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WHAT NEW INTERNATIONAL ECONOMIC ORDER?

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The article attempts to map out the basis for a constructive response of the North to the call of the South for a New International Economic Order. It identifies the principal reason for the present disorder as a lag of institutions behind the reality of the last two decades of the twentieth century. The framework of the analysis is a distinction between an exchange system, (positive sum games), a threat system (avoidance of negative sum games), and an integrative system (zero sum games). The important issues lie within the last two. Negative sum games are caused by the existence of nation states without appropriate global institutions. In the area of zero sum games, the analytical basis is seen in the acceptance of universal principles rather than in national self interest. Areas for reform include correcting biases in the international system, concessional transfers and more voice.

I. The Lag of Institutions Behind Technology

A *lucus a non lucendo* is an explanation by contraries. The classical example of a *lucus a non lucendo* is the Holy Roman Empire, of which it was said that it was neither holy nor Roman nor an empire. There is also the British office of the Lord Privy Seal, who, of course, is neither a Lord nor a privy nor a seal. Critics of the New International Economic Order have accused it of being neither new nor international nor economic nor an order. They say that it is not new because all the proposals had been made before; not international, because much is about national self-reliance and delinking; not economic, because it is about power relations and at heart political; and not an order because it leads to confrontation, rejects the great orderly principles of the liberal market economy and is a prescription for bureaucratic chaos.

I do not agree with these critics, who remind me of an inverted Micawber. They always wait for something to turn down. They always have a problem to every solution. I should like to make instead some suggestions as to how to respond more constructively to the call for a New International Economic Order (NIEO) than the inverted Micawbers of the rich countries have done.

Before prescribing cures it is important to identify the causes of the present international economic disorder. I regard the main problem as a lag between appropriate global institutions and the evolution of the global reality. An efficient world order concerned with the development of underdeveloped countries depends on the coordination of four functions. First, there must be the generation of balance of payments surpluses. Second, there must be financial institutions that convert these surpluses into long-term development loans on reasonable terms. Third, there must be capital goods industries that produce and sell the machines needed for development, on which the loans are spent. And fourth, there must be military power to back the economic power derived from the previous three functions, to enforce contracts, to enforce world peace.

Before 1970 these four functions had been combined and coordinated by one dominant country. Until 1914 this country was Great Britain, which imposed upon the world the *Pax Britannica.* Between the wars there was a period of disorder, but for a quarter of a century after the second World War it was the USA that imposed the *Pax Americana.* Since 1970 the functions have been fragmented and dispersed. The single dominant power has been replaced by a pluralism. Different centres have exercised these functions, without coordination. The surpluses in the balance of payments are generated by a handful of capital surplus OPEC desert kingdoms, joined occasionally by Germany and Japan. The financial institutions are still in London and New York, but increasingly joined by new ones in Hong Kong, Singapore and some Caribbean islands. The industries supplying capital goods at competitive prices are dispersed over some OECD countries, above all Germany and Japan, but increasingly joined by some of the newly industrializing countries, such as Mexico and Brazil. And military power weakens economic power. The military giants, the USA and the Soviet Union, are economically weak, whereas the military pigmies, Germany and Japan, are economic giants. Spending on arms and economic strength are inversely related.

At the moment, financial surpluses are in search of a role and endanger the world financial system; industrial capacity lies idle and unemployment in the industrial countries is larger than ever since the depresession of the Thirties; and men and women in the South lack finance and capital goods. The task of creating a New International Economic Order consists in coordinating these four functions, so that the financial surpluses of the OPEC countries, the productive capacity of the OECD countries and the NICs, the financial institutions in London, New York, the Caribbean and

East Asia, and the underutilized labour surpluses of the developing countries can be joined together for the benefit of all. The two old economic orders were based on dominance by one big power and dependence of the rest of the world. The New International Order should be one of equal partners, in which everyone has the same opportunity to share in the fruits of development and progress. The current fragmentation and pluralism, that manifests itself as a schizophrenic division of mutually destructive functions, will have served a good purpose if it lays the basis for an order of equal partners.

We hear nowadays a good deal of interdependence, one world and the emerging global village. The international dissemination of cultural influences has enormously increased. Its ultimate cause is the advance of technologies in transport and electronic communications and the growing urbanization. Popular songs, styles in dress and hair styles, attitudes to divorce, abortion, homosexuality, drugs, even crimes, are spreading rapidly across the globe. While in previous ages the common culture was confined to a thin layer of the upper class, today it has reached the mass culture in many countries. In the huge underdeveloped regions of the South, however, the masses of people live in extreme poverty and cultural isolation, though a small upper class has become part of the international culture. Even among the elite, there are now moves to assert indigenous cultural values and to establish national and ethnic identities. It is partly a reaction against the rapid spread of the mass culture of the West.

International relations have grown not only in the cultural but also in the economic sphere. This growth is usually measured by the rapid growth of world trade in the last two or three decades, a growth that was substantially faster than the growth of GNP, so that the ratio of exports to GNP has also grown. World trade has increased from \$60 billion in 1950 to \$130 billion in 1960 to \$320 billion in 1970 and to \$1,600 billion in 1979, and the ratio of exports to GNP has risen between 1961-63 and 1976-78 from 9% to 19% for OECD countries, from 20% to 35% for the middle income countries and from 41% to 53% for OPEC.

Taking a longer historical perspective, the ratio of trade to GNP for the main industrial countries is not much higher now than it was in 1913.[1] But there has been a large increase in the trade share of the private sector. The aggregate ratio conceals this because of the large increase in the public sector and the relative rise in prices of those services that are not internationally traded.

[1] The ratio of exports to GNP was for the UK 19.3 percent in 1913 and 20.7 percent in 1976; for the USA 6.5 percent in 1913 and 6.8 percent in 1976; and for Germany 20.5 percent in 1913 and 22.3 percent in 1976.

It is useful to draw a distinction between integration and interdependence.[2] International integration was probably greater in the nineteenth century, when national governments adhered to the gold standard, fixed exchange rates, and balanced budgets, than today, when domestic policy has set up targets for employment, growth, price stability, income distribution, and regional policy, among other objectives, while at the same time rejecting the constraints which integrated the world internationally.[3] Greater economic interdependence consists in greater international mobility and substitutability of goods, services, and capital, and greater mobility across frontiers of management and technology.

But in trade, as in culture, the poorest countries did not share in this expansion. The share of the low-income countries, excluding the petroleum-exporting countries, fell from 3.6 percent in 1960 to 2.2 percent in 1970, and to 1.5 percent in 1977. Of the total exports of the industrial countries 17.3 percent went to the non-oil-exporting developing countries in 1970, but only 15.8 percent in 1977.[4] The nation that we have become one interdependent world has, therefore, to be qualified in at least three respects. First, much of the growth of trade is a return to the pre-1914 situation which had been disrupted by two world wars and a severe depression. Second, the poorest countries and the poorest people have been left out of this growing cultural and trade interdependence (though they have remained dependent on aid flows). A third aspect in which it has to be qualified is discussed later on page 141. It refers to the importance of the trade volumes and the losses that would be suffered if the trade were eliminated. The importance is illustrated by a thought experiment suggested by Sir Arthur Lewis: how much would one group of countries, developing or developed, suffer if the other group were to sink under the sea (allowing for a period of adjustment to the disruption)?

While cultural dissemination and economic interdependence between countries have grown, international cooperation between governments has lagged and in some cases grossly failed. The gap of our times is not so much, as is often said, that between science and morality, as that between our soaring technological imagination and our inert institutional imagination. While our scientific and technological imagination has leaped ahead, putting

[2] For another distinction, viz. that between interdependence and international relations, see below, p. 141.

[3] To say that the world was more integrated in the nineteenth century than it is today implies using a definition of "integration" which does not comprise equal opportunities for all citizens. Clearly, the opportunities were very unequal. But the world resembled more a single country than it does today.

[4] In the low-income developing countries exports were 13.8 percent of GNP in 1960 and 15.7 percent 1976. Low-income countries are those with an income per head of less than $300 in 1975.

man on the moon, deciphering the genetic code, discovering new sub-atomic worlds, and probing the recesses of inner space, and the farthest reaches of outer space, our institutional and social imagination has lagged inertly behind. The most flagrant failure of international cooperation is the arms race and the $450 billion annually devoted to military expenditures, which has increased violence in the world.

International cooperation for meeting the impending energy crisis has also failed. There is a need for a global energy program for conservation and exploration of alternative sources of energy.

National policies to fight the evils of pollution have been successfully designed, but the solution of problems of global pollution (like that of the oceans or air across national boundaries) have been much less effective. The same is true of policies to prevent excessive depletion of non-renewable resources.

There has been almost no international cooperation in fighting the world-wide crisis of unemployment, accompanied by inflation and sagging growth. National policies are being pursued in isolation, the balance of payments surpluses of a few countries are kicked around from country to country, industrial surplus countries are exporting their unemployment, and what each country does often increases the difficulties of others. There is no exchange of information on investment plans, hence we lurch from excess capacity to shortages in steel, fertilizers and shipbuilding.

International cooperation for development – our main concern here – has also lagged behind the challenge to eradicate world poverty. Insufficient attention has been paid by analysts to this discordance between the (partial) success of interdependence and our failure to cooperate and use it for our joint benefits.

The failure in cooperation has been accompanied by a growth of inter-governmental organizations, forums and conferences charged with tackling these issues. The call for the exercise of our institutional imagination must not be confused with its opposite: the growth of bureaucracies that oppose new ideas and only spawn additional obstructionist bureaucrats. Even though practical solutions are proposed, the resistance, often on some minor point, by one or two governments, prevents joint action. This resistance to global action on the part of governments is in stark contrast to the successful coordination of international action by big business – by the transnational corporations and by the banks in the Eurocurrency market. We have the framework for inter-governmental action, but it is largely unused.

There are two opposite forces at work. National integration has contributed to international disintegration. The rejection of the gold standard, of fixed exchange rates and of balanced budgets has liberated national policy to pursue a growing range of national objectives, but has contributed to international disintegration. The rejection of irrational constraints by each state has produced world-wide irrationality. At the same time, the integration of the upper classes of developing countries into the international system has contributed to national dualism, national division and national disintegration in some developing countries. Hence the call for "delinking" and the assertion of a national identity, based on indigenous values. For indigenous values on which to base their cultural identity are often the only thing politically conscious people from powerless countries have.

There are, however, some instances of successful inter-governmental cooperation, usually in specialized, technical fields: The Universal Postal Union (more than one hundred years old), the International Telecommunication Union, the International Civil Aviation Organization and the World Metereological Organization are examples of outstanding successes in international cooperation. The World Health Organization and UNICEF have also been successful. Stressing the technical, non-political aspects of cooperation helps to remove issues from becoming politicized. Functional solutions at the global level work. I shall return to this theme and the lessons to be learned at the end of the paper.

II. Origins of the Call for a New Order

The developing countries' call for a New International Economic Order has many diverse sources, some going far back in history. At the root of this call lies the dissatisfaction with the old order which, it is felt, contains systematic biases perpetuating inequalities in power, wealth and incomes and impeding the development efforts of the developing countries. Three recent phenomena can be singled out that gave the demand for a New International Economic Order special impetus: the disappointment with aid, the disappointment with political independence, and the success of OPEC.

Development aid, on which so many hopes had been pinned in the 1950s and early 60s, after a vigorous beginning, partly inspired by the Cold War, was regarded as inadequate in amount and poor in quality. A target for official development assistance to the developing countries of 0.7 percent of the gross national product of the developed countries had been set up. But the net official development assistance given by the DAC members fell from 0.42 in 1964-66 to 0.37 in 1980. Intergovernmental aid negotiations led to pressures, frictions, and acrimony. Although it was correctly seen that for aid contributions to be effective a country's whole development program had to be scrutinized, developing countries found it intolerable that donors who contributed only one to two percent of the national income of the recipients should meddle in their economic and political affairs. Performance criteria and political, as well as economic, strings produced tensions and recriminations, which led to a plea for a "quiet style in aid". By this was meant a transfer of resources that would be automatic or semi-automatic, hidden, or at least unconditional. The inefficiencies and inequities (as a result of the capricious impact) of commodity agreements, trade preferences, debt relief, SDR links, etc., were regarded as a price worth paying for a hoped-for larger volume of transfers and a defusing of diplomatic tensions.

The second source of the call for the automatic, concealed, unconditional transfers of the NIEO is the disappointment with political independence that has not produced the hoped-for economic independence. True, most Latin American countries have been independent for a long time, but it is precisely from there that the doctrine of *dependencia* has emerged. It explains the demand for "sovereignty over resources" and the hostility to some features of the transnational corporations and, more generally, to the international rules of the game as they had evolved after the war.

The third cause is the success of OPEC (and a few other mineral exporters) which appeared to offer an alternative to the appeal to the conscience of the rich. This success was accompanied by a change to a sellers' market and to world shortages of food and raw materials. These events encouraged developing countries to explore the scope for similar actions on other fronts, to emphasize joint bargaining, the use of "commodity power," and the exercise of power in other areas, such as the treatment of transnationals.

III. Interpretations of the NIEO

The NIEO means different things to different people. Under its banner, a great variety of interpretations have been gathered. Three distinctions are useful in clarifying some of the ambiguities.

Some have interpreted the NIEO as a demand for exemptions from established rules. Non-reciprocal preferences for manufactured exports, debt relief, more concessionary aid fall under this heading. Others have interpreted the NIEO as a radical change in the rules.

A second distinction is between those who seek a few more concessions from the developed countries, more aid, more trade preferences, contributions to commodity agreements, better access to capital markets, cheaper technology transfer, debt relief, etc., and those who want fundamental structural change, in the form of new institutions and a shift in power relations.

A third distinction is that between those who interpret the NIEO as being essentially about rules and restraints, like those laid down at Bretton Woods and the GATT, whether the demand is for exemptions from old or for new rules, and those who interpret the restructuring to refer to the totality of economic, political and even cultural relations. This second interpretation sees in the post-colonial power structure the continuation of domination and dependence, caused not only by rules, procedures and institutions designed by the powerful, rich countries, but also by numerous other factors, such as the thrust of science and technology, the priorities in Research and Development, the cumulative nature of gains, the structure of markets, the influence emanating from the mass media, the educational systems and the values they impart, etc.

The discussion about appropriate rules for international economic relations has suffered from a long-standing confusion. It is the confusion between *uniform* (sometimes also called *general)* principles or rules (the opposite of specific ones, and therefore necessarily simple) and *universal* principles or rules (which may be highly specific and complicated, provided that they contain no uneliminable reference to individual cases). Further confusion is caused if a third characteristic of rules is added: *inflexibility* over time, and confused with either uniformity or universality. A rule is capable of being *altered,* though it remains either uniform, i.e. simple, or universal, i.e. may have a lot of "exceptions" written into it. The "equal" treatment of unequals is not a principle of justice, and a general rule commanding it is an unjust rule. In order to prevent partiality and partisanship, rules have to be universal, i.e. not contain references to individual cases. They may, and indeed should not be uniform. They should pay attention to the varying characteristics and circumstances of different countries.

Those who charge the developing countries with asking for exemptions from rules are guilty of this confusion between *uniform* and *universal* rules. Thus a differentiated system of multi-tier preferences according to the level of development of the exporting countries, may be best and most just for a group of trading countries at different stages of development. A fair system of rules also points to the differentiation in responsibilities and rights according to circumstances. Middle income countries would not have the responsibility to give aid, but neither would they receive it. They would not have to give trade preferences, but neither would they receive them. Even finer differentiation would be possible. A country like Saudi Arabia might be asked to contribute to loans because of its foreign exchange earnings, and to aid because of its income per head, but might receive trade preferences, because of its low level of industrialization. The 0.7% aid target would be replaced by a system in which those below a certain income per head are exempted, and the percentage target rises with income per head.

There is, of course, a practical and tactical case for *simple* rules, which might overrule the case in fairness for universal (though complex) rules: they are less open to abuse and easier to police. And there may be a tactical case for uniform rules; they may be easier to negotiate. It is for such pragmatic reasons rather than on theoretical grounds that one may advocate that rules should not be too complex, and should not be changed too often.[5]

Any specific proposals, like non-reciprocity in trade concessions, or trade preferences would, of course, have to be examined on their merits. But the distinction between "exemption from rules" and "drawing up new rules" is logically untenable, to the extent to which the call for exemption is really a call for a set of *universal* rules that pays attention to the different characteristics and circumstances of different countries, just as income tax allowances for dependants or lower rates on earned than on unearned income, are not "exceptions" but reflect our notions of fairness.

Those who are concerned with changing the rules of international relations are aiming partly at removing biases in the present rules, partly at the exercise of countervailing power where at present the distribution of power is felt to be unequal, and partly at counteracting biases that arise not from rules but from the nature of economic processes, such as the cumulative nature of gains accruing to those who already have more

[5] Of this long-standing confusion between universal and uniform, or general rules even such a clear-headed thinker as David Hume is guilty. Hume contrasts the highly specific reactions when we are seeking our own self-interest with the "universal and perfectly inflexible" laws of justice. He seems, like many others (including GATT), not to make a necessary distinction between general principles (the opposite of specific ones and threfore necessarily simple) and universal principles (which may be highly specific and highly complicated, provided that they contain no uneliminable reference to individual cases). Thus, Hume says, in one place "universal and perfectly inflexible," but lower down "general and inflexible." And the use of the world "inflexible" conceals a confusion between a principle being able to be altered (which has nothing to do with its universality or generality) and its having a lot of exceptions written into it (which is consistent with universality but not with generality). Hume evidently thinks that the rules of justice have to be simple, general ones. He argues that unless the rules are general, people will be partial in their application of them and "would take into consideration the characters and circumstances of the persons, as well as the general nature of the question. . . the avidity and partiality of men would quickly bring disorder into the world, if not restrained by some general and inflexible principles." But this is fallacious. In order to prevent people from being partial, the principles have to be universal, i.e., not contian references to individuals; they may, and indeed should, not be general; surely our judgements based on them ought to "take into consideration the characters and circumstances of the persons, as well as the general nature of the question."

resources, and the cumulative damage inflicted on those who have initially relatively little (polarization or backwash effects).

Insofar as the NIEO is about strictly economic relations, there is scope for positive sum games. But insofar as it is about national power relations between sovereign states with different aims, power is by its very nature a *relative* concept, and what is at stake are zero sum games. The demand for greater participation in the councils of the world and for corrections in the biases of the international power distribution are bound to diminish the power of the industrialized countries.

It is part of the weakness of the poor countries and of the syndrome of underdevelopment that they have not succeeded in articulating these pleas altogether convincingly. An unsympathetic approach can always find faults and criticize specific proposals and the manner in which they are presented. A more imaginative approach would attempt to understand the underlying grievances, even though often badly expressed and poorly translated into concrete proposals. An entirely adequate approach would require a well staffed, highly qualified secretariat of the Third World, which would muster the evidence, prepare the case for international negotiations, and propose feasible reforms, worked out in detail.

IV. Heterogeneity or Homogeneity of the Third World?

The NIEO has been acclaimed by *all* developing countries, but the diversity of their interests is reflected in the long list of the UNCTAD Agenda, by the strains caused by specific proposals, such as debt relief, by the inconsistency of some of the targets, and by the OPEC oil price rise. Concern with reforming the international system has, at least in the rhetoric, been closely linked with concern for the world's poor. But the poor are largely in what is sometimes called the Fourth World: South Asia, sub-Saharan Africa and a few islands. Their need is mainly for additional financial and technical assistance. The more advanced countries of the Third World need better access to capital markets, to markets for their manufactured exports and to modern technology.

The cohesion between these two groups of countries has been maintained largely because OPEC has used its petropower to press for other reforms on the agenda, such as the inclusion of non-energy issues in the Paris Conference on International Economic Cooperation (CIEC) discussions, initially intended to be devoted solely to energy. It has succeeded in the liberalization of IMF credits, and the liberalization of the compensatory finance facility. OPEC has also given substantial aid.

The cohesion of the Third World may also be threatened by the formation of North-South blocs, Europe forging special ties with Africa through

Lomé, Japan (and Australia and New Zealand) with East Asia through ASEAN, and some non-oil Arab countries with the Arab members of OPEC. It would not be surprising if, in default of global progress, developing countries were to attempt to strike bargains with specific developed countries, or groups of them. Some of the weaker and poorer countries are bound to suffer, inequalities to be increased, and the cry of neocolonialism to be raised again. Such fragmentation of the world into regional blocs is not in the interest of development or of the developed countries.

In spite of heterogeneity and diversity of interests, there are strong common interests in the Third World, which can provide a basis for collective action. These countries are, by and large, poorer than the developed countries (the existence of borderline cases with small populations does not destroy the distinction), many have been colonies and they benefit and suffer from the impulses propagated by the advanced, industrial countries in similar ways.[6]

In answering the question whether homogeneity or heterogeneity is stronger among the countries of the so-called Third World, we would have to begin by listing criteria for a typology of countries, relevant to the dimensions of what might constitute the "Third World." These might include income per head, growth rates, inflation rates, indicators of economic structure (such as proportion of the labor force in agriculture, trade ratios), human and social indicators (life expectancy, infant mortality, literacy), water supply, indicators of inequality, population growth, indicators of dependence such as concentration of exports by commodities and by destination, statistics of brain drain, political indicators, etc. If we find that on the whole the same countries cluster round each end of these scales, the division will be found to make sense. If, on the other hand, groupings cut across the conventional North-South division, we may have to revise our typology and the notion of a homogeneous "Third World."

But it may be both tactically wiser and in the service of truth to acknowledge that many problems of the developing countries are not just the problems of a bloc, but are common to us all: there are rich and poor among the OECD countries, there are relations of dominance and dependence between developed countries, and even between regions within one country, there are biases and imperfections in the system of international relations that discriminate against members of the First World and there are important interest alignments that cut across national frontiers. On the other hand, many of the objectionable features of the relations between the industrial and the developing countries are replicated in those among

[6] For a valiant attempt to demonstrate common factors in the Third World, see Abdalla (1978).

the stronger and weaker developing countries. If "delinking" of the Third World were to become a reality, much the same phenomena would arise in the relations between Brazil and Bolivia, as now arise in the relations between the USA and Latin America as a whole.

Moreover, there is another danger for the fate of the poor within what has been called the "trade union of the Third World." This danger is that, as in the original trade union movement, the benefits from joint action may be reaped by the stronger members, who wield the power, and the weakest and poorest get left out.

For reasons such as these, emphasis on the homogeneity of the Third World may be both mistaken and misguided, and an appeal to universal principles and globally shared problems may be wiser.

V. Criticisms of the NIEO

There has been no shortage of criticisms of the proposals under the NIEO. Very often these have taken the form of evaluations by professional economists, in the light of the objectives of efficiency and equity commonly accepted in the profession. Yet, a proper evaluation ought to start from the objectives of the developing countries themselves, (or specified groups within them), and distinguish between criticisms of the objectives and criticisms of the proposed means of achieving these objectives. There is also the danger that we may impute objectives to the developing countries that they do not share with us. One difficulty is that in the discussions ends and means have been confused, so that greater self-reliance, larger shares in income, wealth, or power, larger shares in industrial production, or trade, earnings stabilization, price stabilization of particular commodities and price stabilization of all exported commodities, have been debated at the same level. An appraisal of the NIEO is likely to come to different conclusions according to whose objectives are chosen, according to the degree of generality at which the instruments for these objectives are discussed, and according to whether we are discussing ends or the appropriateness of instruments.

Another source of confusion is the fact that criticisms often compare the proposals with some "ideal" solution, when in fact they should be compared with the most likely alternative. Thus, transfers through commodity agreements may, by some criteria, be thought to be worse than direct transfers through unconditional, untied, grants, which can be related to the needs of the recipients and the capacity to pay of the donors. SDR creation that should be guided by the world's liquidity requirements should, ideally, be separated from increases in development aid, not fused together in a "link," etc. But the NIEO proposals have to be seen in the context of a world which is not "ideal" but very imperfect. The alternative to doing things badly is often not doing them at all.

Another question is whether NIEO proposals should be assessed individully or collectively. It is possible to raise criticisms against each individual item on the Agenda, some at least of which would be answered by accepting certain packages. The Common Fund has been criticized for its inequitable impact on distribution between countries; debt relief, on the other hand, which benefits the poorest countries, has been criticized for its impact on capital markets, of concern mainly to middle income countries. A package of the Common Fund, debt relief to the poorest and soft ODA might meet the needs of both middle and low income countries.

Criticisms have also been directed at the objectives and motivations of the NIEO. It has been easy to disprove the argument that reparations are due for the exploitation in the colonial era. But the disproval is irrelevant, because the case for progressive redistribution of income and wealth and for international contributions to poverty eradication does not depend on the infliction of past damage. Few believe that colonial rule was necessarily harmful, though it would be difficult to prove that it was necessarily beneficial. It should be plain that internal measures are crucial for both growth and equity, but that the international environment can facilitate or impede domestic advance.

A more fundamental criticism of the NIEO has been along the following lines. Moral imperatives apply only to individuals, not to governments. If international transfers are to be justified on moral grounds, donors must ensure that the moral objectives are attained. This implies highly conditional, targeted transfers for basic human needs, poverty alleviation, reduction of unemployment, etc. The proposals of the NIEO do not meet this condition, since the distribution of benefits between countries and within countries is capricious. Only strict control and monitoring by donor countries can insure that the target groups are reached.

The first point to be made in reply to this criticism is that in a complex, interdependent world institutions have to be used as vehicles for achieving moral objectives, even if it were agreed that only individuals are the appropriate ultimate targets of moral action. Up to a point, these institutions have to be trusted to concern themselves with the intended beneficiaries. The risk of some leakage has to be accepted. Family allowances intended to benefit children are paid to mothers and fathers who might spend them on gambling and drink. Local governments receive grants, intended for their citizens, from central governments, or states and provinces in a federation from the federal government. It is therefore perfectly legitimate to apply moral rules to states, the necessary conduits for channelling funds to individuals in the world order as it exists. (That this principle is accepted even by the advocates of the view that only individuals are appropriate moral targets can be seen when these same advocates demand debt service from countries whose governments have changed since the debts were incurred, or when they demand that multinational companies should be treated as "moral persons.") Of course, funds accruing to governments through commodity agreements and debt relief can be spent on the wrong purposes and may benefit the rich in poor countries, but so may aid funds. The best method to make it probable that donor objectives of poverty alleviation are achieved is not to rule out institutional intermediaries, nor to attach strict performance criteria to all transfers and monitor meticulously expenditure, but to select governments committed to anti-poverty policies and support them. Such selection is, to some extent, consistent with the proposals of the NIEO.

But a dilemma remains. Developing countries insist on national sovereignty in the use of resources, while the supporters of larger transfers in the developed countries through overseas development assistance, the Special Drawing Rights link, debt relief, the integrated commodity program or any other vehicle, stress the need for monitoring performance and internal reforms to benefit the poor. The resolution of this dilemma can be found in moves towards the "global compact," or the "planetary bargain" which Mr. McNamara, the Aspen Institute, Mahbub-ul Haq and others have advocated. But as the positions of the North and South are at present defined, we are still some way from such a global compact. The North is not prepared to transfer the additional resources, the South is not prepared to give the necessary undertakings.

A final criticism of the call for NIEO is that it is sterile, because relations between states and institutions needed to support them are constantly changing. But this is not a valid objection to constructive responses, because an order can incorporate rules and procedures for orderly change and adaptation to new circumstances.

It is unfortunate that the developing countries have chosen a set of ill-designed measures to translate worthy objectives into reality. Generalized debt relief (now dropped) and commodity schemes insofar as they are concerned with more than price stabilization, are regarded by many professional economists as inefficient and inadequate ways of achieving the objective of significant transfers of income, wealth and power, and of achieving a radical restructuring of the international system. In addition, the conflict over the demand by the developing countries for sovereignty over the use of resources, and by the developed countries for careful targeting and internal reforms, adds a serious obstacle in the way of reaching agreement. On the other hand, it is at least equally unfortunate that the developed countries have not responded more constructively and imaginatively to the pleas of the developing countries.

VI. Alternative Responses by the Third World to the Current Impasse

The responses of the Third World to the current impasse in the dialogue can be discussed under the following headings:

1. Self-reliance, in the sense of doing desirable things for themselves and for each other, whether on the basis of an individual country, a group of countries or the Third World as a whole.
2. Exercise of joint bargaining power to counter biased income, wealth and power distributions.
3. Exploration of areas of common and mutual interests between the South and North.
4. Evolution of rules, procedures and institutions to avoid mutually damaging confrontations and conflict.

1. *Self-Reliance: What can the Developing Countries do by and for themselves?*

This area overlaps with the subsequent two. Greater self-reliance will increase bargaining power and make it more likely that adjustments in imperfections and inequities will be brought about. If self-reliance raises incomes and purchasing power, it will give rise to new common interests. But self-reliance is not in need of these secondary justifications. In the longer term, most of the things developing countries need, they can produce for themselves, and most of the things they can produce they themselves need.

Reduced dualism and a more poverty-oriented approach will tend to create greater intra-Third World trade opportunities. Various forms of joint multinational enterprises will give rise to opportunities of investment coordination. Monetary cooperation can encourage trade expansion, and growing trade, e.g. through Third World preferences, can be financed by intra-Third World financial cooperation, such as clearing or payments unions. Mutual aid and technical assistance in rural development, family planning, technology, is often more effective between countries that are not at too dissimilar levels of development than when inappropriate methods are transferred from highly advanced countries. Joint activities could be developed in professional associations, in research, in the exchange of information, in education and training, in transport and communications, in food and energy policy. In these ways, the developing countries could make themselve less dependent on concessions from the rich countries and, at the same time, evolve their own styles of development.

Such a strategy calls for new types of institutions. A strong Third World secretariat, with a first-class staff and Third World loyalties has been proposed. Institutions in other fields, like a bank capable of creating monetary assets for Third World trade, or a board coordinating investment decisions, or a community of developing country governments monitoring each other's basic needs policies,[7] are possibilities.

2. Exercise of Joint Bargaining Power

In addition to such actions of self-reliance, the developing countries could use joint action in certain spheres to strengthen their power in bargaining with the developed countries. The debate over the course of the terms of trade has been shunted onto the wrong track, by disputing the question as to whether they had deteriorated historically. The relevant question is not what are the terms of trade compared with what they were, but what are they compared with what they should and could be. Producers' associations in some instances might take the place of commodity agreements on which consuming countries are represented. The fact that current price rises might speed up the process of inventing substitutes is not necessarily an argument against them, for the greater short-term receipts could be used for diversification funds. The question is complicated not only by the difficulty of estimating short-term and long-term elasticities of demand and their interdependence, but also by the possibility of the developed countries retaliating by raising their export prices. But it might be easier to get agreement of purchasing countries on non-retaliation than on commodity agreements.

Joint action vis-a-vis multinational corporations could replace or reinforce a generally agreed upon code. Developing countries could agree not to erode each other's tax base by giving competitive tax concessions and to apply similar rules and guidelines. Bargaining power can be used also in other spheres, such as overflying rights for airlines, narcotics control, patent law, etc. The main obstacle is that some differences among developing countries are as great as those between them and the developed countries, and joint action is difficult to achieve without a much stronger system of incentives to form and adhere to these agreements. Producers' associations are notorious for their instability, for the more successful the agreement is in raising the price, the stronger the incentive for individual members to defect. And the fear that others may operate outside the agreement,

[7] See Cleveland (1976).

or that all may have to operate without the agreement, is itself a powerful destabilizing force. More thought should be devoted to mechanisms to create incentives to penalize outsiders and defectors, and to reward adherents, as well as to strengthen solidarity, in order to increase the stability of joint action.

Successful cooperation among developing countries may not be possible in all areas but may be feasible in some, e.g. in improving the terms of technology transfer, in bargaining with multinationals, in controlling migration of professionals, in reaching joint action on taxation of foreign investment. Topics (3) and (4): Much has been written recently on the importance of exploring mutual interests. Clearly, this is a promising area because it provides a firmer basis for action than unilateral, unrequited concessions. Since reform in this area is in the interest of both the developing and developed countries, it will be discussed in the next section that deals with the response of the developed countries.

VII. A Constructive Response by the Developed Countries

Although some of the proposals for a NIEO of the developing countries have not been well designed, the response of the developed countries has not been constructive or imaginative. If the package proposed at present were to be the only one on which developing countries could agree, this would be an argument for supporting it, in spite of its deficiencies. It is, however, worth considering modifications of this package (it has already been modified by the abandonment of the demand for general debt relief and the scaling down of the Common Fund) and alternative packages. It would require a separate paper to map out such alternatives but it is possible to lay down certain principles on the basis of which progress may be made.

There are three areas in which more thought should be devoted to the design of appropriate policies.

1. First, there is the area where developed and developing countries, have common or mutual interests. (The two, though often confused, are clearly not the same. The former refers to objectives pursued by cooperation, the latter by exchange.) This covers the exploration of positive sum games

2. Secondly, there is the area of the avoidance of negative sum games. Other countries can be not only sources of positive benefits, but also of threats that we must try to avert. Co-existence in an interdependent world can give rise to the production of goods; but it can also give rise to the production of "bads", which have to be combatted by "anti-

bads." The exploration of areas of joint action for "anti-bads" may be even more important than the search for goods.

3. Thirdly, there are areas where existing biases, discriminations and imperfections in the international economic order work against the interests of the developing countries and where we have to explore joint methods of correcting them. This looks like an area of zero-sum games, although long-term benefits to all may accrue. Under this heading would also fall more "voice" for the developing countries and concessional, gratuitous transfers.

The three areas are related to Kenneth Boulding's distinction between an exchange system, a threat system, and an integrative or love system. In the exchange system partner A does something good to partner B in return for B doing something good to A. In the threat system A threatens to do something bad to B, unless B does something good for A. The integrative or love system is a system in which the individual comes to identify his own desires with those of others, as in a happy family. Exchange systems are based on the transfer of goods, threat systems on the transfer of 'bads'. It is an institutional challenge to create public goods, and avoid public bads.

A distinction between the three areas is useful for purposes of analysis, though less so for purposes of negotiation. For if something that is in the interest of a country can be presented as a concession, an additional benefit can be extracted in return. Blurred lines between self-interested and concessionary actions advance the prospects of agreement on gains.

Clearly, the three areas overlap, and each overlaps with self-reliance on the part of the developing countries. Where there is common interest and harmony, so that reforms yield joint gains, there remains the division of these gains between rich and poor countries which can give rise to conflict. Self-reliance by the poor may be in the short-term and long-term interest of the rich countries. They may prefer Korea to sell its shoes in Lahore, and Taiwan its textiles in Indonesia, to having their own markets swamped. And the correction may impose short-term losses on rich countries but benefit them in the long run.

Following on from the work in these areas is the question of the links between restructuring the international system as it affects relations between governments, and the consequential domestic measures required in both developing and developed countries to ensure that the benefits accrue to the poor, and that the costs are borne fairly.

Trade liberalization involves both restructuring in developed countries, so that the whole burden is not borne by the dismissed workers in depressed areas, and in developing countries, so that the gains from liberalization do not wholly accrue to big exporting firms, possibly even multinationals. In reaching commodity agreements, there should be some safeguards that the high prices do not fall exclusively on poor consumers in rich countries, and that the restrictions that quota schemes involve are not largely borne by small farmers in poor countries, so that the big plantations benefit from both higher prices and unrestricted sales. And when we agree on debt relief, we want to be sure that it is more than relief for bankers in rich countries, whose loans are serviced out of aid funds. Such consequential domestic measures are necessary both inside developed and inside developing countries, if the ultimate impact of the reforms of the New International Economic Order is to be on improving the lot of the poor.

VIII. Common and Mutual Interests

Until 1973, issues of economic interdependence and development belonged to largely separate areas. Development was dealt with by development assistance and trade preferences of varying generosity. Interdependence was dealt with in the OECD. It was a matter for the rich.

The validity of this dichotomy has been questioned in the last six years. The developing countries' shares in world population, in world trade and in world production have increased. Some developing countries have now large international reserves, others large international debts.[8] They supply raw materials, especially metals, on which the developed countries increasingly depend. The one-way dependence of the South on the North has now become a two-way interdependence.

International inter-*dependence* should be distinguished from international *relations*. The test of the difference is this: if relations were cut off, ready substitutes could be found so that not much damage would be done. Inter-*dependence* means that if relations were cut off, substantial damage would result. To illustrate: much trade between industrial countries is conducted in similar finished consumer goods and caters for slight differentiation in tastes. A smaller volume of trade (and a less rapidly growing one) with the developing countries consists of vital food and raw materials. In technical language, it is consumers' (and producers') surpluses that count, not trade volumes (values) and their growth.

Trade is not an end in itself, but a means to a more efficient allocation of resources and to greater consumers' satisfaction. The long-term impor-

[8] The share in total world trade of all developing countries has increased from 21.4% in 1960 to 24.6% in 1976, (though excluding major oil exporters the share declined from 14.8 to 10.2); their share in international reserves has increased from 17.8% in 1960 to 45.9% in 1976 (excluding OPEC from 13.8 to 20.2); their share in population from 72% in 1960 to 76% in 1976; and their share in production from 18.2 in 1960 to 22.6 in 1976, measured at constant 1975 dollars.

tance of trade is, therefore, measured not by its total value or its rate of growth, but by (a) the difficulty in *production* of substituting domestic goods for imports by shifting resources employed in exports, and domestic goods for imports by shifting resources employed in exports, and (b) the sacrifice in *consumption* of shifting from imports to domestic import substitutes, if the products are not identical, or of doing without them altogether.[9] A vast and ever-growing exchange of Volkswagen for Morris Minors reflects small importance, a small exchange of coffee or copper (not to speak of oil) for engineering goods reflects vital dependence (or interdependence). Americans would not suffer much hardship if they had to drive Fairmonts instead of Volvos, but might if they had to drink Almaden instead of Chateau Margaux, and certainly would if they had to do entirely without manganese, tin or chromium imports. It might even be not only that some trade yields very small benefits, but that it inflicts actual losses, when subsidisation of foreign sales leads to excessive cross-hauling of e.g. motor cars. Total trade figures are, of course, relevant to other issues, such as change in the balance of payments, which in turn may affect consumption and welfare. But these sequences would have to be spelled out.

The most generally accepted area of mutual interest is trade liberalization and liberalization of the flow of the factors of production. On trade, it could be argued that already fairly rich developed countries should weigh the costs of adjustment, probably repeated and painful adjustments, against the gains from further additions to income. Affluent countries, or at any rate their governments, might decide that it is in their national interest to forgo at the margin further income rises for the sake of a quieter life, and greater industrial peace.

The difficulty with this position is that the security of employment is not necessarily guaranteed by protection, for jobs in export trades are endangered, and that the costs of such a form of a quiet life can be very high indeed, particularly for a country dependent on foreign trade. Moreover, if several countries adopted such a position, the mutual impoverishment could be substantial.

Not only may the costs of adjustment be high, but the benefits from additional trade may be low. Sir Arthur Lewis invited us to imagine the consequences of either the rich countries of the North or the poor countries of the South sinking under the sea upon the remaining group of countries. His argument is that, after a period of adjustment, the losses would be negligible. If this were so, the large and, until 1973 rapidly growing, trade

[9] Irma Adelman, in private correspondence, has suggested that the major influence of international trade on development is that it enables a country to decouple production from consumption, and thereby presents more options for development policy.

volumes are no indication of genuine inter*dependence*.

There are also mutual gains from the flow of capital. Here, special attention should be paid to measures which, without being identified with aid, could have a leverage effect on aid, such as guarantees, co-financing, improved access to capital markets and markets for manufactured exports, etc. The movement of goods and of capital and labor would not only register all the mutual benefits expounded by the theory of comparative advantage, but would also accelerate growth, reduce inflation, generate employment, expand choice and support the international system of trade and debt service.

The most powerful argument for international trade is not one based on the doctrine of comparative advantage, which assumes constant costs (Ricardo) or increasing costs (Heckscher-Ohlin), but one based on economies of scale, increasing returns, learning-by-doing and decreasing unit costs, as elaborated by Allyn Young. Adam Smith already had pointed out that the "division of labor is limited by the extent of the market". He thought mainly of the geographical extent. Allyn Young added the reverse proposition, that the extent of the market, not only in the geographic sense, but also in the sense of the size of the income,depended on the division of labor. Production, productivity and incomes rise as specialization proceeds. It is on the interaction between these two – the division of labor and the extent of the market – that economic progress depends. To widen the market, to raise incomes in the South, makes greater international specialization possible, which in turn contributes to raising productivity and incomes. It has, of course, been questioned whether this style of development, relying on large-scale production and increasing specialization, is consistent with the desire for diversity, human dignity, self-reliance and respect for the environment.

Two specific issues under the heading of international trade are worth exploring. The first is the reform of tariff structures which now tend to cascade with successive stages of processing Such deescalation would improve the international location of industries and would permit developing countries to benefit from the external economies of learning effects from a primary product-based form of industrialization. They might also be able to make better use of waste products, now discarded by the richer countries.

The second area is that of stabilization of commodity prices. The large fluctuations that occur now benefit neither producers, who are discouraged from investing, nor consumers, who find it difficult to plan production.

On present evidence and theoretical considerations, there is not much in the argument that *general* flows of ODA to developing countries – what is sometimes called a Marshall Plan for the Third World – can regenerate growth in the developed countries. For the Third World to be an "engine of growth" for the industrialized countries, the quantities are too small (though they can make a contribution), and domestic measures (tax reductions and public expenditure increases) can do the same with higher political and economic returns, if the national interest were the only guide and if fuller employment were really desired. Some of the demand created in the North is from arms sales. If these were to be reduced, another source would have to replace them. Moreover, the greatest need for ODA is in the poorest countries, the trade share of which is small and only slowly growing, whereas the best "investment" of such aid would be in the middle income developing countries, which are already earning much foreign exchange through their exports.

The argument that *specific* exports can be supplied from under-utilized capacity at low, zero, or negative costs, and that *specific* imports can contribute to bottleneck busting, and hence to the resumption of orderly growth without premature inflation, deserves closer examination.

Aid from surplus capacity has certain drawbacks. If, in the long run, the surplus capacity should be scrapped and the workers retrained, this process is delayed and an inefficient production structure is perpetuated. This can be particularly damaging if the surplus capacity competes with imports from the developing countries. If the production could have been used at home, or could have been exported at a commercial value, the costs of the aid are correspondingly higher. Nor is it always the case that recipients need or want the surplus production, when it is available, although the rapid growth of exports in the past has left certain industries, such as steel, chemicals and building materials underutilized more than the average.

There remain, however, sectors and industries, especially those where indivisibilities are important, in which the temporary (cyclical) emergence of surplus capacity could be harnessed to the aid effort. Steel plant manufacturing capacity, shipbuilding capacity, or other heavy capital goods sectors are for technical reasons subject to fluctuations in utilization, and periods of underutilized capacity might be used for aid-financed exports to developing countries in need of steel plants, ships, or other capital goods. Even where the case is strongest, and surplus capacity reduces the costs for the donor; it does not add to his profits.

As far as *imports* are concerned, developed countries wishing to resume growth are liable to run into *bottlenecks* before full employment for the economy as a whole is achieved. Imports from developing countries can help to break these bottlenecks and thereby enable developed countries to resume higher levels of activity with less inflation.

The removal of certain world-wide scarcities, which now prevent countries from resuming non-inflationary, full-employment growth, may be against the interests of small groups benefiting from these scarcities, but is clearly in the interest of all countries and humanity at large. Normally, resources devoted to one sector deprive other sectors of resources. But bottleneck-busting investment in the bottleneck sector *increases* the utilization of resources in other sectors and provides a stimulus for further investment. There is a multiplier effect. More specifically, energy and certain minerals fall into this category. Investment that raises the world supply of energy is bound to benefit all people in the long run. (The case for raising investment in world food production, often mentioned in this context, is a different one: it is that at small cost to the developed countries a contribution can be made to the abolition of the major evil of hunger and malnutrition.)

A rational energy policy would contain six prongs:

1. An agreed gradual increase in the real price of oil in the transition to the post-oil economy.
2. An internationally guaranteed form of financial investment of the capital surpluses of some OPEC countries, which would yield an acceptable positive real rate of return, i.e. guaranteed against inflation.
3. The recycling of part of these surpluses (on commercial terms) to deficit developing countries, especially some of the more advanced developing countries.
4. An interest subsidy scheme grafted onto the recyling mechanism, so that the low-income countries also have access to capital and are cushioned against the oil price increase.
5. Real investment of the surpluses in oil exploration, substitutes for oil and energy conservation.
6. An international trade regime that permits developing countries to service their debts, without their efforts being frustrated by protectionism by the industrial countries.

What we witness at the moment is an irrational system of lurches between sudden, large increases in the price of oil and subsequent reductions; short-term investments by the surplus countries that do not yield a positive real rate of return but endanger the international monetary system because they can be quickly withdrawn and lead to interest rate wars and recycling to unproductive borrowers like Poland; comparative non-responsiveness in the demand for oil to the large price increases, partly because short-term elasticities of demand are low, and partly because other prices tend to rise in line with oil price hikes; an attempt to fight the price increases by inappropriate measures such as monetary deflation which inflicts unnecessary unemployment, loss of output, and mutual impoverishment, and deprives the community of the resources for investment in oil substitutes and conservation, and a drying up of resources for the low-income countries.

These bottlenecks can be either of a short-term nature, or they can represent long-term scarcities. In the latter case, investment by the North in the South, in order to overcome these global scarcities, can make a contribution to the resumption of long-term orderly growth without inflation. But in the long-term, interdependence is likely to be less than in the short-term, because substitutes for and economies in the use of the scarce materials are possible. With technological advance, it is doubtful whether, in the long run, any country or group of countries can be said to be wholly dependent on some other countries. This is true both for the North and for the South. It greatly reduces the alleged significance of global interdependence.

Institutional innovation in the field of minerals and energy requires resolution of the present conflicts between companies and governments. Exploration is a risky business in which one lucky strike has to pay for numerous unlucky strikes. This type of risk is borne more efficiently by an intergrovernmental organization, which would also add to available information and reduce friction in negotiating contracts. A new institution could also supply finance for host country equity in new developments and for processing facilities in developing countries.

An area of positive-sum games is policies towards transnational corporations and direct private foreign investment. In the past, fears of expropriation, restrictions on repatriation or remittances, price controls and other policies reducing profitability or leading to losses have caused uncertainty and have raised the required rate of return on foreign investment. This high rate of return has, however, often led to the very measures that the investor feared, for host governments felt that companies were taking out of the country more than they were putting in.

There is a specific dilemma for developing countries. If the rate of re-investment of foreign profits is lower than the rate of return on the capital invested, remission of profits presents a drain on foreign exchange. If, on the other hand, the rate of reinvestment of foreign profits exceeds the rate of return, on plausible assumptions about the rate of growth of national income and the capital-output ratio, a growing proportion of the stock of capital is going to be owned by foreigners. This dilemma between foreign exchange losses and alienation of assets has led some countries to expropriate foreign enterprises. A reduction in the uncertainty about such measures would reduce both the rates of return required by the companies and incentives to take measures by host government that raise risks for companies. Well designed measures to reduce uncertainty can increase the flow of foreign investment, induce companies to take a longer-term view, alleviate fears of host governments, and thus benefit both firms and host countries.

Among such measures would be investment guarantees, agreements on arbitration procedures, sell-out and buy-out options after agreed periods at prices to be determined by agreed procedures, model contracts, investment codes, joint ventures, and new public-private hybrid institutions, combining the virtues of private initiative and enterprise with those of a commitment to development.

Another area of mutual interest for policies toward multinational firms is the application of anti-trust action to the international behavior of these companies. It is just as much in any industrial country's interest that its companies should not act like cartels or monopolies internationally, as it is that foreign companies should not monopolize its domestic market. There is now an asymmetry in that anti-trust action and restrictive practices tend to be outlawed for domestic activity but permitted (or even encouraged) for international ones.

The conclusion that these considerations lead to is the need for a new international institution which would comprise some of the areas now covered by GATT, some of those covered by UNCTAD, and some not covered at all. Such a new International Trade and Production Organization [as Miriam Camps (1980) has called it] would be concerned with laying down rules and principles not only for tariff and non-tariff barriers to trade, but also for intra-firm trade (which now escapes these rules), for state trading, increasingly important also in mixed economies, for restrictive business practices, agricultural products and raw materials (now under UNCTAD), services and for investment. The multilaterial trade negotiations have not solved the problems of structural adjustments that a new, changing international division of labor calls for, nor have they touched on the investment wars that have tended to arise from the attempts of national governments to capture for themselves taxes and other benefits from private investment, thereby eroding the potential gains from investment. (Institutional arrangements to prevent these wars fall under the subsequent heading, "avoiding negative-sum games".) It may be argued that it is better to build on existing institutions and procedures, but as Gerald Helleiner has reminded us, Clausewitz said "A small jump is easier than a large one, but no one wishing to cross a large ditch would cross half of it first".

Common interests can also be established in cooperation in the management of the global commons: ocean fisheries, air and sea pollution, radio frequencies, civil, air and merchant shipping routes and world monetary conditions. The already mentioned success of some international institutions devoted to technical aspects of international cooperation, like the International Postal Union or the International Telecommunication Union or the World Metereological Organization bear witness to the possibility of successful international cooperation if strictly defined technical areas are at stake. As a by-product of this global management, revenues might be raised from some of these activities, like ocean fisheries or international travel.

IX. Avoiding Negative-sum Games

The essence of interdependence is that members of the world community are capable, by unilateral action, to inflict harm on others. The fear that others may take such action can be a sufficient condition for defensive, detrimental action of this kind. The situation is that analysed under such names as the prisoners' dilemma, the tragedy of the commons, and social traps. What is entirely rational from the point of view of each nation produces results that are destructive for all nations. In the absence of coordination or supranational authorities, the self-interested action of each government not only inflicts harm on other governments and countries, but also is detrimental to its own interests. But refraining from such action unilaterally is no good, as long as other governments follow similar, apparently self-interested courses, or are feared to do this.

The prime example in this field is the arms race which absorbs scarce resources and, beyond a certain critical point, which we have long ago exceeded, breeds violence. Between 1946 and 1976 120 wars were fought, 114 of them in the Third World. The number of people killed is somewhere between those killed in the First and Second World Wars. It has often been noted that economic growth has not abolished poverty. It is less often noticed that large defence expediture has actually bred violence. The Laffer curve, whatever may be true for taxation, seems to apply to expenditure on arms. Three percent of the total annual expenditure of $450 billion now devoted to armaments would be doubling the annual resources devoted to official development assistance given by the OECD countries. But such arguments do not cut any ice until it can be established that the expenditure at present levels is counter-productive and that we would get better security from a reduced volume of expenditure.

In the economic area protectionism and deflation to protect the balance of payments are instances of negative sum games. In the area of private foreign investment, actions by both parent and host governments to tilt the advantages from private foreign investment in their direction have similarly destructive effects. Large incentives are offered to bid for these investments in "investment wars," like the trade wars of the Thirties.

Over-fishing, the pollution of the sea and the global atmosphere and the excessive exhaustion of non-renewable resources are other examples. Coordination of policies and international institutions for cooperation are needed to avoid such mutually destructive actions.

The institutional responses might be illustrated by internationally coordinated action. In order to avoid the self-defeating and mutually destructive actions arising from attempts to correct balance of payments deficits imposed by a few persistent surplus countries, an international central bank, with power to create liquid assets, is necessary. It has been argued that the system of flexible exchange rates has restored full autonomy for national monetary policies. But this is by no means as obvious as is often thought. Hardly any government would permit completely "clean" floating; and "dirty" floating may well require larger rather than smaller reserves to counter speculative attacks. For the creation of these an International Central Bank is necessary.

A second institutional reform would be a mechanism for some form of coordination of investment decisions, so as to avoid the swings between overcapacity and shortages of capacity in steel, shipbuilding and fertilizers, from which we have suffered in the past. Opponents of such coordination fear lest this is the entry of market-sharing agreements and cartels, but in many national plans coordination of investment decisions has proved entirely compatible with maintaining competition.

Other illustrations would be agreements to refrain from trade and investment wars and the already mentioned establishment of international firms that would combine the virtues of private enterprise and freedom from bureaucratic controls with the objective of promoting development. Another area would be taxes on activities where independent national actions now lead to the deterioration of the world environment: a tax on overfishing, on polluting the sea and atmosphere, or on mining non-renewable natural resources.

X. Zero-sum Games

Exploration of areas of zero-sum games, that is to say actions where a sacrifice is required on the part of the developed countries in order to benefit the developing countries, comprise three fields. First, the correction of imperfections and biases in the existing world order which work against the developing countries. Second, transfers of resources from the rich to the poor. And third, more "voice" for them in the councils of the world.

XI. Existing Biases, Imperfections and Discrimination in the International System and How to Correct Them[10]

An international economic order that discriminates systematically against one group of countries can give rise to confrontations and conflicts and to negative sum games in which all lose. But the appeal to correcting inequities need not be wholly to national self-interest. There is an independent moral case for a just world order.

Countries should be willing to cooperate in correcting biases in market structures and government policies that are damaging to the developing countries. Such corrections would contribute to a more equitable and therefore acceptable world order and, by reducing frictions and conflicts, can be seen to be also in the long-term interest of the developed countries.

A response along such lines would meet the demands of both efficiency and distributive justice. Not only are the specific proposals more in line with the canons of economic efficiency, but, by accommodating the developing countries' call for a fairer international order, they would prevent the recriminations and conflicts that are bound to cause international disorder, one of the greatest sources of inefficiency.

At the national level, governments attempt to provide macroeconomic stability through monetary and fiscal policies, to redistribute income through progressive taxes and social services, to guarantee farmers an adequate income, to correct for the worst features of free competitive markets, and to cushion victims against the damage of change. All these government actions are in the nature of public goods. There is no international government to do any of these things on a global scale. In the 19th century Great Britain, and for about 25 years after 1945 the USA, provided a power center that fulfilled some of the functions of an international government, such as providing compensating capital movements, financial institutions and being a lender of last resort. Since about 1970 such a center has been lacking. The international organizations have been too weak to fulfill the required functions. International institutions are needed to provide internationally the "public goods" of stability and equity that civilized national governments provide as a matter of course for their citizens. The implementation of such reforms would be a contribution to the foundation of a stable, equitable and prosperous world order.

Whatever our motivation for correcting imperfections or biases in the present international economic order, such biases occur in various fields. The division of the gains from trade may be very unequal because a few large buying companies from rich countries confront many weak sellers from

[10]This subject is well treated in Helleiner (1978).

developing countries, and the demand for the final product is fairly inelastic. Or the bulk of the processing of raw materials from developing countries may be done in the developed countries, who reap the large value added, not because they enjoy a comparative advantage but because of market power and policies, such as cascading tariffs, or discrimination in shipping or credit. Or the distribution of the gains from productivity growth between exporters and importers may be uneven, so that improving commodity terms of trade are consistent with deteriorating double factoral terms of trade.

In this context, thought should be given to what reforms are needed, by creating new or changing old institutions, rules, policies and other measures to change the location of economic activities and to improve the developing countries' bargaining power, so as to reduce the bias in the distribution of gains from trade.

There are imperfections in the export markets of developing countries. There are also imperfections in the supply of imports. Developing countries are often faced with import prices that are higher than those charged to industrial countries and often suffer from price discrimination, restrictive trade practices, export cartels, inter-firm arrangements for the allocation of markets, etc. There exists evidence that small countries pay higher prices for imported machinery, chemicals, iron and steel than large countries. The U.S.A. prohibits cartels internally, but specifically exempts export cartels. Should there not be an anti-trust law internationally, just as there is one to protect US citizens?

There are imperfections in access to market information. The ability to buy cheap and sell dear depends upon full market information. The large transnational firms possess this but poor developing countries do not. The disadvantage is cumulative: ignorance about how to acquire information about production processes reinforces the absence of information about these products or processes themselves. There are imperfections in access to knowledge and technology. Several measures have been proposed to correct this bias. They involve reforms of the patent law, in the market for technology and in the thrust of Research and Development expenditure. There is a bias in the developing countries' access to capital markets. There may be no shortage of finance in Eurocurrency markets, suppliers' credits or through the World Bank, but there may be a bias in the issues and bond markets. Much needs to be done in order to reduce imperfections and other obstacles in the way of access to the world's capital markets.

Imperfections in labor markets are reflected in the present bias in the admission and encouragement of certain types of professional manpower, often trained by the developing countries (Brain Drain), and the considerably less free movement of unskilled labor. The world's division into nation states, each monopolizing the physical and technical assets within its boundaries for its own benefit, is not consistent with a rational or moral or acceptable world order.

Does the international monetary system discriminate against developing countries? Monetary restrictions have an important impact on unemployment. The SDR-aid link is probably dormant for a while, but there should be a gold-aid link. As Central Banks sell gold to the IMF for SDRs, the IMF can sell the gold and use the receipts for contributions to IDA.

Transnational corporations also introduce imperfections. How can we strengthen the bargaining position of developing countries in drawing up contracts with TNCs; how enlarge the scope for "unbundling" the package of capital, management, know-how and marketing; what is the role of public sector enterprises in negotiating with private TNCs?

An analysis of the distribution of gains arising from much-touted "outward-looking" foreign investment, where the quasi-rents and monopoly profits accruing to capital, management and know-how go to the rich countries, while the near-subsistence wages for semi-skilled labor go to the developing countries would be useful. The world in which we live corresponds to neither of two popular models: it is neither a truly "liberal" world in which all factors are completely mobile across frontiers, so that they can seek their highest rewards; nor is it the world of the textbooks in which all factors are completely immobile internationally and trade is a substitute for factor movements. Some factors of production, such as capital, management and know-how, are fairly mobile internationally, and earn high rewards, whereas unskilled and semi-skilled labor are immobile internationally, though in abundant supply domestically, and earn low rewards. This has important implications for the distribution of gains from trade, technology and investment, and for the attitudes towards multinational firms.

There are biases in information on political news coverage. Are the media biased in the scope and content of their news coverage? Is there a need for additional press agencies representing the point of view of developing countries?

Should reforms in all these areas take the form of restoring genuine competition, to reduce market power concentrations in rich countries, or should they take the form of mobilizing countervailing power, like organizing numerous poor producers (as the trade unions did in the nineteenth century), or should they take the form of changes in rules, institutions or legislation? Should there be reforms in the accumulation, selection and dissemination of information and knowledge? Many current recommendations are based on the false premise that existing markets are competitive and efficient, and spread the benefits of economic progress speedily and widely. This assumption is quite unrealistic for the world as a whole.

XII. Resource Transfer

A new international economic order calls for a substantial increase in the amount of resources to be transferred to the developing countries, with the primary objective of eliminating the worst aspects of poverty within the lifetime of a generation. The specific forms this transfer takes is a secondary question. It has been proposed that developed countries should commit themselves to a total, but that each country should be free to decide in what form it wishes to make its stipulated contribution, whether through commodity agreements, preferences, debt relief, additional ODA, etc. Such an approach would prevent differences among developed countries over specific instruments blocking the achievement of an agreed objective.

The rational way would be an international, progressive income tax, with a lower exemption limit and a rising aid/GNP ratio as income per head rises. Other tax proposals have been made, such as a tax on overfishing, on global pollution, on seabed resources, on international travel, on armaments, etc. But an international income tax would be the most rational way towards automaticity in contributions and fair sharing.

Monitoring of the objective, poverty eradication, can be done in a way that would avoid the intrusion of donor-country performance criteria, with all the suspicions to which this would give rise, and without the abuse of funds received by developing countries. Harlan Cleveland has proposed a system like that under the Marshall Plan, in which the developing countries themselves would examine and monitor each other's performance in reducing poverty. Accepted extra-national secretariats are another possibility.

XIII. "Voice"

The demand of the developing countries for greater participation in the international decision-making process calls for a reform in the membership and voting system of international institutions. More "voice" for the developing countries is likely to remove some of the frustrations that spring from the perception of powerlessness. But greater participation by the developing countries would be pointless if it were accompanied by reduced contributions from the industrial countries.

The demand for "more voice" is, of course, ultimately a demand for a different power distribution. Power to achieve common objectives can be a positive sum game, in the sense that joining others can strengthen this power. But where objectives conflict, power is a zero-sum game. If there were a harmony of interests, more voice would not be needed. The demand for "more voice" implies that certain objectives of the claimants have not been met. What is ultimately at stake is a restructuring of power relations.

XIV. The Relation Between Narrow and "Higher" National Self-interest

We can build on areas of common national interests, emphasizing mutual benefits to be derived from, e.g. resumption of orderly and equitable growth in the world economy, forswearing self-defeating protectionism, exploring ways of increasing the resources in globally scarce supply, etc. But while there is considerable scope for positive sum games in exploring areas of common and mutual interests, and of avoiding self-defeating, mutually destructive policies of the prisoners' dilemma type, there is also a "higher" interest in a world order that both is, and is seen to be, equitable, that is acceptable and therefore accepted, and that reduces conflict and confrontation.

All societies need for their self-regulation and for social control a basis of moral principles. Individuals are ready to make sacrifices for the communities they live in. Can this principle stop at the nation state? A belief in the harmony between self-interest and altruism is deep-seated in Anglo-Saxon thought and action. One is reminded of the eighteenth century Bishop Joseph Butler: "when we sit down in a cool hour, we can neither justify to ourselves this or any other pursuit, till we are convinced that it will be for our happiness...." The only question is why it appears to be easier to identify, or at least harmonize, individual happiness with the national interest than with that of the world community. It is odd that a moral, disinterested concern by rich countries with the development of the poor is hardly ever conceded. As hypocrisy is the tribute vice pays to virtue, so professions of national self-interest in the development of poor countries may be the tribute that virtue has to pay to vice. Let us, in the present fashion for stressing common and mutual interests, not underestimate the power of moral appeals. Holland, Sweden and Norway, which have put international cooperation squarely on a moral basis, have hit the 0.7 aid target. It is the countries in which aid has been sold to the public as in the national self-interest where the effort is sadly lagging.

The common interests must also be defined in terms of different time horizons: the next year, the next five years, the next twenty years. There may be conflicts and trade-offs between these different time spans. For example, concessionary aid to the poorest may involve economic sacrifices in the near future but, by laying the foundations for a world in which all human beings born can fully develop their potential, it contributes to the long-term interest of mankind.

One difficulty is that in democracies adults have votes, but children and the unborn have no votes. The fight is not only against powerfully organized vested interests, but also against all our own short-term interests, that neglect the interests of future generations.

Any attempt to build cooperation for development on moral principles has to answer three questions. First, do the rich in a community have an obligation in social justice (not only in charity) to the poor and whether the poor have a just claim on the rich. Second, does mankind constitute a community in the relevant sense or do communities stop at national boundaries? Third, does the existence of national governments not interfere with the discharge of the obligations of the rich, if such obligations exist, to the poor in the world community, if there is such a community?

The first question cannot be answered without an analysis of various theories of moral philosophy. But both utilitarianism and various types of entitlement theory would provide a basis for an obligation of the rich to contribute to improving the lot of the poor in a community. Perhaps more difficult is the case for saying that mankind does constitute a community in the relevant sense. Social contract theories might say that we need not do anything for the world community because the world community does not do anything for us, whereas the state provides protection, security and certain other services. But even if the first two questions were answered in the affirmative, the third question presents the difficulty that the discharge of the obligation may take the form of a redistribution of resources from the poor in rich countries to the rich in poor countries. To meet this difficulty we have to exercise our institutional imagination in finding procedures and institutions that avoid, or at least minimize, this possibility.

The "higher" interest in an acceptable world order can be defined either in moral terms or in terms of the desire to avoid negative sum games, to avoid breakdown and wars. Whatever the definition and justification, its aim is to transform adversary relationships into cooperation. When interests diverge or conflict, the task of statesmanship is to reconcile them. This is a task quite distinct from, and more important than, that of exploring areas of common or mutual interest. It is in this light that cooperative action to eradicate world poverty and to restructure the international economic order have to be seen.

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