

—— Gerald K. Helleiner ——

International Economic Disorder

—— Essays in North-South Relations ——



INTERNATIONAL ECONOMIC DISORDER:

Essays in North–South Relations

Gerald K. Helleiner

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Preface

Of the essays in this volume, only one – that which introduces the rest – was originally written with a view to eventual incorporation with others within a single book. All of the rest were originally prepared for publication in journals or other volumes, and/or for presentation at conferences. The flow from one chapter to the next is not therefore as smooth as it might be, had they all been designed as a package from the outset. Further, complications have been created by the fact that the individual papers were written at various times over the course of the past seven years. While leaving the basic arguments intact I have tried to integrate them somewhat by minor changes and omissions in the original texts. At the same time I have also attempted, wherever possible, to bring them up to date. In the special case of the paper on the international monetary system, a few extra paragraphs and a table were added to the original text as I was, and to some degree still am, particularly conscious of the original paper's age. All of that said, I feel that these essays do hang together remarkably well. More important, they are still thoroughly relevant to the issues they address. This is unfortunately much less a matter for self-congratulation than it is a reflection of the very slow pace of change in the basics of North-South economic relations.

My debts in the preparation of these papers are many, and I have expressed acknowledgements to those who have been most generous with their comments and advice in the notes attached to each chapter. I should also like to thank those, listed on another page, who have granted their permission for the reprinting of the original papers. I am also very grateful to Queen Elizabeth House, Oxford, and its then Warden, Keith Griffin, for having provided me with such an attractive environment in which to prepare the final manuscript. Lastly, may I express my thanks to the University of Toronto for the sabbatical leave, and to the Social Sciences and Humanities Research Council of Canada for

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Oxford, March 1979

G.K.H.

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Development for Poor Nations (New York: Holmes & Meier, 1979).

Chapter 8 originally appeared in slightly longer form in T. Shaw and K. Heard (eds), *The Politics of Africa: Dependence and Development* (London: Longman, 1979).

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1 International Economic Disorder and North-South Relations: An Introduction *

I THE ELEMENTS OF DISORDER

The decade of the 1970s has been characterised by turbulence and disorder within the world economy. The most severe recession since the 1930s checked the general post-Second World War mood of optimism and self-confidence with respect to growth and increased already existing anxieties concerning the efficacy of macroeconomic management. At the same time, rapid inflation in the industrialised countries proved extremely difficult to curb, and intensified latent social and political tensions. The 'international economic order' carefully erected during the 1940s was placed under increasing stress, eventually sufficient to bring down its monetary arrangements and threaten those in the sphere of trade. As if all of this were not enough, the developing countries—both individually and in groups—launched a vigorous intellectual, political and policy attack upon the old ways of ordering the world economy. Most dramatically successful in the OPEC case, they formed a variety of new collective bargaining units and pressed for a number of reforms in international institutions and practices, all under their new banner of 'The New International Economic Order'. By now there is a fairly general expectation that the industrialised countries of the North will grow more slowly during the 1980s than heretofore. There is

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unfortunately also increasing despair as to the possibility of realising significant progress in the ongoing discussions between North and South on the future organisation of the world economy. The talks go on and on, but very little concrete agreement seems to materialise. The 1970s are therefore drawing to a close in a mood of uncertainty and *Angst* within the industrialised countries, and a new climate of defiance and self-reliance on the part of policymakers in the developing world. Far below the level at which the posturing and bargaining of governments continues, the picture is bleak indeed. As far as the lot of the world's most desperate poor are concerned, the World Bank forecasts more of the same; on the basis of recent trends it projects that those living in conditions of 'absolute poverty' ('people living at the very margin of existence—with inadequate food, shelter, education, and health care', World Bank, 1978, p. 1) will still number fully 600 million by the turn of the century, as against 770 million in 1975 (World Bank, 1978, p. 33). There is evidence that some of the poorest have actually become absolutely worse off in recent years (I. L. O., 1977). In a world continuing to shrink through improvements in transport and communications, such massive poverty seems likely to generate increasing restiveness and strengthen those who defend authoritarian régimes on the grounds of the 'order' they preserve. It is not a time at which one can find great cheer about the future of the planet.

In addition to the more sombre growth prospects of the industrialised countries and the clamour for reform from the developing countries, there are a number of other 'structural' changes under way or readily foreseeable which bid fair to cause further stresses and strains in the world economy in general, and in the industrialised countries in particular. The following list is intended to be indicative, rather than comprehensive.

(1) Manufactured exports from low-wage and socialist countries are bursting upon Western markets, creating potentially great adjustment problems for particular sectors, firms, communities and groups of workers (typically those already hard pressed by other economic difficulties). Many more countries and many more sectors will be involved in continuing major changes in world industrial structure in the relatively near future.

(2) Sharp increases in the price of energy have already generated major pressures for change in consumption patterns and technology; and many analysts expect a further two to four-fold real increase in prices before the turn of the century. Such sharp relative price changes in major industrial inputs will continue to be difficult to accommodate.

(3) The old commodity 'order' in the minerals and energy sectors has broken down, with a consequent reduction and redirection of exploration and investment activity (away from the developing countries). The result is increased uncertainty and the prospect of higher relative prices of strategic raw materials in the medium-term future.

(4) A number of new issues surrounding the management of the 'global commons'—the seabed, the electro-magnetic spectrum, space, the environment, etc.—remain inadequately resolved, and the best efforts of diplomats seem incapable of doing so satisfactorily in the near future.

(5) The trans-national corporations and trans-national conglomerates continue to expand, with a minimum of transparency and either national or international surveillance or control of their activities.

(6) An information and communications revolution is on the doorstep, with enormous potential impact upon employment patterns, centralisation of power, and distribution of income at the global level. The impact of micro-processors upon global society is already being compared in its relative dimensions to that of the steam engine in its time.

(7) In political terms, the decline of US hegemony and the rise of new 'participating powers' (EEC, Japan, China, OPEC, etc.) has required and will continue to require the rethinking of existing instruments for the maintenance of global order. A multipolar world is inherently more difficult to 'manage' and therefore more unstable than one founded upon hegemony.

(8) There are new concerns and uncertainties with respect to the longer-run implications of current allocative decisions. These revolve around the quality of the environment, the exhaustibility of certain resources, and the 'meaning of development'; and they increase the complexity of decision-making on the part of public authorities who are designated as the protectors of social interests in circumstances where private and social returns diverge.

The essays which follow are concerned with the international dimensions of the developing countries' problems, or what have increasingly come to be called the 'North-South' issues. This focus should not be seen as reflecting a view that the 'purely domestic' issues within the developing countries are unimportant. To the contrary, they are usually absolutely crucial to the key questions of poverty alleviation, political participation and stability, and ultimately to 'development' itself. Nor should the primary concern in these essays with the alteration of Northern policies be permitted to create the impression that there is little which the developing countries can do in the international arena through their own initiatives. Again to the contrary, the most significant recent changes in developing country fortunes in the world economy—such as the OPEC achievements, widespread increases in rents from minerals production, the expansion of manufactured exports, the better bargains struck with transnational corporations, etc.—owe little or nothing to Northern policy changes; they were achieved by more vigorous play under the existing rules of the international game.

II NORTH-SOUTH DEBATE

The principal burden of the development effort within the Third World has always rested and will continue to rest with the peoples, institutions and governments of the developing countries themselves. The new spirit and proclamations of national and collective self-reliance signal their own perception of this reality. That they must rely principally upon themselves does not imply, however, that relationships with the rest of the world can be ignored or reduced. Rather, the developing countries must always do the best they can from their interactions with others—minimising costs and maximising returns—while at the same time placing them in appropriate overall context.¹ The differential resource endowments, size, level of development, and other characteristics of individual developing countries mean that they each possess different capacity for making effective use of the global system through their own independent initiatives. Brazil can obviously achieve more in this manner under the present world system than can Tanzania. Equally, individual governments differ in their perceptions as the place and nature of their

international economic and political relationships.

The question for the North is not whether its governments or businesses should or should not 'develop' the South but whether they should, wherever possible, ease rather than inhibit the positive processes of change within the Third World, which usually have an independent and unstoppable momentum of their own.² While pursuing their own development on their own terms and primarily with their own resources, the governments of developing countries at the same time quite sensibly try to persuade the industrialised countries to undertake reforms which would assist in their own independent efforts. Since it is the economically strongest of the developing countries, and the politically and economically most powerful groups within them, which have the greatest bargaining and persuasive capacity such reforms as are achieved may well be biased toward their particular interests. It is therefore essential, whether in the design of new 'orders' or in mere marginal reforms, for some—and, most appropriately, the United Nations' agencies—to retain a global and basically humanitarian concern for the welfare and rights of the poorest and weakest countries and peoples. It is with the case for change in the organisation and management of the world economy which is made by the developing countries and the agencies of the United Nations, and still resisted by the nations of the North, that the following papers are concerned.

The consideration of developing countries' interests in world economic reforms is seriously inhibited by the intellectual 'climate' in the industrialised countries. Much of the argument put by Third World spokesmen or by United Nations agencies (notably the UNCTAD) is written off as 'special pleading' while alternative positions, defensive of the established order, are regarded as close approximations to truth and reason. If this were merely a matter of 'backing one's side', as in the case of analogous behaviour in the realm of politics or industrial relations, this could be seen as quite normal and probably inevitable. Some of it can undoubtedly be attributed to such self-interested reaction; but there is unfortunately a much deeper current to it as well.

The hold of crude and vastly over simplified models upon professional and public analyses of complex economic problems is very great. The dominant model in the industrialised countries, and particularly in the United States and the Federal Republic of Germany, is one in which markets function in a thoroughly

beneficent manner, approximating to that of the competitive markets of elementary (but not advanced) economics textbooks. There is consequently a powerful ideology creating a presumption that markets are always competitive and efficient, or that the markets which now function are the 'natural order' of things about which little can be done, or even both of these views at the same time. This ideology pervades the profession of economics itself, except where it is based on the study of actual market phenomena in such applied fields as industrial organisation or the management of international business. (It must sadly be added that some analyses of these issues by non-economists are equally unhelpful in that they demonstrate no knowledge of the economic constraints and/or interrelationships whatsoever.) Faith in markets and/or the *status quo* draws its nourishment from particular identifiable intellectual establishments and, with assiduous promotion, its influence extends remarkably widely and deeply in the media and the public consciousness. The case for reform therefore confronts not only the established interests which can be expected to defend the *status quo*, but also a dominant ideology which calls into question the very intellectual legitimacy of any case for change.³

It is an open question whether intellectual inputs play any great role in political decision-making relative to the political expression of interests. Some have thought that, at least in the longer run, they do (not the least of whom was Lord Keynes). If they do, the future of world economic reform may be dependent, at least in part, on the creation of a 'climate of legitimacy' for those who (accurately) perceive the malfunctioning of the present world order. Even if they do not, it is intellectually important to sweep aside the patronising tones of incompetent analysts who obscure the realities and offer further comfort to the already comfortable. Chapter 2 makes a start.

In the shorter run, in which we all, and particularly political leaders, live, it is obviously essential to consider calculations of economic and political interest. It was certainly not technical economic argument which carried the day in the North-South dialogue of recent years. Rather, the governments and interest groups of the North have continued to resist change much more evidently on the basis of perceptions of their own interests. Their resistance rarely takes the form of outright confrontation. Instead it consists of a process of footdragging, delay and

obstructionism. There are requests for further studies, the consideration of new wrinkles and new factors, the creation of new committees, the calling of new conferences, the gradual wearing down of enthusiasms, and the slow emasculation of reform proposals. What one sees, therefore, is 'dialogue without decision; decision without action; despair piled upon frustration' (Ramphal, 1978). The whole process is cloaked in quasi-intellectual garb.

The negativism of Northern responses is at so many levels that prospective reformers can easily despair of making a dent in the *status quo*. The responses are usually polite and reasonable in their sound; in many instances those who offer them are totally sincere in their expressions. But their cumulative effect is to thwart effectively any move toward change. Consider the stages through which the arguments typically run.

First, it is argued that the proposal in question will not work: the developing countries have not adequately done their homework or, worse, do not understand economics. Even if it did *appear* to show some sign of success, it is argued that it will have detrimental side effects or long-run effects that the Third World (or the UNCTAD) have not thought of, and that the proposal is not therefore really in their interest. For example, the successful attainment of higher raw material prices will generate the more rapid development of synthetic substitutes. 'More in sorrow than in anger', it is pointed out, often with academic analyses in support, that the scheme is an inefficient way of achieving the stated objectives, or that the overall impact, if not negative, would certainly be very small.

If it is insistently shown that the proposal in question *will* increase Third World incomes, the second step is to point out that since the governments of developed countries are very wise they will immediately perceive what is happening and will cut back official development assistance (or any other existing concessions) by an equivalent amount. Thus the gains will not, after all, be 'additional' to the incomes the developing countries already receive. Such an objection can evidently be raised with respect to each and every proposal for domestic or international income redistribution.

What then if it is granted that the proposal in question could raise the net quantity or at least the quality of resource flows from rich countries to poor? In this case, the third argument in the

sequence is deployed: that the distribution of the gains as among countries or, more recently, among peoples within countries is inappropriate. Some countries which need assistance will not get it from the proposed scheme whereas others who do not so evidently need it will nevertheless receive it. (If 'packages' of proposals are introduced to try to overcome such difficulties, they are described as 'grandiose' and 'unrealistic', to be avoided in favour of familiar case-by-case approaches.) And how can one ever be sure that distributional equity within each beneficiary country will prevail? Examples can invariably be found in which the poor in particular places will derive few gains from the proposal in question; when coffee prices rise, there is typically a good deal of talk about incomes on Brazilian estates, and rather less interest in those of Tanzanian smallholders.

After a period of delay and obstructionism with respect to a particular proposal, it is not unusual for some of the original strength of the initiative to flag. At that point, adding insult to injury, the developing countries are accused of failing to treat the negotiations seriously, not sending sufficiently senior representatives, or, when alliances begin to falter in the face of continuing resistance, being 'unable to keep their act together'.

If all of these points are somehow met, if each level of objection is beaten back, and it is finally demonstrated beyond reasonable doubt that certain changes in international policies are likely to reduce poverty in the Third World, there remains a final overarching argument. There always remains a supreme 'bottom line'. At that point the policymaker at last declares that it is 'politically impossible', by which he means that it is not in *his* interest. In many instances, he also believes that it is not in his country's interest. Sometimes the declaration is softened, especially in smaller countries, by the implication that while the proposal might be accepted if *everyone* were to do it simultaneously, no one country could be expected to do it alone; and the negative response is ascribed to some other (more important) country's intransigence.

III NORTHERN INTEREST IN GLOBAL REFORM

Evidently the governments of the industrialised countries and the key interest groups to which they must respond have not as yet

been persuaded of the need for changes such as are proposed in the North-South dialogue.

Arguments for cooperation from the industrialised countries in the introduction of reforms at the international level which would be helpful to developing countries must appeal either to humanitarian motives or to self-interest. The powerful Northern public response to the slogan of 'basic needs' illustrates that there is still political force in the humanitarian instinct; but it also unfortunately shows its severe limitations. The alleviation of poverty at the global level is an objective which can carry wide support, but this support, as will be seen, may also direct the response of the governments of developed countries along questionable paths.

To many, the appropriate response to the challenge of world poverty is not structural reform, particularly if it means treading on politically sensitive toes, but increased charity. For politicians, Lester Pearson used to say, aid is 'the soft option'; it is at all events easier to increase aid than to lower barriers to Third World manufactured exports. Aid is also the theoretically correct means, according to orthodox economic theory, of engineering income redistribution; those who criticise various redistributive proposals that involve governmental interventions in the present system on the grounds of their inefficiency are usually obliged to recommend 'lump sum transfers' (aid) instead. Unfortunately, official development assistance is rarely the pure transfer that theory recommends; more typically, it is strewn with conditions as to use, application and monitoring procedures, and repayment obligations, all of which greatly reduces its value to the recipient (see Chapter 8). The appeal to humanitarian instincts can therefore bring as excess baggage, so to speak, demands for increased 'donor' control over official development assistance, in order to ensure that it is truly the poor who benefit from it. The 'basic needs' approach, as perceived by donor governments, has indeed generated new attempts on their part to prescribe for the recipients what they are to use their funds for. Development agencies with a vast capacity to 'wholesale' aid funds—to transfer large amounts with relatively little bother—have been converted into 'retailers' of hundreds of small, poverty-oriented projects (sometimes without complementary changes in working rules which might make their task easier), a function which they *cannot* sensibly perform. Well-meaning attempts to have the donor