

Chapter 9: Conclusions

The central objectives of economic development remain the growth of incomes and the alleviation of absolute poverty. This report has assessed the problems and prospects that arise in the pursuit of these objectives in four principal areas:

- The scope and nature of the employment challenge facing the developing countries, and the programs and policies that offer the best hope of creating jobs and raising incomes in different groups of developing countries;
- The importance of achieving balance and complementarity between agriculture and industry, to facilitate sustained economic growth and a wide diffusion of its benefits;
- The unprecedented rate of urban growth in developing nations and the massive new tasks posed by the shift of population to cities and towns; and
- The need to restore a more supportive international environment for trade, capital flows and energy development.

Policies to Increase Productive Employment and Alleviate Poverty

The dimensions of the employment challenge are unprecedented. Between 1975 and 2000, the labor force in developing countries is expected to increase by about 550 million—over twice the increment of the previous quarter of a century. Given the already high levels of underemployment and absolute poverty, the scale of the task of expanding productive employment and income opportunities cannot be overdramatized.

In the Low Income countries, the key to more rapid employment expansion, swifter alleviation of poverty and a more robust basis for the long-term structural transformation of the economy lies in improving performance in the rural economy. More than 70 percent of the labor force is directly dependent on agriculture and will remain so for the foreseeable future; in addition, many millions of jobs in small-scale rural enterprises depend on agricultural production and incomes. As a first priority, investment, pricing and trade policies that presently discriminate against agriculture need to be reversed.

Within agriculture, sustained programs of institutional, technical and infrastructural support for small farmers offer the best hope for increasing employment and alleviating poverty. Small farms generally use labor much more intensively than large ones. Nor are small farmers laggards in adopting high-yielding seed varieties and associated labor-intensive cultivation techniques, once they are granted ready access to essential inputs such as credit, fertilizers and extension advice, and can count on markets for their produce. Too often, the distribution of such government-supported services is skewed in favor of larger farms or is otherwise inadequate. Investments in irrigation works, large and small, are particularly promising as they not only augment agricultural productivity and incomes, but can also create a substantial number of off-farm jobs in construction and maintenance.

In addition to the immediate first-round benefits within agriculture, increased agricultural production and incomes generate new demands for non-agricultural output and employment. Rural non-farm enterprises have demonstrated a remarkable capacity to respond to increases in demand and to provide a growing number of rural jobs. Their inherent dynamism can be greatly enhanced by government assistance in the form of improved infrastructure, rural electrification and expanded credit facilities. More generally, sustained and broadly based agricultural growth is extremely important for successful industrialization in the Low Income countries, especially the larger ones, whose industries must rely primarily on growing domestic markets. The manufacture of clothing, textiles and other mass consumption items, the production of intermediate manufactured inputs for agriculture, the processing of agricultural produce and the expansion of related activities in construction, transport and wholesaling, depend heavily on developments in agriculture. Conversely, the efficient manufacture and distribution of rurally purchased consumer goods enhances rural living standards, while the availability of low-cost fertilizers, pesticides, agricultural implements and other intermediate

inputs augments the technical productivity of agriculture, thus forging mutually beneficial links between industry and agriculture.

The promotion of agricultural development in general, and small farms in particular, will be fundamental to the expansion of employment and the alleviation of poverty in most Middle Income countries, many of which still have half or more of their labor force in agriculture. In addition, most Middle Income nations need to implement industrial and trade policies that promote a rapid expansion of production and employment in industry. Almost all developing nations have, to varying degrees, followed import-substituting policies in their early stages of industrialization. While in many instances policies of tariff protection and import quotas have undoubtedly assisted the establishment of industrial activities, prolonged recourse to such measures has all too often hampered the continued expansion of industrial production and employment. By and large, countries that have shifted their industrial policies, to reward exports with incentives comparable to those for domestic sales, have achieved faster growth in industrial production and employment than those whose policies have remained inward looking. Countries in the latter group stand to benefit from the implementation of policies that give greater inducements to manufactured exports. As these exports tend to be more labor intensive than industrial import substitutes, employment is likely to grow faster. In addition, the increase in industrial efficiency and output normally associated with more outward-looking policies should facilitate a more rapid expansion of the national capital stock, and hence further augment the demand for labor. The gains from an open industrial policy depend crucially on the international environment for trade: the more liberal this environment, the greater are the likely gains from undertaking the indicated policy reform, or, for those developing countries that have already reduced their policy bias against exports, from maintaining their existing outward-oriented trade and industrial policies.

In some of the semi-industrialized Middle Income countries, as well as in a few Low Income countries with large and sophisticated industrial sectors, the further growth and deepening of the industrial structure calls for increased attention to acquiring, learning and adapting new industrial technologies; to establishing new institu-

tions, such as export credit agencies, while making existing ones, including public enterprises, more responsive to cost and market pressures; and to mastering the design, production and marketing of new manufactured exports. Some of these nations are particularly well placed to supply the growing developing country markets for machinery and other capital equipment with products tried and tested in developing countries.

During the next two decades, the main responses to the unprecedented employment challenge in developing countries must come from the design and implementation of appropriate agricultural and industrial strategies. But if the dimensions of growth in the labor force are to be more manageable in the early years of the twenty-first century, population policies have a central role to play. Much has already been accomplished. Between 1960 and 1977, declines in crude birth rates of more than 30 percent occurred in a number of East Asian countries and a few others. Smaller but significant decreases have been observed in other nations, including two of the largest Low Income ones, India and Indonesia. While the decline in birth rates is partly due to general improvements in economic and social conditions, a significant role has been played by family planning programs begun during the 1960s. This lends additional force to the argument for encouraging more active population policies in those countries, notably in parts of Latin America and Sub-Saharan Africa, where population growth rates remain in the neighborhood of 3 percent a year and little attempt has yet been made to curb them. The need for action is particularly acute in Africa, where a combination of factors is expected to hold back the growth of aggregate income to relatively modest levels.

While the rapid expansion of productive employment opportunities and slower growth in the labor force can be expected to be the principal vehicles for alleviating absolute poverty in developing countries, much can be done to raise the living standards of the poor through expanded provision of appropriately designed low-cost public services, in the form of education, health care, water supply and sanitation. The opportunities are particularly great in some of the richer Middle Income countries where, at present, a disproportionate share of publicly provided amenities benefits the wealthier segments of the population. These countries can

afford to channel greater flows of public expenditures to benefit their poor. To the extent that these increments are used to finance preventive rather than curative health facilities, primary rather than higher education, and public standpipes rather than costly water connections to houses, the dispersion of benefits among the poor is likely to be greater.

Urbanization: Priorities for Action

The urban populations of developing countries are growing at explosive rates. Between 1950 and 1975, urban communities in developing countries had to absorb about 400 million additional inhabitants; in the subsequent 25 years, the increment is likely to be close to one billion people. The number of very large cities is also increasing rapidly. In 1950, these countries had only one city larger than 5 million people. By the year 2000, some 40 cities are likely to be at or above this size, while about 18 are expected to hold more than 10 million inhabitants. This pace of urban growth is posing unprecedented challenges for national and municipal policy makers.

To some extent, the rate and pattern of urbanization can be influenced through policy measures. The main determinants of urbanization and spatial concentration are the pace and structure of economic development and the rate of natural population growth. Policies that accelerate broadly based agricultural development and improve living conditions in rural areas can be expected to slow the migration to towns and cities. In the long run, measures that reduce the natural rate of population growth will slow the growth of urban populations, both directly, and indirectly, through lessening the demographic pressures on rural resources and incomes and hence helping to reduce migration to towns. In most developing countries, a wide array of current policies reinforces the concentration of economic activity in existing large cities, especially national capitals. The elimination of large-city biases in government policies with respect to public investment, foreign trade and exchange controls, and transport and energy pricing could help to achieve a more balanced pattern of urban growth. This could be further aided by positive measures to encourage the growth of medium-sized cities.

The cities in developing countries will continue to grow even if national policy biases favoring urbanization are eliminated and vigor-

ous decentralization measures are deployed. Modern industrial and service activities benefit from the economies of agglomeration, and to the extent that industrialization and structural change are a necessary adjunct of economic development, the impetus for urban growth is well-nigh inexorable. The central task facing national and urban planners is thus to devise and implement policies to encourage the efficient and equitable growth of cities. Instead of bulldozing slums, banning street vendors and traditional modes of transport from public places, and building high-cost public housing, subways and limited-access highways, all of which primarily serve the interests of wealthier residents, urban investment and regulation policies should be designed to assist the expansion of those forms of transportation, housing, sanitation and other services which meet the needs of the majority of the urban population, including the poor, at low cost.

Where past urban transport investments have served mainly to increase the road capacity for the growing swarms of private automobiles, the priorities need to be shifted in favor of expanding bus fleets and routes, making traditional forms of transport—including bicycles and walking—easier, and constructing low-cost access routes for buses and service vehicles in poor neighborhoods. Better roads for these areas often bring far-reaching benefits to residents, since the provision and maintenance of other urban services, such as water, electricity, sewerage, waste collection, and police and fire protection, frequently depend on road accessibility. The past response to urban housing needs has too often been limited to the construction of a few costly public housing schemes, which are of little consequence in relation to requirements. A more appropriate public policy would focus on eliminating impediments to private initiative and providing those elements of housing supply—sites, low-cost water, sanitation and other services, security of tenure and construction loans—which the private sector is least able to supply. Similar shifts in favor of low-cost, replicable delivery systems may be necessary if education and health services are to reach the majority of urban dwellers. Both the scale of the urban resource management problem and the need for fresh initiatives and policy directions require concerted efforts: to delineate the responsibilities and functions of urban authorities clearly; to ensure that these authorities coordi-

nate their activities effectively within a given city or town; to upgrade their planning and technical capacities; and to improve the coordination between urban and national authorities for finance, planning and other relevant functions.

Improving the International Environment for Development

The progress developing countries can make in increasing production, expanding employment and reducing poverty will partly depend on the international climate for trade and capital flows. The impressive advances made by many of these countries in the 25 years after World War II were greatly assisted by the unprecedented expansion in world output, trade and capital flows that took place during this era. The slowdown in the growth of world production and trade since the early 1970s has raised the central issue of this decade: is the retardation simply a temporary setback resulting from the coincidence of adverse events, or does it presage a prolonged period of slow growth and unsettled international economic conditions? This report takes the view that the health of the world economy is less a product of inexorable historical processes and more the result of policy choices and actions in key industrialized and developing nations of the world. The boom in world output and trade during the 1960s and early 1970s was, in large measure, the result of deliberate and successful international efforts to reduce restrictions on international trade. Similar rewards could accrue from reversal of the recent surge in protectionist actions and from a more determined pursuit of growth in key nations. Conversely, the continuation of the recent disappointing trends in world trade and production would retard growth in developing countries, and jeopardize any reduction in the number of people condemned to live in absolute poverty.

Trade liberalization and output growth are mutually reinforcing processes. Containing and reversing protectionist tendencies and reaping the benefits of the Tokyo Round multilateral trade agreements would be greatly aided by the restoration of higher growth in the industrialized countries. In addition, these nations can undertake an array of small, but cumulatively significant, policy initiatives to reduce the costs to groups adversely affected by international competition and imports, so that society at large

may enjoy the benefits of cheap imports, fast growing, skill-intensive export industries, healthy growth of international capital flows, and other benefits that stem from more liberal trade.

Industrialized nations need to undertake special efforts to curb protection and ease market access for imports from developing countries. Not only is this essential for accelerating growth and employment generation in developing countries; it is also in the long-term interest of the industrialized nations, which stand to gain from cheap imports and the rapid expansion of major markets for their exports. In 1976, developing countries purchased 28 percent of the total merchandise exports of industrialized nations and 31 percent of their manufactured exports.

Developing countries, for their part, need to resist the temptation to adopt inward-looking trade policies, or to delay a transition to more export-oriented policy regimes, in response to current difficulties in the international trading environment. Despite recent protectionist tendencies, important export opportunities exist for countries that are willing to risk investing in export industries. The more advanced developing countries can strengthen the basis for more liberal trade if they are willing progressively to surrender their present privileges and immunities from international trading rules, and if they participate more actively in future multilateral trade negotiations and agreements. Where this involves a substantial reduction in trade protection, a transition to more liberal policies may be aided by guarantees of improved market access and the provision of additional medium-term capital flows from official sources, to ease the foreseeable strains on the balance of payments.

More buoyant economic conditions in industrialized countries should also facilitate the necessary expansion of Official Development Assistance. Net disbursements of ODA from members of the Development Assistance Committee of OECD are estimated to have amounted to only 0.32 percent of donors' GNP in 1978—far short of the international target of 0.7 percent of GNP endorsed by the United Nations General Assembly in 1970. Only Denmark, France, the Netherlands, Norway and Sweden had exceeded or were close to that proportion by 1977, while net ODA from the three largest economies, the Federal Republic of Germany, Japan and the United States, remained signifi-

cantly under half the 0.7 percent target. The expansion of concessional resource transfers is particularly important to the Low Income countries, which rely on these sources for about 70 percent of their net inflows of medium- and long-term capital. Relatively small percentage increases in real ODA flows could, if directed toward the Low Income countries and the poorer Middle Income nations, have a substantial impact on absolute poverty.

Over two-thirds of the net disbursements of medium- and long-term capital to Middle Income countries comes from private sources, predominantly commercial banks. Though the international private capital market has been remarkably responsive and flexible in meeting the capital requirements of these countries, recent experience and projections for the next decade give some causes for concern. First, the relatively short maturity structure of private commercial loans, and the attendant need for frequent refinancing, lead to high stocks of outstanding debt and increase the fragility of the structure of capital flows. Recent measures to increase the resources of the International Monetary Fund, and proposals being considered to increase the capital base of the World Bank and other international institutions, will strengthen the international financial system. Nonetheless, there remains considerable scope for renewed efforts and fresh initiatives to expand the flow of official medium-term capital to developing countries, to assist them in adjusting to major shifts in the international economic arena and in undertaking desirable but risky reforms of their trade and industrial policies.

Second, though the projections do not point to a general debt problem for developing countries, from time to time individual countries may experience liquidity crises, like those in recent years in Peru, Turkey and Zaire. To the extent that international initiatives succeed in improving the maturity structure of aggregate capital flows and debt, such liquidity strains will occur more rarely. Liberalization and expansion of international compensatory financing facilities would help to allay the liquidity strains that can be caused by unforeseen shortfalls in export earnings. Improvements are also desirable in methods to deal with liquidity crises when they occur. In particular, the existing procedures for multilateral renegotiations of official debt under the auspices of the Paris Club could benefit from more systematic consideration of the medium-

term prospects and needs of the debtor countries concerned, so that the need for recurrent debt rescheduling exercises is reduced.

As recent events have shown, the balance in the world demand and supply of energy still hinges on what happens in a few key oil exporting countries. In these circumstances, disruptions in the supply of oil, accompanied by temporary increases in its real price, can be precipitated by events in a single country. However, if prolonged production setbacks in key countries can be avoided, if strong conservation measures are pursued in major consuming nations, and if sustained efforts are made to find and develop new energy resources, then the increases in the real price of internationally traded energy need not be large.

Viewed in a longer perspective, the next two decades may be seen as a critical transitional period during which the world has to adjust to higher energy prices and increasing use of more costly energy substitutes for oil. While different groups of countries face different sets of problems in accomplishing this transition, all share a strong interest in assuring that the transition is a smooth one. In the industrialized countries, the main transitional tasks lie in the conservation of demand, improving the safety of nuclear power, the pricing of domestic energy supplies and the development of synthetic fuels. The principal concerns of the major oil exporting nations include the determination of how rapidly to exploit their non-renewable resource, and the design of a long-term development strategy that will ease the transition to a post-oil future. For other developing countries, the main priorities are to explore and develop domestic commercial energy potential, to increase the efficiency of non-commercial and non-conventional energy sources, and to adjust to higher energy prices. If the maintenance of equilibrium in the global energy market requires real price increases over the next two decades, it would be advantageous for all to have gradual and predictable oil price increases rather than sharp unforeseen changes. This would facilitate investment planning in alternative energy sources and permit oil importing countries to adjust their economies gradually; in the weaker and worst affected of the non-oil developing countries, such adjustments would require increased balance of payments support. For their part, the oil exporting nations stand to gain from the orderly evolution of world output, trade and

capital flows that is more likely to be associated with a smooth transition.

Developing countries face major challenges in developing their very substantial unexploited resources of commercial energy. Most of these countries need to increase investment and augment their technical, planning and management systems in the energy sector. International support with finance and technical expertise, such as the World Bank's recent initiative to support oil production, can greatly aid this effort. Developing nations also need to direct greater attention to their use of non-commercial energy sources. About half of the energy produced in oil importing developing countries comes from traditional fuels, such as firewood, charcoal, and animal and crop residues. In many parts of the world, where unchecked reliance on such sources has led to grave ecological problems of deforestation and desertification, there is an urgent need for well designed afforestation programs. At the same time, development and dissemination of improved cooking stoves, biogas plants and charcoal kilns could greatly improve

the efficiency of energy use from traditional sources.

As the decade of the 1970s approaches its end, the interdependence in the world economy is becoming increasingly apparent. International trade, capital flows and energy developments are some of the strands in the web of economic ties and mutual interests that link nations together. A break in one strand jeopardizes others: for instance, increased protectionism toward their exports reduces the debt servicing capacity of developing nations, and weakens the global financial system. In a fundamental sense, interdependence goes deeper than shared economic interests. All nations stand to gain from furthering a course of development that will lift the blight of absolute poverty from this planet and provide meaningful jobs and security to its inhabitants. The international community faces the challenge of undertaking informed policy initiatives to realize the underlying mutual interests of nations and to protect those interests from ill advised actions in pursuit of ephemeral gains.