Mail survey results

The Readership of Finance and Development

Finance and Development first appeared in English, French, and Spanish in June 1964. Its purpose is to publish articles, written in non-technical language, on the international monetary system and economic development. A recently completed readership survey has given the Editors a picture of our readers.

A sample carefully chosen to be representative of all subscribers to the English, French, and Spanish language editions were asked questions by mail about both themselves and their views of **Finance and Development**. The response rate was over 50 per cent, and we take this occasion of thanking all who responded; their help will be valuable in future planning.

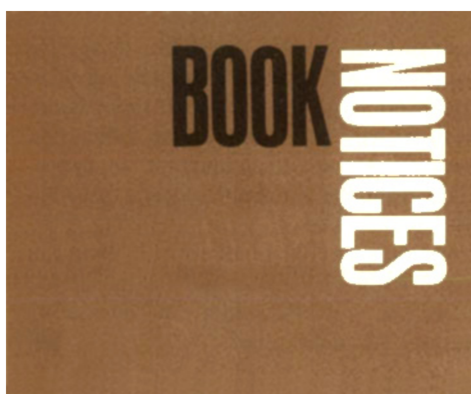
The mailing list of the English, French, and Spanish editions of **Finance and Development** has grown from small beginnings to about 140,000; while readers are mainly in the member countries of the Fund and the Bank, **Finance and Development** has at least a few readers in nearly every country in the world. The survey indicates that each copy of the magazine is, on average, read by over three people so that total readership approaches 500,000. Fifty-nine per cent of the subscribers live in industrialized countries; 34 per cent are in developing countries with the majority in Latin America.

The mean age of our readers is 42 years but we are reaching a somewhat younger age group in the less developed world where 59 per cent are under 40 as against 41 per cent under 40 in the richer countries.

Requests from libraries welcome

Only 4 per cent of our readers are students and we would particularly welcome more requests from university libraries. *Please note the change in our subscription policy which appears on the inside front cover of this issue.*

Finally, the survey questionnaire asked for comments. This revealed an even balance between the number of readers who find our articles too technical and those who regard them as oversimplified. We hope this balance suggests that we are striking a reasonable compromise but we shall strive to present more important and interesting information on the world economy in clear and uncomplicated language. The results of the survey will help us in our informational task.



Without false optimism

Khan, Azizur Rahman, **The Economy of Bangladesh,** London, England, Macmillan, 1972, xviii + 196 pp., $13.95.

The great merit of Dr. Khan's book is that he discusses the long-range development strategy of Bangladesh frankly and without false optimism. Details are not allowed to obscure the obstacles that stand in the way: the birth rate, the exceptionally high density of population, and the lack of capital.

At present, the population is growing by more than 2 million a year and the number of people looking for work by approximately 750,000. Unemployment is already severe, so that at a minimum planning must try to provide work for at least the additional job seekers. Khan estimates that investment required is half as great again as in 1965-1970 and should even now amount to 18 per cent of GNP; during a normal year and with a "right" economic policy, Bangladesh with its own resources can achieve a rate of investment of the order of 11 to 12 per cent of GNP. On this basis Khan calculates that GNP will grow at 4½ per cent, but continued population growth means that the per capita income will increase by only 1½ per cent per annum. The employment target is not going to be attained: the proletariat in rural areas and in cities can be expected to grow. Thus optimism about development can be reconciled with reality only if the birth rate can be drastically reduced and if labor can replace capital as a production factor.

Population planning

The objective should be to quickly halve the birth rate—that is within 10, rather than the conventional 25 years. Not even Japan has succeeded in bringing about such a rapid population change. One great difficulty is that the connection between fewer children and a higher standard of living must be made clear at a time when much of the population has experienced little increase in their income during so-called normal years. It thus seems doubtful whether the birth rate can be reduced to the extent suggested by Khan, without resorting to "Chinese methods"—harsh discipline in revolutionary conditions.

Land reform

In view of the employment target, it is disquieting that the available data and information point to a relative decline in manpower requirements as the size of agricultural producing units increases. The most plausible explanation seems to be that smaller units are mainly family farms: since there are few opportunities for alternative employment, family manpower is used to its economic limit or beyond i.e., until the marginal productivity of labor employed is zero or even negative.

It ought therefore to be possible to increase employment considerably if a limit were placed on the size of agricultural units. On the other hand, the maximum size of agricultural holdings in Bangladesh is already lower than in most developing countries. It can therefore be argued that land reform may entail lower productivity. Available data show, however, that production per acre for the smaller units exceeds that for large farms. On the other hand, profit per acre, computed on the basis of prevailing market prices, is probably greater for large farms primarily because of the labor intensity of smaller units.

Consideration must also be given to growth potential. It seems natural that larger units with greater private enterprise profits should benefit more from new technology, irrigation, artificial fertilizers, etc. and should also be able to obtain advantageous loan terms from credit institutions for productive investments. But this assumption is not consistent with reality. In Bangladesh, there is no evidence that savings and investment propensities of large farms would exceed those of smaller ones. The contrary seems more likely.

There are several explanations: lease relationships on large farms—particularly sharecropping—tend to discourage modernization and high returns; and many large landowners have additional sources of income which possibly reduce the incentive to maximize their net income from agriculture.

There is of course no law of nature to force on large landowners a passivity reflected in a low savings and investment propensity (during the eighteenth century, for example, large landowners in Japan were pioneers of efficient farming methods). There is also the possibility that economic policy in Bangladesh did little to encourage increased investment and production on large farms. Khan rejects this argument and thus finds no confirmation that the marginal savings ratio of large farms exceeds that of small farms. The conclusion is thus that land reform would not necessarily entail a loss of production in the near future.

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Industrial employment

Khan also finds that employment in industry drops as the average size of enterprises is increased. A comparison between small-scale and large-scale enterprises shows that the capital intensity of the latter is seven times greater than that of the former (even when so-called cottage industry is excluded from small industry). What is surprising, however, is that the surplus—value added minus wages—is greater in small industry. Khan thus draws the conclusion that small industry can employ seven times as much labor at wages not markedly lower than in large enterprises, and can in spite of this generate an investable surplus which, in relation to capital used, appreciably exceeds that of major enterprises.

The conclusion that since small-scale enterprises make more effective use of their resources they should be given priority is, however, premature. We know that for some products, technology and other factors may require capital-intensive industry and may entail such economies of scale that production on a small scale becomes uneconomical. Common examples are artificial fertilizer plants and steel mills.

In examining the capital intensity of large industry, Khan focuses on the fact that market prices do not properly reflect the supply or lack of resources. For example, given that unemployment is a cost to society, the real cost of labor is lower than the market wage. On the other hand, an overvalued currency, import regulations, and inexpensive bank credit have helped to keep prices of investment goods artificially low in relation to the scarcity of capital. The two phenomena may have cancelled each other out so that major differences between individual enterprise and national-economy profitability did not necessarily have to occur.

With the help of an advanced model and data for big industry, Khan shows empirically, however, that there are great differences between the two profitability concepts—the private one generally exceeding that of the national economy. Thus here is an obvious need to steer economic policy so that distorted price relations will be corrected and expansion in the private sector will not in the future deviate from what is best from the standpoint of the national economy.

Required economic and social changes

Wages in family farming and small enterprises—as compared to large production units—are more consistent with society's actual cost of labor. An even lower limit for the maximum size of tilling units in agriculture would also help to eliminate a market flaw which must, however, in the author's view, be corrected primarily through legislation and progressive land taxation. In industry, effective tariff protection should be made more uniform and the price of capital raised. In order to keep private profitability from dropping below that of the national economy, Khan recommends that labor in private industry be subsidized and the financial burden be met by an indirect tax of about 1 per cent on industrial production and imports.

In this attempt to change factor-price relationships, there are other measures in addition to those Khan recommends: in particular, the educational system should be changed to provide more workers with practical and technical skills. Without this, wages for the relatively small number of qualified workers will continue to rise sharply and the difference in income between skilled and unskilled labor will be further exacerbated.

Khan's analysis is instructive, and it is to be hoped that similar work will be done on other developing countries. As long as the framing of economic policy is not optimal in relation to a country's resources, there will be mismanagement. Conversely, when the steering mechanisms have been adjusted, the same investment volume as before gives rise to greater production. Given the country's background of poverty, the need for required structural and other changes is urgent.

Per Eklund

An emotionally concerned economist

Roy Harrod, *Economic Dynamics,* **London, Macmillan, St. Martin's Press, 191 pp., $8.95.**

Several years ago, Sir Roy Harrod started to prepare a revised version of his, by now, classic *Towards a Dynamic Economics.* He did not achieve this aim; rather he has here presented, set in the framework of his earlier analysis, a discussion of several of the important economic questions facing policymakers today. While he defines his fundamental concepts in this new work, it is still essential for someone trying to understand his analysis fully to go back to the original set of lectures (or to some of the many commentaries that these lectures instigated).

Parts of this new work are brilliantly stimulating. Any long-term economic development plans should be reviewed in the light of his actual, warranted, and natural rates of growth. These concepts are useful guides in determining in macroeconomic terms the feasibility, consistency, and desirability of long-term plans. His formula provides one method of determining the optimum interest rate that should be compared to alternative shadow interest rates for planning purposes.

The section on "The Foreign Balance" in his earlier work is one of the earliest of the essays that have led to the development of "modern" theories of balance of payments analysis. Therefore, it is strange to find Harrod discussing international problems almost entirely in terms of neoclassical price and income elasticity and relative interest rates. Even so, his discussion of the debt-burden and similar problems is cautionary and calls into question much of the conventional wisdom in this field. It is possible that his grave concern with this subject leads him to overstate his case, but international institutions may ignore his arguments at their peril.

In some places, his observations are unduly strong. For example, the "Pigou effect" is not "incompatible with" the doctrine of "liquidity preference," (p. 182) even if the former is as weak as Harrod thinks it is.

It is encouraging to find a theoretical economist who is emotionally concerned with the current conflict between maintaining a high level of welfare (interpreted in an environmental context) and price stability. His classification of different situations in terms of relative growth rates (p. 104) provides one method of identifying the conflicts that seem to be inherent in many economies today, and of providing a guide to policies that should be adopted. This identification may well lead to a discussion as stimulating as that initiated by his presentation of the fundamental dynamic theorems a quarter of a century ago.

It is unfortunate that the publishers of this exciting book did not arrange to have it decently proofread.

Graeme S. Dorrance.

Analyzing crude oil prices

Adelman, M.A., **The World Petroleum Market,** Baltimore, Maryland, The Johns Hopkins University Press, 1972, xviii + 438 pp., $22.50.

This study analyzes the interplay of demand, supply, and degree of monopoly in the determination of international crude oil prices. Mr. Adelman notes that competitive forces led to a decline in crude oil and petroleum product prices between 1957 and 1970, and believes that the notion that rising demand will remove a supply surplus has always been a disappointed hope. Although the producing countries now operate a cartel tolerated by the consuming countries, they did not during that period impose any effective limit on output or allocate markets; hence the long-term outlook did not change.

If the producing nations had been content to remain owners of oil concessions, effectively using the companies as tax collectors, he considers that they could have raised taxes much more and held the line for years. But they became committed to participation with foreign companies since they knew that the latter's departure would speed up competition—a situation they wish to avoid. Mr. Adelman therefore argues that unless the producing nations can set and obey production quotas they will inevitably bring down prices

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by selling incremental amounts at a discount. The temptation to cut taxes in order to let the foreign concessionaire or national company reduce prices would be irresistible because of the threat of competition from other producing nations. Were there only the companies and host governments to consider, there would thus be a continued and accelerated decline in crude and product prices.

However, he argues that the action of consuming country governments will, over the next decade, slow down the price decline since higher oil prices help them to protect the development and production of domestic sources of energy. The United States, in particular, might even benefit from increases in international oil prices: increased flows of investment income would partially offset the increased direct cost of oil imports; and higher international energy costs would both encourage development of domestic energy and impose a competitive disadvantage on industrial rivals. Consuming countries could in fact have the price of oil they wanted by removing the international oil companies from their role as the tax-collection agency for the member countries of the Organization of Petroleum Exporting Countries (OPEC) and by forcing the producing nations into competition with one another. However, the consuming countries are divided both among and within themselves so that this is unlikely.

The author's thesis is stimulating and useful. It goes completely against the majority view of a considerable rise in posted and realized prices in the next decade. A key assumption made by the author is that prices will decline in the long term because the producing nations have placed no effective limit on output. It is true that, of the three OPEC nations likely to make the crucial decisions on output, Iran wants to exploit production to the full to help finance economic and social programs and that Iraq similarly seeks rapid development of reserves. However, it is Saudi Arabia above all which has the resources to supply the world's incremental demand for oil; and her accelerating domestic resource surplus will remove any incentive to increase output per se. Saudi Arabia has the choice between money in the bank and oil in the ground for later use. It will thus have the power to control international oil prices by controlling output, and it has already made clear that it has no intention of depressing prices. Other OPEC countries with domestic resource surpluses may also follow Kuwait and Libya which have already restricted production.

In addition, the community of interest in the stability of marketing arrangements has recently been confirmed by this year's agreement between Iran and the consortium of foreign oil companies, and in the new General Agreement on Participation between the Gulf states and the oil companies. In Iran the national oil company becomes the sole operator but sells crude oil to consortium companies until 1994—retaining only part of its domestic market and sales to third parties. Volumes and prices will be set so as to achieve at least the same financial benefits as in the Gulf states, which have been careful to ensure that their acquisition of equity oil, beginning in 1973, does not disrupt the level of international oil prices. During the first few years of such agreements, the governments resell most of their equity crude—at prices close to the market level—to their foreign partners who then market it in the normal way. Meanwhile, the national oil companies of Saudi Arabia and Abu Dhabi have recently concluded sales at significantly higher prices for that part of their equity crude which they do not sell back to foreign partners.

Mr. Adelman is clearly right to argue that the price of oil could not be as high as it now is without the recognition by consuming countries that oil is still a relatively low cost form of energy. This recognition will certainly encourage the oil producing countries in the crucial negotiations when the present contractual arrangements in the Middle East and in Africa expire at the end of 1975. The consuming countries are, in consequence, beginning to feel a growing need for more coordination between them. This, in turn, has caused the Saudi Arabian oil minister, Sheikh Yamani, to warn consuming countries against ganging up against OPEC. Any such move would, he stated, be self-defeating as it would relieve, for example, his own country from the moral obligation of meeting world demand— an obligation which it has so far felt very keenly.

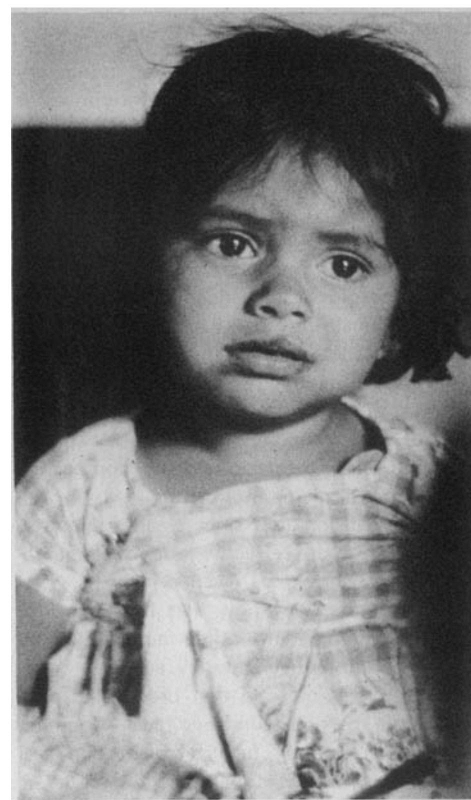
John Foster

Finance and Development does not attempt to evaluate books or contributions thereto by Executive Directors or members or former members of the staff of the International Monetary Fund or the World Bank Group but notes them as likely to be of interest to its readers.

Berg, Alan, **The Nutrition Factor**, Washington, D.C., U.S.A., Brookings Institution, 1973, viii + 290 pp., $8.95.

Nutrition is gaining increasing attention as a factor in world poverty. Alan Berg, now Deputy Director for Nutrition in the World Bank, says malnutrition is "the biggest single contributor to child mortality in the developing countries."

Berg argues that malnutrition is both consequence and cause of under-development and suggests practical courses of action. Infant malnutrition can be improved by reversing the alarming trend away from breast feeding; existing diets can be fortified through the introduction, during food processing, of synthetic micronutrients; and nutrition improved through the introduction of palatable new foods.



Mr. Berg prepared this study as a senior fellow at the Brookings Institution, Washington, D.C., and as a Belding Scholar of the Foundation for Child Development, New York, N.Y.

McNamara, Robert S., **One Hundred Countries, Two Billion People**, New York, N.Y., U.S.A., Praeger Publishers, 1973, 140 pp., $1.95.

An edited selection of public statements made by Robert S. McNamara during his first five-year term as president of the World Bank. He looks forward to a doubling of Bank lending during the next five years—with more emphasis than in the past on assistance to Latin America and, especially, to Africa.

In examining the "underlying drive toward social and economic transformation in the developing world," Mr. McNamara focuses on seven major themes—the widespread disenchantment in the late 1960's with the international aid effort, population growth, malnutrition and unemployment, barriers to trade, increasing aid flows, environmental problems, and redistribution of income.

The appendix describes the financing arrangements of the World Bank, and Mr. McNamara emphasizes the unique security of World Bank bonds, "backed by the strongest industrial nations on earth." He also notes that the Bank has not been a target for debt repudiation as have bilateral aid agencies and private credit corporations. "The reason is obvious," he states. "Developing nations are convinced that it is in their own best interest to maintain impeccable relations with the IBRD."

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