If there is going to be an exception to this underlying independence, it will be in the area of food. Currently the LDCs have enough land to feed themselves if they cultivate it properly, but their populations are growing rapidly. If population overtakes food supply in Asia, the Asians will look to the rest of the world for cheap food. If this is not forthcoming they will almost certainly look for land. Three centuries ago North and South America, Australia, and Africa were more or less empty. The world's population was concentrated in Europe and Asia. The Europeans seized the two Americas and Australia, and commenced a rapid peopling of these continents, to the exclusion of Asians. They also taught the Asians how to bring about a population explosion. Now that the Asians have followed their example and doubled the rate of growth, they too need more space. This will not be a problem if the Asians quickly control their growth; or if agricultural technology improves even faster than we expect; or if Europe and the Americas can feed the Asians cheaply, and take Asian manufactures in return. Otherwise, the prospect for intercontinental peace in the twenty-first century is not good.

Even leaving aside the question of food, and leaving aside long-run considerations, there is a special sense in which some developing countries need current access to the markets for manufactures in the developed countries. We encourage the LDCs to form customs unions to enjoy the benefits of regional integration, especially in coordinating their industrial development. They have tried to do this and have produced a series of integration treaties, in Latin America, Central America, Andean America, West Africa, East Africa, and South East Asia, all of which are in deep trouble. The two main reasons are well known. First, each country wishes to produce for itself the whole range of light manufactures, so it is really only a few large-scale heavy industries that are in practice eligible for integration, and over these there is much quarreling. Second, in every region some countries are more advanced than others and benefit more from integration, at the expense of the others. So the agreement is unstable.

Actually, up and coming industrial nations do not depend on protection in the markets of impoverished neighbors. They go where the market is, namely in the rich countries. Thus when Germany erupted into world trade in manufactures in the 1880s, it was by flooding the British market; and when the United States took its turn at the end of the century, its biggest markets were in Europe, not in Latin America. The up and coming industrial nations of the next two decades, led by Brazil, Mexico, and India, are going to make their way primarily through trading with the richer countries rather than through trading with the poorer. The parceling of the world market into a set of regional enclaves has some merit if the developed countries close off their markets to the manufactures of developing countries. If they do not, the arrangement will not survive except where it is cemented by strong political considerations, as in Western Europe.

In any case the individual LDC does not have to be so dependent on exports in its development strategy. It should look more to the home market. What limits industrial production for the home market is the small agricultural surplus of that 50 percent or more of the labor market that is engaged in growing food for home consumption. Transform this mass of low level productivity, and the whole picture changes. The LDCs cease to have to import food, and instead penetrate the rising world market for cereals, beef, and feeding-stuffs. The factoral terms of trade move dramatically in favor of the traditional tropical agriculture crops, and the home market for industrial products and high level services becomes the engine of growth. These countries, upon becoming richer, would do absolutely more trade than they do at present, but it would be more varied, and would also be in smaller proportion to national income, if the import propensities of today's rich countries are any guide.

To summarize, international trade became an engine of growth in the nineteenth century, but this is not its proper role. The engine of growth should be technological change, with international trade serving as lubricating oil and not as fuel. The gateway to technological change is through agricultural and industrial revolutions, which are mutually dependent. International trade cannot substitute for technological change, so those who

depend on it as their major hope are doomed to frustration. The most important item on the agenda of development is to transform the food sector, create agricultural surpluses to feed the urban population, and thereby create the domestic basis for industry and modern services. If we can make this domestic change, we shall automatically have a new international economic order.

11
POSTSCRIPT

The preceding lectures were historical and analytical, and therefore deliberately refrained from advocating solutions. However, readers who need solutions tend to read them into a text, and to attribute to the writer positions which he does not hold. In order to minimize misunderstanding, it may help to indicate briefly what the historical record seems to suggest as areas for improving economic relations between developed and developing countries.

1. The principal cause of the poverty of the developing countries, and of their poor factoral terms of trade is that half their labor force (more or less) produces food at very low productivity levels. This limits the domestic market for manufactures and services, keeps the propensity to import too high, reduces taxable capacity and savings, and provides goods and services for export on unfavorable terms. To alter this is the fundamental way to change LDC/MDC relations. But this takes time.

2. Meanwhile, LDCs need a more rapid rate of growth of exports, to pay for needed imports and to meet their debt obligations. MDCs should make more space for the LDCs in world trade, by reducing their barriers to LDC exports of man-

ufactures and agricultural products. This is the best and most effective way of helping the LDCs.

3. LDCs need much greater access to long-term finance. The current proportion of short-term finance is excessive and dangerous. This was so even before the price of oil exploded. The oil crisis should be handled with medium term instead of short-term credits.

4. The IMF needs larger standby resources to cope with cyclical recession. In 1976 the exports of oil-importing LDCs came to $118 billion, but their borrowing power in the Fund was only $13 billion, plus small amounts of SDRs and commodity compensation finance. In the absence of buffer stocks, the standby finance reserved for LDC's should not be less than half a year's exports.

5. Secular price decline, such as occurred for LDC exports in the 1950s and 1960s aggravates the problems of LDCs, by discouraging exports, moving the terms of trade unfavorably, and aggravating the burden of debt. More space for LDCs in world trade would help to support the prices of their exports. So also would price stabilization schemes, which would also benefit developed countries by dampening the spread of international recessions.

There are many other issues on the agenda for international discussion, e.g., multinational corporations, the cost of international transfers of technology, and voting power in international assemblies. The above are those which stand out from the historical record as the most urgent.