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ADDRESS BY MR. JEAN-CLAUDE PAYE, SECRETARY GENERAL OF THE OECD,

TO THE SECOND UNITED NATIONS CONFERENCE ON LEAST DEVELOPED COUNTRIES

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•Almost a decade has elapsed since the previous United Nations conference on the LDCs. This period, which started soon after the second oil shock, is drawing to an end with the threat of a third as a result of the Iraqi aggression against Kuwait.

•During the 1980s, the industrialised countries saw their longest period of growth since the end of the second world war. The rate was admittedly moderate, but the important point is that this growth lasted because it was based on economic policies that maintain the basic preconditions. On the other hand, except for some remarkable exceptions -- essentially located in Asia -- the developing world's economic performance has not been so satisfactory. Even though some countries have recorded quite respectable growth rates, the difference in standards of living compared with industrialised countries has continued to widen. And in many developing countries per capita income has levelled off or even declined, as the increase in population has exceeded the rise in national product.

•For the LDCs the decade's results have been even less satisfactory than for the developing world as a whole, even if the diversity of this LDC category precludes any over-generalisations . Their handicaps have prevented most of them from benefiting from the industrialised world's growth. Their share in world trade has dwindled further: here we have almost 400 million men and women who account for only 0.3 per cent of international exports, as compared with 1.4 per cent in 1960. The terms of trade deteriorated by 15 per cent between 1980 and 1988. Poverty has spread. External financial resources, whether in the form of official development assistance or private flows, have been quite insufficient to prevent the situation from worsening. In short, the hopes expressed in 1981 at the previous conference have not materialised. Instead of integrating further into the mainstream of world growth the LDCs appear to be sidelined and cast adrift in stagnant waters.

•If we are to be more realistic this time -- and the uncertainties arising from the Gulf crisis provide further justification for being so -- this 1990 conference must avoid statements that simply express noble feelings. In other words, we must try to learn from past experience.

•As the representative of an Organisation to which most developed economies belong, I shall refrain from the temptation, which would be quite out of place, of dispensing advice. I shall simply try to enumerate the lessons which, on their side, the OECD Member countries may reasonably draw from the past decade and from their quite successful economic policies. Some of these may well be useful to the governments of LDCs.

•First lesson: the market is the least unreliable guide for economic activity; and the more diversified and complex an economy is, the more it is necessary to rely on the market. The Eastern European countries' conversion to the market economy confirms the practical impossibility of planning a developed industrial economy efficiently from the centre.

•Second lesson: the consumers' interest, which is the market economy's basic engine, requires the market to be as vast and fluid as possible, so that full use can be made of comparative advantage. International trade must therefore be free and international co-operation sincere, confident and wide ranging.

•Third lesson: relying on the market in no way means that officialdom, particularly at central government level, should ignore the economy. They must for instance ensure that competition, the spur to progress, remains keen and that institutions are conducive to the smooth operation of the economy and are an incentive to productive effort. The rules governing property ownership, the tax system and legal provisions concerning business activities are among the most important institutions for the economy. Government can also play a valuable role by assuming direct or indirect, full or partial responsibility for certain investments on which the returns will be so long in coming or so thinly-spread, in many countries, that a private firm would hardly wish to touch them.

•The fourth and probably the most important lesson is that a nation’s real wealth is its people, and more precisely the quality of its population, their technical skills and ability to achieve and utilise scientific and technological progress. Their health and morale are also important. The relationship between economic performance and the respect of basic rights, including political rights, is perhaps not one of those that immediately comes to mind when discussing economics. It is, however, an essential factor, and many industrialised countries still need to grasp more clearly the close relationship between employment prospects, social cohesion and economic performance. Provided it does not last too long and the labour force has been prepared for the changes required by needs and production, unemployment is a natural element of the economic development process. But it is a deadly poison if it is seen as a lasting exclusion, a definitive write off.

•Fifth lesson: in the medium and long term, inflation is the surest way of destroying economic growth. It distorts calculations for investment, discourages savings, discriminates against wage earners, and eats into the moral fibre required in any economic activity.

•Sixth lesson: air, water and arable land, the natural resources which we thought would always be readily available, are threatened -- and much more seriously than was thought. The pursuit of economic progress and its extension to the whole world depends on the protection and restoration of the environment.

•To what extent can the LDCs benefit from these lessons? It seems to me to a quite large extent, as confirmed both by the policies implemented by those LDCs which have really made headway, and the discussions within international bodies such as UNCTAD.

•There are, however, two obvious points which should be kept in mind at a time when those who have succeeded have a tendency to say to others: "why don’t you just do as we did?"

•The first is that the basic conditions in an LDC are very different from those in an industrialised country. The lessons I have just listed could therefore not be applied indiscriminately to the LDCs, without being adjusted to the specific characteristics of each country. This word of caution can be illustrated by a few examples.

•-- Relying on the market assumes that there can be a market, and actors in that market. But in most LDCs the market is small and fragmented owing, amongst other things, to inadequate means of communication and information. As far as the actors are concerned, entrepreneurs are often in short supply. If private enterprise is to give rise to viable undertakings, many requirements must be met - which, to date, has seldom been the case in the LDCs - with regard to know-how, funding sources and the right legal and regulatory environment. With respect to the latter, an obvious example is the difficulty, for most developing countries, of putting in place a tax system that generates enough revenue without inciting firms to seek refuge in the informal sector.

•-- Everybody probably agrees in theory about fighting inflation as a first priority, carrying out structural adjustment and not disguising unemployment. But what is the answer if a decrease in real wages and household incomes among populations who are already extremely poor leads to malnutrition, sickness and a physical inability to work efficiently?

•-- Protecting and restoring the environment is all very well, but what is the answer if the increase in population, and the impossibility of obtaining supplies on the world market, as there is no means of paying for them, force countries to "eat their capital" of farmland and firewood?

•-- Improve education? Certainly, but it takes time to train -- and money to pay -- enough teachers with sufficient qualifications.

•These are only a few illustrations of how careful we should be in thinking we can recommend the experience of developed countries as a source of inspiration to LDCs. This is the first obvious point. The second is that developed countries must continue to feel responsible to a considerable extent for the economic development of the LDCs.

•This responsibility was recognised long ago, and particularly at the 1981 conference. But the gap is still wide between statements of intent and what has been done. The fact, now accepted, that every developing country must rely mainly on itself for its development must not be used as an excuse by developed countries for shirking their own responsibilities.

•The first responsibility of developed countries is to be prosperous and let the rest of the world benefit from their prosperity. As they are largely dependent on their exports to finance their imports and debt servicing, the LDCs must secure open, expanding markets. Even if a great deal has already been done to facilitate the entry of goods from LDCs into industrialised countries, further concessions -- particularly concerning restrictions on textiles -- and the relaxation of certain rules -- such as rules of origin -- can contribute significantly to improving export prospects for the LDCs.

•The second responsibility concerns the various aspects of funding, and primarily official development assistance which is more particularly needed by the LDCs. The intentions expressed in 1981 by the donors have not been followed up. Although a few OECD countries, as well as some OPEC countries, devote more than 0.15 per cent of their GNP to aid for the LDCs, the average for the industrialised countries is still far below the target set. No doubt major efforts have been made in recent years by the donors to improve the quality of their assistance, but this in no way alters the fact that there is still a long way to go before actions live up to the intentions expressed nine years ago.

•The governments of industrialised countries do not have a decisive influence on private financial flows, which depend rather on growth prospects and legal guarantees in the host country. On the other hand, these governments can make greater efforts to relieve the debt of LDCs, which is a tremendous burden on them, owing to the narrow base of their economies. In absolute terms, however, this debt does not amount to a vast sum. Writing it off would therefore not be an absolutely unbearable sacrifice for the creditors. Here is another field in which further gestures of solidarity are conceivable.

•Lastly, technical assistance is the third area in which industrialised countries can act constructively. For a number of years now it has been fashionable to disparage somewhat technical assistance, for instance on the grounds that it would deter developing countries from assuming their full responsibilities. But now that the decisive importance of the human factor in development has been recognised, everything must be done to bridge the gap in this area as quickly and efficiently as possible. It is not easy to organise the transfer of know-how efficiently, but technical assistance is one of the effective ways of doing so. Even then, those who are providing this assistance must be capable of adapting their contributions to the recipients' needs and absorptive capacity. Teaching farmers in the Sahel farming methods and the ground rules of agricultural financial management applicable to the Beauce region is not very useful. To assist the Sahelians it would be better to find farmers who still know how to harness a draught animal and operate a butter churn.

•These are the few comments I wished to make to this conference. The feeling of relative disappointment left by the assessment of the progress made by the LDCs in a decade does not signal a defeatist message but rather one calling for increased effort, confidence and dynamism. This message concerns the industrialised countries as well as the LDCs themselves.

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