# THE WORLD ECONOMIC ORDER: PAST & PROSPECTS

Edited by
Sven Grassman
& Erik Lundberg

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## *Past and Prospects*

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Sven Grassman
and
Erik Lundberg

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# Preface

The Institute for International Economic Studies at the University of Stockholm has during the past few years been engaged on a research project concerning the international economic order with particular emphasis on the relations between the developed and the less developed countries. One result of these efforts was a conference, in commemoration of the University of Stockholm's Centenary Jubilee, attended by international scholars in the field of development economics which was held in Saltsjöbaden, Stockholm, in August 1978. The papers presented at the conference as well as part of the discussions are published in this volume.

We are grateful to the SAREC organisation in Stockholm for financing the conference, which was arranged by a committee consisting of Sven Grassman, Erik Lundberg, and myself. The volume has been edited by Grassman and Lundberg who have also written the introduction. The success of the conference is largely due to the efficient research assistance and organising work carried out by Birgitta Eliason, Refik Erzan, and Edda Liljenroth.

The conference was a great stimulus for the researchers at our Institute, and I hope that this volume will be of similar interest to all scholars in the field of economic development and international economic relations.

The editors and publishers wish to thank the following who have kindly given permission for the use of copyright material: the International Monetary Fund, for the data from *International Financial Statistics*; North-Holland Publishing Company, for the table from 'An International Comparison of Industrial Efficiency: Peru and the U.S.A.' by C. Clague, in *Review of Economics and Statistics*, vol. 49 (1967); the Organisation for Economic Co-operation and Development, Paris, for the table from the report *Trade by Commodities, Market Summaries: Imports*, vol. 1 (1975); the United Nations Publications Board, for the tables from the *UN Yearbook of International Trade Statistics, 1977*, the *Handbook of International Trade and Development Statistics* and the *UN*

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*Institute for International Economic Studies* ASSAR LINDBECK
*University of Stockholm*
*December 1978*

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# Introduction On the Nature of the International Economic Disorder

*Sven Grassman*
*and*
*Erik Lundberg* (Sweden)

During the last decade resignation and desperation with the slow rate of progress in reducing famine, disease and inadequate living standards for large portions of world population has prompted increasingly urgent and impatient all-out formulations and policies for change in the international economic system—culminating in the United Nations' proposal for a New International Economic Order. When the stagnation of the 1970s, unprecedented in postwar history, was superimposed on the persistent problems of inequity and economic disorganisation in the less developed countries, this further weakened the potential of substantial income transfers.

The fact that attempts to create satisfactory economic growth in the poorest countries have proved so difficult, and the fact that the wealthy industrialised economy could also fail so blatantly, prompted questions as to whether there are deficiencies in the total international economic system as such. The Stockholm University Centenary Symposium on the *Past and Prospects of the World Economic Order*, giving rise to the present conference volume, is one of many attempts to sort out, define and give some partial answers to such staggering questions concerning the very functioning of the world economy.

It is an interesting question how and why there is such a general dissatisfaction with the international economic order, especially from the point of view of representatives of the less-developed countries (LDCs). First, it must be noted, of course, that there is no operational definition of the concept 'world economic order', and nobody at this symposium tried to present anything approaching a definition. Perhaps a kind of loose definition may be discovered just by looking closely at all the different problems that the papers contained, as well as at all the ramifications of the intensive discussions pursued during the symposium. But to this type of 'definition in terms of operation' should be added problems that we had not time to include but clearly belong to the functioning of the world economic order.

Whatever the present economic order means it must be borne in mind that nobody, no national or international authority, has *chosen* the present order. And there will be very little of conscious choice as to a future order. To be able to understand the nature of the present international system—whatever it means—it must be looked at from the point of view of a complex historical development process with roots back into the colonial conditions of the eighteenth and nineteenth centuries. Further, we cannot understand the malfunctioning of the present system without also looking into the disintegration processes during the interwar period. Of particular importance is the explosive rise of new nations after the war, as well as the unique development experiences in the 1950s and 1960s.

It is natural for economists to start the analysis from a critical attitude as to the performance of economic systems. The exposure of the failures of the system is a necessary condition for finding ways of reform or persuasive arguments as to a radical change in the system. But a reader of this volume will find that an effort has been made to give a balanced account of the working of the world economic system, even if much emphasis is put on the failures. In fact, a most surprising part of the postwar experience is the success as to rapid growth and development of international trade and finance. This was a big surprise from the point of view of the general pessimistic expectations prevailing at the beginning of the postwar period and even in comparison with the rather more optimistic outlook at the beginning of the 1960s. In comparison with the industrialisation and growth of underdeveloped European countries during the nineteenth century, the performance during the postwar period of present LDCs has been much superior, both as to growth and development of trade. As to the development of income distribution, the experiences have varied a lot, but they can hardly have been worse than in Europe during the nineteenth century.

In a way it is something of a paradox that the *average*, surprisingly good performance of the LDCs during the postwar period is now being considered as rather frustating. Much emphasis is placed on the widening income gaps—both as between LDCs and developing countries (DCs), as between the LDC economies themselves, and also inside these countries. Performance is regarded as good or bad depending on what the reference is—having earlier superior or inferior experiences in mind, or expectations that are moving with changing conditions. For instance, when considering the performance of the international financial system, we may compare its relative stability during the 1974–76 years of great disturbances with the nearly complete breakdown of the financial system after 1929 and its subsequent very serious repercussions on the LDC world. This time the tremendous balance-of-payments disturbances following the oil price shock had hardly any contractive effects on most LDCs, largely thanks to the resilience of the international financial system. But the expectations tend to shift upwards with the experiences. Therefore most observers are rather inclined to neglect the surprisingly good performance of the system and instead concentrate attention on the rising instability due to the rapid accumulation of debts of many LDCs.

There is a bad habit of putting all the LDCs into one category and working with only one dichotomy: the LDC world versus the industrialised world. Such simplifying categories may be useful for some types of problems. But in this volume we are continuously reminded of the dangers of working with such extremely heterogeneous groupings. The complexity of the world order and its performance very much refers to the big *dispersion* in achievement of the LDCs; we are not even quite sure where to draw the boundary line to the 'rich' countries in a continuum—at Israel, Spain, or at Brazil? The gaps (in GNP per head) are wider inside the category of LDCs than between the richest LDCs and the average of the industrialised countries. The symposium group of economists were well aware of the consequent difficulties involved in generalisations about conditions in LDCs. And yet—with tongue in cheek—the participants often had to use the simple categories of rich and poor countries. Also obviously there was a clear awareness that the world economy does not only consist of LDCs (in the usual sense) and Western industrialised countries, including Japan. Attention was also paid to the Eastern socialist third of the world.

When deliberately assigning rather specific subjects to our contributors, the organisers have endeavoured to obtain analytical treatments of some different aspects of the functioning of the international economy.

The problems range from trade and technology to international finance and price formation on world markets. Our aim has been to sort out a number of aspects that we think are particularly relevant for the discussion of the gross inequities and malfunctioning of the world economy.

In Figure 1 we have depicted some of the most pertinent aspects of the international economic system, topics that are treated from different angles in the essays collected in this book. With the setup of problems presented in this volume the overwhelming impression from the analysis is that the poor performance, compared with expectations and hopes, and the inequities of the world today are only to a limited extent due to deficiencies in the international exchange itself—as manifest in the rules of the game, trade policies, access to markets, transfer of technology and the formation of prices on world markets.

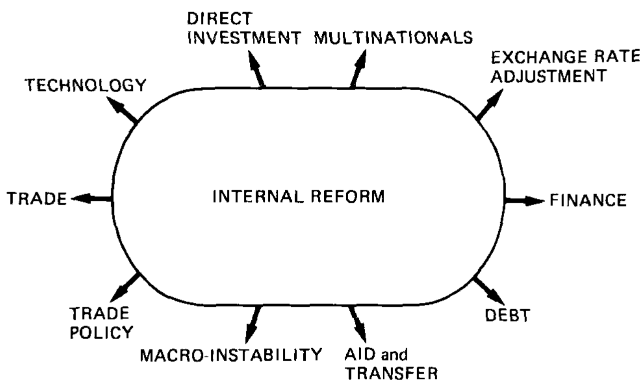


Fig. 1

If one wants to take the world economic order concept in an extremely broad sense it is of course true that any system that allows famine, instability and grossly unjust income distribution between nations is a bad and a deficient system. Such a sweeping and non-economic interpretation of the international economic system concept is, however, not very helpful. Taking a more concrete attitude, and accepting present realities as to geographical split-up, differences in natural wealth, social history and present educational levels, one arrives at the conclusion that the functioning of the international part of the economic system, in the particular respects indicated in Figure 1, could not be a major obstacle for growth and prosperity in the world.

The trade income ratio for the whole world was 13 per cent in 1975, measured as world exports divided by world GNP.[1] Already from this single ratio it should be evident that trade, interaction and communication between nations cannot possibly be the major reason for, source of, or obstacle to, world output and prosperity. International division of labour can no doubt bring substantial gains and increased efficiency for individual nations, as could denial of such participation represent corresponding losses of potential increased income. But given the fact that nations vary so much in size, and the fact that most small economies are very open and rely more heavily on trade with other nations, while larger countries are inward-looking with small trade–income ratios, it makes little sense to regard the functioning and the terms of economic interaction between nations as the general cause of poverty and inequity.

In a sense, it would be less misleading to attribute much of the inequity and inefficiency in the international economic system to the fact that the size of nations and their population and natural endowments are so unevenly distributed over the world. If the interaction between nations as such were to be the major source of wealth and, conversely, non-participation in this interchange would be a major reason for explaining the poverty of some countries, one would expect wealth to be proportional to the smallness and openness of nations – that is, if the international trading system is a good and efficient one. On the other hand, if the system is inefficient and non-conducive to growth and wealth one would rather expect that great, inward-looking nations would be more wealthy. When looking at the development experience of different nations, we find that in the rich world there is no correlation whatsoever between openness and reliance on trade on the one hand and income level on the other hand—the United States is at least as well off as the North European countries. In the poor world we find that the biggest and rather closed economies suffer from the worst poverty, while some of the small, open and trade-reliant nations have experienced the quickest economic development.

In general, the evidence of today's wealth distribution and the past development experience suggests that the functioning of international markets and the reliance of national economies on trade cannot be the major source of or obstacle to wealth in the world economy. Trying to explain poverty, inequity and inefficiency in terms of deficiencies in international exchange does not seem to be consistent with economic realities in the present and past. The issue seems to be rather a *projection* of problems of individual economies on an abstract and allegedly deficient international economic system. The search for scapegoats is common in all political and economic intercourse, and it is understandable in the context of desperate hopes and frustration in a world of famine and despair. Internal evils have always been projected onto foreign enemies by princes and presidents throughout history. In the case of the poor world's demand for a New International Economic Order the projection of internal evils onto international markets and institutions is quite natural. It should rather be viewed as a political motto in the rally for increased real transfers and help to bring about necessary internal reforms.

No doubt the unevenness in national endowments combined with deficiencies in international markets strongly discriminate against certain types of nations and producers. This is a major subject of some of the present contributions. What one may object to is the attempt to view the major part of world economic disorder today in terms of deficient international exchange. That might be true to a limited extent, as is clearly brought out by the intense attempts to cope with the terms-of-trade problem—both the ethics and the economic mechanics of it—that are to be found in many places in this volume. When scrutinising the various aspects of the system treated in this volume, however, we rather find that the present system, with necessary amendments, is of some help for certain nations, that it is a tremendous source of wealth and growth for certain other nations and that it has very little to offer a few nations of today such as, say, Bangladesh. However, it is difficult to see that any conceivable new or alternative international economic system as to trade, technology, finance and price formation in the world markets would help some of the poorest countries, because it is not deficiencies in the international system that are the reason for their poverty. The solutions for these countries must mainly be sought in massive internal reforms and unrequited real transfers on a scale that *no* international economic system whatsoever would bring about. On the other hand such transfers are feasible in *all* international economic systems, including the present one, if the political will to, and economic conditions for, such a change are fulfilled.

As mentioned above, we are not able to define the world economic order in any precise terms, but that does not prevent us from discussing various aspects that clearly belong to it. As economists we have an urge to give precision to the analysis of these various aspects by presenting and using economic statistics and by theoretical analysis or model-building. There are a lot of time-series statistics and comparative country statistics in this volume. At the same time there exists a general awareness of the serious deficiencies in these statistics, especially referring to many of the LDCs. The critical attitude to the sources of statistics as well as to the manipulation of the primary data in order to obtain averages and time-series of aggregate nature does not prevent us from using these statistics—even those of very doubtful character—for reaching approximate and tentative conclusions and grand generalisations.

The defence of this acceptance of often bad statistics is on the lines that these statistics are better than no statistical information at all, that they are the best available, and anyhow statistics are an indispensable part of our language. An awareness of the deficiencies of available statistical information is always at the back of our minds, but it does not prevent us from drawing interesting although preliminary conclusions about the size of gaps, trends in development, etc. Our hope or belief is that challenging inferences, although based on statistical information of doubtful value, will mean progress in the understanding of the system. The results will—in the progress of scientific research—be scrutinised and ultimately replaced by new research with improved statistics and better methods of analysis.

In the division of work among economists in this field there is an important group of theorists and model-builders. They are raising relevant questions, bringing theoretical order into the analysis, and ultimately having their theories tested by means of available statistics. Some few model-builders—they were represented at this symposium—have their analytical exercises based on such high levels of abstraction that demands of testing by means of existing statistics would be regarded as a misunderstanding or even an insult. And yet such theories might be useful and needed for long-run systematic thinking. Other models are closer to reality—for example, those referring to economic growth and the formation of terms of trade—and are needed for interpreting strategic bits of the international economic order. In the volume the reader will find in every chapter more or less sophisticated theories, on varying levels of abstraction, of how different parts of the international system may be related. And certainly all these bits of statistical information and analysis can only give partial aspects of how the international system works.

It is natural that the main emphasis is on *the past* of the system, how it seems to have worked, especially during the postwar period. An understanding of the past development is of course a necessary condition for knowledge about its way of operating at present and of making plausible forecasts about the future.

Among the group of economists participating there was a great variety of political creeds, concealed or open. Economists nowadays are very aware of valuation issues; they are even sometimes conscious of the risk that their choice of model or even of statistics is determined by some kind of valuation of aims, feeling of injustice, hopes for a future better world, etc. Different views within our group came out quite clearly in the way we emphasised and weighed failures and successes in the development of the system. That was probably also the case with our fears and hopes about future trends.

Behind these hopes and fears there were, or should have been, some kind of *ethical valuations* and principles. In the papers and discussions, stress was sometimes laid on mutual interests of people in the world in rich and poor countries. More rapid growth in LDCs would, according to this view, stimulate the economies in the industrialised countries and vice versa. On the other hand, strong views, but with evidence, are represented among the essays, according to which there are inevitable conflicts between poor and rich countries. Expansion in rich countries to an indeterminable extent is going on at the cost of development in poor countries.

Conflicting views on such fundamental questions can partly be related to conflicts over ethical principles. There are relationships between ethical principles and norms for international income distribution. But these principles are conflicting and—as the present essays show—they cannot easily be clearly stated and isolated. The stated ethical principles are in practice not at all the same as those that can be revealed from actual policies. There is no ethical consensus as to norms of income distribution among countries and people—not even among enlightened economists. Compromises on unclear ethical grounds are being made all the time, and they are necessarily unclear. One reason for this is that we never know well enough the consequences of alternative policies as to efficiency and income distribution.

## ENDNOTE

1. Sources for these figures are the *International Financial Statistics* and the *World Bank Atlas* (1977).