of it represents investment in subsidiaries or branches of firms established in such countries. In recent years, most of it, also—about 70 per cent—has been going into

petroleum. Very little foreign investment is occurring outside the oil-bearing countries.

255. There are several obstacles to the further expansion of direct foreign investment. In the first place, some under-developed countries do not look very favourably upon this kind of investment. They fear foreign control of important sectors of their economy. Or they consider that the cost of foreign private capital is too high. For example, the average rate of return on United States foreign investments in 1948 was about 17 per cent, compared with about 14 per cent on United States domestic investments. Many under-developed countries feel that this is too high a price to pay for capital.

256. For these and other reasons, the opportunities for foreign private investment have now been severely restricted in some countries. In some, land will not be leased to foreign companies for agriculture; in some, mining is reserved to nationals, or even to the State; and so also, in many countries, is the operation of public utilities, which used to be the biggest single attraction for private foreign investment. It is unlikely that there will be much scope for such investment outside manufacturing and mining.

257. Secondly, some foreign investment is held back by fear of arbitrary acts by the governments of capital-importing countries. In the charter proposed for the International Trade Organization, there are provisions intended to deal with these difficulties. In the meantime, the Government of the United States of America has begun to make treaties with other governments, providing for the protection of foreign investments. This development is very much to be welcomed, and is recommended to the governments of other capital-exporting countries.

258. However well-intentioned the government of an under-developed country may be, it cannot absolutely guarantee that foreign investors will be permitted to remit their profits home in foreign currency, or to retire their investments, because it has not the power to ensure that the necessary foreign exchange will always be available. A proposal has been made in the United States that the Export-Import Bank should be prepared to insure such transfers in return for a fee, and we hope that this proposal will be adopted. Other capital-exporting countries should also consider providing similar facilities.

259. A third obstacle to foreign investment is the existence of double taxation. This matter has been reviewed on several occasions by international bodies. We consider that the governments of capital-exporting countries should adopt legislation to exempt from double taxation profits earned abroad.

260. It has also been suggested that some companies, which would be willing to make direct foreign investments, have difficulty in raising all the equity capital they need for the purpose. Since the International Bank cannot make equity investments, it has been proposed that an International Finance Corporation should be established "with authority to make loans in local and foreign currencies to private enterprise without the requirement of government guarantees, and also to make non-voting equity investments in local currencies in participation with private investors".[1] We commend this proposal for study by the United Nations. We wish to emphasize that domestic and foreign enterprises should be equally eligible.

261. Finally, the flow of private investment is partly a function of the amount which the governments of the under-developed countries spend on improving basic facilities, and on health and education. The bigger the public investment is, the bigger will be the private investment.

### Government Lending

262. As we have seen, the governments of under-developed countries are now able to borrow very little in private capital markets. Their two major sources of loans are the United States Export-Import Bank and the International Bank for Reconstruction and Development.

263. The loans of the Export-Import Bank were at one time concentrated in Latin America, but are now being made available all over the world. We are impressed by the job which the Bank is doing, and wish to recommend that other developed countries might well establish similar institutions. The countries of Western Europe have now recovered from the dislocation of the war, and it is proper that they, as well as Canada and other relatively wealthy countries, should also play their part in making capital available to the under-developed world.

264. This was in part the job which the International Bank for Reconstruction and Development was set up to do. The Bank has been lending to the under-developed countries at a rate well below $300 million annually, and expects not to exceed this figure in the next few years. In view of the need of the under-developed countries for capital, the Bank cannot be said to be meeting the challenge of the circumstances.

265. The earlier operations of the Bank were hindered by fear lest the Bank would not be able to borrow enough money to lend on the required scale. The Bank has been highly successful in removing this

[1] *Partners in Progress.* A Report to the President by the International Development Advisory Board. Washington, March 1951, page 84.

fear, by taking steps which have made its issues acceptable in the capital markets.

266. The Bank was next hamstrung by a narrow interpretation of its articles of agreement, which seemed to confine it to lending the sums of foreign exchange needed to purchase equipment and materials for specific projects. The articles are now more liberally interpreted. Nevertheless, we are compelled to record the impression that the Bank still attaches excessive importance to the foreign currency aspects of development. In our judgment, what is important is to build up the capacity of under-developed countries to produce goods and services. The Bank should start from this point, rather than from a measurement of foreign currency needs. And, if development succeeds, the transfer problem of meeting the debt charges should take care of itself. At present, the Bank puts the cart of foreign exchange difficulties before the horse of economic development.

267. A further obstacle to greater lending by the Bank is the unpreparedness of some governments. There is, to begin with, the fact that some governments have not an adequate will to develop, or where the will is present, have not always an adequate conception of what is involved. The part of the world most afflicted by this is probably the continent of Africa, some of whose governments are too proud to borrow for colonial development, and others of which lack understanding of the magnitude of their task, or even believe that rapid economic development is not in their interest or in the interest of the African peoples. Hardly any of the powers now governing Africa can afford to spare from domestic development the vast sums needed for developing that continent (well over $1 billion annually) and there is not much hope of rapid progress unless they seek capital in the international market.

268. Even where there is willingness to make rapid progress, lending is slow because some borrowers lack the facility to absorb capital rapidly. They lack the technical staff to make surveys, to prepare concrete plans, to construct capital works, and to operate large new undertakings. Skilled artisans and mechanics are also in short supply. The Bank has begun to meet this difficulty by sending out its own survey missions, and by giving technical assistance in the preparation of plans. We do not feel that this is being done on a large enough scale. The Bank has not adequately realized that it is an agency charged by the United Nations with the duty of promoting economic development. It should do everything that lies in its power to break down the obstacles to sound investment in the under-developed countries. The Bank should set itself to reach, within five years, some such target as an annual rate of lending of not less than $1 billion a year to the under-developed

countries. If it shows no sign of approaching this target, the whole question of the proper international organization for the provision of adequate amounts of loan capital to the under-developed countries should be reviewed by the United Nations.

269. There remains an important obstacle to lending which it is not within the power of the Bank to remove. This is the fact that the amount that can profitably be invested at a 4 per cent rate of interest depends on the amount which is being spent at the same time on improving social capital; and especially on public health, on education and on roads and communications. There is much to be done in this way in the under-developed countries before they will be in a position to absorb large amounts of loan capital. To this we now turn.

### Inter-governmental Grants

270. Before rapid economic progress can begin to be made, the governments of the under-developed countries will have to spend large sums in improving the human factor—on schools, on agricultural extension services, on university training, on technical education and on public health. They will also have to spend large sums in improving their administration, and upon basic social capital. Most of them do not have the money required for these purposes, and they cannot borrow it. If they could get this money, its expenditure would itself stimulate both private investment and government borrowing. Without this money, development proceeds at a slow pace, and the total inflow of capital is a mere fraction of what is needed.

271. We therefore urge most strongly that some mechanism be created for transferring from the developed to the under-developed countries, by way of grants-in-aid, a sum of money which should increase rapidly, reaching eventually a level of about $3 billion a year. This would be equivalent to rather less than 1 per cent of the national incomes of Western Europe, Australasia, the United States and Canada.

272. The principle that the better off should help to pay for the education, the medical services and other public services received by the poorer classes of the community is now well established within every Member nation of the United Nations. The idea that this principle should also be applied as between rich and poor countries is relatively new. It has, however, been put into practice on several occasions. The work of UNRRA is an outstanding example of United Nations collaboration in this sphere. But even this is far overshadowed by the munificence of the United States which in the past few years has given away to the rest of the world sums that are a multiple of the figure we

are now suggesting that the developed countries together should transfer to the under-developed countries. A very large part of the grants made in recent years has gone to the peoples of Europe, who are next in line of wealth after the peoples of North America and of Australasia. The need for such assistance to Europe has now virtually ended. If some of what Europe has been receiving were now made available to the under-developed world, our modest target would easily be met.

273. We do not suggest that aid should be given unconditionally to under-developed countries. This would not be wise. Each grant should be linked to a specific function, and there should be international verification that the funds are used only for the purpose for which they have been granted.

274. We recommend that the United Nations should establish an International Development Authority with power to make grants to the governments of under-developed countries for the purposes listed in paragraph 276. We make this recommendation, conscious of the fact that some governments may prefer to set up their own organizations for this purpose, such as the Economic Cooperation Administration of the United States. Even if some governments do set up their own organizations, we nevertheless recommend that there should also be established an International Development Authority to operate in this field. We believe that an international body has certain advantages over a national body in this kind of work, such as that international verification of expenditure is more acceptable to the receiving countries. We also believe that the traditions of some of the smaller developed countries, such as the Scandinavian and Australasian countries, are such that they would wish to contribute towards this operation. The creation of an International Development Authority would enable them to do this without the burden of setting up separate organizations of their own.

275. We have not thought it necessary to draft a constitution for such an authority, since its details would depend very much on the number and types of countries willing to contribute, on the terms of their participation, and on the number of similar national organizations that might be created. The important points at this stage are that Members of the United Nations should agree that such an authority is necessary, and that they should have an idea of the size of the sum of money which is needed for disbursement by means of grants.

276. The functions of the International Development Authority should be as follows:

(1) To decide upon and administer the distribution of grants-in-aid for the specific purposes listed below, and to verify their utilization.

(2) To co-operate with under-developed countries in preparation and co-ordination of plans of economic development by affording general assistance and, where necessary, by providing the services of technical experts and by giving grants-in-aid for the preparation of plans of economic development.

(3) To help in implementing development plans, especially in the procurement of scarce resources, e.g., capital goods, technical personnel.

(4) To make periodic reports regarding the preparation and progress of plans of development, to provide for continuous study of the problems of economic development of under-developed countries, and to make recommendations to the Economic and Social Council in regard to any action that may be required concerning these problems.

The following purposes should be considered eligible for grants; other purposes, which are more capable of being self-supporting, should be financed by borrowing:

(*a*) Research and education. This includes grants for agricultural extension services, technical schools, farm schools, local universities and for training technicians abroad, grants to departments of governments, research institutes or universities, wherever located, working on problems of under-developed countries;

(*b*) Public health programmes, emphasizing preventive medicine and nutrition rather than curative medicine;

(*c*) Subsidization of medium- and short-term farm credit;

(*d*) Improvement of rural public works. This includes grants for roads, rural water supplies, land reclamation, drainage, soil conservation, afforestation.

277. We have considered whether there should not also be created an institution to make loans at very low rates of interest, such as one-half of 1 per cent, for investment in social capital, such as roads. We have concluded that this is not necessary, since exactly the same purpose can be met by combining a loan from the International Bank with a grant-in-aid from the International Development Authority, in cases where an undertaking desirable on social grounds, could not meet the full burden of loan finance.

278. A political issue of some delicacy arises with international verification of the expenditure even when grants are tied to particular functions. Some countries are ruled by corrupt or reactionary cliques whose régime might be overthrown by the people if there were no foreign aid, and who may be settled in their rule because foreign grants have become available. Members of the United Nations will not wish to

have had any hand in fastening such governments on peoples. They might therefore wish to lay down certain minimum conditions before an under-developed country was admitted to the list of those eligible to receive grants. This is a most controversial matter, on which we do not make any recommendation.

### The Time Factor

279. We have indicated that the current flow of capital into the under-developed countries is only a fraction of the billions of dollars per annum that are needed for a reasonably rapid rate of development. We have also made recommendations designed to accelerate the flow. Even if these recommendations are all put into effect, it will be some years before the rate of flow reaches a satisfactory level. The rate of expenditure of grants may be slow at first, because it takes much time to prepare plans for spending money and to assemble the persons who are required for carrying out the plans. In addition, the growth of private investment and of loan capital will lag behind the expenditure of grants. We have recommended that some part of the grants should be used for preparing development plans, and for speeding up the capacity of the under-developed countries to absorb capital.

280. Much emphasis has been laid on the limited capacity of the under-developed countries to absorb capital. We are not impressed by the contention so far as it relates to a necessary minimum of available domestic resources to match now available external resources. We are impressed by the results achieved during the Second World War by programmes of rapid and intensive training of industrial workers and technicians. We are, however, conscious of the need for social and legal changes and for education which require minimum outlay on social overheads before rapid economic development can begin. Time and money are also required to collect basic data and to prepare programmes. It is, in our opinion, essential that this period of initial preparation be cut down as far as possible and we, therefore, recommend that the proposed international development authority take steps to shorten this period.

281. In any case, even if the required funds were made available, expenditure is bound to be held up at present by the shortage of capital goods and of trained persons which results from world rearmament. Already some under-developed countries are having difficulty in securing goods and people from the advanced countries. The needs of the under-developed countries are so vital, and so small, that we would strongly urge that each of the developed countries create special machinery, where this is necessary, to reserve an adequate share of goods and

services for these countries, and to expedite despatch. We welcome the resolution concerning this matter which was adopted by the Economic and Social Council of the United Nations at its twelfth session, in March 1951 (Resolution 341 (XII)).

282. We wish to emphasize that planning takes time. Even planning to create an International Development Authority is certain to take time, after the idea is accepted. We would therefore urge that decisions be made as soon as possible, so that under-developed countries may begin to make their own preparations.

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## Conclusion

283. We have been asked to study a problem, which we consider in effect to be the problem of the rapid economic development of the under-developed areas of the world, and to recommend national and international measures. We have framed recommendations regarding international measures which are, in our opinion, necessary and practicable, in the sense that they represent the minimum required in view of the magnitude and the urgency of the problem, and are well within the capacity of the advanced countries. Whether they are practicable in the sense of their implementation being politically possible in the existing international situation is a question on which we are not competent to pronounce. At the same time, we realize that from the point of view of the under-developed countries this question is most important. What is the extent of external aid on which the under-developed countries can count in drawing up programmes of development? As often happens, international action in this matter may be held up for a variety of reasons, and no definite answer to this question may emerge at an early date. Even so, the programmes of under-developed countries cannot wait and they cannot afford to delay action. In our opinion, the problem is so urgent that they ought to proceed immediately with formulations of plans and their implementation. And in doing so, many of them would find it best not to count on any substantial international aid.

284. It cannot be denied that most of the under-developed countries will find it extremely difficult to make progress in the initial stages without effective international aid. Even with such aid, their task would be difficult enough. As we visualize it, economic development of these countries will require fundamental changes in their social and economic

structure, a large effort at mass education, and very intelligent husbanding of resources. This arduous task would be rendered more manageable if some external aid in terms of personnel and finance were available. In its absence, the task would indeed be formidable. Its essential nature would not, however, be changed; it would only call for a greater intensity of effort in all directions. The need for social cohesion and solidarity would be greater than ever, for the sacrifices imposed on the people by the initiation of the process of development would be larger and the period for which they have to wait for its fruits longer. It would call for great ingenuity in adaptation, in seizing all opportunities, making all economies, however small, and in quickening the pace of the whole process. The situation will make enormous demands on intelligence in planning, honesty and ability in execution, and on discipline within the community.

# Part 4

# RECOMMENDATIONS

## RECOMMENDATIONS

Throughout our report we have made numerous suggestions of measures for promoting economic development. Not all are equally important. We confine ourselves in this part to selecting those which we wish to put forward in the form of recommendations.

### A. National Action by Under-developed Countries

To provide the preconditions and institutional framework of economic development, the government of an under-developed country should:

*Recommendation 1*

Make clear to its people its willingness to take vigorous action to remove the obstacles to free and equal opportunity which blunt the incentives and discourage the efforts of its people. Under this head we include land reform, abolition of privileges based on race, colour, caste or creed, the establishment of taxation upon a progressive basis, and a programme of mass education;

*Recommendation 2*

Establish a central economic unit with the functions of surveying the economy, making development programmes, advising on the measures necessary for carrying out such programmes and reporting on them periodically. The development programmes should contain a capital budget showing the requirements of capital and how much of this is expected from domestic and from foreign sources.

In order to promote rapid economic development, an under-developed country should take the following measures:

*Recommendation 3*

Survey the ways in which production, distribution and finance are organized in each of the major sectors of the economy and take measures to improve their efficiency;

*Recommendation 4*

Survey the prospects of creating new productive employment by industrialization, by bringing more land under cultivation, by developing mineral resources, or by other means; and announce its programmes for expanding employment;

*Recommendation 5*

Survey the possibilities of increasing agricultural yields and announce the measures it proposes to adopt in order to effect rapid improvement of yields;

*Recommendation 6*

Prepare a programme, covering a period of years, for the improvement of public facilities by capital investment;

*Recommendation 7*

Prepare a programme of education and research showing its goals and its proposed expenditures for some such period as five years; and showing separately what is proposed for agricultural extension services, for industrial training, and for the training of scientists and administrators;

*Recommendation 8*

Prepare programmes to stimulate domestic savings, including the extension of savings institutions and measures involving taxation; and, in order to ensure that capital moves into the most productive uses, establish a development bank and an agricultural credit system, and if necessary, take other measures for influencing the direction of investment, such as credit controls, foreign exchange controls, or licensing of buildings or capital extensions.

## B. National Action by Developed Countries

*Recommendation 9*

The developed countries should desist from commercial policies which hinder the development of the under-developed countries:

(*a*) They should not fix ceilings for the prices of imports without simultaneously controlling the prices of exports which under-developed countries buy from them so as not to affect adversely the terms of trade of these countries; and

(*b*) They should not subsidize the production or the export of commodities which are also produced for export by under-developed countries.

*Recommendation 10*

Developed countries should consider setting up national institutions similar to the Export-Import Bank of the United States.

*Recommendation 11*

Developed countries should facilitate foreign private investment by:

(*a*) Taking the initiative in making treaties with under-developed countries for the equitable treatment of foreign investments;

(*b*) Offering to insure foreign investments of their nationals against transfer difficulties; and

(*c*) Exempting foreign-earned incomes from double taxation.

*Recommendation 12*

During periods when there is a general scarcity of supply of goods, the developed countries should establish machinery to ensure that the under-developed countries obtain an equitable share of capital goods and of other materials for maintaining their programmes of development.

## C. Action by the United Nations and Other International Agencies

*Recommendation 13*

The International Bank for Reconstruction and Development should set for itself the objective, to be reached within the next five years, of lending $1 billion annually to under-developed countries.

*Recommendation 14*

The United Nations should establish an International Development Authority to assist the under-developed countries in preparing, co-ordinating and implementing their programmes of economic development; to distribute to under-developed countries grants-in-aid for specific purposes; to verify the proper utilization of such grants; and to study and report on the progress of development programmes.

*Recommendation 15*

In order to assist the governments and peoples of Africa to analyse and keep under continuous survey the development problems of that continent, the United Nations should establish an Economic Commission for Africa and provide for it an international secretariat.[1]

*Recommendation 16*

The United Nations should explore the possibility of establishing an international finance corporation to make equity investments and to lend to private undertakings operating in under-developed countries.

[1] In view of the fact that a committee of the Economic and Social Council has already recommended the establishment of an Economic Commission for the Middle East, we did not deem it necessary to reiterate that recommendation.

## SUPPLEMENT

Consisting of copies of resolutions concerning economic development adopted by the fifth session of the General Assembly and the eleventh and twelfth sessions of the Economic and Social Council.

## Financing of Economic Development of Under-Developed Countries

*Resolution 400 (V) adopted by the General Assembly at its 312th plenary meeting on 20 November 1950*

*The General Assembly*

*Taking note* of the report of the fourth session of the Sub-Commission on Economic Development (E/CN.1/80), the experts' report entitled "National and International Measures for Full Employment" (E/1584), the report of the fourth session of the Economic and Employment Commission to the Economic and Social Council (E/1356, part VIII), and the report of the Economic and Social Council to the fifth session of the General Assembly (A/1345),[1]

*Taking note* further of the studies prepared by the Secretary-General in pursuance of Economic and Social Council resolutions 179 (VIII)[2] and 222 D (IX),[3]

*Recognizing* that a more rapid economic development of under-developed countries, in particular an increase of their production, is essential for raising the level of productive employment and the living standards of their populations, for the growth of the world economy as a whole and for the maintenance of international peace and security,

*Recognizing* further that, although the economic development of under-developed countries depends primarily upon the efforts of the people of those countries, the necessary acceleration of that development, on the basis of their own plans and programmes, requires not only technical but also financial assistance from abroad, and particularly from the more developed countries,

*Considering* that the domestic financial resources of the under-developed countries, together with the international flow of capital for investment, have not been sufficient to assure the desired rate of economic development, and that the accelerated economic development of under-developed countries requires a more effective and sustained mobili-

[1] See *Official Records of the General Assembly, Fifth Session, Supplement No. 3.*
[2] See *Methods of financing economic development in under-developed countries,* United Nations Publications, Sales No. 1949.II.B.4.
[3] See documents E/1562 and E/1614/Rev.1.

zation of domestic savings and an expanded and more stable flow of foreign capital investment,

*Being convinced* that the volume of private capital which is currently flowing into under-developed countries cannot meet the financial needs of the economic development of the under-developed countries and that those needs cannot be met without an increased flow of international public funds,

*Taking account* of the fact that some basic development projects are not capable of being adequately serviced through existing sources of foreign finance although they contribute directly or indirectly to the increase of national productivity and national income,

1. *Recommends* that the Economic and Social Council, in giving further study to the problem of the financing of economic development, consider practical methods, conditions and policies for achieving the adequate expansion and steadier flow of foreign capital, both private and public, and pay special attention to the financing of non-self-liquidating projects which are basic to economic development;

2. *Calls upon* the governments of all Members States and the specialized agencies concerned to submit to the Economic and Social Council any proposals bearing upon the present resolution;

3. *Requests* the Economic and Social Council to submit its recommendations to the sixth session of the General Assembly.

## Methods of Financing Economic Development of Under-Developed Countries, including consideration of the Report of the Sub-Commission on Economic Development

*Resolution 294 (XI) adopted by the Economic and Social Council on 12 August 1950*

*The Economic and Social Council,*

*Taking note* of the report of the fourth session of the Sub-Commission on Economic Development (E/CN.1/80), the experts' report on *National and International Measures for Full Employment* (E/1584), the report of the fourth session of the Economic and Employment Commission (E/1356, part VIII); and,

*Considering* the studies prepared by the Secretary-General in pursuance of Council resolutions 179 (VIII) and 222 D (IX)

A. WITH THE OBJECT OF KEEPING UNDER CONTINUING REVIEW PROBLEMS OF FINANCING ECONOMIC DEVELOPMENT

1. *Recommends* that the Economic, Employment and Development Commission undertake to study and keep under review the nature and magnitude of the problems involved in financing the economic development of under-developed countries, and make recommendations thereon to the Council from time to time; and

B. WITH THE OBJECT OF ENCOURAGING EFFECTIVE METHODS OF MOBILIZING DOMESTIC CAPITAL FOR THE ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

2. *Having regard* to the necessity of mobilizing the domestic financial resources of under-developed countries to the fullest possible degree either independently or in conjunction with any foreign funds which may be available for economic development,

3. *Considering* the importance of promoting the self-generating character of economic development, which requires reinvestment as far as possible of increases of income following upon development, and

4. *Considering* the desirability of utilizing and pooling the credit standing of established industrial enterprises and financial institutions for facilitating the import of foreign capital,

5. *Draws* to the attention of Member Governments the report prepared by the group of experts convened by the Secretary-General[1] pursuant to Council resolution 222 B (IX) in which varies views and suggestions concerning methods of increasing and channelling domestic savings are discussed; and

6. *Commends* to the attention of the governments concerned the desirability of considering the formation in their countries of banking syndicates or development banks with the participation of domestic banks and industrial enterprises as a means of attracting and channelling foreign investments into essential projects; and

C. WITH THE OBJECT OF ENCOURAGING EFFECTIVE METHODS OF INCREASING THE FLOW OF INTERNATIONAL CAPITAL FOR THE ECONOMIC DEVELOPMENT OF UNDER-DEVELOPED COUNTRIES

I

7. *Recognizing:*

(*a*) That a more rapid increase of production in under-developed countries is essential for raising the le el of productive employment

[1] Document E/1562.

and the living standards of their populations and for the growth of the world economy as a whole;

(*b*) That the domestic financial resources of under-developed countries together with the international flow of capital for investment have not been sufficient to assure the desired rate of economic development, and

(*c*) That such accelerated economic development of under-developed countries requires not only a more effective and sustained mobilization of domestic savings but also an expanded and more stable flow of foreign capital investment;

8. *Recommends:*

(*a*) That governments establish through domestic measures and, if necessary, through bilaterial or multilateral agreements, conditions to encourage participation of foreign private capital in desirable economic developments either in the form of direct investment or in the form of investment in bonds of governments or of private and public corporations;

(*b*) That governments of the more developed countries seek to encourage by appropriate means the investment of private capital by their nationals in under-developed countries;

(*c*) That more of the developed countries take early action, in the light of their balance of payments position, to grant permission to the International Bank for Reconstruction and Development to utilize increasing parts of the 18 per cent of their subscriptions which have been pledged to be payable in domestic currencies, for such loan transactions as the Bank may be undertaking and which involve a demand for such currencies, and consider granting permission to the Bank to place its bond issues in their financial markets; and

(*d*) That governments extend progressively, so far as their balance of payments position and prospects permit, the principle of untied lending to all governmentally controlled or guaranteed foreign lending;

II

9. *Recognizing:*

(*a*) That economic development requires the execution not only of self-liquidating projects but also of projects in such fields as transport, power, communications, public health, educational institutions and housing, which, while not always fully self-liquidating, are justified by

reason of their indirect effect on national productivity and national income, and

(*b*) That with respect to financing of economic development, there is no direct logical connection between the immediate expenditures in local and foreign currencies on the one hand and the desirable amount of domestic and foreign financing, respectively, on the other, and

10. *Taking note* of the constructive statements made by the representative of the International Bank for Reconstruction and Development at the eleventh session of the Council, and welcoming, as being of special importance in relation to the problem of economic development of under-developed countries, his assurance that, in considering applications for loans, it is the determined policy of the Bank to examine the size, composition and financial implications of a borrowing country's investment programme as a whole, as well as the details of selected projects,

11. *Recommends:*

(*a*) That the under-developed countries give greater attention to the formulation of integrated programmes of development and to the planning of loan projects for presentation to the International Bank for Reconstruction and Development so as to facilitate the Bank's operations and thereby accelerate the rate of economic development;

(*b*) That governmental and intergovernmental credit organizations which can assist in the economic development of under-developed countries consider means by which the funds which are at their disposal can be used more effectively to help carry out integrated investment programmes, designed to carry forward in a co-ordinated manner development projects in different branches of the country's economy, and in general to accelerate the rate of economic development of under-developed countries;

(*c*) That institutions providing international loans, in considering the amount of external finance required in connection with any project, give appropriate consideration not only to the direct foreign costs but also to the foreign costs which tend to arise indirectly from the additional claim which the projects make on local labour and other resources, and from the additional incomes thus created; and

(*d*) That these institutions make any such loans at rates of interest and on terms of amortization designed to place the smallest feasible burden on the exchange availabilities of the under-developed countries, consistent with the maintenance of these institutions as self-supporting entities;

D. WITH THE OBJECT OF FACILITATING FURTHER STUDIES IN THE FIELD OF INTERNATIONAL INVESTMENT AND PRICES OF PRIMARY PRODUCTS

12. *Considering* the great importance for the promotion of private foreign investments of assurances of ability to transfer earnings and withdraw capital in the currency in which the original investment has been made, and

13. *Considering,* furthermore, that such assurances of ability to transfer raise a number of technical difficulties, some of them closely related to the rights and obligations of members of the International Monetary Fund,

14. *Expresses* the opinion that the practical conditions under which such assurances can be made effective have not so far been sufficiently examined at the technical level;

15. *Requests* Member Governments to provide the Secretary-General and the International Monetary Fund with such statistical and other data as may be necessary for the carrying out of the studies referred to below;

16. *Recommends* that the International Monetary Fund be requested to assemble and analyse, in consultation with the International Bank for Reconstruction and Development, and when appropriate with other interested international agencies, the statistical and other data bearing upon the capacity of under-developed countries to service investments of foreign capital, with special reference to:

(*a*) The proportion of the foreign exchange receipts of such countries currently absorbed by services on foreign investment as compared with past periods;

(*b*) The proportion of foreign exchange receipts of more developed countries which, in earlier stages of their development, has been absorbed by services on foreign investment in these countries;

(*c*) Statutory and administrative measures designed to provide for servicing foreign investment in times of exchange stringency; and

17. *Requests* the Secretary-General, in co-operation with the interested international agencies and within the resources available, to undertake a study of the relation of fluctuations in the prices of primary products to the ability of under-developed countries to obtain foreign exchange.

## World Economic Situation

*Resolution 341 (XII) adopted by the Economic and Social Council on 20 March 1951*

*The Economic and Social Council,*

*Noting* with interest the *World Economic Report, 1949-50,* prepared by the Secretariat,

*Taking into account* General Assembly resolution 406 (V) and

A

*Considering that:*

(*a*) The maintenance of international peace and security, the creation of conditions of economic stability, and the improvement of the standards of living of the world's population are permanent objectives of international economic and social co-operation among the United Nations,

(*b*) Continued progress in creating conditions of economic stability and in improving standards of living requires increases in the production of food, raw materials and manufactured goods,

(*c*) In the under-developed countries, progress toward the objectives enumerated in paragraph (*b*) above is limited by the characteristics of their present economic structures, which are reflected in the nature of their foreign trade, in the vulnerability of their terms of foreign trade, in their dependence on foreign countries for capital goods, in low levels of investment and in other factors both external and internal which contribute to their low living standards,

(*d*) Some of the adverse factors enumerated in paragraph (*c*) above are being aggravated by new inflationary pressures, shortages of goods, regulation of prices at different relative levels for different products, and re-allocation of productive factors, which are likely to affect unfavourably the rate or pattern of economic development of some countries,

(*e*) In the industrialized countries, particularly those which are faced with the task of reconstruction and re-equipment as the result of war damage, the additional tasks assumed as a result of the international situation are likely to cause inflationary pressures,

(*f*) Instability of prices in international markets also affects industrialized countries and, in many of them, aggrevates internal dis-

equilibrium and makes more difficult the necessary increase of their production,

(*g*) If appropriate measures are not taken, difficulties may arise in trade between the industrialized countries and the under-developed countries when present inflationary pressures subside and when reconversion of defence industries occurs; and some of these difficulties would tend to increase the difference between the levels of their respective productive capacities and also to increase the vulnerability of their economies to a decline in the demand for their products and to a fall in the prices of these products in world markets, with consequent unfavourable economic and social effects,

1. *Recommends* that all Members of the United Nations, during the period of general shortage of goods, take special measures to bring about adequate production and equitable international distribution of capital goods, essential consumers' goods and raw materials especially needed for the maintenance of international peace and security, the preservation of standards of living and the furthering of economic development;

2. *Recommends* that all Members of the United Nations, during the period of general inflationary pressure, take measures, direct or indirect, to regulate at equitable levels and relationships, the prices of essential goods moving in international trade, including capital goods, essential consumers' goods and raw materials;

3. *Recommends* that the equitable regulation of distribution and prices referred to in recommendations 1 and 2 above be maintained as long as strong inflationary pressures persist, in order to minimize changes in the purchasing power, in terms of imports, of current earnings from exports as well as of monetary assets;

4. *Recommends* further that all Members of the United Nations take all steps in their power to prevent the development of inflationary pressures, thereby preventing speculative profits and maintaining the purchasing power of the poorer sections of the population;

5. *Amends* paragraph 19 of Council resolution 290 (XI) to request that the group of experts to be appointed under that paragraph include in its report recommendations concerning the appropriate national and international measures required to mitigate the vulnerability of the economies of under-developed countries to fluctuations in international markets, including measures to adjust, establish and maintain appropriate relations between prices of raw materials, on the one hand, and essential manufactured goods on the other, and thus to ensure greater economic stability; and

6. *Requests* all Members of the United Nations to report to the thirteenth session of the Council on such action as they have taken under the present resolution; and

B

*Having regard* to the fact that various governments have not had sufficient time to study the *World Economic Report, 1949-50,* particularly the sections on the economic conditions in the Middle East and in Africa,

*Having regard further* to the radically changed economic conditions in the world since the period covered by the Report, and bearing in mind that Members of the United Nations have not had sufficient time to respond to the invitation contained in General Assembly resolution 405 (V) to submit their views concerning the way in which the world situation has affected their economic progress and the prospects of continuing world economic expansion,

*Having regard finally* to the request contained in the above resolution of the General Assembly that the Council recommend to governments and to the General Assembly measures designed to make possible the uninterrupted progress of programmes of economic stability and development.

*Decides* to consider further at its thirteenth session the world economic situation in 1949-50, and particularly the sections of the Report relating to the economic conditions in the Middle East and in Africa, and the views submitted by Members of the United Nations in response to General Assembly resolution 406 (V), with a view to making appropriate recommendations.

## Financing of Economic Development of Under-Developed Countries

*Resolution 342 (XII) adopted by the Economic and Social Council on 20 March 1951*

*The Economic and Social Council,*

*Having considered* resolution 400 (V) of the General Assemmbly on the financing of economic development of under-developed countries, requesting the Council to submit its recommendations to the sixth session of the General Assembly,

*Noting* that the Economic, Employment and Development Commission is scheduled to meet on 14 May and, by reason of Council resolution 294 (XI), section A, will consider problems related to financing of economic development of under-developed countries, and that the Commission's report will be available to the Council before its thirteenth session,

1. *Urges* all Members of the United Nations and the specialized agencies concerned to act upon the invitation contained in General Assembly resolution 400 (V) by submitting, if possible before 15 June 1951, any proposals bearing upon that resolution which they may wish to make to the Council through the Secretary-General, so that they may be available for consideration by the Economic Committee of the Council at its meetings before the thirteenth session;

2. *Requests* the Economic, Employment and Development Commission, in proceeding with its work at its forthcoming session, to give priority to the consideration of the problem of financing of economic development of under-developed countries in the light of the present resolution and in accordance with resolutions 290 (XI), paragraph 23, and 294 (XI), section A, of the Council;

3. *Decides* that the Economic Committee of the Council will meet a week before the opening of the thirteenth session of the Council to consider practical methods, conditions and policies for improving or augmenting the existing sources of external finance, both private and public, with a view to achieving an adequate expansion and a steadier flow of foreign capital, in order to meet the financial needs of the economic development of under-developed countries, and to consider these matters in the light, *inter alia,* of such reports as may have been submitted by the group of experts appointed in accordance with paragraph 22 of resolution 290 (XI) of the Council and by the Economic, Employment and Development Commission.