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The New International Economic Order

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The New International Economic Order

THE "new international economic order" is one of those propaganda slogans that have come to figure large in politics in our day, an attractive encapsulation of a series of objectives of a deliberately ambiguous or vaguely defined sort; a phrase designed to give those who are unfamiliar with it the feeling that they are "one down" on those who use it familiarly, and those who use it the advantage of seeming to be advocating something at once concrete and highly moral. The term, in fact, has three general connotations: first, that there is something fundamentally wrong with the existing system of international economic relations, which needs to be corrected by a change in the system or order; second, that that something wrong is blamable on the past and present policies of the advanced Western countries, which have been blatantly immoral and should atone for their guilt by accepting the obligations of the new international economic order; and third, that the change in the international order indicated requires a massive shift of political power from the major countries to the voting assembly of the United Nations. The latter two questions I shall discuss later, concentrating for the moment on the changes involved in the new international order itself.

The new international economic order, considered as a set of proposals for changing the present international economic order, can be evaluated most succinctly by remarking that it is not new; it is not international: it is not economic; and it is not an order. Let me develop these points in turn.

Actually, the ideas and proposals are by no means new; they have been around a long time. In broad essentials, they were the focus of the 1964 Geneva Conference on World Trade and Development, and specifically the background document for that meeting, *Towards a New Trade Policy for Development,* prepared by the Secretary-General of the Conference, Dr. Raùl Prebisch. Individually, the ideas had been around for much longer. On the one hand, the idea that international trade is a zero-sum game by which the rich benefit at the expense of the poor goes back to the Marxist view of imperialism, and before that to the mercantilist idea that foreign trade is a means of transferring wealth from one's customers to oneself and the main thrust of Adam Smith's *Wealth of Nations* and of classical economics was to refute mercantilism. On the other hand, the idea that exporters of food and raw materials necessarily and inevitably lose in trade with exporters of industrial products was Prebisch's own interpretation and overgeneralization of the Latin-American experience of the great 1930's depression.

The elevation of these ideas to a policy theory of the problem of economic underdevelopment, incidentally, represents an intellectual leadership transfer of a sort, or a shift of stereotype or ideal case, from India to Latin America. The first, early post-World War II, phase of development theory was concerned with India, and had Russian economic planning as its model; while the first United Nations Conference on Trade and Development had the Latin-American case in mind, and industrialization on what are often thought of as German protectionist lines as its model. The demands for a new international economic order have brought into the picture African and (largely Middle-Eastern) oil-producing countries, and an emphasis on exploiting monopoly over the production and marketing of scarce, depletable natural resources, with the presumed policies of the large international oil companies as the model.

The 1964 United Nations Conference on Trade and Development was concerned-apart from the general purpose of calling advanced-country attention to the grievances of the less-developed countries against the developed-with four major policy demands. One was for an increase in the amount of development aid provided by the advanced to the less developed countries, and in that framework for an increase in the proportion of that aid channeled through the multilateral agencies of the United Nations rather than bilaterally. Little success beyond promises has been achieved on that score, since the advanced countries' legislatures have had more pressing preoccupations, and have also become disillusioned with the results of the aid-giving process itself. The second demand was for a unilateral preference system for manufactured exports of less developed countries in the markets of the developed countries; this was eventually conceded, but has taken a form yielding relatively little benefit to the developing countries capable of taking advantage of it-because the preferences have tended to give carefully circumscribed monopoly positions rather than free competitive access to industrial products of developing countries. A subordinate aspect of this demand was for acceptance of preferential trading arrangements among groups of less-developed countries. Acceptance of this demand cost the advanced countries relatively little, but not much has come of it, owing to the inability of the developing countries concerned to negotiate agreements among themselves. The third demand was for international commodity agreements to raise and stabilize the prices of primary products exported by the developing countries; little has come of that demand either, for reasons to be discussed in more detail later. The fourth demand evolved into the so-called "link proposal" for coupling the creation of new international reserves or liquidity with distribution of a substantial part of the new money as aid to the less-developed countries. Such is the attraction of the idea that the creation of money involves bringing into existence something for nothing that this scheme has both excited a great deal of expert discussion, and become a general operating principle of International Monetary Fund thinking about world monetary reform. Nevertheless, the benefits to the developing countries are likely to be small, since the subsequent emergence of world inflation is a symptom of the fact that the world has too much international liquidity, not too little.

The idea of international agreements to stabilize and raise the prices of commodity exports of developing countries-crystallized at the First United Nations Conference on Trade and Development into the concept of "an integrated programme for commodities"-is the core of the current demands for a new international economic order. However, nothing much came of it in the decade or so after the first conference. There has, incidentally, been a conference every four years since, up to Nairobi this year; the sequence happens to fall in a United States presidential election year, guaranteeing minimal capability of achieving anything that requires influencing American foreign policy. In spite of apparently intensive sustained work on the question by the Secretariat, the "integrated programme for commodities" got nowhere for a very simple reason: it is not possible to integrate a program designed to secure a multitude of quite inconsistent economic objectives. All a Secretariat can do is to draft a weasel-worded first chapter listing all the objectives and asserting baldly, but intellectually dishonestly, that they are consistent, and then go on to other chapters discussing concrete schemes for doing something, without mentioning again the question of whether it is a good thing to do, and if so, whether it can be done. What gave the integrated program for commodities fresh life was not fresh thinking, but the demonstration by the countries of OPEC-the oil producing and exporting countries-that in the case of oil, concerted monopolistic action could extract a manifold higher price from the consuming countries, a demonstration that naturally, but mostly wrongly, suggested that the producers of other commodities had a similar monopoly power and could use it in the same way with the same agreeable results.

The demand for a new international economic order is therefore not new; nor are the proposals themselves new; what is new, if anything, is the idea of trying to make a system or order out of a collection of monopolistic and discriminating policies, and the arguments for doing so.

For this reason, the new international economic order is not "international" either. It is not a system of arrangements among nations, each of which participates by virtue of its being a nation. Instead, it proposes, politically, a system of confrontation between two groups of nations, a numerical minority of successfully developed nations and a preponderant majority of developing or less-developed nalions, on the basis of a majority vote. Moreover, the developing country group is based on no clearcut criteria, there being blatant discrimination against certain poor countries which are excluded-most notably Israel. In this proposed system, the minority is expected to yield to the majority partly on the basis of acceptance of a false parallel with the idea of democracy, partly on the basis of presumed guilt, past and present, for the underdeveloped state of the underdeveloped.

Third, the proposed new international economic order is not economic, at least if economic means more than the truism that any international arrangement has economic effects. Economics as defined by the vast majority of its practitioners is concerned with the rationale and effects of trade through markets-including by extension the rationale and effects of the replacement of competitive markets by central planning, which in this context entails replacing multifarious private decision-takers by a centralized social decision-taking process, but does not alter the principle of using rational allocation procedures to maximize the extent to which planning objectives can be fulfilled. Where the market process of exchange is replaced or modified by transfers of income or resources from one party to another, economics is concerned with the criteria for selecting the benefactors and beneficiaries in the transfer or redistribution process, and the best method of achieving the desired objectives of the transfer-which usually means, fairly simply, taking away resources from those most able to pay and giving them to those most in need, according to some agreed definitions of ability to pay and of need. By these standards, a system that proposes that transfers be extorted by those less-developed countries that have and can use monopoly power in world markets, and that the developed countries should not merely tolerate but police the process of monopoly extortion, is not about economics. On the one side, it conveniently ignores the fact that, both domestically and internationally, monopoly power tends to be enjoyed by the rich at the expense of the poor-the countries that have suffered most from the rise in the price of oil have not been the majority of developed countries, least of all the United States, but rather the non-oil-producing poor countries, whose hopes of economic development had been based on the assumption of continuing supplies of cheap power. Further, there is little reason to believe that the possession of monopoly power leads the owners of the monopoly to redistribute voluntarily the profits they make to the workers in their factories. The folklore of monopoly typically depicts the monopolist as exploiting his workers as well as his customers. There is, if anything, less reason to think that the government of a country deriving profits from exploitation of a collective monopoly of a primary product export will redistribute those profits to the poor farmers and miners who do the work of producing the product in question. On the other side, the proposed system relies on the ability to create and enlist feelings of guilt sufficiently strong to support regular payments of blackmail, made in the form of artificially high commodity prices. Economists have, it is true, been working on the economics of crime, bribery, and (so far as I know) hush money and blackmail as well; but no one has yet sug gested that these phenomena have ever been, or are likely to be, the organizing principles of a viable economic system.

Fourth, the system that would result, namely one of developed-country toleration and support for developing-country use of every possibility of monopolistic exploitation they could devise, would not be an order, but an experiment in the rule of the jungle-a rule modified by the hope that the largest and most savage carnivores will be so ashamed of their present existence by virtue of the killing and eating successes of their ancestors that they will offer themselves up as willing sacrifices to the hunger of the smaller fry. No amount of repetition of the rhetoric of “an integrated commodity policy” can convert the rule of the jungle into a rule of law. For the purpose of the rule of law is precisely, by constraining everyone equally to abide by the law, to prevent those who have sufficient power or finance or both to dominate a free-for-all contest from being able to do so. It is, of course, easy enough to find cases in any country in which the rule of law is violated; but in such cases, if they occur frequently, the remedy is generally to tighten up the law, not to abandon it altogether.

The discussion of the new international economic order just presented has been focused on one of the more specific and continuing proposals for change in international economic relations, and one of the items that was most prominent in the Nairobi discussions, the so-called "integrated programme for commodities." Incidentally, the only integration involved in the proposals actually made is the establishment of a common fund, to be subscribed largely by the developed countries, for the financing of experiments with individual commodity agreements. But the discussion applies equally, though with more difficulty of explanation, to another major item on the agenda at Nairobi, the demand for "full permanent sovereignty" of nations over their natural resources and their economic activities in general. The phrase "full permanent sovereignty" has a ringing note to it; but once you realize that what it means is that the price of anything I agree to sell you can be changed unilaterally by me at any time I choose, and you have no right to protest, you will appreciate that it amounts to an assertion of the law of the jungle-or more accurately, to a demand for the rights of the law of the jungle for me, the developing, and the obligations of the rule of law for you, the developed.

The demand for a new international economic order can be discussed at several levels. One is the level of economic analysis of the issues involved. In fact, I treated these issues fairly exhaustively in a monograph published ten years ago about UNCTAD I, *Economic Policies toward Less Developed Countries,* and the main conclusions I came to still stand, in my judgment. These conclusions were, first, that the possible gains in terms of promoting economic development from changes in international trade policy were quantitatively relatively small and peripheral. Economic development is primarily a process of domestic economic and social transformation of a society or nation into one that seeks economic improvement and is organized to allow and encourage its citizens to undertake the investments in material, human, and intellectual capital required for steady accumulation. An important part of this transformation, incidentally, is the establishment of political stability and of greater certainty about the policies likely to be followed by governments. Second, while there are strong grounds for complaint about some of the trade policy and other international economic policies and practices of the various developed countries, the policies in question involve the use of monopoly power or government interference in international competition, and the proper remedy of the developing countries should be to insist on freedom of trade and the solution of domestic politico-economic problems by more efficient methods than protection against foreign competition. Another part of the response, incidentally, should be for developing countries to reduce their own interventions in freedom of international competition, since their protectionist methods of attempting to promote economic growth through industrialization have typically produced extremes of inefficiency in the use of their scarce available resources-and also extremes of inequality in the distribution of income-without producing a viable process of economic growth. Third, while the United Nations proposals for reform might possibly be followed as a sort of "third best" method of achieving some international redistribution of income towards the developing countries, international commodity agreements raise virtually insuperable difficulties, in terms of both the difficulty of making them work, and the logic and ethics of the international transfer from consuming to producing countries that they would bring about.

This first level of discussion-the scientific economic level-is unfortunately clearly apart from the main point of the issues involved in the demand for a new international economic order (as indicated among other things by the fact that my book has had a lot of readers but no influence whatsoever on subsequent discussion of the issues). There are, in fact, three questions about that demand which are more fundamental, and in a sense more basically questions of social science, than the narrowly economic questions raised by commodity buffer stocks and price-raising agreements, the control of exploitation of depletable natural resources, and the international operations of business corporations, to restate the main concrete issues upon which discussion and controversy have focused. To these three questions I now turn.

The first question, and the most closely related to economics, is why public discussion is so prone to focus on, even insistent on focusing on, prices as proxies for incomes and wealth, when one major contribution of economic analysis, especially in this century, has been to distinguish carefully between prices and their consequences in terms of distribution of income among groups of producers and consumers, including those not directly concerned with the commodity whose price is being considered. It has become commonly accepted among economists that, for example, a minimum wage law may create poverty by pricing low-skill workers, or juvenile or aged workers, out of potential employment. The standard example in the United States is the chronic high rate of unemployment among young adult black males. In another area, the main benefit from agricultural price supports goes to the owners of land: not the farm workers who may be made even worse off if supports are reinforced by quota or acreage restrictions. Yet the public and politicians continue to talk happily about prices, and propose both price supports and price controls, as if prices were synonymous with incomes; and in the international sphere, the politicians in the United Nations and their supposedly professional advisers and staff continue, not happily but bitterly in this case, to talk about prices of traded goods, and the terms of trade, as if these were synonymous with income and its distribution.

The best hypothesis I have been able to come up with on this question is that the skills of the economist are more difficult to acquire than appears on the surface, precisely because they require looking at systems and the repercussions of changes in the system. The ordinary man, on the contrary, lives in and is familiar with one small part of the system, the part he considers as his known environment and subject to control by himself or by others. Thus it seems to make obvious sense, for example, to argue that if wages in an industry are thought to be too low for decency, the employers should be forced to pay more, it being beyond the imagination that the effect could be to wipe out the industry and turn all the workers into worse-off unemployables. Similarly, it is apparently obvious that if primary producers are poor, higher prices for the product would enable those who produced the product to earn more; but not at all obvious that raising prices will reduce consumption demand, reduce the number of producers needed or allowable, give the extra income to those who have control over the right to produce (the government, or the landowners with quota rights, but almost certainly not the farm workers), and create a problem of what to do with the workers displaced from production by the price-increase-induced decrease in demand.

There is an alternate, but not necessarily conflicting, hypothesis to explain the concentration of the new international economic order on the prices of primary commodities, and more generally on policies of discrimination promising higher prices for exports of all kinds from developing to developed countries. This hypothesis is that national political thinking about international affairs is largely a matter of imitation rather than of analysis, and the assertion of national independence is the assertion of the right to do the same as other countries-especially, richer countries-do, whether it is a good thing to do or not. This hypothesis, to my mind, is a necessary part of the explanation of why so much of developing-country international economic policy thinking has been concerned with asserting the right to use tariff protection to promote development, and demanding that the protection advanced countries provide to their own industries should be inverted to provide preferential advantages for developing-country exporters in the markets of the developed countries.

The second social science question I would raise is the appeal of the notion of retribution for past wrongs as a reason why developed countries should accept the demands for a new international economic order. There are, in fact, two aspects of this question: why the developing countries believe that their less-developed status is attributable to past policies of the developed countries, usually encapsulated in the rhetoric of colonialism and imperialism and more recently dependence, and why so many intellectuals in the developed countries seem so ready to feel and express guilt for presumed past wrongdoing by their ancestors.

At one level, political convenience, the explanation of the first aspect is fairly simple: it is far easier, and more consistent with self-respect, to assert that one ought to be rich, but is poor because of bad luck and the malevolence of enemies, than to face the fact that one is poor because one's parents were feckless and selfish, and never taught one the necessity of hard work or the importance of taking education seriously. The study of the poverty culture popular domestically some years ago demonstrated the correlation between poverty or its opposite and belief-systems about the rewards for economic activity. It is understandable that the political leaders of the developing countries should transfer the blame for the poverty of a country of self-governing, self-respecting adults away from the shortcomings of the country's society as producers of goods and investors for economic growth, to other societies whose lack of such shortcomings can be interpreted as unfair exploitation of others rather than deserved success due to superior performance.

At a somewhat deeper level, both aspects of the question seem related to a fundamental problem in economic philosophy, the rights of property and the justification for them. The problem was a difficult one for the early modern political philosophers, largely because it has been from the beginning a fundamental problem in Christian philosophy; and it remains a difficult one for the Western tradition for the same essentially religious reasons, even though most intellectuals in the Western tradition tend to regard themselves as nonreligious. The important point is that there is a great difference between the society and economy from which the tradition sprang, an economy of known and static technology in which the ownership of property was associated with status and carried no obvious personal productive contribution, and the modern economy of growth and change, in which the management and accumulation of property is a means of increasing output, efficiency, and the general standard of living. Property, very crudely, is the outcome of productive contribution, rather than an alternative freeing its owner from the obligation to make a productive contribution. Yet the old idea of property -as an entitlement to enjoy income without working for it-continues to hold sway in the public and political mind.

The reasons are obviously complex. To my mind, however, they owe a great deal to the fact that, to the ordinary politician and the ordinary person, the world in which he currently lives is the environment, and fixed; and property is something that others have for no obvious reason, and that so far as is possible, they can and should be deprived of for the benefit of others with better current social claims. More concretely, it is easy for the politician and his public in the developing country to disregard the centuries of effort, educational improvement, and accumulation that have gone into the creation of the high incomes of advanced Western societies and to claim that, as human beings, they should have the same high living standards as the heirs to those centuries of effort. And it is equally easy for their Western intellectual counterparts to be as forgetful of the past, and to feel guilt that they are so much better off than the descendants of a different set of ancestors.

The third and final question concerns the identification of the establishment of a new international economic order with a shift of political power from the governments and civil services of national states to the United Nations apparatus and its flock of international civil servants, professional experts, and so forth. In one aspect, the explanation is obvious and in accordance with widely observed phenomena. In international politics as in economics, systems tend to converge on an equilibrium, in political terms a "balance of power," in which the scope and limits of power of the individual participants become clearly defined. Those who are acutely dissatisfied with the amount of power they have within the system have an incentive to try to acquire more, not by increasing their power within the existing system, but by changing the system in the hope of either confusing others into giving away some of their power, or changing the basis on which power depends. This was, for example, the basis of the lengthy political battles over the past century or so for the extension of the franchise; and it is also the motive force for the American governmental habit of piling new agencies on top of old ones, in the (usually vain) hope of giving purposive direction to government policies and priorities. What is perhaps less obvious, but of at least equal importance, is that the growth of the United Nations has created a very strong vested interest in the extension of the United Nations bureaucracy, quite apart from any concern with the welfare of the citizens of the less developed countries and any claims they may legitimately have or be thought to have for income redistributions, but obviously favorable to any measures-such as international commodity agreements, and increased aid-giving through multilateral agencies-that will incidentally increase the numbers, self-importance, and salaries of the international bureaucrats. The growth of the United Nations has meant the creation of job opportunities for university and technical school graduates, far better and more comfortable and pleasant than anything they could hope for from their native lands and governments, paid for by taxes on their fellow-citizens and the civilian taxpayers of richer countries, notably the United States. The demand for a new international economic order is to an important extent a demand for greater power for these international bureaucrats, disguised as a demand for more justice for the ordinary people of the developing countries; and it is important, especially in terms of American foreign economic policy, to recognize the reality before committing oneself too heavily to acceptance of the rhetoric.