Folder Title: Hollis B. Chenery Papers - McNamara discussions / notebooks / memoranda - 1971 (March - July)

Folder ID: 30235174

Dates: 01/15/1971 – 07/30/1971

Series: McNamara notebooks

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ISAD Reference Code: WB_IBRD/IDA_96-01

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Hollis B. Chenery papers - McNamara Discussions 1971 (March - July)

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MARCH -
JULY 1971

RM

July 30, 71

① Economic Reporting System

② Program Review Procedure

1) Scheduling — Schulman/Timis —

2)

③ Overall Programming System

a) IDA Allocation —

b) Balance of payments

c) Debt Studies

④ SPP — Preparation — need memo.

Draft — { Pop.
{ Agriculture

⑤ Research —

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 26, 1971

FROM: Hollis B. Chenery HBC

SUBJECT: Organization and Staffing: Central Economic Staff and Computing Activities Department

1. The reorganizations of the Central Economic Staff and the Computing Activities Department are now virtually complete. The current organization is shown in the two attached charts. With the additional changes described below, the four departments will have the following authorized professional positions:

Office of the Economic Adviser	3
Economics Department	66
Economic Program Department	63
Development Research Center	21
Total:	
Central Economic Staff	153
Computing Activities Dept.	54

2. The Economic Program Department. The divisional structure of the Economic Program Department was reviewed with you when it was established and is essentially unchanged. We have transferred to it the External Debt Section from the Economics Department so that all regular statistical work is now concentrated in the Economic and Social Data Division.

3. The Economics Department. The department has been streamlined by transferring several of its functions to other units and reducing its size accordingly. The divisional structure is designed to match that of the Projects Departments so that a close relaitonship can be maintained in the preparation of the Sector Program Papers and other joint activities. New chiefs have been appointed for five of the seven divisions.

4. The Development Research Center. Following your agreement to raise this unit to departmental status, I have asked a subgroup of the Bank Research Committee to advise me on the desirable functions of a central research unit. Their report will provide a basis for a reorientation of the center's operations that will take place with the arrival of additional staff in the fall. At that time I also expect to transfer the Quantitative Techniques and Analysis Division from the Economics Department to the Center, raising its professional staff to 21.

President has seen

5. The Computing Activities Department. An initial divisional structure has been formulated, which will aid concentration of resources on identifying and delivering improved user services. Ten professional staff have already been recruited from outside. An evaluation of the existing staff shows the need for substantial training to reach an acceptable level of competence.

6. Recruiting. With the appointments of Islam and Stern, recruiting at the senior level will be completed except for the possible appointment of a Deputy to me. Since January 1 we have recruited 48 professionals for the Central Economic Staff of which 14 came from inside the Bank and 34 from outside. 15 professionals have been transferred to other parts of the Bank. I expect that we will have committed all the 10 remaining authorized positions before December. We have managed to limit the Anglo-American proportion to 39% of the professional staff. In the reorganization I think that the analytical capacity of the staff as a whole has been substantially strengthened, particularly in the policy areas.

Attachments

cc: Messrs. Henderson, Hayes, Muller, Adler

July 1971

OFFICE OF THE ECONOMIC ADVISER TO THE PRESIDENT

H.B. Chenery
(E. Stern, Senior Adviser-Sept)

Department of Computing Activities

M. Muller, Dir.
W. Rayfield

- **User Services** — G. Slade
- **Data Processing Services**
- **Software Systems** — L. Alexander
- **Analysis and Programming**

Economics Department

P.D. Henderson, Dir.
A. Stevenson
M. ul Haq, Ec. Adv.

- **Economics of Industry** — H. Hughes
- **Urban and Regional Economics** — (D. Keare - Sept.)
- **Population and Human Resources** — E.K. Hawkins
- **Transportation and Public Utilities** — A. Churchill
- **Agriculture and Rural Development** — S. Reutlinger
- **Quantitative Techniques and Analysis** — J. Duloy
- **Trade Policies and Export Projections** — ~~A.J. Macone~~ O. Price

Development Research Center

L.M. Goreux, Dir.
(N. Islam - Dec.)

Economic Program Department

J.P. Hayes, Dir.
E. Lerdau
B. King, Ec. Adv.
S. Hulley, Sr. Ec.

- **Program Review** — W. Tims; J. Holsen, Deputy
- **Domestic Finance** — S. Please; [illegible], Dep.
- **International Finance** — ~~J. Hulley (Acting)~~; J. Saxe (~~Acting~~)
- **Comparative Analysis and Projections** — N. Carter
- **Economic and Social Data** — R. McPheeters

July 22 Meet

RM. Agenda

AC Edit — ① Speech
~~[illegible]~~

AL — ② Lending Paper — Ready ~~to [illegible]~~ in Sept. ~~[illegible]~~ (Hayes)

Read — ③ Education SPP — not discussion — pamphlet use.
* Distribute at Annual meeting.

~~AC Memo~~ — ④ ~~Economics [illegible] [illegible] — EPA Memo.~~
Discussed July 31

AC Memo — ⑤ Board Orgs.

Retirements	Cope Gund Shook	[illegible] Ded. July 24 [illegible] [illegible] 75

DA — Wages + nutrition –

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

JUN 29 1971
(Returned)
9:45 a.m.

TO: Mr. Robert S. McNamara

DATE: June 24, 1971

FROM: Hollis B. Chenery HBC

SUBJECT: Country Economic Reports - Types and Scheduling

The attached memorandum proposes a more systematic framework of different types of country economic reports and improved forward planning of the Bank's country and sector-level work. It is scheduled for a final discussion in the Economic Committee on June 30. Mr. Hayes and I would like to discuss it with you at your convenience.

The proposal was prepared by Ben King and Wouter Tims of the Economic Program Department on the basis of extensive consultation with Area Departments, discussions with Messrs. Knapp, Cope and J.H. Adler, written comments from Projects Departments and contacts with some bilateral aid agencies which make use of these reports. It suggests three types of reports:

(a) Basic reports. These might be prepared for each developing country once every four or five years. They would analyze those features of the country which are essential for an understanding of its prospects and problems, and which normally do not change substantially in the course of a few years.

(b) Current reports, annual for the most important countries, possibly less frequent for others. These would deal with short-term conjunctural changes, new departures in government policy, etc. A distinctive part of the proposal is that current reports should consciously lean on the most recent basic report as providing the underlying framework of understanding of the country's economy, thus eliminating repetition of features which do not change in the medium term.

(c) Special reports. Increased use should be made of special reports, which would be designed to improve knowledge or understanding of a particular feature of a country's economy. Area Departments should not feel obliged to write a comprehensive report every time there is a need to study particular topics - either questions which could not be covered adequately in the last basic report or new developments which require study in depth.

The authors were struck by the general agreement in Area Departments that more conscious differentiation of country reports along these lines would permit more efficient scheduling of the work of country economists, and deepen the Bank's knowledge of the various countries. The proposed system would also help users of the reports, both inside the Bank and outside, by making it clearer where to look for any given type of material. The system should incorporate adequate cross-referencing.

Production of basic reports would call for concentration of effort, feasible if only a quarter or a fifth of the countries are to be surveyed comprehensively and in depth each year. Chief Economists of Area Departments fully agree that the system would call for careful advanced programming of country economic work. This should include programming of sector studies and economic research projects, which would issue as special reports and/or provide material for the next subsequent basic report. Other departments concerned would thus be brought together, in advance, with Area Departments, in deciding not only the timing but also the terms of reference of these studies. It is envisaged that the program of economic work should take the form of a three-year rolling plan, the plan for the first year being as complete as possible, while plans for subsequent years would have to leave space for addition of reports to meet changing circumstances and needs. We believe that the scheduling process could take care of the transition from the present format of country reporting to the proposed system.

One implication of the proposed system calls for special comment. The full range of topics mentioned, e.g., in the Memorandum to the Executive Directors on Pearson Commission Recommendation No.12 (February 3, 1970), would be covered in a series of differentiated reports rather than in each report. The main coverage of several of these topics would be in the basic reports, supplemented as necessary by special reports, and these would be referred to as supporting, background material to the year's current reports. This change would have advantages for both writers and readers in avoiding unnecessary repetition, freeing effort for the necessary task of widening and deepening our knowledge and understanding. But these gains can only be secured by moving away from a system of reports which attempt to cover every year, for a large number of countries, virtually the whole range of topics most relevant to social and economic development.

This proposal is based on prolonged consultations with people in the Bank, and some outside, who are concerned either as contributors to, or users of, our country reports. I feel that it will make much more effective use of our analytical resources than the present system, which involves a great deal of repetition. If it is adopted, a statement to the Board might be necessary, explaining why experience has led us to make some improvements in the system of country reports. not necessary

I shall also propose that the Bank plan to publish an edited version of each basic report for which the country for public use concerned gives its approval. This would meet the major external criticism of the Bank's present system, which withholds reports from many people to whom they would be quite valuable.

Attachment

cc: Members of the President's Council

Proposal for Changes in the Economic Reporting System

1. This memorandum describes the purpose and the nature of a modified economic reporting system. Although the proposed changes differ in form from the system outlined in the present Operational Memorandum 1.11, they share the same spirit and indeed pursue the logic of it a stage further. As will appear, the proposals touch on more activities of the Bank Group than the economic reports as they are now known. The changes, if introduced, would have to be made over an extended period. It is not expected that the problems of transition will go beyond the minor inconvenience of having two systems, old and new, in parallel for a certain time.

Purposes

2. The principal purposes of the proposed changes are as follows:

(1) More efficient use of manpower in area departments. This will be achieved by a more purposive program of widening and deepening knowledge and understanding of countries, while cutting out avoidable duplication. Economists in area departments will be given the opportunity for greater intensity of work on any given subject with reduction of pressures making for sporadic and consequently superficial treatment, as at present.

(2) Improved integration of the country work performed in various parts of the Bank Group. This would be achieved by making all sector work and economic research focussed on a particular country part of a single program of work subject to scheduling and review as a whole.

(3) Greater emphasis on long term development problems. This would be achieved by separating clearly the two functions of long term analysis and current reporting.

(4) Systematization of the presentation of country economic material for the convenience of users inside and outside the Bank Group. This would be achieved by more sharply defining the sort of material to be found in the various types of reports, by fuller cross-referencing and by improved standardization and documentation of statistical information.

The changes proposed

3. There are four principal ingredients in the proposed reporting system for each country:

(a) A basic report on the long term development of the economy
(b) Current reports
(c) Special reports
(d) A standard set of statistical tables

The scheduling of these reports would be embodied in an economic work program which would be prepared annually in connection with the country program paper.

4. The purpose of basic reports would be to examine the long term development of the economy in perspective. They would as a consequence look backwards to the historical development of the economy and forwards to its structural problems, including those of instability and change, and the development strategies and policies to cope with them. They would deal with all matters vital to the understanding of the options confronting the country and external lenders. They would evaluate the institutions responsible for management of the economy, both on the external and the internal side. They would state the implications for development in the major sectors of the economy. The basic reports should provide a framework within which short term changes can be placed and understood, while current developments would be the province of current reports described below.

5. The idea of a basic report rests on the fact that although short term problems may loom large at the time, the basic economic and social structure of countries do not in fact change much from year to year nor do the problems of a long term nature that they face. Basic reports therefore can only usefully be written every four or five years. The periodicity should fit the planning or programming cycle of countries which have reasonably meaningful long term plans.

6. Basic reports should outline the main findings in one comparatively short opening section (20-30 pages). This might serve as the principal documentation for the Board discussions of country development programs which have just been initiated and, with such modifications or additions as may be necessary, as the basis for a country program paper. Basic reports should cover the essential ground but details and supporting material could be left to the special reports which are described below. Suitable reference to these reports would be made in a short bibliography of pertinent documents.

7. Current reports would have two purposes, which should be clearly differentiated. On the one hand they would deal with any events which materially change the analysis in the basic report. This part of the report would normally be quite brief, unless there were changes of a really fundamental nature. Secondly, they would be addressed to the short term conjuncture of the economy to the extent that there was something to add to the standard IMF reports. The Bank will often be looking at the short-term from a somewhat different angle than the IMF; for example, it will be interested in the volume and terms of aid. Nevertheless, there may well be a possibility for closer collaboration in eliciting the facts, including both the statistical facts and the proposed measures to deal with the situation. Current reports would be in principle written annually for major countries and possibly less frequently for others, if not required for the Board.

8. Special reports would be of two main kinds. The first would serve as the raw material for the basic reports. They would include sector surveys and studies on subjects cutting across individual sectors such as taxation,

income distribution and so forth. They might be written at the same time as the production of the basic report or they might be written in the interval between two basic reports. Indeed, one of the purposes of a basic report would be to reveal what subjects needed further study; in turn, special reports, besides being of interest in their own right, should be part of the material for the subsequent basic report. Reports or studies which, under the proposed system, might be categorized as special reports have been written in the past, but their status has not been clear. It is now intended that all reports or studies focussed on a particular country produced in any part of the Bank Group should, in principle, form part of the documentation on that country. Greater use of special reports as a device should serve to avoid duplication of effort.

9. The second group would be more ephemeral in nature and would correspond to the conjunctural side of current reports. They would concentrate on particular aspects of a short term situation which required special analysis, for example, a debt situation which was getting out of hand. Such special reports could not be predicted long in advance and would be strictly *ad hoc*

10. *The standard set of statistical tables* would consist of a set of tables common to all countries in coverage and in format. However, optional additional tables could always be added for particular countries and obviously tables would be omitted where there was no satisfactory information. These tables would conform to a common definition only in the broadest sense; for country purposes it is necessary to work with established series. The essential difference would be that the relationship to some international standard would be documented, so that the growing number of consumers would know what they were getting. These tables would be brought up to date annually. They might or might not be incorporated with whatever reports came out during the year.

11. *The economic work program* is designed to bring together in one place all the elements of sector or research work related to a single country. This work now takes place in a variety of departments and coordination has become increasingly difficult. The work program should as a rule cover a three-year period. The first year would be firm, but the second and third years subject to revision. In essence, therefore, there would be a rolling three-year program in order to allow for the uncertainties inherent in future planning. The intention is to initiate a coordinated planning exercise for country work which will lead to a more coherent decision-making process on the scope and timing of country program elements.

12. The formulation of the work program can best be undertaken by area departments at the time when economic and operational considerations are already brought together, i.e. at the time when the CPP is put together. Sector surveys or research projects on a particular country could be proposed either by the area department concerned or by other departments in the Bank,

but their timing and their scope should be fitted into an agreed work program. The economic work program could be annexed to the CPP draft which is submitted to the Economic Committee and to the final text submitted to the management.

Link with country program papers

13. As already stated, the basic reports should provide much of the material which goes into country program papers, other than information or opinion of a confidential nature. In those countries for which a full country program paper is required annually, updating should not present a serious problem. The connection between economic analysis and the lending program deserves special mention. Given the time lag involved in the identification and preparation of projects, the connection is likely to be of two kinds: identification in general terms of the kinds of projects which it would be desirable for the Bank Group to be financing several years ahead and consideration of general issues of lending policy in the country (for example, local cost financing). While matters of this kind would be kept under constant review, particular attention to such questions would properly come at the time of writing of a basic report.

Economic Program Department
June 22, 1971

McN notebook

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

SEP 6 1972

TO: ~~Mr. Robert S. McNamara~~

DATE: June 11, 1971

FROM: Hollis B. Chenery HBC

SUBJECT: Article by Harry G. Johnson Criticising the Pearson Report

I have received from Harry Johnson the attached copy of the lecture from which the critical newspaper report that you sent me was taken. In a note to me he said, quote: "Reporters have written him up into a completely new story. I cannot control what other people choose to do with my words, especially years after", unquote.

I have marked the paragraphs from which the critical inferences about the effectiveness of AID are taken.

cc: Mr. William Clark

President has seen

file
6/4/71

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C. 20433, U.S.A.

OFFICE OF THE PRESIDENT

May 27, 1971

JUN 10 1971
2·40

Dear Harry:

I would appreciate your sending me two copies of your paper which is quoted in the enclosed article. I cannot tell whether you are saying that we should go out of business but whatever the argument, I think we should take it into account.

Best regards.

Yours sincerely,

Hollis

Hollis B. Chenery
The Economic Adviser to the President

Prof. Harry Johnson
University of Chicago
Department of Economics
1126 East 59th St.
Chicago, Illinois
60637

Enclosure

2 copies of "Crisis of Aid & Pearson Report"

Hollis — I enclose 2 copies of a lecture I gave at Edinburgh University in March 1970. The newspaper report has filtered slowly and at great time-distance from then. In fact Gene Birnbaum clipped a few paras for his Chase-

Monbitter news letter, and these reporters have written them up into a completely new story.

I cannot control what other people choose to do with my words especially years after.

All the best

Encl + to item 13
Enclosure
Johnson
5/27

Evening Star - May 14

BUSINESS MIRROR

Does Foreign Aid Help or Handicap Underdeveloped?

By JOHN CUNNIFF
Associated Press

NEW YORK—Does foreign aid from an industrially advanced country really help an underdeveloped nation move toward a goal of economic equality? Or could it retard that nation's advance?

Not just Americans, but officials of many other nations have long believed that the question provided its own self-evident answer, and that if the economic answer wasn't convincing it could be buttressed by the moral imperative.

Now a growing segment of businessmen and others concerned with such matters appear to have growing doubts that the assumption is correct.

Moral Distortions

The chief factor in their doubts is a little publicized speech made last year by a professor at the University of Edinburgh, and condensed recently in a Chase Manhattan Bank publication "without endorsement."

The address, by Prof. Harry Johnson of the University of Chicago and the London School of Economics and Political Science, was sharply critical of the Pearson Report, made late in 1969 and widely acclaimed.

The report, sponsored by the World Bank, was allegedly an effort to revive enthusiasm for foreign aid, and it carried a suggestive title intended to advance that goal: "Partners in Development."

Johnson maintains that the report was "the inevitable result of the conflict between moral conception and the facts of reality that arises with any charitable operation such as development aid or the relief of poverty."

Significance Questioned

In other words, the moral interpretation distorted the picture. It lead to fictions, such as the one, Johnson states, that asserts that nations are really equals, even if one is less endowed by nature. Propaganda, says Johnson.

The professor states that there is a real question of "whether development aid has promoted or retarded development, and if it has promoted it, how significant its influence has been."

He argues that some critics believe aid has encouraged developing countries "to pursue counter-developmental policies and permitted them to preserve archaic social and political structures, and so has retarded rather than promoted modernization."

The Pearson Report, he states, "is unable to adduce any clear evidence that aid has promoted

Johnson of the University of Chi-

ment aid or the relief of poverty."

Significance Questioned

In other words, the moral interpretation distorted the picture. It lead to fictions, such as the one, Johnson states, that asserts that nations are really equals, even if one is less endowed by nature. Propaganda, says Johnson.

The professor states that there is a real question of "whether development aid has promoted or retarded development, and if it has promoted it, how significant its influence has been."

He argues that some critics believe aid has encouraged developing countries "to pursue counter-developmental policies and permitted them to preserve archaic social and political structures, and so has retarded rather than promoted modernization."

The Pearson Report, he states, "is unable to adduce any clear evidence that aid has promoted growth. The usefulness of aid in promoting development remains an act of faith . . ."

Johnson believes that the trend of the future may be away from dependence upon the powers of government "to promote development by the use of its legal powers of control and planning and its economic powers of taxation of its citizens."

The constructive potential of such measures, he believes, "were grossly exaggerated, and the powers of free competition to promote growth were unduly discounted."

Private Sector Role

He foresees a decline of official development aid and "an increased dependence on the private market mechanisms of economic development, as contrasted with governmental planning and control of the development process."

Such an argument is bound to have a strong appeal to businessmen weary of taxes and enthusiastic about "competition."

The disturbing question that remains—made up equally of moral and economic elements — is how these admittedly less endowed nations can compete with powerful industrial and commercial behemoths.

Johnson appears to rely heavily on the international corporation, "a powerful agency for the transmission of technological progress and the reallocation of capital resources from the rich to the poor countries . . ."

True, he says, the goal of corporations is to make money rather than specifically to encourage development, "but there is considerable overlap of interests between the two," Johnson alleges.

R. McNamara

THE "CRISIS OF AID" AND THE PEARSON REPORT

By Harry G. Johnson
Professor of Economics, The London School of Economics and Political Science and the University of Chicago

Montagu Burton Visiting Professor of International Relations, The University of Edinburgh

A Lecture delivered at the University of Edinburgh, March 6, 1970.

THE "CRISIS OF AID" AND THE PEARSON REPORT

By Harry G. Johnson, Professor of Economics, The London School of Economics and Political Science and the University of Chicago.

One of the historically distinguishing characteristics of the period since the end of the Second World War has been the growth of concern in the advanced industrial countries over the widening gap in living standards between the rich and the poor countries, and the assumption of an obligation on their part to help promote the economic development of the poor countries through the contribution of substantial resources to development assistance. For some countries, such as France, and the United Kingdom, development aid has been envisaged largely as an obligation to former colonial territories; for other European countries, the motivation has varied between a sense of moral obligation and a sense of ultimate commercial advantage. The big impulse to development assistance, however, came from the leadership example and pressure of the United States, which initially approached development assistance in the spirit of the Marshall Plan for European Economic Recovery, and after successful completion of that Plan, under the visionary inspiration of President John F. Kennedy, turned its attention to the solution of the development problem of the poor two-thirds of the world's population. Development aid has become a major world endeavour, involving some $6 1/2 billion of official aid disbursements and some $4 1/2 billion of private investment and lending in recent years, and employing hundreds of thousands (perhaps even millions-- I have no figures) of people as economists and administrators in national governments and international agencies, as technical advisers in all sorts of fields, and as trainees of various kinds.

The problem of European economic recovery, for which the Marshall Plan was developed, was however a quite different problem than the problem of promoting economic development in the poor countries. The war-ravaged European countries were established nation-states, culturally mature and economically advanced, lacking only an intensive but brief marginal injection of capital to restore their economies and set them on the path of "self-sustaining growth". The poor countries were in many cases newly-created states, lacking the political stability and cultural homogeneity of established nations; and their poverty reflected general backwardness in the industrial and agricultural arts and a general paucity of productive resources, including social and human capital as well as the material means of production. Their development would necessarily be a relatively slow, painful, and wasteful process of "learning by doing" and of accumulating a complementary equipment of infra-structure, labour skills, material capital, and industrial knowledge, often while coping with the problems of achieving political stability and modernizing the society. In these circumstances, the Marshall Plan approach-- the "crash programme" approach to setting nations on their economic feet and equipping them quickly for "self-sustaining" growth-- was doomed to disappointment, with respect both to the degree of success achievable and the foreseeability of an early end to the need for the effort.

By the early 1960's, it was apparent that a "crisis of aid" was approaching. On the one hand, the need for development assistance, or at least the demand for it, was rising rapidly as the numbers of the developing countries, and the rate of economic growth to which they aspired, steadily increased. At the same time, the political stability and capacity to use aid of many of them was also increasing, as the early excesses of national "liberation" were recognized to be counter-productive. On the other hand, two of the three major aid donors, the United Kingdom and the United States, were in balance-of-payments difficulties that put pressure on their governments to limit their aid programmes; and public opinion in the United States was becoming both increasingly disillusioned with the apparent failures of U.S. development assistance, and increasingly concerned about the domestic problems of race relations and poverty.

The emerging crisis of aid was symbolized by the First United Nations Conference on Trade and Development, held in Geneva in 1964 and largely inspired by the thinking of Dr. Raul Prebisch. The main theme of the Conference was a demand by the developing countries for a "new trade policy for development"-- largely the intellectual creation of Dr. Prebisch-- involving international commodity agreements to raise and stabilize the prices of the primary products on which these countries depended for the bulk of their export income, and preferences in the markets of the developed countries for the manufactures on which they planned to base their industrialization. This demand reflected the recognition that the halcyon days of competition in aid-giving between the West and the Soviet bloc had ended; that aid-givers were becoming decreasingly generous and increasingly choosy, and that any hope for important new sources of external resources for development lay in the field of trade rather than aid. Recognition of the increasing stringency of official aid-giving was also reflected in the concern of the developing countries to obtain redefinition of the target for developed country aid of one per cent of national income so as to increase the actual amount of aid it represented, and to obtain changes in the techniques of development lending-- softening of financial terms, and untying of the aid-- that would have the effect of increasing the real resource transfers actually involved.

As a consequence of the interest stirred up by the 1964 United Nations Conference on Trade and Development, and particularly of the shock to informed American opinion of the confrontation there of United States trade and aid policies with the demands of the developing countries, I was commissioned in 1965 by the Brookings Institution to make a study of the issues; similar studies by John Pincus and Theodore Geiger were commissioned by other sponsors. What emerged from these studies-- reformulated in the light of hindsight, and stated very briefly-- was, first, that ~~most~~ none of the arguments from the self-interest of the advanced countries-- political, military, and economic-- that had been used from time to time in support of official aid-giving was at all persuasive; the prime case for aid had to be made in terms of the moral obligation of the rich to the poor, and was only as strong as that sense of moral obligation. Second, for a variety of economic reasons the official measurements of aid transfers grossly overstated the amount of real resources both transferred by the aid-donors to the aid-recipients, and received by the aid-recipients from the aid-donors-- two magnitudes which are not necessarily even approximately the same. Third, while the developing countries could justifiably complain bitterly about the discrimination against their exports and thus their development implicit in the tariff and agricultural support policies of the developed countries and the rules governing commercial policy changes institutionalized in the General Agreement on Tariffs and Trade, the tariff preferences they were demanding would if implemented yield them negligible additional resources for development investment in the reasonably near term, while both experience and theoretical analysis showed that international commodity agreements of a substantially resource-transferring kind were very unlikely to be implementable -- so that trade offered no real alternative as a substitute for additional aid. Finally, many of the exporting difficulties experienced bythe developing countries were of their own making, the consequence on the one hand of heavy taxation of primary-producing export sectors and on the other of high-cost import-substitution policies, both of which impeded the growth of exports-- so that even if expanded export opportunities were offered, they were likely to have little effect failing major changes in the developing countries' approach to development promotion.

It is relevant at this point to expand on the difference between the established official approach to development assistance and the approach of the economist, which underlies the last three of these point. The official approach, in this as in other areas of policy, is dominated by balance-of-payments considerations, and workd in terms of flows of foreign exchange, i.e. financial flows. This approach suggests, quite wrongly, that additional export earnings are equivalent in benefit to additional loans or grants. It also lumps together in the aid total a heterogeneous collection of tied and untied official grants and loans on varying concessional terms, the domestic money value of food aid, and various kinds of private capital flows. And, further, it deducts the flow of servicing payments on past loans. This last practice, in turn, fosters the notion that debt service constitutes a "burden" on the economy, requiring "relief", which it should not be if the loans have been applied to good economic purpose. From the economic point of view, what matters is not the foreign exchange flows but the implicit transfer of real resources involved in any particular transaction. This involves, for official capital transfers, making deduction for any excess of the prices of the goods purchased with the aid over world market prices resulting fromthe tying of aid or the giving of aid in the form of surplus foodstuffs; and, for loans as contrasted with outright grants, reckoning the economic value at the value of the gift element involved in concessionary interest rates, grace periods, etc., and not at the much higher face value of the loan. On the same approach, the value of trade concessions to the recipient is not the resulting increase in the value of the trade concerned, unless that increase consists purely of an increase in prices, as with some forms of the proposed international commodity agreements. Otherwise, the value of a trade concession has to be reckoned in terms of the effect of additional export earnings in enabling a country to acquire importable goods more cheaply, in terms of resource cost, by exporting than it couhd obtain them by producing them domestically. As regards private capital transfers, which are included in the assistance totals, these being commercially profitable transactions presumably involve no cost to the citizens of the country from which they come, except to the extent that like other private capital exports they pay taxes to the country invested in which are lost to the home country under double taxation agreements, and these taxes exceed the costs of the social overhead expenditure the government of the home country would have had to incur if the capital had been invested at home.

These differences between the official and the economically scientific measurements of development assistance have undoubtedly played a significant part in the growing disillusionment with the effectiveness of development assistance, as has the fact that much so-called aid has been given for political and military purposes rather than the promotion of economic development, and may well indeed have been counter-productive in terms of promoting development. They have also helped to divert attention from recognition of the urgent importance of a larger volume of official aid in real terms, to schemes for extracting more real aid by subterfuge through the softening of aid terms, and to schemes for benefitting the developing countries by new trade arrangements and by linking aid to international monetary reform that either hold little promise of substantial benefits or little promise of acceptance by the developed countries. As a result, the "crisis of aid" has been steadily deepening.

The United States Administration, Congress, and public, in particular, have become increasingly unwilling to go on providing development assistance at recent levels, let alone at the rising levels required to meet calculated needs for such assistance by the developing world. This reluctance has acted as a brake on the generosity of other advanced countries-- a generosity otherwise stimulated in some cases by the moral shock of the Geneva UNCTAD Conference-- since for balance-of-payments reasons other countries prefer not to get too far out of line with the scale of United States aid-giving. The growing relative scarcity of funds for development assistance has impinged most sharply on the International Bank for Reconstruction and Development (the "World Bank"), which is the United Nations institution must directly concerned with development finance and which, under its past President Mr. George Woods and its current President Mr. Robert McNamara, has been aggressively converting itself from a conservative semi-commercial bank into a development assistance agency.

In October 1967 Mr. Woods suggested that a "grand assize" should be conducted by an international group of "stature and experience", to study the consequences and results of twenty years of development assistance and to make recommendations for the future. In August 1968 Mr. McNamara followed up this suggestion by appointing the Right Honourable Lester B. Pearson, a Nobel Peace Prise winner for his part in settling the Suez crisis, and former Prime Minister of Canada, a rich but small North American country which has long played the role of intermediary between developed and developing countries but has only recently become coverted to belief in the importance of development assistance. Mr. Pearson chose an appropriately distinguished group of colleages: Sir Edward Boyle, a British politician and specialist in education; Roberto de Oliveira Campos, a distinguished Brazilian economist, public servant, and banker;

C. Douglas Dillon, American banker and recently distinguished Secretary of the U.S. Treasury; Wilfred Guth, a German banker with experience at the International Monetary Fund; Sir Arthur Lewis, a pioneer in the academic field of economic development and in development advising; Robert Marjolin, French economic civil servant active in European economic integration; and Dr. Saburo Okita, eminent Japanese public-service economist recently active in promoting Japanese involvement with the development of the poor countries of the Pacific.

When the appointment of Mr. Pearson was first announced, many academic economists like myself, concerned about the promotion of development but not involved in the official aid business, hoped that his Commission would initiate some of the fundamental scientific research into aid and its effects that the field so obviously needed. The announcement of the names of the other Commission members, however, made it clear that the Commission's work was to be a public relations exercise on behalf of increased aid, and especially of official and multilateral aid. And so it has proved to be. Mr. Pearson set for his Commission, and achieved, the target of producing its report within a year. This target of quick reporting necessarily meant dependence on a staff of experts in the official economics of aid, whose function would be to assemble and organize material rather than to undertake fresh research. (Mr. Pearson, incidentally, adopted the American practice of entrusting the staff with the preparation of the report, rather than the British practice according to which the Commission itself writes the report, a decision which, rumour has it, almost led to Sir Arthur Lewis refusing to sign the report). The need for speed also meant that the Commissioners themselves consulted exclusively with the officials of governments and international institutions engaged in the aid business, and not at all with academic and political opponents of development assistance as currently practised. Consequently the Report of the Commission is a look at the aid business from the inside, so to speak: it raises no fundamental economic questions but instead contents itself with the established concepts used in aid analysis; it combines an excessively aggregative overall approach with an excessively ad hoc treatment of the myriad details; and its ultimate emphasis in its recommendations is on economic administration rather than economic analysis.

Given the public relations character of the Commission's assignment, and the circumstances in which it was appointed, one might have expected its Report to serve two functions. The first, and more important, would be to provide some fresh and appealing reasons for the giving of aid by the advanced countries, appealing especially to the aid-fatigued American public. The second, complementary to the first, would be to provide a rather optimistic but still plausibly sober review of past experience with development assistance, combined with a set of well-reasoned and sensible suggestions for the improvement of the efficiency of current methods of rendering and administering development assistance, both designed to give fresh hope to underpin the fresh motivation for aid-giving.

In the event, the Report has succeeded reasonably well in the fulfilment of the second objective; its analysis and recommendations express the common sense conclusions that would have been reached by most people asked to think about the contemporary aid-giving and aid-receiving process on the assumption that it was going to continue. But the second objective is subordinate to the first, and with respect to the first objective the Report can only be described as a dismal failure. It has provided no new and appealing reasons for the expansion of development assistance by the advanced countries, and has instead produced a series of pseudo-considerations whose hollowness and inconsistency with one another can only reinforce the arguments of the opponents of aid. The result is that both the ideological adherents and the ideological opponents of development assistance will be able to criticize the Report for the pusillanymous concessions it makes to the other side of the debate, while the open-minded average man will find the Report at once flabby and smug -- if he bothers to read such a fat compendium of establishment wisdom at all.

The failure of the Pearson Report to provide a persuasive new reason for aid-giving is the inevitable result of the conflict between moral conception and the facts of reality that arises with any charitable operation such as development aid or the relief of poverty: the moral conception stresses the inherent dignity and worth of man as man, and hence leads to resentment on the one side and uneasiness on the other about the reality of economic difference, which is the occasion of the charity itself. This conflict is exacerbated when the participants in the charitable transfer are not individuals but nation-states jealous of their sovereignty. It can only be resolved by resort to the fiction on both sides of the charity transaction that the need for charity is temporary. Hence any effort to resolve the conflict within a general and consistent philosophy of sustained charity must prove self-defeating: charity can only be a continuing process if new reasons are continually being discovered as to why it will be temporary, and this precludes a general philosophy.

The failure of the Pearson Report with respect to its major function of re-motivating aid-giving is epitomized in its title: Partners in Development. This title attempts to assert for nation-states the equivalent of the oft-asserted equality of man. It is propaganda on behalf of the sovereignty of the developing nation-states, or a polite fiction to paper over the vast inequalities in resources between rich and poor nations. In either case, it is certain to evoke attitudes on both sides inimical to enlargement of the flow of development assistance. If nations are really equals, as the fiction asserts, what is the necessity or the purpose of aid? If they are not equals, as is the reality, why should rich nations transfer resources to poor nations that pretend to be equal but are not? On the other side, if nations should be equals but are visibly and indisputably not equals, why should aid transfers be regarded as charity rather than reparations for the injustice of the world? And why should the amount of charity be determined by the rich man's beneficence rather than the poor man's need? An alleged partnership formed out of the rich man's uneasy conscience and the poor man's resentful need is likely to disintegrate in mutual recrimination--as the aid relationship has indeed been doing.

The Report itself devotes a scant five pages to the crucial question, "Why Aid?" These five pages attempt to skate delicately over the major issues and to reconcile the irreconcilable with wise-sounding but empty platitudes. The argument begins negatively with the acknowledgment that aid will not buy a western ideology, political stability, or peaceful and internationally responsible behaviour from the recipients. In other words, aid serves no political self-interest of the aid-givers. Its objective instead is "to reduce disparities and remove inequalities... so that the world will not become more and more starkly divided between the haves and the have-nots." But if avoidance of such division has no implications for ideology, political stability, or peace, the argument for it must be moral. But the moral argument immediately raises, at least for an American audience, the conflict between the relief of domestic and the relief of foreign poverty. The Report asserts that "Both wars must be won." Why should rich nations help poor ones when they have pressing poverty problems of their own? The Report asserts that "The simplest answer to the question is the moral one: that it is only right for those who have to share with those who have not." But why should this moral obligation extend beyond the bounds of sovereign states? The Commission appeals to "a new and fundamental aspect of the modern age--the awareness that we live in a village world, that we belong to a world community." But awareness of the existence of others has only rarely and marginally been a reason powerful enough to motivate large-scale charity towards them; and in any case the question is one of charity extended by the national government of a rich country to the national government of a poor one, not from a rich individual to a poor individual. Instead of arguing a moral case for intergovernmental aid transfers, the Report abandons the subject by contradicting itself: "the moral incentive for co-operation in international development... is not the basis on which support for international development mainly rests."

"There is also the appeal of enlightened and constructive self-interest." Economically, there is "the fullest possible utilization of the world's resources, human and physical, which can be brought about only by international cooperation" and which benefits the rich countries through "direct benefits from a bilateral aid relationship" and through "the general increase in international trade which would follow international development". But the Report does not explain why aid, rather than other policies, presents the best way of promoting fuller utilization of world resources; nor does it examine whether the asserted economic benefits of aid-giving are worth their resource cost; and it is careful to state that donor countries should not expect development to create economic windfalls for them. It is also concerned to assert that nothing tangible in the way of political benefits should be expected.

Having in effect again disposed of self-interest as a motivation for aid-giving, the Report then appeals to "the acceleration of history" and the alleged consequential necessity to expand the concept of the national interest to embrace the common problems of the world, and asserts that the emerging awareness of the world community is "itself a major reason for international cooperation in development." But that emerging awareness of the world community is described as "an act of faith"; it does not by itself imply any commitment to help poor nations to develop; and even if it is so construed, it does not necessarily imply an expansion of development aid on present lines.

At this point, the Report refers to the fact that the developed countries have accepted a commitment to help the poor nations (the Report actually uses the question-begging phrase "impoverished nations") to develop. The argument thus returns full circle to the moral commitment which was earlier denied to be the main basis for support of development assistance. But it then asserts that "whatever is or is not done internationally, the poorer countries of the world have made their choice for development... The only questions are: how fast, and by what means, and at what cost to themselves and to the world can development be achieved; and whether it has a clear and tangible goal." In other words, the Report abandons all pretence of discussing the justification for aid, and turns to the question-- which assumes that such justification has been provided, though it clearly has not-- of setting a target for aid.

"Our answer is that the goal of the international development effort is to put the less developed countries as soon as possible in a position where they can realise their aspirations with regard to economic progress without relying on foreign aid." The Report then asks, and answers affirmatively, the question "But can the majority of the developing countries achieve self-sustaining growth by the end of the century? For us the answer is clearly yes. In our view, the record of the past twenty years justifies that answer." And it adds: "The thing to remember is that the process, global in scope, and international in nature, must succeed if there is finally to be peace, security, and stability in the world."

It may be remarked that the developing countries could achieve self-sustaining growth at any moment, by abandoning their dependence on aid, though this might involve growing at a slower rate (not necessarily slower, because the Commission is unable to demonstrate that aid in the past has actually promoted growth). The question hinges on the rate of growth aspired to by the developing countries, a matter on which the Report is remarkably vague, presumably because of its acceptance of the principle of national sovereignty. It should also be noted that the thing the Commission wants us to remember is precisely what it has earlier been at pains to deny, that aid for development will buy peace, security, and stability in the developing world.

The chain of observations presented by the Report on the justification for development assistance is a set of pious but self-contradictory platitudes, designed to skate over the real issues while enabling the Commission to arrive at an ostensibly feasible compromise between the interests of the developed countries and the demands of the developing countries. That compromise consists, on the one hand, in adopting the view that if the average annual rate of growth of gross national product in the developing countries could be raised from the recent five per cent per annum to six per cent per annum by the end of the 1970s, these countries could by the year 2000 finance their own growth and import requirements without concessional loans. It consists, on the other hand, in asserting that this change can be affected consistently with the already-accepted commitment of the developed countries to channel one per cent of their gross national products into development assistance, provided that they implement that commitment and accept the Commission's recommendations for increasing the element of real as distinct from nominal aid involved, notably by increasing the percentage of official aid from the 1968 percentage of o.39 to 0.70 by 1975 or at latest 1980, and doubling the proportion in it of multilateral aid to 20 per cent.

In effect, the Pearson Commission Report says that the political demands of the developing countries for development assistance can be satisfied if the developed countries will only live up to their past moral commitments, while recommending various apparently sensible changes in aid policies that will in fact increase the real burden of those commitments substantially. At the same time it holds out to the aid-givers the promise that, though the initial crash-programme of development aid has not solved the development problem, it can still be solved within the time-span of a generation, i.e. by the year 2000. Both the implication that no further great effort is required, and the promise of a foreseeable end to the need for charity, display a certain amount of political sagacity. But the compromise is very unlikely to succeed in practical political reality, and the offer of it is likely to provoke dissatisfaction on both sides of the development assistance transaction. For the developed countries, the Report fails to provide any cogent reason, other than the doubtfully relevant aspirations of the developing countries, why the developed countries should make the long jump from present levels of official aid to the levels required to fulfil its target for such aid: a past moral commitment to a target that has not only not been fulfilled but whose fulfilment has steadily been receding, proves neither that fulfilment of the target is desirable, nor that it will be relatively painless. For the developing countries and their sympathizers, an increase in the target minimum rate of growth from five per cent to six per cent for the rest of the century is a trivial quid pro quo indeed for the liquidation of the assumed moral obligation on the rich countries to improve the lot of the poor.

In my judgment, the failure of the Pearson Report to provide a new motivation for more generous aid-giving is attributable fundamentally to the fact that the Commission has taken the sovereignty of the nation-state as given, and has concerned itself with relations between sovereign states that happen to be alternatively poor and rich, instead of concerning itself with the fundamental units involved in the poverty problem, which units are people and not nations. In relations among sovereign nations, morality is an emotion without a cutting edge. In relations among people, however, the nation-state is an instrument of discrimination whose injustice and immorality can be clearly demonstrated. The nation state discriminates economically in favour of its own citizens through its control of immigration; it discriminates further in their favour through its tariffs and other protective policies; and recently the richest nations have come to discriminate still further in favour of their own citizens (in their role as workers) through the imposition of restrictions on the outflow of capital. In this perspective, development assistance appears very much as conscience money paid by the rich to the poor to ease the conscience of the one and bribe off the indignation of the other; and the problem of promoting development appears more as one of reducing the discriminations between people associated with the national state than as one of increasing the international flow of conscience money-- though more conscience money would undoubtedly help. The Pearson Report might have been far more effective if it had attacked the discriminatory features of the national state directly, and insisted on the need either to reduce the discrimination or to increase the flow of conscience money, rather than attempting to wheedle more development assistance in the name of faith in the brotherhood of man.

As already mentioned, the Pearson Report is far more successful in achieving its second (and secondary) objective-- a reasonably optimistic review of past experience with development assistance, leading a a sensible set of suggestions for future improvement-- than in achieving its first and crucial objective. A full review of its analysis of the development problem and of past achievements with respect to it, and of its recommendations for changes in development policies and practices, would be inappropriate to the present purpose. Four general themes of the Report, however, deserve some comment.

The first theme is that, despite the widely-felt disillusionment about the process of promoting the economic development of the poor countries, much more development has occurred than has generally been realized; that more is to come as infra-structure investment finally bears its fruits; that various past errors in approach are in process of being corrected; and that much has been learned about how to promote development. All of this is true. But one would expect development to occur when people have at last decided that they want it, when they have the successful examples of the already developed countries before their eyes, and when the maintenance of high activity and the progressive liberalization of international trade by the developed countries is providing an unprecedented opportunity for growth by osmosis. One would also expect people to learn, albeit slowly, from their own errors. The real questions are whether development aid has promoted or retarded development, and if it has promoted it, how significant its influence has been. Many of the critics of aid believe that it has encouraged national governments in the developing countries to pursue counter-developmental policies and permitted them to preserve archaic social and political structures, and so has retarded rather than promoted the modernization process. The Report is in fact unable to adduce any clear evidence that aid has promoted growth;

this may be largely because it lacked the time, staff resources, and economic competence to investigate the question in a properly scientific manner. Instead, it falls back on the undisputed fact that much aid was given for other purposes than development (how much was intended to promote development, and did it actually do so?), emphasizes the importance of the transfer of technology and ideas associated with aid (was the transfer always appropriate, and could it have been effected in some cheaper way?), and stresses the contribution of aid in supporting a psychological climate favourable to experimentation (good experiments, or bad?). The usefulness of aid in promoting development remains an act of faith; yet the rest of the Report depends on the assumption of its usefulness.

The second theme is the seriousness of the population problem in the developing countries, and the need for priority for population control. The Commission is right to view this subject with the gravest of alarm, but it fails to consider its full implications. The responsiveness of population to economic opportunity in the developing countries is one of the major reasons why developed countries are both reluctant to allow immigration from such countries, and doubtful about the beneficial effects of assistance for economic development to these countries. Freer immigration into the advanced countries-- which should be, but is not, currently considered a possible remedy for poverty in the developing countries-- more aid, and freer trade, all run the risk of aggravating the problem of inequality by stimulating the breeding of more poor people at the expense of the less philoprogenitive rich. Family planning may well be not only more important than additional development assistance, but a prerequisite to the provision of increased assistance.

The third theme is an emphasis on education and on technical development as major means to economic development, together-- though this is implicit in the detail of the Report -- with mmphasis on more efficient selection of investment projects aimed at giving priority to those with high yields. The latter emphasis is important for the future, given the likelihood of increasing stringency in the availability of aid funds; but there is some danger that the emerging popularity of "cost-benefit analysis" will lead to more and more scarce resources being devoted to the allocation of funds among projects and less and less being available for the projects themselves. It is a well-known characteristic of bureaucracies that, the less money they have to spend, the more time and effort they devote to deciding exactly how to spend it.

The fourth theme is the desirability of increasing both the

~~proportion of multilateral -- as contrasted with~~

proportion of official aid in the total financial flows of development assistance, and the proportion of multilateral-- as contrasted with bilateral-- aid in the total of offficial flows. From the economic point of view, both changes would significantly augment the real flow of resources from rich to poor countries. But it is important to recognize the direction in which these recommendations lead. Essentially, they point in the direction of world government, not explicitly in the form of political federalism but implicitly in the form of a redistribution of income between nations through the instrumentality of international institutions and specifically of the World Bank. This may be a desirable direction of evolution, and indeed the only feasible path of human progress. But it should be recognized and discussed for what it is, and not disguised as an obvious and sensible step towards increased efficiency in the administration of development assistance. Presentation in that guise--which is essentially a proposal to increase the taxation of the rich countries for the benefit of the poor while depriving them of control over the spending of their own money-- is likely to prove unacceptable to the citizens of the rich countries. Again, in this connection, the failure of the Pearson Commission to consider the consequences of the organization of mankind into nations is a crucial weakness in its argument.

The Pearson Report has, in my judgment, failed in its main purpose, a purpose crucial to its many sensible suggestions for reform, that of providing a new motivation for the giving of development assistance. Especially, it has failed to provide any arguments likely to appeal to the aid-weary and domestically-preoccupied American public. What are likely to be the consequences?

One major unfortunate consequence is likely to be that those who favour increased development aid will become increasingly shrill in their demands for increased aid, and increasingly intellectually dishonest in the arguments they present. This tendency is in fact already apparent. As one example, there is strong support in pro-development-assistance circles for the proposal to link international monetary reform to development finance by monetizing the new Special Drawing Rights at the International Monetary Fund, and distributing a large part or all of them to the developing countries to be earned back by unrequited exports by the developed countries. This is essentially a proposal to provide development assistance by inflationary world monetary expansion, based on the naive assumption that the governments of the advanced countries can be tricked by exploitation of the mysteries of money-- which they can understand at least as well as the proponents of the scheme-- into accepting a larger volume of aid commitments than they would be willing to provide by democratic budgetary vote. Another instance is the campaign currently being mounted in the United Kingdom to persuade the public to sanction additional aid allocations on the grounds that "trade follows aid", i.e. that the present sacrifice of aid resources will be economically justified by the gain of markets. If this proposition were true, which it is not, it would scarcely be necessary to advertise it. A third instance, evident at the recent Columbia University Conference on International Development, is the propensity of those who favour more aid for whatever reason to sign any document that recommends more aid, regardless of how silly or impracticable the specific proposals for giving more aid contained in it may be.

Another consequence is that the process of disillusionment of the American public with aid, and of American disengagement in the aid process, will continue. This is in spite of the fact that a presidential task force, reporting in March 1970, and clearly influenced by the Pearson Report, has recommended that the level of American assistance for economic development should be increased. Without powerful support from public opinion, such a recommendation is likely to perish in the Congress. And failing a powerful lead from the United States, other countries are unlikely to increase their development assistance contributions substantially.

The prospective decline of official aid obviously bodes ill for those who have made a career in the aid business, either as administrators or as advisors, or as outside, presumably independent, missionaries on behalf of aid to their fellow men. The world of official aid is in fact already showing many of the signs of a declining industry or community, and in particular showing a belated urgent concern about its own administrative efficiency. But will the decline in official aid actually seriously impair the process of economic development, to the detriment of the poor countries of the world?

I am inclined, perhaps optimistically, to return a negative answer to this question. The decline of official development aid that I foresee will mean an increased dependence on the private market mechanisms of economic development, as contrasted with governmental planning and control of the development process. These mechanisms are, internally, the forces of competition and the desire to improve one's individual welfare by increasing one's earning power. Externally, the most important are competition in international trade, on the one hand, and the international operations of the multinational corporation, on the other. I have considerable faith in the long-run powers of international competition to transform societies that have a latent urge to be transformed, though these powers may long be held in check by the use of political power to resist change and to attempt to capture the benefits of development for the politically powerful from the economically productive. I also beläeve that the liberalization of world trade that has already been accomplished through the General Agreement on Tariffs and Trade provides ample opportunities for the poor countries to develop through trade, though there is considerable scope for further widening of those opportunities. It is true, as already mentioned, that trade provides far fewer resources per dollar for development than does aid; but we are considering a process of development extending to the end of the century, and in that time trade opportunities should have full scope to do their work.

As regards the international corporation, this is a powerful agency for the transmission of technological progress, and the reallocation of capital resources, from the rich to the poor countries, which has already in the past two decades done much in its own way to diffuse the process of economic development around the globe. Too much should not be expected of the international corporation. It is a profit-seeking enterprise, which will diffuse development only to the extent that such diffusion is in its own interests. It is not a government, able to levy taxes on some people in order to invest in what it thinks will contribute to the economic development of others. But there is a considerable overlap of interests between the two. In particular, the corporation often finds it in its own interests, when operating in developing countries, both to invest in the training of local labour-- both operative and managerial-- and to invest in teaching modern efficient methods of production both to its supplier enterprises and to its customers. Where the interests of corporation and government conflict, it is not always obvious that government rather than the corporation has the better judgment of what is in the social interest.

To conclude, the <u>Pearson Report</u> may well represent the end, rather than the beginning, of a novel phase in world economic development-- the end of a phase in which the powers of government to promote development by the use of its legal powers of control and planning and its economic powers of taxation of its citizens were grossly exaggerated, and the powers of free competition to promote growth were unduly discounted, rather than the beginning of a concerted move towards nations becoming "partners in development" and moving towards world government. The <u>Pearson Report</u>, in short, may be a tombstone rather than a milestone in the evolution of a developing world economy.

MCN look

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 10, 1971

FROM: Hollis B. Chenery HBC

SUBJECT: REL Proposal from Cal Tech

In his letter of May 19 Harold Brown requests Bank support for testing the REL system in a real user environment like the World Bank having a varied and extensive data base. After consulting Merv Muller, my recommendation is that, although the application part of the REL system has impressive objectives, the Bank could not justify funding this part of the program. The system is, in any event, being developed for different hardware than the Bank's.

2. Professor Thompson already appears to have established high level contact with the IMF, so I don't think we can suggest anything in response to the final sentence on page 1 of Brown's letter.

3. Muller's detailed comments on the proposal are below:

The Proposal (Note: Tables 1 and 2 are missing, as are Appendices C, D and E.)

(a) General. At various times in the past, the desirability of having an English text approach for controlling a computer program to manipulate and analyze data has been recognized. This proposal is an effort to develop such a program for data manipulation and analysis using the joint tools of computing and linguistics. The proposal consists of two parts: one involving development and the other application. In the proposal the authors identify how the development activity will take place at Cal Tech. They are requesting support from the Bank for the application part to allow this project to have access to a "real world" environment. [In the actual proposal they indicate (page 46) they will submit the application part to a mission-oriented Federal Agency (Appendix E). However, Appendix E is missing.]

(b) Data Analysis. Data analysis capabilities provided by REL are not sufficiently specified to evaluate. It appears to me that the preliminary implementation on the 360/50 was too limited. The proposal calls for an expansion of analytical features in the 360/75 implementation but is not explicit in the types of capabilities to be added or the algorithms used. Apparently they are not aware of some of the more advanced packages which eliminate many of the inadequacies of the cited statistical packages (SPSS, OSIRIS and BIOMED). Of course, such a system requires extensive and well developed analytical capabilities.

(c) File and Data Handling. There is no discussion of how existing files are described and input to the REL system. This is a significant lack if input methods to the system are to be truly user-oriented. No attention is given in the proposal to the data structures which would be employed and used for storing data. However, in studying the two appendices, it is possible to infer that a rather involved hierarchical structure is involved. (This inference is based upon the use of such approaches in other linguistic projects. Such approaches do not lend themselves to handle large amounts of quantitative data in an economic manner.)

(d) Cost and Efficiency. The cost of using the system and the impact of using it on other computer users are not specified. The cost of using this system could be quite large because of the complex data structures that may be necessary to provide the linguistics flexibility. I note that Cal Tech plans to devote an IBM 360/40 completely to its use four hours a day.

(e) Transportability. Even though they profess a desire to develop REL for real world applications, they have given inadequate attention to the problems of transportability of their developments to other places.

Value to the Bank

The system is being developed for the IBM 360 and 370 series and it has a significant interface with the operating system. Unless we change hardware, this fact alone negates our ability to use the system. The authors propose two systems: a batch system and a conversational system. Transferability of the conversational system will be limited, even for other 360's. (See page 21 if you are interested in how they will be locking themselves into a specialized 370.)

Also, the very characteristics of REL which make it appealing, its generality and provisions for ambiguity of input, pose a serious problem to the use of the system. There is no information on, or discussion of, the need for internal checks or audit trails to ensure that all relevant data in a file were processed nor is there sufficient information given to the user request. Before REL could be considered for the IBRD, considerable effort would have to be spent on thoroughly checking all aspects of the system.

Personal Observation

This proposal is not impressive in terms of the quality of its technical presentation but its objectives are certainly impressive. Professor Thompson is considered by most people I know to be very bright. It would appear that the current proposal is an extension of his activities while he was a member of the General Electric Company participating in the DEACON project. There is also the question of whether or not Thompson can come to grips with real life problems. I cannot see how the application part can be funded until the development part is completed. Apparently, they need a specific application to help justify the cost of the computer they have selected.

Attachment

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 26, 1971

FROM: Hollis B. Chenery HBC

SUBJECT: The Level of Bank Lending in the 'Seventies

1. On April 15 I transmitted to you a draft on this subject, as one of the background papers for your 1971 Address to the Governors. The revised draft attached meets your suggestions that we should;

(a) use a format suitable for possible presentation to the Board, and

(b) select the most plausible and realistic target for future Bank commitments from the alternatives discussed.

2. We conclude that a level of Bank commitments of US$3,500 million by 1980 is a reasonable planning target, given present expectations about trade, development policies in the LDC's, inflation in the developed countries, the flow of Official Development Assistance and, especially, IDA. This level of lending, to be approached gradually, would imply some increase over 1970 in the share of the Bank Group, in both a gross and net lending, but would only restore the Group's share of 1965-68.

3. We assume that ODA will only rise from .36% of DAC GNP in 1969 to .42% in 1980 - far short of the Pearson target - and that the multilateral component will rise to 20%. Even this level may be too optimistic. The assumption about concessionary lending can only affect the "right" level of Bank lending to a limited degree, however. IDA shortfalls cannot, for long and in large amounts, be made up by Bank lending, since debt service constraints would preclude it. Instead, the growth objectives of the countries most dependent on concessionary assistance would fall if ODA flows were much lower. The effect of lower ODA on other countries would be more complex; some of the more rapidly growing ones could take on more Bank lending and commercial credits instead. Thus, the Bank target can be viewed as a reasonable minimum, which is not yet tightly constrained by creditworthiness considerations.

4. In addition to this summary of our results, I have asked the Economic Program Department to prepare a separate technical note for internal discussion, addressed to the main policy issues and technical problems involved in calculations of this kind. The two papers will be scheduled for discussion in the Economic Committee by the end of June.

cc: Messrs. Knapp, Aldewereld, Rickett, Adler

Attachment

FEB 11 1972 (Returned)

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 19, 1971

FROM: Hollis B. Chenery HBC

SUBJECT: Representation of the Economic Adviser at Board Meetings

5:10
MAY 24 1971

5/24
OK— however it would probably be better if they didn't sit at the table
RSM

I request your permission to share the function of the Economic Adviser at meetings of the Board of Directors with the heads of the two Economics Departments, Messrs. Henderson and Hayes. If you agree, I will attend all general discussions but will alternate with them when projects are being discussed. On the latter agenda items, the presence of the Economic Adviser is largely symbolic since there is almost no question that cannot be answered better by the area economist. In fact, I have never been called on in connection with a particular project although I have occasionally volunteered a comment.

While there is some educational value in listening to project discussions, after six months I think that this has reached diminishing returns. I find that a sixty-hour work week is not adequate to cover both the bureaucratic and the professional aspects of my job, and it is my ability to perform as Economic Adviser that suffers. My usefulness in the latter capacity will be enhanced if I can shift 2 or 3 hours a week to professional matters.

cc: Mr. J. Burke Knapp

Copies sent to
Messrs. P.D. Henderson
P. Hayes
5/24

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

McNamara

March 16, 1971

(2) Budget

(1) Personnel - 8 Sr. Positions

Ohlin - ue

Haq or Lane -

Stern - in Bank?

(3) Research program -

(4) 5-Year program - Early April review

Papers to come on: IDA Criteria
Private Investment

Given to McNamara May 3/71

LIST OF PROJECTS

ECONOMIC PROGRAM DEPARTMENT

(1) Private Investment

Take lead.

We should look to the IFC for a review of their experience on what can be done to stimulate the international flow of private direct investment. The EPD (International Finance Division) will review and analyze the statistical information on the direction and volume of investment flows and dividend remittances with a view to projecting future flows.

(2) Capital Markets

RH results.

Given Mr. Aldewereld's functional responsibility for this subject, the initiative should be his. The International Finance Division of the EPD will provide staff support as required. Sacchetti assigned

(4) Country Programs

The Program Review Division of the EPD is working with the Area Departments to establish medium-term (e.g. 5 years) frameworks to work out the expected dimensions of:

(a) national macro-economic aggregates, including financing;

(b) investment programs by sectors and main projects;

(c) detailed external financing programs, including IBRD/IDA.

(8) Development Indicators

Work is under way in the EPD (Comparative Analysis and Projections Division and Program Review Division) to revise the present Basic Data sheets and Attachment II of the CPPs. The aim is to get a meaningful format usable for most economic reports, CPPs and President's Reports. The Economics Department (Population and Employment Division) has been asked to help provide standardized demographic data.

(12), (25) and (28) Development Decade II and Bank Lending

The work presently under way between EPD and P & B on the Bank's lending program in the '70s, analyzing both prospective requirements for external capital in the LDCs and prospective flows by main sources, is to be continued. The institutional posture towards the UN work on DD II is to be cooperative; once the present projections have matured and been reviewed, EPD will offer to discuss Bank results with the UN and UNCTAD at the technical level, hoping to obtain closer agreement with these agencies' projections. It is not intended to press for an agreed set of figures or to ask for a leading role in whatever international monitoring process the UN sets up although the Bank will offer to participate.

(14) Financial Intermediaries for Small Savings

These institutions exist in many countries. In the course of the research and mission support work of the Domestic Finance Division of the EPD, some light will undoubtedly be thrown on the operations and special problems of such institutions.

(17) Debt Studies

As long as the responsibility for the debt studies remains with P & B, the EPD's role will remain a supporting one; providing assistance in running country projections and acting as a sounding board for the policy papers. However, in the development of the work of the Program Review Division, the Bank's approach to the creditworthiness of individual countries will be continuously reexamined.

(27) Country Economic Reports

A review of the Bank's economic reporting system has been initiated in the EPD. It aims to examine jointly the scope and content of economic reports, criteria for deciding on their frequency and intensity, the internal review processes and ways to link economic work more closely with the formulation of lending programs.

(29) IDA Criteria

The EPD is expected to produce a paper on this subject.

ECONOMICS DEPARTMENT

(15) Industrial Policy

A draft paper entitled "Industrialization: Progress, Prospects and Policies," based on four papers on related topics currently under preparation, and with a particular orientation towards the Bank's role in industrial development, will be ready in first draft by mid-June in preparation for submission to the Board in August.

(19) Trade Trends

Papers on Trade Trends will be prepared in the second half of 1971. The work will include a statistical analysis of trade trends by various categories including levels of development, regions and products; conditions of trade including an analysis of direct and indirect barriers to trade; and the policy implications.

DEVELOPMENT RESEARCH CENTER

(3) Advisory Panel on Research

Following discussion of Mr. Chenery's memorandum on Research Policy, an outside panel will be set up to advise the Bank on research and general policy in most of the areas mentioned.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

JUN 15 1971
11:30 a.m.

TO: Mr. Robert S. McNamara

DATE: April 15, 1971

FROM: Hollis B. Chenery HBC

SUBJECT: <u>Projections of Capital Flows and the Bank Group's Role</u>

1. I attach the draft of a paper prepared in the Economic Program Department, dealing with projections to 1980 of probable requirements and availabilities of development finance, and of the role the Bank would play in these flows under different assumptions about its levels of lending. The paper is item six on the list of background papers that are being prepared for your 1971 Address to the Governors.1/

2. The essentials of the work reported on are:

a. a set of "realistic" (say with a probability of 50%) resource gap projections for 24 major countries and more aggregative projections for 32 minor ones. The individual country projections were prepared in consultation with the Area Departments; they contain modifications of the CPP Attachments III whenever these seemed to be either internally inconsistent, inherently implausible or excessively normative, i.e. target setting. The "realistic" projections may still be somewhat optimistic; overall GDP growth for the group (covering all LDCs except those listed on Table 7 of the paper) amounts to 6.2 percent, compared with 4.8 percent in the preceding decade.

b. an aggregation of these resource gaps and an estimate of the net and gross flows of medium and long term loans needed to finance them, <u>on the assumption that the weighted average of terms</u> (maturity and interest) <u>in the next decade remains approximately what it was in the past</u>. The results are expressed in absolute amounts (Tables 13-15) and in terms of debt service ratios (Table 1) and are shown to be highly sensitive both to the assumed rate of inflation in the developed countries and to possible shifts in the terms of trade.

c. a projection of the probable supply of medium and long term loans, consisting of Official Development Assistance (ODA, DAC definition) private credits, aid from Soviet Bloc countries and multilateral institutions (exclusive of DAC contributions to them). (See Table 2.) The projected ODA is based on the stated intentions regarding the Pearson Commission targets (except for the U.S.) and was made by P&B (with the appropriate adjustments for country coverage); the result may also be on the optimistic side.

President has seen

1/ See memo of P.D. Henderson to L. Christoffersen, April 5, 1971.

d. calculations of the levels of Bank commitments that would be necessary if, by 1980, either the Bank, or the Bank/IDA[1] were to maintain its 1970 share in either net lending (i.e. disbursements minus amortizations) or in net resource transfers (i.e. net lending minus interest payments). The results are stated in absolute terms (Tables 4 and 5) and in terms of required growth rates of commitments after FY 74 (Table 3).

3. I want to call to your attention some of the principal conclusions that are emerging:

a. with ~~fairly~~ reasonable assumptions about the LDCs export growth - 6.3 percent per year - and with moderate inflation in the developed countries, the Bank would have to raise its commitment levels by 16.5 percent pa if the share of Bank/IDA in total net lending in 1980 is to remain at its 1970 value of 10.7 percent. By 1978 this would mean commitments of almost US$3.7 million. For illustrative purposes, i.e. to show the method by which the results were arrived at, I attach one detailed example, but one based on assumptions which I consider too optimistic. It indicates that even with an LDC annual export growth of 6.8 percent, the Bank's commitments would have to rise by over 4 percent annually after FY 74 to preserve the Bank's 1970 share in net lending. Needless to say, with greater IDA availabilities, the required growth of Bank commitments would be less, but as it stands now, one of the inescapable implications of these figures is that any target that would increase the Bank Group's share in net lending would require Bank commitments of quite unrealistic amounts.

? which table

b. toward the end of the period capital requirements as well as debt service begin to grow at an increasing rate; even during the decade the aggregate debt service ratio rises sharply. There is no doubt that the picture looks rather less comfortable than the one I inferred from early drafts of the debt study. I have discussed this with John Adler and my preliminary conclusion is that the differences emerge principally from the following causes: (i) the implicit assumption of a substantial softening of terms underlying many of the country projections used in the debt study, as against the explicit assumption of roughly constant terms in this paper; (ii) different country coverage; (iii) a technical error in the way debt service is calculated in the debt study. This was discussed with John Adler, and I assume that for the final version of the debt study the necessary corrections will be introduced.

Which assumption is most likely

is the final version of the debt study consistent with this paper

1/ Only one assumption was made regarding IDA availabilities (see page 22 of the paper).

cc: Sir Denis Rickett
Mr. Adler

What should our planned commitment levels for IBRD be '74-'78?

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: March 15, 1971

FROM: Hollis B. Chenery/R. A. Clarke

SUBJECT: Recruitment and Assignment of Economists in the Bank Group

1. The recent reorganization of the Central Economic Staff has served to focus attention on the shortage of economists in the Bank, particularly of experienced economists capable of innovative thinking and independent analysis. In response to your request, we have sought to quantify the overall need for economists of all types in the Bank through June 30, 1972 with the following results:

Economists currently on staff:	325
Current vacancies, including known departures	60
Forecast new positions FY 1972.	52
Forecast turnover	30
Total Staffing Requirements (gross).	142
Less:	
Economists recruited not yet on duty.	25
Forecast YPP graduates. . . .	40
Total in pipeline.	65
Total Forecast Recruitment needs.	77

Against the net recruitment needs of 77 over the next year we currently have in sight 25 leading candidates.

2. The current vacancy rate of 20% in the economist positions is abnormally high and reflects a conscious slow-down in staffing the Economics Department and Study Groups in 1970 pending the reorganization of the Central Economic Staff. During the period 1969-1970, there was a net movement of 11 economists from the Central Economic Staff to other parts of the Bank, which is now being only partly offset by the establishment of the Economic Program Department. In absolute terms the numbers to be recruited are not too large, especially when set against our total professional recruitment program. The proportion of economists in the overall recruitment target must, of course, be higher than in recent years. The Personnel Division, in concert with the departments concerned, is expanding its efforts to meet the Bank's need for suitable economists. Given the normal lead time of 6 to 9 months for outside recruitment of economists, we should be able to eliminate the abnormallevel of vacancies by the end of 1971 if sufficient efforts are made.

3. The present shortage of senior economists is more serious. The needsfor new staff include some 33 posts at B level and above (Areas 13, Projects Group 5 and Central Economic Staff 15), of which about one third are expected to be filled by promotion from within. Our recruitment needs are thus for about 21 senior level economists and 56 at lower levels. The principal economists of the Bank need to take an active part in identifying and recruiting this group, particularly the more senior members.

4. The existing shortage of broad gauged economists in the Bank underlines the need for a better placement and reassignment policy. Along with our major recruitment drive we propose to establish a much more systematic program of career development for economists within the context of a Bank Group wide career development program. Specifically, we envisage a program whereby promising economists are regularly rotated among Area Departments, the Central Economic Staff and other departments.

5. Many economists who have been with the Bank for more than ten years have suffered considerable obsolescence in their technical equipment, since the Bank has done little or nothing to update their skills. This produces a resistance to the adoption of modern concepts and analytical techniques. Within our career development program we will therefore propose a system of regular sabbaticals at universities or other forms of mid-career training for promising economists when it is in the interest of the Bank.

6. In summary, the Bank must now take measures to make up for the deficiencies in recruiting and assignment of the past few years. Current recruiting suggests that the decline of the Central Economic Staff has been arrested and the prospect of attractive career opportunities in all units reestablished. Greater attention must be given to the external recruitment by all the major units, since the Young Professionals Program will supply only a fraction of our needs for the next two years. The existing shortage should not provide an excuse to resist the movement of economists among departments however, providing adequate account is taken of the relative needs of all units.

cc: Messrs. J. Burke Knapp
Simon Aldewereld
Aron Broches
Richard H. Demuth
Mohamed Shoaib
and Sir Denis Rickett

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Directors

TO: Messrs. Henderson, Stevenson, Lerdau, King, Goreux

DATE: March 2, 1971

FROM: Hollis B. Chenery

SUBJECT: Meeting on Work Program of the Economic Staff (4:30 today).

I have had two extensive discussions with Mr. McNamara in the past several days of (a) the priority policy questions for analysis by the Economic Staff in the current year, and (b) the themes for McNamara's 1971 Address to the Governors and the background papers needed in the next few months as a basis for its preparation. On the latter question, I stressed the importance of basing it on internal analysis and discussions. Since my suggestions were accepted by McNamara and William Clark almost in toto, whatever burdens they impose on us are premeditated.

I would like to meet with you this afternoon as soon as I am released from the Board Meeting (hopefully 4:30) in order to discuss the choice of topics indicated in my preliminary outline of the President's Address and the five background papers needed. Neither is frozen, and comments are welcome.

In planning for staff additions and assignments I want to make sure that we allow sufficient time for these and other policy studies and achieve a desirable balance of research, policy, and service functions. We can raise some of these problems today and try to resolve them by the end of the week, before the budget submission is completed.

International Bank for Reconstruction and Development

International Finance Corporation International Development Association

ADMINISTRATIVE CIRCULAR

3:40

January 15, 1971

JAN 1971

REORGANIZATION OF THE ECONOMIC STAFF

Effective January 1, the central economic staff reporting to the Economic Adviser to the President has been reorganized into three units: the Economic Program Department, the Economics Department, and the Development Research Center. The new Economic Program Department will support and review the Area Departments' country economic analyses and programs and will advise on the policy issues that emerge from them. It will comprise five divisions. Two of these are transferred from the former Economics Department, and are entitled Domestic Finance and Socio-Economic Data. A third, the International Finance Division, replaces the former study group on development finance studies. Two new divisions, the Program Review Division and the Comparative Analysis and Projections Division, are also established within the new Department.

I am pleased to announce the promotion of Mr. Enrique Lerdau, formerly Chief Economist to the Central America and Caribbean Department, to the position of Deputy Director and the appointment of Mr. Benjamin King, formerly Economic Adviser to the Special Projects Department, as Senior Adviser to the Economic Program Department effective January 1, 1971. An announcement of the Director for this department will be made at a later date.

The remaining divisions of the Economics Department will broadly continue to exercise their previous functions though with changes in emphasis where appropriate. As already announced, Mr. David Henderson will serve as Director and Mr. Alexander Stevenson as Deputy Director of the Department.

The Development Research Center, formerly the Basic Research Center, will undertake economic research closely linked to Bank Group activities and coordinated with the work of other research units in the field of development outside the Bank. Mr. Louis Goreux will continue to serve as Director of the Center.

J. Burke Knapp

for

Robert S. McNamara
President