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DEVELOPMENT CRITERIA IN THE ICRD SURVEY MISSION REPORTS

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Introduction

In recent years, underdeveloped countries have received a vast number of suggestions with regard to the promotion of economic development. And although there is some disagreement among those offering advice on the problems of development, one point is clear: one requisite for economic development is added investment, i.e., capital formation.

The extensive recent interest in the theoretical aspects of the criteria used for choosing investments has not yet borne much relation to practical applicability in the underdeveloped countries. Our purpose here is to investigate the hypotheses applied by members of the International Bank for Reconstruction and Development's missions. It would seem that the underdeveloped countries surveyed in the IBRD reports were sufficiently typical to warrant the expectation that the findings and recommendations of the various missions are of significance for other underdeveloped countries as well.¹

Background

Ever since the international Bank for Reconstruction and Development entered the field of development lending, it has been called upon for technical aid and advice on matters relating to loan operations. Sometimes the Bank's assistance has consisted of helping a government to define priorities among different projects. Sometimes the Bank's experts have suggested modifications in the technical plans or the administrative and organizational arrangements for a project or in the plans for its financing

¹All the countries surveyed have the following characteristics in common: low levels of per capita income; unequal income distribution; rapid population growth; low levels of education and health; excessive dependence on foreign trade; predominance of agriculture in employment and underemployment; and inadequate public administration.

including the raising of local capital. Increasingly, however, the Bank has been asked to provide technical assistance on a broader scale and on matters not connected with immediate loan proposals, particularly in the field of development programming.

The Bank's concern with development programming is a direct consequence of its operational experience. In earlier years, many applications for development loans filed with the Bank were hardly more than lists of projects which the member government had under consideration, with little indication of their relative priority, the relation between them, or their place in the country's whole development pattern. Thus a good portion of the Bank staff's time and attention was necessarily devoted to helping the member government determine priorities among the different projects, and sometimes to suggesting additional projects in fields which seemed to have been neglected. Missions sent by the Bank to less developed member countries confirmed the inadequacy of development programming efforts, in many cases, and stressed the consequent risk that scarce investment resources might be misapplied. They noted, with few exceptions, the absence of any effective government agency charged with designing an internally consistent, over-all framework for development and with appraising proposed projects in terms of such a framework.

It was against this background that the Bank decided in 1949 to comply with a request by the government of Colombia to organize a general survey mission² to analyze the Colombian economy and to make recommendations on

²The Bank has defined a survey mission as "...a group of experts specially organized to make an intensive firsthand study of a country's resources and formulate recommendations designed to serve as the basis of a long-term development program." IBRD, Seventh Annual Report, p.10.

the basis of which the government could formulate a long-term development program. As of 1961, the Bank, acting on requests of the governments concerned, had organized general survey missions to the following countries: Colombia (1949); Turkey, Nicaragua, Guatemala, and Cuba (1950); Iraq, Ceylon, and Surinam (1951); Jamaica (1952); British Guiana, Nigeria, and Mexico (1953); Malaya and Syria (1954); Jordan (1955); Italian Somaliland (1956); Thailand (1957); Libya (1958); Tanganyika and Venezuela (1959); Uganda (1960); and Spain and Kenya (1961).³

The common objective of the surveys prepared by the various missions was to review the major sectors of the economy of the country visited; to appraise government policies and investment programs; to estimate the order of magnitude of investment which the country can appropriately undertake with the resources at its command; to make recommendations for investment and for methods of achieving increases in production and improvements in efficiency; and to suggest economic and financial policies and administrative measures necessary to insure the development program's success.

We wish now to review the role various criteria played in the development plans recommended by the survey missions.

Economic Considerations

Comparative Advantage

There is little evidence that the mission members consciously thought

³ IBRD, The Economic Development of: British Guiana (1953); Ceylon (1951); Colombia (1949); Cuba (1950); Guatemala (1950); Iraq (1951); Italian Somaliland (1956); Jamaica (1952); Jordan (1955); Kenya (1961); Libya (1958); Malaya (1954); Mexico (1953); Nicaragua (1950); Nigeria (1953); Spain (1961); Surinam (1951); Syria (1954); Tanganyika (1959); Thailand (1957); Turkey (1950); Uganda (1960); and Venezuela (1959), (Baltimore, The Johns Hopkins Press).

in terms of comparative advantages of the member country over other countries. Comparative advantage cannot be explicitly utilized when dealing with such complex problems. The advisors would have to consider the availability of all kinds of mineral assets, soil types, inventory skills, and capital equipment, in addition to allowing for the changes these might undergo in the country both absolutely and relatively to other countries. The collection of such data is difficult if not impossible; yet without such data comparative analysis cannot be undertaken.

Even where it was possible to obtain such data, various elements arose which called for investments in directions other than those indicated by comparative advantage considerations. For example, transportation networks and power facilities and capital-intensive irrigation projects may be required in some countries. Yet, these call for highly capital-intensive investment in labor-abundant, capital-poor countries. Of course, these projects might be classified as social overhead, but this would impose a further limitation on the universal application of comparative advantage considerations. Welfare aspects and interrelationships between various activities resulted in divergence from factor endowments; the magnitude of investment in certain sectors was influenced by the needs of the countries, rather than by comparative advantage considerations. In many instances, investments in the provision of water and in opening up new land for agriculture had to be made in countries not particularly well endowed with "natural resources."

Here we have an example of the weakness inherent in using simple factor ratios for the calculation of comparative advantage. The classification of natural resources under the headings "land," "capital," and "labor"

covers a multitude of sub-groups, each with different characteristics and each calling for a distinct pattern of investment.

Balance of Payments

Balance of payments considerations seem to have played an important role in the allocation of investment, although not necessarily as a result of the magnitudes of foreign loans. There was a wide variation in the sizes of foreign loans, yet no apparent relationship between them and the degree to which balance of payments considerations influenced investment criteria.

The need to service foreign loans was one of the factors behind the missions' support for the expansion of the export sector in the case of Surinam, Jordan, Uganda; Turkey, and Kenya. But comparative advantage played a role in the cases of Iraq, Venezuela, Nicaragua, Jamaica, Kenya, and Uganda. In Tanganyika and Kenya, the fact that the country in question was in a stage of development which called for investment in the export sector was stressed; here the missions felt that production for the foreign market was a requirement for economic growth.

It was also found that smaller countries were forced to expand exports to counter the increased demand for imports. Small countries necessarily must have greater imports relative to their national income than larger countries and must therefore try to sustain a greater volume of exports. Conversely, in larger countries, Kahn's proposition, the production of import substitutes, is an available policy alternative, since larger countries are capable of sustaining a large, diversified market. In general, however, balance of payments as a criterion for investment was a factor in the missions' suggestions not because of the need to service foreign loans, but rather because of the structures of the economies in question.

Capital Accumulation

One of the strategically important ways to bring about an increase in output in an underdeveloped country is to make full use of unemployed, partially employed, and underemployed resources. Insofar as these inadequately utilized resources (mainly labor) can be set to effective work in an economy, it becomes possible for the economy's output of consumer goods and its stock of utilized non-human resources to grow simultaneously, with the result that capital formation is accelerated.

Although many of the countries studied were in a position to raise capital accumulation by utilizing underemployed labor, there was little evidence of attempts to do so, except in the case of Ceylon.

The reports did not give much attention to the problems attendant upon mobilization of an economy's underutilized resources, nor to the possibility of devoting these underutilized resources to capital formation. This may be explained by the need for prior investment in food and other capital implements before the technique can be effectively used; i.e., such a process is not without cost.

Priorities

The following factors were explicitly operative in the setting up of priorities. (1) Agriculture is given high priority primarily because it is the basic source of foodstuffs and the direct and indirect source of support of the majority of the population, in addition to the fact that it is the quickest means for expanding the market and increasing output and exports. (2) All the missions recognized the vital role of the tertiary sector in the development of any country and accordingly assigned high and sometimes the highest priority to it in their plans. (3) The missions also

recognized the critical importance of education as a determinant of growth.

Welfare (the expansion of food output) and general technological considerations were given priority. It is obvious that technological considerations would require some investments to be made before others--for example, in arid areas, expenditures on irrigation should precede expenditures for land settlement--but such instances are likely to take many forms and therefore do not lend themselves to generalizations.

On the whole, the question of priorities is not resolved satisfactorily. The reports are replete with vague statements. The most that one can deduce from them is that relatively higher priority was given to agriculture, the tertiary sector, and education.

Capital-Output Ratios

There was no concrete evidence that calculations of capital-output ratios played any part in the allocation of funds. Even where output calculations could have been made, there were other arguments to justify the particular investment. However, increased output played a large role in the plans as a rationale for project choice.

Factor Intensity; Social Productivity Criteria

There seems to be little evidence to support any claim that considerations of factor intensity or social productivity played an important role in determining the selection of projects in any of the development plans.

Balanced Growth

Market inadequacies are recognized as deterrents to industrial development in all but two of the reports. However, in no case is the Nurkse solution of mutually supporting industrial projects sought as a means of enlarging the market. In the view of all the missions, expansion must

depend primarily on the growth of the agricultural sector and agricultural incomes to provide the requisite raw materials, food, and purchasing power for industry.

The reluctance of private investors to enter into production for domestic consumption in underdeveloped countries may be explained in terms of the small markets open to them and the uninviting rates of profit. It is assumed that private enterprise and its corollary, the profit motive, are present. However, inasmuch as we are concerned with state plans for the development of mixed economies, there is no reason why the profit motive should play a large part in investment decisions. Thus, balanced growth as a result of market considerations is of somewhat lesser significance. While the plans make provisions for secondary investment, none comprehensively endorses an extensive range of specific projects. In each case, the projects recommended cover only a relatively small number of areas which either are considered necessary for development or are in fields pre-empted by the state.

Sectoral balance and interdependence, i.e., vertical and horizontal balance, are emphasized by the missions. This does not mean the adoption of a program which places the same emphasis on each sector of the economy; it means that, within the limits set by existing conditions, each sector should be developed according to its importance in the economy and according to the contribution which it could make to raising the standard of living. The differences in the relative importance attached by the missions to the various fields requiring development were for the most part the result of differences in conditions in the countries surveyed.

The advisors' concept of balanced development furthermore involved the balancing of various needs against each other and against the available

resources. The missions were particularly concerned that the programs they recommended be within the capacity of the countries to finance without recourse to inflation. And the same considerations which determined the size of the over-all program likewise delimited the component parts, so that no difficulty would arise from insufficiencies of intermediate products necessary to the final product. The missions insisted that a program of development had to be comprehensive, integrated, and internally consistent.

Even though a country's economic backwardness is attributed immediately to the inefficient manner in which its resources and potential time are used, in a number of the reports this inefficiency is traced at least in part to non-economic determinants present in the social structure and the culture of its population. The importance of education, health, and training is stressed. And most of the reports call attention both to inadequacies in public administration, the fiscal system, and the institutional provisions for the supply of credit and banking services, and to shortcomings in the agricultural, industrial, commercial, transport, and other sectors of the economy.

Interrelationships

As a corollary of the missions' emphasis on maintaining "balance" and of their recognition of the interdependence of economic phenomena, inter-relationship considerations were widely taken into account. They often set limitations upon the advisors' freedom of project choice.

The Case for Industrialization

Foreign Trade Structure and the Allocation of Investment in Plans

Because of the instability to which these economies were subject, as a result of their heavy dependence on one or two primary export commodities,

the missions were unanimously agreed upon the urgency of diversifying the economic structure of the various countries they visited. It is not necessarily "industrialization" but "diversification" of exports and agriculture which will make them less vulnerable to developments in the foreign market. The missions' recommendations do not necessarily invalidate the theorem that industrialization is the best means of promoting stability in the economies of underdeveloped countries, however. Their emphasis on diversification might be explained by the fact that industrial investment was considered an area reserved for private enterprise and therefore outside the scope of the state's activities, and by the fact that industrial development depended upon prior development of the agricultural sector for the requisite purchasing power, raw materials, and food. Industrial development was viewed by the missions as a long-run goal which the countries would eventually achieve, but in the meantime, the foundations had to be laid down.

Population Density

We might expect to find the missions placing greater emphasis on agriculture in countries with sparse populations and more stress on industry in countries with large populations. In densely populated countries, however, the following factors must be taken into consideration.

- (1) The potentialities for further development of agriculture may be substantial.
- (2) Agricultural development may be a prerequisite to industrial development, because of the need for raw material and, more urgently, food.
- (3) The market for industrial goods may still be too narrow, and agricultural expansion may be critical for raising income and providing the requisite purchasing power. In some instances (East Africa and the

Caribbean), the missions called for a customs union. This problem seems to indicate that industrialization as a means of solving the population problem may be available only to countries with large markets. Small, densely populated countries may have to depend on agriculture (plus a few light manufacturing industries or small-scale industries) to relieve the population pressure and on exports to pay for the imported industrial goods needed.

(4) Substantial basic services may have to be provided before the development of industry can alleviate the pressure on the land. The need to allocate a sizeable proportion of development capital to the tertiary sector will limit the availability of capital for the secondary sector.

(5) The resource base may not favor industrial development in competition with established manufacturing countries. High transport costs, higher capital costs, and the lack of requisite skills, raw materials, and power give the industrial countries a tremendous advantage that is difficult to overcome.

(6) Agriculture development may be necessary to provide increased employment opportunities.

In some reports, industrialization is considered to be an essential goal--for the future--but for the present should remain secondary to agriculture. Two reports (Ceylon and Jamaica) explicitly state that industrialization should not be expected to provide increased employment. The Malaya mission, however, takes the opposite position.

In any event, the actual investment in the secondary sector is likely to be greater than the amounts recommended, since this sector of the economy is considered to fall primarily under the jurisdiction of private enterprise. There is not direct government investment in industry provided for by the

missions to densely population countries, except in the cases of Colombia and Jamaica; instead, provision is made for the extension of credit to private enterprise.

As for sparsely populated countries, in the report on Iraq industrial investment was largely justified on its own merits or on grounds over which the advisors had no control, such as...

Industrial investment was recommended for Venezuela as well, for the following reasons: the stage of development reached by that country justified a relatively higher proportion of investment in industry; and this investment obviously should be made, since its purpose it to build a profitable export industry, to utilize Venezuela's natural resources, and to open new employment opportunities.

However, the limited evidence demonstrates that the absolute size as well as density of population could affect a country's ability to industrialize. Countries with small populations, even if densely populated, may not be able to develop a market of sufficient size to support many types of manufacturing, while countries with large populations, even if of low density, may be able to support such a market.

Small-Scale Industry

All but seven of the mission reports took a definite stand in favor of small-scale industry. They argued that this type of industrial structure would employ resources in proportions which were in harmony with those available in the respective countries, whether such industries would be utilizing surplus labor, economizing on power, transportation, management, capital, and skill, or operating on a scale small enough for the limited market available.

Non-Economic Factors in Resource Allocation

The consensus among the missions' reports was that, in addition to the presence of economic factors which impeded economic progress in the countries studied, there also existed attitudes, social patterns, and traditions that prevented these countries from developing. Lack of confidence, initiative, and scientific curiosity; feelings of insecurity; resistance to change; antiquated legal and political systems; and religious influences--all were identified as typical obstacles to economic growth.

The missions recognized that economic development depended not only upon acquiring new skills and exercising new forms of productive activity, but also upon more basic changes in social relations and even in the structure of a culture's values and beliefs.

Cultural Considerations

Not much significance can be attached to a quantitative evaluation of the project choices in which cultural problems played a role, since in most cases the arguments based on cultural aspects were only a part of the over-all rationale behind these choices. However, the necessity for initiating a process of cultural change unquestionably was used as a criterion for the allocation of capital in the countries studied.

Investments may be required to create a cultural environment conducive to development or to deal with problems peculiar to the respective countries. For example, in Venezuela, subsidies are needed to overcome the conservative nature of the farmer and to induce him to utilize advanced technology.

Social Considerations

Social welfare considerations apparently played a role in the missions'

recommendations, in the form of investments in health, housing, and labor welfare. Further, a variety of projects which could (not?) be supported on economic grounds were favored because of their contribution to social justice. The use of this criterion in project choices can be significant; it must be taken into account in any comprehensive theory of investment allocation.

Political Considerations

Investment choices motivated by political considerations seem to have been of minor importance. Among the possible explanations for this are that many projects where political considerations came into play were adequately supported on economic grounds; that the advisors were reluctant to admit the influence of such considerations on their decisions; or that political considerations were simply not decisive.

Employment Considerations

While employment was likely to be affected by some of the projects recommended for investment, it is by no means certain that these effects were sufficiently important to have influenced the direction of investment significantly away from the course it would otherwise have followed on other grounds. In general, employment considerations appear to have played a minor role as an investment criterion.

An Evaluation of the Relative Importance of the Various Criteria

As we have seen above, some criteria--social productivity, factor intensity, the capital-output ratio, capital accumulation, and comparative advantage--were not considered by mission members in recommending investment choices to the various countries studied. We are therefore left with

the task of determining the relative importance of the remaining considerations--balanced growth, interrelationships, priorities, balance of payments, foreign trade, population densities, and non-economic factors. Some of these criteria, of course, such as balanced growth and interrelationships, are not amenable to quantitative measurement, while the quantitative estimates of others will overstate their relative importance, because of the variety of arguments usually used for justifying a single project. This is especially true of investments motivated by non-economic considerations: for example, investment in education for the purpose of changing some aspect of a culture was also supported on the grounds of raising skill levels, or investment in improvements of health standards were justified by the need to raise efficiency standards.

Actually, it is virtually impossible to determine whether one criterion was more important than another, because of the use of a variety of grounds to support single projects. Nonetheless, four factors emerge as being of major importance. First, there is the significance of agriculture for diversification, balance of payments, industrial development, and welfare purposes. Second, we have the interdependence of economic and of non-economic phenomena. Third is the importance of welfare considerations, as exemplified by the emphasis the missions placed upon increasing consumption and output. Fourth, the missions recognized that development is a slow and complex process, because in an underdeveloped country, everything tends to hinder improving everything else.

Low health and education levels affect productivity, but low productivity means insufficient resources, human as well as material, for the improvement of health and education standards. Low productivity in agriculture restricts the growth of industry, but the small domestic market

prevents the adoption of modern industrial techniques of production and distribution, and hence the sale of industrial goods at reasonable prices-- which in turn further restricts the purchasing power of the mass of the population, i.e., the farmers. The high cost of power and transportation facilities impedes economic progress, but limited economic development inevitably makes for high costs in power and transportation. An efficient public administration is vital to economic progress, but where there is ignorance, poverty, and unemployment, there is also a failure to appreciate the importance of an independent, competent, and devoted government service, as well as a shortage of persons qualified to perform the difficult and complex tasks required for the implementation of an economic development program.

All mission reports recognized that the dynamics of economic development are complex and difficult to grasp, because of the number of mutually interacting variables, or, to put it another way, the very wide range of constantly changing interrelationships. In a modern economy, the division of labor and specialization of labor are at their highest degree. While contributing to increased productivity, however, specialization makes each producer dependent to an increasing extent upon the efficiency of thousands of other producers in other parts of the economy. Again and again, we encounter cases where improvement in one sector of the economy is contingent upon improvement in one or more other sectors; the latter in turn is tied to a number of factors, including, perhaps, improvement in government administration, which depends on still other factors, and so forth. Improvement in general health, for example, depends upon improvement in water facilities, diet, housing, and sanitation, on comprehensive campaigns to eliminate or control sources of infection, and on better education; each

of these improvements requires further complex and far-reaching changes. Perhaps this is why, as many of the missions indicated, attempts to bring about improvements restricted to particular sectors of the economy have met with only limited success.

To achieve results in a short time, it is therefore necessary to achieve simultaneous improvements throughout the entire economy. As the Colombia mission put it:

By and large, the individual segments of the economy cannot progress rapidly apart from the whole, and in the exceptional cases where one segment develops at a rate very much faster than the rest, the result is likely to be a serious distortion of the nation's economic and social structure. It is obviously difficult to achieve and maintain a high degree of efficiency in a general atmosphere of inefficiency. On the other hand, improvements in one sector make improvements in other sectors easier...

Economic development, the mission concludes, consists in reality in the breaking of

...the vicious circle of poverty, ignorance, ill health and low productivity... (for) once the break is made, the process... can become self-generating...⁴

Thus, the missions' findings lead directly to the concept of balanced growth or interrelationships, which is a major feature in their recommendations. Their approach illustrates the multi-faceted and complex nature of the development process. The very fact that such a variety of objectives may have been operative in their decision-making procedure indicates the possibility that some of their choices were probably conflicting. Development requires investment in conflicting areas and calls for efforts to reconcile them.

The reports testify to the fact that theoretical criteria can be at

⁴ See ...Colombia..., op. cit., p.356.

best only partial guides to investment allocation. It should not be forgotten that economic considerations are not politically and socially neutral; the non-economic consequences stemming from their application cannot be brushed aside by any practical planner. Economic development involves far more than just economic factors. The policy-maker who is concerned with the total situation must therefore apply political and social as well as economic criteria to attain the desired objectives. This dilemma is almost nonexistent in the world of the private entrepreneur, where choices are based only on private objectives. But when the state, with its object of security and stability, assumes the responsibility for investment allocation, the pursuit of conflicting goals becomes unavoidable, and social and political judgments automatically creep in.

The challenge facing the economist is to help the planner arrive at some sort of workable compromise between the chosen policy goals, the implementation of which is economically defensible.

An Operational Criterion
Based on the Findings of This Study

The findings summarized above indicate some significant relationships, and it is on this basis that we have arrived at the procedure outline below.

When formulating an investment plan, the broad aim should be to build up as clear an impression as possible of the structure which a particular economy can be expected to attain in the long run. The structure would to a large extent depend on factors specific to that country. It would, for instance, vary between large and small countries, between countries differently endowed with natural resources, and between those with differing prospects for population growth. Once the general pattern and direction of

future development has been established, it is necessary to ensure that the development pace is adequate and that planning for different sectors of the economy is "balanced" and mutually consistent.

First, a unit of final demand or a general area of development may be determined or chosen, e.g., some industry based on some known resources or because of balance of payments or output considerations or on the basis of some chosen welfare function.⁵ Since increases in national product are everywhere important, a case could be made for the criterion of product maximization. In the mission reports for Nigeria, Surinam, Guatemala, Jamaica, Jordan, and Venezuela, increases in output were expected to result from 75 to 95 percent of total expenditures. The projections chosen are "key projects" which will initiate other activity or are selected because of technical considerations, linkage effects, or spread effects.

A unit of final demand becomes the basis for arriving at a figure for the demand for intermediate goods and services and for capital goods. The latter demand is considered a derived demand, related to final demand by the technological coefficients of production. The outcome is the growth of an interdependent market structure which stimulates development by satisfying the needs of immediate consumption, with an accompanying deepening of investments in the capital goods sector (vertical balance). As the economy develops, demand will shift continuously. It is therefore the job of the planners to visualize the expected structure of future demand, which

⁵The welfare function will describe the subjective ranking or ordering of a number of relevant economic effects, in their economic, social, and political aspects, according to some conception of relative importance. Its components will depend on the goals chosen by the state. These are decided exogenously, depending on the prevailing social attitudes toward the welfare factors involved, such as the rate of investment, the distribution of income, etc. These are elements in the welfare function. They are interdependent, which implies that a specification of the target levels of any one element limits the possible levels of all others. The society is not completely free to choose all the targets. The conflict between the various elements or goals chosen may be resolved by following Tinbergen's suggestion.

is highly malleable.

Or the planner could start from a given resource base and build from it an interdependent industrial pattern. However, consumption patterns must always be kept in perspective, and therefore capital goods production must still be considered as derived demand arising from a pattern of production targets for consumption at some future date. The purpose of all production is to meet final demand. And since a unit of each output requires a number of inputs in quantities which are known, it is possible to estimate the requirements of intermediate inputs needed for any given final demand goal. In other words, to attain a given final demand objective, it is necessary to have a certain output level in each intermediate and supporting activity. The appropriate levels of intermediate outputs can be calculated, given the coefficients for each input per unit of output.

In the development of a backward economy, there is often a high degree of physical interdependence among projects and also a substantial physical interlinking of various project sequences (priorities). For example, the execution of a multi-purpose river valley scheme would be based upon the initial growth of steel and cement industries. Economic working of the scheme would depend upon the capacity and utilization of its component units, such as irrigation, hydroelectricity, etc. For efficient working, the total scheme must be operated as an interlinked chain. The expansion of steel and cement for this project must be based upon the mining of iron ore, coal, limestone, etc., and these in turn may be linked with the engineering industry, and so on. With regard to project sequences, irrigation canals can be useful only after dam construction is completed and the farmlands are adjusted to receive the water supply. Electrical installations and transmission lines around the area have to be coordinated with the

expected growth of consuming industries. Hence, under planning a sequence of projects has to be borne to promote further growth from the selected group of primary investments. Projects are intertemporally dependent upon each other, in any given time period, as much as they are physically interdependent (priorities and balance).

In this process of vertical expansion, horizontal development must not be ignored. In fact, a certain complementary relationship must be maintained between the two, if the process of development is to proceed smoothly (balance).

Demand must not be totally ignored, because of the dangers of inflationary pressures exerting themselves as incomes rise.⁶ Bottlenecks may hold up operations--hence the need to have some dispersion of investments among complementary sectors of the economy. Engineers and skilled workers are needed. Poor health and housing conditions may lower productivity by causing absenteeism. A complementary relationship exists between the vertical and horizontal sectors, and this must be maintained (social, cultural, and employment factors).

This intersectoral dispersion may lower the rate of capital accumulation, which will lower the rate of growth. Accelerated growth requires capital-deepening by promoting vertical expansion. However, this is not the total picture, because growth will also depend upon certain critical technical complementarities obtained through expansion of other sectors, such as education, agriculture, transportation, etc. (sectoral interdependence). The rapidity of economic growth depends not only upon intra-sectoral

⁶Consumption standards are notoriously low in underdeveloped countries. Not only is the total product small in absolute terms, but it makes an even poorer showing when taken together with the unequal distribution of income and the size of population which shares it. When the bulk of the population lives at such low levels, it becomes inhuman to exert pressure for more savings by further tightening of belts.

concentration for capital formation, but also upon intersectoral dispersion, and lack of the latter will not optimize intertemporal economic growth.

The outcome of this initial selection will be a group of interrelated sets of investment projects. Each set is initiated by the original choice or area of development or unit of demand. For example, an initial project for a dairy industry will call for investment in transportation, refrigeration facilities, training, pasture and feed improvement, extension, marketing, and packaging.

Once the output of the interrelated sets has been determined, the choice must be made. The costs and benefits of all these related projects should be considered, together with and weighed against the costs and benefits of the alternatives involved. The decision will be made in favor of those projects with the highest benefit-cost ratios, until the financial resources are exhausted (social productivity criteria).

By following this method, the problem of the proper imputation of the effects of projects which results from their interdependence does not arise.⁷ In the example given, the benefits accruing from the interrelated investments may be regarded as secondary benefits imputed to the key project, the dairy processing industry. Furthermore, this method will minimize the difficulty of calculating the social product of some investments. For example, the cost of training may be included, but it is not essential to the calculation of final output, since it is an intermediate product. Some interrelated investments are likely to provide services for several key projects (for example, power facilities). In this case, only the cost imputable to the key project should be added to its input. If the key project

⁷See the section on social productivity criteria above.

is the only one using the services of the intermediate project, then the entire cost is imputed to it.

Within this frame of reference, decisions may be required regarding the choice of techniques. Assuming that the welfare function chosen by the planner aims at the maximization of income and employment levels in the short run and maximization of the rate of growth of the economy over time, an obvious conflict arises. The pattern of development corresponding to the first goal would be quite different from that corresponding to the second. Yet it seems incumbent upon the planners to try to attain both these goals.

The only way in which both goals can be achieved is by so expanding investment in capital-intensive techniques that all surplus labor is fully absorbed. But this is surely an impossibility, as unlimited amounts of the scarce factor, capital, do not exist in the economy. This difficulty illustrates the core of the problem faced by underdeveloped countries. To attain full employment and maximum output and growth, the set stock of capital should be increased rapidly. The following suggestions are therefore offered as means for achieving a compromise between these two conflicting goals.

Instead of using inefficient labor-intensive techniques to provide employment and create products which could be more economically produced by capital-intensive methods, the production of those goods should be left to the efficient capital-intensive methods, subject, of course, to the limit set by available capital. However, capital intensity in a plant may be reduced with minimum undesirable effects on economic development by using labor-intensive techniques in the ancillary processes of production, while maintaining the most "modern" techniques in the central or

prehensive and operationally meaningful. It also reveals the fact that, as we probe more deeply into the problem of resource allocation, we become increasingly aware of the inevitable value judgments that must be made in investment decision-making. There is not unique way of gauging the extent or nature of the consequences that will follow from an investment act, especially over an extended time period.

The importance of a carefully conceived investment program in promoting economic development is widely recognized. Capital is a scarce resource and should be used economically. But neither the historical experience of the Western world, nor traditional theory should be employed uncritically as a guide to capital allocation in underdeveloped countries. The fact that the social goals and institutions of the underdeveloped countries are not the same as those of the industrialized countries is sufficient reason to proceed with caution.

APPENDIX

EXCERPTS FROM THE MISSION REPORTS

APPENDIX

In the body of the paper we have presented summaries of the ideas and concepts used by IBRD missions as a whole. We believe that the following excerpts from specific mission reports will provide useful amplification of the points raised. (The numbering of this appendix follows that of the paper).

Part II--Economic Considerations

A. Comparative Advantage

The reports contain few concrete references to comparative advantage. Rather, they generally cite sectors in which the greatest absolute potential exists for the country.

Guatemala

It must be borne in mind that the best known resources of the country are agricultural and that it is toward better utilization of these that the most extensive development must initially be directed. In regard to industry, a significant measure of progress is the extent to which the products of the soil are processed and transformed locally into their marketable form. (However the) rugged topography has hampered transport and created such obstacles to all types of development that potentially productive areas still remain relatively inaccessible. (p.3)

The inadequacy of present facilities for transportation probably constitutes the greatest single barrier to the the economic development and cultural integration of the Republic. (p.132).

Thailand

...the largest development opportunities are...to be found in primary production especially agriculture although a more diversified agriculture than at present. (p.4)

Uganda

The major opportunities for the economic development of Uganda in the coming years still lie in agriculture...the greatest gain in national income can come from agricultural development. (p.96).

Nigeria

Nigeria's economic development and the improvement of its

living standards...depend largely upon the growth and progress of the agricultural sector of the economy. (p.122)

D. Priorities

The missions generally placed high priorities on three types of development:

1. First, increased output of essential consumption goods, particularly agricultural, was given highest priority most frequently.

Turkey

Turkey: Since per capital income is low, the production of low cost basic essentials should receive preference over the production of luxury items.

Colombia

We are placing primary emphasis on the provision of those things which have come to be considered the basic essentials--good health, adequate and well balanced diets, education and training for a better and more productive life, and adequate housing and clothing.

Uganda

We recommend that everything that is administratively and economically feasible be done in the next five years to increase output in manufacturing, mining, and agriculture--the commodity producing sectors. (p.40)

Venezuela

In the case of Venezuela priority is given to the "commodity producing sectors". Because with the slowdown in the growth of the petroleum industry "the momentum of economic advance including the provision of employment opportunities will be maintained if agriculture and manufacturing receive some extraordinary direct stimulus". (p.43)

Ceylon

Priority must be given at the present time to the maximization of agricultural production.

Ceylon seeks industrialization as a means of improving the level of living.

Kenya

Kenya will need to give most attention to its agricultural

sectors and its related services in the next few years because its rate of growth and improvements in the levels of living will continue to depend in the next few years ahead primarily on developments in the agricultural sectors. It must therefore, be accorded the highest priority in the allocation of resources.

Jordan

Agriculture accounts for approximately one half of total production in the private sector. Rural productivity is low and unless it can be raised, there is no hope of improving the lot of a sizeable part of the population. The Mission, therefore, gives first priority to agricultural development...

Iraq

Any development program for Iraq must obviously put primary emphasis on agriculture. Over 60% of the population is engaged in agriculture, and both industry and commerce depend in turn largely upon farming and animal husbandry. Moreover, large increases in output can be realized both by raising the productivity of livestock and farm land already in use and by bringing under cultivation large areas presently idle...

Surinam

Just over 50% of the funds is proposed to be devoted to agricultural development, since it is in this sector that public investment is expected to result in the greatest increase in production. (p.42).

(The) anticipated increase in the gross national product... would imply not only maintenance of the present level of per capita consumption expenditures but a probable increase in that level of about 1% per year. (p.79)

Jamaica

The program outlined in succeeding sections of this report places primary emphasis upon agriculture. In part this is a recognition of the dominant place of agriculture in the economy and its role in supplying raw materials to a growing industry. In even greater part, however, it reflects the Mission's conviction that the potentialities in this field are far larger than has generally been assumed in the past. The land is Jamaica's chief asset... (p.8)

Syria

A development program for Syria must focus primarily on agriculture... Its potentialities are still large. (p.35)

Nicaragua

The mission considers it urgent to take steps both to increase

and to diversify production. To maintain the present satisfactory level of consumption in the face of a fast-growing population, the program aims to increase the domestic output of the leading food crops and to achieve a somewhat better dietary balance through a more rapid rise in meat and fish production. (p.51).

Thailand

In absolute terms, the largest development opportunities are likely to continue for some time to be found in primary production, especially agriculture although a more diversified agriculture than at present. (p.4).

Nigeria

The encouragement of local food production is an important measure of over all economic policy and a prerequisite to the success of the proposed development programme. (p.78)

Malaya

In terms of public outlays, the two largest items of proposed expenditure are for assistance in the planting of high-yielding rubber... and for irrigation and drainage works to improve already cultivated areas developed mainly in rice and to open up new lands for rice and other crops.

Tanganyika

The main development task in Tanganyika is to improve the methods of peasant agriculture and cattle keeping, or to transform present methods and organization into systems making more productive use of the land. (p.51)

Uganda

It is our view that in the present circumstances, investment in agriculture will bring greater returns--in terms of expanded output and incomes--than comparable investments in almost any other sector of the economy. (p.96)

Guatemala

...the value of domestic agricultural production which provides the livelihood of the population is very small, therefore, first priority should be assigned to increased production of basic food-stuffs (livestock, corn beans, rice, sugar, oils, etc.). (p.81)

Colombia

Raising the standard of living in Colombia is largely a matter of increasing agricultural productivity not only because it will result directly in a greater and more diversified output of food,

fibre, and export crops, but also and perhaps even more important, because it will release labor for the production of other things. Transportation is given priority because it will primarily facilitate the marketing of consumption goods and open up areas for agricultural production. (p.360)

Turkey

The greatest challenge facing Turkey today is to make fuller use of its agricultural manpower and resources by increasing productivity of both land and labor.

2. Second, the tertiary sector, and especially transportation, was considered very significant.

a. In some countries the missions found well-organized systems.

b. The missions placed high priority on the development of transportation, power and communications in those countries lacking adequate facilities.

Cuba

To a degree found in few other parts of the world, Cuba possesses a large and vitally important asset in its railroad network... (p.241)

Ceylon

Ceylon has a fair basic system of internal transport and good sea and air connections with other countries... (p.45)

Nigeria

Nigeria's transportation system is reasonably adequate in the sense that there are already extensive facilities and lines of communication. It is not adequate in the sense of being able to move promptly, and at reasonable cost, the present volume of traffic, let alone the increase anticipated during 1955-60. (p.78)

Venezuela

...the basic facilities in these sectors (transportation, power, and communications) necessary for supporting a high rate of economic growth and achieving the other objectives of the program are already in an advanced state. (p.42) Thus, the mission recommended a reduction in the level of investment in basic economic overheads.

Uganda

Improved communications have bound the country closer together

and brought more and more of it into contact with the world. The transport and communications system is now well developed in relation to the present needs of the economy. (p.21)

Libya

...the dispersal of a small population over a very large area... calls for exceptionally heavy per capita expenditure on transport and communications... (p.7)

Malaya

The mission also recommended the greatest government investment in basic services including transport, communications, and power. While these services are reasonably well developed, they must go on expanding to keep pace with the growth of the economy. (p.47)

Guatemala

The rugged and broken topography has hampered transport and created such obstacles to all types of development that potentially productive areas still remain relatively inaccessible. These same factors tend to perpetuate the cultural isolation which continues to characterize large segments of the rural population of the Republic. (p.3)

Syria

It is generally recognized that the development of transport and communications is one of the most urgent needs of Syria.

Colombia

...the various transport systems in Colombia are not now capable, either singly or in combination, of serving the country's growing needs adequately and at reasonable cost...

Mexico

The Mexican Working Party describes the Mexican railroads as a... major impediment to economic growth. (p.96)

Turkey

Insufficiency of cheap transport facilities has been an obstacle to Turkey's economic development.

3. Third, education was given high priority in a number of countries.

Libya

...a country's whole development effort may be held back by shortages of the more advanced skills...an acute lack of technicians,

professional people, and administrators in every field of economic activity. No matter how much money is available...development can usefully be pushed no faster than the supply of properly trained personnel to administer and execute it. That is why the Mission places so much importance on the expansion of facilities for technical and vocational training and on programs of adult education. (p.252)

Ceylon

In mere numbers, then, Ceylon's labor supply is large enough for a substantial expansion of production. The real problems in the field of human capacities lie in the efficiency and mobility of the labor force, and in the enterprise, knowledge and organization required for the job. (p.33)

Jamaica

By all odds, the improvement and extension of education takes first priority among the social services. More education, provided it is the right kind, can help people to become more efficient, to improve their health, and to develop the civic consciousness and community spirit so essential to cooperative self-help. (p.116)

Uganda

The Mission's program is to give top priority to increasing secondary and higher education to produce the key personnel which a developing and independent Uganda will need to lay the groundwork for a further expansion in education across-the-board in the future. (p.113)

Kenya

To promote growth, human resources will need to be well utilized... Heavy stress must be placed on education and training for participation in a modernizing economy... (p.2)

Cuba

No other resource is so important in the economic progress of a nation as its human resources, and education is the principal tool by which human resources are improved and developed. (p.403)

Turkey

It is apparent even to the casual observer that the educational base of Turkish society is not yet adequate to support large-scale economic development, particularly industrialization and mechanization... (p.170)

Iraq

The Mission's approach in the educational field is one of the

most important means of raising production levels and living standards and thereby assuring the economic health of the country. It is for this reason that the Mission has given it a high priority in its recommended projects for development. (pp.423-34)

Spain

In order to expand and modernize the economy the Spanish Government is expecting substantial sums to be devoted to fixed investment. However, such expectations will not produce the desired results unless proper attention is also given to investment in human resources, since the supply of skilled manpower will be an important factor in determining the rate of economic growth. (p.389)

Venezuela

The Mission is convinced that government expenditures, whether current or capital, to expand and improve the quality of the education of the Venezuelan people rank among the highest priority expenditures the government can make.

Tanganyika

A major and immediate call on the limited resources available to the government of Tanganyika is for the expansion of secondary and higher education.

Colombia

The introduction of mass rural education is...of the utmost economic significance. (p.543)

Nicaragua

Expenditures to improve sanitation, education, and public health should, without question, be given first priority in any program designed to increase the long-range growth and development of the Nicaraguan economy.

G. Balanced Growth

1. Implicit and explicit assumption made by the theories of balanced and unbalanced growth.

Balanced Growth

1. Elastic capital supply and relatively less limited availability of resources.
2. The inducement to invest is weak.
3. From #2 follows: the lack of entrepreneurs.

Unbalanced Growth

1. Inelastic capital supply and relatively limited availability of resources.
2. The ability to invest is assumed as existent (Mirschman, p.49).
3. Little problem regarding the availability of entrepreneurs (Streeten, p.176).

Balanced Growth

4. The availability of entrepreneurs does not guarantee socially optimum allocation of resources.
5. Because: a) the economy is stagnating and is characterized by ineffective permissive sequences; b) market forces and the price system will not lead to an allocation of resources; c) divergence between social and private benefits.
6. The above factors are caused by: a) an undesirable pattern of income distribution; b) a crucial role assigned to external economies and to the interdependence of the industrial structure and the different sectors of the economy.
7. Economies of scale can be used as an argument for balanced growth.
8. Need for a "big push" to overcome the "low level equilibrium trap" because of population growth.
9. There can be balanced growth without the "big push".
10. The time perspective is not defined.
11. A development plan.
12. Therefore a crucial role is assigned to the State.
13. The role played by international trade is vague--but warning against its hazards.
14. From #13 it does not follow that a balanced development plan will not emphasize comparative advantages as a criterion for investment.
15. The recognition that economic development is a multivalued goal.
16. Complementarity among commodities is dominant in both producer and consumer

Unbalanced Growth

4. Entrepreneurial investment decisions will lead to an optimum allocation of resources.
5. Strong linkage effects and effective permissive sequences (Streeten, pp.183,190; Hirschman, p.7). b) is the exact opposite of the rival theory. c) No divergence between social and private benefits.
6. The above factors are caused by: a) a given income distribution which does not need to be changed; b) external economies are not assigned a significant role in investment allocation but can be used to support unbalanced growth.
7. Economies of scale establish a case for unbalanced growth, (Streeten, p.177; Scitovsky).
8. The country offsets the effects population increases (Hirschman, p.182).
9. Identification of balanced growth with the theories of the "big push".
10. Short time horizon--balanced growth achieved in the longer-run (Streeten, p. 176).
11. No development plan.
12. A predominantly private enterprise economy--increased functions by the State frowned upon.
13. Dependence on international trade (Scitovsky and Streeten).
14. Emphasis on the doctrine of comparative advantage.
15. Ignored.
16. Complementarity establishes the linkage effects (used as an

Balanced Growth

16. (continued) demand (used as an argument for balanced growth).
17. No assumptions regarding the competitive market structure.
18. The stage of development the country is starting from-- ambiguous.
19. The welfare function is not defined.

Unbalanced Growth

16. (continued)(argument for unbalanced growth).
17. Monopolistic and oligopolistic market structure (Hirschman).
18. Relatively more advanced stage than that taken by rival theorists.
19. Presumably the rate of growth.

2. Agricultural development was generally cited as a prerequisite for balanced growth and market expansion.

Uganda

Industrialization must have markets in which the goods they produce are bought before they can be successful, and markets mean consumers must have money. In Uganda, the industries can only grow at this stage as agriculture prospers, As purchasing power grows, so will the demand for manufactured goods, to the point where local production of additional commodities may become viable. (p.271)

Turkey

...progress...depends largely on increasing the productivity of agriculture and thus raising the income of the farmers. (p.230)

Colombia

...raising the standard of living in Colombia is largely a matter of increasing agricultural productivity...not only because it will result directly in a greater and more diversified output of food, fibre and export crops but also, and perhaps even more important because it will release labor for the production of other things. This double gain has been the underlying cause of the rise in living standards in all economically advanced countries, and it should form the basis of economic progress in Colombia... (p.360)

Cuba

...agriculture is the basic industry of Cuba, and certainly the natural one...Fundamentally, the growth of Cubas' industry, transport and many other activities must hinge upon still further agricultural development and diversification... (p.81)

Kenya

The Mission believes that increased output of primary products will have to provide the basis for an expansion of the economy as a whole. (p.23)

Ceylon

Priority must be given at the present time to the maximization of agricultural production. (p.68).

(For it)...offers the greatest avenue to an increase of total national wealth in any near future. It must set the pace in tomorrow's development, even if other activities may in the more distant future come to rival it. (p.14)

Iraq

Conditions, however, are generally favorable to further industrial development. An expanding agriculture should provide more materials, such as fibres and oil seeds, for processing and when the standard of living among the rural population is raised there should be a growing domestic market for industrial products. (p.33)

British Guiana

Industry is closely related to agriculture and forestry since it is primarily engaged in processing the colony's main agricultural and forest products. (p.339)

Jordan

The progress made in agricultural and mineral development will provide new opportunities for manufacturing enterprises, not only directly but indirectly by generating additional purchasing power and thus broadening the market for consumer goods. (p.19)

Syria

A development program for Syria must focus primarily on agriculture. Despite the expansion of manufacturing, agriculture will continue to be the country's principal industry.

Thailand

Experience indicates, (however) that industries directly based on Thailand's natural resources are likely to expand almost automatically as agricultural development proceeds. (pp.94,95)

Jamaica

The program outlined in succeeding sections of this report places primary emphasis upon agriculture. In part this is a recognition of the dominant place of agriculture in the economy and its role in supplying raw materials to a growing industry. (p.8)

Libya

The future of industry in Libya will be greatly influenced by two factors--the progress of oil operations and the development of Libyan agriculture. ...Agricultural expansion likewise is important

both because it is needed to supply raw materials for the processing industries and because increased farm income will provide a larger market for manufactured goods. (p.182)

3. The interdependence of, and balance between all sectors received considerable attention from the Missions. Sometimes this was explicit, but occasionally the Missions merely implied a need for the "big push" to break out of a vicious circle of poverty.

Ceylon

As much as possible new industries should be chosen so as to improve the economic stability of each other and of existing ones. This means absorbing materials from each other, supplying the market with complementary products...etc. When industries are allowed to spring up by themselves, they tend automatically to form an intricate pattern of mutual dependence and assistance.

True economic development comes about through balanced parallel achievement in various departments. A few spectacular projects in one field or another will not accomplish it. (p.121)

Tanzania

While some expansion of manufacturing for export can be foreseen...the scope for further development of manufacturing is determined principally by the size and nature of the domestic market. (p.232)... and its expansion must depend primarily on the growth of agricultural incomes. (p.233)

Nicaragua

...agriculture is the mainstay of the nation's economy...Agriculture production must expand if the country is to progress and carry out an over-all development program. (p.29)

Random development of individual industries, without thought of their interrelationship, can be wasteful of resources and can sometimes place burdens upon the people greater than if they had no industries at all. (p.31)

Jamaica

There are compelling reasons for a program of this size. Timid half-measures will not solve the problems of the future...If employment is to be found for a larger population and the potential resources of Jamaica are to be translated into real income, far more must be invested than in the past.

The vicious circle must be broken; and this can only be done by an investment program financed to a considerable extent by private capital imports and public borrowing abroad. (p.6)

The program must therefore be regarded primarily as projecting

lines of advance which can be followed more rapidly or more slowly as circumstances dictate, provided always the balance among its components is approximately maintained. (p.7)

Mexico

The Mexican Working Party expressed the hope that "...Mexico may want to abandon the project to project approach to economic development and look at the organic whole. (p.151)

Turkey

(We deplore)...Turkey's past concentration on large projects which benefitted only limited portions of its population. (p.275)... (and which) contributed to an unbalanced economy and to sporadic and localized development. (p.275), and declared itself in favor of...a variety of small projects spread widely over the country (p.275) arguing that...more modest and more dispersed efforts which directly and immediately affect the people as a whole will provide a more enduring foundation for rapid economic development. (p.275)

Tanganyika

The task of the Mission,...was...to consider how these (resources) might best contribute to a balanced program of social and economic development, to make recommendations for practical measures to further such development... (p.vii)

Nigeria

The programme is an integrated one: the component parts complement and support each other. Development in one sector affects, and is in turn affected by, development in others.

Libya

The maintenance of a reasonable balance between these two types of investment (economic and social projects) is one of the major problems facing the government of every underdeveloped country. (p.15)

Spain

...a careful balance must be established between the public and private sectors and within each sector on the basis of the functions to be performed. (p.10)

Nicaragua

Proposals for the formation of new industries have been granted to expected increases in agricultural production and for investment in power, to the need for new industries and anticipated growth of the urban population. (p.8) ...a balanced plan taking into account the needs and potentials in all sectors of the economy. (p.7)

Guatemala

Any realistic effort involves treating the problem as a whole and not in disconnected parts. Better methods of crop production, livestock breeding, disease control, and marketing cannot be learned by people who are illiterate and who have no clear conception of the conditions of the outside world with which they have to deal as purchasers and sellers. Progress in education is dependent upon improvements in health, nutrition, housing, and transport and vice versa.

British Guiana

The coordination of the development projects with those of other departments should be organized in such a manner that essential improvements in all fields will be harmonious and leave no appreciable interval between the completion of interdependent developments. (p.320)

Colombia

We have interpreted our terms of reference as calling for a comprehensive and internally consistent program. Rather than merely a series of discontinued recommendations. ...more over, the principle involved in this approach, that the attack on poverty must be coordinated on many fronts, all closely interdependent, is more important than any of our particular findings or recommendations.

Part III--The Case For Industrialization

A. Foreign Trade

Domestic instability arising from fluctuating world prices of primary commodities, and lack of growth potential, frequently led the IBRD Missions to advocate diversification. In many cases this recommendation was equivalent to industrialization.

Colombia

...Colombia's foreign economic position, while currently very favorable, is at the same time vulnerable. It is imprudent if not actually dangerous, for a country to tie its fortunes so closely to those of a single commodity... (p.582)

British Guiana

It is clear...that in planning the country's long term development, special attention must be paid to possibilities of diversification. ...research is needed...to...diversify production in order to reduce British Guiana's dependence upon two principal crops. (p.50)

Thailand

There is every reason to conclude that (the country's) resources are...adequate to pattern of growth which will contribute to greater economic stability through diversification of production and exports (p.4)

Guatemala

Coffee production is the one activity in which immediate action can be expected to provide the necessary financing, not only for agricultural development, but for development in other sectors of the economy as well. Like many other things in Guatemala, the whole investment program prepared by this Mission is dependent upon increased returns from coffee. Such emphasis on coffee need not in any way interfere with agricultural diversification; for, in view of the varied resources of the country, diversification is both possible and desirable to mitigate the effects of fluctuations in coffee prices. (p:28)

Venezuela

In the course of the analysis, certain weaknesses become apparent ...a dependence on oil as a source of revenues and foreign exchange. ...a major objective must be to enable Venezuela to reduce its dependence on petroleum for continued growth. The principal reason for government adopting this objective is that petroleum is a non-reproducible natural resource whose exhaustion must be anticipated. In the Missions' opinion, a more compelling reason is the fact that alternative low-cost sources of petroleum supply are being developed at a very rapid rate in other parts of the world. There is also the possibility of the development of low-cost alternative sources of energy. Over the long run, these factors might make it difficult to expand Venezuelan petroleum output or, more important, make it difficult for the Venezuelan economy to enjoy larger returns from the industry. In the face of these risks, Venezuela seeks economic diversification even, if necessary, at some cost in terms of current income. (p.12)

Kenya

The market outlook for many of Kenya's exports is also unfavorable and may restrict the possibilities of expanding incomes even if output increases. (p.43)

(Since) the general outlook for international trade for Kenya presents a serious obstacles to a rapid increase in the level of Kenyan incomes...the best strategy for a country like Kenya,...would be to diversify...In addition...Kenya should strengthen her trade drive in all markets that are still accessible.

Secondly, since the scope for increased export earnings is limited, we would recommend that a major emphasis in agricultural planning be placed on import saving. (p.75)

Cuba

The Cuban Mission described the island as a ...one crop export economy..., with sugar exports the great independent variable in the economy. The Mission notes that Cuba is the marginal supplier both in the United States and world markets and that: ...except during World War II and some of the postwar years, these markets have been quota-controlled and tariff-protected to the point where any further growth of the Cuban sugar industry seems out of the question... (Thus) ...despite Cuba's present prosperity, the underlying situation is unsound... (pp.727,728)

Ceylon

...essentially...most of the economic eggs of Ceylon are in a very few baskets. The fortune of a few agricultural export commodities in world markets has become the most important single determinant of the year to year material well-being of the island... The high degree of specialization in agriculture has brought large foreign earnings but with them corresponding risks of instability... (pp.15-16) Unlike the other Missions, however, the Ceylon Mission found that in practice the economy of Ceylon had not suffered as much from instability as the structure of its economy, would have indicated. This the Mission attributes to the steadying influence exerted by the comparatively stable value of the predominant tea exports.

Turkey

...Although Turkey's foreign trade...amounts to less than 10% of the country's national income foreign trade is vital to the economy. Turkey's general self-sufficiency in foodstuffs and modest standard of living makes it possible to keep imports at a relatively low level but some essential consumer goods must be imported and the economic development of the country requires imports of essential machinery and equipment... The distinctive feature of Turkey's exports is its heavy reliance on four commodities, tobacco, cotton, nuts and raisins... With the exception of cotton, these commodities are of a semi-luxury character and are particularly vulnerable to poor business conditions in import countries... (p.229)

Malaya

While contributing to Malaya's relatively advantageous economic standards, specialization in rubber, tin, entrepot commerce and related economic activity has also had the disadvantage of creating a considerable element of instability in Malaya's economic structure. This arises out of the fluctuating fortunes of rubber and tin...

There are in addition longer-run economic uncertainties associated with the specialized character of the economy due especially... (to) the development of the synthetic rubber... to the long-run technological economies in world tin utilization. ...The fluctuating character of the economy contributes to the marked preference for reasonably liquid short-term, as distinct from longer-term investment this adds to the difficulty and cost of obtaining long-term financing. (pp.19,20,37)

Uganda

Cotton and coffee incomes have in fact been a more decisive factor in the economy than the level of public expenditures...the point has now been reached when the full impact of the reduced cotton and coffee incomes on the level of public revenues and expenditures is being felt. ...Since 1956 imports declined as a result of the fall in Uganda's purchasing power abroad as a result of price declines in its crops.

Nigeria

In Nigeria the well-being of the economy was sensitive to changes in world market conditions.

B. Population

Several Missions recognized that both total population and its density affected any proposition favoring industrialization.

British Guiana

While there is scope for expansion of secondary industries, it is unlikely that there will be any major industrial development in the foreseeable future; the internal market is too small... Moreover, there is a lack of raw materials and power for major industries...development therefore, for many years to come must mainly take the course of the expansion and diversification of primary production in which the colony enjoys certain comparative advantages. Major public investments are recommended in the fields of agriculture and of transport and communications, which together would absorb 71% of the development funds.

Jordan

High transport costs have precluded any industrial expansion requiring imported raw materials and a market abroad, although at the same time the protection they have afforded has created relatively favorable conditions for industries processing local raw materials to be sold within Jordan.

Colombia

The one factor that limits the growth of large-scale modern industry in Colombia more than any other is the limited size of the domestic market. Not only is it difficult to push specialization and the division of labor where the market is small, but in many fields it is actually uneconomic to attempt production...

Tanganyika

While some expansion of manufacturing for export can be foreseen

mainly in the form of processing of domestic agricultural products...the size and nature of the domestic market...(will) set an outside limit to the expansion of manufacturing.

Ceylon

Diversified industrial growth, while not as urgent as increased agricultural production, is essential to Ceylon's ultimate development...(but) An industrial community cannot be created overnight...Efforts must be started immediately to widen the base for industrial growth, even if the major developments are expected to arise much later.

...the role of industry...must remain secondary so long as the land is not well utilized and the island cannot yet feed its own people.

However, false goals should be avoided if progress is the aim. An outstanding example is the popular error--no more common in Ceylon than elsewhere--of calling for more industry as a means of providing employment. Of course it provides employment; but this is not its primary objective. If it were, then the most inefficient and unproductive industries would be the most desirable...birth control is the solution to the problem of overpopulation. (p.790)

Jamaica

We have sought to survey objectively the prospects of the manufacturing industries, those who look to manufacturing as the principle source of Jamaica's economic salvation, may be somewhat disappointed with our conclusions. We expect that manufacturing will provide increasing employment but only as the industrial experience and skills which are still largely lacking are gradually acquired... Jamaica cannot expect to convert its manpower potential quickly into a wide range of manufactures which will find a ready foreign market.

We are convinced that with the proper development of Jamaica's agricultural resources...population pressures will be somewhat relieved. ...only an ambitious program will meet the requirements. It must give a decisive impetus to the development of agriculture, and must be capable of arresting the flow of population to the cities and lifting the standard of living of the farming classes.

Malaya

In Malaya, the Mission stresses the importance of a steady and substantial expansion in industrial employment opportunities if living standards are to be raised or even maintained. However, the possibilities for the establishment of large new industrial enterprises seem limited because of the comparative lack of basic raw materials for heavy industry except for iron ore, the domestic manufacture of which is handicapped by location, very heavy capital requirements, and the absence of metallurgical fuels and cheap power. Rubber normally gains in weight and bulk in the course of manufacture and its industrial possibilities are therefore largely confined to domestic and immediately neighboring markets. Tin and lumber also do not offer promising prospects.

Malaya's industrial development in the future seems likely then to follow the pattern of individually small advances over a wide range of industries catering chiefly to the domestic and heavy markets.

...the agricultural sector should...be developed as fast as possible to contribute to the demands on output and employment made by the growth in population. (p.77)

Part IV - Non-Economic Factors in Resource Allocation

The IBRD Missions have not been unaware of non-economic obstacles to economic development. Their reports contain numerous references to certain attitudes and social patterns unfavorable to economic progress. Furthermore, the programs developed by the Missions usually presented proposals which were designed, in part at least, to bring about the desired changes.

Nicaragua

Without exception, the Mission found that in every sector of the economy high disease rates, low standards are the major factors inhibiting growth of productivity. Farm mechanization, improved transportation, and modern industrial machinery will increase total production, but there is a limit to such increase without a basic improvement in the health, the living conditions, and the productivity of the country's limited manpower. (p.22)

Ceylon

The chief difficulties in the way of effective use of human capacities for economic development are to be found in the wide and complex field of interests, motives, aptitudes and cultural background.

Economic interests and motivations are, of course, important in Ceylon as elsewhere, but the expression has largely followed well-defined paths established by tradition and heredity. As in most underdeveloped areas, the economy has been too specialized to favor a diffusion of attitudes of curiosity in the scientific sense or to give scope for a general habit of business enterprise and innovation.

Religious forces are powerful and have undoubtedly exerted a conservative pressure. The influence of the caste system, which Ceylon long ago discarded as a formal social structure, has lingered in a continuing disinclination to enter many non-agricultural occupations and a tendency to avoid job changing. Political subordination to foreign powers for over three centuries inevitably led to a habit of expecting major decisions to be taken thousands of miles away, and to a corresponding lack of responsibility and initiative except in the strongest minded... (p.54)

The Mission points out that such a dominance by tradition produces the following results: (a) a widespread reluctance to depart from established routines; (b) a conspicuous shortage of ordinary business

initiative; (c) a strong desire for the security and status of government employment and a dislike of work involving direct contact with the soil or the exercise of manual skills. (p.55)

These phenomena, the Mission concludes: ...constitute a set of social obstacles which stand in the way of Ceylon's progress. Most of them add up to a social attitude which, if it persists, will inevitably reduce the benefits of improved physical resources... (p.57)

Guatemala

...The cultural isolation and the defensive attitude of the Indians remainders of their hard experience in centuries past, constitute one of Guatemala's basic national problems. The main contribution of the Indians, apart from their subsistence agriculture, has been to provide a labor supply for the large coffee plantations at harvest time. This they do without enterprise or enthusiasm... (p.7)

Integration of this population into the country's economy, the Mission points out, is the central problem of Guatemala's economic development and a prerequisite of long term economic progress.

Turkey

...Before any plan for economic development can work successfully, certain conditions must be reasonably favorable. These concern the habits and customs of the people, the administrative practice and attitudes of the government, and the laws of the country. Together they make up the environment in which development takes place... (p.22)

The Mission points out that in trying to develop its economy the Turkish Republic has been faced among other things, with: ...intangible handicaps inherited from the Empire, (which) influence the minds and actions of the Turkish people. Important among these were the persuading influences of certain social attitudes and customs and an antiquated legal and political system. Religious influences tended to reinforce the fatalism and resistance to change characteristic of Turkish life... (p.3)

The Mission lists among the obstacles to economic growth which had operated under the Empire and were still influenced Turkish attitudes, the following factors: (a) the attitude towards commerce and industry: under the Empire the four positions held in social esteem were those of the soldier, the government administrator, the church official and the landowner, while commerce and industry were regarded as degrading and were left almost completely to minorities; (b) lack of security for owners and businessmen resulting from the absolute power wielded by the Sultan; (c) invasion of the Turkish economy by foreigners under the system of capitulations which deprived Turkish nationals of the opportunity of acquiring business experience and produced a ...deprootred resentment, distrust and suspicion toward foreign capital ... (p.51)

Nigeria

...Nigerians in all walks of life tend to look too much to the government, more specifically to the British colonial officials for the fulfillment of their aspirations. The heavy reliance on government

is frequently coupled with a strong distrust of its actions and motives. To some extent this is explicable as the response of a people still under tutelage and exposed to the complexities of Western Civilization. But whatever the basis, both attitudes, that of dependence and that of distrust serve to retard Nigeria's development... (p.25)

Another social attitude which affects Nigeria's economic growth is the distrust and fear that Nigerians feel of "outsiders" i.e., of anyone who does not belong to their immediate family or clan. The Mission attributes to this attitude the ...low level of civic responsibility... in cities and large settlements, the opposition to innovations encountered in the more backward areas and the antagonism between regions which threatens the territory's national and political unity.

On the other hand, three social attitudes found in Nigeria were felt by the Mission to have positive value for economic development. The first was the strong sense of loyalty at the family and local level which makes it possible to use the cooperative movement as a vehicle for economic development, the second was the respect for learning and the authority enjoyed by "learned men" and by teachers and even students which could be used by the teaching profession to develop new attitudes, and third, the relatively cordial relationship between African and non-African ...notably lacking in some other African countries... (p.26)

Tanganyika

One major reason why the extension of services has made such limited progress is the extreme conservatism of the farmers. Resistance to change springs from the tradition of group or tribal life with their accent on conformity to a pattern of behavior which militates strongly against the development of individual initiative.

Among the factors diagnosed as causing low productivity in Tanganyika's agriculture, we find cited: (1) primitive methods coupled with conservatism and resistance to change; (2) limited influence of economic incentives; and (3) limitations imposed by customary land tenure.

Colombia

The low level of health shows itself not only in a short life expectancy and a high ratio of dependents per worker but also in the strength, capacity, and desire to work of the adult population. The two frequent combinations of unbalanced diets and debilitated chronic diseases results in a diminution of physical strength and ambition. When to these are added widespread illiteracy and little training of a technical nature, it is not surprising that the productivity of labor is relatively low.

Kenya

...Although there is no over-all scarcity of land in relation to population at present the restriction of land to individual tribes has led to the underutilization of land in some areas of high potential farming country at the same time as other areas, some

of them less well endowed are over crowded and over farmed. Problems also exist concerning the use of presently available land deriving from customary systems of land holding and traditional methods of cultivation. The fragmentation of farm units and the preponderance of communal over individual rights to the ownership of land are not new difficulties to improved agriculture in Kenya. (p.23)

Libya

The Mission claimed that tribal ownership of land and water rights was the biggest single obstacle to the development of agricultural production and forestry, until the system was changed there was little hope of real progress... (p.9)

The system was developed in response to the needs of a nomadic people dependent for their livelihood on animal husbandry and shifting cultivation. With its emphasis on collective rights and obligations it is unsuited to the requirements of settled farming.

Cuba

The relatively static character of the Cuban economy is evidently not due to a lack of physical and human resources or in recent years sugar, although this is a preponderant factor. Its causes must be sought also among prevailing attitudes of the Cuban people and the conduct of their institutions; for resources in themselves are not enough and even the golden capacity for sugar production has its disadvantages. A progressive outlook and effectively organized human effort are needed and, without them, an advancing economy cannot develop.

It was apparent to the Mission that unconstructive attitudes, which appear to be common in Cuba, are among the chief obstacles to economic progress. We fully realize that such problems are not peculiar to Cuba. As an international group, the Mission knows that they are present, in some degree, in every nation. It is their extent rather than their existence which is significant. The practical question is: do they exist in such degree that they are a danger to the economy?... The Mission's answer is that they do, and unless they are changed ...it would be a waste of time to talk of progress... (p.190)

Thailand

The people of Thailand have long had a strong preference for agriculture and government occupations... Because of this background relatively few native Thais have become skilled in the arts of trading, organizing and managing.

Government administration presents its own additional problems. Predominance of political considerations over those of efficiency and economy... a tenacious adherence in the administration to traditional practices and to status relationships...

Institutional facilities are also inadequate to make the most of Thailand's human resources. (pp.13-14)

Uganda

The most important factor in the process of growth is the

speed with which people adapt themselves--rather than things--to changing conditions. A bulldozer can move trees and earth but not ideas and habits. Development will not take place unless enough people and their leaders are prepared to make the changes in their habits, attitudes and thinking necessary to achieve the end. (p.37)

Our proposed program is one that would involve modification of existing institutions but no drastic changes in these institutions. Ultimately, however, the Mission believes that sustained satisfactory growth can only come from some deep-seated changes in the present institutions. (p.101)

Growth in the stock of skills and knowledge possessed by the people of a country is at least as important for a rise in the standard of living as growth in the stock of plant and machinery. (p.113).

Ceylon

It is not a mere matter of installing capital equipment and transport facilities to develop rich mineral deposits...or throwing open new lands... Even where it is reasonably clear what improvements in techniques are desirable, conservatism and complexities of the social structure (e.g., the system of land tenure) may obstruct their adoption by peasant cultivators. (p.13)

Venezuela

In the final analysis the human factor is the one that will determine the country's future. (p.10)

Jamaica

In the program for developing more fully the economic potentialities of Jamaica, better education, better health and better housing play a double role. They are among the tools that will boost the productivity of the people and they are at the same time part of the dividend resulting from that improvement...the achievement of substantial economic development may itself depend in considerable measure upon better application of the human resources of the country.

The increments which additional factories or power plants may contribute to the national product, and certainly the efficacy of comprehensive measures for soil conservation, irrigation, or the controlled use of land, will be determined in large measure by the degree in which the people generally can understand and appreciate the objectives and can apply effective techniques. The dissemination of technical skills and general education, the improvement of housing conditions might therefore, result in substantial improvements in productivity. (p.115)

Syria

It is generally conceded, however, that better education, health and housing are not only in themselves objectives of development, but are also important means, however indirect, of raising production and standards of living. It is a truism that an expansion and

Improvement of educational opportunities is indispensable to economic progress as well as to the development of stable and free political institutions. Similarly, a healthy and vigorous population is better equipped to deal with the task of increasing production. (p.149)

Thailand

It seems clear that until these obstacles (deficient vocational and university education, inadequate institutional facilities, pre-dominance of political considerations and traditional practices in government, shortage of trained manpower and managers and administrators, and a strong preference for agriculture and government occupations) to development are overcome, Thailand's economic progress will be impeded. (pp.13-15)

Iraq

In underdeveloped countries, it would be most unwise to invest the bulk of the national resources in large industrial and agricultural projects while ignoring the need for developing social services essential to the mental and physical health of the people. (p.424)

The Missions found that it was also necessary to consider priorities of economic relative to non-economic expenditures.

Libya

Certain attitudes and institutions are naturally more conducive to economic growth than others. Libya is no different from other countries in having a number of traditions and customs which stand in the way of such growth, and which will have to be changed if a rapid rate of development is to be achieved. (p.9)

C. Determination of Priorities Between Economic and Non-Economic Expenditures

Uganda

The determination of the optimum distribution between what is commonly called productive and non-productive public expenditures is a problem of the first order. Put in a more accurate way, the problem is one of establishing the proper allocation of funds between the quicker-yielding investments in the commodity-producing sectors and in the slower yielding investments in the social services which, properly handled, build up the human capital of the country and so produce an economic return in the long run. In determining these priorities political as well as economic realities must be kept in mind and balanced against each other. (p.41)

Libya

The maintenance of a reasonable balance between these two types of investment (social and economic) is one of the major problems facing the government of every underdeveloped country... If too much emphasis is placed on social investment at the expense of economic investment, a country may find itself unable to produce enough to pay for the social services it has created. While inadequacy in the provision of these services may be abortive for development. The problem is that while the expansion of social services often adds to long-term productivity their benefits frequently cannot be compared or measured quantitatively. As an alternative projects should often be judged in terms of the consequences of foregoing them or of the appropriateness of the services they could provide to the level of income of the country. (pp.15, 16)

Nicaragua

In the formulation of its recommendations the Mission has made this aim its main objective (raising the standard of living). To construct a practical development plan for Nicaragua has been a complex undertaking. The country lacks adequate roads, schools, hospitals, housing, sanitation, ports and power. Its basic agricultural and industrial economy has long been weak and unstable. Its system of public administration is far from adequate. The Mission has had to balance short-run against long-run needs. It has weighed the need for capital investment against the need for larger consumption and improved standards of living. (p.7)

Syria

The amount of resources which should be devoted in any development program to education, health, housing, and related community services and facilities will always be a matter of controversy... It is generally conceded, however indirect, or raising production and standards of living. ...At the same time, the cost of expanding education, health, and other social services can be borne only if the production base of the economy is steadily broadened... (p.149)