

Out of the Dark Forest of Depression

Two eminent financial experts set forth their own proposals for leading afflicted nations, rich and poor, out of want, starvation, and inflation.

(1) Greening the Landscape

by Robert McNamara

In the past 12 months, the world economic scene has grown increasingly turbulent. The series of changes that have occurred have been of a magnitude previously associated only with major wars and depressions. New problems have arisen, older problems have become more acute, and the cumulative impact of events has touched every nation on earth. Though all of us have been affected in varying degrees by these complex events, by far the most adverse effects have fallen on those countries

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least able to cope with them: the poorest developing nations.

The real issue, then, is whether we fully understand what is happening to the poorest countries—and having understood the problem—whether we are ready to do what is necessary to assist them.

Among the 2 billion people living in the more than 100 developing countries that the World Bank serves, there are hundreds of millions of individuals barely surviving on the margin of life, living under conditions so degraded by disease, illiteracy, malnutrition, and squalor as to be denied the basic human necessities. These are the “marginal men,” men and women living in “absolute poverty,” trapped in a condition of life so limited as to prevent realization of the potential of the genes with which

they are born, a condition of life so degrading as to insult human dignity—and yet a condition of life so common as to be the lot of 40 percent, some 800 million, of the peoples of the developing countries.

Last year in Nairobi I outlined a program for the Bank that would begin to deal with these issues. That program will put primary emphasis, not on the redistribution of income and wealth—as justified as that may be in many of our member countries—but rather on increasing the productivity of the poor, thereby providing for a more equitable sharing of the benefits of growth. With 70 percent of the population in the developing countries living in the rural areas, the center of the problem is there.

I have pointed out that a reasonable overall productivity improvement objective would be to increase production on the 100 million small farms, with areas of less than five hectares, so that by 1985

(2) Living in a Wizardless World

by David Rockefeller

A few weeks ago I had the pleasure of speaking as part of a program that included that wonderful performer Ray Bolger. His presence naturally brought to mind the motion picture *The Wizard of Oz*.

If memory serves me correctly, Ray played a scarecrow that went on an extended journey to the land of Oz in the hope that the wizard, a man supposedly endowed with magical powers, would give him the brains he long desired. Even though he and his companions went down a yellow-brick road and wandered over the rainbow, the wizard they sought eventually turned out to be a fraud. In-

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stead of supplying the scarecrow with brains, he could only give him, as a kind of consolation prize, a diploma.

We may now be more sophisticated than our friend the scarecrow, but the search for some kind of wizard who will answer our prayers and fulfill our needs still persists. Many people continue to believe that somewhere at the end of the rainbow lie magical solutions to the grave problems confronting us today. But unfortunately for us, the only true hope for solutions lies in simple, time-tested virtues—the intelligence and the will that are required for meaningful progress.

Although we have recently been taking strides away from complacency, we may still be too close to catastrophe. The economic summit meetings of a few months ago and other international conferences have done a great service in focusing public attention on crucial economic is-

sues, but we still have a very long and arduous road ahead of us.

If nothing else, the shock waves generated by last year's oil embargo, which destroyed our comforting vision of unlimited resources, may have had the salutary effect of accelerating the search for long-range solutions. I am hopeful that out of our recent crises can come the universal acknowledgment that, domestically and internationally, economic interdependence is an existing fact of life. But solutions demand action and programs as well as awareness, and time is clearly of the essence.

I would like to address myself to a few of the domestic and international aspects of our major economic dilemmas—suggesting some possible areas for constructive action. Obviously, the energy situation is closely related to all of what I have to say.

Domestically, it is no secret that inflation remains our greatest single challenge. I would like to suggest seven areas

McNamara:

their output would be growing by 5 percent per year, a rate more than double that of the Sixties. It is clearly an ambitious goal, but one whose achievement is made more urgent by the continuing food shortage in the developing world.

The Bank is determined to pursue this goal. But I should stress that what the Bank does is much less important than what governments do to deal with these issues.

Progress will be possible only if the countries themselves are willing to make strong commitments to pursue agricultural strategies directed toward the promotion of new income and employment opportunities for the poorest groups. They must commit themselves to effective land reform, assurance of adequate credit at reasonable cost, and reassessment of pricing, taxation, and subsidy policies that discriminate against the rural areas. We are prepared to work closely with governments that wish to take such actions.

Already we see evidence that the ob-

jective of a 5-percent-per-annum increase in production can be realized. In the past year we assisted in financing 51 rural-development projects in 42 countries, involving a total investment of almost \$2 billion. These projects are expected to have a direct benefit for at least 12 million individuals and should generate increases in production of more than 5 percent per annum for the beneficiaries, whose present incomes average less than \$75 per capita.

During the next five years, our lending to agriculture should double, supporting projects whose total costs will approximate \$15 billion and whose direct benefits should extend to 100 million rural poor.

We expect the economic returns on these investments to exceed 15 percent. They would be similar to the following six projects, which the Bank approved this summer:

- A \$10.7 million credit for agricultural development in the southern region of Sudan, which will provide a higher standard of nutrition for some 50,000 farm families through ex-

panded food crops, will assist an additional 13,000 farm families through new cash crops, and will benefit roughly half the region's total population of 3 million people through improved, disease-free livestock.

- An \$8 million credit for a comprehensive rural-development project in Upper Volta, covering extension services, small-farmer credit, improved water resources, and greater access to health facilities—a project calculated, in all, to benefit some 360,000 individuals, 7 percent of the country's total population in over 10 percent of the country's cultivated land area.

- A \$21.5 million credit for a broadly based livestock-development program in Kenya, including provisions designed to assist traditional nomadic herders, to improve 10 million acres of communal rangeland, and to expand wildlife areas in order to lessen the conflict for food and water between wildlife and cattle. The program will enhance the incomes of 140,000 rural inhabitants.

- An \$8 million credit for an in-

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Rockefeller:

in which I believe action is of critical importance in dealing with inflation.

First, we must strive for progress on the fiscal side by curbing government expenditures at all levels—federal, state, and local. Cutting back is no easy task. While everyone endorses less government spending in principle, it is a rare person who wants cuts that may affect him. But if we are to make significant headway in fiscal restraint, nothing can be sacred, including the many areas of the budget that have built-in escalators. At the federal level the proposal to limit spending to \$300 billion strikes me as very sound, and similar unpleasant but essential approaches are needed at state and local levels as well. Congress and other legislative bodies may not act unless they feel public pressure to do so.

It should be emphasized that while I see the need for a greater measure of fiscal responsibility, I am equally aware of the importance of not halting or setting back economic and social gains by minority groups and the disadvantaged. Obviously, it is they who suffer the most

from the pressures of inflation. Even as we move toward reduced budgets, we must set aside whatever funds are required to compensate those whose plight might be most seriously aggravated by measures to cure inflation. The taxes proposed in President Ford's program were for this purpose, and I cannot disagree that they or something like them will be needed.

Our fiscal policy must be coordinated with a sound monetary policy, the *second* key area. Because of a reluctance to implement fiscal measures, it has been monetary policy that up until recently has been carrying the major burden of the fight against inflation. The consequence has been soaring interest rates and severe disruptions in housing construction and public utilities.

Fortunately, signs are now evident that the Federal Reserve has reduced its pressure on credit expansion, thereby permitting interest rates to move down somewhat. I would hope that such relaxation would continue, allowing rates to move downward still further. In this connection, I was also pleased that President Ford called for special measures designed to release urgently needed funds

for the housing industry, for the ills of that industry are great indeed.

A *third* critical area involves the question of the environment and the economic and social trade-offs necessary for permitting economic growth while at the same time curbing environmental pollution. Although I would not suggest for one moment that we renege on our commitment to achieving high environmental standards, I do believe we ought to re-evaluate the degree and the timing of the standards we have adopted. We must assure ourselves that the results of our anti-pollution and similar programs fully justify the higher prices they necessarily bring and the encumbrance on capital available for *productive* investments that they cause. Again, an economically sound environmental policy will demand greater public awareness and discussion of the options available if we are to achieve increased willingness to cooperate and compromise where necessary.

A *fourth* and closely related issue concerns the adequacy of our supplies of energy, food, and raw materials. Last winter's oil embargo dramatized quite graphically the fact that our domestic

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