Any development strategy, be it national or international, must have priorities and hence must be selective. In formulating an international development strategy for the 1990s, it is suggested that the priorities be few in number and that international action be organized around four themes:

- accelerated and qualified economic growth;
- greater concern for human development;
- an absolute reduction in the number of people suffering from poverty;
- preventing further deterioration of the natural environment.

The need for faster growth is undeniable in the Third World, and especially in those parts of the Third World where per capita incomes fell during the 1980s. Growth, of course, is not an end in itself; it is a means to increase the well-being of people. If the growth of income per head is negative or low, it is almost impossible to reduce poverty substantially. But even when the rate of growth of per capita income is positive, it does not follow automatically that poverty or unemployment or hunger will decline. Much depends on the pattern of growth. If, for example, growth is accompanied by greater inequality in the distribution of income, the reduction in poverty could be rather modest. Similarly, the effects of growth on unemployment depend not so much on the average rate of expansion as on the employment intensity of the sectors of the economy that expand most rapidly. And further, growth can be accompanied by negative environmental consequences which actually lower the well-being of some groups of people.

Population trends will affect the possibility of accelerating growth in per capita income in the 1990s. There is no direct relationship between slower growth of population and faster growth of average incomes, but as the rate of growth slows, the easier it is to increase the growth of income per head.

Population growth rates began to decline around 1960, and the decline is expected to continue during the 1990s. Demographic expansion occurred at a rate of 2.1% p.a. for the world as a whole during 1960-70; according to United Nations estimates, it should be only 1.7% p.a. during 1990-2000. This fall in population growth rates is expected to occur in all groups of countries, be they rich or poor, capitalist or socialist, but not in all regions. Thus, in the capitalist developing countries the population growth rate is expected to fall from 2.5% p.a. in 1960-70 to 2.3% in 1990-2000, while in China and the other Asian planned economies the decline is expected to be from 2.4% in 1960-70 to 1.3% in 1990-2000. Population growth rates are expected to remain high (3.2% p.a.) in West Asia and to continue to accelerate (to 3.3% p.a.) in sub-Saharan Africa. Elsewhere they should fall, sometimes sharply.

Though it is much too early to claim that the population problem has been solved, attention in future is likely to be focused less on the overall rate of increase but more on the rate of increase in urban areas, which continues to be extremely high. In 1980-85, for instance, the urban population grew by 3.1% p.a. in the low-income economies and by 3.7% p.a. in the middle-income economies, as compared to total population growth rates in the two groups of countries of 1.9 and 2.3%, respectively.

Rapid demographic expansion is thus not likely, in general, to be as great an obstacle to development in the 1990s as it was in earlier decades. The main international and domestic barriers are likely to lie elsewhere, and it is to those that we now turn.
Stimulating Growth in the Third World

A central policy objective during the 1990s must be to raise the rate of accumulation of capital and, at the same time, improve its allocation. In many countries gross domestic investment actually declined during the 1980s, and that pattern clearly must be reversed if even minimum growth objectives are to be attained. Investment increased at a rapid rate in China and at a modest rate in India. In the other low-income economies as a group, however, investment increased only by 0.4% p.a., which implies a heavily negative rate of growth in per capita terms. In the middle-income economies the growth of investment was negative, and the lower middle-income economies fared worse than the upper middle-income ones.

The most serious situation as regards investment occurred in two overlapping groups of countries – sub-Saharan Africa and the highly indebted countries. In sub-Saharan Africa gross investment declined at an annual rate of 9.3%, and in the highly indebted countries by 6.3%. Thus the stock of capital per head of the population obviously declined sharply in many Third World countries, and it should therefore be an object of domestic policy to recreate conditions for higher levels of investment.

Unfortunately, it is not enough merely to raise the rate of growth of investment in view of the fact that there was a tendency throughout the Third World for the efficiency of investment to decline in the 1980s. In the 1990s it will be important to take steps to increase the efficiency of investment so that it at least regains the levels experienced in the 1970s. In addition to a restructuring of output, this requires reform of investment procedures within central government ministries, improved criteria for investment decisions in public sector enterprises and price reforms designed to channel private investment in more socially optimal directions. State-owned enterprises, in particular, have tended to serve vested interests, have been inefficient and have often operated at a loss. Whether such enterprises are retained in the public sector or privatized, they should become more competitive by increasing their exposure to market forces.

The savings effort in developing countries remained surprisingly large on the whole, the average savings rate being 23.6% of GDP in 1987, or about the same as it was in 1973 before the first sharp increase in oil prices. In sub-Saharan Africa, however, the savings rate was less than half the average of the Third World – namely, 10.9% in 1987 – and much below the rate of savings achieved in 1973 – namely, 17.5%. In this region a major effort will be required in the 1990s to raise the savings rate to a level compatible with a positive rate of economic growth. Failure to do so will almost certainly result in further impoverishment.

Public expenditure in the developing countries increased its share of GNP by nearly 41% between 1972 and 1986, central government expenditures rising from 18.7% of GNP in 1972 to 26.3% in 1986. Much of this, however, was due to rising interest payments on the foreign debt.

When one examines the composition of central government expenditures, two things stand out. First, the share of expenditure devoted to human development (notably, education and health) declined, and secondly, the proportion of expenditure devoted to the military also fell. These were, of course, falling shares of a total which was itself an increasing proportion of GNP. Thus when these expenditure categories are expressed as proportions not of total central government expenditure but of GNP, it transpires, paradoxically, that public expenditure on the military and on education and health rose.

It would be highly desirable if developing countries in the 1990s could take advantage of the improved international political climate and curtail military expenditure, thereby releasing additional resources for expenditure on human development and for physical investment. Indeed, real public expenditure on education per student and real public expenditure per capita on health often either stagnated or declined. The central government current deficits, which can be interpreted as negative savings, rose very sharply, from 3.5% of GNP in 1972 to 6.2% in 1986. This is a further indication of the need to reform the public finances through improved tax and expenditure policies in order to make a larger contribution to development.

Indeed in many countries, above all in those affected by serious debt-servicing problems, the fiscal deficit of the central government is the major constraint on development. The ease with which several countries have generated trade surpluses indicates that the balance-of-payments constraint is not always as severe as was once thought, and widespread evidence of massive capital flight indicates that in those countries at least a savings constraint is not binding.

Other internal policy reforms are also likely to be necessary. These include measures to improve the efficiency of domestic capital markets and alleviate financial repression and controls to prevent capital flight. The deficits of public sector enterprises are quite large in...