The United States, Canada and the New International Economic Order

Edited by

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Introduction

The UNITAR/CEESTEM Policy Studies on the New International Economic Order examines obstacles as well as opportunities associated with current efforts to create a new and more equitable world economic order. This volume, the first to be published in the series, focuses on the United States and Canada and examines how diverse segments of the North American population respond to demands for a new international economic order, how they evaluate attempts in this area, and what their own perceptions are in matters of international economic cooperation, national economic prospects, and the problems of Third World development.

Despite claims to the contrary, the NIEO is not an undefined and vague cluster of claims and demands, but a set of relatively rigorously articulated policy objectives, couched for the most part in major international resolutions adopted in the framework of the United Nations. The principal objectives of the NIEO have been stated in a previously published volume (The Objectives of the New International Economic Order, Laszlo et al. New York: UNITAR and Pergamon Press, 1978); they will not be restated here. The policy studies initiated with this volume go directly to questions of the implementation of the objectives through an analysis of the relevant policies and perceptions in different parts of the world, as well as in diverse sectors of the world economy. They illuminate obstacles as well as prospects connected with the achievement of the principal NIEO objectives in view of the dominant currents of decision making and political influence on the North American continent.

In view of the findings, it appears that simplistic evaluations of U.S. and Canadian positions with respect to the NIEO are dangerously false and strongly misleading. Although Canada is smaller in population and more concerned with the kinds of problems that beset the Third World than is the U.S., it is divided in its response to the objectives of the NIEO. The United States presents a still more complex picture. It is a large country, not easily governable at any time, and especially not while experiencing a difficult series of domestic and international economic and political problems. Having been a dominant world economic actor for the greater part of this century, the U.S. is not accustomed to questioning the principles upon which its wealth and power were built, and not used to bargaining with foreign states on an equal footing. Having its hegemony first questioned, then threatened, is a difficult and unpleasant experience for any nation-state. It is surely a tribute to American democracy that this process has not created lasting wars and violence, but that the government as well as the people of this country could and did adjust, phase by phase, to the emerging realities of late-twentieth century world economic and political order.

Looking back at the decades just past, U.S. leadership cannot but see a further slipping of its world position in the context of efforts to create a new international economic order. Those segments of U.S. society which are hardest hit by the changed conditions will fight it the hardest. These segments include, first and foremost, the domestic workforce. As Chapter 3 points out,

> ...the terrain upon which U.S. labor unions and workers see their interests at odds with the workforces of less developed countries is precisely that of the core industries which are generally in decline: steel, electronics assembly, and textiles.

And, as Chapter 2 shows, most members of Congress reflect the configuration of views of their constituency rather than seek out new information about such world issues as the new international economic order. In fact:

> ...One of the major obstacles to the implementation of a NIEO in the U.S. is the marginal awareness and attention by most members and components of the Congress.

Yet is is clearly not the case that the U.S. populace as a whole would confront the issues of a new international economic order with unmitigated hostility. Fear, uncertainty, and a large dose of ignorance shroud the issues, but the majority of Americans see in the call for Third World development a call to relieve the suffering of poor people, and they respond with sympathy.

The executive branch of the U.S. government, which through the Department of State participates in negotiations on NIEO-related issues, cautiously attempts to find its way among these complex and uncertain currents. Its actions disclose some hesitancy, as its policy-guiding principles are torn between positive and negative orientations.

The positive orientations derive mainly from two overriding factors: first, the perception that U.S. national economic interest requires intensive cooperation with Third World countries; and second, the recognition that it is the duty of this large and wealthy country to help the world's poor. In a statement which reflects the polarities of the emerging U.S. policy on the NIEO, Secretary of State Vance said:

> Only by focusing on practical ways to meet human needs can we remain clear about our goals and clear in explaining them to our peoples. I know that the American people will never be convinced that there is an inherent value only in resource flows among nations. They want to know, and have a right to know, how their taxes are being used to better the lives of people abroad. (March 30, 1979, Seattle, Washington)

The secretary of state added that it is this practical and human focus which compels the U.S. to concentrate its aid on programs that improve the lives of the poor people abroad. The orientation of the American people toward equity, justice and the right to a life of basic human dignity, pulls U.S. policy toward the basic needs approach. As noted in Chapter 4:

> ...For Americans, this proposition - that a concept of human welfare which has thus far been accepted and applied only within individual nations should now be extended to the entire family of humankind - lies behind the rhetoric surrounding the NIEO concept. The proposition's ultimate acceptance seems likely in that it is an enlargement and extension of a basic past cultural trend....

The recognition that, for economic reasons, the U.S. should be interested in resource flows among nations as well - even if the majority of its people are more interested in flows among people - provides a counter pull on U.S. foreign policy. In the above policy statement Secretary Vance also said that as the U.S. government surveys questions of the international economic order, it does not do so on some abstract basis: "We do so as a matter of economic self-interest and, for some sectors of our economy, of survival." But the immediate interests of the U.S. economy do not necessarily coincide with the long-range objectives of a new international economic order. As Chapter 1 points out, U.S. interests could be served for a time by subsidizing the dependence of the Third World on American exports. Aid and assistance, tied to U.S. interests abroad, could improve the U.S. trade balance and at the same time satisfy the moral and humanitarian inclinations emerging within this country. The existing structure of the world economy could be exploited to create markets for American food products and finished goods without serving the efforts of the importing countries to achieve economic self-reliance. Trade alone does not guarantee the coincidence of U.S. and Third World interests. In the framework of the NIEO it is to be associated with the transfer of technology appropriate to specific Third World conditions, with the control and supervision of transnational corporations, with the gradual redeployment of labor-intensive and internationally noncompetitive industries to the Third World, and with suitable financial policies.

In the long run, U.S. interests would be clearly served by a more equitable international economic system permitting greater self-reliance in Third World economies. But the payoffs of such enlightened policies may take a decade or two to become felt, and the American political system is not structured to pursue long-range goals. Thus the fear is justified that even if the political leadership perceives U.S. interests as connected with developing countries, it may act to exploit such interests by financing Third World dependency rather than assisting Third World development. Given the recent history of the United States as a dominant actor with diminishing power and role in the world economy, it is perhaps too much to ask that it should lead the way toward the equalization of economic opportunities with nations that were previously in its direct or indirect sphere of influence. However, as a nation whose people are being increasingly mobilized under various environmental, humanitarian, consumer, lifestyle and global issue banners, emerging support for the NIEO through U.S. citizen pressure should not be ruled out (cf. Chapter 4). Should the voluntary sector discover and embrace the objectives of the NIEO, it may be possible to secure U.S. participation in creating it through focus on justice and equity, rather than on satisfying short-term economic interests.

The negative orientation of the U.S. toward the NIEO as a whole may surface in several forms. It may emerge as an endorsement of aid and trade relations with the Third World within the NIEO program, but in reality oriented toward furthering U.S. exports rather than local self-reliance. It may also appear as an outright rejection of the NIEO concept. The latter posture would be due to a fear of international economic and political uncertainty, to a sense of being unfairly treated by countries which benefited from U.S. trade and aid, and to the predominance of domestic economic issues in decision making.

A recognition of the real dimensions of the NIEO and its implications for the future of our interdependent world economy is as yet rare among U.S. decision makers. It is even more rare among the population at large. Yet, the *short-term perspectives which guide the actions* of the leadership may not be shared by many segments of American society. Ultimately the best hopes for U.S. participation in the building of a new international economic order may rest on the American people, and on the young and dynamic leaders whom they elect to office.

The Canadian position vis-a-vis the NIEO differs in significant respects from that of the U.S., as the studies in Part Two indicate. Canadians are generally better informed about the issues than their counterparts in the U.S., and Canada does not confront the need to preside at its own decline as a world economic power. Indeed, there are many structural similarities between the Canadian economy and Third World countries (great quantities of exports of primary goods, large proportion of manufactured goods among the imports, control of industrial facilities by foreign interests, etc.) which contribute to Canadian sympathies with developing countries. With respect to the NIEO, Canada straddles the gap between the large industrial powers such as the U.S., the German Federal Republic and Japan, and "like-minded" countries sympathetic to the goals of the NIEO such as Scandinavia and the Netherlands. In the past, Prime Minister Trudeau's views brought Canadian leadership closer to the like-minded group, but recent economic difficulties created a backlash which distances Canada from many goals of the NIEO. The situation of Canada, though different in particulars from that of the U.S., and smaller in its overall dimensions, is no less complex. Its evolution in coming years could be an important factor in deciding the fate of a new and more equitable order in the world economy.

With its studies on various segments of U.S. and Canadian society, on their interests and perceptions, this volume offers further insights into the dynamics of North American industrial states with respect to the current efforts to establish a new international economic order. Such understanding, we believe, is a matter of vital concern not only for the citizens and leaders of these countries, but for all people and all governments in the world community. While a functioning and stable international economic order is in the interest of all countries, equity in such order is more in the interest of those who are presently dominated than of those who dominate. If they who seek equity pursue their goals without regard to the complex strands of sympathy and antipathy for their efforts among the dominant actors, they could provoke a reaction that may set back such efforts by years if not decades.

Positive orientations need to be harnessed in all countries, especially in the industrialized world. Where these take the form of a perceived moral obligation to help poor people to satisfy their basic needs, then such perceptions must not be branded an anathema to development but efforts must be made to join the basic needs approach with plans for self-reliant economic growth. The legitimacy of aspirations for economic self-reliance cannot be denied by the great powers, and their willingness to promote it can be furthered through suitable guarantees of social, economic and political measures leading toward the proper distribution of the benefits of development.

In assessing the role of the U.S. and Canada in the establishment of the NIEO, it must be borne in mind that no government acts necessarily in the light of its country's long-term interests. Governments may choose the politically more expeditious route which assures immediate public support for their policies. This is true in all countries, and is of especial importance in the liberal democracies of North America where public perceptions play a role not only equal to, but often superior to, long-term economic and political rationality.

If the NIEO is a symbol for the striving of the world community toward collective self-reliance through international economic cooperation, it must satisfy the perceived interests and enlist the existing good will of all nations and groups of nations. As these introductory notes indicate, perceptions of self-interest and upwellings of good will in North America have complex roots and causes. It is the hope of the editors that the studies that follow may throw fresh light on them, and thus contribute to the emergence of that minimum measure of understanding which must inform all attempts at international negotiation if they are to have realistic chances of success.

Ervin Laszlo and Joel Kurtzman

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The United States and the New International Economic Order

1 The United States Economy and the NIEO

Michael Hudson

The U.S. economy, like that of other industrial nations, is still operating under post-1973 near-recession conditions. Living standards have stagnated throughout the 1970s as both consumers and producers have been caught in a severe price squeeze. Nominal incomes have risen, but costs and social-economic overhead expenditures (including debt-service) have risen even more. Public opinion has placed a major blame on the rise in world energy prices. Thus, price supports for other Third World exports are widely interpreted as aggravating an already troublesome situation.

It is one thing to contribute part of a rising stream of net income to help Third World countries improve their lot. It is another thing to actually suffer a decline in living standards to sustain one's generosity. This helps explain why Americans were more willing to extend Marshall Plan aid in the late 1940s, general Third World aid in the 1950s and even the 1960s, than in the 1970s. This decade has been marked by widespread economic hardship and austerity. Historically, the response to such circumstances has been protectionism. Today, American labor is pressing for higher trade barriers rather than agreeing to give special trade incentives to promote imports of Third World products. American industry feels threatened by the rising role of government subsidies and other incentives on the part of both Third World and industrial nations. And the U.S. balance of payments continues to be seriously in deficit.

Foreign economic growth, in particular the development of Third World economies, is no longer assumed to automatically benefit the U.S. economy. This optimistic assumption underlay U.S. foreign aid to both the industrial nations and Third World countries for a quarter-century following World War II. U.S. policy makers reasoned that if the Gross National Product (GNP) of developing countries increased along historical lines, it would be associated with a corresponding growth in their demand for U.S. exports, by an increase in their raw materials output, and by sale of this output to the United States (and also to other industrial nations). In effect, Third World economic growth would consist of producing more raw materials and low-wage manufactures, which would be exported to the United States and other industrial nations in exchange for finished consumer goods and capital goods. The United States would finance its net raw materials deficit by the value added in the process of converting these Third World inputs into industrial exports, as well as by its rising agricultural sales and earnings on its foreign investments.

Today, Third World countries are using higher incomes to increase their self-reliance rather than to finance their continued dependency on American food and industrial exports. On the one hand this would seem to represent a successful move toward the economic independence that has been a rhetorical objective of American and foreign aid. But it simultaneously triggers deep-seated fears that greater economic prosperity and development will free developing countries to pursue policies opposed by highly vocal U.S. constituencies.

In the early postwar years, American foreign aid and world prosperity were held to benefit U.S. political interests by discouraging nationalist, socialist or communist tendencies abroad. World prosperity was supposed to reinforce the status quo, resulting in a complementary pattern of economic growth between the United States and foreign countries. Higher incomes would enable them to increase their educational spending, as well as their ability to enjoy leisure and thus secure the benefits of Western culture. This also would have the effect of increasing American exports of motion pictures, television programs, books and magazines, and related cultural products and services. Economic development would thus be the mainspring of foreign political, social and cultural development, under conditions that would dovetail neatly into America's own economic needs. Foreign markets for U.S. material and cultural exports would increase in an atmosphere of political and social stability. A generous foreign aid program would be the balancing factor in this system, bolstered by growth of commercial lending.

This is not how matters are working out. Third World countries are seeking to balance their international trade and payments increasingly by import-displacement, especially in agriculture. To the extent that they import more U.S. products, this is increasingly designed to help improve their self-reliance. Instead of increasing raw-materials exports - thereby putting downward pressure on their prices - Third World countries are forming producer associations to cut back production and monopolize these products. The U.S. can no longer assume that Third World development will automatically serve its economic objectives. Nor can it assume that foreign prosperity will necessarily endorse U.S. political philosophy.

However, if a NIEO is to succeed with U.S. support, it must be by convincing American policy makers that on balance their nation will benefit from it. In this repsect, U.S. negotiators view the NIEO as a potential source of national affluence, just as do Third World countries. So much of the discussion of a NIEO has been conducted by Third World spokesmen that it is easy to overlook the fact that each industrial nation also looks at the NIEO as an opportunity as well as a cost.

The U.S. does not have identical objectives with other industrial nations in restructuring the world economy. Industrial countries are concerned not merely with how a NIEO will affect their income and capital transfers to Third World countries in general, but how it will affect their economic and political relationships with each other.

They are also concerned with how it will affect Third World economies in their own currency areas as distinct from those in other currency areas (e.g., the U.S. dollar area vis-a-vis the Eurocurrency areas). Thus, the implementation of a NIEO may affect relationships among the American, European and Japanese economies, as well as between Third World countries in the Western Hemisphere dollar area vis-a-vis the Eastern Hemisphere Eurocurrency area.

The major potential for U.S. benefits from the NIEO lies mainly in a triangulation of relationships including Europe, Japan and Canada. The impact of OPEC policies since 1973-74 has suggested that the U.S. economy as a whole can benefit from higher world raw-materials prices, to the extent that central bank monetary reserves resulting from higher export earnings are held in the form of U.S. Treasury bills, that is, loans to the U.S. Government. To this extent, therefore, what is taken from U.S. consumers is "recycled" to the U.S. Treasury, with no negative net balance-of-payment impact. Thus the most problematic area of bargaining may well represent conflicting sets of self-interest between the United States and other industrial nations seeking to use the NIEO to benefit their own economies and currency areas.

With specific regard to the U.S. economy, certain layers stand to gain - most notably, domestic producers of energy and other raw materials imported from Third World countries. Prices for their output will be supported by the "umbrella effect" of implementing a NIEO. However, their gain will represent a cost to the rest of the U.S. economy. The NIEO must be viewed from the vantage point of its overall impact on the American economy as a whole.

The U.S. economy has already benefited from OPEC's increase in oil prices: OPEC central banks have used a large portion of their growth in export earnings to purchase American arms and other exports, to service their debts to U.S. creditors, and most important of all, to lend to the U.S. Treasury. Further Third World affluence would be translated into support for the U.S. balance of payments. In effect, developing countries would serve as "throughput vehicles" for funds from other industrial nations to be passed on to the United States. This is the principle of "burdensharing" that has been a central tenet of U.S. foreign policy in securing European and Japanese participation in aid-lending institutions deemed to be in the U.S. national interest.

PROSPECTIVE IMPACT OF SOME THIRD WORLD OBJECTIVES ON THE U.S. ECONOMY

Economic Diversification

A precondition for rectifying the Third World's chronic balance-of-payments deficits is economic diversification. Goods which previously have been imported must now be produced at home, especially food. Even if Third World countries obtain the foreign exchange necessary to finance continued agricultural imports from the United States and other industrial nations, post-war trends in industrial-nation crop output, shipping capacity and port volume cannot be sustained. U.S. grain sales to the Soviet Union and China already have been associated with a winding down of the PL 480 food aid to Third World countries. Railroad and shipping capacity for moving crops is approaching its limits, and widespread transport breakdowns have occurred during periods of intense export activity. For many years after World War II a central premise underlying U.S. policy was the insistence that foreign countries retard their own agricultural development so as to remain buyers of U.S. food products. Economic self-interest was reinforced by the view that land reform has historically been associated with socialist governments. Recently, however, this attitude has been changing. But in the meanwhile the World Bank lends only for the foreign-currency component of development projects, and this rules out the most important aspects of financing of agricultural development. Thus, despite the fact that higher U.S. grain exports to socialist countries have exerted upward pressure on domestic U.S. food prices since 1972; powerful interest groups within the U.S. Congress may continue to oppose the policies needed to ensure Third World agricultural development. Indeed, U.S. concern over foreign agricultural development has been reflected in the firm U.S. opposition to the European Community's Common Agricultural Policy (CAP); long a thorn in U.S.-E.C. diplomacy.

Agricultural development in the Third World need not be, however, a barrier to a U.S. acceptance of the NIEO. It seems likely that Third World imports of U.S. farm products will continue at relatively high levels even in the face of agricultural modernization, as living standards rise and a shift occurs toward higher-protein, meat-intensive diets. If a gradual decline in Third World food imports does occur, it is likely to be offset by higher U.S. food exports to socialist and other industrial nations, as well as to meet domestic U.S. consumption and stockpiling.

Furthermore, foreign agricultural development promises to support a growing market for U.S. farm technology--machinery and other capital goods, fertilizers, pesticides, herbicides, seeds, hydroponics, and consulting services associated with the transformation of Third World agriculture. Thus, slower growth in crop exports probably will be offset by higher exports of agricultural technology. The major problem seems to be that food-exporting interests will be more vocal and effective at protesting against Third World agricultural protectionism than farm-technology exporters are a supporting the acceleration of Third World agricultural development.

This scenario seems likely to be true of other sectors in which Third World countries increase their degree of self-reliance. Reduced purchase of U.S. and other foreign manufactures may be associated with a rising importation of U.S. capital goods and engineering services. To be sure, this may leave particular U.S. industries prone to a loss of foreign markets. Threatened industries may lobby sharply to oppose Third World diversification moves, and to depict their own self-interest as being that of the United States as a whole. Textile manufacturers and other low-wage industrialists have a highly focused set of lobbies and are regionally concentrated. They have succeeded in imposing nontariff trade-quota restrictions on imports of textiles, steel and other products that many Third World countries would like to export. The particular exceptions they secure to any generalized preferences for Third World products may effectively negate U.S. participation in such agreements. If the U.S. economy were perfectly flexible, producers of import-threatened commodities could shift to other types of goods. But in practice, economic life is not so flexible. Government subsidies to shift uncompetitive U.S. industries into new areas seem to be a major means of coping with this problem. Such subsidies would cover labor retraining as well as funding for complementary capital investments to employ this labor.

Price Increases for Third World Exports

Another serious impact of higher Third World self-reliance stems from the fact that Third World resources are, after all, limited. A reallocation of these resources to produce domestic food may thus connote a decline in the production of specialized export crops. To the extent that this phenomenon becomes general, it will tend to increase the price of specifically "Third World type" exports, by reducing supplies. This would either increase U.S. primary commodity prices, creating a cost inflation down the line, or spur the development of synthetic substitutes. Many such substitutes are nearly competitive at the present time; their further development and production would be catalyzed by Third World price increases.

To the extent that Third World resources whose prices are rising are processed or manufactured in the U.S. and other industrial nations, resource owners will benefit from increased economic rent. Thus, OPEC's oil price increases buoyed the sales prices and earnings of