

capital an economy operates at a low level of output; without an effective investment process for capital growth, an economy stagnates at this level.

The importance of agriculture requires a special word here. For many of the LDCs, agricultural development must be singled out as virtually the precondition to further general development. The ancillary gains--roads, refrigeration, marketing institutions, processing plants, improved employment opportunities, etc.--with food industry development may alone provide the environment in which some LDCs will in fact be able to accumulate the capital needed for their broadened economic growth. For these countries, self-sufficiency in foodgrain is essential if economic viability is to be maintained or achieved. In many instances, the foreign exchange cost of foodgrain imports is already the largest single item on the import list, and the drain on foreign exchange could easily reach unmanageable proportions if the growth of agricultural output does not keep pace with demand.

Adequate capital accumulation is extremely difficult; the governments of less-developed countries should therefore attach a high priority to augmenting capital accumulation. Since more than three-fourths of the output in LDCs is produced by the private sector, policies should aim to foster private saving and investment. The task of capital accumulation may be impossible if an LDC is forced to rely wholly on its own resources. Moreover, there is a natural tendency of capital to flow from lesser to more developed areas, both between regions of a particular country and between nations. This "negative flow", often accentuated by political uncertainties, accounts for a sizeable flow of funds away from the LDCs; such funds are known to play a very significant role in the \$13 billion Eurodollar market, and the annual flow to Europe, the United States, and elsewhere is substantial--perhaps \$1 billion. Also, local capital in LDCs is frequently employed in unproductive hedges against inflation. Thus, significant additional amounts of LDC service funds could be attracted to the development effort.

In the more developed countries there is a self-reinforcing interplay between capital formation and income growth. A portion of increased income from expanded production normally feeds back into new investment, resulting in additional production and once again additional income. Since a continuous process of capital generation is missing in the economies of the less-developed countries, the critical problem is how to activate it.