

PROBLEMS OF SOCIAL AND ECONOMIC DEVELOPMENT
FACING THIRD WORLD COUNTRIES

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The subject matter of today's discussion is without a doubt one which preoccupies Governments not only in the developing world but in the developed countries as well.

The developed Western countries with their free market economy; the Socialist countries of Eastern Europe with their economies that are highly planned and subject to both public ownership and control; the developing countries of the Third World with oscillating differences in their political systems and economic structures yet linked through a common history of conquest and exploitation by colonial powers, are all bedevilled by the problems of organizing their own economies in a manner which would maximize the interest and social welfare of those they purport to serve.

Robert McNamara, until recently, President of the World Bank, reminds us that - "some 800 million individuals continue to be trapped in what may be termed absolute poverty: a condition of life so characterized by malnutrition, illiteracy, disease, squalid surroundings, high infant mortality, and low life expectancy as to be beneath any reasonable definition of human decency." We must remind ourselves that 800 million represents 40% of the population in all developing countries.

It is beyond dispute -

- that the majority of the world's population live in conditions of absolute poverty.
- that a large segment of the peoples of the world live in constant fear of starvation, disease and ignorance;
- that one out of every four children in the poorest countries of the world dies before age 5;

Life expectancy for the remaining 80% does not exceed 50 years as compared with 70 in the developed countries. Only 50% manage to attain functional literacy.

These conditions are stark testaments to the failure of our global economic systems in which we find one-quarter of the world's population controlling four-fifths of its income, nine-tenths of its industrial output, and nearly 100% of its technology.

Conversely it is the deprivation to three-quarters of the world's population of these very attributes which are taken for granted in the developed countries that characterises the under-development of the developing world.

More specifically the factors which characterise our lack of development and are present throughout the countries of the Third World, albeit in varying degrees, include -

- high levels of unemployment;
- over population and low standards of health;
- lack of technological skills;
- inadequate growth in national income;
- lack of external resources;
- massive debt burden and balance of payment deficits;
- unfavourable balance of trade.

The single common factor which pervades the relationship between developing and developed countries is the existence of the kind of structural economic dependency alluded to above, whereby developing countries are never allowed to assume effective control of their own economic destiny, and their fate is decided largely in the metropolitan centres.

At the outset, it is necessary for us to distinguish between growth and development.

Growth is a quantitative phenomenon involving both the extension of existing productive structures as well as the establishment of new structures which are compatible with a given expansion strategy. Development implies a qualitative process through which both growth and redistribution are inextricably linked to a pattern of social and economic advancement for the nation as a whole.

While recognizing that economic growth is essential in a developing society, it must be remembered that growth by itself may serve to accentuate rather than eliminate inequality. The true purpose of growth must be to create for the society a sufficiency of those goods and services which serve to fill those needs and purposes which the individuals and groups within the nation have determined to be necessary.

Economic theories have placed an emphasis on growth as a prerequisite for development in the belief that any social imbalances which resulted could be addressed subsequently.

National development must involve the economic and social areas equally.

"The prime objective of development is to lead to self-fulfilment and creative partnership in the use of a nation's productive forces and its full human potential" - Brandt.

"Development cannot be measured purely by the accumulation of material and financial resources, but by the provision of social, cultural and economic enhancement of the people as a whole, and the individual fulfilment of personal satisfaction." - Professor Dowd.

The centre of development is man.

Development measured in purely quantitative terms, and by the application of statistical indices often leads to inequities and social dis-equilibria.

Economic policies must foster growth without which the urgent needs of the people cannot be met. But it must at the same time redress the social and economic imbalance inherent in developing societies and which were fostered during the colonial and post-colonial periods.

Growth which is not accompanied by the development of people is of little meaning. The problem is how to achieve economic growth and at the same time to produce speedy and direct relief for the many who are below the minimum levels of subsistence.

There are three main obstacles to the process of development:-

- (1) Because the standards of living are low, it is difficult to save, i.e. to divert resources from consumption in the form of basic necessities in order to use them for growth.
- (2) Because of the steady deterioration in the terms of trade it takes more and more of the resources produced by LDC's to purchase essential imports. The ability to generate surplus is continually eroded. This has particularly affected non-oil producers.
- (3) Violent fluctuations in the world prices of primary products and the pressure of instability or earnings and import costs to the longer term pressures outlined in (1) and (2).

Developed countries are also bedevilled by the problems of stagflation, that is high rates of both inflation and unemployment combined with slow growth and productivity.

It must be admitted that:-

- (a) the market system within which most of the world trade between the two groups of countries takes place often perpetrates grave inequities on the countries with weak market power;

(b) the International Monetary System put together at Bretton Woods has been incapable of meeting the real needs of most developing countries having been created to serve the interests of the industrialized group which was dominant at the end of World War II; but that in any case the system has broken down and does not now meet the requirements even of the industrialized countries;

(c) the transfers of resources between the rich and the poor countries ought to be not merely greater in volume but automatic and predictable, whereas at present it shows none of these essential characteristics.

It must be admitted that Developing countries are caught in a trap created largely by our historical circumstances, and a world economic system fostered by imperial relationships. They are forced to operate in such matters as trade, finance and investment within an international economic system which was designed by others to further their own range of interest, and in the creation of which they were never a part.

It is imperative that the structure and manner of operating that system be changed in order to accommodate the interest of all countries.

Those of us who have come to recognize the IMF as the architects and front of the international monetary system have no doubt concluded that that institution, given the objectives underlying its establishment, has not been sufficiently responsive to the needs of the Third World economies.

In 1979, the Fund had the capacity to lend as much as US\$40 billion to developing countries. Yet between the period 1974-79 only 13% of all long term financing from that source went to the developing countries. In fact we repaid more in the form of sinking fund and debt service than we received as credit. Besides, the main beneficiaries of the Fund's resources, among developing countries, were the oil importers who were reeling from international inflation and high energy prices with an accumulated balance of payments deficit of US\$50 billion.

A critical look at the International Monetary Fund reveals that a major weakness in its operations springs from the inability to pressure surplus countries to pursue adjustment policies to correct disequilibria in their balance of payments. It has not been able, for example, to persuade the OPEC members with massive surpluses to recycle these to the benefit of the world economy as a whole.

About 80% of OPEC surplus funds are now finding their way back to the coffers of developed countries. There is the need for practical alternatives which provide capital security, and the prospect of a positive real return on investment. Available data suggest that some OPEC countries might well be getting a negative real interest rate on some of their present investments.

There are glaring inconsistencies in Fund policies towards deficit countries. It insists on rigorous terms of adjustment for developing countries and imposes stringent conditions which display a great insensitivity to their social, economic and political situations. At the same time some developed countries are allowed to accumulate large deficits and create excess liquidity which cause galloping inflation and consequential distortion in the performance of the global economy.

If the Fund wishes to manage finances for the benefit of member countries, its programmes must be both relevant and responsive. Development then must be through trade rather than public borrowing for budgeting support. The proceeds of resources borrowed, principally from external sources, should be used to enhance domestic production geared not only to meet local demand but to generate export earnings to finance capital and intermediate goods as well as service external debts.

One of the most glaring deficiencies in the present world financial system is the pattern of the distribution of international liquidity. The existing pattern is almost wholly determined by the domestic economic circumstances of major reserve currencies and does not incorporate the state of the global economy with the calculus of the quantum of international liquidity. This has imposed severe constraints on the process of economic development as developing countries are unable to achieve the liquidity which they need to provide finance for their own development.

Another major deficiency of the Fund relates to the conditionalities it imposes on underdeveloped countries with balance of payments problems. Fund conditionalities are deeply rooted in pre-Keynesian economics which has sustained the philosophy of the monetarist school. The conditionality imposed by IMF support has prevented Governments from making greater and more effective use of the Fund's facilities, and are often contrary to the political and economic policies which their people have freely mandated them to pursue.

We can only achieve progress and equity by a total restructuring of the entire international financial system. This reform must ensure the provision of an adequate quantum as well as reasonable terms and conditions under which the resources are available.

We must displace the role of national currencies as reserve currencies and establish a truly international currency. The criteria for determining the creation of such currency should relate to real increases in world output and exports. This would minimise the inflationary pressure which currently obtain in the world economy, because of the inordinately strong influence of the dollar, whose creation is determined by domestic rather than international economic considerations.

The developing countries, in an attempt to cope with their difficulties, have had to curtail the growth of their imports. Thus, the annual average rate of growth in the volume of imports to developing countries, excluding the oil exporters, fell from some 9% in 1978 to a negative growth of 4% in 1979. In the case of least developed countries, the volume of imports fell by over 21% in 1979.

In spite of such reductions in imports, the developing countries have been forced to accumulate ever larger deficits on the current account of their balance of payments. This deficit is expected to increase from US\$70 billion in 1980 to US\$90 billion in 1981.

If they are to adequately finance their development needs and through that process contribute to the overall recovery of the world economy, then proper financing must be made available in the short-term and medium-term to meet the gap in their external payments. In the long-term, they must be afforded the necessary opportunities to pay for their imports through increases in export earnings.

The development of a local science and technology capability is a matter of prime concern to developing countries in today's complex and competitive world. This is especially true of small countries, relatively poor in natural resources, which are traditionally producers of raw agricultural materials for the highly industrialized countries.

Many underdeveloped countries, faced with a scarcity of domestic resources, lack the easy access to alternative sources of supply which the more technologically advanced countries enjoyed during their period of development. Such developing countries must utilize science and technology as a creative tool for the development of unexploited local potential.

The link between technology and productivity is thus a very real and vital one, and many developing countries have only recently begun to realize the productive potential of their science sectors.

Our terms of reference, in this respect, cannot be the same as the developed countries; due to the smallness of our markets on the one hand, and the high level of unemployment on the other, we must adapt technology to make use of our major resource, which is our people.

We must adapt technology to ensure that we take as much account of social conditions as is compatible with a reasonable degree of efficiency and competitiveness.

To date, the developing countries have had entirely to depend on the technology which the developed countries are prepared to make available. The processes are deeply guarded. You never stop paying for the know-how.

The whole question of the transfer and/or development of technology is compounded by the fact that a significant level of our brain power is enticed to the metropolis to assist in perfecting systems which we in turn must pay dearly to hire. Thus, the lack of facilities coupled with the death of technologically skilled manpower serve to further perpetuate our sense of dependency.

So long as we have to rely exclusively on the imported technology from the developed countries, so long do we perpetrate the syndrome of dependency. So long are we limited in the massive assault that is necessary to remove crushing poverty, massive illiteracy and a paucity of industrial experience. So long do we remain at the mercy of the multinational corporations who determine the availability of technology by the dictates of private profit rather than the critical needs of mankind.

These corporations extract from developing countries our raw materials, our mineral wealth and inflate monopoly profits by transfer pricing, payment for know-how, royalties, trade marks, patents and service fees.

This onesided transfer of resources cannot continue. We cannot eliminate mass poverty and unemployment without evolving a new strategy which emphasized the proper control of relevant technology and the creation of an indigenous and authentic technical capability.

450 billion dollars per annum spent on armament - 400,000 scientific research, and technological development for research on weapons and the means of destruction.

The major source of investment funds in developing countries continues to be domestic savings. It represents 83% of all investment. Official Development Assistance far from reaching the target of 0.7 of G.N.P., continues to decline. This does not represent charity.

This transfer enables developed countries to increase directly the markets of developing countries for goods and services. It also encourages the development of raw materials and mineral resources, which helps to ensure the supply of basic raw materials and strategic supplies.

The provision of official development assistance is not altruism on the part of the industrial countries - The industrialized countries must realize that they are unlikely to struggle out of their current recession unless the purchasing power of the developing country is increased substantially. In the state of virtually saturated market, there must be a release of purchasing power which constitutes effective demand for the products of the industrialized countries. This can only come from developing countries.

At the present time, 75% of current O.D.A. flows through bilateral channels rather than multilateral institutions. This renders it liable to purely political considerations by donor countries. In addition, much of the aid funds remain tied to procurement in the donor country.

The mobilization of international resource will have to become more automatic and be accepted as an international obligation towards the poor nations. Promising mechanisms include the introduction of a link between the creation of international liquidity and development assistance.

At the same time, developed countries must realise the necessity to afford developing countries the chance to produce and export those goods and commodities which they are uniquely suited to do. Developed countries must resist the temptation of adopting protectionist measures in relation to certain declining industries or sections of their economies. In the short term, this is politically expedient but in the long run the costs of structural adjustment are greater. The opportunities of developing countries to earn foreign exchange and reduce unemployment are reduced; the consumers in the developed countries are forced to pay higher prices; an inefficient division of international labour is perpetuated and optimum use of the world's resources rendered impossible.

None of this should be allowed to obscure the necessity for enhancing economic cooperation among developing countries.

Tremendous opportunities for trade between low-income and middle-income developing countries exist. The burgeoning growth of developing country exports to major oil

exporters in recent time illustrate the potential for such growth. As developing countries attain roughly similar levels of industrial expansion, more liberal import policies vis a vis one another will be necessary if their trade is to continue to expand.

CARIBBEAN POINTERS

All that I have said before, can only serve to accentuate the importance of planning as a sine qua non to economic growth and development.

In its simplest form, planning as an economic function may be described as an "attempt to exercise forethought with reference to an economic operation and to anticipate the scope, character and results of such an operation." It may involve the use of policy instruments such as fiscal, tariff, monetary and credit policies or alternatively it may proceed by way of direct controls such as import quotas, price regulating mechanisms and exchange permits.

The net effect of this process is to rationalise the allocation of scarce resources both material and human in such a manner that their beneficial impact upon the society as a whole can be predicted and enhanced.

In Third World countries, regardless of political orientation, the process of planning assumes particularly critical importance in that the major performance variables in the economy rest largely outside of their control; in short they are exogenously determined.

This means that in addition to the multiplicity of problems already alluded to which contrive to shackle developing countries, the process of planning is further compounded by such external influences as consumer goods and preferences at the expense of savings and investments.

In other words, the plan process requires that within a given time frame, a country in allocating its resources must discriminate in

favour of domestic savings over consumption in order to maximize investments. Since it is only through expansion of the investment co-efficient that capital formation can be realised and developments achieved.

Similarly, it is only through this process of indigenization that developing countries are going to be able to break the metropolitan stranglehold perpetuating their underdevelopment.

Undoubtedly, among the main inhibiting factors to effective planning is the fact that developing countries are neither generators of investment capital nor producers of the capital goods or hardware necessary to trigger the savings-investment cycle.

Here again the question of indigenous technology becomes highly relevant in seeking to transform as much of the domestic factors inputs into intermediate and used products as may be contributory to a reduction in the levels of imports.

In the final analysis, our aim must be to increase the degree of reliance, on ourselves even at the expense of foregoing present consumption wants.

We must proceed on our own efforts at internal reforms by mobilising resources and transforming our societies to achieve social balance. We cannot be dependent on international reforms before addressing the welfare of our people.

Nor are the developed countries justified in their attitude of stubborn refusal to restructure the international economic system because of the inequities and disparities that undoubtedly exist in so many of our countries.

We in the developing world are the inheritors of fragile economies but we are the emergent societies that must shape the future. We do not seek charity. We demand justice. We seek to subjugate no one. We assert the right to determine our own destiny. Let all the nations of the globe awake to know that we belong to one world, interdependent and indivisible.