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The New International Economic Order: an Overview

by H. W. SINGER*

The term 'New International Economic Order' – often referred to as N.I.E.O. – suggests two immediate thoughts: the first is related to 'New' and the second emphasises 'Order'.

THE NEW VERSUS THE OLD INTERNATIONAL ECONOMIC ORDER

If there is to be a *new* order, then presumably it must be contrasted with an *old* order, an O.I.E.O., namely the Bretton Woods system which was established at the end of World War II as a result of Anglo-American negotiations, with an absorbing interplay between the intellect of Keynes, subtly representing British interests, coming up against the hard facts of U.S. power and economic supremacy.

The Bretton Woods system certainly served the western industrial countries extremely well during the 25 years, 1946–71, an era of unprecedented progress and full employment without inflation. Here, in what may be called the 'First World', severe poverty almost disappeared. The tremendous increase in G.N.P. and technological power was accompanied by more equal internal income distribution, symbolised by the term 'Welfare State'. Furthermore, the growth of the various countries concerned was convergent – that is to say, those which were the richest at the beginning of the period, including the United States, Canada, the United Kingdom, Sweden, and Switzerland, showed relatively slow growth, whereas the poorest, and specifically those defeated and devastated during the war, such as Germany and Japan, showed the most rapid growth. It is a debatable point to what extent the big success story of these 25 years was due to the Bretton Woods system as such, or perhaps to an extremely farsighted and generous U.S. policy embodied in the Marshall Plan. Probably it was the combination of the two which produced the end-result.

Even for the Third World the Bretton Woods era was, in some ways, not a bad period, since many countries – and Korea is an outstanding

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example – then laid the foundations of their economic growth. The G.N.P. of the Third World as a whole increased by 5 to 6 per cent per annum, a growth rate very similar to that of the industrial countries – although, of course, a much higher percentage of this aggregate growth was swallowed up by population growth, so that growth *per capita* was less. The 'trickle-down' effect of growth from the industrial countries to the Third World was unmistakable and the flow of aid was considerable, particularly during the earlier part of this period, even if at no time comparable to the Marshall Plan. A number of developing countries clearly achieved the situation described by Walt W. Rostow in his famous image – so typical of the technological aura of the 1950s and early 1960s – of the 'take-off into self-sustained growth'.

However, there were great sources of weakness in the progress made by many Third-World countries during the Bretton Woods era. Above all, their growth – in sharp contrast to the industrial countries – was divergent, that is to say, the better-off tended to grow faster, leaving the poorer countries far behind. Thus the Third World began to split during this period into a group of what are now called 'the newly industrialising countries', typified by Brazil/Mexico in one hemisphere and by Korea/Taiwan/Singapore/Hong Kong in another. This left behind a group of poorest countries, a 'Fourth World', typified by India/Bangladesh/Indonesia, and most of Africa.

The growth was also divergent in the internal sense, because contrary to what happened elsewhere it was accompanied by increased inequalities in income distribution. Thus, both because of divergence between and within countries, Third-World poverty did not show any signs of disappearing or even diminishing. Further intensified by the speeding-up of population growth due to the reduction in death rates – in itself a sign of the progress achieved – the absolute volume of world poverty was thus increasing quite rapidly during the Bretton Woods era.

Another source of weakness for the Third-World countries was the tendency for their terms of trade to deteriorate in the course of the Bretton Woods era. This had in fact been forecast initially, although it remained a contested view; but certainly – with the exception of the temporary boom during the 1950–1 Korean War – the prices of primary commodities showed a distinct tendency to sag in relation to those of manufactured goods, to the great disadvantage of the Third World.

Fundamentally perhaps even more important, was the rapid development of technology in the direction of greater sophistication and capital requirements, making the technological gap progressively more unbridgeable.

There were thus plenty of reasons for Third-World countries to be dissatisfied with the Bretton Woods order. As regards the deteriorating terms of trade, it is of special interest to note that in the original Keynesian conception the system was to rest on three pillars: a World Central Bank (realised in the attenuated form of the International Monetary Fund), a World Development Agency (realised in the attenuated form of the World Bank), and an International Trade Organisation. The Charter of the latter was negotiated in Havana during 1947, but unfortunately the organisation was never created, due to the failure of the U.S. Congress to ratify the proposals. It is, therefore, a case of retributive justice that the complaints of the Third World about the Bretton Woods system should today be so strongly concentrated on the problem of commodities, and the creation of the Common Fund.

A NEW INTERNATIONAL ECONOMIC ORDER: ORDER VERSUS DISORDER

There is another way of reading the demands for a New International Economic Order, with the accent on the last word. The Bretton Woods system has been dated above as ruling for 25 years, from 1946 to 1971. Since then, however, it has visibly disintegrated, and only remnants now remain; this collapse is often associated with the O.P.E.C. oil embargo and quadrupling of oil prices of late 1973. But while that action may well be considered as the last nail in its coffin, one of the chief elements of Bretton Woods – the free convertibility of the U.S. dollar as the world's main reserve currency into gold at a fixed low price – was suspended as early as 1971. That was already a clear signal that the system was no longer working.

This was then followed, in 1972, by the world food crisis, resulting from simultaneous crop failures in Russia, India, Sahelian Africa, and poor or moderate production elsewhere. This meant that the big surplus stocks of food – which had also been an essential part of the Bretton Woods system, particularly in view of the increasing food dependency of the Third World and the willingness of the U.S. to give food aid under Public Law 480 – were dwindling away rapidly, and indeed the prices of cereals quadrupled like oil. We need not analyse the reasons for the collapse of the system – the present symptoms are clear: a lack of confidence in the main reserve currency, and an unwillingness to hold dollars because of the U.S. balance-of-payments deficit.

So the current demand for a N.I.E.O. must be contrasted not with an O.I.E.O., but with a present state of disorder. For the industrial countries this has expressed itself in a major recession, a slowing-down of growth, and rising unemployment combined with speeded-up inflation. So-called 'stagflation' is an entirely new experience, because the foundation of the Bretton Woods system was a trade-off between unemployment and inflation. At the same time, the growth rates of the Third World, including even the O.P.E.C. countries, have also slowed down in the last few years, while for the poorest oil importers – the N.O.P.E.C. countries – growth has almost ceased. This has created a fresh situation, namely a mutual interest in the re-establishment of economic order. Whether this is defined as something really 'new', or a return to the kind of economic order that existed previously, is perhaps more a matter of semantics and political preference than of reality.

It has been estimated that the western industrial countries alone are now losing something like $400 billion per annum as a result of 'stagflation' – that is, the difference between what would be produced each year today if the steady growth of the Bretton Woods era had continued, as compared with what is in fact being produced. A restoration of those happier conditions would, therefore, be worth a great deal to the industrial countries, and it would amply pay for many concessions now demanded as part of the N.I.E.O. This is so particularly, if we add to the annual $400 billion loss a similar sum now spent on armaments all over the world, based on the assumption that a return to economic prosperity through global agreement would also be accompanied by a reduction of political tensions and hence a measure of disarmament. Compared with such sums the actual cost of many of the N.I.E.O. measures under debate – for example, the 0·7 per cent U.N. aid target, or the financing of the Common Fund, or the cost of higher commodity prices to consumers – would appear almost ridiculously small.

This is not to say that mutual interests are limited to the broad objective of restoring an economic world order combined with a reduction or, if possible, the abolition of armament expenditures. Many of the individual measures now under debate, such as the stabilisation of commodity prices, the better control of multi-national corporations, etcetera, can also be arranged in such a way as to benefit all countries. The point here is that the creation of a new international economic order in place of the present disorder represents a broad overall mutual interest. It is suggested increasingly in the industrial countries that the development of the poorer nations, and the reduction of world poverty, could be the 'engine of growth' for the world as a whole. This would match the realisation of the New Deal of President Franklin D. Roosevelt and the New Economics of John Maynard Keynes in the early 1930s, that the lack of buying power of the unemployed offered the best chance of pump-priming the economy as a whole.

Unfortunately, the clear existence of a major mutual interest is not sufficient to guarantee the success of N.I.E.O. negotiations. This is so for two reasons: (1) As already explained, one can agree that the present disorder is deplorable and that it hurts us all, while disagreeing about what should be put in its place, or even how the problem should be tackled; unfortunately, there is not even a consensus on the main symptoms of what is wrong. (2) The removal of the present disorder is not the only objective of the N.I.E.O. demands. These also include an elimination or reduction of perceived inequities and inequalities in the system, and the Third World may, in fact, give more prominence to this side of the equation.

INEQUITIES AND INEQUALITIES BETWEEN COUNTRIES

Many of the poorer countries, being newly independent, are filled with memories of colonial relationships, and a fierce desire for real independence. So it is not surprising that major inequalities are prominent in the current discussions. Economic dependence is now often described as neo-colonialism and, in the sense of a highly unequal distribution of wealth and power between countries, is a clear fact of life today. The industrial North, with 30 per cent of the world's population, has 80 per cent of its income and wealth. This tremendous imbalance is true as regards (1) military power and the concentration of armaments production; (2) financial and economic power, notably if measured by G.N.P. *per capita*; (3) technological power, symbolised by the fact that 98 per cent of all R and D expenditures in this field are in the developed countries; (4) industrial power, with 90 per cent of industries in the North; (5) commercial power, with the bulk of trade taking place among the industrial countries; (6) the power of the multi-national corporations radiating from the western nations; and even (7) food power, with the United States and Canada emerging as the granaries of the world.

There is one great exception, and it is perhaps for this reason that the assertion of oil power by O.P.E.C. found such strong and enthusiastic support in the Third World, even though many of the oil importers there were perhaps even more deeply hurt by the higher prices than the industrial North. It was the hope of many developing countries that this might be the big break-through for the assertion of commodity power in general, and the related expectation that the member states of O.P.E.C. might become the protagonists of the Third World in its other demands, which accounted for this enthusiastic support. In both these directions the realistic foundation is still in doubt. With minor exceptions, the power shift in the case of oil has not been widely repeated for primary commodities in general – and, in any case, some of the industrial countries are themselves major producers of primary commodities, and can also use their technological power to find substitutes, to recycle, etcetera. Nor is it certain whether the richer members of O.P.E.C. will conceive their rôle as being protagonists of the poorest countries, or whether they will simply be adopted as members of the rich man's club. Politically, the support of the poorer countries, and the Group of 77 as a whole, is very important to the member-states of O.P.E.C., but their policies on prices, as well as on cycling their tremendous surpluses, seem more to fit into the pattern of joining the richer world.

The Third World also feels strongly about the power inequalities that exist concerning the control of the major international organisations, especially the World Bank and the I.M.F., arising mainly from their dependence on voluntary contributions or on permission to use the capital markets of the rich countries, and embodied in the voting system of roughly one dollar one vote. The Third World is in favour of 'one country one vote', such as obtains in the U.N. General Assembly – albeit not in the Security Council, with its veto. There are those who wonder whether the right system might not be 'one person one vote', although this would also give the developing countries a built-in majority, as well as a very strong position to China and India.

It is true that some 'dependent' relationships are not always as clear-cut as might appear at first sight. Thus, the growing indebtedness of the poorer countries may look like a clear expression of dependence, but this also gives the debtors some leverage over the creditors: the disorder in the world economy would become much worse if there were widespread bankruptcies or repudiations of debt. Similarly, the big transnational corporations may dominate the industrial scene in many developing countries, but they in turn also depend on local goodwill for their effective operation, and the fear of nationalisation without proper compensation provides leverage to the host governments.

As already mentioned, in the current discussion it is not so much a workable new order, or the question of internal national differences, that is emphasised, but rather inequalities between countries, and these often appear to be a 'zero-sum game'. You cannot give the Third World greater weight in the I.M.F. without reducing the voting power of the industrial countries. You cannot increase the terms of trade of primary commodities relative to manufactures without lowering them in the opposite direction. It is for this reason that the emphasis on inequality between countries gives the N.I.E.O. debate its note of acerbity, and presents a formidable obstacle to making progress in the negotiations.

However, it does not follow that *all* the specific demands made to reduce inequalities between countries represent a real zero-sum game. On the contrary, it becomes more and more apparent that a wide range of issues could actually be settled to the advantage of the industrial as well as of the developing countries. For example, better terms of trade for primary commodities can be in the interest of the industrial countries, if they lead to greater investment in creating more sources and security of supply. The removal of instability in the prices of primary commodities is as much in the interest of consumers as of producers. Better access for manufactured imports from the Third World is in the interest not only of the consumers in industrialised countries, but also of their governments struggling to control inflation.

If the developing countries acquired greater technological capacity to solve their own problems by methods more appropriate to their factor endowment – e.g. by more labour-intensive or smaller-scale technologies – this could be of considerable beneficial application in the industrial countries themselves. Or again, if the developing countries increased their trade with each other to remove the present anomaly whereby one-third of mankind in the industrial countries does 80 per cent of world trade with itself, it is difficult to see how the major interests of the latter could be hurt by such a natural development. Moreover, the long-term position of the richer countries is best safeguarded in a world in which the poorer feel that they have a real opportunity of improving their situation. The alternative is a sharply divided world of seething discontent among the majority of countries – especially if, in the not-too-distant future, many of them will be equipped with nuclear weapons.

INEQUITIES AND INEQUALITIES WITHIN COUNTRIES

On the whole, the empirical evidence is fairly strong, although far from universal, that the development of the Third World under the Bretton Woods system tended to be divergent also within countries. In India, for example, which has been well researched and documented, the balance of evidence seems to be that inequality of income distribution has increased: (1) in the rural areas, (2) in the urban areas, (3) between those two sectors, and (4) as regards a shift of G.N.P. from the more equal rural to the more unequal urban areas.

The reason for this tendency towards internal inequalities within Third-World countries has been analysed elsewhere, and helps to explain the ongoing revisions in development thinking. Here we are concerned with the problem of internal income distribution, and the resulting failure of poverty to diminish in line with economic growth, as an element in the N.I.E.O. debate. There, the issue has been taken up more passionately by the industrial countries, who seem to prefer to discuss the relief of world poverty to the removal of inequalities between countries. For obvious reasons, humanitarian sentiments in the industrial countries create a public opinion more favourable to the relief of unmistakable poverty and distress abroad, rather than the removal of structural imbalances in the world trading or financial system now operating against the Third World.

On their part, the developing countries tend to be deeply suspicious of the tendency of western governments to talk about poverty and human needs instead of, say, a Common Fund or voting rights in the I.M.F. They consider this preference of the West partly as an intervention in their own internal affairs, and partly as a device to avoid the discussion of really important questions which are much more awkward for the industrial countries. The concern with basic needs has, for this reason, been described as 'N.I.E.O. neo-colonialism'.

The industrial countries on their part criticise the reluctance and unwillingness of Third-World countries to discuss the issue of poverty within their borders, and consider this as a device by their governments to avoid the discussion of issues of domestic policies which are awkward for *them*. They suspect many régimes of seeking external scapegoats in order to divert attention away from their own domestic inefficiencies, élitism, and lack of concern for their own poor.

There is thus plenty of room for misunderstanding and friction on both sides. This is further intensified by a tendency on the part of industrial countries to broaden the discussion further by including human rights and democratic participation in decision-making as part of basic needs. The Third-World countries cannot avoid discussion of world poverty as an immediate issue, but they certainly seem entitled to insist that this should not be the only issue on the agenda of the N.I.E.O. negotiations.

Fortunately, the concern for inequities both among and within countries tends to overlap more and more as we move down the development ladder towards those who comprise the Fourth World, because they are so poor that even with perfectly equal internal income distribution, mass poverty would still be prevalent. Hence, there is relatively easy agreement in the N.I.E.O. debate on the need for special action on behalf of the so-called 'least-developed countries'. Another possible areas of compromise between those who wish to debate inequities between countries and those who wish to emphasise world poverty, is by concentrating attention on rural development, and on the landless and rural proletariat.

Even reforms in the pricing of primary commodities relative to manufactures, or in their better access to the markets of industrial countries, could be reconciled with an emphasis on poverty by concentrating on those primary commodities which are produced in the poorest countries, at the same time seeing to it that the benefits penetrate to the small producer. A good example would be the Stabex scheme in the Lomé Agreement between the E.E.C. and the associated African, Caribbean, and Pacific countries: this scheme of financial compensation for unexpected drops in export proceeds has special provisions for the poorer of the associated countries, who enjoy easier access to the benefits of this scheme and also do not have to repay the sums distributed under it. The recent British action to cancel all outstanding government debts of countries with an income *per capita* below $280, can also be considered as an example of reconciling an issue essentially in the field of financial relations with an attack on world poverty.

SUMMARY AND CONCLUSION

So, with goodwill, packages could be prepared which allow for simultaneous discussion and action in relation to the three broad areas which have been distinguished above: (1) the restoration of international order after the collapse of the Bretton Woods system; (2) the removal of inequalities between countries; and (3) the reduction of world poverty. However, the fact that all these issues, and possibly others, are at present simultaneously discussed and subsumed under the title of N.I.E.O., is a source of considerable confusion and a great obstacle to productive agreement. It is all too easy for misunderstandings to arise, because governments talk about different things when they meet, and give different priorities to them in debate.

The first requirement would be to bring out more clearly the various issues at stake and the mutuality of interests involved. Such has been the purpose of this article. It should then be possible, as the next step, to draw up priorities for different groups of countries in relation to the three areas already mentioned, and any others which are agreed to require action. In the case of the industrial countries, which have benefited so conspicuously and one-sidedly in the past, there would also be a need to define their own interests in a broader and longer-term sense.

The outcome at present is still in suspense. There are some signs of progress – notably on questions of debt and the Common Fund – but one conspicuous obstacle to agreement remains. The developing countries believe that the only way of reaching worthwhile agreement and obtaining significant concessions is to maintain their solidarity, as exemplified by the Group of 77. But when their interests diverge – as they clearly do within this heterogeneous amalgamation – the best and perhaps the only way to maintain solidarity is to present a long shopping list of demands in which the interests of *all* countries in the Group are simply added together, and to be suspicious of any attempt to pick out individual items for discussion. Yet negotiation must focus on concrete things, while at the same time within a broader context.

The industrial countries, on the other hand, have adopted the opposite strategy of never yet putting forward their own full version of a N.I.E.O. Instead, they confine themselves to the rejection or amendment of specific points in the shopping list of the Group of 77. Also, by failing quite often to agree amongst themselves, they make discussion and progress more difficult. Thanks to the efforts of the O.E.C.D. and the E.E.C., there is some progress towards formulating common positions now. But much still remains to be done.

It is in all our interests that a satisfactory wide agreement should be reached so that the world economy can enter into an era of practical and orderly progress.