

The New Economics of the Less Developed Countries

**Changing Perceptions in
the North-South Dialogue**

edited by Nake M. Kamrany

**Westview Special Studies in
Social, Political, and Economic Development**

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*The Political Economy of the Less Developed Countries:
Changing Perceptions in North-South Bargaining*

edited by Nake M. Kamrany

After a quarter-century of experimentation with economic development in the poorer countries, the disarray, and in some cases the calamitous results, are so obvious that a fresh look at and reexamination of traditional assumptions, methodologies, theories, and policies is needed. The contributors to this volume explore--with supporting theoretical frameworks and empirical evidence--the new perceptions concerning the development of the poor countries, providing clear and sophisticated treatments of North-South bargaining, commodity power, indexation, the theory of power and the international distribution of rights and resources, and the effectiveness of international organizations as vehicles for conflict resolution. The authors discuss the position and prospects of the non-oil-producing, less developed countries, focusing on measurements of the quality of life in these countries, growth and income distribution policies, and the effectiveness of public expenditures to enhance social welfare.

Nake M. Kamrany is professor of economics and director of the Program in Productivity and Technology at the University of Southern California. He has held faculty and research positions with M.I.T., Stanford Research Institute, the World Bank, and U.C.L.A., and has conducted research on the economic development and technology of twenty countries.

FOREWORD

The North-South dialogue represents a global issue to fight world poverty -- which is indeed a perennial concern of our times and a major challenge to the ingenuity of mankind. Although the issue of poverty has been with us since Adam and Eve, its present intensity and magnitude is unparalleled. It is further magnified by the realization that millions of peoples have been able to break out of poverty while a majority of the world inhabitants are still caught in its vicious circle. While the issue has been discussed, debated, and acted upon, there is no evidence of a deep commitment and a genuine universal resolve to eradicate it. For one reason or another, the human race so far has failed to come to grips with it. The issue has been postponed and, as a result, it has become more complex over time. There is indeed a need to revolutionize our perceptions of the issue of world poverty and transform our understanding of it.

This volume represents a modest step toward an attempt to objectively explore the various dimensions of the issue of poverty by a group of scholars representing varied backgrounds. The papers for this volume were either invited or selected competitively. Moreover, the authors discussed their findings in a Conference on Major International Economic Issues, which was held at the University of Southern California during December 15-17, 1976. The papers cogently address the various dimensions of our perceptions of poverty -- both in terms of theories and empirical observations with resultant policy implications. Historical coverage is minimal. This work is addressed to the policymakers in the national and international organizations, universities at the undergraduate and graduate levels, and concerned citizens.

I am grateful to my students and colleagues at USC and MIT for encouraging me to undertake the task of addressing the issue of poverty by drawing upon the collective wisdom and participation of several scholars. In particular, I am grateful to the members of the Monday lunch seminars of the Harvard Center for International Development which were held under the chairmanship of Professor Lester Gordon. Those meetings were a major source of inspiration for me. I am also grateful to my

colleagues at MIT, especially the research staff of the Center for Policy Alternatives for the stimulating environment. Special thanks are due to Professor Charles Kindleberger of MIT who provided guidance and moral support. Likewise, I am indeed grateful to Professor Richard Day, Chairman of the Department of Economics at USC, for fully endorsing my concern and providing hospitality to the participating group. Faculty members of the Economics Department at USC provided encouragement and several participated in this endeavor, including Richard Day, John Niedercorn, A. Morgner, S.D. Pollard, John Elliott, and Jeff Nugent. Mr. John Nilles, Director of the Office of Interdisciplinary Program Development at USC provided the necessary staff and administrative support. Dr. Henry Birnbaum, Special Assistant to President Hubbard for International Programs, provided stimulating insight and exchanges which helped me along with the overall development of this framework.

I am indeed grateful to Janna Wong and Gayle Brady for their relentless support to all aspects of this effort, including administrative, secretarial, coordination and production efforts.

My greatest gratitude is to the authors of this volume. They undertook this major task entirely on their own without grant support for their research, travel, and related expenses. Moreover, they maintained an unfailing cooperative attitude to many of my demands for revisions, presentations, deadlines, and all the pulls and pushes that are necessary as part of putting together such a volume. I am hopeful that the readers of this volume will share with me the admiration that I hold for the contributors of this volume. To the extent that these papers hopefully will contribute to our perceptions of the issue of global poverty and help us toward a better understanding of some of the fundamental resolutions, we owe a major debt of gratitude to the contributors.

Nake M. Kamrany
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I

THE NORTH-SOUTH DIALOGUE

Nake M. Kamrany and John E. Elliott

University of Southern California

WORLD POVERTY AND NORTH-SOUTH ECONOMIC RELATIONS

In recent years, the traditional perception of a world separated into East and West, focusing essentially on military, political, and diplomatic matters, has been supplemented by an alternative view of the world in terms of a North-South division, focused on the political economy of development. In the longer run, indeed, the strategic importance, for world stability, prosperity, and progress, of dialogue and decision between the relatively prosperous North and the relatively and absolutely poorer South concerning world poverty and North-South economic relations should equal and may well surpass that of East-West rivalries.

This volume elucidates various policy dimensions of contemporary international issues of political economy especially pertinent to North-South relations. It aims at a scholarly and objective, though frankly normative, exposition of the major dimensions of the critical economic issues with a view to contributing in at least a preliminary way, to an analysis of the "new economic order" which some believe is now beginning to emerge in world society, an "order" characterized more by cooperative, collective ventures, relative to market processes, than in the past century, and less by the dominance of a very few large and powerful countries.

After a quarter century of experimentation with economic development in the poorer countries, the disarray and in some cases the calamitous results are so obvious that a fresh look and reexamination of traditional assumptions, methodologies, theories, and policies is needed. We do not believe that it is necessary to argue this point at length, since both supporters and critics of the record of economic development of the poor countries agree that reappraisal is necessary. More importantly, at the risk of overstating the case, it is noteworthy that the dramatic and significant in-

ternational economic changes which have taken place during the last half decade, as exemplified by the emergence of OPEC, resource shortages, the multinational corporations, and the new world monetary system, have rivaled those of the last century. These changes in themselves warrant a serious reappraisal and have introduced additional skepticism concerning the viability of the traditional framework of development economics. Moreover, the continuing impasse of the North-South dialogue pointedly illustrates the complexity and difficulty of determining what must be done to substantially reduce, if not "solve" the problem of world poverty. In relative terms, poverty in the non oil-rich Third World countries is more severe now than in the past despite decades of optimistic programs for economic development. The disparity between the rich and the poor countries is increasing and the resentment of the poor over the unshared affluence has become more serious. The mode of interaction between the poor and rich countries has changed from that of cooperation and partnership for progress in the 1950's to that of adversary bargaining in the 1970's, as exemplified in the recent deliberations at GATT (Kenya), the North-South dialogue (Paris), Conferences on Population and Food (Rome), and a number of conferences held by the poor countries (Manila).

Thus, transfer of wealth to the less developed countries, or LDCs -- its magnitude, rate, and composition -- has been a major international issue and one which may well be contributing to the emergence of a new world order. Five years ago, the United States and the rest of the technology-advanced countries were the main source of this transfer in the form of aid. Now, the OPEC members and multinational development agencies provide alternative sources of funding to compensate for the decline in the relative share of aid from the Western world. Part of the problem, for instance, in the United States, has been growing doubts by the American public concerning the goals and results of foreign aid programs. There is no doubt that the events of the last five years call for alternative approaches to aid from both the donors' and recipients' perspectives. The one percent of GNP aid target from the Western countries to LDCs set by the Pearson Commission of 1969 has not been achieved; indeed, by 1977, the actual aid transfer was only around one-third of the target.

The terms of trade of the LDCs are deteriorating. The OPEC price hike has accentuated this deterioration.