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# RURAL CHANGE

## The Challenge for Agricultural Economists

PROCEEDINGS

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# ELMHIRST MEMORIAL LECTURE

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## *Development Strategy in a Limping World Economy*

My purpose is to look at some aspects of economic growth in the developing countries since the second world war, and to speculate on changes in economic strategy which may already be appropriate, or which may become appropriate in the immediate future, to cope with a world economy that settles into relatively slow economic growth.

As is well known, the period since the second world war, down to 1973, has been one of unprecedented growth for the world economy as a whole, as well as for developed and developing countries separately. In the last golden age of capitalism – the four decades before the first world war – world industrial production increased at about 3.5 per cent per annum; whereas the rate from say 1953 to 1973 averaged just under 6 per cent per annum. World agricultural output grew at under 2 per cent in the earlier period, compared with under 3 per cent in the later period. The growth of world trade jumped in the same way, from about 3.3 per cent before the first world war to about 8 per cent in the quarter century ending in 1973.

The developing countries have shared in this unexpected performance. Their growth rate of national income, averaging about 5 per cent, or 2.5 per cent per head, exceeded the growth rates that were achieved in the nineteenth century or the first half of the twentieth century by any of the now developed economies.[1] This upward leap was unexpected, and caught many economists off their guard. Because of the sharp contraction of world trade in the 1930s – the growth rate from 1913 to 1937 averaged less than one per cent per annum – and the rise in tariffs, exchange control and restrictions of every kind, most economists assumed that world trade would grow very slowly after the war, and could not again serve as an engine of growth, as it was supposed to have done in the nineteenth century. Development economists therefore created a set of theories appropriate to a world in which foreign trade is stagnant – including the theory of balanced growth, the two-gap model, structural inflation, regional integration – each of which is valid and important if exports cannot be increased, but none of which belongs in a world where trade is growing at 8 per cent per annum. Acting on the assumption of a stagnant world

trade many countries, notably India, and several in Latin America, neglected their trading potential until late into the 1960s, when the facts could no longer be ignored. We may now be in danger of falling into the opposite pit. World trade has expanded more slowly since 1973 and nobody knows whether it will resume the fast pace of earlier years. Yet many of us continue to take it for granted, as in last year's *World Development Report*, that export-oriented policies will also yield the highest payoff over the next two decades. Part of my purpose today is to consider what differences in strategy may be appropriate to differences in the rate of growth of world trade.

## II

But before getting there I want to spend a moment with agriculture, which has been the weakest link in the development chain. Industry in LDCs has grown at around 7 per cent per annum, the number of children in school has multiplied by four, the domestic savings ratio has risen by three percentage points – the picture is everywhere bright until one turns to agriculture, where the dominant fact is that in LDCs as a whole food production has failed to keep pace with the demand for food, thereby causing or aggravating a whole series of other problems.

The basic reasons for this failure are well known, so I will list but not dwell on them.

The first has been fast population growth. Population has grown at around 2.5 per cent per annum and demand per caput has pushed the growth of total demand well beyond 3 per cent, while output has grown at significantly less than 3 per cent, turning what used to be an export surplus into an import surplus of food.

Secondly, the technological revolution in tropical food production has only just begun, research in the colonial days having been confined almost but not exclusively to commercial crops exportable to the world market. We have made spectacular progress with maize, wheat for subtropical conditions, and rice for areas of controlled irrigation, but have still far to go with other rice, with sorghums, and millets, and with livestock management.

Third, even where there is new technology to impart, the agricultural extension services and the network for supplying modern inputs to the farmer, especially seeds, fertilisers and pesticides, are gravely deficient and in many areas virtually non-existent.

Fourth, investment in rural infrastructure is inadequate. Road systems have improved immensely, and the penetration of the countryside by buses and trucks is altering the patterns of rural life. But not enough has been invested in irrigation, or in storage facilities.

Fifth, everyone speaks in favour of land reform, but very few governments have done it in any of its various forms, whether distributing land to the landless, or converting from rental to ownership tenures, or fixing

rental ceilings. The case for some sort of land reform remains unquestionable from the standpoint of justice; the case from the standpoint of its effects on production is now stated with greater sophistication, recognising the extent to which higher output is tied to improved technology, extension and investment. Indeed several writers now speak not of land reform but of "the land reform package", to distinguish what they see as good land reform from bad land reform.

And finally to complete our list of factors that have inhibited agricultural output we must add poor terms of trade. The prices of agricultural commodities in world trade fell throughout the 1950s and most of the 1960s, while industrial prices rose all the time. This was anomalous, since prosperity usually improves agriculture's terms of trade. The basic factor was the enormous increase in agricultural productivity in the United States, resulting in the build up of stocks of cereals; since agricultural commodities compete with each other either on the demand side or on the supply side, this depressed all other agricultural prices. Add to this that in several LDCs governments wanted to keep farm revenues low, whether by imposing taxes on exportable crops, or by placing price ceilings on food for the domestic market. This is at first sight a curious phenomenon. One would expect that farm populations, being more than half the nation (in most cases) would carry enough political clout to be able to defend themselves against such measures and would on the contrary be manipulating the terms of trade in their favour, but this is not automatic. European farmers were doing this at the end of the nineteenth century, but the contemporaneous efforts of American farmers, though they were still in the majority, were a failure.

## III

Let me now turn from the causes of the low level of agricultural output in the LDCs to some of its effects. Agricultural failure is not the sole cause of the problems I shall mention, but makes in each case a significant contribution.

Take first the probability that inequality of the income distribution has increased along with recent growth. This is not a novel phenomenon. Increased inequality is inherent in the classical system of economics because population growth keeps labour income down while profits and rents increase. Given the long and strident debate between economic historians as to what happened to European living standards in the first half of the century, no modern economist should have assumed that economic growth would automatically raise the incomes of those at the lower end of the scale. Rapid population growth has also played its negative role in our day, restraining the wage level and farm income per head. Since the majority of the labour force in LDCs consists of farm people, who also have the lowest incomes, the standard of living of the

great bulk of the population can be raised only by raising farm income. Discussions of the effects of growth on income distribution or income distribution on growth lead nowhere unless farm income is at the centre of the alleged relationship.

The worst effects of population growth combined with technological standstill are to be seen in the arid zones of the tropical world, where some 500 million people live, especially along the fringes of the African and Asian deserts. There we have the largest concentration of human poverty; the numbers continue to grow rapidly; and we have not yet had the technological breakthrough in dry farming that might promise higher productivity. To raise the living standards of these hundreds of millions is the greatest challenge to those who work for development.

Consider next the huge flow of migrants from the countryside into the towns. Central to this of course is the growth of population. Relatively under-populated countries can cope with population growth by opening up new land, as has been happening over much of Africa, but in less favoured countries population growth means smaller farms, more landless labourers and lower output per head. Unless a green revolution is set in motion, the natural reaction of farmers caught in this situation is to put pressure on the young to migrate to the cities, which they will do if the cities show signs of expanding employment. This is not a complete solution. The towns cannot provide employment for the whole of the natural increase in the countryside, not to speak of women now also leaving the family tasks and seeking wage employment; so unemployment mounts. The government is also trapped. The towns exert great pressure for expansion of the public services – of water, bus transport, schools, hospitals and so on – eating up more funds than exist, and leaving nothing to spend in the countryside. So that the differential in amenities between town and country widens all the more, and the stream of migrants is increased. Unemployment in the towns cannot be ended by spending more in the towns. The basic solution is rather to make the countryside economically viable, with a larger cultivated area, with rising productivity on the farms, more rural industry, and better social amenities.

Note "the larger cultivated area". Development economists have been mesmerised by European experience into assuming that the development process always involves a decline in the number of persons in agriculture. This is true of relative decline, but it extends to an absolute decline only in the later stages of development. For example, around 1850 in Western Europe the agricultural population was only 50 per cent of the whole, and the rate of natural increase about 1.25 per cent. So the agricultural population would decline absolutely if the non-agricultural population grew at over 2.5 per cent a year. Whereas with 70 per cent in agriculture and a rate of natural increase of 2.5 per cent, an absolute decline of the agricultural labour force requires non-agricultural employment to expand at 8.3 per cent per annum, which it cannot do.

An increase in the absolute numbers engaged in agriculture is therefore an essential item in coping with the current flood of population. The fact

that the green revolution in cereals is labour-intensive helps, especially if the natural propensity of the more enterprising farmers to invest in labour saving machinery can be restrained. But there is no escaping the need to bring more land under cultivation, by opening up roads, irrigation, terracing, drainage, and other investment in infrastructure. Some governments are actively engaged in colonisation schemes of this sort, which, if highly planned to meet modern standards, are costly and troublesome. The subject is neglected in our textbooks. It needs more research and experimentation, leading to action.

A third consequence of the weakness of agriculture is that it is one of the reasons why so many LDCs have had balance of payments troubles, have incurred large external debts, or have found themselves defaulting on their obligations. It is not just that a larger output would earn more foreign exchange, or save on food imports. Indirectly it would reduce urbanization, the high cost of which is the prime cause of their needing so much capital and having to borrow so much. Also, in countries suffering from the two-gap disease, it would facilitate the translation of domestic saving into foreign exchange.

A fourth and final consequence of the weakness of agriculture has been to inhibit the growth of manufacturing industry because of the farmers' low purchasing power. The physical output of LDC commercial export crops grew rapidly, aided on the supply side by the expansion of internal transport, and on the demand side by the unusually rapid growth of the developed countries. But the prices at which these commodities sold were poor; exports are a small part of agricultural output, so their prices are linked on the supply side to the price of food, which as we saw earlier, was depressed by American surpluses. The individual LDC can do well out of exporting agricultural raw materials or tropical beverages; but for the group of LDCs as a whole the elasticity of supply of these commodities is so high, at prices yielding roughly the same incomes as domestic food production, that the factoral terms of trade stay much the same despite increases in demand or improvements in technology. The road to riches does not run in these directions.

At the same time farm incomes from domestic production were also low, for reasons which we have already considered. So import substitution of manufactures, which was the starting point of industrialization, was limited by the narrowness of the domestic market. LDCs soon discovered that if industry is to grow at 7 per cent per annum, in the face of a peasantry with only a small marketable surplus, industry must look to foreign markets. By the year 1970 this lesson had been learnt, and nearly every LDC had begun exporting some manufactures to developed countries. Unfortunately this range was very narrow, dominated by textiles and clothing; broadening only as the protests and restrictions of MDCs forced the more advanced LDCs into light metals, electronics and other fields. The LDC effort was clearly successful, since LDC exports of manufactures were growing at 10 per cent a year, despite the barriers erected by the MDCs. Whether world trade will revive, and if so whether

LDC exports of manufactures will again grow at 10 per cent are crucial questions for LDC development strategy, to which we shall come in a moment. But no matter how they may be answered, it will be to the advantage of LDCs to raise their agricultural productivity, since this would simultaneously raise the living standards of their farmers, create a domestic market for their manufactures, and improve their terms of trade.

## IV

Let me come back to my starting point, which was the observation that the world economy grew faster after the second world war than it had ever grown in the preceding century.

The speed of growth of LDC economies is linked to that of the MDCs mainly through trade: specifically by the demand of MDCs for the products of LDCs. In primary commodities the relationship is quite tight. World trade in primary commodities grew slightly less than 0.9 times as fast as world industrial production, between 1873 and 1913, and we get exactly the same coefficient for 1950 to 1973. Allowing for faster industrial growth in LDCs than in MDCs since the war, it is not surprising that GNP has grown at about the same rate in both groups. To continue with the links, the terms of trade also fluctuate with the growth rate of MDCs, within the limits permitted by the high elasticity of supply of tropical raw materials, and by the link between agricultural materials and the price of cereals. A new trade linking, emerging since the war, is the export of manufactures from LDCs to MDCs, which depends on the rate of growth of GNP in MDCs, not merely because this affects consumer demand, but also because it influences the willingness of MDC governments to allow such imports to come in rather than to shut them off with quotas. The effect of these links is multiplied by the further link between prosperity in LDC export trades and industrialisation for the domestic market. Other links are via the flow of international investment. As MDC income accelerates, so does MDC demand for minerals; prices rise, and more capital is invested in LDC mines. In fact more capital is invested in LDCs generally, because their prosperity makes it easier for LDC governments to raise funds, whether concessional or on commercial terms. Another postwar link has been migration from LDCs to take jobs in the tight labour markets of MDCs. These migrant workers send home remittances, which stimulate LDC trade and investment.

The closeness of these ties seem incompatible with one of the objectives of development economists, namely that LDC per capita income should rise faster than that of MDCs, and so narrow the gap between rich and poor nations. (Perhaps I should say one of the *former* objectives of *some* development economists since these same scholars are now in the forefront of denouncing economic growth as an objective for LDCs.) If MDCs grow more slowly than LDCs their imports will slow down, the

terms of trade will move against LDCs, and the growth rate of LDCs will slow down. *Given the continuation of these links* what LDCs need is that MDCs should grow as fast as possible.

These issues have come to a head since 1974, when the onset of international recession brought all growth rates down, and especially the growth rate of international trade, which has since averaged about 4 per cent, in contrast with the 8 per cent of the two preceding decades. This has brought two questions to a head. First, were the high postwar growth rates to 1973 a mere flash in the pan, not due for repetition, or will the previous pace be restored? And secondly, if the developed countries now settle into slow growth, can the LDCs delink themselves and continue with high growth on their own?

## V

I am not able to answer the first question – what is going to be the rate of growth of the world economy? – since my crystal ball is not working properly, but I would like to make a few agnostic remarks.

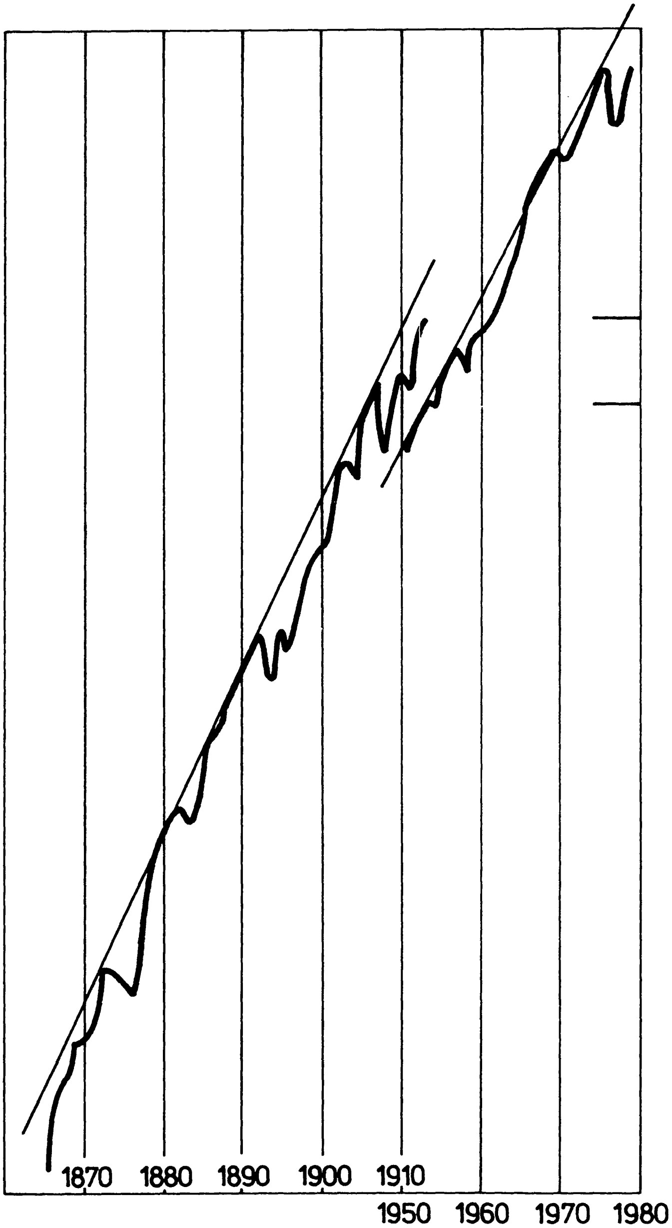
Many people now assert that the world economy has made one of those major turns that it makes from time to time, as it did in 1873, when world trade settled into a growth rate only about two-thirds of that of the preceding half century. However, part of the evidence they adduce is merely evidence of cyclical and not secular decline – high unemployment rates, low profits, low investment ratios, low savings and a slower growth rate of productivity are the familiar elements of cyclical downswing, and throw no light on long term trends.

Over the past century the United States has experienced a series of great depressions, each of which took ten years to complete itself, except for that of 1929, which took twelve years. The starting points of these depressions were 1873, 1893, 1907, 1929, 1957 and 1974. Chart 1 shows US industrial production on a semi-logarithmic scale, where the straight lines indicate the rate of growth along the peaks, and the potential output at that rate. The difference between actual and potential output is shown in Chart 2 for each of these great depressions separately. The depression at the top of the page is the one we are now experiencing. It seems to conform to pattern. For example, suggestions that the US economy was "overheated" at the end of 1978 (year five) seem implausible. In the absence of the crystal ball we cannot assert that the US economy will be back on trend by year ten, but the odds suggest that this will happen.

If then we reject all evidence that can be explained by five years of depression, we are left with a number of arguments that are being advanced to suggest that the prosperity of 1950–73 was special and not repeatable. I shall merely list them, because to pursue each of them would take us too far off course. Here are the leading six:

1 The fast growth of Europe after the second world war was due to catching up on a backlog of innovations whose feasibility and profitability

Chart 1 US Industrial Production
1865–1913 and 1950–1978



the USA had demonstrated by 1950, but whose utilization had been delayed in Europe by two world wars and the great depression – telephones, automobiles, refrigerators, television, aeroplanes and so on. This backlog is now exhausted.

2 There is no new innovation of Schumpeterian magnitude to take its place. Expenditure on research and development by private industry may have declined, but this may only be a cyclical event.

3 Western Europe's reserves of surplus labour in agriculture, petty retailing and elsewhere, which facilitated rapid expansion of industry and other high level occupations is now exhausted, and immigration of cheap labour from Southern Europe will not be resumed.

4 We shall run into a shortage of minerals: of copper, tin, bauxite and others because transnational companies and LDC governments cannot agree on terms for new investment; and of oil because of OPEC's conservation policies.

5 The preference of consumers in rich countries for services rather than manufactured commodities will result in relative decline of the industrial population. Among the effects of this will be a decline in the rate of growth of imports of primary products.

6 High levels of taxation will diminish initiative, enterprise and the rate of growth.

I list these propositions neither to support them nor to controvert them, but only to remind ourselves that the world economy has had long periods of prosperity (like 1850 to 1873) and long periods of relative stagnation (say 1913 to 1950) so that there is nothing strange in the idea that the next two or three decades may turn out to be difficult. But there is also nothing strange in the idea that they may turn out to be rather prosperous.

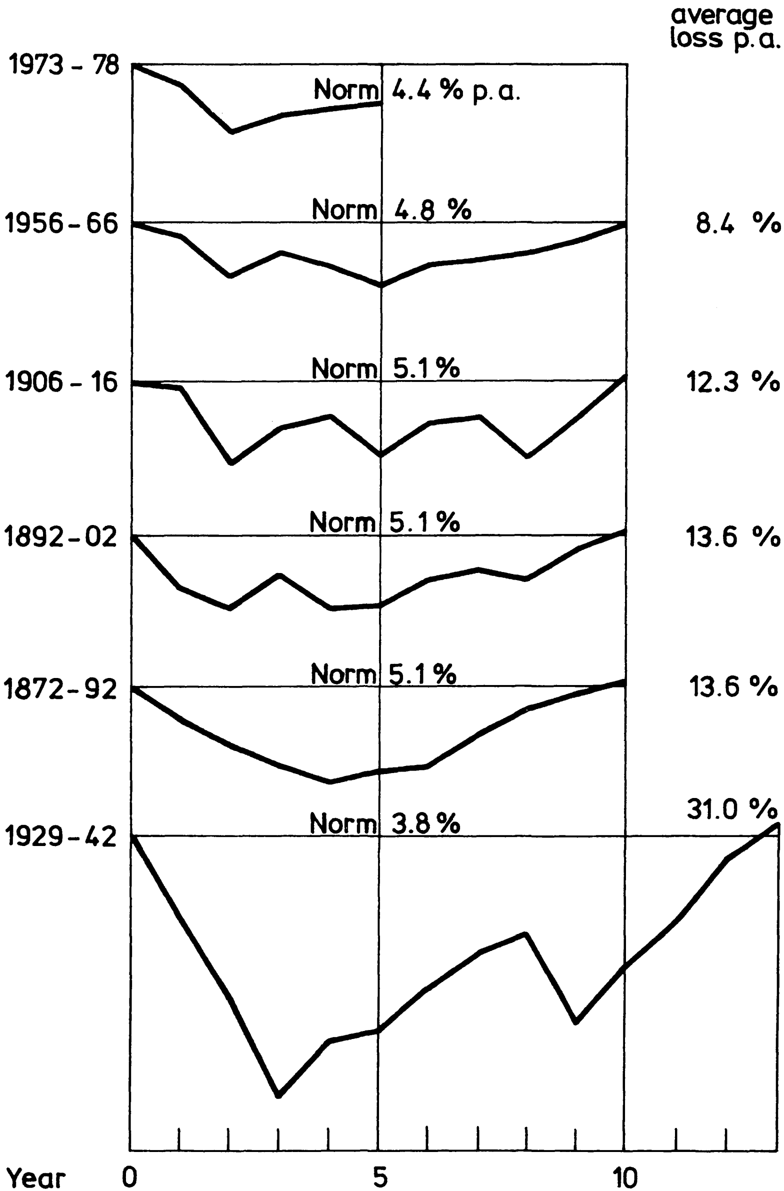
## VI

Finally we come to the question of development strategy. What should LDCs do if world trade resumes the fast pace of the postwar decades; and what should they do if instead it reverts to prewar rates of say 3 to 4 per cent per annum?

The general answer is obvious. In the first event outward looking export oriented policies will pay off. In the alternative event, strategy will be inward looking, and the engine of growth will be the expansion of the home market. But how in practice do these policies differ?

One respect in which they are the same is that both emphasise the need to produce more food for domestic consumption. Three of the reasons I gave for this at an earlier stage have no bearing on world trade – namely the poverty of subsistence farmers, the drift from the countryside and the narrowness of the domestic market for manufactures. The fourth reason related to foreign exchange, which is scarce in either case. Add to these considerations the uncertainty of the world food situation over the next two decades, given rapid population growth in the LDCs, the exodus of

Chart 2 US Great Depressions
Deviation of Actual
from "Capacity" Industrial Production



labour from LDC farms, lagging food production in Russia, and the unpredictability of China. LDCs ought clearly to free themselves from dependence on MDCs for food. This does not mean that each of over one hundred countries must become self-sufficient; it means only that the group should be self-sufficient in food, in a context which I shall elaborate in a moment.

I want now to consider the effect on LDC agricultural prices of increased productivity in LDC food farming. The results vary according to whether the analysis is for a small country or for the group as a whole, and in the latter case whether one is analysing the short run or the long run. In the case of a small country market prices may be assumed to be determined by world demand and supply, and to remain unchanged despite a rise in productivity in food. Production of agricultural raw materials (in which we include the beverages) becomes uneconomic. Less food is imported and more food exported. In the case of a large country, or the group as a whole, food prices fall immediately, carrying raw material prices down with them. Prices fall too low, in order to promote movement out of farming whether in LDCs or MDCs; then rise again as this is accomplished. In the new equilibrium the factoral terms of trade are improved for LDC farmers against MDC industrial workers by the amount of the increase in productivity (assuming that there are no rents); the price of food is as high (same assumption); and the price of raw materials has risen in the same proportion as productivity in food.[2]

This is the framework for approaching the question whether LDCs should allow themselves to become sources of raw materials; a role which allegedly has no future, and in which they are exploited. There is no future in the sense that once the area suited to a crop is fully planted with that crop, further investment ceases. For example, how will the Ivory Coast continue to develop when it has planted in oil palm, coffee and cocoa all the acreage suited to these crops? This is an easy question. By then the country will be covered with infrastructure, will have a large educated cadre, and will have a higher savings potential than countries which have not had areas to plant in commercial crops, such as Mali or Guinea. So it will have superior potential for investment in industry and in other opportunities. As for the exploitation, this derives from the factoral terms of trade between food and raw materials. As we said earlier a bigger demand for raw materials makes little difference to their price; and higher productivity in raw materials over the group as a whole (and new technology soon spreads over the group as a whole) merely lowers the price proportionately. What raises the price of raw materials is a rise in the income that could be earned in producing food, whether due to increased demand for food or to increased productivity in food.[3] Given an appropriate rise in potential income from growing food, it will become as profitable for the tropics to export tea as it is for farmers in the temperate world to export wheat.

Meanwhile one must remember that comparative advantage differs as between one LDC and another. In general, food productivity is higher in

Latin America than in West Africa, while productivity in cocoa or coffee or sugar is about the same. Hence West African farmers will find cocoa or coffee a profitable alternative to food at prices that would drive Brazilians or Colombians out of growing such crops. By keeping prices low over the first seven decades of this century the market has been making space for African output at the expense of Latin America.

The same force, comparative advantage, is at work between LDCs as a whole and MDCs as a whole, in that LDCs could export much more to MDCs if they were permitted to do so – of such commodities as sugar, cotton, meat, rice, maize and fruit. The future height of MDC trade barriers may be related to the state of trade, in the sense that they are more likely to be reduced if the economy is growing rapidly than if it is growing slowly.

To summarise our conclusions so far: first, increases in food productivity should be sought whether world trade is growing fast or slowly. Secondly, fast growth favours investment in export agriculture because it will raise prices (via food prices) and reduce barriers; if slow growth is predicted for the MDCs, such investment should be restricted.

Thirdly we come to manufactures. Fast growth of world trade makes room for LDC exports of manufactures to MDCs, both by expanding demand, and also because MDC governments become more tolerant towards imports. Already manufactures are one-third of the exports of non-OPEC LDCs, and if a return of world prosperity permitted a resumption of the growth rates of the 1960s, manufactures would soon be more than half of LDC exports. Slow growth of world trade postpones this turning point, and mandates a greater effort to increase the domestic demand for manufactures by increasing the farmers' marketable surplus. The two sets of policies are quite different. Production for the domestic market can be high cost and inefficient, protected by high tariff walls or other restrictions. Production for export requires good quality at low prices, and this requires the winds of competition. The export manufacturer has also to quote prices months in advance, frequently in foreign currencies; so he is damaged by inflation and an overvalued rate of exchange. These two are less troublesome to the producer for the home market.

## VII

I have been speaking of LDCs turning inward and developing domestic markets as if every LDC had the option of determining how large a percentage foreign trade should be of its Gross Domestic Product. This is not so. Most LDCs are too small to have either a wide range of raw materials or a wide range of opportunities to produce for a domestic market on an economic scale. And now that the stage of import substitution is highly advanced, even the large LDCs have reduced their imports by as much as it is economical to do, if not more so. We may therefore

assume that if LDCs set themselves a growth target of 6 per cent per year for output, they will need a 6 per cent per annum increase in imports, and therefore also in exports to pay for imports. The problem is how to achieve this if the rest of the world trade is growing only at 3 per cent per year.

One possibility would be for LDCs to raise their share of MDC markets. The generalised system of preferences is supposed to do this, but we know how reluctant MDCs have been to translate this piece of rhetoric into valuable trade concessions. It seems that MDCs fear exports from LDCs even more than exports from each other, for they keep reducing their barriers to each other in the succession of GATT negotiations, while simultaneously raising barriers to LDC imports. The World Bank has calculated that LDCs could export an extra $20 billion a year of manufactures and agricultural commodities to MDCs but for quotas and other non-tariff barriers. These barriers may be reduced if fast growth is resumed, but our present context is what may happen if growth is slow, and the answer seems to be that the share of LDCs in MDC trade is more likely to fall than to rise if MDC trade is growing slowly.

The other possibility is for LDCs to buy more from each other: to look "inward" in the sense of towards each other rather than to their trade with MDCs.

The big items in LDC dependence on MDCs are food, fertiliser, cement, steel and machinery. Taken as a group LDC could quickly end their dependence for the first four, and gradually throw off their dependence for machinery. It could be that they would do better to retain their trade with MDCs for these commodities, but if MDCs will not play the game, i.e. will not take imports from LDCs, then LDCs have no option but to trade with each other. Perhaps in order to scare MDCs into recognising what they may lose if they do not play it is now customary to point out what a large share of MDC exports goes to LDCs – 24 per cent in the case of the United States; it remains to be seen how persuasive this may be.

The case for LDCs to trade more with each other and less with MDCs was much discussed in the 1950s, in the context of the general expectation that international trade would grow slowly; and of the development theory of the day, with its assumption that exports were inflexible. The discussion centred on advocating regional integration through regional customs unions and other discriminatory trade arrangements. The case was accepted, and was written into the charters of our international institutions. Over a dozen customs unions or free trade regimes have been created, the precise count depending on how one classifies the series of agreements on West Africa.

Experience of these arrangements has been mixed, but disappointing. Customs unions are fragile at two points. First, the union is particularly advantageous for sharing out industries with significant economies of scale. It runs up against the desire of each member country to retain its own light industries and in the absence of economies of scale, is unpersua-

sive in arguing for internal free trade in such industries. The moral is to exclude light industries from the agreement, and confine oneself from the start to those industries where economies of scale are really significant. The second point of fragility is that in a set of neighbouring countries some are much more advanced than others in industrial achievement and potential. The advanced countries attract more new industries than the less advanced, who feel that they are being exploited. The union then survives only if the more advanced countries will contribute funds to make the less attractive industrial locations more acceptable to potential investors; and this is hard to negotiate.

The future of regional agreements is therefore somewhat doubtful, but it may also not be particularly relevant to the problem in hand. Inter-LDC trade is not necessarily going to develop through each country selling more to its next door neighbours. Indeed when one bears in mind its more important targets – oil, food, fertilizers, cement, steel and machinery – and adds to this the geographical similarities of next door neighbours, distant trade between one region and another seems more to the point. One can conceive of the Middle East offering oil and petrochemicals, West Africa offering maize, Brazil and India offering machinery, and so on.

It is not clear that special measures are needed to foster inter-LDC trade at this level. If they are, the nucleus exists in the Protocol Relating to Trade Negotiations among Developing Countries which came into force in 1973, with the blessing of GATT, and which provides for negotiated preferential arrangements among sixteen of the bigger and more advanced LDCs. One may doubt, however, whether such different countries will travel much distance on the basis of mutual concessions. The fundamental requirement for a large expansion of mutual trade is a set of prices and foreign exchange rates which reflects comparative advantage and makes it cheaper for them to buy from other LDCs than to buy from MDCs, who by the definition of the problem, are unwilling to take payment in LDC exports. There are also two supplementary financial requirements. One is a loosening up of restrictions on foreign lending, so that loans from MDCs can be used to finance the sale of capital goods from LDCs. Secondly, some kind of clearing arrangements may be necessary for LDC currencies; otherwise LDC traders will tend to do business with each other in one or more MDC currencies, and will be constrained by the relative scarcity of such currencies (given our assumption that MDC imports are growing slowly).

In the end the question whether LDCs can continue to grow rapidly while MDCs stagnate turns not on trade but on the dynamism of the LDCs themselves. Trade will sort itself out if prices are allowed to reflect real costs. But growth has in the past been driven by trade; whereas our scenario calls for trade to be driven by growth. What then will drive growth? In Rostow's terms it will then turn out that some of the LDCs have already reached the stage of self-sustaining growth, while others have not. The self-sustainers are going to make it whether the rest of the

world grows fast or slowly. The rest still need a background of world prosperity if they are themselves to prosper. So the sooner the world economy can recapture those postwar rates of growth, the better it will be for all of us.

## NOTES

[1] There was wide variation in "performance" among developing countries. A systematic variation was that those with higher per caput incomes grew faster than those with lower per caput incomes. An important element of this is that the latter were more agricultural, and agriculture had the lowest sectoral growth rate. Thus, suppose two countries have the same sectoral growth rates (e.g. industry 7, agriculture 2.5, services 6) but the labour force distributions are 2, 3, 5 in one and 1, 6, 3 in the other, the overall growth rates will be 5.2 and 4.0, translating to say 2.7 and 1.5 per caput – a difference of a whole percentage point.

[2] This formulation presupposes (for simplicity of exposition) that there are no rents. If food is produced at increasing cost in MDCs, the price of food is lower in the new equilibrium, and the rise in raw material prices is correspondingly smaller.

[3] The price can also be raised by agreement among producers to curtail supplies, but it is difficult to enforce such agreements.