ADDRESS to the
UNITED NATIONS
CONFERENCE ON TRADE AND DEVELOPMENT

BY

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I. INTRODUCTION

This is the first opportunity I have had since becoming President of the World Bank to attend a session of the United Nations Conference on Trade and Development, and I am very pleased to be here.

What I have to say will be brief and candid.

My view is this:

- The state of development in most of the developing world today is unacceptable—and growing more so.

- It is unacceptable, not because there hasn't been progress in the past 20 years—and particularly in the decade of the sixties—but because development programs have been directed largely at gross economic goals, and have failed to insure that all nations, and all groups within nations, have shared equitably in the economic advance.

- As the Second Development Decade unfolds, the mistakes of the past have begun to be perceived, but neither the developing nor the developed nations have moved to deal with them effectively.

- Finally, if the state of development today is unacceptable—and it is—we must not waste time looking for villains in the piece, or even worse, waste energy in fruitless confrontation between rich nations and poor nations. Rather, the entire international development community—all of us—must promptly move forward with practical measures which are conceptually sound, financially feasible, and which can command the requisite public support. I hope to suggest some of these today.
II. THE UNEVEN AND UNACCEPTABLE STATE OF DEVELOPMENT

I have said that I believe the state of development in most of the developing world today is unacceptable.

It is unacceptable, but not because there has not been progress. There has been. the total economic growth, measured in GNP terms, for the developing countries during the First Development Decade was impressive. For some of these countries it was the most successful decade—measured in these gross economic terms—in their history.

But such economic measurements, useful as they are, can be seriously inadequate.

What is inadequate about them is that they do not, in themselves, tell us much about what is happening to the individual lives of great masses of people in the developing countries.

But the improvement of the individual lives of the great masses of people is, in the end, what development is all about.

What are we to say of a world in which hundreds of millions of people are not only poor in statistical terms, but are faced with day-to-day deprivations that degrade human dignity to levels which no statistics can adequately describe?

- A developing world in which children under age five account for only 20% of the population, but for more than 60% of the deaths.

  A developing world in which two-thirds of the children who have escaped death will live on, restricted in their growth by malnutrition—a malnutrition that can stunt both bodies and minds alike.

- A developing world in which there are 100 million more adult illiterates than there were 20 years ago.

- A developing world, in short, in which death and disease are rampant, education and employment scarce, squalor and stagnation common, and opportunity and the realization of personal potential drastically limited.

This is the world of today for the two billion human beings who live in the more than 95 developing countries which are
members of the World Bank. The personal catastrophe that affects the individual lives of hundreds of millions of these individuals is such that we can no longer take much satisfaction in the simple statistical achievement of the overall GNP growth goal of 5% by the close of the First Development Decade.

To begin with, that average figure conceals the fact that the growth rate was very uneven among the developing countries; and that income grew the least where it was needed the most—in the poorest countries, with the largest aggregate population.

Based on a study of the individual countries, the picture that emerges demonstrates just how uneven that growth has been.

• The major oil-exporting countries, with less than 4% of the population, enjoyed a GNP growth rate not of 5%, but of 8.4%.

• The developing countries with a per capita GNP exceeding $500, with 9% of the population, had a growth rate of 6.2%.

• The countries with a per capita GNP between $200 and $500, with 20% of the population, had a growth rate of 5.4%.

• And the poorest countries—those with a per capita GNP of less than $200—with an overwhelming 67% of the population, had a growth rate of only 3.9%.

So the first obvious conclusion is that by lumping all developing countries together, and measuring progress by an average GNP growth rate for the entire group, we obscure the significant differences between these countries.

What is more, we obscure the even larger differences in their per capita income growth.

• In the poorest countries, with 67% of the population, per capita income during the First Development Decade grew at only 1.5% annually.

• In the two middle categories of countries, per capita income grew far faster than that—2.4% and 4.2% respectively.

• In the oil-exporting countries, it grew more than three times as fast: 5.2%.
But what is most misleading of all is to assume that once we have calculated the GNP growth rate of a particular developing country, and then expressed it in per capita terms, we have arrived at a sound picture of the level of economic development in the country.

We have not.

For rates of growth of GNP, and of GNP per capita, tell us nothing about how income is actually distributed within a country.

III. THE MALDISTRIBUTION OF INCOME WITHIN DEVELOPING COUNTRIES

Such evidence as is available suggests that even the developing countries which have registered significant gains in GNP growth rates are plagued with severely skewed income distribution patterns.

In the last decade Brazil's GNP per capita, in real terms, grew by 2.5% per year, and yet the share of the national income received by the poorest 40% of the population declined from 10% in 1960 to 8% in 1970, whereas the share of the richest 5% grew from 29% to 38% during the same period. In GNP terms, the country did well. The very rich did very well. But throughout the decade the poorest 40% of the population benefited only marginally.

In Mexico the picture is similar. Over roughly the past 20 years, the average income per capita grew, in real terms, at 3% per year. The richest 10% of the population received about half the total national income at the beginning of the period and an even larger share at the end of the period (49% in 1950 and 51% in 1969). But the share of the poorest 40% of the people was only 14% in 1950, and declined to 11% in 1969. The share of the poorest 20% during the same period sank from 6% to 4%.

In India, there has been progress in overall GNP growth during the past decade. But, today, some 40% of the entire population—200 million people—live beneath a poverty line: a line defined as the point at which serious malnutrition begins. And the evidence is that the poorest 10% of the nation—50 million
"Too little too late" is history's most universal epitaph for political regimes which have lost their mandate to the demands of landless, jobless, disenfranchised and desperate men.

What I am suggesting is that we should stop thinking of massive poverty in a developing country as simply a symptom of underdevelopment—and begin, rather, to think of it as a condition that must be attacked within the framework of the nation's overall development program.

If developing countries themselves do not adopt the policies to deal with this problem, there is little that international institutions and other external sources of aid can do to help the poorest 40% of their peoples—those 40% who suffer the greatest deprivations, and who are in the most desperate need.

But if the developing countries do adopt policies to insure that the benefits of growth will be more equitably distributed among their own peoples, then these countries both need and deserve the assistance necessary to insure that a reasonable rate of overall growth can be achieved. That is why the Second Development Decade's goal of 6% growth in GNP per year was established. It is, in my view, a necessary and an attainable target. But it cannot be met unless external assistance, in the form of both aid and trade, is made available in amounts larger than those which now appear likely.

IV. THE NEED FOR OFFICIAL DEVELOPMENT ASSISTANCE

The developed countries in adopting the strategy for the Second Development Decade, and in support of the growth target, stated that the level of external aid to be provided in the form of Official Development Assistance should reach .7% of their GNPs by 1975.

Where do we stand today in that effort?

A number of the developed countries have made significant progress towards the objective, as the attached table indicates. However, on the basis of present indications, only two (Norway and Sweden) will reach or exceed the target. Six more (Australia, Belgium, Canada, Denmark, France, and the Netherlands) will come close. Four others will substantially increase their percentage but still fall well below the target (Austria, Japan,
Switzerland, and the United Kingdom). And the contribution from the United States, which accounts for roughly half of the total GNP of such countries, continues to decline. It has already fallen from above .5% of GNP in the early years of the last decade to .31% in 1970. It is likely to fall further to around .24% by 1975.

I feel obliged, therefore, to conclude that the total flows of ODA for the first half of the decade are likely to average out at approximately .35% of GNP, only half of the Second Development Decade target.

This is a most unwelcome conclusion. But we must face facts. Not only is there no evidence that ODA as a percentage of GNP will rise above one-half of the target rate by 1975, but unless there are prompt and marked changes in attitudes, it is difficult to foresee any great improvement in the second half of the decade.

Was the .7% target too ambitious? Are the difficulties within the domestic economies of the developed countries such that it is unrealistic to assume they can afford this degree of assistance to international development?

Certainly not.

I have pointed out the severe maldistribution of income and wealth which exists within the developing countries, and I have stressed that these nations must act to shape future economic growth in such a way as to redress that imbalance. But an analogous situation exists in the distribution of the world's wealth and income — there is severe maldistribution between the rich nations and the poor nations — and given that fact, one must face up to analogous conclusions.

During the First Development Decade, the total GNP of the world increased by $1,100 billion. That is an increase in income almost beyond comprehension.

But how was that growth in income distributed throughout the world?

Eighty percent of the increase went to countries where per capita incomes already average over $1000 — and they contain only one-quarter of the world's population.
Only 6% of the increase went to countries where per capita incomes average $200 or less—but they contain 60% of the world’s people.

Today the average per capita income in the developed countries is approximately $2400. The comparable figure for the developing countries is $180. By 1980, after the 25% of the world’s people who live in the developed countries once again receive 80% of the total increase in the world’s income, their per capita income will have risen by some $1200. The comparable increase in the per capita income of the 75% of the world’s people who live in the developing countries—even if the Second Development Decade growth objective is achieved—will be less than $100.

The collective GNP of the developed countries in 1970 totalled roughly $2000 billion. In constant prices, it is projected to grow to at least $3000 billion by 1980.

What this means is that in order to raise the current ODA flows of .35% to the targeted .7%, the developed countries would need to devote only about 1.5% of the amount by which they themselves will grow richer during the decade.

The remaining 98.5% of their incremental income will provide them with sufficient funds to meet their domestic priorities.

Granted these facts, are we to say seriously that these wealthy countries cannot reach the ODA target of .7% of their combined GNPs?

It is manifestly not a case of their being unable to afford it.

Nor, in my view, are the reasons for the serious shortfall in ODA the lack of generosity of the peoples of the developed world, or their indifference to justice.

It is much more a matter of ignorance: a failure to comprehend the inhuman conditions which characterize the lives of hundreds of millions of people in the developing countries; a failure to grasp how severe the maldistribution of income actually is between rich nations and poor nations; and a failure to understand how modest are the amounts of the wealthy nations’ incremental income which, if made available to the developing countries, would make so great a difference in their ability to meet minimal growth objectives.
It is said that in wealthy countries the case for foreign assistance has no constituency. I do not believe that is true. What I do believe is that the constituency in most of the countries must be better informed, better mobilized, and better motivated. In the end, that is a matter of leadership.

But if that constituency in important parts of the developed world remains at its present level of concern—and governments continue to reflect this—then one is compelled to conclude that the flow of ODA will remain at its present wholly inadequate level throughout the decade.

In view of the degree of poverty that oppresses the human spirit in so much of the world, that would be tragic. Let me, for a moment, analyze what in fact that failure would mean.

The ODA deficit will penalize the poorest countries the most. It is unlikely that they will be able to reach the growth target. Their need for ODA is the greatest, and if it stagnates at its present level, they will feel the effects the most severely.

But for even those developing countries which are somewhat better off, a deficiency in ODA will force them to seek external finance from less desirable sources—particularly sources demanding high rates of interest or early repayment. The danger of overreliance on such sources is well known: it adds significantly to short- and medium-term debt burdens by mortgaging larger proportions of export earnings, and, in the event of an unexpected decline in those earnings, it can cause severe strains on the whole of the economy.

V. THE DEBT PROBLEM

The truth is: if ODA flows level off at substantially less than the target for the decade, mounting debt problems for the developing world are inevitable.

Achievement of the 6% GNP growth objective would require an increase in the volume of imports by over 7% a year. This increase would, in the main, have to be financed by a rapid growth in export earnings, as I will note in a moment. But even if these earnings increase at a rate greater than imports, the trade deficit, which would have to be financed by grants and
external borrowings, would grow by approximately 7.5% a year in current prices. In these circumstances, in the face of an ODA deficit, the developing countries would either have to reduce their rates of growth, or increase their debts above reasonable levels. Both are likely.

Since the mid-1950’s, publicly guaranteed debt has been growing at about 14% a year. At the end of 1971 it stood at over $60 billion and annual debt service exceeded $5 billion. Servicing of debt since the mid-1950’s, has been growing at the same average annual rate of about 14%. This is about twice the rate at which the export earnings, from which the debt must be serviced, have been growing. Such a relationship cannot continue indefinitely.

With the prospect of a leveling off of ODA at far less than the targeted amount, and its partial replacement with financial assistance on harder terms, debt service ratios will inevitably rise. Debt financing has a continuing role in development. But it has its outer limits of prudence and these must be recognized by debtors and creditors alike.

VI. THE EXPANSION OF TRADE

If they are to offset shortfalls in ODA, and keep debt burdens within manageable proportions, it is clear that the developing countries' most imperative need is greatly to expand their export earnings.

How can this be done? Can it be done at all?

It can. But only by difficult economic adjustments, broad policy changes, and astute political leadership in the rich and poor countries alike.

The general outline of the problem is clear enough. From an export point of view, there are three broad categories of developing countries:

- Those countries which export fuel. Fuel exports account for a third of all export earnings in the developing world, and are growing at an average rate of 10% a year. But three-quarters of these substantial earnings go to only six countries, containing less than 3% of the world's population.
• Those countries, many of them with very low income, which remain highly dependent on exports of agricultural products.

• Those countries, many of them in the middle-income group, which have the possibility of increasing their earnings through exports of manufactures.

The relative inelasticity of demand for agricultural raw materials means that the growth of exports of primary commodities, excluding fuel and minerals, is not likely to exceed 3 or 4% a year. However, even for countries dependent on the exports of such products, the developed countries can provide assistance.

They can negotiate stabilization agreements — on the international coffee agreement model — for cocoa and other commodities. Such agreements might provide for multilateral financial assistance.

And the wealthier nations could well afford to leave more of their markets open to agricultural imports from developing countries. Agricultural protectionism, particularly in the current climate of inflationary food prices in wealthy nations, makes neither domestic nor international sense. The sugar beet growers of the temperate countries, for example, have other ways of earning their living; the sugarcane growers of the Caribbean, Mauritius, and Fiji do not — and the same could be said for many other commodities.

For the countries with greater capabilities for the export of manufactures — countries whose populations total over one billion — we have estimated that achievement of the 6% growth target will require an increase in their export earnings, in current prices, of nearly 10% a year. This, in turn, necessitates an annual increase of their manufactured exports of 15%.

Can this rate of growth be achieved?

It is in the manufactured-products sector that world demand grows fastest, and the record of the developing countries in this sector during the sixties was impressive. Their manufactured exports did in fact grow at the rate of about 15% a year.

What is needed in the seventies is that the momentum be maintained. The natural comparative advantage for developing
countries lies clearly in those manufactured products which have a high labor input, or which utilize abundant domestic materials. These include items such as textiles, garments, footwear; vegetable oils, processed foodstuffs; plywood, furniture, glassware, plastic and wooden products; and electronic and engineering sub-assemblies.

But though demand exists for these manufactures in the developed countries, the developing nations have in some cases clung too long to inward-looking, import-substitution policies —policies which may have been appropriate at earlier stages of their industrial growth, but which now unnecessarily hobble export promotion efforts.

There are a number of specific actions which governments in these situations can take. They can reduce the heavy protectionist tariffs on necessary inputs; supply local credit on more reasonable terms for small, labor-intensive, export-oriented enterprises; and adopt and maintain realistic exchange rates.

But if the developing countries must realign their industrial policies to move from reliance on import substitution to greater efforts at export promotion, the developed countries must make just as great a shift from excessive protectionism to more equitable and less restricted import policies.

It is, for example, wholly illogical, after 20 years of development assistance to poorer countries, for the wealthy nations to negate that effort by maintaining higher tariffs on the manufactured goods these poorer countries export than on manufactures from their affluent counterparts. But that is precisely what the wealthy countries are doing. The levels of tariffs on imports of manufactured goods from rich and poor trading partners respectively average out in the United States to 7 and 12%, in the United Kingdom to 9 and 14%, and in the European Community to 7 and 9%.

But it is not only the level of tariffs that is discriminatory against the developing countries. It is their structure. For tariffs rise with the degree of fabrication. In the United States, there is no customs duty on hides and skins, but tariffs on leather are 5%, and on shoes 10%. Similarly, in the European Community cocoa beans from non-associated countries carry a 3% duty,
while processed cocoa products must bear an 18% tariff. This manifestly means that processing—even simple processing—can by such tariffs be priced out of the developing country's most appropriate markets.

Even more repressive of the developing countries' export opportunities is the whole series of restrictive non-tariff barriers which rich countries have erected over the years. These take the form of quotas, subsidies, and various preferential purchasing arrangements.

One of the most important elements in the strategy of the Second Development Decade is that the wealthier countries should grant preferential treatment to the manufactured exports of the developing countries. Japan, the Nordic countries, and the European Community have adopted this proposal, with various limitations, and other developed countries are considering it.

It is essential that this plan be carried out in full, but much more is required. The proposed preference agreement would increase the developing countries' exports of manufactures by only about $1 billion a year. And if these countries are to maintain the necessary momentum of a 15% growth in manufactured exports, their annual volume—which rose from less than $2 billion in 1960 to $7 billion in 1970—will have to quadruple to $28 billion by 1980.

That is clearly going to be an enormous task. But one must not dismiss its feasibility, and certainly not on the grounds that it would impose an intolerable import burden on the wealthy countries. Should the $28 billion in exports from developing countries be achieved, it would amount to only about 7% of the expected manufactured imports of the affluent countries, and would represent less than 1% of their GNP.

The volume of trade in manufactured goods among the developed countries themselves is massive, and mutually beneficial. The rich nations accept huge quantities of manufactures from one another. There is no logical reason to suppose that it would not be equally beneficial—indeed, in terms of true comparative advantage, even more beneficial—for these highly industrialized nations to open a greater share of their expanding market for manufactured goods to the developing nations.
The rich nations' absorptive capacity for such goods is immense, and by accepting the more labor-intensive manufactured items from the developing countries, they can turn their attention to where their own true comparative advantage lies: to the production of more sophisticated items, and those employing capital-intensive technology.

It is precisely these goods that the developing countries will increasingly require, and a vast potential market exists among them for such imports provided they can secure, in return, an adequate share of the market for their own manufactured goods.

But even those who accept the probability of long-term gains to the developed countries from opening their markets to the imports from the developing nations may point to the short-term pains of adjustment. Much of the rising tide of protectionism springs from the fears of those whose jobs and investments will be displaced.

It is a political fact of life that the developed countries must adopt realistic adjustment policies to cushion the impact of import competition by retraining, relocation, and refinancing. Few have done so to date. Until they do, labor and management opposition to trade liberalization will be great—and justly so.

In sum, what we should all be seeking in development trade policies—both agricultural and industrial—is closer approximation to the principle of true comparative advantage. The basis for it exists in both the developed and the developing countries, but both must be prepared to modify inward-looking policies in order to achieve it. Only in an environment of more liberal international trade can the efforts of international and national aid agencies to improve the conditions of life in the developing world be fully effective.

VII. THE WORLD BANK

It is in this context that I would like to add a word about the World Bank.

Some four years ago, we set out in the Bank on a Five-Year Program. Our overall objective was that the Bank Group should
lend roughly twice as much in the five years ending June 30, 1973, as it had in the previous five-year period; or to put it another way, that in the Five-Year Program period it should lend a total that would approach the entire amount lent in the first 23 years of the Bank's operations.

Taking into account the operating program for the current fiscal year, and the prospects for the following and final year of the Five-Year Program, it now appears probable, assuming ratification of the Third Replenishment of IDA, that the total of new investments in the five-year period will in fact surpass the initial objective of $11.6 billion, and the total cost of Bank-supported projects should exceed $30 billion.

Our goals also included trebling lending in the field of education, and quadrupling it in the agricultural sector. These goals, too, are being met.

Still another objective we have pursued is to give greater emphasis to assisting the very poorest among our member countries—countries with per capita incomes of $100 or less. Our estimate is that during the five-year period from 1969 to 1973 we will have assisted the poorest countries with a total of 215 separate projects. The comparable figure for the first 23 years of the Bank's activities—from 1946 to 1968—was 158.

Now that we are approaching the end of our Five-Year Program, we are giving concerted attention within the Bank to what we can most usefully do to assist our developing member countries in a second Five-Year Program from FY 1974 to 1978. These will be crucial years for the success of the Second Development Decade, and we intend to play as productive a role as possible.

It is already clear that there will be a pressing need for an expansion of IBRD lending, and for a substantial increase in IDA assistance during the Fourth Replenishment Period. We are confident that the necessary increases in IDA assistance, and in other forms of ODA as well, can be achieved. These achievements would be facilitated if plans were made to link the financing of such aid, either directly or indirectly, to future issues of Special Drawing Rights.
I want to conclude by summarizing the chief points I have put before you today:

- There is an urgent need to relate the goals of national growth to realistic targets of more equitable income distribution. A climate of economic growth is necessary for the advancement of the developing peoples, but it does not in itself assure equitable participation in the fruits of that growth.

- Unless this is done by the developing countries themselves, no amount of external assistance, whether in the form of aid or trade, will do much to improve the welfare of the lower 40% of their populations which are living in conditions of the most abject poverty.

- The 6% growth goal established for the Second Development Decade cannot be met without substantial flows of Official Development Assistance. But current and projected flows of ODA—at less than half their stated target—are wholly inadequate. Unless ODA expands, the poorest countries will simply be unable to reach their objectives, and many of the others will face increasingly serious problems of debt.

- Even with ODA flows at the targeted level of .7% of GNP, achievement of the Second Development Decade's growth goal would require substantial trade assistance to the developing countries by the wealthy nations. Action must be taken to help stabilize and expand the agricultural exports of those developing nations which are dependent on them. And for those countries with the potential for exports of manufactured goods, discriminatory barriers to markets must be removed and preferences made available.

- Just as we must conclude that it is the responsibility of the political leaders of the developing nations to recognize the inequities that exist within their nations and to move to correct them, so we must likewise conclude that the wealthy nations of the world—possessing 25% of its people, but 80% of its wealth—should move now to provide the additional assistance, in the form of aid and trade,
which the developing nations need to meet minimum national goals. That additional assistance can be financed by diverting but a tiny percentage of the incremental income which will accrue to the developed countries during the 1970's.

Our clear duty for the remainder of this decade is to face up to mass poverty for what it really is, determine its dimensions, locate its whereabouts, set a limit beneath which we will not accept its continuance, and make our first priority a threshold of human dignity and decency which is achievable within a generation.

That, ladies and gentlemen, is how I—for one—view the development task.

What we need most to do is to get on with it.
Projected flow of official development assistance measured as a percent of gross national product

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*Countries included are members of OECD Development Assistance Committee, accounting for more than 95% of total Official Development Assistance. Projections are based on World Bank estimates of growth of CNP, on information on budget appropriations for aid, and on aid policy statements made by governments. Because of the relatively long period of time required to change legislatively authorized levels of aid, and then to translate legislative authorizations first into commitments and later into disbursements, it is possible to project today, with reasonable accuracy, ODA flows (which by definition represent disbursements) for 1975.*