THE PEARSON COMMISSION REPORT - A FIRST LOOK

James P. Grant
Oct. 3, 1969

PN-ABT-598

Significance of Report

Lester B. Pearson, Chairman of the World Bank Commission on International Development, has stated its goal in these terms:

> "(to) inquire into the history of the past 20 years of development assistance, . . . evaluate the results, and . . . make recommendations for development assistance in the 10 to 20 years ahead. The Report . . . will propose a philosophy of international cooperation for development which . . . can be accepted by countries both rich and poor, as well as a far-reaching program for action."

The Pearson Report fulfills much of this statement of purpose. It presents evidence of a successful development history, a new political perspective for development assistance in the 1970s and a comprehensive strategy for accelerating the development of the two-thirds of the world that remains poor which, if swiftly implemented, could eliminate the need for concessional aid programs by the end of this century.

The Pearson Commission Report comes when U.S. foreign aid is on a downward trend while the American public increasingly questions the accomplishments, purpose and effectiveness of overseas aid. Concurrently other developed countries, after increasing their official assistance by more than fifty percent in the sixties, and passing the United States in total flow in 1969, are beginning to falter in their forward momentum.

The Commissioners propose:

- --A global political and philosophical approach to the problem of development in a rapidly shrinking world.
- --A greatly strengthened international framework with emphasis on enlarged multilateral institutions which would provide leadership for a new development partnership between donors and recipients that covers bilateral as well as multilateral programs.
- --A more integrated approach to development which comprehends trade, investment, aid and self-help measures.
- --Major changes in present trade policies
- --A sharp increase and improvement in development assistance funding, particularly from the United States.

Commissioned by Robert McNamara in 1968, shortly after his arrival at the World Bank, this report and the mid-September statement by the Committee on Economic Development on "Assisting Development in Low Income Countries" stress that there is a crisis today in the aid field. In essence, the issue is whether the developed countries will allow the unprecedented structure which has been built up for cooperation to deteriorate or whether they will reverse present trends so that progress in the development partnership may continue and grow. The Report concludes that "precisely because the developing countries see their forward momentum threatened by bleak aid prospects they feel a growing sense of frustration which tends to embitter relations between rich and poor."

The global development strategy proposed by the Report encompasses major areas of self-help which the developing countries themselves must undertake. Its primary emphasis, however, is on the role of the developed countries in trade, private investment and aid, and on how to strengthen the institutions for multilateral assistance and to create a better, multilaterally led, partnership framework for the development effort.

The Report argues that self-sustaining growth at a reasonably rapid rate is a feasible target for most of the developing world by the end of two or three decades. To achieve this, large resources from the wealthier nations will be indispensable, as will be better aid. But the developed countries can, within the framework of their enlightened self interest in a rapidly shrinking world, justify increased development assistance to achieve this.

In particular, the Report is thorough in its study of the requirements for an effective partnership relation between the rich nations and the poor; of the proposition that the growth rate required and feasible for the 1970s is of "at least six percent"; of the major changes required in the trade policies of the developed countries; and of the need for official aid to increase -- implying more than a doubling, in fact, for the lagging United States by 1975 from the 1968 level.

There are, however, notable, if understandable, omissions from the viewpoint of an American reader. This international report does not address directly such strictly American questions as how the United States' bilateral aid should be administered; how to interrelate or separate administration and funding of assistance for development and for economic support of the political-military efforts in such countries as Vietnam and Laos; nor how the United States might better cope with its collapsing will to support world development. These are questions which must be addressed by the Peterson Task Force.

The Report does, however, provide guidance to many key questions troubling U.S. policy-makers. Thus, the multilaterally led and broadened partnership between donors and recipients proposed by the Report could go a long way toward meeting both the objections of those who claim U.S. aid programs can lead to "more Vietnams," and the demands of many of the younger generation for a global rather than a narrowly nationalistic approach to world problems. The Commission's emphasis on the importance of relating development assistance directly to development goals and not to narrow national political objectives, and on greatly increased coordination between the multilateral and bilateral efforts would, if accepted, argue for a substantially strengthened central direction of the American policies and programs directed to world development.

The following are high points addressed by the Pearson Commission Report:

Does Development Work?

The analysis of the Report supports the conclusion that while the record of development is mixed, it is far better than generally recognized and better than that of the presently developed countries in the Nineteenth Century and first half of the Twentieth Century.

- Developing countries grew at an annual average rate of 4.8 percent between 1950 and 1967, and met the United Nation's Development Decade goal of 5.0 percent per annum in the 1960s. This growth was faster than that of developed countries in the 1960s.

- Despite burgeoning population growth, incomes per head in developing nations grew at 2.0 to 2.5 percent per year. This per capita income growth compares favorably with the early experience of industrialized countries.

- Industrial growth in low income countries in the 1960s has been more rapid than that in the industrialized countries.

- New high yield wheat and rice seeds are not only bringing an agricultural revolution to developing countries but encouraging the peasant farmer to be responsive to economic opportunities.

- The developing countries have improved their knowledge of what it takes to bring about economic growth and of how to use aid effectively.

These results demonstrate that relatively rapid economic development is feasible where the developing countries have the will and where external help is available in meaningful amounts. They support the conclusion of the CED study that "the internal and external resources, as well as the effort and sacrifice, that have been devoted to achieving economically and politically viable societies have begun to bear fruit. The results, in fact, have been truly impressive."

Why Support the Developing Countries?

The Pearson Commission justified the need for development assistance on the scale required to achieve the goals of the Second Development Decade primarily on the grounds of enlightened and constructive self-interest. The Commissioners stress that we are increasingly living in a "village world." This brings new political and social imperatives for the countries of the world to work together: development of the world's resources and increasing world trade help not only those countries now economically weak but also those strong and wealthy.

Thus, the Report is addressing all the rich nations. It does not address the unique and special stake which the United States, as the world's largest and most powerful nation to whom others look for leadership and action, has in a strengthening world order. In this regard, the immediate U.S. interest in an effective economic strategy toward the underdeveloped world as a substitute for military and security policies is enormously greater than that of the Netherlands or Canada.

THE STRATEGY

The Report presumes that self-help by the developing countries, trade, aid and private investment are all required in the long-term process of economic growth. Energetic actions are required on all of these fronts.

In such comprehensive action the relationship of rich and poor countries must be structured not in terms of donor-receiver relations, but as a partnership in promoting orderly economic growth. Since growth of world markets and the improvement of the "global village" are in everyone's interest, a genuine partnership approach makes sense.

Described below are the major components of the strategy:

Does Development Assistance Have a Goal?

To the question of whether international development has a clear and tangible goal, the Pearson Commission affirms:

> "Development assistance differs from other forms of aid in that it ought to be directed to a clear objective which joins donor and recipient in a finite enterprise beneficial to both. The primary purpose of the additional development aid recommended for the 1970s should be to help bring as many less developed countries as possible to a level of growth of at least six percent. The experience of the 1960s demonstrates that, with sound policies and wisely administered aid, the six percent rate is within the reach of most countries. Development aid should be directly related to this goal." (Emphasis supplied).

By growing at six percent per year most developing countries could achieve self-sustaining growth by no later than the end of the century, obviating the need for further concessional aid. To become independent of aid is a profoundly felt goal of developing countries. Also, as stressed by Robert McNamara on September 29, an accelerated rate of growth is necessary to prevent unemployment in the developing countries from getting out of hand in the 1970s.

Political good will may also be gained from assistance; but the Report goes on to state quite flatly that narrow political objectives should not underlie development assistance efforts.

The Roles of Trade and Private Investment

While stressing the indispensable need for rising levels of aid, the Commission emphasizes that trade is the most effective single component of an overall strategy for development. Four-fifths of the foreign exchange earnings of developing countries comes from trade, only one-fifth from aid and investment. It is through trade that developing countries will ultimately derive the strength to grow independently. Consequently, the Report urges a vigorous expansion in world trade, increased liberalization of trade policies by developed countries, and greater efforts by developing countries to adopt policies conducive to export expansion.

Specifically, with respect to the developed countries, the Report calls for a halt to the imposition of quantitative restrictions on manufactured imports, the removal of existing restrictions during the 1970s, reduction of tariff barriers on manufactured imports from developing countries, establishing, before the end of 1970, a generalized non-reciprocal scheme of preferences. On primary products which are not produced in developed countries, such as coffee, cocoa, tea, the Commission recommends the elimination of excise and import duties. On those which are produced in industrialized countries, such as sugar and rice, the Report urges that plans be made to assure that imports from developing countries receive an increasing share of the market. This would require that all the major developed countries make major changes in their domestic agricultural policies.

The proposals on trade are important recommendations in the Report and possibly the most difficult to implement. For example, one effect of the Report's recommendation would be the dropping during the 1970s of all quota restrictions on import of textiles. As such it runs counter to present Administration policy.

The importance of private investment is recognized and the Commission prepared a set of important and constructive recommendations which affect developed and developing alike. The text also suggests that consideration be given to such innovations as a multilateral investment insurance scheme and the eventual creation of a system of international incorporation of companies doing business in more than one country.

How Much Aid?

How much aid will enable most developing countries to grow at the rate of at least six percent annually and for the great majority to become independent of the need for further concessional aid by the end of the century? After stressing the critically important roles of trade and self help, the Pearson Commission concludes that total financial flows, public and private, to developing countries at the level of at least one percent of GNP of the rich countries is required by 1975. It is joined here by the recent endorsement by the Committee for Economic Development of the one percent target and by a recent study by the United Nations Development Planning Committee chaired by Professor Tinbergen of the Netherlands. This is the target already approved by the United States and European governments at the 1968 meetings of the United Nations Conference on Trade and Development (UNCTAD). The Pearson Commission states:

> "We believe that effective development support requires the continuity which can only be provided by a long-term commitment of external resources. We find it appropriate that aid-giving countries, which have so often endorsed the one percent target, should implement it without equivocation. It expresses the general magnitude of the effort in international development which is called for today."

In absolute amounts the one percent target entails an increase in total resource flows from $12.8 billion in 1968 to $21.7 billion in 1975. The U.S. amount would increase from $5.7 billion to $11.1 billion. It is worth noting that U.S. assistance during the Marshall Plan reached two percent of GNP and was at the one percent level as recently as 1961.

More importantly, the Pearson Commission sets a target for official development assistance. This is new ground altogether. Official aid, the Report points out, merits more attention because it is deliberately conceived as development assistance and can be directed toward the most important growth sectors; it can be increased and the terms adjusted by governments in relation to development needs; and most important, there is a rapidly growing need for concessional aid if the financial viability of developing countries is not to be jeopardized by dangerously mounting debt problems.

Therefore, the Pearson Commission recommends that each aid-giving country increase its level of official assistance so that new flows to the developing countries would reach 0.70 percent of GNP by 1975, or as soon thereafter as possible in the decade of the 1970s. The draft Tinbergen Report, by comparison, calls for 0.75 percent.

At present the U. S. ranks seventh in the percentage of GNP devoted to official aid with 0.38 percent. To reach the 0.70 target by 1975 would require, according to the Report, an average annual rate of increase of thirteen percent in U.S. aid over the 1968 level, an increase rate not markedly different from the 11.4 percent annual growth achieved between 1956 and 1961. Unfortunately, the problem is more difficult than it first seems: on the basis of decisions already taken, U. S. assistance will decline significantly in 1969 and 1970 below 1968 levels while nearly a billion dollars of the present annual flow of U.S. assistance is in the form of food aid for which the demand is decreasing in Asia.

The U.S. holds the key as to whether aid will be provided in anything approaching the amounts said to be required by the Commission. For if the United States, the wealthiest country in the world, with a greater production capacity than Europe and Japan together, fails to provide its share, the prospects are dim indeed that the other countries will provide their share.

Partnership for Development

To implement these ideas the Commission makes three major recommendations. First, that strengthening the multilateral agencies would make more effective bilateral aid because it would permit international organizations to play a larger role in assessing performance and in coordinating aid strategy at the country level. Hence, it recommends that aid flows through multilateral organizations expand by 1975 from eleven to twenty percent of the total flow of official development assistance.

Second, the Commission commends the trend in the 1960s to establish machinery such as consortia and consultative groups under the chairmanship of such international organizations as the World Bank and the OECD, through which donors and recipients can effectively talk together about development. It calls for the expanded use of such groups and makes important recommendations for increasing their effectiveness. The Report suggests a more active and effective leadership role by multilateral institutions and broadening these groups to include more than one recipient in the machinery for monitoring and reporting performance by both the recipients and the donors. Effective machinery of this type represents a major innovation in aid relations, embodying the right of recipients to monitor donors, interposing several donors and, possibly, several recipients between the principals of bilateral programs, and recognizing that the aid relationship must be a two-way street and that international organizations comprising developed and developing countries can perform a unique leadership role.

Finally, the Commission notes that there is a lack of international coordination of the trade, aid, investment and monetary components of the aid relationship and no focal point for global programs to determine overall aid requirements and the general quality of performance. Hence, the Report recommends that a meeting be held in 1970 of appropriate leaders of international organizations, regional banks, major bilateral donors, and aid representatives of developing countries to discuss the creation of improved machinery for coordination. The Report is disappointing in this important area in that it correctly identifies a major need but does not go beyond recommending a procedure by which the problem can be discussed.

New Methods of Aid Financing

The Commission recommends very sizable increases in both multilateral and bilateral aid by 1975, without suggesting how bilateral aid funds might be more readily provided. In fact, by noting the need for countries like the United States to replace relatively more popular food aid with general purpose aid and to provide funding on a multiyear rather than an annual basis, it may result in even additional hurdles for bilateral funding.

With respect to the IDA and the World Bank, the Commission recommends that the next replenishment of IDA cover a five-year period, 1971-75, rather than the three-year period of current replenishment. For the longer run the Report suggests the possibility of linking IDA to the repayments of interest on bilateral loans and for the governments of developed countries to make available to IDA, directly or indirectly, part of the Special Drawing Rights (SDRs) which they are allotted in the IMF. Depending on the percentage used, these devices could provide IDA with funding of between $1-2 billion annually.

Another alternative is proposed for interest reflows from bilateral loans. This would use a portion of the interest reflows to subsidize World Bank loans. During 1965-67 interest receipts by DAC members on official bilateral loans averaged $500 million a year and this amount will continue to increase in the next decade.

Finally, there is a proposal that debt relief would be recognized as a form of aid and that both developed and multilateral institutions face up to the need for adjustment of the debt burden of many of the LDCs.

Improving Aid's Effectiveness

To make aid itself more effective, the Commission makes a number of specific suggestions including:

1. Easing terms of development lending so that debt repayment does not undercut development (recommends 2 percent, current U.S. average 3.5 percent);

2. Gradually untying aid in progressive steps, capitalizing on the advent of the SDRs, and beginning immediately by permitting the poor countries to use aid funds for purchases from each other;

3. Increasing the amount of aid used for overall support of national development programs, as opposed to project aid. (Relates primarily to international and non-U.S. donors);

4. Coordinating more closely technical assistance with capital flows. (Relates primarily to international and non-U.S. donors);

5. Increasing the scale of, and the effort to adapt, scientific and technical research so that assistance can more specifically meet needs of the developing countries (as, for example, was done in recent years for the Green Revolution).

There are many other Commission recommendations for improving the effectiveness of development aid which are not specifically labeled as such by the Commission but which would have that result. Multiyear appropriations and automatic devices for funding multilateral institutions would be of great value. Procedures are recommended for improving the career opportunities for those engaged in international development. As has often been said, ten-year problems are not readily susceptible to solutions by two-year people and one-year money.

Population

The problems of population were also covered in depth in the Report, but separately. The Commission does stress that aid-givers cannot be indifferent to population performance, implying that the assessment of development performance should include progress toward population control. But this issue was not integral to the main flow of the Report and was more of a warning overlying the entire strategy.

Relevance to the American Political Scene

Overall, these recommendations, and many others listed in the summary of recommendations, or sprinkled throughout the text, provide a wide range of possibilities for improving the amount and the quality of assistance for development. They provide means for doing this which are intended to reduce the political stresses and strains in the relations between rich and poor nations.

The emphasis is on the concept of partnership. The Report is an outline of a new philosophy of international cooperation, together with a program of action.

In other words, the Commission realistically takes cognizance of the increasing distrust of the political entanglements which can go along with bilateral aid and the growing desire for a worldwide cooperative framework for the development effort. On the other hand, it recognizes the indispensability of large continuing flows through bilateral aid channels if sufficient aid resources are to be provided.

The thrust for strengthening multilateral institutions, the multilaterally led partnership framework in which bilateral programs would fit, and the arguments behind it, fits well into the current American mood of restraint in foreign affairs. As noted earlier, there is increasing concern that foreign aid leads to bilateral political troubles and political-military commitments. At the same time, because of the experience of the Vietnam War, President Nixon is articulating a new policy approach to the developing countries which combines effective levels of assistance and support for their independence and development aspirations, with a more detached political-military relationship. This approach of less intimate, less deeply entangled support for these countries, has struck a favorable chord of response throughout the country.

Against this background, increased emphasis on multilateralism and multilateral leadership seems to offer answers to many of this nation's current political sensitivities. It would permit the U.S. to review the policies and practices of developing countries at arms length and with the presence of other powers acting as a buffer. The genius of the concept of international partnership in development is that it could become the mechanism by which the U.S. can increase its support of poor countries in their quest for advancement while reducing the risks of American entanglement in their political affairs. Such arrangements, if fully accepted, also would have the important effect of separating aid for development from support for other purposes. Equally important, this framework would also ease political pressure on governments of developing countries by groups resentful of outside pressures on domestic policies.

Congress could be seen to be an obstacle to sharply increased programs under multilateral leadership. But the Commission believes the improved machinery of the type it suggests, together with new, objective techniques for assessment of development performance, would enable countries to support the increasingly efficient multilateral programs while improving and expanding bilateral programs.

In effect this means wider distribution of funds in the case of multilateral assistance. For U.S. bilateral development aid, it can mean, outside of Latin America, an even narrower concentration on a few countries in which the United States has a particularly great interest.

The recommendations on private investment, if carried out, would significantly improve the climate for increased investment flows. This in turn would increase the commitments of private persons throughout the rich countries to the commercial viability and growth of the economies of the developing nations.

The trade recommendations are generally sound, but the Commission clearly acknowledged the major political obstacles in the rich countries to quick change in this area. The present policy trends in the rich countries are rather in the direction of increased protectionism, particularly against agricultural imports, and against the manufactured products of low-wage countries. Can this new protectionism be restrained? The Commission calls for an immediate standstill. As for the reality of existing trade restrictions, the Commission recognizes that they cannot be altered overnight and calls for their abolition in the 1970s.

Whether American government officials can gain legislative authority at an early date for such a controversial proposal as significant tariff preferences for developing nations is a real question. Whether the other major trading nations are yet ready to open their markets widely is even more doubtful.

But all of these restraints, these political realities, point up the urgent need to find ways to increase the flow of official assistance, to find new devices for generating increased funds. On these matters, the Commission was at its best with respect to the multilateral institutions, providing a list of automatic devices and incentives for stepping up the new flow of resources. It had little specific to suggest with respect to the eighty percent of the funds still expected to flow through bilateral channels under an increasingly multilateral "umbrella" or framework.

Overall, the Commission provides justification for its proposals in reasoned, but essentially dispassionate language. Its tone seems designed to reach out to professional policy makers, bankers, sophisticated international businessmen. The sense of urgency, of injustice, of impending crisis if action is not soon taken -- these things are set forth in low key. For the wider world audience, the urgency in the next year or two will have to be explained more fully by others. But if sufficiently strong public attention can be focused on these problems, the Report does provide a new reasoned base for future political decisions.

CONCLUSION

The Report is a conservative approach to a radical goal: that is, a world-wide development effort designed within a generation to achieve self-sustaining growth for a great majority of the developing countries, and to produce a vast expansion in world trade which would benefit all. This means an integrated approach to development, use of international development machinery, strengthened multilateral institutions for world cooperation and putting bilateral programs into a multilateral harness. For the first time, a comprehensive enough assessment has been made of the experience of the past twenty years to permit the development of the outline of a realistic plan spanning a generation.

The Report is essentially conservative in that it proposes:

-Gradually increased funding over a five-year period, although serious shortages exist today.

-Trade policy changes by increments, starting from a standstill on quantitative quotas to a gradual abolition of existing quotas in the 1970s.

-Official aid at a .7 percent of GNP rather than the .75 target of the Tinbergen Report; and a percentage of GNP that is not only significantly lower than official aid flows for a number of the past twenty years but one that is now being met by a considerable number of developed nations.

-An ingenious mix of increased multilateral-bilateralism and increased partnership between donors and recipients, but not the radical, wholesale shift from bilateral to multilateral funding called for by many.

-Loans with reduced terms rather than the massive grants of the Marshall Plan.

While conservative in approach, trying to accommodate the political realities in the rich and poor countries, the Report imaginatively presents a global strategy which would ease the political strains between the rich and poor, reduce the risks of bilateral political entanglements and yet improve significantly the administration of aid, bilateral and multilateral.

The Commissioners can be said to be radical only in the goal of world progress in this century which they set. The developed countries of the world have been prepared to make a substantial start toward this goal and to pay lip service to the goal itself, under the pressures of the cold war and the desire to assist former colonies. As the latter have cooled, the developed countries increasingly need to face the question of whether the goal of world progress merits the appropriations and policy changes required for the pattern of world progress which the Commissioners demonstrate is possible. This is the key issue which confronts the Peterson Task Force and, ultimately, President Nixon and Congress in the year ahead.