7. Other Development Problems

7.1 In the foregoing chapters of this Report we have dealt with issues of special relevance to the current world economic situation – balance of payments deficits, protectionism, inflation and energy. Most other items on the North-South agenda have been so recently and fully treated in the Brandt Commission's report that we do not think it necessary to cover them again. But there are three on which we believe we have something useful to add. One is the problem of attaining a higher rate of official development assistance. The second is the problem of assuring adequate minimum food supplies for the world's poor. The third is the broad area of commodity problems. We have decided to confine this chapter to these three from among the whole range of other development issues. But we allow ourselves a final word each on manufacturing as a key element in the process of development and on the economic waste of the arms race.

(a) Official Development Assistance

7.2 We begin with official development assistance. The record over the past decade is disappointing and the prospects for the future are not encouraging.

7.3 At the end of the 1970s official development aid from the industrialised countries was on a scale no greater than 0.35 per cent of GNP, exactly half of the target of 0.7 per cent agreed at the beginning of the decade and endorsed by the Brandt Commission for achievement by 1985.

7.4 There has been no sign that the industrialised countries will now seek to make a greater effort. Nearly all of them are struggling with high rates of inflation which dispose them to reduce rather than expand demand, especially demand abroad where this involves additional government spending. Most of them can also point to large external deficits as evidence that they can grant more aid to other countries only if they engage in additional borrowing abroad. Under these circumstances, they feel it necessary to limit additional aid to developing countries and to offer more only in exceptional cases.

7.5 So negative an approach to aid is not without its dangers to the industrialised countries themselves. The arguments for limiting aid on budgetary and balance of payments grounds are not compelling. Inflation does not prevent governments from continuing to spend on purposes they regard as important: the changes contemplated are on a limited scale in relation to the continuing level of government expenditure; indeed they are in a sense marginal. What governments decide to finance depends on the priority they attach to the benefits accruing: so that if they refuse to increase aid, that tells us more about the relative importance they attach to aid than about their fears of aggravating inflation. The case for more aid should rest on a view of the longer-term relationship between the developing and the developed countries rather than on the short-term conjuncture or the medium-term need to keep inflation under control.

7.6 The same is equally true of balance of payments fears. The industrialised countries may have special difficulties over the next year or two in avoiding external deficits and may reasonably hesitate to add to these difficulties. But again the fundamental question concerns the priority they attach to the various imports they continue to make in relation to the aid required by the developing countries.

7.7 To put the point in the most direct way, if aid were regarded as a form of defence expenditure that had to be financed on an increasing scale for the good of the country (or of the world economy), is it to be expected that governments would be deterred from supplying more aid by fears of inflation or concern for the balance of payments?

7.8 The answer would appear to be: to some extent, yes, but in the last resort, no. Economic difficulties do act as a constraint even on expenditure that would normally enjoy very high priority, and there are some kinds of expenditure that would be likely to intensify the difficulties. But if the OECD countries act together in granting additional aid it is doubtful whether their collective external deficit with the rest of the world would be much affected. Most of the extra aid supplied in the form of finance would flow back to the industrialised countries. Some of it might be used to service or repay existing debt. Most of it would be spent on goods supplied by the industrialised countries. If it took the form of tied loans, there would be no net change in the donor's balance of payments since both sides of the international accounts would expand equally. If the aid were not tied, there might be some shift in the balances of payments of the different OECD countries, depending on which contributed more in aid than they received again in orders; there might be among the less fortunate donors some that found special difficulty in handling external deficits or in making the adjustments necessary to keep them within manageable limits. So it is not possible completely to discount the balance of payments problem on the grounds that it would sort itself out. But if some means could be found of providing for special cases among the donors, the difficulties could be more easily surmounted.

7.9 The question whether current high rates of inflation constitute an obstacle to a larger aid effort or whether, on the contrary, the prospect of severe recession makes such an aid effort positively desirable as a stimulus to economic activity raises more complex analytical issues. Those who take the latter view and believe that many of the industrialised countries already suffer from excess capacity and deficiency of demand are likely to view the generation of additional demand from the developing countries as a welcome pump-priming mechanism. If the additional demand generated by extra aid took shape as a stream of orders from the developing countries for capital goods and other manufactures, it could be regarded as a form of international public-works, of which the benefits were shared between the recipients of the aid and the producers in the industrialised countries.

7.10 However, the view that what the industrialised countries are at present suffering from is a deficiency of aggregate effective demand in the Keynesian sense is strongly disputed by many knowledgeable observers. On their view, additional aid would certainly be inflationary unless it was financed by additional taxation. On either view, advocates of a greater aid effort would need to prove their point that more aid, whether financed from taxation or from expansion of money supply, is preferable to more domestic government expenditure. In other words, in the short-run the case for a larger aid effort must rest on public expenditure priorities; it derives little if any support from macro-economic demand management considerations except under conditions of deep depression. This conclusion is not inconsistent with the general proposition that, if there is agreement on other grounds that aid should be increased, countries have less reason to be deterred from giving effect to that agreement when they have resources to spare, particularly in those sectors of the economy towards which the demand of the recipient countries will tend to flow.

7.11 If the aid provided by the industrialised countries laid the basis for an expansion in the supply of primary produce, it might offer other advantages. As argued earlier, an important element in the inflationary process is the tendency for raw materials and agricultural produce to rise sharply in price when industrial recovery puts pressure on the supply. Action to make the supply more elastic could be an important contribution to reducing the danger of inflation and weakening the constraint it imposes on renewed growth, to the mutual benefit of developed and developing countries.

7.12 Finally, we must consider the medium- and long-term interest of the developed countries in the expansion of the economies of the South. Aid, or indeed any transfer of real resources, from the North to the South can and does increase the demand of the South for imports from the North and could also in many cases increase the South's exports to the North. The large-scale transfer of resources from the North to the South could therefore serve to expand international trade, which is more often than not an engine of growth for all participating countries.

7.13 While the least developed countries in particular and the low income countries in general (with their per capita incomes of less than $300) are the most deserving of concessionary flows of aid, there are also large areas of poverty in both the lower-middle and middle-income developing countries — both those qualifying for resources from the International Development Association, that is, with a per capita income (at present) of less than $581, and those not so qualifying.

7.14 High rates of economic growth over the past two or three decades in much of the Third World have failed to lift the standard of life of hundreds of millions who continue to live in extreme poverty in the poorest countries and even among the bottom 40 per cent in countries that have achieved substantial overall economic growth. The average performance of developing countries conceals wide disparities, ranging from a small group which, because they are major oil producers or because they have established their economies on a path of rapid self-sustaining growth, are approaching or even beginning to surpass some of those of the North, through a middle group of varying experience, to a large number of very poor small countries and a few low-income slowly-growing countries with very large populations. Even as these poorer countries are trying to accelerate their growth, their needs are also increasing apace, with continuing rapid population growth and a continuing revolution of rising expectations.

7.15 The core of the problem of poverty in the poorer countries of the Third World remains, despite vigorous strides in industrial development in many of them, the agricultural sector on which most of their populations continue to depend for their livelihood. The 'Green Revolution' has not so far fulfilled for rice, the high hopes which its earlier successes with maize and wheat had held out. New varieties evolved in international research centres have turned out to require much adaptive research in individual countries, and even regions within countries, and effective administration of extension to bring the new technology to the farmers before they can be relied on to sustain a steady rise in yields. The requisite research and administrative capacity in turn does not develop much ahead of the overall socio-economic development of each country.

7.16 It is also becoming clear, as we have explained, that food production alone is not the whole answer to the problem of hunger. Even rapid growth of food production will not eliminate malnutrition and periodic famine if the poor lack the money to buy the food. To raise nutritional standards, efforts to raise food production must be accompanied by adequate growth of entitlements, produced income and income supplements, of the undernourished poor. Both the improvement in farm productivity and the institutional changes in the rural social structure which are needed are primarily a matter for national policies and national effort in the developing countries themselves. But there is scope for international collective action to help these countries in their onslaught on the problem of poverty.

7.17 In the long-run, development is a necessary if not a sufficient condition for the elimination of poverty. In so far as official development aid has aimed at providing technical assistance and training as well as economic infrastructure, such as roads, irrigation, power and other such projects, it has undoubtedly contributed and will need to continue to contribute to the alleviation of poverty in the long-run. But the case for more aid for these broad purposes has lost some of its power of appeal, and a major reason is almost certainly widespread doubt among public opinion in the North, whether such aid is always, or indeed ever, effectively used to help the poor now. Such views may have little basis in fact, and a better understanding of the role that aid plays may help to dispel misconceptions. Meanwhile, however, they act as a political barrier to a more substantial aid effort by the developed countries.

7.18 It is our belief that ODA clearly directed at the alleviation of poverty, within the framework of a comprehensive development strategy, offers the best chance of enlisting public support in the North, and thus of raising the total development assistance effort above the current average of 0.35 per cent of GNP somewhat closer to the 0.7 per cent target. We would argue that, in this sense, additional ODA consisting of specific poverty programmes would be in the mutual interest of governments in the North and South.

7.19 In deciding on the detailed content of such a programme, the North must closely cooperate with, and indeed be largely guided by, the South. It is for the governments of the Third World to suggest what criteria of allocation of ODA among countries and what projects, policy measures and safeguards are most likely to promote the objective of alleviation of poverty. The following criteria may commend themselves:

(i) Priority for countries with a per capita income below the IDA level, at present $ 581, and particularly for the least developed and poorer countries with a per capita income below $300, since any effective use of ODA in countries so poor has a high degree of probability of benefiting poor people.

(ii) ODA for other countries should focus on specific poverty programmes, for example for the further reduction of infant mortality, for the elimination of debilitating tropical diseases, for the improvement of nutrition, housing and water-supply in rural and urban poverty areas, for comprehensive primary education opportunities, for employment-creating public-works programmes, selected in such a way as to combine as far as possible the immediate alleviation of distress with longer-term improvement of income-earning capacity of the beneficiary groups. In many cases it would be essential to include the provision of economic infrastructure. Thus such projects could be both short- and long-term in their purpose and contribute both directly and indirectly to poverty redressal.

Experience has shown that even schemes with clearly poverty-oriented objectives may fail if too large a proportion of the funds made available is absorbed by donor and recipient bureaucracies. To find practicable means of limiting this drain is an important part of the task.

7.20 Over the next two decades these areas of poverty need a high rate of investment in large-scale physical assets, in both the directly productive areas such as agriculture and industry and in economic and social infrastructure, to bring about high rates of economic growth; this is essential if the provision of the basic needs of the masses of the people are to be met on a sustainable basis over a long period of time. In other words, the meeting of basic needs represents both consumption and investment, but it is not the only form of investment required if the economy is to grow rapidly and so achieve a self-sustaining economic development and structural transformation.

7.21 The element of time, however, is crucial in the whole issue of meeting basic needs, as it is in many areas of economics. It makes a considerable difference whether the government of a country or an aid donor to that country is aiming to meet the basic needs of the poor in five years' time or in twenty years' time. In many of the poorest countries there may be so few available resources that it may not be possible to meet the bare physiological needs of the poor in five years; but if a steady expansion of resources becomes available through the pursuit of complementary policies of economic growth and structural transformation, this goal might be attainable in, say, twenty years' time. This point has been put very well in the Address of the President of the World Bank to the 1979 Meeting of the Board of Governors of that institution:

> "As I have argued before, this requires that the traditional growth approach be supplemented by a direct concern with the basic needs of the poor. This is not a prescription for global philanthropy. Nor should it confuse means and ends, and rule out means that may be necessary to achieve the objective – industrialisation, for example, or investment for economic infrastructure. Nor should it merely treat the symptom rather than the causes of poverty. Such gross over-simplifications can bring the very concept of an attack on poverty into disrepute. And they often have"

(b) Food

7.22 In spite of improvements in the overall world food situation since the 1973-74 food crisis, the world food security situation remains precarious. Very little progress has been made in establishing a dependable system of world food security – one that would ensure that small changes in availability at the world, regional or national level, or in the command over food supplies at national or local level, do not worsen the already extensive incidence of hunger and malnutrition.

7.23 During the 1970s, food production in developing countries rose on average by 3 per cent annually. But in many developing countries, production increases failed to match population growth. Production was particularly disappointing in countries with the most serious food problems – the 46 Most Seriously Affected (MSA) countries – a category which, significantly, was designated as such after the first round of steep fuel price increases in 1973-74 and which the FAO and the World Food Council still find useful for assessing the world food security situation. High fuel prices have aggravated the food problem. They have impaired the capacity of these countries to purchase food even in cases where the relative dependence on imported food has not increased. Fertiliser prices have also been moving up with fuel prices.

7.24 In volume terms, food imports into developing countries increased by 7 per cent annually during the 1970s. Cereal imports, which comprised about one-half of the food imports, increased from 52 million tons a year in 1971-1973 to 85 million tons in 1979-80. The problem of increasing food imports and declining self-sufficiency highlights the more fundamental issue that food production is not making an adequate contribution to economic development.

7.25 In recent years, high priority has been given to food production in external assistance. While higher proportions of resources have flowed to agriculture, total resource flows have been increasing too sluggishly to make the required impact. Since the food problem is concentrated in low-income countries, and food production tends to attract little private foreign investment, concessional capital flows are of critical importance.

7.26 One favourable development in recent years has been significant increases in fertiliser consumption in developing countries. It is extremely important that this trend does not falter because of balance of payment problems and higher fertiliser prices. Assistance must be made available to the poorest countries in order to ensure that fertiliser consumption is maintained in periods of high prices or other adverse circumstances. In this connection we note the valuable contribution being made through the FAO in providing fertiliser on a concessionary basis to these countries and recognise the continuing need for such an arrangement.

7.27 The international community is planning special programmes and accelerated action to assist the 30 countries designated as least developed. Since most of these countries are also food priority countries, we urge particular attention be given to their food problems. A recent estimate shows that although the least developed countries have 18 per cent of the arable land in developing countries, they were responsible for only 3.3 per cent of the fertiliser used. Fertiliser use becomes especially important to intensify production in the many countries which are short of land. Some countries have unutilised land which, if there were roads, could be brought into use. Many of these least developed countries depend on rain-fed agriculture and the installation of irrigation facilities is also an urgent need.

7.28 Production increases alone will not solve the problems of hunger and malnutrition. As we have pointed out in Chapter 2, distribution considerations are very important. Famines can ensue where availability has not declined, because of changes in the ability of different sections of the population to command food. Food being a basic necessity, policies are required not only to prevent significant changes in the ability of vulnerable sections to command it, but also to increase such ability on the part of people suffering from malnutrition. In other words, effort has to be concentrated not just on increasing supply, but also on the pattern of demand. This is important not just for humanitarian reasons, but in order to raise the productive capacity and energies of underfed people. What is often required is a redistribution both of income and of productive assets. Land reform to provide the basic means for larger sections to participate in food production could improve food distribution, apart from any effect it may have in increasing production through more intensive land use. Distribution could also be improved directly by increasing entitlement through the issue of food coupons, and through subsidised prices. Some countries are already taking action to improve food distribution by these means. We urge greater attention be paid in international and domestic policies to food distribution in order to ensure that economic changes do not adversely affect the entitlement of vulnerable populations.

7.29 In view of the wide extent of hunger and malnutrition we recognise the important role of food aid and the need for an expanded programme which would incorporate greater predictability through forward commitments. In its administration, however, particularly at the local level, such a programme must endeavour to minimise or eliminate disincentive effects on food production. Besides food aid, the other components of a dependable system of international food security must include reasonably stable grain prices, expanded storage capacity in developing countries, and international arrangements to ensure that food supplies are maintained to the poorest countries in periods of international shortage and local harvest failure.

(c) Commodities

7.30 Commodity trade is of particular importance to the less industrialised developing countries. A large number of these still depend on one or two commodities for more than half of their export earnings. Slow progress in implementation of the Integrated Programme for Commodities (IPC) has been one of the major failures of international economic policy in the 1970s. Considering the importance of commodity exports for some of the poorest countries in the world, a world-wide programme to stabilise commodity markets remains a test of the collective will of the international community to create an effective framework for self-sustained economic development in the developing countries.

7.31 For developing countries, the turbulent economic conditions of recent years have helped highlight the adverse effects of violent fluctuations in commodity prices. Boom prices have added to inflationary pressures, while low prices have depressed producer incomes and aggravated balance of payments problems. Similarly, in analysis of inflationary trends in industrialised countries, movements in commodity prices are recognised as having played a significant part.

7.32 In view of the extensive treatment given to commodity problems in international fora in recent years, we confine ourselves to particular aspects which we feel deserve special attention in the light of recent developments. Following some comments on developments in price stabilisation arrangements, we focus on the areas covered by the Second Window of the Common Fund and on export earnings stabilisation. A few words only are needed to supplement what was said in earlier chapters about local processing and about oil and mineral exploration.

7.33 Very little progress has been made in setting up new International Commodity Agreements (ICAs) in the negotiations being undertaken under the IPC. So far, agreement has been reached to set up only one new ICA, that on natural rubber. In the meantime, negotiation to secure the continuation of one existing ICA – the International Cocoa Agreement -- beyond its termination date of March 1980, has failed. The Common Fund will not become significant unless new ICAs are established.

7.34 The record of ICAs and of the negotiations to set them up has, on the whole, been disappointing. While these efforts must continue on the basis of the preparatory work and discussions now taking place, the time has come for some basic rethinking on appropriate stabilisation measures. Greater attention should be given to measures which are less complex and easier to administer. For instance, more use could be made of variable export taxes, adopted on a coordinated basis. Such taxes, levied at appropriate levels for raw materials and processed products, could also help to counteract the adverse effects of tariff escalation on domestic processing. There should be energetic efforts to establish the 10 core ICAs by 1985, the midpoint of the Third Development Decade.

7.35 Considerable dissatisfaction has been expressed at the amount of resources provided for the Common Fund. Part of the problem has been the unwillingness of governments to provide higher levels of capital subscriptions. If adequate finance is assured, the Fund could assist in the establishment of buffer-stock ICAs and in making their operation feasible. The Common Fund, as a new venture in commodity stabilisation, should be given full support by governments. It should be provided with the means to carry out effectively the agreed price stabilisation objectives.

The Second Window

7.36 The main functions envisaged for the Second Window of the Common Fund are R & D, productivity improvement, marketing, and vertical diversification. In the financing arrangements for the Window, it has been agreed that not less than $ 70 million will be provided from capital subscriptions and a target of $280 million has been set for voluntary contributions. Thus it is envisaged that the Window will have about $350 million.

7.37 We believe that the Second Window can, in important ways, supplement present commodity financing. Many activities are not funded adequately at present because they require action on a commodity-wide basis. Examples are generic market promotion, and R & D on new end-uses and basic production techniques. Some of the activities are suitable for action on a regional basis, where the costs can be shared. Improvements in simple processing technology, for example, could benefit many producing countries. The benefits of some R & D work flow to all producing countries and unless arrangements exist for the sharing of costs, they tend to be deterred. Market promotion and R & D have also suffered from the reluctance of international financial agencies to support them.

7.38 In the case of market promotion, information available shows that it is not as such financed by the World Bank or IDA. In the case of R & D, external financing has been concentrated on food products. No R & D has been financed for products facing competition from synthetics. Some financing has been undertaken on horizontal diversification, but the evidence available shows that appraisal of these projects has been too country-oriented and has not taken adequately into account wider international considerations. Thus, while in South Asia diversification from tea has been financed, in East Africa tea production has been encouraged in order to reduce dependence on coffee. While these seemingly contradictory projects may not be economically irrational if seen from a local vantage point, it is likely that if such projects had been initiated under the auspices of ICAs greater account would have been taken of the wider issues.

7.39 In the light of these considerations, we attach great importance to Second Window activities and do not regard them as mere appendages to the buffer-stock operations of the Common Fund. We see important roles for the Window in supporting projects which need the global commodity approach and also in encouraging other financial institutions to become interested in them.

7.40 Special efforts should be made to enable the Second Window to reach an effective level of operation. Its purpose could not be met only by voluntary contributions. It is going to need a higher level of obligatory financing. Meanwhile, however, the industrialised countries should ensure that the target of $280 million of voluntary contributions is reached.

Export Earnings Stabilisation

7.41 Commodity export earnings stabilisation schemes must play a stronger complementary role to price stabilisation ICAs. The IPC envisaged a larger role for export earnings stabilisation than now exists. However, the negotiations on the Common Fund have hitherto been given priority.

7.42 In recent years, significant improvements have been made in the two schemes in existence – the IMF Compensatory Financing Facility (CFF) and the more modest export earnings stabilisation scheme (Stabex) which forms part of the ACP/EEC Lome Convention. But there is widespread dissatisfaction with these limited efforts. Proposals have been put forward by West Germany and Sweden for global schemes that could complement the CFF but that would be commodity-related like Stabex. At UNCTAD V a resolution was adopted requesting the UNCTAD Secretariat to undertake a study on a proposal for a complementary facility, in consultation with the IMF.

7.43 The McIntyre Group's report[1] gave considerable attention to the question of improvement in the provision of compensatory financing. We are pleased to note that changes have been made in the CFF along the lines of the Group's recommendations in two respects – extension of the scheme to encompass invisible earnings and the greater accommodation of shortfalls by increasing the ceilings. We believe, however, that the CFF, because of the basic balance of payments orientation of IMF objectives, falls short of a required global commodities export earnings scheme in three respects:

(i) it is still limited to quotas and, therefore, often cannot provide compensation to the full extent of export shortfalls;

(ii) it is related to total export earnings and not specifically to commodity earnings and, therefore, does not respond to the particular needs of the commodities sector; and

(iii) it does not take into account balance of payments problems arising from sudden, sharp changes in the price of imports, for example some commodity imports such as food and fuel.

7.44 These are serious gaps in export earnings stabilisation. They require urgent attention. In case these changes cannot be incorporated in the CFF within the framework of IMF policies, earnest consideration should be given to establishing a separate but complementary facility.

7.45 We pointed in Chapter 4 to the scope for increased export earnings from commodities by enlarging domestic processing. There are some economic and policy changes, such as higher pollution standards in industrialised countries and the high cost of fuel, which are increasing the comparative

1. A final report by a Commonwealth Experts' Group, op. cit.

advantage of developing countries. We noted that escalating tariffs remain a serious barrier to relocating processing facilities. The problem is made worse by practices concerning freight rate charges. These result in higher transport costs for processed products.

7.46 But there are other constraints besides these artificial ones. Capital requirements are increasing. Moreover, the required capital and technology are often in the possession of transnational enterprises. Their location policy does not always conform closely to wider rational economic considerations nor to the urgent development needs of developing countries. A larger role in providing financing is therefore required of the international financial agencies. Other aspects demanding international attention are the development of technology appropriate to the circumstances of developing countries and marketing.

Mineral Exploration

7.47 According to World Bank estimates, about 80 per cent of total expenditure on exploration by market economy countries is concentrated in four developed countries, and this in spite of the higher probability of finding minerals in the largely unmapped undeveloped regions of the world. The tendency to exploit more costly resources affects the welfare of the whole world community, and has serious implications for assuring long-term supplies.

7.48 The problem is seen as 'political' risk, arising from nationalisation, the unilateral renouncement of contracts and demands for renegotiation of what in the eyes of the host country have come to be seen as inequitable terms. The issues here are substantially the same as in relation to oil exploration which we discussed in Chapter 6 (paragraphs 6.5-6.7). The suggestions we made there to bring about an improvement in the design of contracts for energy exploration could usefully be extended to other minerals.

(d) Manufacturing

7.49 The relative roles of agriculture and industry in promoting development depend on such factors as the stage of development and resource endowment. It is important to recognise, however, the increasingly important role that must be played by manufacturing in the course of development and of the fast rate of expansion required if the usually small manufacturing sector is to make a significant impact on unemployment and underemployment. The small size of local markets gives freer access for the manufactured products of developing countries a crucial role in encouraging industrialisation.

7.50 Developing countries are responsible now for only about 8 per cent of world production of manufactured goods. While commentators have stressed the difficulties involved in achieving the UNIDO Lima target of a 25 per cent share for developing countries in world production of manufactured goods by the year 2000, and have queried the usefulness of such a target, we believe that it has the merit of highlighting the challenges involved and the great efforts required if developing countries are to achieve satisfactory growth rates. The implication of overall growth targets for the expansion of the industrial sector indicates the sustained effort required: to secure increased investment, including foreign investment in industrial infrastructure and plants; to promote the transfer and indigenous development of appropriate technology; to eliminate restrictive practices on technology transfer arrangements and in trading policies of transnational corporations; to improve trade and adjustment policies in industrialised countries in order to facilitate smooth industrial restructuring in these countries and the rapid expansion of manufacturing and processing industries in developing countries; and to adopt efficient and sufficiently outward-looking domestic industrial policies in the developing countries.

7.51 The industrialised countries could also identify specific labour-intensive areas of production, which do not enjoy a comparative advantage vis-a-vis developing countries, with a view to encouraging the movement of resources out of these industries within a definite time-schedule. Industrialised Commonwealth countries in particular should make firm commitments to phase-out protection of manufactures which can be more competitively produced by developing Commonwealth countries within an appropriate time-frame in graduated stages, over the medium- and longer-term.

(e) Disarmament and Development

7.52 Aid from governments of the richer industrialised countries of the world to their less developed neighbours is in competition with all other objects of government expenditure in the donor countries. But there are good grounds for singling out defence as being in a special sense competitive. Any country's security depends not only on its expenditure on armaments but on the circumstances in other countries that dispose them to take up aggressive attitudes, and on the success with which these countries can be brought to collaborate in mutually advantageous pursuits. It may be more important to have thriving neighbours, to enjoy satisfactory trading relationships with them and to promote their development by adding to the resources at their disposal, than to spend to the uttermost on defence. Yet as matters now stand, of all forms of government expenditure in the advanced countries, both those with market and with centrally planned economies, defence makes the largest, or nearly the largest call on resources while overseas aid makes one of the smallest. On the average, twenty times as much goes on military expenditure as on aid for development in the market economies (and the ratio is much larger still in the centrally planned economies). Thus there is a choice between, say, an extra 5 per cent on defence and doubling the provision for aid; and it is not unreasonable to ask which would be likely to make the greater contribution to security.

7.53 The question gains added point when looked at in global terms. Military spending by the world as a whole now amounts to $450 billion a year, or more than a quarter of the entire income of the developing countries. However much each country may seek to justify this expenditure, the world economy is the loser, not the gainer from the heavy burden it involves. It absorbs resources on a vast scale that could be used, in a world where peace was assured, to accelerate the slow improvement in living standards. Indeed the resources so absorbed, since they include a large proportion of the world's scientists and technologists, and much of the most up-to-date and novel equipment, could play a particularly useful role at the frontiers of economic development either in the advanced or in the less developed countries. If this is so, it must be true also that the diversion of these resources to military purposes is a serious constraint on current rates of growth. It may well be no accident that countries like Germany and Japan, which have not been free to expand their defence budgets, have enjoyed remarkably rapid rates of economic growth.

7.54 But of course it is not only in the advanced countries that defence expenditure represents a heavy call on resources that might go to benefit development. The developing countries (including the poorest among them) also spend billions of dollars on armaments, nearly all imported from abroad. They too might do well to consider whether such expenditure is the best guarantee of their security and whether a more whole-hearted concentration on economic development, supported by funds diverted from military expenditure, might not in the end be more effective.

7.55 We are well aware that a general reduction in arms spending in the world will be difficult to achieve without new measures for collective international security. Whatever the difficulties of attaining that goal, and we do not intend to minimise them, there is little doubt that a purposeful pursuit of conditions for political and economic justice everywhere in the world could in itself create a more secure international atmosphere, and help to divert scarce and valuable world resources from destructive uses to the satisfaction of urgent human needs.