

GLOBAL DEVELOPMENT: ISSUES AND CHOICES

Edited by KHADIJA HAQ

**North South Roundtable of the Society for International
Development Washington, DC**



BARBARA WARD

beloved, shared, and equal planet ... If our dialogue here in Rome can do anything to push us in that direction, I believe that this meeting could mark a turning point in our understanding of our planetary dilemmas." With these words, Barbara Ward opened the "The moral institutions of community are our only hope of survival in a fragile, first session of the SID North South Roundtable in May 1978.

Barbara Ward's vision created the North South Roundtable to gather together men and women of vision and commitment to address and analyze collectively the issues of inequality and injustice in the world and to work to change our "vision of the possible." At her last public appearance at the Roundtable's session in Sussex in July 1980 she said, "... it is people and their work, it is the new ideas, the visions that begin to change society... So as a closing note of this Roundtable, I would say that we dare to be headstrong, that we will be dedicated, and that we will not cease until the ideas that are represented here of world justice, of world community, of interdependence of our beautiful planet, will be realized, and that we shall overcome."

TABLE OF CONTENTS

Page

Contributors

Abbreviations and Acronyms

PrefaceKhadija Haq

OverviewKhadija Haq

**PART 1
SEARCH FOR NEW APPROACHES**

Chapter

1. A Plea for Human SanityMahbub ul Haq

2, New Approaches to Global Development Cesar Virata

3. North-South Relations in the SOs: A
Constructive Approach to New Realities .. Emile Van Lennep ...

4. New Approach: How to Mobilize Will to
Implement What We Already Know ... Bradford Morse

**PART II
PRIORITY ISSUES**

5, Introduction Saburo Okita

6. Global NegotiationsJean Ripert

7. The True Priority:
 Making the Dialogue Work Shridath Ramphal ...
8. Disarmament: A Priority for All Inga Thorsson
9. Let's Build on Success Robert Hormats

**PART III
 FUTURE OF BRETTON WOODS INSTITUTIONS**

10. The Reform of the Bretton Woods
 Institutions -- The Debate Richard O'Brien
11. The Role of IMF: The Disputes, the
 Qualifications and the Future Dragoslav Avramovic..
12. The Developing Countries and the
 Bretton Woods System Carlos Massad
13. The Indispensable Reordering of the
 World Monetary System Robert Triffin

**PART IV
 DEVELOPMENT THROUGH PUBLIC AND PRIVATE SECTOR**

14. Development Through Public vs
 Private Sector The Debate Olof Murelius
15. Twenty-one Arguments for Public
 Enterprise Paul Streeten
16. In Defense of Public Elements for
 Development Strategy Hisao Onoe

**PART V
 ENERGY, FOOD AND TRADE**

17. Mobilizing Investment for Energy
 Development - Background and Debate
18. Food Security for People and Nations ... Martin McLaughlin ...
19. World Trading Problems and
 Protectionism The Debate David Pollock
20. Trade Policy Issues in a New Perspective.. Hiroshi Kitamura ...

**PART VI
 DEFORESTATION, REFORESTATION
 AND ROLES OF NORTH AND SOUTH**

21. Harmonious Utilization and Conservation
 of Tropical Forests Katsuhiko Kotari
22. Artificial Reforestation in Tropical Areas Arnold Caoili
23. Forestry in Agricultural Farming Systems D. E. Iyamabo

**PART VII
SOME REFLECTIONS ON...**

24. Japan and the Contemporary LDCs.

Comparative Analysis in Historical Perspective Kazushi Ohkawa & Gustav Ranis

25. US and the International Development

Challenges John B. Anderson ...

26. Role of NGOs in Development Aid Saburo Kawai

27. North-South Negotiation Process Zhang Zong-an

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ABBREVIATIONS AND ACRONYMS

ASEAN-	Association of Southeast Asian Nations
BIS -	Bank for International Settlements
CGIAR	Consultative Group on International Agricultural Research
CTBT -	Comprehensive test band treaty
DAC -	Development Assistance Committee of the OECD
DC -	Developed country
EC -	European Community
ECDC	- Economic cooperation among developing countries
ECOSOC -	United Nations Economic and Social Council
ECU -	European currency unit
EEC -	European Economic Community
EMS -	European monetary system
FAO -	Food and Agriculture Organization
FECOM -	<i>Fonds Europeen de Cooperation Monetaire</i>
GATT -	General Agreement on Tariffs and Trade
GDP -	Gross domestic product
ON -	Global Negotiations
GNP -	Gross national product
GSP -	Generalized System of Preferences

IBRD	- International Bank for Reconstruction and Development
IDA	-International Development Association
IFC	-International Finance Corporation
IMF	- International Monetary Fund
IMF C-20	- International Monetary Fund Committee of 20
<i>IRI</i>	<i>-Ist iuto per la Ricostruzione /industriale</i>
ITO	- International Trade Organization
LDC	- Less developed country
MFA	- Multi-Fiber Arrangement
MIRV	- Multiple independently targetable re-entry vehicle
MTN	-- Multilateral trade negotiations
NDA	- Non-official development assistance
NGO	-Non-governmental organization
MC	-Newly industrialized country
NIEO	-New international economic order
NSRT	-- North South Roundtable
NTB	-Non-tariff barrier
ODA	-- Official development assistance
OECD	- Organization for Economic Cooperation and Development
OPEC	- Organization of Petroleum Exporting Countries
SALT	- Strategic arms limitation talks
SDR	- Special drawing rights
SID	-Society for international Development
TNC	-Transnational corporation
UN	-- United Nations
UNCTAD	- United Nations Conference on Trade and Development
UNDP	- United Nations Development Programme
UNESCO	- United Nations Educational, Scientific and Cultural Organization
UNGA SSOD 11	- United Nations General Assembly Second Special Session on Disarmament

PREFACE

By October 1982, one year after the historic Summit of leaders of the Northern industrialized countries and Southern developing countries at Cancun, Mexico, development professionals all over the world had started taking stock of Cancun's accomplishments and shortcomings and began pondering what new steps, if any, should be taken to revive the spirit of global cooperation. It was in that spirit of an evaluation of the past and a renewed search for a

more fruitful NorthSouth cooperation in future that the fourth Annual Session of the North South Roundtable took place in Tokyo; Oiso on October 2224, 1982.

The theme of the Session was "Searching for New Approaches to Global Cooperation." For two and a half days the participants addressed the urgent national and global development issues from general as well as from specific sectoral perspectives. The search was not so much for new approaches as for creating the will to implement collective wisdom already gained after a decade of development dialogues in official and non-official forums.

As with all Roundtable activities, the Tokyo Session was recognized as a part of the process of dialogue and interaction that the Roundtable has initiated between development professionals and national and international policy makers on some of the crucial issues faced by humankind. The topics on the Tokyo Agenda covered a wide range of issues-money and finance, trade, energy, food, disarmament, deforestation, the process of negotiation, etc. Some were discussed in depth at the workshops, and others were addressed more generally in the plenary sessions. The insights of the speakers and panelists, outstanding individuals in their fields, were received with great interest by the audience.

The task of selecting papers for publication in this volume from among the very rich presentations and discussions proved to be extremely difficult. I have taken an editor's liberty both in the organization of the book and in the selection and size of the papers. Some chapters are based on transcripts and not written papers, and the authors did not have time to review these versions. I accept all responsibility for wrong attribution.

The volume has been divided into seven parts. Parts I, II and VII are based on presentations made to the plenary sessions, excepting Part VI's chapter on "Japan and the Contemporary LDCs," which

was a major paper presented to a panel on "Japan and the Third World." Part VII also contains a paper by John Anderson, who could not attend the conference but sent his paper. Parts III to VI are based on panel discussions and papers that were presented to those panels. The overview chapter draws on all the chapters in an attempt to present their entire discussion in a coherent framework.

Within a week after the conference, a summary report on the conference prepared by the chairman of the North South Roundtable was printed and disseminated widely as the Oiso Declaration. This has been appended to the volume. The Oiso Declaration's 12-point immediate action agenda for the international community is receiving general support from all over the world.

In compiling a volume like this, one accumulates many debts. The Tokyo Session was sponsored by three institutions, the International University of Japan, the International Development Center of Japan and the United Nations University. The Roundtable gratefully acknowledges the contributions made by these institutions. Beyond doubt the Roundtable's heartfelt thanks should go to Dr. Saburo Okita, President of the International University of Japan and a former foreign minister of Japan, but for whose intellectual leadership and moral and financial commitment the Tokyo Session may never have happened. As chairman of the Tokyo Preparatory Committee, Dr. Okita gathered a group of committed professionals who performed an invaluable service in organizing the Tokyo Session. The contribution of the Tokyo North South Roundtable Preparatory Committee to the enhancement of understanding of global development issues will always be remembered by Roundtable members and guests. All were overwhelmed by the Japanese organization and hospitality. I would also like to thank Dr. Kazuhiko Okuda, Secretary General of Tokyo NSRT Preparatory Committee, for working so hard and so long toward the success of this Session. Although there may be debate over the substantive achievements of the Roundtable's Tokyo Session, there can be no argument about the relationship that grew between the Japanese development professionals and their foreign counterparts during those two and a half days of intimate intellectual encounter. This is yet another step toward broadening our understanding of the complex global issues-one *more* step in a widening process of consensus.

I cannot conclude this preface without thanking those who helped me in the preparation of this volume: Michael Zuntz and Agatha Andrews for helping with the editing and Jeanne Bright for assisting

me very ably before, during and after the conference and for preparing the manuscript for publication.

Khadija Haq Washington, DC May, 1983

OVERVIEW

The global development issues of the eighties differ from those of the previous decade chiefly in their growing complexity and urgency. The number and diversity of issues—all fundamentally interrelated—have generated a commensurate diversity of development options, some addressing short-term and specific goals, others designed to resolve broad systemic problems and to effect long-lasting structural changes. A wide range of these development viewpoints was represented in the assemblage of eminent authorities participating in the fourth Annual Session of the North South Roundtable at Tokyo/ Oiso on October 22-24, 1982. The diversity of background, nationality, and expertise among the participants—policy makers, academics and researchers from the industrialized North and the developing South—lent great breadth and richness to the proceedings at Tokyo/ Oiso. Issues ranging from the most all-encompassing to the most specific, from the nature of the North-South dialogue to the problem of deforestation in the Philippines, were addressed by experts and generalists. Each view, though unique, merged with all others in the full consensus that our greatest needs in overcoming the many obstacles to global development are dialogue, understanding, courage, and political will. Much of the debate at Tokyo/Oiso centered around the pressing problem of the present world economic stagnation. Despite the variety of opposing perspectives on this issue, an essentially unified message harmonized the many voices: the solution to today's stagnation lies as much in the development of the South as in a return to expansion in the North. Out of vigorous debate on the current debt servicing problems arose a general consensus that gradual readjustment must be carefully managed to protect both North and South from the damage of abrupt or extreme resolutions. Debate over the strengths and weaknesses of the Bretton Woods institutions revealed a widespread perception that reforms, whether fundamental or incremental, are urgently needed. And repeated pleas for a stronger focus on human resource development merged to a clear statement that this is truly the cornerstone of world development. Thus, the experience at Tokyo/Oiso provides an example of the possibilities and the purpose of global dialogue, in which a diversity of conflicting perceptions, interests, and solutions reveal through debate the underlying unities of vision which give hope for humankind. This overview chapter attempts to draw together the viewpoints expressed at Tokyo/Oiso, by highlighting the main points of the first nine chapters of this volume and presenting some general conclusions from the chapters that follow. The first nine chapters (Parts I and II) address the issue of North-South dialogue generally—its obstacles, challenges, possibilities, and priorities. Specific issues like the future of Bretton Woods institutions, development through public vs private sectors, energy, food, and trade are addressed in Parts III-VI. Part VII returns to more general reflections on development from specific country perspectives and the role of non-governmental organizations in economic development. In the opening chapter of Part I, Mahbub ul Haq, chairman of the North South Roundtable, makes a "Plea for Human Sanity." Pointing to the falling per capita income in developing countries and the urgency of the debt servicing problems, Haq calls for the preparation of a "shock document" on the real state of the world economy. Haq deplores the polite, technical language of official documents, which disguises the urgency of the current plight of the poorest countries, and urges that blunt analysis be brought to bear on world problems. Further, the world is trying to follow a leader who is not leading. The US, with extraordinary control over world economic matters, looks to its own short-term self-interest in its economic and financial policies, with devastating repercussions throughout the world. The survival of other countries requires that their economic policies be disengaged from those of the US. To this end, Haq suggests some measures: the creation of an independent energy investment bank; an international food security reserve; a special window to supplement IDA VII; and special currency zones. Most important, the world must find alternative sources of leadership. The Third World should set up a Third World Secretariat, even before it achieves a full consensus among all the Third World countries on its establishment, if necessary. Finally, Haq proposes the restructuring of the international monetary and financial system, criticizing the unjust distribution of liquidity, the absence of a truly international lender of last resort, and the gradual weakening of the World Bank as a development institution. Haq's address closes with a call for a Second Bretton Woods Conference.

In Chapter 2, Cesar Virata, Prime Minister of the Republic of the Philippines, finds hope in the ideals expressed at the Cancun Summit (October 1981) for continuing progress in global negotiations. Since then, the developing nations have convened to address issues of trade,

finance, technological exchange, energy, and food security. However, the North has yet to make a meaningful response to the resolutions adopted in these conferences. While the world economic picture is bleak, Virata is heartened by the progress in South-South economic and technological cooperation. It is to be hoped that the North will make good its Cancun pledge to work for global negotiations and for resolution of world economic problems. The most critical task is the restructuring of the world economic system, which will be in the longterm interest of both North and South. Through negotiation, we must seek to solve the world hunger problem, to increase development aid to the poorest countries, to liberalize world trade, and to restructure the world monetary order. On the last point, specifically, to facilitate monetary adjustment, IMF quotas and SDRs should be increased, and developing countries should have greater access to IMF credits with appropriate conditionality, while creditor countries should be subject to stronger surveillance. Finally, the developing countries should play a greater role in the decision-making processes of the IMF and World Bank.

Emile Van Lennep's address on "North-South Relations in the SOs" follows. Van Lennep, Secretary-General of the OECD, weighs the value of the North-South concept in understanding global issues. The 70s, rich in economic transformations, have left us with a complexity of issues and interests, demanding conceptual and analytical progress. Pointing to the growth in both interdependence and diversity among nations, Van Lennep calls for a flexible approach to economic cooperation. Developed and developing countries both have an interest in the strengthening of the international economic system. Anticipating an inevitable emergence of efficient and dynamic worldwide financial markets, he views the idea of a collectively managed world monetary authority as unrealistic. He would rather seek to develop a consensus on the better operation of the mufti-currency system and to strengthen the GATT. Economic development must be achieved through a combination of effective market mechanisms and government action. The "New Approaches" section ends with a paper by Bradford Morse, Administrator of the UNDP, warning against new enthusiasms in the evolution of global development strategies. Citing the Green Revolution, with its disastrous neglect of the small farmers, as one such dangerous enthusiasm of the past, Morse expresses concern over the present rush of capital investment without emphasis on the development of human resources, such as technical and managerial skills. Another such enthusiasm, Morse says, is the "basic needs" strategy for development, which mistakes the goal of development for its means. Grass-roots mobilization and efforts for self-reliance, ideas as old as the idea of development itself, are time-tested, effective approaches to the development problem. Great accomplishments have been made through these methods in the last dozen years. What we need now is not a "new approach," but a new investment in dialogue and an intensive application of already identified development approaches. The obstacle we face is not lack of knowledge, nor of resources, but lack of political determination.

Part II opens with Saburo Okita's address introducing the panel on "Priority Issues." Okita, President of the International University of Japan and Advisor to the Japanese Ministry of Foreign Affairs, served as Chairman of the North South Roundtable Coordinating Committee for the Tokyo Session. His address underlines Japan's commitment to development and peace, citing the rapid increase in Japan's ODA in the last five years, and emphasizes the importance of developing human resources as the foundation of nation-building. The grave financial troubles plaguing the developing and developed countries alike require that we cooperate, perhaps by convening a Second Bretton Woods Conference, to avoid a recessionary spiral. Developing nations urgently need capital and technology for development in all areas—foodstuff production, infrastructure, energy, etc. Both Northern and Southern investment must be directed to expanding production and income in developing countries; particularly, the availability of concessionary capital must be expanded. Jean Ripert, Director General for Development and international Economic Cooperation, United Nations, begins his address by remarking on the link between economic development and international peace and security. He expresses hope for the progress toward global negotiations, whose chief goal is to create economic conditions more favorable to developing countries. Growing interdependence has created a pressing need for an international approach to economic issues. For instance, the debt servicing of developing countries will be smooth only if these countries are enabled to

earn higher and more stable export revenues and if the monetary system is made more symmetrical and predictable. Negotiations on such issues must involve the highest levels of governments, in order to have political weight. The recent economic blows to developing countries require immediate response, especially financial measures to increase their import capacity. Equally important is the reactivation of Northern economies, a prerequisite for progress in the South. Concerted action will be needed for this reactivation, since no one country can recover alone and none can alone lead the others into recovery. Finally, Jean Ripen adds that in order to ensure a healthy global system, the restructuring of the international economic system to harmonize economic policies of all nations must be made a priority on the global agenda. The existing institutions, specifically the United Nations, have withstood the test of time, but, Ripert says, we must not hesitate to question their functioning and structures. In Chapter 7, Shridath Ramphal, Commonwealth Secretary General, argues that making the North-South dialogue work must be a priority issue. Although we speak easily of a "world economy," our leaders act as if our nations are independent and insulated from external economic realities. That myth must be shattered through dialogue. The world economy is facing a crisis of contraction, which carries an added danger of political instability. Some of us seek solutions within our national boundaries, but what is needed is better management of the world economy and an urgent and coordinated program for world recovery. Ramphal asks whether we must wait for a collapse like that of the 1930s to summon forth a new internationalism or should instead start negotiations now, to facilitate recovery and to create conditions for rapid development in North and South. Inga Thorsson, Chairman of the UN Governmental Expert Group on the relationship between disarmament and development and a former Swedish Under-Secretary of State for Disarmament, reminds the world of the firm link that exists between the arms race and underdevelopment, and states that the military sector has the greatest potential reserve for support to economic and social development. The employment of 25 per cent of the world's Research and Development resources in the military arena robs us of the development potential of these valuable resources. Thorsson elaborates the immensity of the nuclear threat and warns us that we are running out of time in the fight for disarmament. While acknowledging some progress in the disarmament dialogue, Thorsson sees the major block to success in the attitudes of the two superpowers. However, there are two signs of hope for the future of disarmament: the declining influence of the military superpowers and the rising popular awareness of the nuclear threat to humanity. Part II closes with an address by Robert Hormats, Vice President, Goldman, Sachs & Company and former Assistant Secretary for Economic and Business Affairs, US Department of State, who points out some dangers in the conduct of the North-South dialogue: the tendency to fall into petty semantic disputes, forgetting the vital human dimension of the issues; the discounting of past achievements, discouraging those who work for progress; and the unrealistic demand for sweeping change in the world economy, which diverts attention from specific issues *which* can be addressed productively. By looking for solutions only at the global level, we deal with only a part of the real problems. Hormats addresses the question of foreign assistance, claiming for it a vital role in development, both for humanitarian and economic reasons, but emphasizing that it must be used more effectively. On the subject of borrowing by developing countries, Hormats suggests that the programs of the IMF and individual developed countries must ensure viable payment positions so that the medicine for borrowing countries does not become more painful than the disease. To this end the IMF's resources need to be increased and conditionality reviewed. Commenting on the opportunity provided by the upcoming GATT Ministerial Meeting, Hormats urges that there should be more adherence to the spirit of GATT. A strengthened GATT with more predictability and reciprocity will benefit all countries. In conclusion Hormats reminds us that solutions can be reached, not through pressure, but through persuasion. Part III comprises four papers (Chapters 10-13) presented to the panel on the Future of Bretton Woods Institutions, chaired by Lal Jayawardena, Director General for Economic Affairs, Sri Lanka. The first of these chapters reviews the main content of all presentations and the ensuing debate, as summarized by the panel rapporteur, Richard O'Brien. The panel presentations chiefly addressed the weaknesses of the Bretton Woods institutions in responding to the problems of developing countries. Changes suggested for the IMF included the raising of IMP quotas, provision of low-conditionality finance to the poorest countries, and the creation of a special facility for debt financing. Concern was expressed over the US dominance in the World Bank. Staff changes and the creation of an independent think tank were suggested. The panel discussed the diminishing proportion of paid-in capital in the World Bank and concluded that this proportion

must be raised, to increase the Bank's resources. Other suggestions included the creation of a new "Committee of 20" and the convening of a "financial Cancun" or of a "Second Bretton Woods." for the furtherance of the dialogue on these matters. The panel on Development Through Public and Private Sector, from *which* selected papers (Chapters 14-16) are presented in Part IV, was chaired by Louis Emmerij, Professor, Institute of Social Studies, The Hague. Rapporteur Olof Murelius's summary of presentations and debate cites a consensus among panelists that greater emphasis should be put on the development of small-scale indigenous industry and on more effective coordination between public and private sectors. However, Murelius notes a wide divergence of interpretations of the public/ private dichotomy, which some see as an issue of the roles of ODA vs multinational investments, others as the question of publicly vs privately owned enterprises in developing countries, and yet others as an opposition between large-scale and small-scale enterprise. Paul Streeten's paper (Chapter 15) addresses in detail the respective advantages to developing countries of public and private ownership of industry. In Chapter 16, Hisao Onoe demonstrates the complexity of differentiating public and private sectors, especially as to the roles of public vs private development aid. In the discussion that developed from the panel presentations, it was remarked that the issue of public vs private sectors is a vital one now, because the role of development aid is being questioned both by conservatives in the developed countries and by progressives in the developing world. Papers from the panels on energy, food, and trade make up the chapters of Part V. The panel on energy

(Chapter 17) was chaired by Maurice Strong, Chairman of the International Energy Development Corporation. The discussion focused on a report prepared by the Energy Roundtable on the Energy Dialogue Mission to three East African countries. The mission concluded that there was a great need for the financing of energy, both for current consumption and for exploration and development. The Mission also perceived a need for better management of existing energy resources and for national energy planning in the countries visited. The panel recommended that nations integrate energy solutions into their overall development strategy. On the international level, possible mechanisms for financing energy in developing countries were discussed, including the idea of an energy affiliate of the World Bank. Also addressed were the problems of adjusting energy technologies to the specific needs of developing countries and the question whether less sophisticated, alternative energy sources should be sought for an interim stage of development. Finally, the panel expressed the need for a forum for global treatment of the energy issue. Strategies for increased food production in developing countries were considered by the panel on Food Security for People and Nations, chaired by Maurice Williams, Executive Director of the World Food Council. Chapter 18 is a summary of the presentations and debate, written by rapporteur Martin McLaughlin. McLaughlin reports a commonly expressed outrage at the scandal of the continuing starvation and malnutrition of three-quarters of a billion people, which the panel members suggested should be addressed by a combination of short- and long-term actions to redress the immediate need without prejudicing the success of long-term plans for self-reliance of the poorer countries. The panel favored the strengthening of food aid provided by international agencies and a build-up of food security reserves, so long as such measures are integrated with programs encouraging self-reliance. Such programs should provide incentives to producers and protect consumers' access to food. Also stressed were the need to ensure that food aid programs have no adverse effects on diet and the need to provide a health and nutrition safety net for pregnant and nursing mothers and small children. Panel Chairman Williams reminded participants that independent fora such as the North South Roundtable can have a real impact on officials: he pointed to the adoption of resolutions relating to food at Cancun and the creation of a Food Financing Facility in the IMF as products of the influence of governmental and non-governmental agencies active in the food area. Gerald Helleiner, Professor of Economics at Toronto, chaired the panel on World Trading Problems and Protectionism. In Chapter 19, rapporteur David Pollock summarizes the panel discussions, which centered largely on recommendations for the approaching GATT Ministerial Meeting (November 1982). The panel reviewed changes in the world trade scene since the establishment of GATT, and participants expressed a concern that the GATT system is in jeopardy because of a growing protectionism in the North which threatens development in the South. However, they expressed hope that the ministers would strengthen the GATT system and call a standstill to new barriers to trade. The panel proposed a work program to review the international trading machinery and to suggest strategies for long-term adjustment in the North-South balance, phasing out of the Multi-Fiber Arrangement, strengthening of procedures in the trade system, development of rules on

services and investment, and the encouragement of South-South trade.

From the deforestation panel, chaired by Gerardo Budowski, Head of Forest Sciences Department at the Tropical Agricultural Centre for Research and Training, Costa Rica, three papers on the plight of the dense tropical forests are presented in Part VI. In Chapter 21,

Katsuhiko Kotari points out the great value of the forests to the developing tropical countries and stresses the need for harmonious utilization and conservation. Past forest management practices, slighting the ecological and other values in favor of immediate economic returns, have resulted in extensive, lasting destruction of the forests. Analysis of the forests and coordinated forest management plans are urgently needed. Arnold Caoili, in Chapter 22, uses the reforestation efforts of the Philippines as a point of reference in his thorough discussion of artificial and natural reforestation methods, and the advantages and trade-offs of each method. The tropical forests, the world's richest reservoir of flora and fauna, are threatened by ever increasing demands for the forest's products and for farming and grazing lands. Caoili recommends a multisectoral approach to reforestation programs. Finally, D.P. Iyamabo focuses on the need for more research and education about the forests and forest management. The developed countries, which have played a major destructive role in the exploitation of the tropical forests, have an obligation to contribute equipment, funds, and trained manpower to the efforts to analyze, develop, and conserve the tropical forests.

Part VII is a selection from the papers presented at panels and at the plenary session which closed the Tokyo conference. In Chapter 24, Kazushi Ohkawa and Gustav Ranis make a comparative analysis, addressing the value of the Japanese development experience for the policy decisions of today's developing countries. The authors describe the early development policy of Japan (in the 19th century): its aggressive adoption of Western technology, applied first to agricultural production, and the utilization of the subsequent agricultural surplus in manufacturing investment. This basic development approach was enhanced by the creation of off-season employment, the establishment of trading companies, a quick move from import substitution to export substitution, and financial policies. Admittedly, Japan developed in a time very different from today, with advantages such as the absence of protected industries, resulting from Japan's lack of tariff autonomy, which aided the long-term growth of competitive export industries. Yet countries such as Taiwan and Korea, which have applied the Japanese experience in more recent times, show the promise these policies hold for present-day LDCs. Furthermore, today's LDCs have a potential for more rapid development, because of greater access to foreign technology and capital and because of the growing international interest in global development. The focus for the next Chapter (Chapter 25) moves across the Pacific, as former congressman John Anderson addresses the question of the US role in global development. Anderson proposes three steps which the US should take toward the creation of a suitable climate for development: first, the US must recognize that it is only one of many actors in the global drama; second, the US must redefine and strengthen its alliances with all friendly nations on a more equal basis; and third, it should take initiative in the move toward a global consensus to institutionalize peace and development for all. Other US responsibilities include cooperation with other nations on the issue of the LDC debt burdens and in a reassessment of the international resources for development. Saburo Kawai, President of the International Development Center of Japan, discusses the "Role of NGOs in Development Aid" in Chapter 26. Citing widespread skepticism about the effectiveness of official aid in meeting urgent human needs, Kawai poses the question why the NGOs (non-governmental organizations) have not received more funding or taken a larger role. Kawai points to numerous advantages of NGOs: their effectiveness in development education, their flexibility and progressiveness in theory and action, their ability to respond quickly in emergencies, their success at the grass-roots level, and their relative freedom from the political and organizational constraints which hamper official action. Kawai discusses the complex relationship between official and NGO aid, showing that the NGOs play at once a complementary role, a subsidiary role, and an intermediary role between government and people. The NGOs, though they appear to be effective, lack funds partly because of the absence of mechanisms for evaluation of their activities. Analysis and evaluation must be undertaken, so that the value of NGOs to the cause of global development will be known and their efforts supported. The final Chapter of Part VII, which brings the body of our text to a close, is a paper by the Counsellor to the Chinese Permanent Mission to the UN, Zhang Zong-an. Madame Zhang first traces the broad changes in the global economic scene in the past two

decades, from the earlier period of rapid economic growth in the North to the recent problems of expensive energy, stagflation, recession, and growing protectionism. During the same two decades the South moved from the completion of its political decolonization to its first efforts at economic decolonization. The South's hopes for the opening of a North-South dialogue to establish a New International Economic Order are being blocked by the lack of response from Northern influential sectors. This lack of response will not prevent change, but may keep it from occurring in an orderly way. Fortunately, growing numbers in the North are seeing their interest in the development of the South. However, the most important activity toward economic decolonization must be cooperation among developing countries. The North South Roundtable should call for immediate launching of Global Negotiations which will address both immediate economic problems and their structural roots. Appended to the text is the Oiso Declaration, the summary report of the Tokyo Session issued by the Chairman of the North South Roundtable, Mahbub ul Haq. The Declaration lists a number of senseless and unjust imbalances in the world economic order, and affirms: The solution lies not in our stars but in our own hands, not in unilateral national policies but in collective action.

The action agenda recommended in the Oiso Declaration addresses points raised in the various panels, including prescriptions for action on the issues of food, energy, trade, deforestation, and changes in the IMF and World Bank. The declaration ends with the call for a Second Bretton Woods Conference, to consider the future of the world economic order and the institutions established at Bretton Woods.

This volume is published in the hope that these analyses and ideas, by shedding light on development issues, will help engender greater understanding of global interdependence and of the urgent need for communication and negotiation. As Jean Ripert says, in the address included in Part II, By raising the intellectual calibre of international discussions this Roundtable can help the search for solutions; by wide discussion it can help raise the awareness of the need for action; by perseverance and determination it can help in fighting our worst adversaries: skepticism and resignation.

PART I

SEARCH FOR NEW

APPROACHES

CHAPTER 1

A Plea for Human Sanity

Mahbub ul Haq

We stand today in the midst of a gathering crisis. Even that is a gross understatement. For the fact is that our nations, whether they care to admit it or not, *are* trembling uncertainly on the brink of a worldwide depression. There is no time, therefore, no time at all, for polite conversation, for cautious phrases, for soft whispers. This is a time for a very brutal and blunt analysis. We have a situation in which, for the last *three* years, per capita income in many OECD and developing nations has either stagnated or declined. We have a situation where 10 per cent unemployment levels are becoming common; where many countries in the developing world are walking the razor's edge of debt servicing problems; and where often the choice in many poor developing countries is whether to feed their starving children or to keep paying their mounting debts strictly on time. There are many cruel choices being made at the national and international levels; and yet, the nature of this crisis has not been driven home to the vast majority of policy makers and ordinary people, either by us or by other organizations. When I recently read the learned reports of the World Bank, IMP, UNCTAD, and many other organizations, on the state of the world economy, I was quite confused whether we were really in any kind of a crisis. Let me just quote *for* you the bland, soothing *words* with which the present situation is being treated in these reports. One of the reports has this to say: Low growth over the 1980s

was projected in the last year's Report. However, it should be possible for many middle income countries to repeat the successful adjustments they made to the adverse conditions of the 1970s, and to achieve per capita income growth well in excess of that of the industrialized countries. The prospects of adequate growth will be greatly enhanced if restrictions on trade and capital flows are minimized.

And here is another classic on the debt situation of the developing countries:

The changing composition of international capital flows, and the high level of interest rates, have placed a number of developing countries in a liquidity squeeze. Do you get any idea from these statements of the kind of crisis we are in? Do you find any note of urgency? Is this why we created these institutions, so that they play the flute to calm our nerves while the world is burning? And if there are institutional constraints, and if truth is going to become a casualty of institutional politeness, isn't it incumbent on a forum like this (where we are assembled in a personal, non-institutional capacity) to speak up on the state of the global economy, and to tell it not in cold statistics but in terms of its human dimensions? Should we not attempt an annual report on the human condition that my friend Soedjatmoko has proposed? As such, my first suggestion is to produce a shock document on the state of the world economy in terms of its human dimensions. And let this be done not only from this forum, not only from the Society for International Development and North South Roundtable, let it be done wherever there is some intellectual integrity left, wherever some professional analyses still survive. I cannot imagine that when many nations are turning to the failed policies of the 1920s and 1930s, when multilateralism is being rejected in favor of bilateralism, when a world depression is no longer a fiction but at least a possibility, all of us should be almost paralyzed into inaction, and that we must lapse into a polite, sophisticated dialogue. If this is what we are here for, we shall be wasting our time. For once, let us get agitated. Let us even get angry. Let us discuss frankly whether this crisis is a structural one or a temporary one. Will this require unilateral action by nations-which is the prevailing mood-or can it be resolved only through collective efforts? We have not carried conviction by all the analyses we have seen done so far. Let us try once more; because if we are going to go down the drain, if we are going to plunge headlong into a world depression, let us at least go down with a loud scream-a scream that may well become a crescendo, a crescendo which may even be heard. But this requires professional analyses of the highest order, free from any institutional constraints, and carried out with great courage and integrity. Secondly, we stand today at a time when most nations are trying to follow a leader which is both unwilling and unable to lead. Today the United States has a virtual veto over all financial and economic matters. Today the US can exercise a virtual veto over the doubling of quotas of IMF, over the size of the next replenishment of IDA, over the management of the international monetary system. By design or by default, the US is now the international central bank, and as such, its national policies dictate the international monetary and financial environment for us all. When the US, in its wisdom, decided to inflate in the 1970s (as Professor Triffin reminds us constantly), more international liquidity was created in those ten years than since the days of Adam and Eve. And when the US decided, again in its own wisdom, to deflate nationally and raised interest rates to high levels, we all watched helplessly as the world got caught in a deflationary squeeze. Certainly, any country is welcome to formulate its own national policies. They become international concerns only when they have widespread international repercussions. One of the principal questions today is how to delink the policies of various nations from the policies of the United States-how to persuade some countries to show the courage and the wisdom, to say that they will not join the general madness, that they will cry halt and turn around and walk in a different direction. It can be done today on a number of issues. An energy investment bank can be set up by a few countries, even without the US, to finance energy exploration and development in oil-importing developing countries. Similarly, an international food security reserve, a special window to supplement IDA VII, special currency zones like the European Currency Unit (ECU), and many other similar initiatives are possible. The central point is that we must encourage alternative sources of leadership, with willing coalitions of nations, wherever we can fashion such arrangements, without all nations throwing up their hands in despair just because one nation is exercising negative leadership. I say this with great responsibility, and as a friend of the United States. Let us not forget that at many critical junctures in world history, the United States has discovered its inner soul and its true greatness and offered courageous leadership. If it has lost its sense of direction momentarily, the only true gift of friendship that other nations can

offer at a time like this is to disagree openly, to refuse to follow the wrong course, to form alliances for alternative action, to let the United States join in these initiatives belatedly, but not to make the US inaction a convenient excuse for their own inaction. The Third World will have to follow a similar strategy, without waiting forever for an elusive consensus. Must all countries of the Third World come together before they can set up a substantive Secretariat of the Third World? If we really mean business, such a Secretariat can be started by a handful of countries, with others coming along later. If Third World multinationals have to be formed in tea, coffee, cocoa or any other area, a handful of countries can take the initial initiative. I believe that for too long now we have waited for global negotiations to start. We have become willing victims of a nonevent, settling for a non-dialogue since we have not developed sufficient confidence in the South in ourselves to start the dialogue anywhere, in any forum, on any subject holding some promise of progress. Indeed, I suspect that there has been a bureaucratic conspiracy of inaction. If we are again honest to ourselves, we should be willing to discuss any or all feasible actions, large or small, just to get some momentum going, rather than keep waiting forever for one giant step, without even bothering to formulate the nature of such a step. But we need professional analyses to see what are those common links that bind nations, and what types of action they may be willing to take in mutual interest; and to create some alliances for positive action rather than a dialogue of inaction, which is what we have settled for so far. My third and final point is that we should also now correct our long-term perspective on the real issues. We have been pursuing many wrong issues and ignoring the central one. And that is the restructuring of the international monetary and financial system. It is the restructuring of Bretton Woods institutions, it is the reconvening of a Second Bretton Woods Conference, it is recognizing the new realities and the emerging balance of power—the only item which again and again is not put on the international agenda. This was the only item that was kept off the Cancun summit, which was a prescription for its failure. Unless we face up to the restructuring of the international monetary and financial system, the rest of the agenda, while important, is still peripheral. The present international monetary and financial system suffers from at least three major defects:

(a) The basic principles underlying the creation and distribution of international liquidity among nations are inefficient, illogical and unjust. The richest nation of the world, the United States, can borrow endlessly by creating more dollars. It carries an international credit card which allows it to postpone real adjustments to a later period. It is accumulating debts (the so-called "dollar overhang"), which will haunt its future generations and imperil the whole fabric of the international monetary system. On the other hand, the poor nations have to make instant adjustments to any real shifts in national or international factors. They have only a limited luxury of borrowing and certainly no luxury at all of creating monetary assets at no immediate cost to themselves. The principle is delightfully simple. The richer you are, the more credit you can create by your own decisions. The poorer you are, the harder you must work to earn foreign exchange. It is perhaps time to question the sanctity of such an absurd principle. Why should we not have an international monetary system where international liquidity is created by an international central bank and recycled first to the developing countries, which can thereby exploit their under-utilized development potential, while the developed nations are obliged to earn this liquidity through real exports? This logical reversal may prove to be too drastic a change. But a gradual transition towards such a system is necessary over the long run.

(b) The present international monetary system is missing its policeman. The International Monetary Fund was supposed to perform this role in the Bretton Woods arrangements. But the IMF has lost considerable power and influence after the fixed exchange rates gave way to the floating rates, after the gold link was severed with the US dollar, after the surplus countries refused to accept any policy conditionality or burden of adjustment prescribed by the IMP, and after the powers of the IMP to create SDRs were severely curtailed. The IMP presides today over a monetary chaos that it has no way of policing.

(c) In principle, the World Bank can protect the developing nations against the high interest rates and stiff terms of the market place only if it has a significant proportion of its resources in a cost-free form. Unfortunately, the cost-free equity (or paid-up capital portion) of each successive IBRD replenishment has progressively gone down, from the initial 20 per cent to 7 $\frac{1}{2}$ per cent in the last replenishment, and the current proposals are for no paid-up capital at

all in future replenishments. At the same time, the concessional window of the World Bank (IDA) has become a sharply declining proportion of the total lending of the Bank. The basic issue is a fairly simple one. If the World Bank does not get adequate support from the rich nations by way of cost-free capital, it can only recycle market funds to the developing world at the same or higher cost. This will progressively undermine the Bank's role as a development intermediary. It matters little in a situation like that whether the Bank compromises with this harsh reality through *greater* co-financing with commercial banks, or by introducing variable interest rates for IBRD, or by hardening its blend between IDA and IBRD. The basic issue remains: since the World Bank, unlike the IMF, cannot create its own international resources, it must live on the fluctuating generosity and goodwill of nations, and it must decline as a development institution if there is a weakening political support for its operations from the rich nations. Let me make it clear that the fault with the international monetary and financial system lies not with the Bretton Woods institutions but with the rich nations which are unwilling to support, strengthen or reform their own creations. The institutions are trying to do the best they can, within the constraints in which they are placed—though there will always be an argument whether they could do even better. It is those fatal constraints we must attack, not the institutions themselves. I firmly believe that the present international monetary and financial system cannot be analyzed piecemeal; it is a closely knit fabric and must be examined as a whole. The foundations which were laid in Bretton Woods 36 years ago must now be scrutinized searchingly, and not only by a handful of powerful nations but by all nations, since the system is universal and affects us all. It is for this reason that I believe it is timely to convene a Second Bretton Woods Conference in the near future to evolve an international monetary and financial system that can serve the needs of all nations for accelerated world economic recovery, for continuous economic growth and for increasing expansion in world trade. It is for this reason the North South Roundtable proposes to set up a small Roundtable of leading monetary, financial and development experts to examine the future of the Bretton Woods institutions, to consider proposals for the creation of a World Central Bank, and to undertake the necessary professional and intellectual spadework for the convening of a Second Bretton Woods Conference. Let me conclude by reiterating that this is no time to tinker with the real issues; what is at stake is our own intellectual integrity; what is at stake is our inner courage; what is at stake is our very future. We stand today like little children on the vast shores of this earth, collecting little pebbles of understanding and hope and tossing them one by one into a vast ocean of intolerance and cynicism. Let us gather our courage, and, in the next three days, let us lift a few big stones and create a few big waves. For the worst failure at a time like this will be a failure of our own courage.

CHAPTER 2

New Approaches to Global Development

Cesar Virata

Exactly a year ago today, 10,000 miles across the Pacific, the heads of state of 22 countries representing the industrial, the developing and socialist countries met in Cancun, Mexico to discuss informally the broad issues of development. In a world reeling from the debilitating effects of global recession, hope was renewed when the Summit of 22 confirmed the desirability of urgently supporting at the United Nations a consensus to launch global negotiations "on a basis to be agreed upon and under circumstances offering the prospect of meaningful progress." It was then felt that the political will, indispensable to any collective effort, was finally forged to remedy a fast deteriorating world economy. In their enthusiasm to ensure their survival, the developing countries proposed in the United Nations General Assembly a simple resolution to implement the "will of their leaders," hoping that the global negotiations or bargaining would indeed commence in May 1982. But the spirit of Cancun that evolved in autumn was frozen through winter and not thawed until spring, when the industrial countries met for their annual Summit in Versailles. Today, the hall of the General Assembly of the United Nations reverberates with a strident call for the much awaited launching of global negotiations.

Perhaps it is symbolic that we meet in Japan; for it should be a reminder to all that the expulsion of Japan from the League of Nations subsequently led to the early demise of that first attempt to organize the community of nations for peace and collective economic and social cooperation. As we meet in the affluent environment of the only nation that suffered atomic devastation, we should also be reminded of the urgency of the task at hand—the need to

look at each other not as representatives of peoples from the North or South, but as a family destined to live together in one world. While we are mandated to defend our respective national positions and regional interests, the time has come for us to ask: how long can we all endure the strangling grip of the deteriorating world economy, or the impending danger of nuclear warfare? I submit that all the issues confronting the world have been fully defined, thoroughly explored and discussed. We are also fully aware of the extent to which we can meet each other's demands. In the developing world, we have met many times since Cancun to review and modify positions to accommodate the requirements of all groups and interests. In Baghdad, Rio de Janeiro, Algiers, New Delhi, Bucharest, Jakarta, Belgrade, Kingston, and Manila, our experts and officials have sat down together and formulated concrete proposals pursuant to the recommendations of the Caracas Program. The issues which they have addressed are most relevant, constituting matters of vital interest for the developing countries. Among these are the launching of negotiations for a global system of trade preferences; proposals for alleviating the financial burden of developing countries; the need to evolve mechanisms by which developing countries can share science and technological know-how and exchange information; the implementation of the Rio de Janeiro Plan of Action for cooperation among developing countries in the field of new and renewable sources of energy; measures for enhancing national capabilities for the manufacture of capital goods, and the strengthening of South-South cooperation in this field; the implementation of the program of cooperation among State Trading Organizations; and the preparation of a scheme for acquiring and maintaining food reserves. In Tunisia, our experts met to discuss technical cooperation among developing countries. In New York the Manila Declaration for the launching of a global system of trade preferences among developing countries was adopted by the Ministers of the Group of 77, adding another significant milestone in the progress of ECDC. Even as we are encouraged by the results of these meetings significant accomplishments given the widely differing situations in the developing countries-we should be aware that the achievement of the goals of ECDC will be a long and tedious process. But we have made the first steps in pursuing our common goal to build an enduring edifice of collective endeavors anchored in self-reliance and mutual interests. I have no doubt that the industrial countries have followed all these proceedings with interest, and have carefully studied the resolutions and declarations adopted in all these conferences. Yet, there seem to be no meaningful reactions. As a recent example, the Toronto meeting of the world financial institutions deferred for later the important question of the IMF quota. The profile of the present global situation is anything but encouraging. Inflation remains a worldwide problem, affecting not only the most affluent but also the poorest among nations. The growth of trade, especially for the developing countries, has continued to decline in the face of rising protectionist trends in many developed countries, brought about by weak demands and high unemployment in these countries. Imbalances in the external account positions of many developing countries, aggravated by the decline in the prices of their commodity exports, have contributed to the growing difficulty in international adjustments, with heavier burdens being placed on the least developed nations. Against this sad background of North-South relations, I see a heartening progress in economic and technical cooperation among developing countries. We have shown that, given the political will, developing countries could band together for a common cause and undertake collective action. In Caracas last year, we formulated several concrete recommendations on an expanded range of ECDC activities covering eight sectors: trade, technology, food and agriculture, energy, raw materials, finance, industrialization and technical cooperation. A calendar of meetings for 1981 and 1982 was fixed to operationalize the program. The high level meeting in Caracas - marked a turning point in the solidarity of the Group of 77, with the adoption of mechanisms in the implementation of ECDC activities. A Group of 77 account was also set up to support ECDC activities. While it is too early to assess the progress of current efforts in the General Assembly to seek an acceptable compromise for the early launching of global negotiations, I am heartened by the reaffirmation of the Versailles Summit Conference that negotiation on a global scale is also a major political objective of the industrialized countries. It is the hope of many developing countries, including my own, that this reaffirmation will be translated into a clear acceptance by the developed nations that they too have a stake in the proposed global talks. There must also be a clear recognition by all nations that the global negotiations should result in concrete agreements and not in General Assembly-type resolutions which have more in rhetoric than substance. The *raison d'être* of the proposed negotiations is to find solutions to the important world economic problems, the most fundamental of which is the restructuring and readjustment of the world economic system. Hence, the early launching of the

global negotiations would contribute to the improvement of economic relations among nations and to correcting the inadequacy of the present international economic system in dealing with the needs of an interdependent global economy. It is regrettable that a few advanced countries have been unable to respond positively to the challenges of genuine cooperation among nations, rich or poor. This unhappy situation could perhaps be attributed to the prevailing notion that in the process of restructuring the present North-South relations the gains achieved by one side would be at the expense of the other. But the reality is that this need not be a zero-sum game; there is an underlying harmony of interests between the North and South arising from the interdependence of their economies. I am happy to note that a significant number of developed countries understand that there are vast convergences of interest between the countries of the North and South. These *areas* of convergence of interests, which could provide a framework for a meaningful and enduring global collaboration between the North and South, are: commodities; food; trade and industrialization; energy, including new and renewable sources of energy; and money and finance. These are the areas where structural reforms are urgently needed and where the developed countries, imbued as they are by the spirit of Cancun, could seize the opportunity to respond positively to the demands of the developing countries. As to the question of food, there should be a sustained and coordinated assault on the problem of hunger and malnutrition in the developing countries. Today there are an estimated one billion human beings who are hungry and malnourished. In according the highest priority to this problem, it would be necessary to draw up a global strategy to deal with all major aspects of the food problem, with emphasis on increased food and agricultural production. The strategy could include food aid programs, liberalization of food trade, and support for food and agricultural research. In *our* own sub-region, the five member countries of ASEAN have established a food security reserve consisting initially of 50,000 tons of rice, to be built up gradually over time. While the size of the ASEAN food reserves is still very modest, its establishment represents a significant step forward in the collective endeavor of regional cooperation. Along with attention given to the food problem, there should be a continuing transfer of resources to developing countries, particularly to the poorest among them. It is a sad commentary that the CPA target of 0.7 per cent of GNP has not been reached by many developed countries, and in the past few years the flow of developmental aid to developing countries has been reduced to a mere trickle. In the area of commodity trade and development, there should be greater participation of developing countries in the processing, marketing and distribution of their commodities, coupled with stabilization of their export earnings and commodity prices at remunerative levels. Hand in hand with this integrated commodity program, there should be an effective complement of trade liberalization measures. The industrial nations must roll back, if not dismantle altogether, the protectionist measures that have been drawn up against the exports of developing countries. The Generalized System of Preferences should be liberalized with respect to its rules of origin, exceptions and limits and should be broadened sufficiently to cover most of the primary exports of developing countries. It is an encouraging development that in Geneva next month, our ministers at the highest levels will meet to address themselves to the urgent issues of the General Agreement on Tariffs and Trade (GATT). It is our hope that the GATT Ministerial Meeting in Geneva will provide the catalyst to correct the disadvantageous position of the developing countries in the field of trade and adopt measures that will extend differentiated treatment in favor of the developing countries. Restructuring the existing world monetary order would, of course, be central to any program of world economic *recovery*. To facilitate the adjustment process, the developing countries should be given greater access to International Monetary Fund credits with appropriate conditionality requirements. On the other hand, stronger surveillance of the creditor countries should be performed in order to balance the adjustment process. Moreover, the IMF should *carry* out its commitments to provide sufficient international liquidity and make SDR the central reserve asset by significant increase in quota and in the continuing allocation of new SDRs. Finally, there should be greater participation of developing countries in the decision-making process of the IMF and the World Bank, including all phases of the consultations and negotiations linked to decisions in the international monetary systems. These are but some of the cogent and vital issues that have to be addressed by the international community within the context of the envisaged round of global negotiations. It has been said many times that a journey of a thousand miles begins with the first step. In Cancun we have taken the first but confident strides that will bring us closer to a deepening of North-South relations. Let not the vision achieved in that summit

of world leaders be lost in the expediency of a piecemeal approach to problems of global dimensions.

CHAPTER 3
North-South Relations in the 80s:
A Constructive Approach to New Realities

Emile Van Lennep

I believe there is a widespread perception that there are large historical and economic forces at work in the world which carry the potential *for* immense human progress, but which at the same time make social and economic systems more vulnerable. On the other hand, there are evident difficulties in securing cooperative action by the world community of a scale and nature that many believe necessary to manage this situation. This dichotomy is one of the great puzzles of our times. The North South Roundtable has come to be recognized *for* the imagination and commitment with which it addresses this dilemma. It is held by some that the underlying problem is a lack of sufficient political will to overcome the obstacles which stand in the way of collective international action. I am not sure that this is the right way of putting it. As was shown at Cancun, there is at the highest political level a clear recognition that, in what has become a highly interdependent world economy, there is a strong common interest in maintaining and accelerating economic progress in the developing countries. In my view the real problems concern *means* rather than *ends* and arise from two outstanding features of our times. The first is the wide difference of views about the respective roles of governments and market forces in promoting economic progress. The second is the sheer complexity of the issues involved, and the growing diversity in the economic and political interests of the increasing number of actors on the world scene. If this diagnosis is correct, there are some clear implications. We need to review objectively our experience to date to see which approaches and techniques have proved the most or the least successful in promoting economic progress. We need analysis which accurately represents the complexity of the interrelationships among different issues and interests. And we need forms of cooperation which are sufficiently flexible to evolve and adapt to the various levels at which effective action is possible and desirable.

In the OECD, we have over recent years devoted increasing attention to these general questions as well as to the specifics of individual issues. This process of reflection is a continuing one, carried on through our annual ministerial meetings as well as through our horizontal and specialized standing committees. I cannot say that we have yet succeeded in achieving a uniform OECD perspective nor indeed do I believe that such an aim is, at least in the strictest sense, possible or desirable. But I believe we are making progress in an educative sense. What I have to say today draws to an extent on this background.

THE NORTH-SOUTH CONCEPT-ITS UTILITY AND ITS LIMITATIONS

There can be no question that the North-South concept has played a major role in international relations over the past decade and more. Like all powerful ideas it has the virtue of grand simplicity. This simplicity is a source of both its strength and its weakness. The force of the North-South concept derives from major historical and political realities manifested in the post-World War II era. It is true that over time, the distinction between North and South has become less clear in an objective sense. But the fact remains that there are two sets of countries which are widely comprehended to consist of the developed and the developing, each set sharing certain broad characteristics and psychological affinities. We have the countries of the North, with advanced or relatively advanced income levels and social conditions and a more or less completed process of national integration. The South comprises countries where the development process is still very much in train, where dual economies and dual societies are characteristic, and where, in many cases, hunger and poverty remain the dominant facts of life for millions of people. In my view it would be wrong to underestimate either the power *or* the value of the North-South concept. There are various ways in which it is of help. It promotes a sense of identity and common cause within each group which in turn promotes a sense of common responsibilities; and in this way it can facilitate a structured discussion between two major interlocutors on problems of world concern in which small and weaker nations can make their voices heard. And, most important, there is a moral dimension: the cause of North-South cooperation expresses the

solidarity of the richer countries with the underprivileged peoples of the developing countries; it promotes the search for concrete and effective ways to channel this moral concern. For these reasons, I believe that the North-South idea can play a positive role in world affairs, persisting into the foreseeable future. At the same time, there are clearly major weaknesses in the concept when it is pushed too far. The phenomenon of North and South is by no means the only important political and historical reality of our times; there is not only the major divide between East and West, but there are many regional or even purely national situations with geopolitical significance. At the level of economics, it is a fact that the interplay between developed and developing countries has had a major impact on the course of economic history. But there has been a tendency to view major problems of the international economy and of economic development much too exclusively through the North-South lens and through particular theoretical models of North-South economic relations. This has led to some major errors of diagnosis and prescription, to a failure to perceive adequately the role of domestic economic policies in development progress, and generally to a serious loss of credibility for the so-called North-South agenda and associated negotiating processes. The specific platform of the New International Economic Order has generated a set of fixed positions. Lowest common denominators have come to stand in the way of true reform. Too often, in the capitals of both the North and the South there is a major gulf between the real economic policy makers and those concerned with North-South diplomacy.

THE CHANGING WORLD-FROM THE 1970s INTO THE 1980s

The obsolescence of the "old" North-South agenda derives not only from inherent weaknesses. Like many other proposals for major reform it has been undermined by the rapid changes in the structure of the world economy and by the lessons of development experience. While the decade of the 1970s was a very difficult time, this was largely because it was so rich in economic transformations. The degree of adaptation in individual and corporate behavior, private markets, national policies and international institutions has been remarkably high. Much of this adaptation may be judged to have been logical and constructive, but some of it has been less positive, with actual or potential losses in international welfare. We have seen some important contrary trends between the North and the South. In the North, growth rates and income levels have tended to coalesce, agricultural production to run ahead of consumption, industrial performance to lag behind labor force growth, savings and investment ratios to decline generally. In the South, investment and savings have increased in all but the very poorest countries, but we have seen growing diversity in growth rates and income levels - some spectacularly successful development strategies and some major failures. Agricultural performance has varied considerably. Advances in industrial capacity have been very uneven. At the same time, in almost all developing countries, the major social indicators-life expectancy and literacy rates-have steadily improved.

An undeniable fact is the much increased importance of a fairly large number of developing countries in the world economy, comprising not only oil exporters but also relatively industrialized countries. Let me quote a rather impressive statistic here. In the early 1960s, developing countries as a group contributed some 15 per cent to the growth in world output. In the late 1970s their contribution to world economic growth amounted to no less than 30 per cent, supporting activity and employment in the developed countries at a time when domestic sources of growth were weak and policies highly constrained.

It is with these new perspectives that we must attempt to see the way ahead for the world economy. This is a time of serious economic and financial stress. But I believe that we are now in a position to perceive more clearly the real issues and nature of the approaches needed to deal with them effectively.

THE NEED FOR CONCEPTUAL AND ANALYTICAL PROGRESS

I would like at this point to come back to my initial proposition. Effective international economic cooperation requires appropriate concepts and accurate analysis for dealing with the problem of complexity. Key elements in the heightened degree of complexity in the world economy are the simultaneous trends towards increased interdependence and increased diversity. Problems can at once be global yet have highly varied impacts on different countries, cutting across the categories of North and South. The effects of high interest rates and low commodity prices are a current example. There are further important implications. The

efficient operation of the international economic system is more vital than ever to all countries. But the health of the *international* system is itself more than ever dependent upon mutually-consistent *national* economic policies-both domestic and external-at a time when national economic, social and demographic situations vary considerably. There is already widespread acceptance of the notion of interdependence. The opening sessions of this Roundtable, for example, are framed in terms of a "global" approach. I might note also that President Figueiredo of Brazil, in an important speech to the United Nations General Assembly a month ago, stressed that the present crisis was not a crisis between North and South, but rather a crisis of the international economic system affecting both groups. He went on to state his view that the problems could be solved only through understanding and mutual solidarity, and not by a retreat to acrimony and confrontation. The atmosphere at the recent annual meeting of the IMF and the World Bank demonstrated, I believe, that this approach is widely shared. This shift in perception is a significant one. More progress still is required. Interdependence creates a greater awareness of mutual interests. But it does not by any means eliminate the existence of conflicting interests. We have to learn how to cope better with both these factors. We need also to carry out more analytical work on the substantive content of interdependence. Otherwise the concept will remain too vague a basis from which to draw agreed policy conclusions. A much more difficult problem is how to come to terms with the fact of increased diversity. The difficulties arise at all levels-political, institutional, and procedural. Even the terminology creates problem words such as differentiation and graduation almost immediately raise barriers. Perhaps there is a need for new language. There are also serious analytical problems. It is not a simple matter to categorize the various kinds of countries, nor can there be any single valid approach. The standard classification of advanced, middle-income and low income country groups is of limited analytical use. From the side of the OECD we have contributed the concept of the Newly Industrialized Countries. But there are significant differences among them. The oil-exporting countries are a very mixed group. Then there is the vast difference in the situation of the two giant low-income countries India and China-and the many very small low-income countries, some of which are among the 60 states or territories in the world with less than one million people. Earlier this year, here in Tokyo, Mr. Chosen (President of the World Bank) set out the concept of a multi-polar world consisting of eight significant growth centers-indeed a phenomenon with significant implications. But even this approach is not able to capture some of the important economic realities in the world we now find ourselves in.

I draw one important conclusion from this discussion of rapid change and growing diversity. Both as regards the instruments of national policy and as regards the techniques of international cooperation, there is a high premium on approaches which can accommodate flexibly to rapid and often unforeseen changes in the world scene.

THE CHARACTER OF THE INTERNATIONAL SYSTEM IN A CONTEXT OF CHANGE AND DIVERSITY

At the national level, we have seen that those countries which have placed considerable emphasis on the price mechanism to provide signals of actual and impending change have generally done better than those where governments have tried to implement preconceived plans of what should be produced where and how. "Managed adjustment" has too often meant too little adjustment and a consequent growth of a defensive mentality. Indeed this is exactly what we see in too many cases in OECD countries today, with an adverse impact on their own growth prospects and on those of the developing countries. One can only suspect that this would be even more true of attempts to achieve a major restructuring of the international economy through political negotiation and managed adjustment. I have already publicly suggested that the main mutual interest of developed and developing countries should be seen as consisting of collective and individual efforts to strengthen the operation of the international economic system itself, as the major agent of change and development in the world economy. In many instances this requires more reliance on market mechanisms. But equally, effectively operating markets are not necessarily a naturally occurring phenomenon. Action by governments is necessary to create market systems which work to bring about growth and adjustment. Beyond this, there are important areas where market forces must be supplemented by government action and other areas where markets cannot operate at all. Let me suggest how these principles might be applied to the international monetary and financial systems and the international trade system. These systems have been malfunctioning to a degree which

threatens to produce a prolonged period of slow growth around the world. In the financial and monetary areas, the role of markets has increased enormously over the last decade. There have been many positive results, but also some undesired and *very* undesirable consequences. I am doubtful whether the answer is to go back to the idea of a major reform of the international monetary system which was discussed at length some years ago. The emergence of efficient and dynamic worldwide financial markets is, I believe, an irreversible process. I suspect that it has rendered unrealistic ideas for conferring powers for some significant degree of liquidity creation on a collectively managed world monetary authority—at least for quite some time to come. We should rather work to develop a stronger consensus on how better to orchestrate the operation of the existing multi-currency system. Such consensus is needed to dampen the excessive fluctuations in major exchange rates experienced in recent years, through better coordination of national monetary and other policies. We also need to seek a better balance between the roles of the private banks, central banks and international financial institutions in establishing sustainable patterns of capital flows and sound structures of financial intermediation. The major changes in the mechanisms of international finance and in the savings/investment balances in different areas of the world are beginning to generate new thinking on resource transfers between developed and developing countries. The roles of confessional and non-confessional flows to developing countries and the relationships between them are major questions in this connection. In the area of trade, the problems are in a sense the reverse. There is now too much management of market processes by governments. Despite the fact that it is one of the mainsprings of world prosperity and employment generation, the GATT system has been increasingly threatened by governments responding to acute short-term pressures. Developing countries should treat this situation as a matter of utmost concern to them. Erosion of the trading systems among developed countries would in itself seriously damage their growth prospects. For this reason alone developing countries should commit themselves fully to assisting the success of the forthcoming GATT Ministerial Meeting. [This meeting was held in Geneva in November, 1982. Ed.] The developing countries have a clear interest in strengthening the role of the GATT. The worrying tendency of the industrialized countries to try to settle their trading problems outside this agreed multilateral framework poses a serious and increasingly arbitrary threat to the security of the developing countries' access to markets in the industrialized world. At the same time, I would hope that the advanced developing countries will reassess their basic relationship to the GATT on such matters as preferences and non-reciprocity. It is increasingly recognized that the rationalization and progressive winding-down of the heavily protective trade regimes existing in some of these countries would foster a more efficient evolution of their economic structures, improve their ability to use foreign capital productively and thus generate higher living standards for their people. A commitment to such a progressive liberalization over a period of years would also put these countries in a much better position to object strongly when their access to markets in the industrialized countries is threatened by arbitrary action outside the letter or the spirit of the GATT rules. If we are to make progress along these lines, it may be useful to draw on past experience. The success of the efforts to liberalize trade in Europe after the war depended in part on mutual commitments negotiated in advance. But it also depended to a considerable extent on the fact that as the situation evolved, in ways which often had not been foreseen, it was possible for the countries whose interests were directly involved to sit down around the same table and thrash out the problems which had emerged, taking account of the changing economic and political circumstances. An attempt, therefore, to find a solid basis for the evolving trading relationships between developed and developing countries will require a more flexible approach to institutional and procedural questions in the trade area than we currently see. And there is a need for political creativity in order to provide this flexibility.

DEVELOPMENT COOPERATION - THE NEED FOR DIALOGUE

Development cooperation has grown over the decades into a major international enterprise. Despite popular misconceptions, aid flows have been growing strongly in real terms—by around 40 per cent in the decade of the 1970s. We forecast further real growth, though lower than in recent years. Just as we must strive to make the international economic system work better, we should seek to make development cooperation work better. We are perhaps beginning to see such progress, particularly in the development of more focused country-centered cooperation, with more coordination among bilateral and multilateral donors and more attention to policies on both the donor and recipient sides. Moves in this

direction have been given impetus by the existence of serious problems of aid delivery and aid effectiveness, especially in aid-dependent countries. It is in particular country contexts that effective answers to economic development and to the existence of poverty and hunger must be sought.

COOPERATIVE ENERGY DIALOGUE

The International Energy Agency has just published a new assessment of the World Energy Outlook up to 1990 and beyond. It contains the important message that the present situation of ease in world energy markets is deceptive, and that, if we are to return to reasonable growth rates, new and very damaging tensions could arise before the end of the 1980s. This surely only enhances the case for a proper exchange of views between oil consumers and oil producers so as to obtain the best possible assessment of medium and longer-term trends in energy supply and demand. There is perhaps an inevitable tendency for the enthusiasm of consumers and producers for such a dialogue to wax and wane in opposite directions as oil prices go up and down, but to the objective observer this can only be regarded as extremely short-sighted.

THE TRANSITION TO NEW APPROACHES IN NORTH-SOUTH RELATIONS

I believe there is a broad appreciation that we *are* in the middle of a difficult period of transition in North-South relations. The past two years and more of unresolved debate over Global Negotiations reflect this situation. Indeed the very structure of the famous UN Resolution 341148 encapsulates the transition—the preamble looks backwards to the program of the New International Economic Order, while the operative part looks ahead to what could become the new agenda. How do we find the way forward? Clearly we must face up together to the immediate problems of containing present protectionist and financial strains and getting the world economy out of recession. We must also make constructive use of the forthcoming events on the international calendar—in particular the GATT Ministerial and UNCTAD VI. But we must also look farther ahead, recognizing that we live in an era of unprecedented change. I have tried to suggest that in doing so we need both an objective assessment of the best combination of market mechanisms and government intervention in adjusting to this change, and a flexible approach to the institutions and procedures for international economic cooperation. Let me end by expressing the hope that the North South Roundtable can help to stimulate the new thinking and political imagination that this will require.

CHAPTER 4

New Approach: How to Mobilize Will to Implement What We Already Know

Bradford Morse

Development means change, and global development—still a relatively new concept—contemplates enormous change. Development demands constant innovativeness, which requires a readiness to expand our creativity, yet constantly re-examine accepted formulae. Development also requires the optimal employment of scarce resources while constantly seeking to mobilize a larger quantum of resources. And I would also suggest that development with scarce resources demands that we examine and apply the experience and insight we have acquired in the most cohesive, effective way possible. I table these preliminary thoughts in order, first, to say that in our search for global development it may be wise at this point to beware new enthusiasms. In the lengthening history of development endeavors, we have experienced many new fashions and, while each has undoubtedly added to the total process, the handling of each by the international development community may have proven unnecessarily costly and in some instances even damaging. We have recently reached a stage where we are compensating for some of the swings and surges and imbalances in strategy that arose in those years when intellectual tidal waves rolled through the development community, each with a vessel on its crest /lying a banner proclaiming "*This is the key: this must be the new priority.*" We have, for example, belatedly recognized the neglect, the plight, and the production potential of the tens of millions of poorer small farmers who were passed by in the original rush towards a Green Revolution, through high-yield technology, upon the unspoken assumption that if the farmers were simply driven to the wall and thence into cities, that was the way of progress. The original Green Revolution enthusiasm indeed massively increased

production in a number of food-deficit countries; but we lost precious time, and we protracted years of food import bills in countless other deficit countries, because the strategy was not balanced by considering the needs and potentials of the small farmer *insitue*. I believe it is essential to bear in mind, in any quest for "new approaches" today, that we have within the development community a tremendous richness of new approaches, offering every chance of achieving more balanced, holistically conceived development strategies, provided there had not been a constant urge to find the quick fix and an intrinsic faith at both ends of the North-South highway in the ineffable power of technology. There *were* voices-authoritative voices-all along warning of the danger of neglecting the small farmer. In the same way, if today it has become much more respectable to urge development designs based upon grass-roots community mobilization and self-reliance, this is hardly a "new approach." As member of the United States Congress, I sponsored legislation to initiate that orientation in United States development assistance more than sixteen years ago. Across the world there has been a persistent challenge to top-down, city-outwards, wholly government-prescribed development design, not least from within SID. The problem has rather been that so many voices, already advocating what today is more generally accepted as balanced, holistic and people-based development, were being drowned out in the recurring roar of those tidal waves of new fashions. To cite another example: UNDP is today supporting a strategic effort in labor-intensive public works schemes, under an inter-regional program that assembles the best experience and translates it into concrete country-level projects, not because someone yesterday proclaimed a "new approach" to the problem of mass underemployment and lack of income generating activity especially in rural areas. It was simply that an old perception advanced by a number of development analysts across the world did not get a proper hearing earlier. As a professional community, we have perhaps not been very good at listening to each other, reading each other, and assessing what insights we have in fact accumulated down the painful years of trial and error. Indeed we are possibly in the greatest danger of neglecting our own achievements at this very time, because of the unparalleled pessimism that has arisen in the last couple of years. Faced with deadlock or division on almost all vital global negotiations, confronting on all sides a diminution in aid flows, and aware of the erosion *of* will to support multilateral cooperation, of which the Secretary-General has warned in his dramatic annual report to the General Assembly, we have a tendency to disregard the international community's established agenda of work and commitment as irrelevant, and once again to search for "something new." Yet development professionals must hold the international community to its commitments and resist the tides of pessimism, by reminding the international community of its historic achievements. In this, they must also be historians, because genuine global development is and must be understood to be a process designed to achieve the intensified and organized shaping of the planet's history. And I submit that the moment we switch our minds into these perspectives, we must recall-and remind the world of-the astonishing ten or twelve years which have just passed. For in those few moments of history, after thousands of years of human life on this planet, we assembled the available data and experience, discussed these at regional and global conferences, or at special sessions of the General Assembly, and agreed upon plans of action for food, environment, population, trade and development, employment, desertification, water, women, industrial development, human settlements, a new international economic order, South-South cooperation, rural development, primary health care, new and renewable energy, science and technology for development, special action for the least developed countries; and we launched programs of commemorative Decades or Years for children, transport and communication in Africa, drinking water supply and sanitation, the disabled, and the aged, to name only a few. All of this, in just a dozen years. None of it was perfect. Most of us here were involved in all or many of these herculean undertakings and came away from each such process with our share of disappointments, over this or that vital plank in an action program that failed to gain global intergovernmental consensus or over some particular strategic need that was glossed over in the pressure of time. But I wonder whether, perhaps, we in the international development community may have been just too close to it all to realize what it signified. Never before in human history have this fragile planet and its human and ecological challenges been so comprehensively researched and discussed, through to agreed action plans. Never before has there been assembled so all-encompassing a set of worksheets for the world; never before has there been an inventory of the problems which obstruct humankind's well being. And all of this stands available-to all governments, intergovernmental and non-governmental organizations-for the benefit of the entire human race. As we meet here towards the end of this unprecedented sequence of stock-taking conferences covering virtually

every aspect of the human adventure, I submit that we may not be in need of more "new approaches to global development," but in need of a proper digestion of and action upon all the approaches that are already on our planetary agenda. We are awash in laboriously defined prescriptions for global development. To resolve problems never before so thoroughly analyzed and aggregated, we have much more work to do than we have yet begun to organize ourselves for. Indeed, and it is to this I wish next to turn, we have not even *analyzed* the exhausting experience in stock-taking and action planning from which we are now emerging, shaking our collective heads, hesitant, perhaps even frightened to assemble in any one place all those action plans and detailed job sheets in order to make a holistic endeavor out of all of them. The decade of conferences and special sessions offered some fascinating lessons in organized human behavior. It presented contradictions in policy and organization for work that in themselves offer us significant lessons. Let me suggest *a few* of these. On one hand, although each of the world development conferences was a reflection of one or another particular sectoral demand for more serious attention in the total development scheme of things, at each such conference there was a consistent recognition that its sector of need could not be treated in isolation but depended upon a whole complex of coordinated and reinforcing moves across the sectoral fence. In some cases, indeed, this led to another world conference or other new thrust. Thus the World Food Conference was followed by that on Rural Development and Agrarian Reform, and the Water Conference led to the Drinking Water and Sanitation Decade, to cite only two examples. Yet in spite of- perhaps as a result of- the sectoral emphases of the past decade, one key, critical element of development has been neglected in recent years- the function of human resource development in building of technical and managerial skills as a prerequisite of self-reliant, self-sustained, self-generating development and sound, cost-effective capital investment. By the end of the decade the warnings were raised, by the Chairman of the Development Assistance Committee of the OFCD, regarding neglect of these crucial roles of technical cooperation for the least developed African countries, and by many other individuals and institutions. And here again I revert to my central point- a proper, strategic, balanced attention to human resource development would hardly be a *new* approach," but rather the revival and restoration to its commensurate place of a fundamental precept with which the whole development cooperation endeavor for the Third World began. It is the intensified rush to capital investment, without a commensurate emphasis on the formulation of endogenous skills, that has been a new enthusiasm. Perhaps one of the reasons for the neglect of skill formation in recent years may be the single, best intentioned "new approach" to development to emerge in the last decade: the "basic needs" strategy, as perceived by some aid organizations- both bilateral and multilateral. No one can doubt that the very purpose of development is the improvement of the human condition in all of its aspects. That developing countries were diverted from adequate attention to the needs of the immense human potential of the mass of their people is not at issue, yet this diversion was in part one consequence of an early enthusiasm: that the models of industrialized societies through relentless urbanization and industrialization could be exported to developing countries without the risk of further dislocations. But to have transformed the very objective of development into a strategy for development by seeking to concentrate massive external resources on meeting immediate mass needs may have been too readily and too uncritically accepted. In the end, only developing countries themselves will be able to meet the basic needs of their peoples: and I have met few national leaders of developing countries for whom the fulfillment of the essential needs of their people was not a principal preoccupation and objective. Yet they know, and perhaps we have learned, that basic needs will be met only if the indigenous human and institutional infrastructures are available. I can illustrate this in terms of UNDP, 45 per cent of whose expenditures are in "basic needs" sectors, but I am often asked why that percentage is not far higher. Yet is not the surveying of rural road networks vital to meeting rural basic needs- and doesn't someone have to provide for that? If the planning and the training of personnel for a national telecommunications system will, among other things, enable rapid and efficient diagnosis and treatment consultation by rural clinics with provincial or even capital city medical staff, is that not vital to meeting basic needs? If it is essential to generate non-farm sources of employment in rural areas, and to try to provide income for migrants to the cities, must not industrial development be a part of a genuine basic needs strategy? It is not a "new approach" in global or national development, but perhaps a new investment in dialogue and clarification that is needed, to try to ensure for the 1980s that comprehensive, balanced, mutually reinforcing development programming is not derailed by the desperate concern we all have over the misery of so many millions, so that they are enabled to become the agents of their own development. Perhaps as a consequence of

sectorally oriented global conferences held under the auspices of various elements of the United Nations system, governments agreed, in the late 1970s, upon a Restructuring of the Economic and Social sectors of the System in which--in effect--they decided that the burgeoning untidiness at the global level should be gathered together at the country level. In a significant General Assembly resolution they asked the Secretary-General to designate a Resident Coordinator of all UN System operational activities in each developing country; and they further resolved that the UNDP Resident Representative should normally be assigned that sensitive task. It is obvious that any agency requested to help the governments of developing countries to achieve more cohesive, balanced development programs and projects must itself be able to deploy strong and steady financial resources--otherwise that agency will lack credibility for such inherently difficult tasks. If there is, then, an irony in the concurrent relative erosion of UNDP resources while its Resident Representatives are newly charged with these coordination responsibilities, there is at least some refreshing evidence that the problem is beginning to be understood. At the General Assembly a few weeks ago, France's Minister for Cooperation and Development, Jean-Pierre Cot, informed the Second Committee that one reason why France would increase its contribution to UNDP was, and I quote him, that "we know that coordination and effectiveness for our bilateral programs needs the presence of a strong and cohesive multilateral interlocutor." France's perception is sorely needed and very welcome, if we are to advance in that very holistic, coordinated approach to development that was one of the positive themes from the sector conferences of the 1970s. I find myself not so much proposing a "new approach" as urging the intensive application by all of us of an already identified and highly strategic approach to development, based on years and years of poor to positively damaging experience of narrowly planned sectoral designs. The volume of financial resources made available in GDA at the best of times could never permit the luxury of waste through lack of sound, coordinated planning and programming. But while I do not accept that so slender a fraction of total public budgets as GDA should be a victim of austerity, if it is going to prove difficult to meet resource targets, the effort to make every single dollar count and to avoid duplication and inefficiency becomes even more crucial. And I could in fact pose here a question that might involve a new approach if not a new idea: the potentiation of every single form of resource we can find. If we can overcome the obvious hesitancy, and if we can devise the obviously necessary protective measures, the international development community might seek, always, of course, upon the request of and with the full approval of the developing country concerned, to obtain relevant and necessary non-commercial contributions in kind from within the giant complex of multinational corporations which is the repository of so much of the technology which developing countries urgently need. There is a very strong self-interest somewhere within that enormous collection of technical and managerial resources which perhaps we might exploit for the benefit of developing countries. Equally, as I proposed to the Special Session on Disarmament last summer, while we urgently await concrete work on a viable resource redeployment scheme between disarmament and development, could there not be a useful development application of the already well-proven assignment of non-combatant teams from military forces for help in disaster relief? There exist within the military establishments of industrialized countries very considerable concentrations of specialized skills which, always with the express request and detailed consent of a developing country, could be made available under United Nations auspices following General Assembly approval. Indeed why not have a multinational United Nations Food Corps, Health Corps, Engineering and Survey Corps, Education or Energy Development Corps--receiving and directing voluntarily contributed non-combatant specialists, serving in their individual capacities from national military forces? Modest though the transfer might be, could it not be a start towards the ultimate resource redeployment for which Madame Thorsson and her expert group have so brilliantly laid the foundations in their report this year? In concluding, I repeat: in the development community, we must unendingly keep ourselves open to new insights and new analyses that might contain new ways of faster progress towards our goals. But it is my own current conviction that what we need now is a massive concentration of our energies and our persuasive capacities towards securing from governments and peoples alike that which is attainable, that which has been clearly prescribed, and that which will lift us out of the insidious, destructive stagnation of this moment in our planet's history. *Structurally*, at the global level, I would suggest that we are possessed of two enormous mandates: the Declaration and Programme of Action for a New International Economic Order and the recently published study of the relation between

disarmament and development. Each embodies years of analysis. Neither of these prescriptions has even begun to be acted upon. Yet between them, in this global structural dimension, lies the future of our planet, and of a more dynamic, equitable and stable world economy. *Programmatically*, we possess from the 1970s a set of World Plans of Action in virtually every field of the human adventure, such as our forebears would never have dared to dream of, in their universal derivation and scope, in their interconnections between the needs of the planet as a whole and the just needs of all nations and their peoples. To scan the many paragraphs of any one of these Plans of Action is to become impressed by how much has been collectively tabled, in well refined action terms-and to become depressed by how little, as of 1982, we have even begun to do. *Intellectually*, all of us engaged in development planning need to find ingenious ways to "go back to school," as it were, in order to digest the implications in strategy and design of all our worksheets for the world. Development planning is said by some to have had its day. If that refers to rigid, prefixed planning, unable to roll with new factors, I would agree. But in my view the world's development planners-as finely retuned and refreshed as we can help them to be-are needed now as never before, if we are to make sensitive, holistic use of the findings of the 70s. In terms of *resources for development*, we must not make the appeal of charity, but rather sustain the argument, rooted in deeply engaged mutual self-interest and interdependence, that to subject so small a sum as ODA to public expenditure reductions can only delay recovery. We must bend every effort to potentiate other possible resources, in kind as well as cash. And if capital development is to be cost-effective for lender and borrower alike, there must be a better balancing between technical cooperation and capital flows. Development flourishes from its human resource base, or it is not development. The development history of our host country, Japan, is vivid testimony to that basic truth. Finally, there cannot be despair, for it is a luxury to which none of us are entitled. Our problem now is neither lack of resources-not even amid recession-nor lack of knowledge, but lack of political determination. If a new approach is needed, it is to mobilize the will to do that which we know how to do. We are no longer amateurs, fearfully putting one foot forward in a haze of uncertainties towards humanity's best horizon. We need above all to consolidate our learning; to translate into strong-willed implementation all of the synthesized experience and plans of action; and to mobilize our peoples for this greatest human adventure of all, towards a planetary society.

PART II

PRIORITY ISSUES

CHAPTER 5

Introduction

Saburo Okita

I would like to start by reading a brief message from Prime Minister Suzuki and then to give a few of my own views on the state of the world economy.

Prime Minister Suzuki has asked me to convey the following message to you at this North South Roundtable: Please accept my sincere apologies that I am ^{no}table to be with you as originally planned. I have been seriously concerned with the NorthSouth problem for many years, and I had been looking forward to meeting with you and making a speech on this. Thus I am particularly sorry that things have not worked out. However, I have already announced my intention to resign as Prime Minister and no successor has yet been appointed. Under the circumstances, I hope you will understand why I have had to cancel my appearance. Nevertheless my thoughts are with you and I very much hope you will have a successful North South Roundtable meeting with lively discussion of the issues involved. Soon after being elected Prime Minister the year before last, Prime Minister Suzuki selected Southeast Asia as the first region to visit as Prime Minister. He was also an active participant at the

Cancun North-South Summit and has stressed the importance of the North-South problem at various forums, including the Ottawa and Versailles summit meetings of the seven major industrial countries and the Second Special Session of the United Nations on Disarmament. In a speech which he gave in Bangkok during his tour of Southeast Asia two years ago, Prime Minister Suzuki stated the priorities for Japanese economic assistance as (1) agricultural and rural development, (2) energy development, (3) human resources development, and (4) the promotion of small businesses. At the Cancun North-South Summit, he spoke of the spirit of interdependence and solidarity, constructive dialogue between North and South, the role of ODA (official development assistance), the importance of trade, and the developing nations' own ambitions as the driving forces for nationbuilding. The late Prime Minister Masayoshi Ohira has also emphasized the development of human resources. In a speech to UNCTAD-V in Manila in May 1979, he said: In its modernization, Japan, poorly endowed with natural resources, was guided by this conviction (that human resources are the very foundation of nation-building), placing great emphasis on education. Now is the time to embark on a worldwide development of human resources. The virtually limitless talent of the young people of the world can be tapped through international cooperation. Such efforts throughout the rest of this century will surely be of historic significance. Even earlier, in August 1978, during a tour of Southeast Asian countries, former Prime Minister Takeo Fukuda gave a speech in Manila embodying principles which later came to be referred to as the Fukuda Doctrine: First, Japan, a nation committed to peace, rejects the role of a military power, and on that basis is resolved to contribute to the peace and prosperity of Southeast Asia, and of the world community. Second, Japan, as a true friend of the countries of Southeast Asia, will do its best for consolidating the relationship of mutual confidence and trust based on "heart-to-heart" understanding with these countries, in wide-ranging fields covering not only political and economic areas but also social and cultural areas. Third, Japan will be an equal partner of ASEAN and its member countries, and cooperate positively with them in their own efforts to strengthen their solidarity and resilience, together with other nations of the like mind outside the region, while aiming at fostering a relationship based on mutual understanding with the nations of Indochina, and will thus contribute to the building of peace and prosperity throughout Southeast Asia. It was also during former Prime Minister Fukuda's term of office that Japan pledged at least to double its ODA in the three years to 1980. This target has been over-fulfilled. Prime Minister Suzuki has followed up on this by pledging that Japan's five-year total ODA through 1985 will be double the total for the preceding five years. Despite its serious fiscal plight, the government of Japan is making every possible effort for the attainment of this goal. Yet looking out over the world economy, the overall tone is one of *severe* recession. Recession has caused commodity prices to plunge and has seriously undermined the developing countries' external balances of payments. This trade deterioration has combined with high interest rates to create grave financial difficulties for some developing nations. Recession has also been a major cause of unemployment in the industrialized nations, which has in turn strengthened protectionist pressures to curb imports. This has then created export difficulties for nations seeking to export manufactured goods. In Japan's own case, exports were relatively strong until last summer. However, they have since stagnated and are now running about ten per cent below last year's levels. Japanese exports should have expanded to reflect the yen's depreciation on exchange markets. Instead, they have contracted. I believe this contraction has been caused by a decline in purchasing power on world markets; Prolongation of the current global recession will lead to increased economic difficulties for the developing countries and the industrialized countries alike. If we are to avoid such a recessionary spiral, it may well be necessary to convene what might be called a "Second Bretton Woods Conference" to confer on basic policies for the revitalization of the world economy. Some people may predict that the recent decline in US interest rates and the calming of inflation in the industrialized countries will lead to an economic upturn, but I believe we need conscious efforts to expand economic activity through cooperation among countries. The recession in the industrialized countries has had a very adverse impact upon the economies of the developing countries. If the industrialized countries are destined to slower economic growth over the long run, the developing countries will have to generate the driving *force* for economic development themselves and work all the harder to lessen the impact of economic fluctuation in the industrialized countries. The nations of the South have an almost endless list of areas requiring development, including expanding foodstuff production,

developing energy resources, building improved infrastructures for transport and communications, and halting the erosion of tropical forests. Promoting these ends will require both capital and technology. In the nations of the North, labor and production facilities are operating at far less than capacity, and there has been a noticeable falloff of effective demand. Yet both the developing countries and the industrialized countries need to raise their domestic rates of savings and to direct the capital to productive investment. Moreover, I feel it is imperative for the balanced development of the world economy that as much of this investment as possible be directed to expanding production and income in the developing countries. Looking just at the food problem, for example, a number of developing countries have recently had remarkable success in expanding foodstuff production. Yet their increases in population and income will soon generate increased grain demand. Thus even those countries which appear to be self-sufficient in foodstuffs for the time being face the possibility of major shortfalls in the future. These shortages cannot be fully met from outside. Even if the developed countries are able to expand their food production, the food-needy countries lack the necessary foreign reserves to import this food. Although expanded food assistance is needed, the real need is for the developing countries themselves to strengthen their capabilities in foodstuff production.

When the developing countries seek to procure the capital necessary for development, there is a gap between the terms demanded by the lending countries and the terms acceptable to the borrowing countries. Consequently, the flow of capital is not always smooth, and we need to expand the availability of concessional capital. Moreover, this concessional capital should be linked with commercial financing to soften the overall terms of lending to the developing countries while increasing the total available capital. For the industrialized nations with their vast pools of labor and idle production facilities, it will also be to their economic advantage to put this labor and machinery to work for the developing countries. In the interests of both North and South, I believe we need concrete measures for appropriate financing mechanisms.

I am most gratified that this North South Roundtable is being held in Japan, and I hope that we will be able in our three days of discussions to find a way out of the world economy's present impasse and to formulate policies so that both the developing countries and the industrialized countries can look forward to a brighter future together.

CHAPTER 6 ***Global Negotiations***

Jean Ripen

Having been immersed in the debate of the UN General Assembly in New York over the past few weeks, I can testify to the primordial place that the acute world economic problems, in particular their *North-South* dimension, occupy in international political debates today, and the extent to which, in those deliberations, economic wellbeing and development are linked with peace and international security. The reality of such a link is underlined in the Charter of the United Nations itself, and it is apt to remember that the Charter was written by men who had undergone the dramatic experiences in the thirties and the early forties. The new Secretary-General of the United Nations himself never misses an opportunity to draw attention to the fact that in the world today the increasing political tensions and the economic crisis are feeding on each other and to the likely dangers in the continuance of current trends. I would like to commence my remarks by discussing what can be considered a modality rather than an issue as such. I am referring to the launching of Global Negotiations in the United Nations. In the debates of the present session of the General Assembly, a very large number of governments, across the political and economic spectrum, have reiterated the high degree of political importance they attach to the commencement of these negotiations. But the long delay in launching the negotiations has given rise not only to disappointment but also to skepticism about the whole idea. It was even argued by some that it might be more advisable to concentrate on action in specialized bodies like GATT, UNCTAD or IMF. The revival of interest in these negotiations may therefore come as somewhat of a surprise, but I believe that the persistent interest in starting the Global Negotiations is a testimony to the validity and meaningfulness of the concept. In addition, significant progress can be said to have been made in recent months in the formulation of an enabling resolution which would take account of the different positions on key issues like the role of specialized bodies. The main obstacle at the moment, in fact, would seem to be a more general one,

namely, how to inspire confidence in each of the parties concerned regarding the constructiveness of the intentions of the others. The central objective of the negotiations, namely, to create economic conditions more supportive of the efforts of developing countries in the context of a steady and more balanced world economic development, is today as valid as it was in 1979. This is true even if one takes into account the fact that many changes have taken place since 1979, when, in the proposal of the non-aligned countries, there was the implicit notion of reciprocal concessions on energy on the one hand, and money and finance on the other. To be sure, the world energy situation has changed in the short-term perspective; but this in no way diminishes the importance of the longer-term problem, that is, how to ensure a smooth transition from inexpensive and mainly oil-based energy to more expensive and more diversified sources of energy. Similarly, the world monetary system has, if anything, shown even more signs of basic deficiencies: exchange rate fluctuations, asymmetry in the adjustment process, haphazard creation of liquidity, and the management of the system are areas where action is needed more than ever before. There are two other arguments that reinforce this line of thinking. Firstly, with increasing interdependence of nations has come the increasing need of a more coherent and integrated approach to issues at the international level. No doubt, action *per se* cannot be global but relates to specific sectors. No doubt, progress has been made and should be made wherever possible in the relevant specialized fora. But there has to be some place, some framework in which the interrelationship between problems is dealt with in a consistent manner so that decisions are made taking into account all aspects of problems. Let me just give one example. There is presently justified concern regarding the servicing of the debts of developing countries. But these debts will be serviced smoothly only if on the one hand the developing countries can earn higher and more stable export revenues, and on the other, if the monetary system functions more symmetrically and with greater predictability. These issues are in turn closely connected to the growth of investments, growth of trade, and generally the harmonization of economic policies. Secondly, the conciliation of different and often conflicting interests on different aspects of problems can only be attained if discussions and negotiations are organized in such a way as to facilitate the involvement of governments at a sufficiently high political level, if not at the highest levels; for it is at such a level only that areas of meaningful political compromise can be identified, on issues which have both domestic and international dimensions, and necessary decisions taken. From this angle, the events leading up to the Global Negotiations and I have in mind here Ottawa, Cancun and Versailles, among others-give some reasons to believe that the process of Global Negotiations could help ensure that these problems are tackled not only with the necessary technical expertise but also from a political perspective. There is no doubt that such a process will be a complex and long drawn out one. It is for this reason I want to raise here a couple of points regarding the organization and conduct of the negotiations. The most important one is the need to attain the correct perspective on the negotiations. Originally the concept of these negotiations was based on the notion of the exercise of political pressure to gain concessions. While this element will always have a part to play, I feel it is equally important to use the opportunity given by such a process for all participants to search for common answers to shared problems. In other words, it will be as important to convince as to pressure. The representatives of the Third World are right when they stress the fact that, in many areas, they are only pressing for the implementation of commitments agreed to in the past, and that what is needed is not further analysis but the exercise of political will. My suggestion is, however, that political will needs to be sustained by conviction, that on some important issues in a changing world there are today no ready-made answers, and that politically valid answers need to be based on new analyses and discussions in order to ensure "conviction."

My second point relates to the condition of a more efficient process of discussion at the global level. I am referring to questions such as the active involvement of ministers at critical junctures, the necessity of informal and small contact or negotiating groups without prejudicing the universality of the content, and of more concerted action by international secretariats. I will not extend this thought further, but I would highly commend to you a report recently prepared under the auspices of the Commonwealth Secretariat.' It contains a number of practical and sensible recommendations on the subject and I hope it will not only receive wide circulation but will be discussed in the United Nations. Whatever priority the international community attaches to the *launching* of the Global Negotiations, time will be needed before concrete results can be expected from such a process. However, the problems that currently call for solutions will not wait. The world economic situation in recent years

has deteriorated markedly, hitting *The North-South Dialogue: Making it Work*, Commonwealth Secretariat, London, 1982. the oil importing developing countries with a particular and unprecedented ferocity. One can look at a whole range of indicators. GDP growth, per capita incomes, balance of payments deficits, aid flows, debt problems, and commodity prices. The oil importing developing countries bear the larger part of the burden of adjustment, although, more recently, even the oil exporting countries have not been immune to the current difficulties. In the case of a number of developing countries-particularly, but not exclusively, the low-income countries-unless urgent action is taken, their effort for development will have suffered a major blow. In the present context of depressed trade, such action will have to focus, in the short term, on financial measures designed to increase import capacity so that the financing of development does not suffer a further setback. It will have to be based on enlargement of balance of payments facilities, debt relief for low income countries, finance for food and energy, and measures to compensate the disastrous impact of the fall of commodity price I will not go into the specifics of such possible measures. Neither will I dwell on the need for the governments of developing countries to pursue rigorous adjustment policies and to create the domestic conditions for a self-sustained development, nor on the need for them to give impetus to the process of South-South cooperation. I am happy to note, however, in reference to the latter, that we have heard good news from Manila recently of the decision to undertake negotiations on a Global System of Trade Preferences among Developing Countries. My next point will be to underline the need to consider as an integral part of the North-South agenda the domestic policies followed by the industrialized countries. Here I am not referring only to issues like the hidden aspects of protectionism-to the so-called nontariff barriers to trade. I am referring to the call made last summer by the Secretary-General of the United Nations, who added his voice to those calling for a decisive change in the policies of the advanced countries towards reactivating their economies in a concerted manner. Whatever should be expected, in terms of transfer of resources from the North to the South to facilitate the adjustment efforts of the developing countries, and we have no reason here to be optimistic, much depends on the capacity of the industrialized countries to solve their current economic difficulties. If allowed to persist, the current stagnation of economic activity-low investment, low growth, and high unemployment-will threaten the very principles and institutions, namely, the open and multilateral trading system and the world financial system, on which the prosperity of the Western countries is based since the last world war. The danger of a cumulative recessionary process cannot be ignored any longer. A reactivation of the world economy should not by any means imply giving up the fight against inflation. The fight against inflation and inflationary expectations must go on, and there are clear cases, for instance, where the need still exists to curb budgetary deficits. However, concern has to be expressed when this fight against inflation is fought principally with means which depress economic activity, slow down investments and increase unemployment. Such actions are no doubt appropriate when inflation is due to an excess in demand; but there are clear signs that excess demand has little or no part to play in the current inflation. The fight against inflation has to be much more broadly balanced between monetary and fiscal instruments; it has also to incorporate direct action against structural rigidities and imbalances, as well as income policies. Concerted action is required at the international level if the world economy is to resume a path of sustained, non-inflationary growth quickly enough to avoid major economic and political disruptions similar to the ones of the 1930s. In today's interdependent world, no country, however large, can significantly step out of line with others and go it all alone. No single country, including the USA, can be expected to provide sufficient lead to the rest of the world, as was the case one or two decades ago. Greater concerted activity among the governments of the advanced countries is therefore needed. In their strategies they also need to account for the repercussions of their decisions on domestic matters in other countries. I think that there would be danger in waiting for the process of recovery to be engineered by spontaneous forces. Some are arguing with confidence that lower interest rates and lower inflation are precursors to a natural recovery process. I hope they are right in their analysis, but the whole brunt of my argument is that carefully thought out and concerted measures are now required on the part of the governments of the industrial countries if their own economies, and the world economy at large, are to revert to stable growth and accelerated development quickly enough to avoid possible major disruptions. I am aware that the way I have sketched current problems has important implications for the approach of North-South relations. Time was when the development aspiration, at the international level, was tantamount to giving the South an

equitable share of the increasing prosperity of the North. Aid was to be the main instrument. As time passed this was transformed into trade *and* aid. And the foundation of UNCTAD in 1964 was in this sense the watershed. The call for a New International Economic Order was another milestone to come in the seventies. The essence of it was that trade plus aid was not sufficient, and that the very structures and institutions in which trade and aid were carried out needed reform. New issues were also raised at the same time: the role of transnational corporations, the control of natural resources, problems related to energy, and economic cooperation among developing countries. The call for a new order was manifested in the dissatisfaction of the developing countries with the Bretton Woods institutions and with GATT. Ironically it seems now that the very countries, the advanced countries, whose interests these structures and institutions were supposed to serve, are from the perspectives of their own problems raising questions with respect to these structures and institutions. The agenda is not any more simply how to respond to the needs of developing countries, but how to restructure the international economic relations, and how to harmonize economic policies in order to ensure a healthy global system. I want to conclude by saying that the problems we confront are difficult, pressing, and complex. We do not have all the solutions, and even when we do, we are politically immobilized to implement them. We have many ideological disagreements; and our institutions are not fully equipped either. But my conviction is that we do not have to wait until we have the ideal solutions or until we have built the perfect institutions. The possibility for action is there. The institutions we have, in particular the United Nations, however imperfect, have withstood the test of time and have the merit that they are there as a result of international cooperation. They should be used, but at the same time we shall not hesitate to question candidly their functioning and structures. I want to share my belief that the North South Roundtable can help in all these tasks. By raising the intellectual calibre of international discussions this Roundtable can help the search for solutions; by wide discussion it can help raise the awareness of the need for action; by perseverance and determination it can help in fighting our worst adversaries: skepticism and resignation.

CHAPTER 7

The True Priority: Making the Dialogue Work

Shridath Ramphal

The priority issue, for me, is not just one of many particular items but the over-arching issue of making the North-South dialogue work. If this meeting of the North South Roundtable in Tokyo is to render a service to North and South alike, that service must lie, I suggest, in helping both to face up to this issue. Unless we resolve it, the global agenda will remain an illusion, and the issues that should be on it will remain beyond the reach of collective resolution. The world economy faces a crisis of contraction: contraction of financial flows, contraction of economic growth, contraction of international exchange. Its outward and visible symbols are deepening poverty, mounting unemployment, massive debts and payments deficits, collapsed commodity prices, a casino-like quality to currency markets, and a rising barricade of protectionism. Its human impact is the shattering of the assured prosperity of the rich, of the new found confidence of those on the turn of development, and even of hope of better times for the poor. Its political fallout could be an era of instability that alters the political geography of the world and unleashes tensions of apocalyptic dimensions. The situation may be worse than the prevailing perspective suggests. Confidence is a stock-in-trade of bankers. Governments must defend even failed policies and schools of economic thought. And, of course, those hardest hit have the smallest voices. Moreover, beyond what may pass for a quantitative change—a major increase in the economic burden—political leaders worldwide have sensed a qualitative change as well. It is a change I can best describe in terms of a wholly new dimension of powerlessness; an inability to stem the tide of hostile economic forces; an erosion of confidence in the conventional wisdoms and even the new orthodoxies that may have been their beacons; above all, a sense that every national effort is being vitiated, overwhelmed by external factors beyond national influence.

In most countries it has been a year of supreme effort, bordering often on major sacrifice. No one has been spared the charge of mismanagement, a charge easily made by those who do not have the responsibility to manage. But what lies behind such criticisms in rich and poor societies alike is the assumption that each national government by itself can stem the tide of recession; that the economic ills of societies and the economic pressures

that bear upon the quality of human life within them are in the remedial power of individual governments. National leaders know better than most that this is not so; certainly that it is not wholly so. Their need for political machismo, their compulsion to guarantee better times, leads them to imply otherwise. It is time to ease that compulsion, to free our societies of the myth that we are sovereign states with unbridled choices, masters of our own destiny, responsible only for the interests of our own societies, insulated from the fate of others-in short, answerable to no one, accountable to no one, responsive to no interests but our own. We need release from these myths. Our political and economic systems must provide conceptual space for the reality of an interdependent world economy. We talk, all of us, about the "world economy" and we accept its interdependent character even as we acknowledge its existence. Yet, we continue to act as if the "world economy" is merely the sum total of national economies, a statistic extrapolated from national economic reality. Yet, again, who knows better than today's political leaders that the world economy, while it absorbs all the resonances of national economic policy and action, in turn sets up its own vibrations which make their impact on national economies with ever increasing intensity. At a time which has seen interest rates at unprecedented levels; which has produced greater unemployment in the industrialized world than at any time in the living memory of anyone under fifty; which has produced a debt problem of such staggering proportions that it threatens countries whose creditworthiness has been beyond question; which has seen commodity prices fall in real terms to their lowest levels since the 1930s; which has produced foreign exchange deficits for the vast majority of developing countries so severe that they are depriving many an economy of even the capacity for survival: at a time such as this, can we pretend that the answers lie within national boundaries, that the solutions can be produced in national budgets? Yet, while the world has accepted at one level of perception the reality of a world economy, while governments themselves speak of commitments to world economic recovery, most continue to act as though that world economy is not in need of attention and management itself. Governments, international institutions, the banking community, transnational corporations, all know that it is; yet the skills of management so exalted at home remain withheld at the global level. The collective search for world economic recovery is derailed, and we rush towards the abyss of economic disaster, continuing the pretence that our fate is our own. It was not always so. When Keynes and White were working in the war-torn years of the early 40s, they had a vision of a postwar world in which the world economy would not be left to the vagaries of national policies. They were thinking, it is true, of the world they knew-a world of the industrialized West and East and of a South in a state of economic and, to a large extent, political dependency. Yet they had a vision of how the world economy could be managed creatively to enlarge its potential and to ensure that national instincts of selfishness and a pursuit of power would not replicate the cataclysms of the 30s. At Bretton Woods, their vision was not realized in full measure. The International Trade Organization with the International Council for Commodity Controls never came into being; the International Monetary Fund did not emerge as an International Central Bank. But the foundations were laid for the management of the world economy in the context of the postwar era. Those times have changed; that era has ended. Political factors have transformed them, and world economic factors have also been transformed. The basic need remains, however: the need for better management of the world economy. It must, of course, be management which takes account of the new realities, which shows concern for the poor as well as the rich-concern rooted in perceptions more enlightened than the notion that if the rich get richer, the poor will benefit also; it must be management which acknowledges that there may be no better times for any if there are no better times for all. But the strongest economies have tended to resist new thinking until now. They have relied on the assumption that their national economic strength and their power within international economic institutions will help them to beat the odds, will bring immunity from economic crisis, or at least will allow them to manage the crisis by and among themselves so as to minimize its impact on them. This need for management of the world economy-and, more particularly, for an urgent and coordinated program for world economic recovery-is not in the end the concern of economists alone. The economic crisis leads to political instabilities as its inevitable byproducts. It is no secret that political turbulence and destabilization will assuredly follow such collapse. Not only our economic life but also our political structures will be convulsed if we do not face up, as an international community, to the urgent need for moving towards global management of the world economy and of its *recovery*. The economic internationalism of the postwar period was built, it is true, on the collapse of the 1930s. Must we stand transfixed and helpless, waiting for a new collapse, a new depression, before we summon forth a new internationalism? We may not have a Keynes or White but there is creativity around us-in the space sciences, in the financial sophistication of which the Euro-currency markets are a symbol, in the technology of the micro-chip, even in the new insistence by the younger generation that we must not by our mismanagement pre-empt their right to inherit the world. It is no use our pretending that these are separate issues which need not distract us *from* the Global Round. They stand full square in the path of that dialogue denying progress. If we are to make the dialogue work, if we are truly to construct an agenda, even a priority agenda, we must recognize that nothing will contribute more to progress in North-South negotiations than global economic recovery. But since the converse is also true, namely, that an enlightened approach to North-South issues can facilitate such recovery and create the conditions for rapid development in both North and South, North-South issues now have an additional dimension. It is a new element to which we must respond with *intelligence*, to which we must adjust with realism and, above all, which we must utilize to its full potential in terms of making the dialogue *work*. That is why I attach immense importance to your panel discussion on "the North-South Negotiation Process," I offer to it the work just completed and to be released in only a few days' time of a Commonwealth Group of Experts of great *distinction* and practical experience in North-South *negotiations*, chaired by Ambassador Akporode Clark of Nigeria. Over the past year, at the request of Commonwealth Governments in Melbourne, they have been *examining* obstacles to progress in the North-South *negotiations* that have derived *from the negotiating* process itself. I do not intend to outline their conclusions and recommendations to you. Suffice it for me to say that in their report--"North-South Dialogue; Making it work"--they have spoken with frankness, and therefore with courage, to both the South and the North, calling attention to their mutual inadequacies and their mutual responsibilities, and alerting them both to the need to get out of the rut of form, style and attitude in which the dialogue is stuck, to be ready to face the challenge of the last years of the century, which may be the challenge of survival itself, with a readiness for fundamental change in the nature of the process of dialogue itself. I urge the Roundtable to bring this issue to the fore, to lead the way along

CHAPTER 8 Disarmament: A Priority for All

Inga Thorsson

In 1976 the UN Committee for Development Planning, in its report to the ECOSOC, stated that "World military expenditures constitute the most massive single obstacle to development support." Positively expressed this statement could be worded: In the military sector we have the greatest potential reserve for support to economic and social development. So let us stop tinkering with realities and recognize the firm link that exists between the arms race and underdevelopment, between disarmament and development. To disregard this link is not to face realities. In spite of decades of effort, and in spite of what sheer common sense could tell world leaders, the arms race goes on, at an accelerating speed, in conventional weapons and in nuclear weapons. In the recently published 1982 issue of *World Military and Social Expenditures*, Ruth Leger points out that "the world's stock-pile of nuclear weapons is equivalent to 16,000 million tons of TNT. In World War II, 3 million tons of munitions were expended, and 40-50 million people died." And again: "The efficiency of a US car (fuel use to weight) has doubled since World War II; the efficiency of a nuclear weapon (destructive yield to weight) has increased 150 times." I find it necessary to open my remarks with these quotations. We are, after all, here as the guests of the people of Japan, the only people in the world who have suffered through nuclear warfare. The inscription of the Peace Memorial in Hiroshima reads: "let all the souls here rest in peace, for we shall not repeat the evil." On August 6, 1945 the bomb that fell on Hiroshima was one simple, crude, primitive bomb which killed 20,000 people. The nuclear warheads of today are over 100 times more powerful and there are 50-60,000 of them in the arsenals. It is one of the few hopeful signs of our age that concerned citizens in open democratic societies take action against the ominous present trends in the arms race. These trends must be stopped and reversed. Can it be done? There does not seem to be reason to believe that governments are capable of thinking rationally. If they could, we should have achieved nuclear disarmament long ago. But the hopes of many of us who have participated over the years in disarmament efforts are embedded in the determined will of concerned citizens to stop the disastrous course that events have taken--the course that might well end in a nuclear holocaust. Let me quote a wise statement from the past to support this thesis. In 1959 President Eisenhower said the following: I like to believe that people in the long-run are going to do more to promote peace than are governments. I think that people want peace so much that one of these days governments had better get out of their way and let them have it. Another American of a quite different kind--a woman actress and opera singer turned politician, a worker for every decent cause including disarmament, and a supporter of the UN--Helen Gahagan Douglas, who died over two years ago, wrote in her book, *A Full Life*: I don't think the UN is an empty symbol. It is man's best hope for world disarmament. It needs only the sustaining faith and support of peoples. The last words that she wrote before she died are: "There is still time for sane people to set things right. But time is running out." Yes, there is still time. But we are fast losing this dear time. The outcome of the United Nations Second Special Session on Disarmament (UNGA SSGD II) makes this quite clear. Following the five tormenting weeks in New York last summer (1982), it was obvious that all good forces, including governments genuinely committed to disarmament, will have to redouble their efforts, with the aim of achieving a decisive breakthrough in disarmament talks in the fairly immediate future. Let us admit that difficulties, obstacles, and even adversaries to disarmament exist, making results fearfully hard to achieve. But try we must if we are to survive as a human race. The weeks in New York were weeks of agony and anguish. What is the final judgment on them? There is indeed very much to be said against the SSGD II. But I feel it is of utmost importance to emphasize that most of what happened and did not happen could have been foreseen. Let us remember that the SSGD I, four years ago, needed six weeks of work, under severe strain and almost to the point of collapse, to achieve the ultimate adoption of a Final Document that has, with full justification, been called of historic importance. This happened at a time when international relations in general, and relations between the two superpowers in particular, were infinitely better than now. The SSGD II was faced with the task of dealing successfully, in five weeks time, with two main issues, issues of such magnitude and containing such controversial elements, debated and negotiated over years, that an unbelievable amount of trust, confidence, and goodwill would

have been required to cope with them. We all know that under prevailing circumstances this was simply not possible. The task before the SSOD II was tantamount to a request by the United Nations that the two superpowers change their basic strategic concepts overnight. Thus, the necessary prerequisites to go beyond the 1978 Final Document simply did not exist. But, in my judgment, some things were achieved at the SSOD II. First, the session did adopt, by consensus, a concluding document, containing as its final part ten paragraphs of political conclusions. Secondly, it adopted guidelines for the World Disarmament Campaign, which was solemnly launched at the opening meeting of the session. Thirdly, it acted as a catalyst for one of the most impressive manifestations of free popular movements ever witnessed, not only in New York but wherever free opinion can be expressed. Let me say a few more words on some of these achievements. The concluding document is not a bad document. On the contrary, it is, under the circumstances, a very good one. It states the history of the past four years in clear political terms. It contains, furthermore, a number of political statements adopted by consensus on issues which up to the very last moment were heavily contended by the major military powers. Even more important, considering indications that some of these powers were wavering in their dedication to the 1978 Final Document, is the unequivocal and unanimous reaffirmation by all Member States of the validity of that document, as well as their pledge to respect the priorities in disarmament negotiations established in its Programme of Action. One thing, however, became abundantly clear during the five weeks of SSOD II, which indeed is not a new revelation: that beyond doubt, the main reason behind our failures so far in multilateral disarmament negotiations is the attitude of the superpowers towards these negotiations—the powers which have, through their policies of negligence and obstruction, blocked progress for years; the powers which prefer bilateral talks behind closed doors, denying the multilateral bodies the right and the possibility to negotiate the highest priority items on their agenda; the powers which disregard politically and morally, although not legally, binding United Nations resolutions, on which they themselves have voted in favor; the powers which through their behavior display their arrogance towards the world around them. What has happened—and not happened—so far in the field of disarmament negotiations in the nuclear age is to me an evidence of the lack of insight and imagination of these powers. As a small piece of evidence, I shall quote one sentence from the letter which President Reagan sent to General Rowny, Chairman of the US delegation to the START talks which opened on June 29 at Geneva: "As the two leading nuclear powers in the world, the US and the USSR are trustees for humanity." I want to suggest that, looking at the superpowers' performance so far in the accelerating nuclear arms race, the majority of the peoples of this earth entertain grave distrust in these self-appointed "trustees for humanity." We have the right to be equal partners, for two reasons:

1. The nuclear-weapons states have been unable to free themselves from a morally and politically insoluble dilemma.
2. All states, be they nuclear or non-nuclear, aligned, neutral or non-aligned, share the common fate of a possible nuclear holocaust. Relations between the two superpowers determine the conditions for international cooperation or confrontation. As we all know, the present situation is characterized by confrontation resulting in an arms race beyond any known proportions, quantitatively and qualitatively. Quantitatively it is sheer megalomania, with military expenditures this year brought beyond \$600 billion. Two days of world military expenditure equals one year's budget of the United Nations and all its specialized agencies combined. Moreover, the current estimates indicate an increase in the military expenditures in the US from 6 per cent of GNP today to 10 per cent in 1986. The megalomania of present-day military arsenals is illuminated by the following facts. According to Pentagon estimates in 1980, 300 nuclear warheads reaching their targets in the Soviet Union would kill 96 million people and destroy 59 per cent of Soviet industrial capacity. The United States is estimated to have around 25-30,000 such warheads. One per cent of this arsenal would be sufficient to deal a very effective blow to the supposed superpower adversary. But still more important is the qualitative arms race, based on military research and development. Military research and development exploits at present around 500,000 persons—20 per cent of the world's scientists and engineers—using 25 per cent of the world's total R and D resources. I think that it is illustrative to compare the 25 percent figure with a 23 per cent figure, which is the share of the world's total R and D resources devoted to agriculture, health, energy and pollution control *combined*. On average, a military product is supposed to require 20 times as much R and D effort as a civilian product. It might be useful to keep in mind that in the US, military R and D consumes 35 per cent of a total R and D budget which takes a decreasing share of GNP. In Japan, on the other hand, military R and D consumes 4 per

cent of a total R and D budget which uses an increasing share of GNP. In West Germany the figure is 7 per cent and, again, the total R and D budget is an increasing share of GNP. Some conclusions can be drawn from these figures regarding the growing strength and vitality of the civilian economy in these countries. But the enormous stake in military R and D, which is reflected in the composition of the work force in typical military industries, is of course bound to produce results. In World War I a submarine could destroy a passing ship; now one submarine can destroy 160 cities at a distance of up to 4,200 miles. One of the many serious problems that has resulted from the tremendous advance in military R and D is its effect on strategies and doctrines. The efforts to improve the speed, the accuracy and thus the efficiency of weapons affect the doctrines on how to use them. Scientists and engineers force the strategist to rethink the way in which he would use, politically and/or militarily, the might of nuclear power. The now prevalent so-called flexible response doctrine is a striking example. What has happened over the decades of the nuclear era shows, in my view, the hollowness of impossible and unacceptable nuclear doctrines, of the concept of deterrence, of the possession of nuclear weapons itself. And this hollowness will ring with ever more deadly foreboding as the arms race between the United States and the Soviet Union continues, chasing parity at ridiculously high levels. There is no added security to be gained by anyone through absurdly pursuing, in quantity and quality, the present arms race. It will only add to the ever increasing risk that a nuclear holocaust will destroy not only human lives in hundreds of millions, but also the societal and biological structure of this our only earth, as Jonathan Shell has shown so convincingly in his book, *The Fate of the Earth*. This is the politically and morally insoluble dilemma faced by the nuclear weapons states; this is the nuclear predicament shared by us all.

Let me cite one more quotation, this time from a great American man of letters, the late Archibald McLeish. In an essay titled *Master or Man* he wrote:

Prior to Hiroshima, it had still been possible-increasingly difficult but still possible-to believe that science was by nature a human tool obedient to human wishes, and that the world science and its technology could create would therefore be a human world, reflecting human needs, our human purposes. After Hiroshima it was obvious that the loyalty of science was not to humanity but to truth-its own truth_ and that the law of science was not the law of the good-what humanity thinks of as good, meaning moral, decent, humane-but the law of the possible. What it is *possible* for science to know, science must know. What it is *possible* for technology to do technology will have done. If it is possible to split the atom, then the atom must be split. Regardless of . . . anything. The quotation leads me to some *thoughts* of a more specific character on disarmament negotiations. In an editorial in the *Bulletin of Atomic Scientists* in May 1980, its chief editor Professor Bernard Feld, discussed the idea of a moratorium on weapons development pending the conclusion of disarmament treaties. He dealt with what he called the main problem, namely, that the two superpowers negotiate arms control while at the same time engaging in a vigorous race for increase and qualitative improvement of the very weapons

which those negotiations are supposed to control. The pace of negotiations is generally overtaken by weapons development, and under the circumstances arms control seems unable to *check* the arms race. Efforts at arms limitations seem to have been successful only when competition in arms under consideration has been frozen during the critical negotiating period. Evidently, prior agreement on a moratorium during the negotiating process on further development and deployment of the weapons or weapon systems under consideration is a prerequisite for success in efforts to eliminate any weapons system. There is an abundance of examples to prove this point. Many will remember the so-called bargaining chips that were introduced during various phases of the early SALT process: the MIRV5, the cruise missiles. Negotiations were dragging behind, momentum was kept in technological development, and mankind was blessed with MIRV5 and cruise missiles. And the long drawn-out negotiation on a CTBT is indeed a case in point. While we have talked for decades on a CTBT, underground test explosions have continued at a rate of about one test a week. And the qualitative improvement of nuclear weapon systems continues. Does disarmament have a chance? We are racing against time, and as someone has said: "The world may no longer be able to afford lost time." I believe that the possibility of ultimate success is dependent on two factors, both of which give a certain amount of hope for the future. One is the need for a

fundamental change in power structures - our world of today which could bring about a change in postures, particularly of the superpowers. And I believe that there are already indications that this might happen. We have, I think, seen the beginning of a decline in superpower influence, which has so markedly dominated world events in past decades. One reason for this assumption, which I hope is not overly optimistic, is the fact that technologically and economically we have witnessed a relative rise in power and influence of countries like Japan and members of the European community which makes it more difficult for the superpowers to make use of their military and political power. Furthermore, both superpowers run the grave risk of letting their economies go to pieces as *they* continue a ruinous arms race in times of serious economic difficulty. In a recent interview the managing director of a prestigious investment firm in New York underlined the extent to which the gigantic military budget is placing the United States at a disadvantage in its effort to compete with the other industrial democracies, notably Japan and West Germany. Thus, he forecasted, in twenty years we will have impoverished ourselves "as the Japanese and the Germans emerge as the new superpowers." It is widely acknowledged that the true foundation of national security is a strong and healthy economy. It is difficult to escape the conclusion that the arms race is one of the major factors behind the prevailing economic crisis spreading all over the world. A UN Governmental Expert Group, of which I was the chairman, submitted to the General Assembly a fairly voluminous report on the relationship between disarmament and development. Our analyses show convincingly the devastating effects on the economy of the way in which societies devote human and material resources to the arms race. Based on extensive research, we drew a number of conclusions which can be summarized in just two points:

1. The world can either continue to pursue the arms race with characteristic vigor or move consciously towards a more sustainable international economic and political order. It cannot do both.

2. Irrespective of economic and social systems, irrespective of levels of economic development, there is a mutual and enlightened selfinterest among all countries in effective disarmament. Or, in the words of a strategic thinker of repute, the economy could become a factor for disarmament. The other reason for hope is the rising public awareness of the tremendous risks that this and coming generations run if we allow the political leaders of the world to continue their present course. Much has been said and will be said about the imperative need for a change of wills and minds, first and foremost, of the leading military powers. We have waited for that change to happen for a long time, and our patience has run out. But quite a number of us have recently gained new hope, not because of any signs of such a change, but because of the appearance of this new and significant political force. For a growing number of people the issue has changed from one of deterrence or military balance into an issue of survival. There is a rapidly increasing awareness of what a nuclear weapon actually is. For the first time since 1962, when Herman Kahn published his wellknown book, people are thinking about the unthinkable. One of the reasons for this is that the military and political leaders, by talking about "controlled nuclear counter-attacks" and "protracted conflict periods," have made the unthinkable thinkable; that is, by the logic of nuclear doctrines, nuclear weapons are becoming usable, and people understand that this trend will have to be stopped for the sake of survival. The forceful popular peace movements in West Europe and North America, which George Kennan recently called the most striking phenomena of the early 1980s, have already had an influence on events. One of the encouraging characteristics of these peace movements is their base of old and young, of conservatives and radicals of all kinds, of churches, of professionals such as doctors, teachers, scientists who had earlier helped to create nuclear bombs, and diplomats and politicians, who had earlier helped shape the doctrines for their use. These movements were very much present during the SSOD II, and their activities during these weeks were more impressive than anyone could have expected. None who participated, as I did, in the orderly, peaceful and friendly mass demonstration on June 12 of 800,000 people for disarmament and peace, will ever forget what *role* individual concerned citizens are able to play and will continue to play in the struggle for fairness, decency and peaceful relations among nations. What has, by some, been called the dismal failure of the SSOD II must never be allowed to overshadow the compelling need for all people of goodwill to form an international disarmament constituency, to join forces for the achievement of a safe and peaceful world and the betterment of human conditions everywhere. One of the prerequisites in the search for new approaches to global development is such an international

disarmament constituency, because the arms race and underdevelopment are not two problems; they are one. Therefore the process of disarmament and the process of development are inextricably linked together. It is the duty of the UN Member States and the peoples of the global community to design these processes deliberately, fostering world detente and world development for the benefit of the thousands of millions of human beings inhabiting our one earth.

CHAPTER 9 Let's Build on Success

Robert Hormats

Today the world faces perhaps the most serious threat to the cohesion and well-being of the world economy in the post-World War II period. The problems, I think, are multifaceted: some are North-South, others are problems within individual countries of the North and South, and some are between countries of the North and between countries of the South. In addressing these problems in a global perspective we must avoid looking at only one facet of them. That they are not only North-South problems can be illustrated in the trade area, as for instance in agriculture, where there are many common interests among, say, the United States, Canada, Australia and a number of countries of the developing world, cutting across North-South differences. If we are to deal with such problems, we will have to develop coalitions of interests to deal with a particular set of substantive problems at a given conference or other forum. Now let me say a word about what I believe has gone wrong in the North-South dialogue, to the extent it has gone wrong. Let me echo a point that was made two days ago by Mr. Van Lennep, the point that there are a number of frustrations for those of us who participate in the dialogue. Those frustrations are generally of three kinds. One frustration is that the very technical differences over semantics, over whether this word or that word is used in a particular communique or a particular resolution, do not seem relevant to the real problems facing the world today. I am appalled at the enormous amount of time and effort spent by senior officials, debating whether one word or another should be used in a UN resolution. It is extremely hard to explain the difference to people in my country or to people in the developing world. People who are starving do not care whether this resolution has word 'A', 'H', or 'C'. Such debates distract us from the human dimensions of the problems we face. I think Mahbub ul Haq put it extremely well when he said that these problems must be put in human terms, and that the more we debate technical resolutions, the more distant the debate grows from those human issues. I agree that we have to explain to our people how these technical problems relate to human lives. The second frustration is that too often the debate tends to ignore those things that have been done well. The world is far from perfect. We face very serious problems in the world economy. But that does not mean that the last ten years have seen no accomplishments. In the worst period of recession in the 1970s, there was movement in the area of trade—an opening up and improving of the international trading system. It did not go as far as it should have, in my judgment; there is much unfinished business. But some problems were resolved by those negotiations. That success demonstrates that, working together, we can make progress. In the 1979s the world substantially increased the resources provided to such an important institution as the World Bank. Now, I do not *think* the resources even now are adequate. I think there should be a large increase in IDA in particular in the next replenishment. But the Bank has nonetheless made important progress in strengthening its capability and in becoming the pre-eminent development institution of the world. Perhaps that is not enough progress, but it is progress nonetheless. Looking at the International Monetary Fund, although I see a need for a *very* substantial quota increase and for a back-up mechanism of some sort. I also see an increase in the flexibility of its programs over the last several years. More flexibility is desirable, especially in the tailoring of standbys to particular problems. But there is now a longer repayment period, and the IMF is providing programs for structural adjustment purposes. We have seen some progress. So, when those involved in the dialogue suggest that we have made no progress, they are not only wrong, but they discourage those who worked for progress. The third frustration comes from the constant demands for sweeping changes in the international economic system. Some changes may well be desirable, but some of the demands scare people by suggesting that what is called for is an enormous revision of the whole structure of the world economy. First of all, the chances that the major developed countries will agree to such a revision are nil. Second, such an approach tends to attribute all problems to the

world economy, and that means we do not focus enough on the individual problems that we have within developed and within developing countries. In many cases the root of the problem lies not in the international economic system, but in the fact that certain countries, including my own and other developed countries, have not pursued wise policies in certain areas. To shift the entire focus onto the international level, to the virtual exclusion of the domestic, is to deal only with one facet of the global economic problems. To avoid the narrow view, it would be useful to assess the purpose of our dialogue and to look at the various elements of the problem. Let me discuss the various problems as I see them, and suggest how the system might address them. There are several points I will touch on very briefly. First, I want to address the issue of foreign assistance. Foreign assistance plays and must continue to play a vital role in development strategies. This is true for two reasons. One is purely humanitarian. So many millions of people depend directly on foreign aid for their existence. The second reason is the interdependence of the world—the fact that developing countries are a very critical component of world economic recovery. Of course, much of the work of economic recovery must be accomplished by certain developed countries, in getting their economies running again. But at the same time, sustaining reasonable levels of foreign assistance is very important in the overall economic outlook. It is difficult to do that, in this atmosphere of recession, when governments are cutting back domestic budgets. It is awfully hard for members of our Congresses and Parliaments to argue for increased foreign assistance. Yet we must demonstrate to our people that there is a humanitarian interest at stake, as well as a genuine element of self-interest in ensuring the economic growth of developing countries. Another important point, made by Bradford Morse, is that, given the constraints on foreign assistance, an effort must be made to use it more effectively. The effective use of foreign assistance is in the immediate interest of the recipient countries. And demonstrable results strengthen our arguments for additional foreign assistance. I believe a major priority for the North South Roundtable should be to convince people of the importance of sustaining an increase in levels of assistance. The question of the international monetary system has been raised here, and I think appropriately, because there are major problems in the area of international finance today. These problems are clearly related to *high* levels of borrowing over the last decade to finance very large deficits. Countries have borrowed to the point that they now have balance of payments positions *which* cannot be sustained. One can say in retrospect that those countries should have come to the IMF earlier in the game and should have begun the self-correction efforts before the medicine became as painful as it is today. The medicine needed to cure these problems is going to be *very* painful, but having acknowledged that, we must ask, what is the medicine? We must avoid a cure that requires countries to curtail their economic growth dramatically or that puts them in a position of being virtually unable to borrow. That is in no one's interest. It is very harmful to a country's development prospects to undergo a wrenching reduction in borrowing capability. Also, an overnight adjustment will tend to reduce world trade, harming all. Developing countries are important markets, and developed countries must recognize that a smooth rather than an abrupt adjustment is desirable. The programs of the IMF and those developed by individual countries must ensure more viable overall payment positions, but this will take more time than adjustment programs have in the past, and it may require larger sums of transitional financing. The IMF, if it is to play a central role in the international adjustment, must have adequate resources to do the job. That means a substantial IMF quota increase, and it means back-up funds in case of an extraordinarily large drawing on the Fund. An increase will give the Fund additional credibility and will help countries which have to undergo *very* tough adjustments to do so in a gradual way. The Fund should look at the various standby programs that it negotiates and should tailor them better to the problems of individual countries. This does not mean there should be no conditionality, as our panel discussed yesterday. Conditionality is imperative in any sort of program. The question is, how do you tailor conditionality for different countries? In some cases conditions put on countries by the Fund are appropriate from an economic point of view, but not viable from a political point of view. In some cases, countries have simply been unable to meet the Fund targets. So a retailoring of targets may be desirable in certain cases. We cannot do away with conditionality, but perhaps we can review the Fund's more successful programs and develop ideas for changes based on that analysis. I think Richard O'Brien's paper (Part III) is interesting in the respect that it provides some idea of where the Fund's programs have worked reasonably well and where they have not. Let me turn now to the subject of the upcoming GATT meeting, which I see as one very interesting opportunity for improving the

international trading system over the next several years. It is perhaps the most immediate opportunity we have to deal globally with some of the problems that we face today. One problem, mentioned earlier by Gerald Helleiner, is that there has been a lack of adherence to the spirit of GATT. This is in some cases because the GATT rules do not exist on a particular issue, in other cases because the GATT rules are ambiguous and therefore can be ignored, and in others because the GATT procedures are so cumbersome that people do not want to use them. The greatest difficulty is that a number of *larger* countries have preferred for reasons of "practicality" to go around the GATT and make bilateral deals, and some countries have preferred to take unilateral actions, ignoring the GATT. This behavior by the larger countries reduces the credibility of the GATT for all. The chief purpose of the GATT is to introduce a greater degree of certainty in the international trading system. That is extremely important to the smaller countries. If countries are tempted to take arbitrary actions, the certainty is reduced, and that hinders investments and reduces trade opportunities for others. So improving the functioning of the GATT and updating the rules is going to be extremely important. The issue of strengthening the GATT, of course, brings up a multitude of smaller questions, the questions of the international adjustment process. All parties must realize that if a particular country is going to be willing to open its door to products in which other countries have a comparative advantage, that country has to be able to export products in which it has comparative advantage. One example of this, mentioned by Gerald Helleiner, is the services area. Developed countries are moving up the ladder technologically, into services and out of areas in which developing countries may have comparative advantage. If the developed countries find that they cannot export services, then they will be more and more reluctant to allow in goods in which other countries have a comparative advantage. It must be borne in mind that one cannot simply tell a country to open up its market, without also convincing it that it will be able to sell its products in other parts of the world. The reason we have a stalemate in trade now is because each country is trying to protect areas in which it is less competitive. Almost every one is becoming defensive in its trade policies. If we cannot make progress at the GATT Ministerial Meeting, at least setting up ambitious work programs for negotiation, then this defensiveness will *grow*, as countries become convinced that multilateral solutions are unattainable. They will look instead for unilateral or bilateral solutions, and that is a dangerous path for all of our countries.

Failure by the GATT meeting to point the trade system in the right direction would work to the disadvantage of the financial system, since a reduction in trading opportunities also reduces the capability of countries to earn the foreign exchange needed to pay their debts. The standstill that Gerry Helleiner discussed might be a good starting point, but we also must demonstrate that we can improve the trading system in all its aspects. I think the agenda that Gerry indicated is probably attainable at least in part, though not overnight, since the present climate is not advantageous. At least let us set the process in motion at the GATT Ministerial Meeting. The quibbling between developed and developing countries and among developed and among developing countries is a luxury we cannot afford. Let us use the weight of our opinion to convince the ministers to address the real problems and not again get into a debate over points of language, which will lead to nothing but frustration. Let me conclude by echoing a point that Jean Ripert made yesterday, that if we are going to find solutions, it will not be through pressure by one country or one group of countries on another. That cannot succeed. I think the theme we should come away from here with is that the solutions lie in convincing others that they will benefit by what one is asking them to do. We must work through persuasion rather than pressure. And that requires a real effort, not to find some word or phrase acceptable to all, but to find ways of understanding the other side's perspective and to frame solutions in ways which the other side can understand. This will also mean that we don't break problems down artificially into North versus South, but look at them in terms of genuine interests, which in many cases cut across North-South lines. Many people may want to say the issue here is a confrontation between North and South, but in many cases it just is not. So let us not set up artificial distinctions, but let us instead try to look at the problems and discover the real interests and the real solutions. I have been delighted to be at this meeting. I think it has been extremely useful, and I am grateful for the candor shown here. I will repeat Donald Mills' point made at the outset, that by speaking frankly, we take one step toward the changes that are needed. I think we gain strength from speaking candidly and from discovering that we share so many basic objectives. From here we must go out and share our convictions with others, appealing to their interests, and raising the vision of a larger global interest.

FUTURE OF BRETTON

WOODS INSTITUTIONS

CHAPTER 10

The Reform of the Bretton Woods Institutions-The Debate**Richard O'Brien**

SUMMARY

The panel opened with the presentation of *five* papers by panel speakers and the circulation of two others in the absence of their authors. The papers addressed the economic and financial dilemmas faced by developing countries and the failure of Bretton Woods institutions to resolve these dilemmas. The weaknesses of the IMF both in responding to the debt crisis and in creating liquidity for the poorest countries were expounded by all of the speakers, and common recommendations included calls for an IMF quota increase, a tailoring of conditionality, and the allocation of new SDRs. An increase in the proportion of paid-in capital for the World Bank was proposed, as was the elimination of US domination over the Bank. After presentation of the papers, these issues and others were debated at length by the panel participants. The following is a narration of the ideas that emerged in our debate.

ECONOMIC AND FINANCIAL BACKGROUND

The financial problems of the LDCs are induced by supply of as well as demand for funds. The recession has made bankers less willing to lend. They now are adopting highly selective criteria and are raising the cost of financing. In response, countries have to contract their balance of payments deficits, particularly by opening up their economies and promoting exports. The process of "opening up" increases capital inflows. This then strengthens the currency, further distorting the current account, and induces additional capital inflows till lenders call a halt. The experience of Latin American countries in recent years illustrates this basic policy dilemma. Furthermore, the high level of indebtedness makes countries even more dependent on new capital inflows required to refinance and service the debt, and this in itself This is the rapporteur's report on the panel discussion on "Future of Bretton Woods Institutions" which was chaired by Lal Jayawardena, with panelists Carlos Massed, Gerald Ifelleiner, and Mahbub ul Ilaq. This report was not reviewed by the chairman or panelists. Robert Triffin and Dragoslav Avramovic. makesankers more cautious in granting new loans.

There is, in addition to these supply-induced factors, a demand-induced one: As the terms of trade deteriorate, the current account deficit increases, leading to higher levels of debt. Finally the inflow of new capital slows as the total debt burden becomes excessive. The rising cost of funds, which occurs as uncertainty discourages lenders, further exacerbates the problem. distinction must be made between the poorest and other LDCs, and the need for more financial assistance to the poorest must be recognized. The latter do not use substantial amounts of commercial bank lending and thus have not attracted the large capital flows which the middle income countries have obtained. This, however, does not mean that there is no real problem for middle income countries, just because their private sector can do much of the borrowing. Borrowing, even by the private sector, effectively replaces domestic savings with foreign savings. The net result is a short-term incentive to consume and a disincentive to save. Of course, in the longer run the best way to use foreign savings actively is to increase the rate of return on projects and investments and to achieve a better allocation of resources. However, where borrowing patterns lead to a shift from savings to consumption, the longer-run objective may not be achieved. Overall the economic financial situation is one inducing lower growth (albeit with lower inflation), a slowdown in trade, higher tariffs and continued high unemployment-a very unsatisfactory cenario.Data on the recent flows of private bank financing to LDCs show a sharp increase in short-term financing, but this has been dominated by Mexican drawings (\$8.5 billion out of \$20.8 billion in 1981).

Furthermore some of the increase of such financing is probably due to the drawing down of existing credit lines arranged by countries back in 1978 when the economic outlook was better. Therefore, while there is an unsettling shift towards short-term financing (even excluding Mexico) much of this can be explained by the cyclical nature of bank financing and the natural trend to draw on credit commitments in time of liquidity shortage. Finally, there have been two important changes in the past 5 to 10 years with respect to the economic and financial background which any reforms should take into consideration: rapid increase in the use of money lent at commercial rates; and greater use of swap lines, extended by OECD central banks (via the BIS) in response to the immediate liquidity crisis. These changes are particularly important to remember in considering the reforms suggested by Professor Triffin (Chapter 13).

THE ROLE OF THE IMF Reforms needed in the IMF can be divided into three groups: (i) Sources of finance IMF resources should be enhanced through increased quotas and/or a new allocation of SDRs, rather than through borrowing in international capital markets or from major shareholders. Borrowing tends to raise the cost of IMF resources and therefore is not a "firstbest" solution. Further, it should be remembered that even the doubling of quotas would increase the amount of usable currencies available to the Fund by "only" \$30-40 billion, equivalent to one year's debt service burden of the Latin American countries. (ii) Conditionality Conditionality is an essential feature of IMF lending and its operations. However, there may be too much Conditionality in the numerous types of IMF lending. Borrowers' use of IMF monies is constricted because lending tends to be confined to specific situations, such as commodity price swings, rather than being related to countries' overall economic need. It was also suggested that, as more IMF programs have to be suspended, commercial bankers' recognition of an IMF program as a sufficient condition for new lending may diminish. Therefore the catalytic role of the Fund for commercial lending may be less effective in coming years. Further, for the poor countries the amount of low conditional finance has been decreasing in recent years, a counterproductive trend. With respect to the economic programs which the Fund arranges under conditional financing, a greater mutual responsibility for the program targets should be accepted by the IMF as well as by borrowers. Thus if a country misses the target due to exogenous factors (e.g. commodity price falls), this should be recognized as exogenous by the IMF, and the program should be able to continue under new assumptions and new economic conditions. At present the country itself has to bear the full responsibility if policy targets are missed due to outside forces. At the same time automatic refinancing should be available when targets are missed due to reasons deemed to be outside the country's own direct control. According to one calculation, some IMF facilities, such as the compensatory financing facility, provide only 1/3 of the finance needed to cover terms of trade problems. Meanwhile, overall terms of Fund facilities are hardening.

The required changes need not decrease the degree of conditionality but should make it more appropriate to individual cases. In practical terms the role of IMF programs is becoming more important, especially for countries which can least meet present conditional ties, as is shown by the sharp increase in African countries' borrowing from the Fund, despite the decrease in low conditional finance available to them.

The route often favored for providing low conditionality IMF money is an increase in SDRs. The inflationary impact of such increases has yet to be proven, and the role of SDRs should not be held up by these unsubstantiated inflationary fears. Furthermore the distribution of SDRs should be shifted more effectively towards the poorer countries. (iii) Relationship to other flows The IMF cannot be considered in isolation, but must be viewed in its relationship to the World Bank and to private bank lending. A merger of the World Bank and the IMF might become a long-term objective, although there may also be good reasons to keep the two institutions' roles separate. The IMF has a catalytic role in restoring private bank finance, although private banks probably must look for guidance, when needed, to their central banks and official regulators. It is the central banks which have a direct relationship with private banks; therefore the central banks are the institutions which, under the present banking structure, must encourage private banks to continue lending. The IMF should play a role in the rescheduling process, by assisting countries to reschedule their international debts with the help of a new facility (perhaps one like the oil facility that was set up to help pay their oil bills). Indeed, if the IMF should prove able to play a successful financing role, in a

countercyclical way, substantial reforms may not be necessary. Should the IMF do what it was established to do, then there will be less of a problem..

THE WORLD BANK

Certain defects in the constitution of the Bank, present at its inception, have been remedied by considerable innovations. In particular, the Bank has increased its financing of socially important projects (education, health, etc.), has allowed considerably greater local cost financing, and has increased its lending to nationalized industries. Nonetheless, in achieving these objectives a price was paid: first, there has been a reduction in the role of IDA, and, second, the amount of paid-in capital has decreased.

As a result, World Bank resources have become more expensive for developing country borrowers. The Bank increasingly has had to price itself more like private commercial institutions. The trend towards co financing is a similar development with similar drawbacks. The World Bank is, by its nature, involved in the political economy of all borrowing countries. Here its record is mixed: in some instances the Bank has been able to take a strong line against certain regimes, while in others its record deserves criticism.

There are a number of ways open for the development and improvement of the WorldBank:

1. Increase the paid-in capital of the Bank, in order to enable the Bank to offer subsidized loans. (The trend is currently the opposite.)
2. Set up an energy affiliate.
3. Establish a two-stage IDA VII, with a possible third window of finance.
4. Widen the resources available to the Bank, including use of the SDR link.
5. Play a more active role in debt rescheduling (possibly with the IMF).
6. Reform the composition of the Bank staff, to increase LDC participation in its running and decision-making process. (The staff composition has not kept up with the wider distribution of resources to LOC5.)
7. Provide more technical assistance to other institutions, for example UN agencies.
8. Convene a group of independent thinkers to review the future of the World Bank Group.
9. Consider seriously the appointment of a non-US president when the post next becomes vacant.

With 25 per cent of the Bank vote, the US has *a de facto* veto on Bank action. Many of the above suggestions address the problems created by this situation. The proposal for a two-stage IDA, for instance, was partly intended to enable non-US contributors to maintain the flow of funds to the poorer LDCs, independent of US decisions.

OVERALL CONCLUSIONS

There are two pressing reasons for reform of the Bretton Woods institutions:

1. The worsening global economic situation.
2. Changes which have already occurred in the Bretton Woods institutions. The poorer countries have been rapidly increasing their use of the IMF; changes in the World Bank have raised the cost of World Bank support; and the Bretton Woods institutions, particularly the IMF, are playing an increasingly catalytic role with respect to other flows, e.g. private bank lending. If the institutions do not continue to be vigorous, even this catalytic role might decline. Institutional change, for its own sake, is not an essential prerequisite for achieving development aims; indeed if the IMF is able to provide sufficient balance of payments finance, in the way it was designed to, then many of the suggested changes might not be necessary. However, it seems that the Bretton Woods institutions (particularly since the breakdown of the fixed exchange rate system in 1971 and the boom in international balance of payments financing in the 70s) are tending to drift and are not able to be as constructive as they might be. This makes them open to attack, as the pressures

for more bilateral and private finance increase. Therefore, the North South Roundtable should seek to halt the deterioration of the Bretton Woods institutions in the short term. In the medium term new ideas should be developed for improving the IMF and the World Bank in three ways:

1. Increase the institutions' ability to finance LDC development.
2. Ensure that the poorest countries receive sufficient attention as other countries become somewhat self-reliant.
3. Ensure that the three types of funding (concessional, conditional and commercial) all play positive though separate roles in future financing.

A schedule for moving towards revised international financing arrangements is needed:

1. *In the near term* the emphasis should be on changes in the practices and procedures of the existing institutions.

2. *In the medium term* emphasis should be placed on raising new resources by increasing quotas, avoiding excessive borrowing by the Bretton Woods institutions (as this increases interest costs), increasing the issue of SDRs, negotiating funds from outside the private markets, increasing the World Bank's paid-in capital, and developing the energy affiliate.

3. *In the long run*, major reforms should be considered, in particular a movement towards the SDR as an important part of the international reserve system. Finally, there are three important areas where these ideas should be advanced: first, the Global Round of negotiations; second, an independent study of the Bretton Woods institutions (taking up where the Committee of Twenty left off); and third, regional discussions to promote regional cooperation.

CHAPTER 11

The Role of IMF: The Disputes, the Qualifications and the Future

Dragoslav Avramovic

THE DISPUTES

Conditionality is one of the central issues of controversy in North South relations, and its principles and implementation are likely to be in the forefront of any serious North-South negotiations. Four main reasons for the disputes are:

(a) Disagreements concerning the main source of balance of payments trouble and hence its main remedy. The borrowing country will admit that domestic inflation is a problem, but will frequently insist that inflation is a result not only of excess domestic demand, but also, and sometimes primarily, of specific supply bottlenecks and external causes. The borrower will also frequently argue that excess capacity exists in the economy, the missing element is extra supply of foreign exchange which the country should be lent and eventually enabled to earn, and that by depressing aggregate demand—the action normally advocated by the Fund—the matters will only become worse. "Neither foreign financial experts, nor the local authorities, will ever solve the basic problems of the Argentinean economy so long as they ignore intersecting disequilibria and insist on global, restrictive policies from the demand side." (Diamond 1973, Shydrowsky and Wicht 1978.) Most of the country studies at the Airline Conference stressed the importance of removing specific sector bottlenecks in the adjustment process: Green, Killick, Marshall, Marshall and Mardones, Bacha, da Silva Lopes, referring to the experiences of countries as varied as Tanzania, Kenya, Brazil, Chile, Portugal, Argentina, and the same point has been argued for Peru (Shydrowsky and Wicht) and Jamaica (Girvan, Bernal and Hughes 1980). The Fund will reply that they do not deny the importance of supply, but whatever else is done on this front will not solve the problem without free market pricing, and in any case, the demand

© 1983 Institute for International Economics. Reprinted by permission from *IMF Conditionality*, John Williamson, ed. (Washington: Institute for International Economics, 1983). restraint is urgently needed if the balance of payments crisis is to be handled with despatch,

as it should. The dispute remains.

(b) Disagreements concerning the scope, timing and policing of the standard Fund set of stabilization measures. The Fund is not satisfied only with the assurance that its loan will be repaid over the medium term as agreed or that the program the borrower has adopted provides a reasonable promise that such repayment would be feasible. The Fund also has other objectives, resulting in part from its Articles of Agreement and in part from the practice which has been built up during the last thirty years. The Fund now formulates its views on stabilization policy in individual countries within a formidable set of objectives and constraints. As recently stated by a senior expert on its staff, "the ultimate aim of Fund financial assistance is to restore viability of the balance of payments in a context of price stability and sustained economic growth, without resort to measures that impair the freedom of trade and payments" (Guitian 1981). Hong Kong, Singapore and Taiwan may be able to do all five things at the same time; most developing countries are not. Some will have to sacrifice price stability for some time in order to expand exports, and some will have to restrict nonessential imports. Perhaps the root cause of the difficulty is that the Fund has been trying to achieve too many things at the same time, while some of the borrowing countries have hardly been able to keep their heads above the water, caught between inadequacies of domestic policies and external forces beyond their control. Under these circumstances the Fund-country relations have almost inevitably become, in a number of cases, marked by continuing haggling over what the Fund considers a desirable package and what the country feels it is able to deliver.

(c) The Fund adheres to a specific theory of economic policy which is at variance with the views held by a varying number of borrowing countries at any particular time. The Fund is not alone among the international organizations having a "view;" as matters have developed, most have distinct views which influence their marshalling and interpretation of facts and policy conclusions. Broadly, the Fund believes in three fundamental points: financial discipline, free trade and market prices (Dornbusch 1982). Most borrowing countries will agree with the need for financial discipline, even though few will find it possible to stick with it. Most will dispute the tenet of free trade and will be able to quote the growth experience of Japan with managed trade. Many will also argue the need for at least occasional market intervention on various grounds: the former Swedish Prime Minister said several years ago, "the invisible hand is of flesh and blood" (Palme 1978). The Fund management has been aware of the pitfalls and effects of the somewhat tenuous theoretical basis on which its policy is built: I have given you only the barest outline of the contents of conditionality. But I have said enough, I think, to indicate why it should have become a subject of controversy. After all, control of inflation and the effectiveness of monetary policy, or the responsiveness of savings to interest rate changes, the efficacy of exchange rate changes in inducing changes in trade flows, and the responsiveness of farmers to price incentives—these have been among lively subjects of debate among economists for decades. But what gives a particularly sharp edge to the controversy surrounding conditionality is that the manner in which these issues are resolved bears on the real income of one or another economic group. This goes to the heart of national policies in all countries. Both inflation and balance of payments difficulties reflect efforts on the part of a society, seen as a whole, to avail itself of more resources than it can currently generate. Dealing with these problems involves, especially in the short run, cutting back on real incomes and the use of resources; and fears on the part of each section of society that it may have to assume a disproportionate share of the burden of this cut-back, provoke strong resistance to efforts aimed at this objective. It is not difficult to see why such matters should become highly charged political issues. (Witteveen 1978) The Fund staff is also aware of many of these problems—see the sophisticated review by Nowzad (1981); and a recent analysis by Buira, Executive Director representing a group of Latin American countries, offers a comprehensive, incisive and critical inside view of the theory and practice of conditionality and offers specific remedies. (Buira 1981)

(d) Given the uncertainties and doubts listed above, what is surprising is the persistence and conviction with which particular policies are argued and the countries persuaded to accept, although it must be added that this is not the monopoly of the Fund staff. The staff is put at a disadvantage by having to carry ... "nr.nnc nrcntul rpnncihilit', Present dissatisfaction with Fund conditionality often arises from differences

between the authorities and the staff whenever the latter-partly as a result of institutional constraints-is felt to assume a role of decision-maker and to press for the adoption of a particular solution which may not be in accordance with the economic, social, and political priorities of the authorities ... The power exercised in standby negotiations by one or a few staff technicians, exempt from all political responsibility but taking major policy decisions, may give rise to considerable tension between the country and the Fund, particularly when the national technicians are not persuaded by the arguments of the staff and may see a broad area for the exercise of judgment in the design of a program more in accordance with national priorities. (Buirra 1981) A growing number of developing countries are now using the advisory services of private investment banking houses on debt rescheduling, debt management and borrowing strategy and tactics, at fees which may exceed \$1 million a year: Turkey, Zaire, Jamaica, Gabon, Costa Rica, Sudan, Uganda, Zimbabwe, Peru, Bolivia, Dominican Republic, Senegal, Ghana, Indonesia, Sri Lanka, Cameroon, and so on. Some of this advice, particularly concerning the establishment of contacts with potential private lenders, can perhaps be provided only by such private banking houses. However, most of the rest should be *par excellence* the function of international agencies. Why are the poor countries prepared to pay for the Wall Street and City advice in preference to advice they should be getting free from the United Nations System? Because it is more technical, factual and less loaded with a "view"?

THE QUALIFICATIONS

It is only fair to look at the other side of the coin: the actions by the Fund for the benefit of the developing countries. (a) Two facilities were established with very low conditionality, i.e. leading to almost automatic drawings: the Oil Facility and the Compensatory Financing Facility. Regretfully, the first, entitling countries to loans to finance oil imports, was allowed to lapse. The second, CCF, entitling countries to loans to finance shortfalls in their export earnings, continues to exist and is as active as ever under present disastrous conditions in commodity markets. This facility and the Buffer Stock Facility, also set up in the Fund, are the only things the international community has managed to do on a world scale so far to cope with price fluctuations of export commodities of developing countries. (The Common Fund is still in the process of signature and ratification.) The CCF is insufficient and the Buffer Stock Facility is inactive because of the way it is set up; but they are there and can be set right and expanded, thus helping to improve the entire structure. (b) In 1980-81 the Fund expanded its lending on an unprecedented scale in terms of amounts lent and the apparent ease with which many of the country negotiations were handled (Dale 1982). It seemed that this heralded a new beginning. Regretfully the screws seem to have been turned back again judging by the number of suspensions and cancellations (Gulati 1982), the Fund says because of non-performance or for technical reasons, while others suggest because of a shift in Fund policy (Killick 1982). (c) There is one episode in the Fund history which is little known and almost forgotten: support to Chile under the socialist Government of the late President Allende, when most other agencies, national and international, had stopped lending, even prior to the deterioration in Chile's economy. It is true that the IMF lending was done through the quasi-automatic Compensatory Financing Facility (see above), and therefore active decision was limited; but it is probable that a technical reason for not lending could have been found if it had been decided not to lend. The Managing Director then was Pierre-Paul Schweitzer, now retired, and the two key IMF officials who were involved, Fernando Vera and Jack Barnouin, are still in IMF service, although outside its main offices. The history of this is yet to be written and set against the heavy and widespread criticism of the Fund that it is closely identified with the right-wing political and financial interests. It may weigh little, but it is there. (d) There may be a curious and not yet fully understood and analyzed community of interests and perhaps even views in some degree, between high financial officials in developing countries and the IMF management and staff. The story is that the tight fist of the IMF is being used by these officials as an argument in their internal struggles with government colleagues in the spending ministries and with political leaders in keeping the lead on budgetary and other expenditures. The importance of this point is difficult to judge on present readily available evidence. THE FUTURE Five elements have been offered on different occasions to change the scope and implementation of conditionality: (a) It has been proposed to establish a new IMF facility with a low conditionality to finance balance of payments deficits arising from causes beyond control of developing countries (Group of 24-developing countries' group in the Bretton Woods institutions-1979; Arusha 1980). The latest in this family of proposals is a low

conditionality facility to finance import cost increases (Dell 1982). (b) An alternative or a supplement of the above is a revision of the present practice of conditionality. The possible direction of movement has been indicated by Williamson in his "nonpaternalistic solution" (1977) and by Buirá. It is the country which formulates the adjustment program rather than the Fund; the staff of the latter serves as a technical adviser. The Fund still needs to be convinced that the prescribed path to equilibrium can in fact be satisfactorily pursued through the methods chosen; the policy dialogue between the borrowing country and the Fund still takes place; but the choice of methods is that of the country: what gets cut, who gets the premium to expand, how it is done. It follows that some of the constraints built into the present Fund "ideal" practice (Guitian 1981) have to be given away. A senior Fund official suggested that a compromise may be possible on inflation and on exchange restrictions, provided it is made certain that payment arrears do not accumulate indefinitely and exchange rate flexibility is maintained to offset the effects of inflation on the external balance (Finch 1982). This is a promising approach. The difficulties involved in simultaneously pursuing balance of payments recovery and price stabilization were stressed by Cline (1982), Bindert (1982) and da Silva Lopes (1982). (c) The present system of quantitative "performance criteria," based on credit ceilings agreed on with the Fund, whose breach leads to an automatic cancellation of the Fund loan, should be replaced by a more flexible system where the emphasis is on broad policy issues instead of specific absolute numbers (Harberger at Airlie, Killick 1982, Crawford 1982, Marshall, Marshall and Mardones 1982, da Silva Lopes 1982). The latter have proven to be subject to large errors, leading to the need for a continuing renegotiation of ceilings, with the country placed in a position of requesting loans again and again. The very procedure of setting and policing specific limits on the countries' own credit operations, even if they have external financial effects, is an odd thing in an international cooperative endeavor. (d) Lending to facilitate structural adjustments by helping expand output in critical sectors and removing the foreign exchange constraints to growth generally has almost universal support. The World Bank started such a program in 1980-81, but the aggregate amount is still relatively small (Stern 1982). The first experience with such a loan to an African country has been found encouraging (Killick 1982); criticisms have been raised with respect to a similar loan to an Asian country (Le Monde 1981). As more experience is acquired it will be possible to assess better the important contribution to the adjustment process such loans can make. The danger is that they may become yet one more vehicle for conditionality, pressing the country to move faster to free market pricing, free trade, higher interest rates and priority for export crops than is advisable. Some of these things may well be needed and probably are in many situations; but the sight should not be lost of the primary objective of these loans which the countries expect: finance for sectoral investments and for general and sectoral working capital. (e) The last point has to do with the "view" as it results from the tradition and personnel make-up of the institution. The international financial agencies would benefit from an injection of management and senior staff talent with a different background, different outlook and different style than the one which now dominates their thinking and operations. It is the "double dominance" of these institutions, by purse and by people, which ought to be modified in the direction of a cooperative and inquiring spirit. This would then represent a real change in the international order of things (Gulhati 1977). A major question arises as to whether changes along the above lines would jeopardize the access of the institutions to funds. The risk exists, but it is controllable and probably not serious. First, the developing countries are well aware how important it is to preserve the institutions' good reputation both with the developed country governments and with the capital markets. Secondly, the major creditor country today and in the foreseeable future is Saudi Arabia, itself a developing country: hence it should look favorably at changes in these institutions in the direction of greater influence by developing countries. Thirdly, the key debtors in the developing world have shown during the last decade of economic upheaval and external shocks that they attach priority to meeting their external financial obligations. One could argue that their readiness to pay back would increase if they had a larger share of responsibility for the lending decisions than is now the case. What if no significant changes take place and the things continue as they are? The demand then for the establishment of a new institution and for a more radical re-ordering of matters generally will inevitably increase. A call for a United Nations Conference on International Money and Finance was already made at the Arusha South-North Conference in 1980 (Lichtensztein 1982). Overshadowing all this is the rapid deterioration of the world financial scene. What role the different institutions, existing and new, will play if the world situation becomes

worse, it is not possible to say at the present time. It will partly depend on the present institutions' diagnosis of the problem, the vision which they will have in handling it and the courage to act to prevent further deterioration. In a sense, looking back forty years ago, one cannot help but admire the spirit and imagination used in trying to build the financial foundations for the postwar world. The US and UK then, together with Canada, Australia and a few others, could have refrained from creating international institutions and instead relied on their own national agencies to finance whom they wanted and on terms they wanted, without any rules and regards for other countries' interests. They did it differently: while preserving their own national interests they went out of their way to meet the interests of others as they were known at the time. Much has changed since and major adaptations are needed. A major question is whether it is possible to recreate the spirit in which an understanding for other people's problems and interests, particularly those who are weaker, becomes the guidance for action.

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CHAPTER 12

The Developing Countries and the Bretton Woods System

Carlos Massad

I would like to highlight some specific aspects of the international monetary situation and reforms, rather

than to attempt treating the problem in its entirety. At the same time, I feel it is necessary to present an overview of the present and the near future situation because it is this scenario which determines the kind of transformations or changes that, I believe, the monetary system and institutions ought to bring about.

NATURE AND BACKGROUND OF THE PRESENT CRISIS

I need not dwell on the recession the world faces today, including its sequel of external and internal financial problems. Perhaps the most dangerous of all these is the financial weakness and deterioration of bank assets portfolios.

To understand the significance of this trend we must keep in mind that in the recent past some developing countries had reduced their trade and financial barriers, in short, had opened up their economies. As a consequence, capital started flowing in large amounts into these countries. Their currency then began to appreciate and a rising deficit in the current account permitted absorption of foreign savings. Thus the imbalance in current account and the capital inflow were two sides of the same coin.

But this was only the flow side of the problem. There also was a stock side to it, and this is where we come back to the problem of debts held by the banks. The inflow of resources, a surplus in the capital account accompanied by a deficit in the current account, meant rising foreign debts. If that inflow should stop suddenly, the country would face a very serious problem. Unfortunately, this is what happened in many developing countries. The foreign debt reached a level such that lenders thought servicing it might no longer be possible. Foreign banks then started to retrench, capital inflows decreased, and serious problems have

resulted.

In other developing countries a very similar result had come about in consequence of a deterioration in terms of trade, though there the process worked the other way around: that deterioration produced an increase in the current account deficit. To cope with the deficit the countries borrowed heavily and the resulting capital inflow led to a huge foreign debt. This gave rise to the fear that the debt would become unmanageable. Capital inflows then stopped and a crisis was at hand. In this general scenario foreign exchange fluctuations have been substantially larger than had been expected. This is due in part to changing international capital flow patterns. Furthermore, while in theory uncovered interest rate differentials cannot exist for any length of time, in practice they do prevail for long periods; this has important consequences for trade and investment flows. Both greater exchange rate risks and interest rate variations become factors reducing incentives for foreign investment, particularly in the case of LDCs, aggravating further the foreign debt problem. The problem is particularly serious in the case of middle income countries. They have relied heavily for their external financing requirement on private foreign loans to their private sector and were given very little access to official foreign financing. An apparently good argument has been made in favor of this policy. Foreign debt, allegedly, does not matter much when the debtor is the private sector. For that sector will be prudent, borrowing only to finance investments from which a real net return can be obtained. Therefore middle income countries, whose private sector has access to international capital markets, should be encouraged to borrow there rather than from official sources. But it has been found in several Latin American countries-and no doubt there are other countries in the same situation-that excessive private expenditure financed with foreign loans is as dangerous to stability as excessive public expenditure financed through money creation. The crucial point is that there are limits to the prudent use of foreign financing, private or public; one can extend this limit every year through better investment and resource allocation, but one cannot do this if foreign resources will come to be devoted essentially to consumption. In a way, this is a long-term development issue, but it is very closely linked to short-term problems. To understand this problem fully, keep in mind that national and foreign savings often substitute one another. In the case of at least three Latin American countries one can identify the substitution process quite clearly. There are at least three types of incentives working against national savings. First, increased private capital flows from abroad tend to reduce domestic interest rates and to reduce incentives to save. Secondly, in many cases the manner in which the opening of Latin American economies has been brought about has implied, at least in the short run, an incentive to consume more and to invest less. Opening up the economy has meant tariff reduction and greater tariff uniformity. Previously, higher tariffs had been levied on consumption goods than on capital goods. Thus when uniform rates were introduced, relative prices of capital goods rose, while those of consumption goods fell. The problem thus is not the opening of the economy itself, but its by-product: the change in relative prices resulting from the introduction of uniform tariffs. Next, there was an increase in real interest paid by those borrowing for productive purposes and a decrease for those borrowing for consumption. Opening up the economy implied, of course, an increase in all real bank interest rates. For that policy goes hand in hand with the elimination of domestic financial restrictions on banks, such as interest rate ceilings. Banks were also now given greater freedom to decide on the composition of their portfolios; thus they began to finance consumption which they had not been allowed to do before, when such credits could be obtained only from the merchants who charged substantially higher interest rates. Thus, while the opening up of the economy and its concomitant elimination of financial restrictions tended to raise the bank rate, the effective rate paid by consumers went down. In other words credit now became more expensive for everybody except consumers. Given this interest rate effect as well as the aforementioned relative price effect, it is no wonder that consumption has shown a spectacular increase during the recent opening-up process of the economies of a number of countries. This is likely to continue until matters adjust. To recapitulate, capital inflows raised the foreign debt of developing countries. Much of the resources thus made available was devoted to consumption, particularly in the case of middle income countries obliged to borrow from private foreign banks. This consumption increase occurred at the cost of future welfare. Thus the frontier of the supportable indebtedness was not pushed outward, and soon a point was reached where the debt became untenable. The problem arose whether the increase in debt was supply induced or demand induced and was reflected in bond portfolios, both held domestically and abroad. Now we are back to the point from which we started.

Another dimension of the problem must be kept in mind. Individual firms have portfolio problems too. Foreign debts reflect domestic debts, and if the latter become a high percentage of a firm's total liabilities, then it is difficult for it to stay in business. It should be recalled in this connection that in the case of some LDCs interest charges amount to an unprecedented 20 per cent of all business costs. It is extremely difficult for such an economy to prosper unless the individual banks' and firms' portfolio problems are resolved. These domestic and foreign debt problems of course are closely related; for if a country can rearrange payments abroad, then its individual firms can do the same, and the difficulties of both are resolved simultaneously. The problems mentioned cannot be resolved through adjustment of the current account of the balance of payments. Sufficiently large adjustment would imply reducing imports and increasing exports very substantially and very quickly. This is an extremely painful course and is therefore usually politically unfeasible. It follows that the flow of capital to these countries cannot be allowed to dry up suddenly, but only may be permitted to decrease gradually. Equally unacceptable is a scenario of slow economic growth, abrupt halting of money growth, high protection, and shrinking or only very slowly growing international trade. This policy could be embarked upon almost instantaneously but would imply widespread and catastrophic unemployment and therefore, again, is not feasible politically. Private international banks have shown surprising flexibility in carrying out required refinancing or rescheduling operations. But when more than forty countries fall in arrears, as has happened, the private bankers' flexibility may not be enough to cope with the problem and to prevent a further worsening of the situation. Rather, institutional arrangements, within the IMF and others, are needed. It has been argued that such arrangements would mean bailing out banks which are in trouble through their own fault, and that there is no reason for the IMF, other international agencies, or even national institutions, to come to their assistance. Again, this is a correct approach when one or a few banks, or even a few countries, get into difficulties. But when the problem is general it is no longer a question of bailing out a few private lenders who have acted unwisely; for when one bank faces a liquidity problem, then it is its problem, but when many banks get into such a fix, then it becomes a problem of the country, of the banking system, or even of the world economy. For if all banks begin to retrench, to widen the interest spread, and be more selective, they may bring about a worldwide recession. In this situation each country should first give support to the best of its ability to its own banks; developing countries, like developed countries, whose banks furnished the loans, should follow that course. But the world's financial institutions must also attack the problem in unison, because it is too big to be solved on the national level. Such a satisfactory solution implies, in the first place, a long-term effort. Under actual conditions, this should not be based on symmetry of efforts by surplus and deficit countries, as it might have been under normal conditions. Admittedly, when the world economy is reasonably stable, adjustment policies should give incentives to and exert pressures on all so that the burden of adjustment will be fairly distributed. But this would not be effective under present conditions. To pull the world out of recession, the burden of adjustment has to be put on the surplus countries. I shall mention a technique to accomplish this later, when examining the question of IMF conditionality. I do not mean by this to contradict the argument, often made during the last few years, that in periods of worldwide inflation the burden of adjustment should be essentially on deficit countries. Such reasoning remains essentially correct in an overheated world economy because the policies suggested would exert worldwide antiexpansionary pressures. But today the world economy must be made to expand faster

SUGGESTED SOLUTIONS I. Reforms of the IMF a) Increased resources

This can be accomplished in two ways, through additional IMF borrowing or through quota increases. The latter is the appropriate method in this case. Additional borrowing would put upward pressure on interest rates, like borrowing by any other debtor. Thus borrowing by the IMF or by the World Bank, for that matter, is not advisable at present, when interest rates must be reduced in order to get the world economy out of the recession.

In respect to quota increases, before answering the question, what would be the appropriate magnitude of such an increase, we should look at the relative size of Fund resources at the time of its establishment, as compared with today. While they *were* originally equivalent to 16 per cent of world trade, that ratio has now shrunk to 3 per cent. To look at it in another way, doubling present quotas would not raise the amount of

usable IMF resources by more than 30-40 billion SDRS. The moderate magnitude of such an increase is indicated by the fact that it would amount to no more than one year's interest payments of the Latin American foreign debt.

b) A new and substantial allocation of SDRS Many arguments have been made against allocation of more SDRS. The best of them has been summarized on page 71 of the 1982 Annual Report of the IMF: The global demand for reserves may be expected to grow in some relationship-not necessarily a proportional one-to world trade and to country payments imbalances. How readily this demand is satisfied at any particular time depends on the responsiveness of the supply of reserve assets. With the rapid development of international financial markets in recent years, the supply of international reserve assets has become quite responsive to changes in demand for reserves. Indeed this responsiveness is sufficiently high to allow global reserve holdings to be determined largely by the effective demand for them. This is merely a broader application of the well-known "endogeneity of the supply of money" argument which maintains that the public always can create the additional money it desires domestically by selling foreign exchange to the central bank. The 1982 Fund Annual Report has applied the same argument to the world economy: if there is additional demand for reserves, supply will respond to it sufficiently to satisfy that demand. That reasoning is correct as far as it goes. But the argument also implies that traditional sources of supply also respond downward to a decrease in demand. That is, if part of the additional demand were to be satisfied through the issuance of SDRS, that much less would be forthcoming from other sources. Consequently, if the supply of reserves is demand determined then the issue of SDRS can be expanded almost as fast as desired without causing inflation. But why should the supply of SDRS be expanded? The reasons are well known: SDRS are the international assets which the international community has decided to make the linchpin of the system; at least this is the policy formally agreed upon by the IMF members.' SDRS also could be linked to development assistance. This would solve the world liquidity and the world development assistance problems at the same time. And SDRS have many other attributes which would improve the degree of stability of exchange rates, make the whole monetary system more manageable, and provide other advantages. In sum, there are no good economic arguments against an additional allocation of SDRS. Even the best of these arguments, the one taken up in the 1982 Annual Report of the IMF, is not convincing. In fact if carried to its logical conclusion it can be marshalled in support of SDR allocations.

c) Changes in the conditionality of IMF resources My views on this differ from those of other participants in this conference, though we all agree that a conditionality review is indispensable. If there were no conditionality of IMF resources, there would be no reason to have an IMF. But it must be asked how strict conditionality should be and what kind is wanted. Many have expressed a desire that the Fund reduce conditionality. In response, a number of special IMF facilities have been created, each having a different type of conditionality attached to its operations. Thus, in response to a real need to revise conditionality, the IMF has been divided into different relatively small compartments. In my opinion this is an extremely dangerous trend. It does not truly reduce conditionality. Rather, it increases it, in the sense that for each particular purpose, for each particular aspect of the life of a country, a different type of conditionality has been established. If a problem arises with regard to, let us say, cereals, oil, or export prices in general, a different type of conditionality is made to apply. But when a country faces a number of these problems, inconsistencies result from these different conditionalities and from the splitting up of IMF resources. A better approach would be to introduce flexibility of conditionality according to the specific needs and difficulties of countries, not products. For the IMF is concerned about particular countries, not particular products; its function is to solve adjustment and liquidity problems, not terms of trade problems. I have argued, in an article written a few years ago, that only lip service is paid to this agreement. Actually, the worldwide trend is to decrease the incentives for issuing SDRS. Thus, serious consideration should be given to a reform of conditionality, in these respects: (a) allowing the amount of a standby agreement to be increased whenever it becomes necessary; (b) getting away from global quota limits when needed; and (c) changing the targets as well as the terms of standby agreements. This is not impossible. As a matter of fact, IMF conditionality has increased greatly since the beginning of the institution, though recently it has again decreased somewhat. The objective, however should not be a decrease but a modification of conditionality so that it would be more helpful in solving difficulties of specific countries. Furthermore

conditionality should exist not only in IMF dealings with deficit countries but also with surplus countries. As shown before, under present conditions, conditionality should in fact be stronger in dealing with the latter, for the world situation requires that the burden of adjustment be put on surplus countries. A change in the rules of SDR allocations might accomplish this purpose. As has been suggested elsewhere, SDR allocations might be linked in some way to the efforts that a country makes to bring about necessary adjustments. Thus, a surplus country which makes no effort to adjust could be excluded from an allocation of SDRs; this would provide an incentive for adjustment. d) The time frame of the preceding suggestions. The implementation of these suggestions need not take long. The Fund already has been instructed to consider an agreement on an SDR allocation. Thus, it could be made a short-term Fund objective. As changes of IMF rules would take longer, this could be made a medium-term goal. In the long run, SDRs should move to the center of the system. And if SDRs should become the central feature, the IMF should be converted into a central bank. This also would ensure a fairer distribution of *seignorage* resulting from the creation of international liquidity. 2. Measures related to the IBRD and regional banks' operations. Widespread agreement exists that a substantial increase of the resources of these institutions is called for and that much greater use of their resources should be made to resolve bottlenecks. This is equivalent to saying these institutions should become instrumental in bringing about substantial structural changes. I would prefer to use the latter formulation because it covers not only problems within a country but also between countries. The role of international financial institutions could then become crucial in connection with industrial redeployment that might be called for. It should be emphasized that a solution that recognizes and supports regional arrangements has great merit. It already is a *de facto* solution for some areas of the world and should become a *de jure* solution for these and other areas. Under such a setup the IMF would retain the functions best performed by a central authority, that is, those related to international liquidity, exchange rates, and similar matters. Other matters could, and preferably should, be discussed at regional levels, for IMF conditionality considered at the regional level would be much more acceptable than Fund conditionality imposed on a country by an institution which is far removed from its own needs and problems.

CHAPTER 13 **The Indispensable Reordering of the** **World Monetary System**

Robert Triffin

I. THE FACTUAL RECORD

I. The Inflationary Explosion of World Reserves

The very word "stagflation," generally used by economists to characterize the unprecedented and unholy combination of recession and inflation in *which* our world has been plunged for *more* than a decade, suggests that inflation followed-and was caused by-stagnation in the world economy. The truth is exactly the reverse: world inflation preceded world stagnation-or rather recession-and is primarily responsible for it. Its rechristening as "infession" would describe much better the actual sequence and causation of events in the 1970s. The collapse of the world monetary system based on the goldconvertible dollar standard is the major cause of the 1970s world recession, just as the collapse of the gold-convertible sterling standard was the major cause of the 1930s world recession. The worldwide inflation which characterizes the present situation-but did not, of course, characterize the 1930s-is due to the fact that the few reserve currencies (particularly the dollar) on which the present system is anchored continue (as the pound did not in the 1930s) to be widely accepted as "parallel world currencies" in international settlements and reserve accumulation, official and private. Both of these major collapses of the world monetary system can be traced to the same fundamental

cause: what President de Gaulle called the "extravagant privilege" of the reserve currency countries to finance nearly unlimited deficits with their own IOUs.' 'Historians might be interested in the first condemnation of the goldexchange standard, made as early as 1795, by Immanuel Kant in the fourth article of his *Eternal Peace. a Philosophical Essay*: No objection can be taken to seeking assistance, either outside or within the State, on behalf of the economic administration of the country ... But a credit system under which debts go on increasing indefinitely... is dangerous. This arrangement-the ingenious invention of commercial people in this century-constitutes in fact a war ... Such a privilege can hardly fail to encourage any reserve currency center to indulge in politically attractive, lax policies which foreign countries show themselves willing to finance. Its resulting balance-of-payments deficits are not constrained-as they are for other countries-by the international reserves at its disposal. These deficits can be financed by a persistent build-up of external liabilities well beyond the gold in which they are legally redeemable at any time; and this financing continues as long as redemption rights are not used by the foreign creditors.

The respite thereby given to the mighty dollar after the Second World War lasted much longer than that given to the pound after the First World War; and even when gold convertibility of the dollar was officially suspended in 1971, foreign money markets continued, in the absence of any widely accepted alternative, to hold their surpluses in the form of huge dollar claims: about \$313 billion by the end of 1980, as against \$50 million at the end of 1970.²

Measured in dollars, at current gold prices and exchange rates, world reserves increased practically ten-fold between 1970 and 1981 (from \$78 billion at the end of 1969 to \$775 billion at the end of 1981, having reached a peak of \$1043 billion in September 1980). As cannot be stressed too often, they increased about nine times as much in this eleven year span as during the entire previous history.

chest, exceeding the treasures of all other States taken together. It can only be exhausted by the ensuing deficit of the exchequer, which may be long postponed by prosperity and its impact upon production and profits.

This facility for waging war, combined with the inclination of rulers toward it (an inclination that seems implanted in human nature) is therefore a great obstacle to perpetual peace. Its prohibition must be made prerequisite for it, all the more so as the inevitable bankruptcy would encompass many other States in the eventual ruin, without any fault on their part. The other States are therefore justified at least in allying themselves against a State acting with such arrogance.

(This slightly modernized translation is my own, but is based largely on the translation of Jean Darbellay in *Vers la Paix Perpetuelle*, Presses Universitaires de France, 2nd edition 1974).

²The sum of foreign official assets, Treasury securities and other claims on US banks, reported in Table B-105, p. 351, of the *Economic Report of the President*, February 1982. The 1980 total may be estimated to have risen further by about \$50 billion to more than \$360 billion at the end of 1981.

2. Sources and Regional Distribution of this Inflationary Explosion The non-industrial countries can hardly be blamed for this explosion. It began with an enormous expansion of reserve investments, of which the industrial countries were the major recipients. This was compounded by sharp fluctuations in gold prices and exchange rates-anathema to the authorities until they could no longer prevent them-and the industrial countries were the main beneficiaries of this, too.

a) *The skewed distribution of reserve investments*: Of the \$696 billion total of reserve growth,

measured in dollars at market prices at current exchange rates, 39 per cent (\$269 billion) was attributable to the increase of SDRs (with gold valued at \$35 per ounce, and the dollar equal to the SDR). Since official gold holdings declined slightly over these eleven years, the increase was entirely due to a seven-fold growth of fiduciary reserves (from 38 billion to 309 billion). More than 93 per cent of this was invested in a few reserve-center countries, and less than 7 per cent in the non-industrial countries. Such a pattern of reserve investments is, of course, the exact opposite of what had been intended in the pious resolutions repeatedly voted by the United Nations Assembly inviting the richer and more capitalized countries to export capital to the poorer and less capitalized countries. The main explanation for this pattern is that the bulk of fiduciary reserves (89 per cent) was held, in foreign exchange, exclusively in a few reserve-center countries, and none in Third World countries. SDR allocations showed a nearly similar pattern: two-thirds went to the industrial countries, and only one-third to the non-industrial ones. The IMF credit transactions constituted the only exception: 139 per cent (11.6 billion) of the increase in its net lending (8.3 billion) went to the non-industrial countries, while the industrial countries reimbursed 3.3 billion of previous IMF loans, gold deposits and investments.

b) The impact of fluctuations of gold prices and exchange rates on the growth of world reserves has been even larger. It accounted for \$426 billion (61 per cent of total reserve growth). Benefits from this, too, accrued mostly to the industrial countries because of their much larger share (88 per cent) of world gold holdings. They reaped 80 per cent (\$342 billion) of the total benefits, as against 20 per cent (\$84 billion) for the non-industrial countries.

TABLE I:
IMPACT OF BORROWED RESERVES AND OF CHANGES IN GOLD PRICE

All Country	Industrial		Total	Non-Industrial			
	United States	Other		Oil	Other	Oil	
AMOUNTS in billions	271	154	98	152	19	1	17
1. Borrowed Reserves, measured in SDRs	241	150	91	241	12	28	6
A. Foreign Exchange	21	5	10	14	84		12
B. SDR Allocations	98		-2	-3			56
C. IMF Credits	696			470	226	30	121
II. Impact of Changes in Gold Price and Exchange Rates				-125	123	106	47
111. Total I + II						76	
A. Cross Reserves, measured in dollars	100	57	36	93	7	1	6
B. Net Reserves, measured in SDRs (III - II)	1	62	38	100	-	7	26
	23	45	67	33	-1		141
	100						
	-12	-27	-39	19	7		
	110	36	49	68	32	4	(3,309)
	100	15	52	(- 8,730)	(8,630)	IS	
	107						(5,320)

39	144	27	54	8	I	14
61	92	67	73	37	27	47
107	100	94	127	46	28	61
100	-U6	IW	100	101	100	100

Sonm: Table4in recent Anmxm""Ne Use of SDR Finance forCollectivelyAg,ced Purposes"(&nca Nazfonak

dal Lavoro Quarterly Review. March 1971), but with asset discrepancies in IFS totals ascribed to countries other than oil exporters I am grateful to Mr. Wm. C, Hood. Economic Counselor and Director of

Research of the international Monetary Fund, for clarifying this point in a lever of comments on Nat Table.

Note: (D Parentheses indicate that these huge percentages are meaningless because of the insignificant "All Countries' Total.

c) *The combined impact* of these two disastrous features of the present system of reserve creation is summarized in the accompanying Table 1. Industrial countries benefited by 85 per cent of the reserve growth (\$594 billion) while non-industrial countries received only 15 per cent (\$103 billion) (see boxed figures of lines III of the Table). These features accounted for over twice (\$252 billion, or 236 per cent) the \$107 billion gross reserve increase of the United States and for 94 per cent (\$342 billion) of the \$363 billion gross reserve increase of the other industrial countries. But they contributed only 46 per cent (\$103 billion) to the \$226 billion reserve increase of the non-industrial countries. When it comes to net reserves, measured in SDRs (i.e. deducting borrowing reserves from gross reserves, and excluding changes in gold prices and exchange rates), the estimates of lines III B show the United States as a 145 billion borrower and other countries as creditors of 144 billion. These credits broke down as follows: (i) Oil exporting countries: 76 billion (ii) Other non-industrial countries: 47 billion (iii) Other industrial countries: 21 billion

3. The Economic and Political Consequences of the Present System of Reserve Creation

The absurd pattern of reserve claims and debts does not mean, however, that the rest of the world has accumulated correspondingly large overall capital claims on the United States. It reflects only the portion of such capital claims held as monetary reserves by the official authorities, but ignores other capital claims and debts channeled through the commercial banks, direct and portfolio investments, foreign economic and military aid, and other capital accounts.

The present section attempts therefore to relate the reserve accounts discussed above to these other capital accounts and to the current account transactions. These should be equal to the sum of all individual country and regional group accounts. And both should be equal to zero for the world as a whole. Table II summarizes in the most meaningful form possible the mountain of estimates painfully collected by the International Monetary Fund and dispersed through its *Balance of Payments Yearbooks* and *Supplements* from 1977 through 1981.³

⁷For further details and for a presentation of major changes between three subperiods (1970-73, 1974-78, and 1979-80), see Robert Triffin, "The

TABLE H: CHANGES IN INTERNATIONAL MONETARY RESERVES, AND BALANCES OF PAYMENTS: 1970-80 (in billions of SDRs)							
	Industrial Countries		Non-Oil Exporting Countries		Oil Exporting Countries		Total
	U.S.	Other	Total	Total	Oil	Other	
	Count	Count	(a+b)	(c)	(e)	(f)	(g)
	ries	ries		(4 a)			L dl
Factor (A-B)	3		69	105	80		37
A. Assets	*3	143	*146	+136	*52	34	+282
B. Liabilities (-)	-35	-77	-215	-31	-2	-29	-245
I. Constituting Foreign	-129	-29	-157	-2	-	-2	-159
II. Exceptional		-40	-45	-24		-23	-69
3. SDRA allocations				5			
1. Cold War and					*3		
111. Trade; I+II (A-B)	119	67	-63	+111	a3	27	+49
A. Current Account	+3	-78	-75	-61	+66	-227	-135
B. Capital Exports	133	-145		-772	r83	-254	-184
1. Recorded	185	-85	H00	-197	+68	-265	-98
2. Errors and Omissions	-52	-fO	-112	*25	+15	11	-56

The first observation emerging from the 1970-80 data is the extreme unreliability of these estimates. To take only two examples, current account balances and capital movements should both total zero for the world as a whole; but the totals shown in the last column of the Table are minus 135 billion for the current account balances (line III A) and minus 184 billion for the capital accounts (line III B). Only a minor portion, if any, of these huge inconsistencies can possibly be accounted for by the lack of coverage of the Communist countries. For further investigation of this puzzle, I refer you to the paper mentioned in footnote 3 and to two recent discussions: that of the [IMF in its *World Economic Outlook* (April 1982, pp. 141-142 and Table 23, on p. 165), and that of the OECD in an "Occasional Study" dated June 1982. The main source of discrepancies seems to be the under-recording of both current account and capital receipts, rather than an over-recording of payments. In any case, it is clear that the Impact of Balance of Payments Transactions upon the 1970-1980 Explosion of International Reserve Assets under the Present Monetary System" in the current issue of *Aussenwirtschaft*. The net size of both the current account deficits and of the capital imports financing them should be scaled downward considerably for the industrial countries other than the United States and for the non-oil exporting non-industrial countries; also, the net surplus of the oil exporting countries may not include the entirety of the investment earnings debited in the accounts of the industrial countries. Some broad and politically as well as economically meaningful observations on the direction-although not

the exact size-of these enormous balance-of-payments disequilibria may nevertheless be derived from the estimates of Table II. For economic as well as humane reasons, a sensible international monetary system should prompt the industrial countries and a few of the oil exporting countries to accumulate current account surpluses. This would provide financing for the poorer and less capitalized countries of balance-of-payments deficits that are justified by the investments necessary to their economic growth and for the maintenance of consumption levels indispensable to the *very* survival of their people. But what actually has been happening is quite different: a) *The less capitalized countries-i.e.* the countries of the Third World other than those exporting oil-experience external deficits, probably excessive, but overfinanced by capital imports enabling them to increase their international monetary reserves each year. b) *The oil exporting countries* are today the only ones accumulating current account surpluses, about half of which they devote to capital exports-partly to the industrial countries--and the other half of which goes to reserve accumulation. c) *The industrialized countries other than the United States* incur enormous current account deficits, which are largely over-financed by huge capital imports, and *which* leave them also with considerable increases of their reserves. This is the crux of the inflationary explosion of world monetary reserves denounced above, and of their excessive absorption by the industrialized countries. These reserves, indeed, are not invested in the countries most in need of capital, but only in a few rich countries whose currency is deemed "strong"-primarily the United States. These growing "reserve borrowings"-in other words the indebtedness of the United States enable it to be by far the largest capital exporter, although its current account surpluses are negligible and grossly inadequate for one of the richest and most capitalized countries of our planet: less than 0.02 per cent of their GNP over the years 1970-80. This method of world monetary reserve creation and investments obviously strengthens even further the financial, economic, political, and military hegemony of the United States in world affairs. The reserves invested in its market by the rest of the world are reinvested abroad by the US under economic and political conditions which US authorities determine, and for objectives which the US chooses (military aid, for instance) or which are left to the decisions of the private market (direct investments, particularly in so-called "multinational" or "supranational"-enterprises). The practical consequences of this hegemony are not necessarily bad. On the contrary, it makes it possible, in fact if not in law, to insert a certain degree of highly desirable coherence in a world where countries remain attached to their illusory legal sovereignty, but are in fact inextricably interdependent. It was the US policy after the last war, reflecting rare wisdom and generosity, to accelerate the reconstruction of a war-devastated world, and it still is that country's policy today to provide to a fearful world a necessary counterpart to the Soviet military power. US hegemony is nevertheless more and more widely questioned today by public opinion in the United States and elsewhere, which has concluded that: 1. The fiscal and monetary policies followed by the Reagan Administration aggravate the world recession, notably through their impact on interest rates. 2. Inflation cannot possibly be brought under control nor the danger of nuclear suicide removed, as long as realistic negotiations are not launched to reduce drastically the annual waste of \$500 to 600 billion on rearmament by a world vastly overarmed already, a course contrary to the deepest aspirations of the public and of statesmen in the USSR as well as in the United States and elsewhere. 3. The foreign and military policies of the United States too often try-and this is incomprehensible in a country so deeply devoted to freedom and human rights--to perpetuate corrupt and bloody dictatorships abhorred by public opinion. This leaves no other alternative to the opponents than to seek the support of the USSR and to put into place regimes that are then dubbed "marxist-leninist" and therefore deemed dangerous and unacceptable to the United States and their allies. This evolution of US policy now threatens the cohesion of the Atlantic Alliance as well as the economic cooperation indispensable to world peace and prosperity.

II. POLICY CONCLUSIONS: THE INDISPENSABLE REORDERING OF THE WORLD MONETARY SYSTEM

1. Ending the World Infession The first policy conclusion flowing from this factual record seems inescapable: a fundamental reordering of the world monetary system remains as indispensable today for ending the world infession as it was more than two decades ago for avoiding infession, as I vainly argued at the time.[^] The reforms that I advocated at that time were at long last substantially endorsed by responsible officials in the early 1970s. after ten years of continuous debates and negotiations in the IMF, the Group of Ten, the Committee of Twenty, etc.? but this nearconsensus was cavalierly brushed

aside in the Jamaica Agreement and in the Second Amendment to the IMF Articles of Agreement. This Second Amendment is, to my mind, a sinister joke, whose only merit is to legalize belatedly the illegal repudiation of members' Bretton Woods commitments, without substituting any significant commitments in their place. The keystone of the reforms on which a near-consensus had been reached was that SDRs (which I would re-haptize ICUs, for International Currency Units, or preferably IRMs, for International Reserve Money) should as rapidly as possible become a substitute for gold and national reserve currencies, permitting the IMF to adjust the

⁴In *Europe and the Money Muddle* (Yale University Press, 1957) and particularly in my October 29, 1959 statement to the Joint Economic Committee of the US Congress, reproduced in *Gold and the Dollar Crisis* (Yale University Press, 1960). I repealed this warning on the very eve of the 1970s recession in an article entitled "How to Arrest a Threatening Relapse into the 1930s," published in November 1971 in the *Bulletin of the National Bank of Belgium*. ^See particularly: a) the Executive Director's report on the "Reform of the International Monetary System," IMF, August 1972; and b) the June 14, 1974 "Report to Board of Governors by Committee of Twenty" in "International Monetary Reform". Documents of the Committee of Twenty," IMF, 1974.

bulk of reserve creation to the optimal non-inflationary potential of world trade and production. A presumptive rate of growth-a to Milton Friedman-averaging 3 to 5 per cent a year should be inscribed in the Treaty, and any significant departure from it should require special weighted majorities of $\frac{2}{3}$, $> \frac{1}{2}$, or even more, of the members' (revised) voting power. All countries should notify the par value of their national currency in this common denominator, and surplus countries should retain their credit claims exclusively in this form, the new ICU or IRM being used in all market interventions and settlements and for the accumulation of private as well as official working balances.

2 The Investment of World Reserves for Collectively Agreed World Objectives

The first reform suggested above would vastly enlarge the lending potential of the Fund, A 3 to 5 per cent presumptive growth of world reserves would mean initially (starting from an estimated \$775 billion at the end of 1980 an annual lending potential of \$23.25 to \$38.75 billion net per year, i.e. about 7 to 10 times as much as the average yearly increase of SDR allocations and IMF loans together (valued at the \$/SDR rate of the end of (1981) over the period 1970-1981: \$3.26 billion. This presumptive potential would grow, of course, over the years, and repayments of past loans would increase the gross lending derived from such guidelines. Enormous as it may seem, this IMF lending potential would not entail the inflationary dangers and proclivities amply demonstrated by the present system of reserve creation. It would replace the unbridled use of national reserve currencies as international reserves by limited issues of IRMs, whose amounts would be governed by the fundamental objective of a reformed IMF to provide the increases of world reserves necessary to the optimal exploitation of feasible, noninflationary growth of world trade and production. Its effective use for Fund loans and investments would be a mere by-product of this basic objective. Equally important is the fact that it would enable the Fund to use this limited lending and investment potential for collectively agreed purposes commanding the highest priorities, rather than-as is now -It is ludicrous to reflect that there is none at present in the revised IMF Articles of Agreement. the case-for the blind financing of actual policies, or policy mishaps, of a few reserve-currency countries, no matter how objectionable and disruptive they may be to the international community and to the creditor countries themselves, financially, economically, and even politically. Three broad categories of financing come to mind in this respect: a) The first is the traditional lending operations of the IMF, designed to support agreed policies of monetary stabilization and restoration of balance-of-payments equilibrium, including the recycling or offsetting of destabilizing capital movements among major monetary and financial centers. These operations, however, should absorb only a fraction of the enlarged resources of the reformed IMF, and should not entail any long-lasting absorption of them for the financing of the richer and more capitalized industrial countries, as is now the case for the "foreign currency" component of world reserves. b) A substantial portion of Fund lending and investments could, therefore, aim at accelerating the economic development of the poorer and less capitalized countries. This should be done indirectly through the purchase of bonds from the World Bank, its affiliates, and the regional development banks specializing in such lending. c) Last, but not least, the new resources of the Fund could be devoted to the financing of international, rather than national, high priority objectives, such as the fight against pollution, contagious diseases, etc., through the World Health Organization and similar agencies already in existence or to be created in the future. The investments

needed to eliminate inflationary bottlenecks in energy, raw materials, and particularly basic foodstuffs, would obviously belong also to this category. The exploration of the alternative techniques (buffer stocks, etc) most appropriate to serve this objective should be left to experts in these problems. All I can offer is the assurance that the fundamental reform of the world monetary system, for which I have pleaded for more than two decades, would have the by-product of increasing considerably the financing facilities required to implement this objective.

3. Old Answers to Old Objections Three major objections were raised initially against these proposals when first formulated more than two decades ago, and are still used against them today: they could lead to a permanent blocking of IMF resources which should remain liquid; they would stimulate political pressures by the less developed countries to increase world reserves at an excessive, inflationary pace; and they are, anyway, unnegotiable politically.

a) The illiquidity objection was decisively and derisively refuted many years ago by Professor Machlup in his brilliant article on "The Cloakroom Rule of International Reserves; Reserve Creation and Resource Transfers" Any institution must retain a prudent portion of its assets in "liquid form" in order to enable it to redeem its own liabilities, when presented for repayment, in a form acceptable to the holders. Commercial banks must, for this reason,, hold liquid reserves in the currency of the country (or in liabilities of the country's central bank, convertible upon demand into the national currency issued by it). Central banks must, similarly, hold international reserves (in gold, or widely acceptable foreign currencies) to redeem their own currency issues and other liabilities in a form acceptable beyond the country's borders, unless they are willing and authorized to let their currency depreciate in the market, as has become customary under today's floating rates regime but was not legally permitted under the Bretton Woods system. The IRM liabilities to any of the members of a reformed IMP, however, could be drawn upon only to pay another member, and would require therefore a mere reshuffling of the IMF liabilities among them, dispensing with the need for the IMF to keep any portion of its loans and investments in so-called "liquid" form. To use Professor Machlup's sarcastic words: "For international payments in the same world, the assets (amount, quality, composition, liquidity) of the international reserve bank (or an appropriately organized IMF) are irrelevant; they become relevant only for payments to persons, banks, or reserve banks on other planets, that is, for interplanetary payments." The reformed IMF would therefore run no risk of becoming "illiquid." Its only concern, fully recognized in the presumptive potential above (see p. 9), would be to avoid excessive, inflationary abuses of an otherwise unlimited lending power. Even in the worst possible case under which some reduction of world reserves might be deemed appropriate to correct a level deemed, *ex post facto*, inflationary, only a very moderate decline could ever prove economically desirable and politically feasible. Un the August 1965 issue of the *Quarterly Journal of Economics*. The bulk of IMF reserves could be held in long term loans and investments, or even in "consols" repayable only at the discretion of the borrower-to avoid interest payments, for instance or when the borrower runs into balance-of-payments surpluses.

b) The argument most often raised against my proposals was-and still is-that their anti-inflationary guidelines would be swept away by the thirst of the less developed countries for an accelerated pace of economic development, financed by IMF loans and investments larger than compatible with those guidelines. I answered this argument in a 1971 article,s pointing out that: This argument ... should not be confined to the less developed countries alone. Who can doubt that the US argument for a large amount of SDR creation; at a time when the international liquidity pool is already flooded with dollars, was influenced, at least in part, by the knowledge that a large share of them (25%) would benefit the US itself and help us finance our deficits and/or reconstitute our depleted level of gross reserves? The danger of successful LDC lobbying would seem far less threatening since they hold together only 28 per cent of the total voting power, while an 85% majority is required for SDR creation, and since their ability to switch the vote of other countries is relatively minimal. What is most extraordinary, however, is that this concern for the inflationary potential of concerted SDR allocations to the LDCs was matched by an apparent lack of concern for the incomparably greater danger of uncontrolled creation of foreign exchange reserves benefiting only a few of the richer countries and none of the LDCs. The inflationary flooding of world reserves by reserve currencies was already well underway at the time, and accelerated sharply afterwards as amply demonstrated in the factual record presented in Section I of this paper. It could not have occurred if SDR (or IRM) creation had replaced foreign exchange as a source of reserves, rather than added to it, as was in fact decreed in the First Amendment to the Articles of Agreement of the IMF.

c) Political

obstacles to a successful negotiation of world monetary reform cannot be easily dismissed, even by those who recognize the reforms as logically and economically indispensable and long overdue. What are these obstacles? "The Use of SDR Finance for Collectively Agreed Purposes," *Banta Nazionole del Lavoro Quarterly Review* (March 1971). The one most frequently advanced is that the countries benefiting from the "extravagant privilege" of financing their deficits with their own "reserve-currency IOUs" are not ready to abandon it. Yet, this supposed blessing is in fact a curse in the long run, as demonstrated by the international collapse of the pound in 1931 and of the dollar in 1971. The other currencies now sharing this role with the dollar are similarly endangered, and their governmental and monetary authorities repeatedly proclaim their regret-which I believe largely sincere at being unable to prevent it. In any case, neither these governments (except initially, but no longer today, the United Kingdom) nor the United States are responsible for a development imposed upon them from the outside. They cannot force foreign central banks--nor commercial banks--to purchase and retain the overflow of their national paper currency. The willingness of the rest of the world, since the end of the Second World War, to accumulate such large amounts of dollars has been due to a number of factors. The main and most persistent of these factors is that all countries need an internationally accepted means of payment to settle their surpluses as well as their deficits. As long as no agreement is reached to define and create a truly international reserve currency, the only alternative will remain a commodity currency traditionally used in the past (i.e. gold) and/or some national currency or currencies. In the 1920s gold shared its formerly undivided role in this respect with sterling and the dollar, but resumed a nearly exclusive role in the 1930s after the collapse of sterling. Following the Second World War, the gold-convertible dollar assumed an increasing share of world reserves: even the incomplete estimates available show an increase of close to \$15 billion (from \$3 billion to \$18 billion) for reserves held in dollars, as against \$6 billion only (from \$33 billion to \$39 billion) for gold reserves, over the twenty years 1950-1969. Interest-earning dollar balances, convertible at will into gold, were understandably more attractive than sterile gold investments. What is more surprising is that the accumulation of dollars by foreign central banks leaped from \$18 billion to \$64 billion in the three years following 1969 and to \$167 billion at the end of 1981, while official gold holdings, measured at constant prices (in SDRs) dropped in *fact* from \$39 billion to \$36 billion. In view of the sharp increase in private demand, central banks could in practice no longer buy gold from the market; and most of them refrained from exercising their right to convert their dollar balances into gold, knowing that massive demands for conversion could only force the United States to suspend formally a gold convertibility that it would be unable to honor in fact. The dollar thus became inconvertible "by gentlemen's agreement" long before the August 1971 decision making it legally inconvertible. Yet, even this decision did not deter central banks from continuing to accumulate the bulk of their international reserves in paper dollars, even though they complained of the inflationary pressures which this entailed for them all. Why? A first reason is that any country refusing to purchase the overflow of dollars in its market would thereby have to accept an appreciation of its currency, leading to declines of exports, increases of imports, and a curtailment of both profits and employment, unless such appreciation could be matched by a reduction of costs including labor costs, most difficult to enforce in today's environment. This loss of competitiveness might by some be deemed tolerable--and even be seen as promoting readjustment--if it were confined to competitiveness vis-à-vis US producers, handicapped by the overvaluation of the dollar. The main obstacle to an orderly readjustment of exchange rates vis-à-vis the dollar, however, lay in the fact that it would necessitate simultaneous and compatible decisions by the "rest of the world," i.e. by many theoretically independent and sovereign countries. Such an agreement was bravely attempted, under the leadership of the IMF, in the Smithsonian Agreement of November 1971, but quickly dissipated in the following months, leading by March 1973 to the generalization of floating exchange rates, managed or mismanaged nationally rather than internationally, with an ensuing disorder from which the European Community countries finally tried to escape by the adoption of their European Monetary System in March 1979. A vital feature of this system was the creation of the ECU as an alternative to the dollar in infra-European settlements and reserve accumulation. I shall later present some comments on the achievements and shortcomings of this attempt. Another explanation for the continued accumulation of dollars by foreign central banks is political rather than economic. As pointed out before, the leadership of the United States was long seen by most countries as highly desirable--and even indispensable--for bringing some degree of order into the unbridled use of national

sovereignty by more than 100 countries inextricably interdependent on one another. Even the sharp disagreements that emerged about this leadership in the 1960x, 1970x, and particularly today, still leave nearly intact the conviction that it remains indispensable to the collective defense and security of many countries alarmed by Soviet military power. The contribution of dollar reserves to the financing of US deficits is accepted, no matter how reluctantly, as a cost worth paying for this purpose. I would be the last to deny the need to preserve, for this reason among many others, full cooperation between the United States and the rest of the world, so deeply affected by the success and failures of US policies in general, and not only in economic, financial, and monetary affairs. The main threat to such cooperation today, however, and particularly to the survival of the Atlantic partnership, lies precisely in the perpetuation of the "infection" unleashed upon the United States as well as upon other countries by the inflationary proclivities and the investment distortions of our unreformed world monetary system. The only way to preserve the Atlantic partnership in the long run is the adoption of fundamental reforms, earmarking available resources for the financing of the policies deemed most essential to world peace and security and of the investments needed to eliminate both the inflationary bottlenecks and the recessive tendencies of the infection in which the world is engulfed. In the absence of such reforms, the attempts of each country to fight its domestic inflation and unemployment, irrespective of the impact of its policies upon others, would inevitably reinforce the protectionist policies which already today threaten to lead to economic war and political disruption within the Atlantic Alliance, and between it and the other regions of the world. The adoption of these reforms should not wait for unanimous agreement. It should be promoted by regional agreements between all countries willing to implement them in their mutual relations and to demonstrate to the more laggard the disadvantages flowing from their non-participation and the advantages which they would gain from participating in them. This brings me to a brief discussion of the role of regional agreements in worldwide monetary reform.

4. Regional Agreements

I have long pleaded for regional agreements as complementary, rather than as alternative, to worldwide monetary reforms? Such

⁹See Part Three of *The World Money Maze* (Yale University Press, 1966), pp. 375-543, particularly pp. 407-418 reproducing my first memorandum to agreements should be part and parcel of a worldwide, but decentralized, monetary system exploiting to the full the very different degrees of policy cooperation and mutual commitments actually negotiable at any point of time between legally sovereign countries. Regional agreements and organizations have demonstrated their ability to achieve a growing coordination of policies and even institutions among countries highly interdependent, keenly conscious of this interdependence, and amenable to such coordination because of similar national viewpoints inherited from a common geographical and historical background and a relatively commensurate stage of economic development. Only looser cooperation and commitments are both feasible and necessary as a framework for national or regional decisions and policies giving rise to conflicts of interest, real or imagined, which cannot be arbitrated at the regional level. The most hopeful sign of possible progress along these lines since the breakdown of Bretton Woods in August 1971 is undoubtedly the modest breakthrough achieved at long last in March 1979 with the initiation of the European Monetary System (EMS). The countries of the European Community have recognized that it is impossible for each of them to use its national currency in the denomination and settlement of trade, services, and capital transactions carried out beyond national borders. Some of the countries involved in such transactions will, perforce, have to accept the use of one of their partners' currencies, or of a third currency. The prestige of the mighty gold-convertible pound sterling and, later, of the mightier goldconvertible US dollar assured for a time the widespread acceptance of these so-called "parallel currencies," in preference even to national currencies, as the best means for international settlements and for the accumulation of private working balances as well as of official reserves. This was, however, for the reasons stated above, enviable in the long run. The switch from the gold-convertible dollar to a wildly fluctuating paper dollar has made it less and less desirable as a world parallel currency, but the absence of any generally accepted alternative has retained for it a major role in the "oligocentric" monetary

the IMF, in September 1947, on this subject; and the most recent of many other articles in "The Relationship Between the International Monetary System and Regional Monetary Systems" in *Arab Monetary Integration*, edited by Khair El-Din Haseeb and Samir Makdisi for the Centre for Arab Unity Studies and the Arab Monetary Fund (Groom Helm, London and Canberra, 1982).

TABLE III:

THE REGIONAL PATTERN OF WORLD TRADE IN 1979

Percentage of 1979 Total Trade of region or Community Europe	Weight of the European Community	with the European Community	with the Western European Community	with the European Community	with the European Community	with the European Community
1. Europe-oriented	78	47	61	78	9	5
A. Western Europe	61	51	66	84		2
1. European Community	52	52	67	84	7	
2. Other Countries	16	47	63	84	7	2
B. Middle East &7	7	39	49	60	15	12
C. Communist Countries'		(29)	(56)	(65)	(8)	(13)
D. South Africa,5 Australia	5	29	35	49	17	
11. Western	45	19	24	38	19	9
A. United States		20	26	44	x	11
B. Canada		10	12	18	69	5
C. Latin America	19	20	27	39	31	6
III. Asia	33	13	16	41	20	12
A. Japan'-		10		45	22	x
A. Other Countries	18	16	19	38	19	22
IV. World	100	36	47	64	13	7

Source: Computed by Marie Emmanuelle Vandenberg from *Direction of Trade*

1. ? used in connection with trade between Communist countries, not recorded in

2. x used for the United States, Canada and Japan reminds the reader of the absence

system under which it now shares this role with the German mark, the Swiss franc, the Japanese yen, and a few other currencies. Every other country tries to relate its exchange rates and reserve accumulation to a major currency or to various baskets of major currencies reflecting their relative importance in its own external trade and payments patterns. The countries of the European Community have tried to reduce the disadvantages of such a system by agreeing on the ECU as a joint tool in their efforts to reduce and eventually eliminate unnecessary fluctuations in intra-European exchange rates, which dominate their external trade, services, and capital transactions. Table III clearly indicates that the ECU might also become a main pole of attraction for a similarly simplified system among a much wider group of countries including Western Europe, the Middle East and Africa, Australia, New Zealand and the Communist countries. Many of these countries might welcome some form of *de jure* or *de facto* association with the ECU and the EMS. The ECU might become, in particular, a currency of denomination and even settlements for the oil trade of the OPEC countries,

although they might prefer an ACU (Arab Currency Unit) made up-let us say-of matching shares of 40 or 45 per cent each of ECUs and SDRs,¹⁰ and 10 or 20 per cent of the major and stronger currencies of the Persian Gulf Area. Some arrangement of this sort might possibly emerge from the recent formation of the "Gulf Cooperation Council." Table III also shows, however, that other countries-in Asia and in the Western Hemisphere-could not stabilize their own foreign trade sufficiently through such a close association with Western Europe alone. They are bound to seek an uneasy compromise between a Europe-oriented area, encompassing for most of them about 40 per cent rather than 75 per cent of their trade, and other countries or areas-particularly the United States and Japan-accounting also for a major portion of their foreign trade. The undeniable success of the EMS over its first two and a half years of operation should elicit interest for similar regional integration progress in other parts of the world. It should, most of all, encourage further progress by the Community itself toward the second stage of EMS, i.e. the EMF (European Monetary Fund), initially promised "This would include in the ACU a reasonable proportion of yens and dollars, absent from the ECU, while avoiding the excessive proportion of US dollars in the SDR. for the end of March 1981, but postponed-temporarily, I hope-for a number of good and bad reasons. The worst argument for postponement is that of the initial opponents of EMS. They admit that its success surprised them, but argue that since it has worked so well there is no urgency to improve it: it can continue as is until greater success in harmonization of national policies-and particularly of still widely disparate inflation rates-makes its proposed strengthening more acceptable to all participants. The EMS success, however, has been due far more to favorable external circumstances than to FECOMII transactions. The weakening of the mark, particularly, vis-a-vis the dollar has reduced tensions between EMS currencies, making recourse to the EMS intervention and credit mechanism relatively minor in practice. Reverse developments in the mark-dollar rate have already begun, and it would be optimistic to doubt their future amplification. In this event the present EMS will face immense difficulties which it is poorly equipped to handle, but which would make its successful operation more indispensable than the "fair weather" in which it has functioned so far. I have submitted to the Community seven suggestions about this matter, which I will not enumerate here."² Some of these suggestions merely recommend an early implementation by EMS of the worldwide suggestions made above,³ particularly with respect to the gold and dollar assets of FECOM and of its members, and apply them to the issue of ECUs. They should refute one of the main objections to the ECU as a potential engine of inflation. A second objection to the acceptability of ECU settlements should also disappear if it were clearly understood that ECU reserve accounts are fully usable already for settlements within the Community and fully convertible, if needed, for outside settlements. When a member country incurs external "For *Fowls Europeen de Cooperation Monemire*. I use this acronym throughout, better known in Europe and easier to pronounce than the English acronym EMCF, for European Monetary Cooperation Fund. '-See *Le Srsteme Monetaire Europeen*, Banque, Paris, France, May 1981 (reprint of a March 23, 1981 lecture for the Paul-Neon Spaak Chair, at Louvain-la-Neuve), and *The First Two Years of FECOM Transactions*, so far only an internal EEC paper but to be released at some future date.

"Including the definition of member countries' exchange rates by reference to the ECU, rather than the reverse, as is now the ease. deficits not financed by credits, it settles them by drawing *pani passu* on its ECU reserves with the FECOM (20 per cent) and on those held outside the FECOM (80 per cent), and may legally continue to do so until its reserves are fully exhausted. If the deficits financed by ECU withdrawals are with other Community members, the global gold and dollar assets of the FECOM remain unchanged, its liabilities being merely redistributed between payors and payees. Convertibility would become a problem for the FECOM only if the global deficits of the Community as a whole toward the outside world were to exhaust its gold and dollar holdings. Such a danger is hardly to be feared: in spite of the exceptionally large deficits incurred in 1981 owing to new price rises for oil, which are now declining, and in spite of the sharp drop in gold prices, the gold and dollar assets of the FECOM still totaled more than \$45 billion at the end of the year. And if this, improbably, were not deemed sufficient, Community countries could still mobilize in addition part of the \$16 billion available under their "swap agreements" with the United States. According to the brilliant suggestions of Jacques van Ypersele, these swaps should also be multilateralized in the form of swaps with the European Monetary Fund, denominated in ECUs, permitting a more

appropriate distribution of drawings and repayments between Community currencies than the near-exclusive use today of the German mark in such transactions (which often aggravates needlessly the pressures on intra-Community exchange rates). The reserve losses of some countries, if they persist at the current pace, will undoubtedly force them to change their policies or readjust their exchange rates vis-a-vis the ECU. This could entail some depreciation of the ECU itself vis-a-vis the dollar, if these readjustments take place primarily through the depreciation of weak currencies rather than through the upward revaluation of others in the ECU basket,¹ but it should not, in any case, lead to the inconvertibility of the ECU. Advantage should also be taken of member countries' gold and dollar deposits to streamline and rationalize the absurdly complex and uncoordinated credit arrangements inherited by the FECOM from a host of successive decisions taken before the liquidity and solvency guarantees derived from such deposits. This should entail the merging of the present and very different provisions regarding "marginal" and "intramarginal" interventions on the exchange market, ⁴See below the suggestion for a redefinition of the ECU. and their settlement through ECU transfers in the books of the FECOM, rather than partly in dollars and partly through bilateral claims and debts in national currencies, as is still the case today. Finally, the acceptance of the ECU by the private market progresses today at a pace that should reassure the most skeptical central bankers and encourage them to lift the administrative obstacles that are still met today by the private sectors wishing to make use of ECUs in their transactions. The merging of national currencies into a single Community currency (now dubbed ECU), envisaged for the ultimate stage of full Economic and Monetary Union in several summit conferences of the heads of concerned states and governments, is certainly not for tomorrow. But the use of the ECU as an alternative to Eurocurrencies might progress in a spectacular way within the course of the next few months. On the purely political plane, it presents the rare advantage of being able to rally the support of the most backward nationalists as well as the enthusiasts of a United Europe. To cite only one name, a man like Michel Debre, whose intellectual integrity and strength of conviction evoke our admiration, would oppose strenuously the replacement of the French franc by the ECU, but he could have no objection to the use of the ECU in lieu of the Eurodollars, Euromarks, Euro-Swiss francs, [etc. in](#) which about \$900 billion of European banks' assets and liabilities are currently denominated. On the economic plane, the use of the ECU in intra-European contracts offers to the creditors as well as to the debtors a unit of account and settlement whose stability is-by its very definition superior to that of the national currencies of the ECU basket, and the closest possible approach to exchange rate stability for their external transactions. Indeed, intra-Community transactions constitute for most of the Community countries more than half (about 75 per cent for Belgium) of those transactions, while those with the United States hardly reach, on the average, 7 per cent of this total. Surely, the creditors who have full confidence in their own or their advisers' exchange rate forecasts will continue to invest their funds in the currencies they deem to be the "strongest." But the enormous losses incurred in the past, at times on dollar holdings and at other times on mark or other currency holdings, cannot fail to induce many company treasurers to prefer the ECU. For their boards of directors and their shareholders are certain to blame them far more for the exchange losses that they may incur due to forecasting errors made in taking positions on a national currency, than for having failed to maximize the exchange profits that one or the other of these currencies would have offered in comparison with ECU investments. Moreover, lenders must find borrowers, and the insistence of the former on using the hardest currencies will inevitably deter the latter or will have to be offset by lower interest rates. The ECU may prove a more acceptable compromise for all concerned. Whatever one may think of these arguments, it is a fact that the private sector is demonstrating its interest today in the ECU alternative to Euro-currencies. A roundtable which I was privileged to organize at Louvain-la-Neuve University in June 1980, including a few academics and central bankers, but mostly composed of representatives of major European commercial banks,⁵ was followed in short order by much larger meetings of hundreds of bankers and by a number of concrete initiatives, on which documentation is provided and updated periodically in the "ECU Newsletter" of the Istituto Bancario Sao Paolo of Turin. More than forty big banks in the Community countries, Switzerland, the United States and Japan, already accept ECU deposits and deposit certificates, lend in ECU, participate in the floating of ECU bonds, or exchange ECUs for national currencies, on sight and forward. In little more than a year, bonds have been issued or guaranteed in ECU for a total of well over \$2 billion by the governments of Belgium

and Italy, the Council of Europe, the Istituto Bancario Sao Paolo, etc., at current yields ranging from 13 to 14²/₃ per cent per year. Community officials are now examining with bank representatives a series of measures conducive to lifting administrative obstacles and reducing the costs of ECU transactions, and the (March) European Council has launched a first study of the official reforms deemed desirable and negotiable in the near future. The administrative obstacles are due to the fact that the ECU basket includes both the national currency and other currencies and is therefore subject to a double series of regulations and controls. The first reform called for, and already in effect in Belgium, France, and Italy, is to eliminate this handicap by assimilating the ECU to the Euro-currencies. This should only be a first step, and later reforms should aim at giving the ECU a preferential status, such as the "See the volume of *The Private Use of the ECU* by Niels Thygesen et al, edited by Andre L. Swings and Robert Triffin (Kredietbank, Brussels, 1980). availability of loans of last resort, requiring of course a minimum of prudential regulations, badly lacking today for most Euro-market transactions. The excessive costs of transactions denominated in ECU are due to the fact that payments between customers of different banks now entail a double set of foreign exchange operations, the ECU having to be converted first into a national currency by the payor and then reconverted into ECU by the payee. Moreover, each bank must cover itself against exchange risks by investing in national currencies, proportional to their shares in the basket, any difference between its ECU loans and its ECU deposits. Various alternative formulas are now under study, some more ambitious than others, which would reduce these unnecessary costs through the organization of one or several clearinghouses, with or without the participation of national central banks and the Bank for International Settlements. Two other possibilities under active discussion are the minting of ECU coins and the denomination of travelers' cheques in ECU, so as to familiarize the public with an instrument too little known by it so far. The success of these various initiatives could pave the way for two other developments. The first would be the use of the ECU outside the Community, notably in financial transactions by other countries of Europe, the Middle East and Africa, whose trade with one another and with the countries of the Community is also more important by far than with other monetary areas. The second possibility is a redefinition of the ECU, revolutionary and premature at this stage but imperative in the long or even medium term. The ECU is-like the dollar-a reference currency and should not be defined by the currencies referring themselves to it. Each member country already must notify the exchange rate at which it stands *ready* to sell and to redeem its national currency against the ECU and occasionally the changes of this rate, which might still be deemed necessary after mutual consultation, pending the ultimate, but still distant, completion of the planned Economic and Monetary Union of the Community. But the ECU itself should remain unchanged, as was the case yesteryear for the IMF unit of account. The ECU should be merely an ECU, as the dollar is a dollar.

5. Exchange Rate Readjustments I shall close with a few remarks on the role of exchange-rate readjustments in the reforms proposed above. They too should be regarded as complementary, rather than alternative, to both regional and worldwide monetary agreements, or rather than as a panacea dispensing with them. Even those who held this latter view in the late 1960s and early 1970s can hardly continue to hold it after the disastrous experience of the last decade. The main attraction of flexible exchange rates is political rather than economic, for the more inflationary countries. Flexibility enables them to pursue such policies for longer than they could if the balance-of-payments deficits flowing from them had to be financed by the depletion of the limited international reserve assets at their disposal. The questionable advantage enjoyed in this respect by the reserve-currency centers able to finance their deficits by palming off their domestic currency upon foreign central banks would, however, no longer exist under my proposals. Exchange-rate readjustments would become inescapable for them as well as for others, and this should go at least part of the way to satisfying the advocates of flexible rates. On the other hand, flexible exchange rates enable the less inflationary countries to let their currencies appreciate, rather than to finance the more inflationary ones by purchasing their currencies in the market at the cost of excessive issues of their own domestic currencies. Again, the proposed outlawing of foreign currency reserve holdings would go a long way toward reducing the inflationary flooding of world reserves by reserve currencies, which was the main reason for the adoption of floating rates in the early 1970s, but which has persisted in fact under floating as well as under fixed exchange rates. Yet, this fear of imported inflation remains, even today, the main objection of the German Bundesbank and some other central banks to proposals aiming at faster progress of the European Monetary System toward exchange rate stability between the

currencies of the European Community. These central banks are legitimately concerned about the acceptance of any intervention commitments that might force them to finance inflationary policies by some of their partners in the Community. The obvious lesson to be drawn from these considerations, however, is that the harmonization of domestic policies around as low a level of inflation as is politically feasible should be the preferred policy for all concerned. Exchange-rate readjustments are certainly necessary and unavoidable *ex post facto* to offset past policy errors and mishaps, but they do not correct them in the future, unless accompanied by the internal policy readjustments *which* would have made them unnecessary and would have been far less painful if adopted in time. Worldwide as well as regional monetary commitments should aim both to maximize this harmonization of domestic policies and to accelerate the exchange-rate readjustments now unavoidable as a consequence of persistent policy failures. A fair distribution of adjustments between deficit and surplus countries should call for a "fork," limiting to an *agreed* proportion of their GNP both their right and their obligation to intervene in the exchange market. In other words, national monetary authorities should have a certain leeway-defined by that fork-to protect their country's exchange rate and price level against the impact of temporary imbalance. They should be barred, however, from exporting further their inflation or deflation to other countries *through* reserve transfers, borrowing or lending, except to the extent that this is agreed by their partners to be a lesser evil than the consequences flowing from too abrupt a readjustment of domestic policies. Instead of barring outright any further market interventions, compromise solutions might taper them off in absolute amounts or limit them to the amounts necessary to bring about the changes in exchange rates deemed desirable or unavoidable; they also might smooth out exchange rate fluctuations to an agreed crawl. Such compromises would avoid the larger and unnecessary changes that would otherwise be imposed on market rates by excessively disruptive, reversible, speculative capital movements and expectations. The key element of these proposals would again be the obligation of the surplus countries to accept the settlement of their surpluses in the form of IRMs or regional reserve assets-such as ECUs-issued by regional monetary institutions. This would be no more inflationary for them than any other form of surplus accumulation, such as gold or reserve currencies. The guidelines suggested above would indeed preclude any inflationary consequences of this system of reserve creation. The guidelines would also preclude a distorted pattern of reserve investments flowing from it and would instead earmark these investments for purposes jointly agreed upon by the members of the IMF and of regional monetary organizations. The deficit countries admittedly would not be guaranteed the unlimited and unconditional financing some clamor for. Any attempt to ensure such automatic borrowing commitments would be not only absurd, but counterproductive, since it would dry up at the source the lending commitments otherwise negotiable with the surplus countries. It is *high* time, however, to conclude a paper that undoubtedly has exhausted already the patience of the reader.

PART IV

DEVELOPMENT THROUGH PUBLIC AND PRIVATE SECTOR

CHAPTER 14 Development Through Public vs Private Sector 'The Debate'

Olof Murelius

The panel discussion was launched by the presentation of several papers on different aspects of the public vs private sector development issue. The presentations revealed a variety of interpretations of the public/private split: the dichotomy between ODA and investment by multinationals; the choice between the establishment of publicly vs privately owned enterprises in developing countries; or the different advantages of large-scale vs medium- or small-scale industries. All speakers emphasized the importance to development efforts of the creation of a strong indigenous network of small-scale industries, and most pointed to the failures of large-scale, capital-intensive public or private enterprises to

promote development-failures in such areas as efficiency, employment creation, social objectives, and assisting the most backward sectors. All of the presentations stressed the need for a more effective coordination between the public and private sectors.

DISCUSSION

The Chairman introduced the discussion by putting the following questions to the participants:

Are both the private and the public sectors inefficient?

How do we distinguish the role of the state from that of public enterprise?

What is the function of public small enterprise?

What role should international institutions and aid agencies play? The question was put how the issue at hand was related to the North-South dialogue. The so-called "capitalistic exploitation" has been associated with the North. This has given rise to the question of

This is the rapporteur's report on the panel discussion on "Development through Public vs Private Sector" which was chaired by Professor Louis Emmerij with Professor Paul Streeten, Professor Hisao Onoe and Dr. Dario Disegni as panelists. This report was not reviewed by the chairman or the panelists. public intervention and the means to be used for such intervention. It was agreed that the distinction between "public" and "private" is difficult and that decision-making structure is more important than ownership. To this should be added the importance of proper incentive and information structures. Bureaucracy is primarily a function of scale and is characteristic of both public and private large enterprise. In the public sector there is a dilemma that could more easily be avoided in the private sector: if rewards are related to profits, the enterprise may gravitate towards monopolistic pricing policies; if profit incentives are reduced, the enterprise tends to lose in efficiency. One participant pointed to a serious problem that is particularly characteristic of the South: an inefficient and unjust taxation system. The question was raised whether this was essentially a problem of management. It was suggested that one should look at practice rather than at concepts. The success or failure of public enterprise depends on other factors than economic ones—for example, political participation without which the public sector cannot do the job. Nevertheless, emphasis should always be put on individual responsibility and initiative. The reasons for failure of public enterprises have often been political, and those who speak in favor of equity and justice have sometimes belonged to groups interested in perpetuating privileges. Policies are always identified with the leader, and therefore a change of policy is hard to achieve at the time it is needed. A number of participants concurred that the problem is essentially one of finding the optimal mix between public and private efforts: however it is hard to determine what that optimum mix should be. It is important to examine situations in individual countries, since only country-specific solutions will be acceptable and successful in the long run. One of the group referred to the progress made by Adela in Latin America and by PICA in Southeast Asia in promoting development through the private sector, while another pointed out that it is very difficult in many developing countries to achieve equitable distribution through taxation and wage policy. He agreed that corruption sometimes determines whether an enterprise is established or not and suggested that if small and medium-sized industry is the answer to development, then the experience of the Scandinavian countries would merit closer examination. A Government Commission has been established in Japan to look into some 120 public enterprises. The work of the Commission is intended to facilitate drawing the proper line between public and private ownership and efforts. It appears that the more developed the private sector is, the better are the chances for cooperation between so-called donors and recipients. One participant suggested that it would be useful to study the reasons for an absence of private entrepreneurs and to examine in some detail the conditions for efficiency; he made the thought-provoking statement that by some criteria the USA was the only socialist country.

The Chairman summarized the discussion and concluded the panel by making the following six points:

1) The panel and its documentation had been included in the context of the North-South

Roundtable for two main reasons:

(a) the present stage of international development cooperation and the development dialogue has again raised the perennial issue of the role of the state vs private initiative and enterprise;

(b) a new conservatism is emerging in the field of development assistance-Messrs.

Myrdal, Seers and others have come out against aid in its traditional form.

2) The record of public enterprise is not impressive. It has tended to make the rich richer and the poor poorer. This is the negative side of "the first round of socialism."

3) Can the poor record of public enterprise be generalized with regard to the public sector as a whole? The discussion has been inconclusive on this point.

4) A clear distinction must be made between ownership and management. Indications are that management is more crucial.

5) The role of the public sector has been overestimated. A distinction must also be made between private enterprise and institutions. Basically, enterprise is a matter of skill and management. Skill is not necessarily best developed by formal education. The nature and function of institutions must be continually reconsidered.

6) The issue discussed by the Panel is not only a technocratic but also a political problem. Who decides? What incentives are provided? What is the nature of participation, leadership, service?

CHAPTER 15

Twenty-one Arguments for Public Enterprise

Paul Streeten

This paper presents a number of arguments that have been or could be advanced for nationalizing private enterprises or setting up public enterprises and briefly discusses their merits. A public enterprise, for the purpose of this discussion, is an enterprise that is accountable to a government *agency*, in *which* the government is the principal shareholder and/or has substantial control, that produces goods or services for sale to the public, and whose revenues diverge not too much from its costs. Civil service departments, public schools, universities and the *army are* not public enterprises. The arguments can be broadly grouped under three headings: A) moral arguments; B) arguments based on improving the efficiency of the enterprise; C) arguments from *general efficiency*, including the efficiency of other industries and fronted general policy objectives.

A) MORAL ARGUMENTS

I. The Marxist argument for the public ownership of all means of production is based on the view that private ownership is exploitation of the workers. Only public ownership guarantees that workers get the full value of their product. This leads to the conclusion that there must be total nationalization without compensation: the expropriation of the expropriators. In mixed economies, the Marxist idea has been dropped, and owners of nationalized enterprises are compensated for three reasons: (a) If not all enterprises are nationalized simultaneously, to confiscate only some would be unfair as between different owners, (b) It would also be inefficient, because those who remain in private enterprise but fear that the same fate may befall them later would be discouraged from running their firms efficiently. Indeed, this constitutes an argument for general compensation, based on an evaluation of the full value of the enterprise. (c) If it were desired to reduce the proportion of assets in private ownership, a more efficient and fairer means is taxation in the form of a wealth tax or a capital levy.

2. A second moral argument is that private profits, being based on *greed*, are immoral. This argument is inconsistent with the Marxist argument, in spite of the appearance that "exploitation" suggests immorality, for Marx stressed the importance of profits in a capitalist system. A Marxist would condemn this argument as Utopian.

3. A third argument is based on the view that nationalization substitutes a wider view of the responsibilities of the enterprise for the narrow view of profit maximization. Business, it is argued, is conducted in a different atmosphere. A public enterprise can take into account its responsibilities to employees, to the neighborhood, to its customers, to national objectives, to the environment. (This argument overlaps with argument C17.) Large private firms claim that they do this already. Three questions arise: (a) Should any firm, private or public, take this wider view, or is it not better left in the hands of democratically elected representatives, setting incentives and constraints, in the framework of national policies? If the wider view should be taken, it might be better done by public control (subsidies and restrictions or taxes). (b) Assuming the enterprise itself should be asked to take the wider view, is it done better under private or public ownership? (c) If managers of large private enterprises claim that they do take the wider view, where do the shareholders come in?

4. A fourth moral argument is that public enterprise produces better labor relations. Industrial democracy, it is argued, is better served by nationalization. There was, for instance, a stage in the British coal industry when coal miners refused to work for private mine owners. The labor relations argument may be linked to the argument that private ownership leads to cut-throat competition, which in turn leads to lowering of wages and worsening of working conditions below acceptable standards. This kind of argument was once used for the British road haulage industry. The difficulty with this argument is that, apart from the possibility of raising the income of the workers by using a monopoly position at the expense of consumers, the management of a public enterprise is just as far removed from the workers as that of private enterprise. It is really an argument for guild socialism or for worker-managed enterprises. In some cases, a public enterprise can be tougher with the workers than a private one, as for example when enterprises in the public sector are charged with enforcing a national wages policy. Many advocates of workers' rights would also argue that workers' interests are better served in opposition to management, through trade union collective bargaining, rather than by the merit, even if under the *Workers' Remuneration Act* in the Federal Republic of Germany.

B) SPECIFIC ENTERPRISE EFFICIENCY

5. An important argument for public enterprises, especially in developing countries, is that the state must do the job. Particularly in the case of large-scale enterprises, the rewards appear to be more than one else can be assessed in the light of entrepreneurs, could not the private enterprise be supported? private activities be subsidized for private enterprise? Could not foreign enterprises be invited? Often the scale of the enterprise is so large, or the time horizon so long, that private enterprise is ruled out. This has been the case in Argentina or Turkey for the public ownership of steel in the 1960s.

6. Another argument from specific efficiency is that unitary control should be imposed on the enterprise for either of two reasons. (a) If left to private enterprise, there is undesirable multiplication of services or products, as in British insurance or the argument for standardization. The automobile industry is a good example. This is not the case with standardized, differentiated products and a few, to choose from, products.

However, this type of choice can be cheaper, by other means than public enterprise.

b) Private firms promoted by the government are too small to be economic, and public enterprise can achieve the economies of scale reductions. This comes of scale that would lead public nationalization. This argument has been used in the case of land and coal in Britain for the argument against the private ownership of mineral rights. It has also been argued that the licensing of mineral rights leads to inefficiency. Mining machinery and many separate production may be other examples where economies of scale may be achieved through the establishment of unitary control. This leads to the next argument, which is inevitable and that men, that a monopoly and therefore it should be publicly owned. In private hands, there are the twin evils of the public and inefficiently controlled free competition of the public and inefficiently controlled free competition. This is normal. The case in large industries subject to increasing returns to scale. Where the products of the industry can be traded, international competition can limit the power of these "natural" domestic monopolies, but where the goods or services are not subject to trade, the threat of monopoly arises. This is the argument for public enterprise in the utilities: gas, electricity, telephone, railways and postal services. There are three prongs to the argument.

(a) A monopoly represents a concentration of economic power and should be under public control to avoid exploitation. Although other methods of control are possible, nationalization is the simplest.

(b) Private enterprise prevents full utilization of capacity in conditions of decreasing costs. Since at least average costs must be covered, this leads to capacity utilization below the social optimum.

(c) In the absence of competition, private monopoly permits costs to rise as a result of inefficiency. Three things should be noted:

(a) There are other forms of control than nationalization, such as price regulation, performance criteria, etc.

(b) Nationalization is not a sufficient condition for effective control, for public enterprises too can exploit the public or be inefficient. Indeed, it used to be said in Britain that there were two sectors in the economy: the controlled and the free. The private sector is controlled, and the public sector is free. One can readily think of examples of public sector enterprises that were less controllable than private ones: TVA in the USA and electricity in the UK under Lord Citrine. There remains, therefore, even for public enterprises, a need for price regulation, tribunals, monitoring authorities, efficiency audits, etc.

(c) Where unity of control is not a decisive advantage, there could be several public enterprises competing with one another, as in electricity, gas and coal in Britain.

8. The next argument is the argument for coordination. If there is a case for the public ownership of one enterprise, say railways, because it is a natural monopoly, a competing enterprise, such as road haulage, if left in private hands, could get all the profitable transport. This is the result of the need to cross-subsidize different types of freight or passenger transport. Therefore, the argument goes, one should nationalize road haulage, railways and water traffic. The same argument applies to different forms of fuel, such as electricity, gas and coal. The difficulty with this argument is that it may constitute a case for a different pricing policy for each enterprise rather than for wholesale nationalization. If each service were allowed to charge its marginal costs and to cover its indivisible expenses by separate charges (or subsidies), the problem would not arise. Nor does a single seat of control, under the Ministry of Transport, or the Ministry of Fuel and Power, guarantee coordination. In Britain there were competitive advertising and sales efforts for gas and electricity, even though both were public enterprises under one Ministry. There is, however, a distinct case for the coordination of lumpy investment decisions, where, in the absence of such coordination, there are lurches between over-investment and under-investment, between excess capacity and shortages, as often occur in steel, fertilizer and ship building. The alternative would be exchange of information among private investors, although if investment decisions are revised in the light of this information, the outcome is indeterminate.

9. Another argument for public enterprise derives from the desire to improve managerial efficiency. If it is thought that private sector managers are worse than public sector ones, there

is a case for public ownership. The argument has to be related to systems of incentives, selection, recruitment, training, etc.

10. The next argument is that private enterprise cannot raise adequate amounts of finance. It is important to note that the power to raise more capital, or to raise a given amount on cheaper terms, must not spring from the monopoly power of the state, for that would lead to comparative over-expansion in the public sector. There are three good reasons for public enterprise on financial grounds:

(a) Private risks may be greater than social risks.

(b) Even though the risks are the same, private owners may be less willing to take them, or may perceive them to be greater.

(c) Private enterprise has a shorter time horizon than the public sector. Where very heavy capital expenditure is needed that yields a return much later, as in atomic power stations, the private time horizon may be too short. For the purpose of separating our arguments under the different headings, we must exclude cases where the social risks are smaller because the benefits accrue to other enterprises than the enterprise in question. This argument will be discussed under C 16. Examples would be the British coal industry, where the shock of the depression led to a systematic overestimation of private risks. It is sometimes said that public enterprise is risk-averse, overcautious, and that we need private initiative if we want ventures and risk-taking. There is, of course, no particular virtue in risk-taking as such. What is needed is a careful evaluation of risks. Some quite incredible risks have been taken by public enterprises. We need only remember the Groundnuts Scheme of the British Colonial Food Corporation in Gambia, the London-Midland Electrification, the Anglo-French Concorde, or the British Advanced Gas-Cooled Reactor. As P.D. Henderson has shown, the recklessness of these projects was quite beyond what any private firm could ever have undertaken. The point about public enterprises is not that they are risk-averse, but that they are averse to actions for which they can be taken to task by the controlling authority. If the right procedures were followed, however irresponsible the risk-taking, the official or the executive is safe. What is needed is an audit that determines who took what decisions on what evidence, and whether they turned out to be right. Correct decision-making, rather than correct procedure, should be rewarded. Moreover, the audit should cover not only decisions that were made badly, but also decisions that should have been made but were not. It is much easier to allocate blame for the sins of commission than of omission, and much inefficient management can be covered up by an appeal to precedent

C) GENERAL POLICY OBJECTIVES

II. We now turn to the third group of arguments that relate neither to morality nor to the efficiency of the specific enterprise, but to general considerations of policy either for other enterprises or for the economy as a whole. Perhaps the most basic argument here is the desire to cut the link between consumption (or its rate of change) and investment, formalized in the acceleration principle, and to make investment not induced but autonomous. When all investment decisions are taken by private firms, there is a basic dilemma, pointed out by Malthus and Marx, between will and means. When consumption is high (or its rate of growth is accelerating) the means to invest are lacking; when consumption is low (or its rate of growth declining) the incentive to invest is lacking. Where there is a will there is no way, and where there is a way there is no will. It's like the leaky roof that is never repaired. When it rains, I cannot go out to repair it, and when the sun shines there is no need. As a result of this investment dilemma we lurch from excess capacity to shortages. Only by making all or at least a substantial part of investment autonomous do we free ourselves from the conflict between means and incentives. The problem could be mitigated by certain types of private expectations, but it might equally well be aggravated. 12. The twelfth argument is the argument for the public ownership of "basic" or "key" industries, or the argument from the "Commanding Heights." What is a "key" industry can be derived from an input-output table. Products or services that are needed in most other industries, such as coal, gas, electricity, transport, steel, banking, chemicals, are in this sense said to be "basic." It is said that private enterprise serves private-not social-ends, and that this divergence is more dangerous in basic industries. (In addition, they often also are monopolies, as in the case of utilities previously discussed under B7.) Yet, it might not be easy to delineate precisely what is "basic."

Is steel more basic than bread? Few have advocated public ownership of bakeries on the ground that bread baking is a basic industry. Moreover, if several components are necessary to achieve a result, can any one of them be regarded as more "basic"? In an interdependent system of production, in which there are degrees of substitutability as well as of complementarity, it is very difficult to identify basic industries. 13. This argument is a plea for public enterprise as a means of enforcing cost reductions on *other* industries. A large buyer, such as the British Electricity Authority, can (in principle, though it has not done so) force standardization and cost reductions on the electrical equipment and fittings industry. Under argument 86 it could be reasoned that consumers prefer a multiplicity of models, even at somewhat higher costs, to greater standardization at lower costs. But nobody benefits from the great variety of electric contacts and fittings prevalent in Britain. Another case would be a public wholesale authority if it were thought that retail trade should be made more efficient. The case for a public buying authority in order to reduce transfer pricing by transnational corporations is not the case for greater efficiency but for a larger share in the gains from international trade. 14. The next case is the argument for countervailing power. If a large and powerful retailer faces many small suppliers, public ownership of wholesale trade can be used as countervailing power. In this *way* policies can be forced on monopolists or oligopolists. The British Match Corporation is a monopolist. A public wholesale enterprise could offset this monopoly power and force it to produce more and/or at lower prices. It could also be used to offset the power of transnational corporations unless, as Peter Evans has argued, there is an alliance between public, private local and transnational enterprise. 15. Moving to the other end of the competitive spectrum, public enterprise can be used in order to encourage, stimulate, or monitor competition, in two possible ways: (a) A public plant may be set up in order to compete with private firms so that it can be known what proper costs are, for purposes of anti-monopoly or anti-restrictive practices regulation. (b) The public enterprise may enforce competition on others by competing. Unfortunately, it is often the case that the public firm incurs higher costs and therefore swells the profits of private competitors. In fact, most public enterprises have tended to be government monopolies. But this need not be so. A condition for successful competition is that the enterprise must not receive favorite treatment by the government with respect to price setting, finance, etc. Perhaps the best examples of successful competitive public enterprise are Renault in France and the initial Volkswagen in Germany. 16. The argument of public enterprise on grounds of external economies can be the last refuge of the scoundrel, or it can be an all-pervading justification for it. Where social benefits cannot be reaped fully by the enterprise, private and social costs and benefits diverge. The external social benefits may be pecuniary or non-pecuniary, and may comprise social objectives. Several cases may be distinguished: (a) Certain economic influences on well-being (or on profits) are not transmitted through the market: health services, police protection, army, education. They are public goods and are enjoyed collectively. Charges either cannot easily be made or are uneconomical. But much of what is done by the government for these purposes does not fall under our definition of a public enterprise because the service is rendered free or with a very large subsidy, so that revenue bears no relation to costs. (b) There may be pecuniary external economies in the form of consumers' or producers' surpluses which cannot be fully appropriated by a private enterprise. Benefits may accrue to others in the form of lower prices if perfect discrimination is not possible or desirable. If it were possible, it would involve a monopoly and the argument for public control or nationalization on this ground then comes into force. Thus is Hotelling's argument for public enterprise, typically in the case of bridges or highways where indivisibilities are important. Again, it should be noted that public ownership is not the only remedy, and not necessarily the best, and its merits should be compared with those of alternative forms of regulation. There are ways of covering total costs that do not preclude the use by consumers whose benefits cover marginal costs: multi-part tariffs, fixed charges, price discrimination or a public subsidy. (c) Even the sum of consumers' and producers' surpluses is an inadequate criterion in a situation of disequilibrium. Where investment in one industry gives rise to profits in other industries, hence to their expansion, hence to greater demand for the product of the first industry, more investment is justified than is indicated by private profits or by the sum of the surpluses. (d) The final case arises where uncertainty prevails and the estimate of benefits and costs of uncertain outcomes are assessed differently in the private than in the public sector. Public enterprise may then become a vehicle either for spreading risks or for differently evaluating the risks. Assume that it is judged equally uncertain whether an investment will result in excess capacity

or shortages. To a private enterprise the former would bring losses, the latter excess demand, higher prices (or possibly lengthening delivery dates), but certainly gains. From the social point of view, on the other hand, the former implies some malinvestment, but this can be regarded as an insurance premium paid against the possibility of getting caught short and either suffering a balance-of-payments crisis with consequential deflationary action or import restrictions and supply-constrained underused capacity in industries depending on the scarce input. It could, of course, be argued that in some cases ample foreign exchange reserves may be a better and cheaper insurance than surplus industrial capacity. But there is no doubt that the consequences of being short of an important input are less damaging for the producer and seller of this input than for the whole society. The proper motto for the policy maker may therefore be that for Wilhelm Tell: "Aim high!" And private enterprise would not do so.

17. A particularly popular argument for nationalization is the need to maintain stable employment. In order to prevent widespread unemployment, direct control over investment may be necessary. If for example private investment were not a continuous function of some strategic variable, such as the rate of interest, but a step-like function—"animal spirits"—so that it is either buoyant and excessive, or feeble and deficient, direct intervention would be necessary. The argument for saving Rolls Royce, *British Leyland* or Chrysler, made out on the ground of job preservation, has been called the argument of the Sinking Sands. In the longer run, this can lead to greater job losses through reduction in exports and economic growth. In developing countries, the case for a public sector enterprise is sometimes made out on the ground that it can give greater weight to the social need to create employment, paying attention to the fact that shadow wages are below market wages, and use more labor-intensive techniques. In fact, most public enterprises in developing countries are more capital-intensive than private enterprises, and there is little evidence that they have heeded the need for *efficient* capital-saving techniques. What does occasionally happen is that these enterprises employ, or rather underemploy, an excessive number of people, providing them with a kind of indoor unemployment relief.

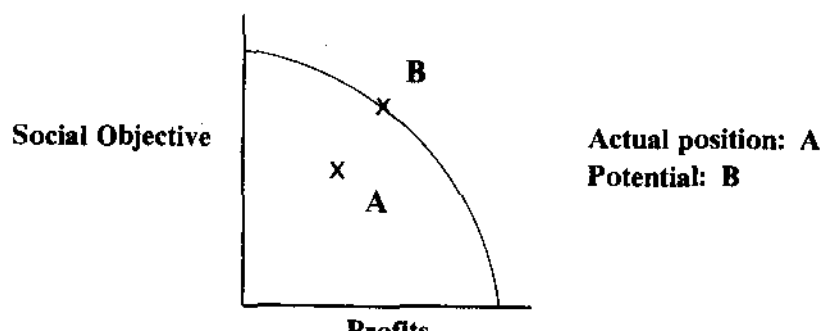
18. Where resources are irreplaceable or *very* difficult or costly to replace, private profit maximization leads to the wrong results. There are external inter-firm diseconomies, designated as the Tragedy of the Commons. The restraint of public ownership is one of several possible solutions. One would therefore expect societies based on public ownership of all means of production, such as the Soviet Union, to be more respectful of the environment and of non-renewable natural resources. Yet the evidence shows the opposite: Soviet enterprises are just as rapacious and polluting as capitalist ones.

19. Public enterprise can also be used as an instrument of redistribution. In advanced industrial countries, a combination of progressive taxation, social services and a functioning capital market that disperses private ownership widely can, in principle, reduce inequalities in the distribution of income and wealth. These methods of spreading ownership of assets and access to these assets widely are often not available in developing countries. In such cases public enterprise may be an alternative way of reducing inequality.

20. A case for public enterprise is sometimes made on the ground of administrative technique. The argument is that it facilitates a form of control not itself connected with the nationalized enterprise. Taxation may be easier to perform if the goods pass through few and public hands. This may constitute a case for public wholesaling. Or to administer effective import controls, a government monopoly in import trade may be necessary. Throughout the discussion of the various arguments it has been shown that taxes and subsidies are frequently alternatives to public ownership and control. Those who advocate taxes and subsidies as a more efficient solution would have to show that their "distorting" effects are less than those of public enterprise. Moreover one would have to compare the administrative costs of collecting taxes and disbursing subsidies with the inefficiencies of public enterprise.

21. The most general case (overlapping with some previously discussed) for a public enterprise is that it can achieve social objectives that private profit-seeking enterprises cannot. To some extent this argument overlaps with the moral case, though some objectives may be economic, social or political. A railway may be charged with incurring losses in order to maintain a branch line that is essential for the survival of a rural community. Or a bus company may be asked to incur losses in order to contribute to a more equal income distribution by subsidizing the consumption of the poor. Or a public enterprise may contribute to decolonization by reducing foreign ownership. Or it may be used to maintain employment where otherwise there would be heavy regionally concentrated unemployment (see C17). The British Electricity Authority decided to insure its undertakings, against commercial considerations, in order to strengthen the British insurance industry and make it fitter to meet foreign competition. (Why should consumers of electricity

pay for this subsidy?) In Italy, IRI bought a food processing enterprise against the bid of a US multinational, in order to locate the plant in the South and stimulate development there. These arguments are all too familiar. It is no reply to say in defense of private enterprise that large private firms, like public enterprise, also take the national interest and the interests of neighborhood, workers and consumers into account in their decisions. U may be wrong in both cases. The questions that must be asked are: (a) How is the national interest interpreted? (b) How much does it cost to pursue it and who should pay the costs? (c) How efficiently is it



pursued?

The most important point to make here is that the pursuit of social objectives must not be made the excuse (as it often is) for inefficiency in pursuing both profits and the social objective. In many cases, the situation is that illustrated in the graph, where it would be possible to achieve more of the social objective, whether it is income redistribution, poverty alleviation, employment creation, decolonization, or the maintenance of a distant rural community, as well as more profits. "B" lies on the opportunity locus, while "A" is the actual position.

Secondly, the social objective is often better pursued by specifying its social costs and granting the enterprise the corresponding subsidy, asking it to maximize profits subject to achieving the social charge. In many cases, the public enterprise, far from achieving the alleged social objective, achieves the opposite. The loss-making electricity works, intended to subsidize electricity to poor consumers, subsidizes the high income electricity consumers at the expense of the poor. Similarly for subsidized public transport. The questions in such situations are: Who pays? Who benefits? And if the impact is perverse, why is it so? The beneficiaries are often the powerful urban middle income groups. The cost bearers are difficult to determine, for an assumption has to be made about who would have benefited, had the losses not been incurred: what would have been the use of the subsidy? And it is easy to imagine even worse uses, from the point of view of the social objectives. But according to Leroy Jones' theory of the opportunity subsidy, we should compare the actual subsidy with the most socially desirable alternative use of the resources. And from that point of view, there can be little doubt that the poor are the losers. The explanation for the perverse effects lies in a combination of ignorance, stupidity, cupidity and political accommodation. Decolonization has been an important objective in Indonesia, Ghana, Algeria, Peru, Mexico and Chile, where 85-90 per cent of 200 public enterprises were previously foreign-owned. In Malaysia it was the transfer of wealth and power from a dominant group to an (economically) subordinate one that influenced the transfer of public ownership.

SOME LESSONS

1. The first conclusion is that many of the objectives of public enterprise can be pursued by other methods, including public regulation, taxes and subsidies, and incentives and deterrents of various kinds. The question in any particular case is, which is the most *effective* method of achieving the objective? Are there particular virtues in public ownership and control that can be achieved only less effectively by other means?
2. It is helpful to specify the objective as precisely as possible, and, where it involves a sacrifice of profits, to indicate the amount of the desirable sacrifice, rather than to *give* vague social directives. In this way, it is more likely that the objectives will be pursued efficiently, and that public service will not be used as a blanket excuse for inefficient management or political expediency.
3. The losses of public enterprises are used by its advocates as proof that they are not subject to the *greed* for profits of private firms and that they serve social objectives and by their opponents

as proof of their inefficiency. A clearly specified subsidy for the social objective, subject to which costs should be covered, can resolve the dispute.

4. It would be a mistake to believe that the mere fact of public ownership and control guarantees the pursuit of social or national objectives. The management of the firm (and *even* its different departments), the board of the enterprise, the controlling authority (e.g. the Ministry), the government, and Parliament each have their own objectives, which may conflict. It is more important to ensure that the purposes are achieved by a proper system of administration and incentives, than to assert that a public enterprise *ipso facto* serves public purposes.

5. The fundamental problem of public enterprise is to combine freedom, boldness, enterprise and initiative with public control and public accountability. To determine the optimum relations between management and the controlling authority is therefore much more important than the much discussed issues of pricing policies or investment criteria.

CHAPTER 16

In Defense of Public Elements for Development Strategy

Hisao Onoe

The author would like to begin his presentation with a reference to the general concept of public or private elements relating to development. It is not limited to the narrow and simple dichotomy of public vs private ownership of enterprise, but rather extends more broadly to the social character of decision-making systems.

First of all the substance of ownership itself should not be understood simply as public vs private possession of an object. In the history of mankind, private ownership gradually has taken on more and more characteristics of public ownership. For example, nowadays the so-called private owners no longer can make any locational decisions without due regard to public aspects such as external economies, the environmental impact and the redistribution effects on social groups in different regions.

What does it mean to own a thing? Ownership is not primarily a relation between a man and a thing, but a social relationship between man and man through the medium of a thing. Indeed ownership is a set of various social elements. Ownership of a thing includes such rights as the right of access, the right to use, the right to exclude others from access and use, or to give permission of access and use to others. It also means a right to gain benefits from using it, a right of disposal of that thing which includes a right to sell, abandon or destroy it. Therefore, ownership involves basic decision-making powers rather than trivial decisions which may be delegated and left in the charge of the owner's employees. It includes the ultimate right to decide what to produce, how to produce and how to distribute the gains, etc. But nowadays more and more elements in this set of ownership rights can be exercised only within the bounds of socially defined interests in property. The capitalists' power to let workers work in excess of eight hours has been circumscribed in developed countries. Capitalists' actions to locate their plants in certain zones are now prohibited or put under social controls. This historical change can be understood as a gradual modification of the elements of ownership. Certain elements have been transferred from private to public hands. This trend has gained momentum in industrialized as well as in developing countries, It has become particularly strong in such fields as environmental protection, health, education, and redistribution of income. Certainly deforestation, land erosion and other ills argue for a further strengthening of the social character of ownership,' Although the author recognizes the outstanding successes of private economic activities in the newly industrialized countries, he would nevertheless like to highlight the social aspects of decision making for economic development. The reason that the theme "development through public or private initiative" was selected for panel discussion in this North South Roundtable seems to be, partly, the recent American retrenchment of official development aid. In fact American top decision makers have rather underestimated the public role in development aid. Especially in light of high interest rates now charged for development funds obtained commercially, this attitude has caused a considerable number of difficulties. After the rapid increase since the mid 1970s of private borrowing by developing countries, the current debt burden has arisen. Debt service ratios are

approaching 20 per cent of exports in many developing countries. Under such circumstances developing countries are in dire need of official aid. In general, the present-over-the-future time preference is very high in low-income countries. Therefore, economic grants or low interest loans, now more than ever before, are indispensable to make long-range investments possible, especially when one takes into account environmental and social concerns. Finally the author would like to refer to an evaluation of Japanese official development aid by people in a developing country in Asia. That evaluation reveals that ODA is not judged separately but in connection with Japanese commercial activity. Public aid thus is regarded as a complement to entrepreneurial profit-making activities. We often see the terms "public" and "social" used interchangeably as if they are one and the same concept. Action of public agencies, including central government policies, that always were to serve social interests go a long way toward maintaining this idea. In reality, however, this is not always the case. In many countries, developed as well as developing, public action often is determined by narrow interests of the private sector. If such special interests are not consistent with or are actually antagonistic to the interest of society, then serious questions can be raised as to whether such actions are legitimately public or private. A few years ago a group from Chulalongkorn University took a public opinion poll about official Japanese aid in Thailand. According to that survey, 46 per cent of the common people in Thailand thought that Japanese aid was for the benefit of Japan itself and 20 per cent felt that it was for the benefit of both Japan and Thailand. Only 8 per cent felt that such aid was mainly beneficial to Thailand.

Judgment among the elite was even more critical. Almost 70 per cent regarded Japanese aid as primarily benefiting Japan, 26 per cent as benefiting both Japan and Thailand, and only about 2 per cent as benefiting primarily Thailand?

In general, official development aid is not appraised independently in and of itself but as part of the total activity of the donor. Thus Thai Landers' consciousness of Japanese aid includes their impressions of the behavior of Japanese commercial companies, unbalanced trade with Japan and various other aspects of economic relations with Japan. Developing countries are always sensitive about public aid which may be simply a camouflage for the activities of profit-seeking enterprises of the donor.

However, it is interesting and revealing that the Thai elite, in spite of its severe criticism of Japanese aid, expressed, more than did the common citizens, a wish for expansion of economic relations between the two countries. This seems contradictory, but in fact is not. The elite hopes that public aid from Japan will not only lead to benefits for both countries but also more importantly to a greater degree of independence in Thai development. Hope for more concessionary official aid was voiced?

"Japan in Thai Perspective," *Asian Studies Monographs* No. 026, Institute of Asian Studies, Chulalongkorn University, Thailand, January 1980, pp. 59-61.

The World Bank, "World Development Report 1982," p. 37.

RANGE OF INSTITUTIONAL POSSIBILITIES

The total energy investment needs of developing countries are so large that there is room for range of initiatives. But these initiatives must be truly responsive to the needs of the developing countries. *I ac* There is need to seek a balanced partnership of public sector, private sector, and international financial institutions. There is great interest in having diversification of financial institutions. These could include the following:

Bilateral initiatives for energy development—for example, by Petro-Canada International. *Regional initiatives for* balance-of-payments financing—for example, by Mexico, Venezuela, Trinidad and Tobago.

Innovative corporations, combining private and public capital, or industrialized and capital-surplus developing countries' capital for example, the International Energy Development Corporation.

Formation of joint energy affiliates by local commercial banks Institutes to enable development of large national and inter *national river basins*, for which there are several

models.

expansion of the World Bank by increasing its gearing ratio.

Expansion of the role of *regional development banks*.

Insurance and guarantee schemes for private investment in energy development.

- *Extension of the OPEC Fund for International Development* into a development agency, able to borrow funds on reasonable terms in the market place.

- In lieu of the World Bank energy affiliate proposal, the estab-

lishment of *a new energy investment bank* through contributions

of willing parties among industrialized and developing countries.

- *A consultative group on energy Investments.*

- *Drilling funds.*

- *Expansion of the IFC's role as a catalyst in oil and gas development.*

INSIGHTS FROM COUNTRY DIALOGUE MISSIONS

The Roundtable's Energy Dialogue Mission visited three East African countries, Tanzania, Kenya and Sudan, in May, 1982. The picture that emerged from those dialogues with country policy makers was one of extremely severe constraints on their present and future energy provisions. First, all three countries are currently spending somewhere between 45 and 60 per cent of their foreign exchange earnings in paying for oil imports. Second, the costs of their essential imports from the industrialized countries have risen sharply because of inflation, high interest rates, and the increased energy cost involved in the manufacturing of these imports, which has been passed on to the developing country importers. Third, because of the present market conditions and the recessions in the economies of the developed countries, agricultural and other exports from Kenya, Sudan and Tanzania have fallen drastically in value. As their export earnings shrink, the pressure on them to meet their oil bills and to service their debt rises to a level which leaves them little or nothing for future development, or in some cases, for day-to-day economic survival. This is a bleak picture.

The result of exploration in Sudan has revealed adequate oil and natural gas in that country. Tanzania already has adequate coal prospects and appears to have an excellent natural gas potential. Kenya so far has had no success with any of these fuels, but does have hydro potential.

The governments in all three countries had a clear understanding of the problems and solutions; it was lack of resources, both financial and non-financial, that was the stumbling block. So the question is: what could the Roundtable suggest by way of action to be taken by these countries or by the international community? The discussions pointed up needs of these countries in five specific areas:

(1) *The need for finance.* It was made abundantly clear to the Dialogue Mission that no solution to these countries' problems is possible without an adequate and assured supply of financial resources on reasonable terms to mount imaginative and carefully defined investment programs, both for use and for developing the supply of indigenous energy resources. There was disappointment in all three countries about the shelving of the energy affiliate proposal, and there was a feeling on the part of the Mission that if the Roundtable were serious about remedy

ing the situation then some kind of new financial institution for

energy must be established.

(2) *The need to strengthen energy planning capacity.* In all three countries steps were being taken in that regard.

(3) *The need to strengthen the capability of preparing projects.*

(4) *The need to improve the screening of new energy techniques.* Developing countries are bombarded by hardware designed principally to meet the *energy* needs of the industrialized countries. When the techniques are imported into the developing countries, their performance results are often inadequate under local conditions. It is essential to develop local technical capability to screen the specifications and other technical design criteria for energy equipment in order to match the hardware as closely as possible to local needs.

(5) *The need for management skills.* All of the above requires a sophisticated level of management skill, and *hence* it is a matter of great importance to ensure the required training of managerial competence.

DISCUSSION

During discussion the hope was expressed that there would be some action program that the Roundtable will develop and take into other forums. A number of people felt strongly that, although we had a panel entitled "Mobilizing Investment for Energy Development," we should look at energy not by itself but as a component within an overall financial plan for development. It is useless for a country to try to concentrate on only one sector in the absence of an overall development strategy. The discussion then turned to the need for some kind of mechanism for financing energy in developing countries. On the energy affiliate of the World Bank, the feeling was that if this institution had failed to be established because certain countries were not yet in a position to support this initiative, then it was up to others to take up this initiative and create some kind of a facility for energy financing. This is one idea the panel wanted to consider further. Concerning the energy technologies used at present in developing countries, many thought these were not appropriate, as they had been transferred without any adjustment to the needs or to the relative efficiencies in energy use in these countries. Some recommended that we should look at the end uses and at the technology for the use of energy in developing countries. This led into the next topic and the next question: energy for what, and energy for whom? While looking at energy within the overall development context, we should also look at energy as a complete process, taking it from the production end all the way through to consumption, including the various end products that one can put into the production process and the outputs that one can use in many areas. The United Nations University is concentrating on this approach in its program on the energy and food nexus. There was debate on whether the oil-importing developing countries should have conventional energy development at highly inflated (1982) prices or should look for more suitable alternative energy sources within their countries. The point was made that perhaps we should begin to consider a range of development patterns which would require different and less sophisticated energy sources. Unlike finance, food and other issues, energy issues have no consultative mechanism for discussion at the global level. We have the International Energy Agency that looks after the interests of the OECD countries. OPEC looks after its own interests. But we do not have any institution that looks after the interests of all countries, especially the interests of the oil-importing developing countries. When one considers the possibility of one group trying to protect its interests by use of force or by threat of force, the case for a global approach to management and use of energy is strengthened.

CHAPTER 18

Food Security for People and Nations'

Martin McLaughlin

INTRODUCTION

In 1981 the North South Roundtable established a North South Food Roundtable—a special international task force consisting of experts in food and development fields—to (a) clarify some of the issues surrounding the question of food security for people and nations, (b) provide a framework for discussion and debate, (c) formulate feasible proposals for attaining food security, and (d) mobilize national and international support for these proposals. The Food Roundtable met several times during 1981-82, assessed the current

and prospective food situation, especially the condition of the poorest countries, and focused on the specific question of food security at the human, national and global levels, and on the paradox of starvation in the midst of abundance. The discussions and recommendations of the Food Roundtable are contained in the report (Ghassemi, Haq, Hill, McLaughlin, *Food Security for People & Nations*, Roundtable Paper 6, North South Roundtable, 1982) which formed the main basis for discussion at the food panel of the Tokyo Session of the North South Roundtable.

THE DEBATE

The food panel voiced the Roundtable's concern about the deepening crisis of hunger and deprivation in low-income countries, particularly in this time of prolonged recession, and stressed the anomaly, if not the scandal, of the continuing hunger of three-quarters of a billion people in an \$11 trillion world economy which already produces enough food to feed them all. The panel called for negotiation of specific proposals to relieve hunger immediately and prevent its recurrence-measures that would act on the present need without prejudice to longer-range structural reforms needed to ensure that the hungry of the world will be able to feed themselves. The chairman opened this panel by giving some background on its origin, the relation between short-term and long-term issues, the problem of the multilateral institutions, and what he termed "institutional protectionism." This report on the panel on Food Security for People and Nations, prepared by the rapporteur, was not reviewed by panel participants. He pointed out that an internationally coordinated system of food reserves is a priority need, but requires an accompanying general strategy to deal with short-term issues. He emphasized the importance of political factors in dealing with this set of problems, e.g., the influence of large corporations on the grain trade and on governments or the political problems arising where basic reforms are needed-which might demand direct intervention. He added that the Food Roundtable is strongly interventionist; it wants action tomorrow, if not today. By way of establishing a context for this latest phase of the Roundtable's activity, the chairman noted that the prospect of summit meetings in 1981 had led the group to suggest specific actions for those meetings-particularly with respect to the possibility of assisting children and preventing child deaths-emphasizing that the government leaders might want to do something immediately, as well as pass resolutions for the long run. Focusing on a short-term program for 100 million malnourished children, the Roundtable directly briefed eight of the delegations to the Cancun Summit and provided a special briefing to the President of Mexico, who had invited members of the Roundtable to discuss these matters with him and his senior officials before Cancun. The initial report of the Roundtable was distributed very widely; sixteen delegations at Cancun (out of twenty-five) had literature from the North South Roundtable. Following these opening remarks by the chairman, the discussion by the food panel focused on four major points: food security at the international level; food security at the national level; food security for individual people; and conclusions and recommendations for action.

FOOD SECURITY AT THE INTERNATIONAL LEVEL

The availability of adequate food for all people at all times at a price within their reach is what food security means, the panel agreed. Such security depends fundamentally on increasing food production to meet the growing demand of increasing populations and rising incomes. However, production is a necessary but not sufficient requirement; adequate income must also become available to all, including the rural jobless, the landless, and the urban unemployed. Until their purchasing power is increased, many of the poor will be able to obtain access to food only through indirect subsidies or direct access programs. Their dependency, therefore, will continue. And price remains a major factor. Fluctuations in international prices take place in relation to changes in production and trade, which in turn reflect the changing access to purchased inputs, in addition to weather- and price-related fluctuations. High-yielding varieties which increase the availability of food also increase the risk of crop failure, as does the bringing in of marginal crop lands that are more vulnerable to weather and climatic change. Instability in the world market arises also from the fact that three-fourths of the export surpluses are in North America, where mainly rainfed agriculture is practiced. Added to this are the domestic policies of the richer importing and exporting countries, which tend to insulate them from variations in food availability. In the face of these instabilities many developing countries need to take domestic measures to stabilize their consumption. Stocks have to be built up, stored, and distributed far more effectively than at present. There has been increasing attention to this, particularly to the question of whether it is preferable to build national food reserves or to

hold foreign exchange reserves to operate in the world market. Building up the storage facilities may be too expensive. A distribution mechanism will have to be put in place in any case, however, whether production or imports are to increase. These are not mutually exclusive, and each country has to make its own decisions on which way it wants to go and how far. The perception of danger differs from country to country, but there are some considerations that suggest that stocks are warranted in any case: (1) There is a necessity to bridge the time lag between need and availability; this does not refer to pipeline stocks, of course, but simply to reserves. (2) A landlocked country needs stocks more than a country located on the trading routes. (3) If food trade is to be used as an instrument of political pressure, stocks will be needed in many countries to avoid that sort of pressure. (4) The poor countries may be priced out of the market in times of shortage if they hold only financial reserves. (5) Availabilities may not match the needs of the country even if there are stocks; the consumption basket does not always correspond to availability. Reserves need not be built up only with imported food; some could be locally produced foodstuffs which are not always or often traded in the market. Building the reserve in this fashion may also encourage more efficient marketing facilities. Whatever the role of national food reserves, the linkage between national and international measures seems clear. As to size of reserves, the Food and Agriculture Organization (FAO) believes that 17 to 18 per cent of production is necessary as a safe minimum to meet shortfalls in world production. Attempts were made for several years to build up an internationally coordinated series of buffer stocks; but agreement has not been reached, and the concept is still very much in question. Stocks have been subject to considerable fluctuation anyway, especially in the 1970s, and experience suggests that they will continue to fluctuate widely. In the absence of international agreement it is even more necessary that the developing countries fall back on their own efforts and begin to take whatever steps they can to coordinate their own solutions to the problem. Cereal imports have been rising steadily; they are now at the level of 100 million tons, with 40 million tons going to the poorest fooddeficit countries. Studies relating to the 1960s and early 1970s indicate that trade variability then was due mainly to the variability in domestic production. But in the 70s the responsibility of production variations vs other variables shifted from a 70:30 ratio to 50:50, which has meant that the range of world price fluctuations has increased greatly in magnitude. Two sets of mechanisms to redress the food problem have evolved, bringing only partial satisfaction. The first, food aid, whose availability is related to production fluctuations in exporting countries, has not managed to counter world food shortages systematically-especially in recent years. The 7.7 million metric tons of food aid specified in the 1979 Food Aid Convention (up from 4.2 million) still falls short of the 1974 World Food Conference target of 10 million tons and is not geared to need; i.e., it is supply oriented, not demand oriented. Moreover, a large portion of this food aid is bilateral and is therefore governed in large part by non-economic or political/strategic considerations, so that the extent to which it contributes to food security is in practice heavily influenced by irrelevant criteria. Food aid has been widely criticized on several grounds: first, it creates dependency; second, it discourages domestic food production; third, the benefits go to elites instead of to the poor; fourth, it is susceptible to gross corruption in administration. All of these points, the panel felt, are arguable: food aid dependency is not as large as critics suggest, since food represents no more than 10 or 12 per cent of total development assistance. (One may consider, of course, that any kind of development assistance creates dependency.) While in some food-aided countries, food production, at least per capita, has undeniably decreased, and favoritism, elitism, and corruption are often present, many of these criticisms apply to all kinds of aid and may be shared by donors and recipients alike. Food aid, the panel concluded, needs to be considered in context; the overall question of aid dependency is too complex to yield a definitive judgment on food aid alone. The second mechanism is the new Food Financing Facility of the IMF, which reflects the recognition that access to food is a question not only of physical availability, but of price, and therefore that measures to moderate price fluctuations would contribute to food security. The purpose of the Facility is to help meet food deficits arising either from sharply increased prices or from food production shortfalls which affect the balance of payments of the food-deficit country. It is not a separate facility and is subject to IMF quota limits and balance-of-payments considerations. The cost is calculated mechanically; and the combined amount of availability is 125 per cent of quota-which limits the amount of food financing available, since much of the quota may have been drawn upon in other transactions.

FOOD SECURITY AT THE NATIONAL LEVEL

The panel generally agreed with the 1982 Food Roundtable Report, which states that action at the global level, *however* enlightened, cannot solve the problem of food security in any particular country unless the government of that country gives the solution of the food problem the highest priority. In this statement, the report agrees with the World Bank's World Development Report No. 5 and other reports and analyses since the 1974 World Food Conference, including FAO's AT 2000 report and the strong confirmation these views received at the World Conference on agrarian reform and rural development (WCARRD) in 1979. It is at the national (and local) level that the hard choices have to be made. The economic policies of many developing-country governments-policies on pricing, taxes, exchange rates, credit, movement of food, research extension, and especially land tenure-often place the rural poor and the small farmers, particularly women, at a disadvantage and discourage them from producing beyond their immediate needs. Yet these are the very groups that must be involved fully if incomes are to rise and push up demand, and if food production is to increase to meet that demand. The form of these policies cannot be imposed from outside, but it can be supported in various ways, both bilaterally and multilaterally; and of course, it can be obstructed. It is clear, the panel agreed, that food production will have to rise in the food-deficit developing countries and that this will require policy changes. Changing policies is difficult and risky, because it involves or threatens a transfer of political and economic powerpower which nobody wants to give up, nationally or internationally. Power shifts also disturb foreign investors and lenders, especially when they have negotiated a "good deal" with a developing country's leadership. Thus the international and domestic maldistribution of wealth and power can reinforce each other to the detriment of the poor. Land tenure is the most obvious inequity; the production incentive for the landless rural worker or the subsistence-level small farmer is very low. But there are other inequities, such as distorted exchange rates, pricing policies that adversely affect internal terms of trade between cities and countryside, export policies that favor export crops over food crops in the domestic market. There is no food-deficit country, no matter how poor, that is not exporting some agricultural commodity.

Recognizing that nutrition is unsatisfactory in this situation of adequate production and inequitable distribution, the panel favored a systematic approach, country-by-country, like the World Food Council's national food plans-carefully tailored to each country's needs and circumstances, and fully integrated into overall economic development plans. Production, of course, needs to be increased, but in the long run mainly in the food-deficit developing countries. This will of course require social change; purely technological solutions, generally production-related, would not suffice. The international community should help countries dedicated to equity-oriented social change to overcome the difficulties attending such change.

Short-term subsidy and stocking programs at the national level will be needed while the food system is being improved; and food aid can help in this respect, as can some sort of international reserve scheme. Effective use of food aid depends in the final analysis on the recipient country's policy. Here, too, the boundaries between national and international food security are blurred. However logical international reserves are as a device for making up the shortfalls that can be expected as countries try to improve their food systems, no internationally agreed reserve proposal has yet commanded enough support to be established. Most of the reasons are political, not economic.

In the meantime several micro approaches have been used, such as rural public works, consumer subsidies, and direct feeding programsall of which are short-term measures to meet immediate problems. In the longer run, human resource development (education and training) seems especially important in the food system, not only for the farmers, but for extension agents, researchers, administrators, and planners.

The panel questioned the validity of the doctrine of comparative advantage, not as a supply-side or production theory, but in connection with the impact of national development policies on the people who must develop, that is, demand-side considerations, *which* often outweigh the production advantage. It was suggested that food self-reliance may be a more reasonable goal than complete selfsufficiency for most countries: a nation should have the ability either to buy or to grow the food it needs.

The value of the food sector strategy, that is, the development of national food plans (as described above), is that it links food consumption, nutrition, distribution, and production in a systematic approach in the context of the country's overall development program. If

pursued effectively, the food plan could force attention to the budgetary and other allocation decisions required to put it into effect. Again, these are political questions-affecting who gets what, etc. Coordination of donor programs has also become a subject of much discussion lately. A consensus is growing that such coordination has to be achieved at the recipient country level, and must be led by the developing nation itself. Without a national food policy, however, that coordination cannot take place. There was no dissent to the conclusion that it is at the national level, taking into consideration internal equity, that the effective decisions and actions to move toward food security must be taken. But the industrialized countries and the international institutions in *which* they participate must help developing countries devise and carry out their national programs. This means assistance to agriculture, nutrition, asset redistribution, etc. Furthermore, industrialized nations must make every effort to ensure that policies and practices of their governmental and non-governmental entities do not obstruct the achievement of food security as an element of development.

FOOD SECURITY FOR INDIVIDUAL PEOPLE

A more critical note was sounded in the panel's discussion of how individual people participate in the international food system. The draft report resulting from the Food Roundtable's work and submitted to the Tokyo meeting, *though* commended on the whole, was criticized for its silence about one major set of actors in the food system-the transnational agribusiness corporations, which affect directly the food security situation of poor people in many countries. Hope was expressed that more on their role might be included in a later version. The Roundtable report was commended, however, for ^{forcefully} recognizing the importance of power structures which influence food security at the local, national, and international levels and for stressing that the developing ^{countries must} increase ^{But the} ^r cognition ^{ratio} to achieve food security for their people to food security is not, unfortunately, much reflected in the ^{at} a time when North-South negotiations are ^{at} a standstill because of short-sighted and even obstructionist attitudes and apacities. ^{Base} The United Nations has a unique ^{op} human dignity, its development activities ^{opportunities} and capacity are in danger of ^{and} human rights. But this ^{op} being squandered through subservience to the ^{dis} embodied ^t abstract powerful member nations, through a bland, approach ^{co} food and development problems that ignores thorny problems of politics and power relations, and by a kind of ^{bureaucratic} inefficiency. ^{The} North-South Food Roundtable report noted ^s that ^{of} forty agencies conduct or support projects in a hundred countries; few, if any, are interested in broad national programs and multi-year commitments that would permit rational planning by the developing country. The endless variety of requirements and procedures ^{accompanying} these projects drains much of the developing country's expertise ^{and} should be working on its broader policy problems and ^{is} pushed ^{wholly} into short-term projects whose success or failure may have little relation to overall goals." ^{Some} regret was expressed that the ⁱⁿ the United Nations System, ^{as} the chief food security agency has not included any ecological indicators in the detailed set of indicators it is developing to monitor the progress of agrarian reform ⁱⁿ countries, and that it ^{is} appears ^{to} be concentrating ^{also} on measurement ^{that} it may divert much developing-country ^{to} power scientific that ^{is} data-gathering, rather than analyzing or ^{to} present inequalities and block rural development. Panel members felt that it would be useful for the ^{and} the agencies to look critically at their budgeting ^{and} internal incentive systems, their evaluation procedures, etc.-and to ^{do} so informally with NGOs and other outside people. Projects ^{funded} through NGOs ^{of} both North and South often can reach ^{the} poor people more effectively than the agencies themselves. Greater transparency in UN agency operations (particularly ^{developing} mechanisms for self-correction) and better coordination among them would improve programs and reduce the burden on the developing countries. If affirmative action can be taken on these questions, then there is a great opportunity for the North-South Roundtable, by cooperating with the agencies, to contribute to food security, to a development strategy based on human needs, human dignity and human rights, and to the education of the public in the North on these matters. One UN agency representative noted that there may in fact be more of this going on in the system than is apparent to outside observers. The final panel presentation turned the panel's attention to the ^{health} dimensions of food security and focused particularly on children, whose health conditions sometimes make it impossible for them ^{to} absorb nutrients even when food is available. UNICEF, for example, is concerned that half of young child deaths are due to health ^{problems} and that it is now possible to take some action in a number ^{of} basic areas, particularly in terms of primary health care. Some new

processes and products seem analogous to the miracle seeds of the 1960s. One example is oral rehydration through the use of salts, which is a cheap and effective way to reduce the incidence of diarrhea among malnourished children in the Third World. A second low-cost program is immunization, particularly now that heat-stabilized vaccines have been developed which do not require refrigeration. Breastfeeding, of course, is the most important of the nutritional defense programs; mothers who do not breast-feed have 3 to 5 times more risk of having their children suffer from diarrhea than those who do. Moreover, a health monitoring system, which makes it possible for the mother to follow the progress of the child, is very cheap and is a way of involving the mother while demystifying the medical system. Unless there is such a monitoring system, mothers often do not realize their children are malnourished until it is too late. (NB: The methods mentioned are the four points of a program, sponsored and originated by UNICEF, with the acronym GOBI-growth charts, oral rehydration, breastfeeding, and immunization.) More than half of the 40,000 children who die every day, it was pointed out, die because malnutrition makes them vulnerable to diseases like measles, which would not kill them if they were not malnourished. In short, infection and malnutrition are synergistic in a malign sense; they are not alternative causes of death. It is hard to say that the child dies of either one, and the 50 per cent figure for nutritionally related deaths is probably too conservative-especially for the weaning-period age group. The technologies combined in UNICEF's GOBI program are also low in financial and social cost and can therefore be adopted quickly as a national [program](#) as well as a health sector program, moving through the educational system and the media, and perhaps producing a partial political payoff for the country's leaders. The Roundtable appeared to agree with the six points that summarized this presentation: (1) if curing malnutrition is at least part of the purpose of food security, these health related concerns have to be part of the solution; (2) these systems are not expensive in themselves; (3) they require social organization, not just technical advice-e.g., the poor have to have access to clean water, and the family and the community have to participate; (4) these programs have a particular pertinence in this time of recession, when resources are so scarce; (5) getting additional food to the families whose children are most severely malnourished can be effectively linked to an existing healthcare system; (6) these programs stimulate participation by families, communities, non-governmental organizations, and individuals-including traditional groups like witch doctors, birth attendants, etc., who might otherwise feel threatened by this kind of progress.

COMMENTS

The discussion that followed these formal presentations reflected the common concern, the diverse viewpoints, and the evolution of current thinking of the participants. One speaker, for example, strongly urged that education be added to the list of priorities and requisites. One participant felt that food is the truest form of financial assistance, because the countries can save their money and spend it on anything they like; the arguments against food aid, he thought, have been or can be met by proper design of the programs. Some disagreement arose over the causes of fluctuations of world grain prices and the impact of those fluctuations on the extent of malnutrition. One speaker suggested that international organizations should make serious efforts to liberalize government attitudes toward trade, rather than push for an international buffer stock. One participant questioned the nutritional appropriateness of such "international foods" as Coca Cola or bread. Another stressed the fact that there seems to be more interest in taking action on hunger than on some other issues; this was the one area, he said, in which Cancun reached at least rhetorical consensus. One participant pointed out the importance of food utilization according to age and sex, and another noted that almost any action that alters food distribution produces effects with ethical aspects that need consideration. A nutritionist noted that some programs fail because they are conceptually wrong, but some fail in execution-they lack an appropriate structure of implementation. The whole issue of achieving health *for* all by the year 2000 through primary health care is a case in point. Conceptually this is excellent; but as the programs are implemented, they may fail to reach 70 or 80 per cent of the people. The same health services that emphasize primary health care are often administered primarily by people who have no real interest in this.

CONCLUSIONS AND RECOMMENDATIONS

While the nature of the Roundtable is not to reach formal conclusions, a consensus along the following lines seems warranted:

I. The root of the world food problem is that some 750 million people in the developing countries, mainly because they are poor and powerless, do not get enough to eat and *are* engaged in a daily struggle for survival.

2. Hunger is not inevitable and does not result from a world shortage *of* foodstuffs; there are both food-deficit areas and foodsurplus areas, and there is active trade in about 10 per cent of the world's food. There is, in short, enough food in the world to feed everyone, at a modest level at least, but not everyone can get it.

3. Food security for all people is a fundamental human right and a basic development goal. It involves self-reliance; a family or nation should be able to grow or buy the food it needs.

4. Insecurity needs to be overcome at the individual level, at the national level, and at the international level.

5. The problem of designing an adequate food security system is manageable, with appropriate investment and priority. Food security is attainable if understanding of it is clear enough and the will to achieve it is strong enough to bring about the policy changes that are necessary. Similarly, formal resolutions did not emerge *from* the food security panel; nevertheless, panelists seemed to be in general agreement about the following:

I. A developing-country-owned food grain reserve of 9 to 12 million tons should be established to provide international food security to poor nations in any emergency situation.

2. Developing countries' own capacity to feed themselves over time without outside dependence should be strengthened through financial assistance for accelerated programs of food production, with particular support to small farmers.

3. Priority attention should be given to designing a nutrition and health safety net for 200 million pregnant and nursing mothers and for 500 million small children.

4. The International Emergency Food Reserve of 500,000 tons, established as a result *of* the Seventh Special Session of the UN General Assembly (1974) should be at least doubled.

5. The Food Financing Facility of the IMF should be strengthened and should be accessible only to the most disadvantaged food-deficit countries.

b. The international community should direct particular attention to a sustained and coordinated effort to assist the food-deficit countries of sub-Saharan Africa, where per capita food production continues to decline.

CHAPTER **19**
World Trading Problems and Protectionism
The Debate'

David Pollock

During the three and a half decades that have passed since GATT was created in 1947, many fundamental changes have transformed the international trading system. Among these, special mention might be made of the rapid and substantial transnationalization of global production and trade through the emergence of TNCs; the significant increase in activities of state-trading organizations; the extension of the role of government into new areas of the domestic economy to the point where international trade has become a significant extension of domestic policy for many nations; and, more recently, the rapid adoption by many nations of NTBs not covered by GATT which are clearly contrary to GATT's original spirit, given their ad hoc, arbitrary, bilateral and highly discriminatory protectionist nature. The current global recession has added further to the protectionist pressures, placing the entire GATT-based world trading system in serious jeopardy.

All this has been of particular significance to the developing countries since threats to their trade, even if not carried out, do significant damage to their overall investment environment. Thus the developing countries (including in particular those in the Asian region of the world which have been pursuing outward-looking export-oriented trading policies)

have been the prime exponents of a liberal world trading order, reversing their earlier postwar emphasis on an interventionist NIEG. Today, in short, it is the North and not the South that threatens a liberal trading order based on multilateralism, non-discrimination, transparency and predictability. The earlier postwar roles have been reversed. International trade rules must be reoriented to protect the weak countries; that was their initial purpose.

How, then, to do this? How to protect the developing countries from disputes which, in so many cases, result from North-North adversarial relationships and which the South seems relatively powerless to influence or control? What are some immediate and long-term steps that can be taken to this end?

SOME SHORT-TERM AND LONG-TERM RECOMMENDATIONS

It is imperative that the GATT Ministerial Meeting, currently *scheduled* for November of this year (1982), come up with an unequivocal demonstration that international trade "order" will be maintained through the application and implementation of appropriate trade rules. The credibility of the GATT system must be restored if the current downward spiral in world trade flows is to be checked. A clear signal must be given to ensure that the many and serious forms of "new protectionism" will be stopped, that the *growing* trade-rot will be checked, and that confidence will be restored. To restore the necessary confidence and begin a new momentum towards recovery, it was suggested at the panel that a series of "deals" be struck in the November GATT meeting: i.e. deals between North and South, as well as between North and North. It was stated that this is not the time to expect the NICs to liberalize their imports, when the global economy is contracting and their balance-of-payments pressures are large and still growing. But other deals can be envisaged, including for instance a willingness to discuss services, reciprocity, and graduation from the GSP in order to ensure progress on the MultiFiber Arrangement and on an appropriately revised safeguard clause. Global economic recovery will certainly help the global adjustment process, but recovery in and of itself will not reduce-let alone eliminate-the many forms of "new protectionism" for some time to come. To these ends, the panel suggested that three basic steps be taken immediately: (a) a political declaration, in the form of a "Standstill" on new trade barriers that are not already covered by GATT, with an effective system of monitoring and accountability to make such a "Standstill" effective and lasting; (b) demonstration of a serious determination to end the still *unfinished* business of the Tokyo Round of MTN, especially via a revised, non-discriminatory and multilaterally-agreed "Safeguard Clause" which adequately reins in the voluntary export restrictions and orderly marketing arrangements that have been burgeoning in recent years (these *should* be time-bound as regards their "temporary" nature: the MFA for instance is still with us after some 20 years!); and (c) the immediate launching of a Long-Term Work Program. This program should cover a number of world trade policies and practices that will be of key importance through the remainder of this century. Procedurally, the Long-Term Work Program should be carried out under the *aegis* of some new institutional mechanism (like the former IMF C-20) and in parallel with similar efforts underway in the international financial institutions. The intent would be to combine GATT and UNCTAD efforts on global trade reform with ongoing IMF and IHRD efforts on international monetary and financial reform. Among the central Work Program issues, the panel suggested that high priority be assigned to the following eight: (a) rules and procedures for long-term adjustment and "orderly retreat," for those Northern industries that are in decline because of new and permanent changes in the international division of labor; (b) a progressive phasing-out of the MFA;

(c) a strengthening of organizations and procedures in the international trade sphere, especially dispute settlement. GATT has become too weak and ineffective a body. An organization like the original ITG will ultimately be required, with powers in the trade sphere analogous to those of the IMF in the realm of money and finance;

(d) consideration of the possibility of new trade rules *for* nonfactor services, i.e. those areas in which future Northern adjustments, based on comparative advantage, are likely to take place;

(e) consideration of the possibility of new rules for trade-related investment policies and

priorities;

(f) primary agricultural commodity trading issues; (g) state trading rules; and

(h) encouragement of new forms of *South-South* trade, both for its own sake and in order to take the heat off the need for future Northern adjustment.

CHAPTER 20

Trade Policy Issues in a New Perspective

Hiroshi Kitamura

The debate between free trade and protectionism as alternative policies seems to have lost much of its earlier relevance. As foreign trade policy is simply an extension of domestic economic policy, it is rather difficult after "the end of *laissez faire*" to maintain that free trade is a valid policy goal. What GATT has achieved in proclaiming the modest objective of "freer trade," is not so much the freedom of trade from government influences as an effective system of international economic cooperation. On the other hand, there has been a significant change in the relative importance of tariff protection as a tool of government intervention. In the period of classical capitalism, tariffs were the main instrument of industrial policy. Today government policy objectives as well as policy measures have been greatly diversified. A number of promotional and protectionist measures, including domestic taxes and subsidies, are utilized to increase the power of protected industries to compete at home as well as in export markets. In an interdependent world, policy measures ostensibly adopted for domestic purposes are bound greatly to affect international trade flows. Thus, one of the most significant changes in recent trade policy is the increasing tendency for international trade negotiations to include policy areas that were previously considered purely domestic. World trade flows are kept at present below their potential level mainly by the structural disequilibria of the world economy, the recession and emerging economic nationalism in the industrial countries. What characterizes the recent protectionist policy trend is the broadened scope of government intervention, particularly in the form of industrial policy, and the use of a variety of hidden policy instruments, in sharp contrast to the earlier reliance on open tariff protection. Today, virtually every important trade flow is subject, in one way or another, to restrictive regulation by governments and private cartels. The GATT system unfortunately has proven incapable of stemming this tide of economic nationalism or of offsetting its adverse effects on trade. The new protectionism has tended to ignore the GATT rules, attempting to achieve trade restriction outside the GATT system, rather than making use of GATT safeguard provisions. The failure of GATT in this crisis, as reflected in the increasing erosion of its trading rules, is now threatening to undermine the system of international cooperation in whose establishment GATT had a crucial role. The world today has two options: to allow a continuation of the prevailing malfunctioning of the system, which keeps international trade flows considerably below their potential level and thus depresses world income and economic activity; or to try to get out of the present impasse by limiting and possibly halting the progressive erosion of market access formally provided under the GATT. Should we decide to pursue the latter course, it would not be sufficient merely to repeat the usual pious statements about the desirability of free trade. Hard thinking would be required to identify the forces and strategies consonant with an open trade policy in a rapidly changing world. It is important to note the recent reversal of roles between the developed countries of the North and the developing countries of the South, concerning the trade policy controversy. Earlier it was invariably the more advanced group of countries which opted for free trade and greater international economic integration; in theory, some rationale for protection was conceded to developing countries which were the most active practitioners of protectionist trade policy. Today, the proponents of "orderly marketing," "voluntary restraints" and other restrictions are mainly found in the other camp, among those who used to embrace the free trade ideology. The new protectionism reflects in part a reduced willingness or capacity on the part of the status quo forces to adjust to changes in comparative advantage and is predominantly directed against emerging nations and late-comers in development. Thus today the developing countries are the ones which are vitally interested in expanding market access by breaking out of present trade constraints. In the attempt to expand access to world markets, the main thrust of the trade initiatives of the developing countries of the South may manifest itself through different strategies and tactics. At the most comprehensive level, the NIEG proposals can be

viewed as a systematic alternative to the present international economic disorder; relevant to trade are NIEG proposals concerning the removal of terms of trade biases, concerning trade balances and liquidity allocation, and advocating measures aiming at the expansion and diversification of exports from the developing countries by shifting production facilities. In the view of NIEG proponents, global negotiations will help to facilitate the maintenance of an open international system; their trade strategy will aim at the implementation of some proposals discussed at the UNCTAD forum. Although the expansion of access to developed country markets implies a considerable relaxation of both tariffs and non-tariff barriers, trade negotiations can only be a partial approach within a more comprehensive reform scheme. In the present political climate, however, this can at best be regarded as a long-term strategy. It can be argued that the present threat to the open nature of the trading system does far greater harm to the interests of the developing countries than the failure to achieve the NIEO proposals. Thus it could be maintained with some justification that the immediate thrust of the Third World's offensive should be directed toward making GATT again a forum for achieving expanded access for greater trade flows. It is true that in the past GATT behavior has shown a definite bias in favor of wealthy nations, and that a greater reliance on GATT will involve some discussion of the relative merits and mutual relations between GATT and UNCTAD. But, considering the tendency of developed countries to exert pressure bilaterally, outside of GATT, a case can be made for reducing the ability of stronger nations to employ coercive power, by taking conflicts out of hidden ante-rooms and putting them squarely into GATT. But even in this case, the traditional-purely negative-GATT approach of removing barriers to trade will not bring us much closer to a solution. In view of pervasive government market intervention, the maintenance and expansion of an open international trading system will require a significant degree of high-level policy coordination, involving some international agreements regarding domestic adjustment measures. The character of GATT must change correspondingly. An immediate attack on the notorious MFA should be of special importance to the LDCs. Although the original objective of the arrangement was, ostensibly, to facilitate trade liberalization by allowing time for orderly adjustment, it actually has degenerated into an instrument of disorderly restrictions and a net cutback in trade. Since this type of sectoral arrangement in fact represents a clear derogation of GATT rights, the developing countries, which tend to have comparative advantage in textiles and clothing, have every reason to call the principle of "market disruption" openly into question and to insist on reinstatement of the GATT principles. Our conclusion is that in the present phase of the world economy, the developing countries of the South can and should fight forcefully for an expansion of the international trading system. If they are to play this role successfully, they must rationalize greatly the formulation of their economic policies, both domestic and international. This will enable them to exploit the possibilities of international division of labor in line with their comparative advantages. Major efforts at trade liberalization will be particularly important for those countries which have a significant capacity to export manufactured goods. In such trade initiatives, the developing countries should be able to count on the understanding and cooperation of the industrialized world, because, as the post-oil-crisis experience indicated, they potentially could play a significant role in restoring growth and employment in the developed countries, by expanding imports from the latter. However, given the LDCs' large present trade deficits-far larger than the oil deficits of the OECD countries-a basic constraint on LDC imports is the amount of foreign exchange they can earn through exports and receive as loans. Therefore, industrially developed countries should also be vitally interested in maintaining, if not expanding, free access for exports from the developing countries. It is another question whether this enlightened self-interest is sufficiently strong to move the policy makers of the developed countries towards constructive action.

PART VI
DEFORESTATION,
REFORESTATION
AND ROLES OF
NORTH AND SOUTH

CHAPTER 21

Harmonious Utilization and Conservation of Tropical Forests

Katsuhiko Kotari

The area of dense tropical forests is currently estimated to cover about 1200 million hectares. But these forests are shrinking at an ever greater speed. Therefore their environmental as well as economic value will increase rapidly in the future. The public is clamoring for a treatment of these forests that will ensure simultaneously their development and conservation. This demand will have to be met, and the responsibility of those managing the dense tropical forests will become greater than ever. The following is a report on the current situation and problems of the dense tropical forests, as well as on measures required to solve the problems encountered if the harmonious utilization and conservation of tropical forests are to be ensured.

CURRENT SITUATION AND PROBLEMS

The closed tropical forests are the mainstay of forestry in the developing countries and are of great importance to their national economies. Their present status, their ecological significance, their contribution to human life, and their past exploitation must be clearly understood; and against this background, strategies *for* the achievement of our policy objective of harmonious forest development combining conservation and the maintenance of renewable forest resources must be developed. In spite of efforts by concerned persons in the tropical forest countries, especially in the Amazon basin, Central and West Africa, and Insular Southeast Asia, these areas continue to suffer deforestation and forest degradation to their great economic and environmental loss. Many values of these forests—such as water conservation, flood control, wind shelter, air purification, wildlife and plant conservation, and recreation—have been slighted in past practices of forest management, which focused on the purely economic offerings of the forest such as lumber, pulp, paper and fuel. These practices, pursuing maximum short-term profit, ignored long-term ecological concerns and overlooked the renewable character of the forest; for instance, logging methods were adopted which tended to destroy the self-healing mechanism of the tropical forest environment. An inventory of tropical forests, detailing their geology, climate, flora and fauna, is under preparation. However, thus far, there is little information about the growth of tropical forest stands, although this is indispensable to the planning and implementation of regeneration activities. There are many obstacles to the artificial reforestation of tropical areas, including rapid soil degradation, shade preferences of seedlings, insect and animal damages, and diseases. Rational utilization of forest resources is particularly difficult in tropical forests because of the great diversity of tree species and the insufficiency of wood utilization research. Besides these technical issues, the local rural population must also be considered. Rural development activities—collection of fuelwood, agricultural practices, etc.—may clash with forest development. These activities must be carefully coordinated.

At present, the financial support for forestry management is far too weak, and as a result, the renewable quality of the tropical forests is increasingly threatened.

ACTION REQUIRED TO ENSURE HARMONIOUS FOREST DEVELOPMENT AND CONSERVATION

Harmonious forest development and conservation in the developed countries is made possible through long- and short-term forest management plans, based on accurate knowledge of the forest structure. These plans are carefully implemented in order to encourage regenerating functions of the forests. Their primary objective is the satisfaction of environmental requirements as well as of timber demand in the respective countries; that is to say, the basic principle of maintaining harmony between forest development and conservation measures that sustain forests permanently is followed very strictly in these plans. On the other hand, pursuit of

immediate economic gains through reckless exploitation of forests which are the mainstay of a nation's environment must be seen as a direct attack on its welfare. In the long run, such policies will lead to huge economic losses and might even threaten the very existence of a country.

The timber-producing developing countries therefore must:

- (1) acquire detailed qualitative and quantitative information concerning their forests;
- (2) develop forest regeneration techniques;
- (3) establish long-term forest development plans that harmonize environmental requirements with forest utilization; and
- (4) officially endorse these plans through sufficient budgetary appropriations. Though it will take a long time to clarify and resolve tropical forest management issues, there *are* some practices which clearly should be avoided, such as the method of extensive clear-felling followed by artificial regeneration. The less wasteful and less destructive method of selective felling with an eye to improvement of the forest structure is recommended. Furthermore, the timber-producing developing countries in the tropics require technical and financial cooperation from multilateral and bilateral sources. The developed countries should meet such requirements and, drawing on their experience and know-how, offer assistance concerning all facets of forest development, from planning to implementation. Finally, the need for good relations between people living in areas affected by the plans and those concerned with the harmonious utilization and conservation of tropical forests ought to be stressed.

CONCLUSIONS

In the absence of adequate knowledge about reproduction of forest ecosystems, tropical forests have been sacrificed and still are sacrificed for immediate economic returns. This might appear to be an overstatement, but it is a sad fact that forests were exploited while plans had not yet been made for harmonious forest development and conservation. The resultant scars can be seen everywhere. A close examination of individual cases reveals that forest exploitation activities designed to meet foreign timber demands were given further impetus by the desire to earn foreign exchange that was urgently required for economic development. However, it now has become important to limit exploitation of forests to a minimum while trying to increase value added in the exporting country through a higher degree of local processing. Needless to say, meeting domestic timber demand should be the top priority and foreign demand should be satisfied out of the remaining capacity. Such response by the South would surely affect the countries in the North, but it should be recognized that the tropical forests are the assets of the countries in the tropics and represent invaluable resources for global environmental conservation as well as for their economic development. This should become the key element of future tropical forest development. The North and the South must cooperate to ensure harmonious utilization and conservation of the tropical forests, clarify rational usage of forest ecosystems and, in planning and implementing forest development strategies, emphasize multiple functions of the forests much more than in the past. In order to ensure conservation of the forest environment, it might be necessary and useful to set up an international surveillance system which would check the results of forest development activities. The South should take the initiative in this, and top consideration should be given to developing countries' concerns.

CHAPTER 22

Artificial Reforestation in Tropical Areas

Arnold Caoili

I - INTRODUCTION

The tropical forest, one of the most ancient ecosystems in the world, is also its richest reservoir of flora and fauna. Forests once stretched almost unbroken over the humid tropics of Central and South America, Africa and Southeast Asia. Today they have shrunk into fragmented patches, with brushlands, grasslands, agricultural areas and settlements as prominent replacements. As population pressure increases, the demands for timber, fuelwood, and farming and grazing lands also increase. In tropical Asia alone the total closed

forest area deforested during 1976-80 was estimated at 9 million hectares, or an annual average of some 1.8 million hectares. Projections indicate that the rate of forest destruction will still increase slightly for the period 1981-85 (Table 1). The rapid destruction of forest resources can be attributed to a number of interrelated factors. Indiscriminate cutting of trees for timber and fuelwood in total disregard of the detrimental effects on the environment has proven to be a formidable problem. Shifting cultivation, especially in previously logged areas, and frequent forest fires which prevent any plant succession also contribute to the denudation of our tropical forests. Open pit and strip mining operations cause considerable damage to the forest. Legalized and planned conversion of forest lands into civil reservations and resettlement areas is another causative agent in the decrease of the forest areas. Matters are further complicated by an increasing man/land ratio in most developing countries of the tropical world. The shrinkage of the tropical forest is manifested in the scarcity of fuelwood in many tropical areas, in decreasing returns from logging operations because remaining resources are mostly in relatively inaccessible areas, and in seasonal droughts and floods as a consequence of the reduced water-holding capacity of the soil. The effects of forest destruction on the environment and the economy make reforestation imperative. In tropical Asia reforestation activities managed to establish 21 million hectares of plantations during 1976-80, still leaving a five-year net loss of about 6.9 million hectares, given the rate of deforestation in the region. Projections for

TABLE 1 - AVERAGE ANNUAL DEFORESTATION (in thousand hectares)

COUNTRY	UNDISTURBED		PRODUCTIVE LOGGED		TOTAL		UNPRODUCTIVE		ALL	
	1976-80	1981-85	1976-80	1981-85	1976-80	1981-85	1976-80	1981-85	1976-80	1981-85
Bangladesh	2	2	3	3	5	5	3			
	3	8	8	Bhutan 2	1.5	2	1.5	2	1.5	
India	12	12	121	121	133	133	14	14	147	147
Nepal	47	47	21	21	68	68	16	16	84	84
Pakistan	2	2	3	3	5	5	2	2	7	7
SOUTH ASIA	63	63	171	195	234	258	39	48	273	306
CONTINENTAL										
SOUTHEAST ASIA	272	179	146	139	418	318	10	39	428	357
Malaysia	32.2	34.8	177.8	200.2	210	235	20	20	230	255
(Pen. Malaysia) (7.2) (6.8) (82.8) (83.2) (90) (90) (90) (90)										
(Sabah) (44) (60) (44) (60) (16) (16) (60) (76)										
(Sarawak) (25) (28) (51) (57) (76) (85) (4) (4) (80) (89)										
Philippines	101	91	101	91	101	91				
INSULAR										
SOUTHEAST ASIA	39	40	829	891	868	931	20	20	888	951
Kampuchea				13	20	2		3	15	23
Lao	85	60	20	25	105	85	20	15	125	100
CENTRALLY PLANNED										
TROPICAL ASIA	119	101	45	51	164	152	41	38	205	190
Papua New Guinea	10	12	3	2	13	14	8	8	21	22
TROPICAL ASIA	503	395	1154	1278	1697	1673	118	153	1815	1826

SOURCE: FA 0, *Forest Resources Assessment in Tropical Asia, 1981*

1981-85 indicate a slight increase in the rate of plantation establishment (Table 2). Within the context of a growing global concern over the loss of our tropical forests and the increasing efforts of government to rehabilitate and reforest degraded and deforested areas, the following discussion centers on reforestation of tropical forests with emphasis on artificial reforestation, the tradeoffs between artificial and natural reforestation, and some policy recommendations for an effective reforestation program in tropical areas.

II - REFORESTATION OF TROPICAL FORESTS

The two principal methods of reforestation, artificial and natural, differ in the degree of man's intervention in restoring the forest cover. Natural revegetation relies mostly on the process of natural regeneration of the forest ecosystem. With this process, also known as silvigenesis, it may take more than a thousand years before the different succession patterns reach the climax stage. It is for this reason that the selective logging system is often prescribed for tropical forest

utilization. In selective logging, only the dominant and codominant trees are harvested, so that only the latest successional stages need to be completed before the next climax stage is reached. In the Philippines it has been estimated that there should be at least 54 cubic meters of residuals 20-60 cm, in diameter left per hectare in order to recover an approximation of the original virgin stand after 30 years.' At present, natural regeneration of tropical forests is manipulated by man with some silvicultural treatment to produce trees with better form and larger utilizable volume. Some of these treatments are weeding, pruning, thinning and enrichment planting. This makes "natural" revegetation not strictly natural, as human intervention is also present, especially in production forests. Natural regeneration will only succeed in areas that are not drastically altered and degraded. Artificial reforestation is a method in which the return of the forest cover is sought through the direct intervention of man. Seedlings of one or more species are planted in areas to be reforested and should be properly managed. They are supposed to be the climax species though in most instances they are planted under conditions that do not favor the growing of climax species. The resultant vegetation !Adolfo V. Revilla, "Simulation Analysis of Alternative Management Strategies for Philippine Dipterocarp Forest Units," *UPLB-CF(1978)*

start establishing itself. However, the true climax forest will not be reached in less than one hundred years. But the non-utilization of the plantation crops might not be economically sound as most of the plantation species are suited for pulp and paper making.

III - TRADE-OFFS BETWEEN ARTIFICIAL AND NATURAL REFORESTATION

Since most of the deforested and degraded lands in the tropics are due to shifting cultivation, illegal logging, forest fires, and insect(disease infestations which completely open up forest areas, artificial reforestation is becoming the favored approach due to its successful implementation in open degraded lands. Also, the demand for fuel, wood, pulp and paper species, and dendrothermal species has resulted in increased plantations of fast *growing* reforestation areas are highly susceptible to insect, pest, and disease infestations.

2. Land Capability and Land Use - In artificial reforestation the suitability of species to be planted must be carefully considered to ensure a high degree of survival. Such factors as original forest cover, site index (productivity), soil, climate, land capability in general and other ecological factors must be taken into account. Failure to assess properly the suitability of reforestation species to denuded forest lands will result in low survival rates of seedlings, while in natural regeneration of selectively logged-over areas a high rate of survival of seedlings is assured, since they occupy areas where the present forest cover grows naturally. However, in the case of large denuded areas, natural regeneration following patterns of natural succession will proceed very slowly, with "pioneer" species first occupying the denuded areas before hardwood and climax species appear. This is due to the fact that many primary rainforest species have heavy seeds which depend on animals or gravity for long distance dispersal from mother trees; but these seeds often have short viabilities and are not aggressive in reproductive habits, giving way to "pioneer" species of weeds, shrubs, uneconomic trees, [etc. in](#) denuded areas. Also, in terms of sub-uses for forest lands, large denuded areas artificially reforested for commercial purposes may not be very useful for other forest uses such as wildlife sanctuaries, watershed protection, conservation zones, natural buffer areas and the like. The continuous shift to plantations of fast growing species precludes most of these other forest uses since regular harvest for specific end products (mostly pulpwood) is expected. Naturally grown forests following sound forest management are most adaptable to multiple uses, including protection and conservation, while assuring an adequate supply of wood through selective cutting of mature and overmature trees.

3. Production and Economic Utilization - In cases of large tracts of denuded forest lands, artificial reforestation through industrial tree plantations or agroforestry will produce more wood at a faster rate, and the species planted are of commercial value. Relying on natural regeneration of vast areas of denuded forest lands may not be an economically sound proposition in view of the long period of time required for the commercial species to attain maturity. Also, it is natural that "pioneer" or "weed" tree species populate denuded areas before giving way to the commercially utilizable species of hardwoods, following patterns of natural forest succession in the tropics. These "pioneer" or "weed" species are not commercially utilized at the species. Economic returns are also assured from plantations of fast growing species as compared to the pioneer "weed" species that naturally thrive in open forest areas

before climax species appear. However, there is also a strong desire to maintain the original forest cover of the tropical areas through natural reforestation for various ecological reasons. Hence, trade-offs between artificial and natural reforestation have to be properly evaluated. moment, belonging to the "lesser known species" category. There still exists a wide research gap on how these lesser known species could be used commercially.

4. *Economic Consideration* - Artificial reforestation requires large-scale financing of seedling production, site preparation, outplanting, fertilization, and maintenance. For example, in the Philippines around US \$730 is necessary to reforest a hectare of denuded land. In the case of natural regeneration, no initial investment might be required, but in the long run there is a high opportunity cost because of the long lapse before the species involved matures. This ties up much of the capital in the land, and the initial succession species in open land cannot be sold commercially, except as woodfuel at a low cost. On economic grounds, the rationale for investing in commercial plantations on denuded lands is highly justified.

5. *Social Aspect* - Artificial reforestation of denuded areas, especially of those in the vicinity of areas occupied by forest settlers, hill tribes, and rural communities, offers opportunities for employing and involving these poor sectors of society in the development programs of the government. In the Philippines, for example, an integrated social forestry program has been officially launched this year, aiming to involve the shifting cultivators, hill tribes, and other forest dwellers in the reforestation effort of the government. Through a system of long-term leasehold (up to 50 years) on the forest lands they occupy, these people become co-stewards with the government in reforesting and protecting forest areas while at the same time sustaining their economic livelihood through agroforestry activities and preventing large-scale shifting occupancy of the land.

6. *Development Options* -The development options for artificially reforested areas are more flexible than in natural forests where natural conditions are maintained. Integrated area development in rural communities can be better supported by plantations for specific uses. For example, a fast growing species of *Leucaena* can be planted in areas where Dendrothermal plants are to be located. In areas with facilities for pulp and paper manufacture, fast growing species for pulpwood purposes can be raised. In rural communities with a tobacco or other industry that depends on woodfuel supply for curing purposes, largescale plantations of fast growing woodfuel species can be planted.

7. *Nutrient Cycling Efficiency* - Natural tropical forests exist on a meager nutrient budget, most of which is tied up in the forest vegetation. There is a nearly closed nutrient cycle which is efficiently maintained by the inherent species diversity of the natural forest. A monoculture plantation resulting from artificial reforestation, on the other hand, utilizes only the nutrients which it needs most and allows the unused nutrients to be leached. In *Leucaena* plantations, the soil tends to be starved of phosphorus and calcium while the nitrogen content is kept adequate or even enhanced. This necessitates constant application of phosphorus and calcium fertilizers especially if the plantation is utilized for animal feed production or the leaves are not returned to the ground after harvesting. Since both artificial and natural revegetation have their strengths and weaknesses, there must be specific areas where one is more advantageous than the other. One criterion for selecting which method to use is the present vegetative cover of the area to be reforested. Logged-over areas, brushlands, and secondary forests are better left to regenerate naturally- subject, of course, to some treatments determined by the main ultimate use of the resource. Open and grassland areas which will not revert to forest even over a long time will have to be reforested artificially. Although artificial reforestation is much more costly than natural revegetation, there is no choice but to do it in open areas, even if forestation is undertaken only for purposes of soil and water conservation. The economics of the forest product is another criterion for selecting which of the two methods will be used in vegetative regeneration. There are studies which show that industrial plantations give higher returns than natural forests in terms of wood production, but it must be realized that this is only true when there is a ready market for the plantation crop within an economic distance. Furthermore these studies do not take into account the other products within the natural forest. Rig pulp and paper manufacturing plants would need a steady supply of pulpwood which will be better met by establishing the plantations within an economic distance of the plant. Another criterion for reforestation is the urgency with which an area needs rehabilitation. This is especially true in watersheds that support irrigation and/or hydroelectric facilities, where erosion and sedimentation will drastically lower the life expectancy of these important

infrastructures. Perhaps a compromise approach is to plant fast growing species first in denuded areas and then to interplant them with hardwood species which are the climax species for specific locations and which will grow under the shade of the fast growing species. In this process, commercial utilization of the fast growing species for specific purposes is achieved while the process of reverting the forest back to its natural condition is accelerated. This has been tried successfully in the concession area of Nasipit Lumber Co. in Mindanao, Philippines where *Albizia falcataria*, a fast growing pulp species, is planted together with *Lauan* species, the climax species for the area.

IV - PROBLEMS IN TROPICAL REFORESTATION

An effective reforestation program must take into account a number of interrelated factors. Due to the peculiarity of the soil and climate in tropical countries, the determination of what type of tree species to plant is crucial. Species that would normally grow in a cold environment and dry soil will not thrive in a warm climate and damp soil. Since most of the available areas for tree planting are the so-called marginal lands, only a few species would be able to grow well. The low rate of survival can be traced to the unfavorable planting site and unwise choice of species. In most instances, these trees have to compete with existing vegetation such as grasses. For these reasons, any reforestation program must be viewed as a complex undertaking. There must be thorough site preparation and properly managed nursery operations. Once the trees are planted they must be protected from fires, pests, and diseases. Of equal importance is the financial aspect of the reforestation effort. In the Philippines, studies show that reforesting a hectare of denuded land could cost up to OS \$730.68. With a distance of 4 meters between trees, it would cost at least \$65.24 to plant a hectare of denuded land, without any other input such as fertilizer. Thus, to reforest the present denuded areas of about 5 million hectares, the government will have to spend \$32 million. Assuming a 50 per cent survival rate, it will ultimately require at least \$6.3 million to reforest 5 million hectares successfully. ² Also of major concern is the socio-economic impact of reforestation on hill tribes and landless peasants living in developing tropical countries. Protection of established plantations might be difficult in cases where the local rural population has a negative attitude to reforestation because the benefits do not accrue to it and because its shifting cultivation methods and nomadic lifestyle are threatened by resettlement. In these cases, forest fires in plantations become prevalent and upland agricultural areas expand. Another problem in tropical areas is the fact that most reforestation efforts, especially of open lands, are shouldered by governments,

²NDC-N ITC Industrial Tree Plantations Development Program (Philippines, 1982). because forests belong to the state and private forestry is minimal, All sectors of the citizenry should be involved in enhancing the forest patrimony of developing countries so that all become co-stewards of these valuable resources.

V – RECOMMENDATIONS

The reforestation of denuded and degraded tropical forest lands is a complex matter encompassing several ecological, socio-economic, and political factors. Therefore, some policy recommendations are submitted here which should ensure the success of reforestation, especially artificial reforestation, of tropical areas:

I. The magnitude of denuded forest lands in tropical areas calls for a systematic reforestation program. This *program* should be expressed in national and regional reforestation plans which include: 1.1 an inventory of all areas needing reforestation;

1.2 consideration of significant ecological factors such as meteorology, hydrology, pedology, geology, etc.;

1.3 selection of appropriate reforestation strategies, taking into account species site suitability, the different end products of reforestation (such as timber or fuelwood), forest protection, and the appropriateness or ^{cost} benefit of artificial vs natural reforestation;

1.4 provisions for forest protection, especially against insect and Fungal infestations which often occur in large areas of artificial monoculture forests, and against fires, which *are frequent*

occurrences in grassland areas and pine plantations;

1.5 measures to insure the participation of most, if not all, of the different sectors of the population in tree planting;

1.6 assurance that the benefits derived from reforestation will filter down to all participants; and

1.7 a strong *forestry* extension campaign.

2. Reforestation planning should be done in accordance with an *overall* land suitability assessment of opical orest lands which would determine their various sustainable uses for such purposes as producti_on, c_onse_rva_ti_on, protection, watershed management, ecological habitats, reforestation, etc. This suitability assessment of tropical forests is imperative, for the ratio of land to man is ' decreasing in the tropics, and it must be ensured that the uses made of particular forest lands do not result in environmental degradation but can be sustained over time for the benefit of the greatest possible number of people. The Philippine government has started on this course, with a Presidential directive to subclassify all forest lands into various sustainable uses.

3. The remaining stands of forest in tropical areas need not decrease further, aggravating the present deforestation problems. The forests can be at once utilized and conserved if:

3.1 the practice of selective logging is religiously followed;

3.2 damage to residuals is kept at a minimum;

3.3 timber stand improvement practices are employed in re sidual stands; and

3.4 squatters and illegal loggers are exluded from the forest or co-opted as co-stewards in forest protection programs.

4. There is a generally recognized gap in the technology appropriate for tropical forestry. Continuous and integrated research on tropical forestry must be undertaken, especially in the following areas:

4.1 utilization and silviculture of lesser known species, to increase the benefits per unit of forest area;

4.2 monitoring and evaluating systems, to gain a good under standing of the resource and its dynamics;

4.3 socio-economics of the forest ecosystem including the so cial and cultural attributes of the forest occupants;

4.4 hydroecological studies of different forest ecosystems and management regimes;

4.5 improvement of the selective logging system and other harvesting techniques; and

4.6 silviculture of exogenous reforestation species.

5. Species diversity in the tropical forest implies fewer individuals per species. Therefore it is essential to maintain adequate protection forests in order to ensure gene pool conservation and to prevent the loss of species.

6. To prevent general outbreaks of pests and diseases and to achieve full utilization of the mobile nutrients found in tropical soils, monocultures should be avoided as much as possible in plantation establishments. It also is advisable to plant species of the original forest in specific sites rather than exogenous species, vators, are given lon by which forest plantations or a r g term leases to fifty years) to establish treere of the Pro g of forestry farms. This program is which have been exposed to quite different evolutionary stress factors.

International Development (SID) convene an international workshop of knowledgeable and responsible persons from both the private and public sectors of concerned countries, North and South, with the aim of formulating a jointly agreed framework within which the concepts of the aforementioned recommendations could be implemented on an international basis. Such a framework should result from a careful analysis and matching of resources, capabilities and deficiencies of both North and ⁴office of the President, Philippines, *LOI No. 1260, July 28, 1982*.

South, the degree of the country's technical and financial competence, the commitment of each country from the North in terms of financial and technical assistance to reforest the denuded/open areas, as well as the volume of resulting wood products or by-products that their markets will absorb on a continuing basis in order to minimize overcutting of primary forests.

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CHAPTER 23

Forestry in Agricultural Farming Systems

D.E. Iyamabo

This paper concerns a subject that employs many new scientific terms and concepts which are still evolving and not yet precise, e.g. agroforestry, agro-silviculture, farming systems and cropping systems. Complete definition of these terms will not be attempted in this paper, but where they are used their general meaning will be understood. The subject of this paper is the place of perennial forest trees in agricultural production systems. Reliable statistics from various sources show that the world's dense tropical forests are diminishing at an alarming rate. Some estimate that these forests will not last longer than 30-50 years even at a much lower rate of shrinkage; and the prospects for additional forests being reserved solely as forest estate, or primarily for forest production, are presently very slim or nonexistent. Forests and forestry development present problems especially for the least developed countries (LDCs). The life in these countries is still very close to nature, and their governments- policy makers, and people take forests and their benefits for granted. Besides, development, as it is commonly understood, means cities, hospitals, schools, industries, roads, etc., all of which require the

destruction of forests and other natural vegetation. The LDCs are constantly criticized for their low level of agricultural productivity. Productivity should be increasing by 3-5 per cent annually instead of the current 1-2 per cent. But increased agricultural production invariably has meant the clearing of large areas of land for crops and livestock development. Thus the interests of agricultural production and reforestation may create a conflict in land use policy. Natural hazards, such as drought and gully erosion, tend to abet the destruction of forests. And population pressure, high in LDCs, with yearly population growth of 5 per cent or more in some cases, likewise threatens the forests. The security of the established forest estates is weakening rapidly. These estates represent the last hope for maintaining the forest ecosystem and the supply of various forest products. Instances exist of top government functionaries, who by law should establish and ensure the continued existence of these estates, spearheading their destruction through dereservation decrees.

6. Supporting research must be intensified and given a new orientation. Trees needed for the purposes mentioned require intensive and different silviculture from that in normal forest plantation. Special selection and plant breeding procedures have to take these specific needs into consideration. Crop competition and socio-economic factors will play a much greater role than in usual plantation forestry. The possible solutions of these conflicts are varied and complex. They require action by all sectors of society in the LDCs and massive, diversified support by developed countries:

1. Government and political leaders in LDCs must understand the dangers of the vanishing of their tropical forests and must muster the political will to arrest this trend. Policy statements of intent are not enough.

2. Policy makers, chief executives and managers of government development programs in agriculture, forestry, livestock, city planning and other forms of land use, must cooperate more than ever before in planning, executing and monitoring their land use programs.

3. Educational institutions, particularly universities, must immediately rectify the present lack of integrated land use courses offered to students. Most of these institutions have no courses in farming systems which involve crop, livestock and forestry production. Often there are no courses on how to deal with soil erosion, degraded soils, floods, drought, multiple land use, or management of the total natural resource.

4. Foresters must improve tree productivity, harvesting methods and utilization of existing forests, in order to eliminate waste.

5. The concept of practicing forestry only or mainly in forest estates must be changed. There must be:

- i. an aggressive tree-planting program in hitherto non-afforested lands such as difficult sites, farm lands and range lands, public lands (e.g. in scattered plantings), and in the area of avenues, hedges, and boundaries;

- ii, a program for improving soil fertility (e.g. N_1), for fixation and humus formation, and for multiple product cultivation (wood, food, drugs, etc.);

- iii. a program dealing with fallow degraded areas, areas under irrigation, areas for watershed management and wood lots; iv. a fuelwood program; and

- v. a pest and disease control program. The total number of trees that could be planted in accordance with the schemes outlined is colossal. It is estimated that the trees planted along avenues in Britain alone number about 10 million. The LDCs must realize that the problem of these forests is theirs, first and foremost. They must understand the problem and assume responsibility for solving it; and they must accord the proper priority to the forest as an invaluable natural asset and commit more resources for its preservation and development. However, it must be recognized that priorities are difficult to set and maintain. Governments in LDCs are under unusual pressure to ensure national development simultaneously on different fronts. Domestic pressures are sometimes, in fact often, compounded by international interests and pressures. Many LDCs are doing well in conserving and developing forests, having large afforestation schemes, sizeable and well-oriented research programs, agroforestry schools, farming systems research, and improved forest utilization

schemes. But much more still needs to be done. The DCs of the North have a crucial role to play in the fate of the tropical forests of the world. The DCs appreciate the importance of this asset much more than the LDCs do. The tropical forests form the most complex, least studied or understood ecosystem in the world. Their internal environment and microclimate, their effects on the surroundings, their plant and fauna composition and competition, patterns of tree growth, methods of regeneration, and relationship to man are some of the numerous facets of the tropical forests requiring thorough study before meaningful development of these forests can be undertaken. The DCs, far more than the LDCs, have the required resources-equipment, funds and trained manpower-for the needed research and for development. The tropical forests are often regarded as biosphere reserves and worldwide heritage, and the DCs are better able to exploit the potentials these forests contain. In fact the major intervention in the world's tropical forests so far was massive exploitation by DCs to benefit their home based industries. DCs determined the rate of exploitation, fixed the prices paid for *forest* products, and determined forest policies, which were largely geared towards utilization, with regeneration programs that yielded very few results. Regeneration of a very complex and unstudied ecosystem has very little chance of success. The DCs of the North therefore have a moral and economic obligation to restore, conserve and expand these major natural resources in whose destruction they played a dominant role. Some steps have been taken in the right direction, but these must be considered the first steps of a long march, if any significant results are to be obtained. As the CGIAR is concerned with agricultural crops and livestock, none of its efforts help the development of tropical forests and forestry. ICRAF is young and still relatively small. The past and present roles of FAO UNESCO, and bilateral programs are important, but amount to very little in view of the enormous scope of the problems that have to be dealt with. The tropics have a potential for tree growth unmatched anywhere in the world. Tropical temperature, rainfall, solar radiation, and capacity to respond to fertilization and irrigation assure almost immediate returns to investment. I have been involved in trials which resulted in the growth of 6-9 feet of *P/nus caribaea* in the first year and 35 feet of *Eucalyprus camaldulensis* in 18 months. Many similar examples could be cited. In conclusion, the LDCs of the South are anxious to become selfreliant in the development of their forest resources. The DCs of the North can and should do much more than at present to aid this effort.

PART VII

SOME REFLECTIONS ON...

CHAPTER 24

Japan and the Contemporary LDCs: Comparative Analysis in Historical Perspective

Kazushi Ohkawa and Gustav Ranis

[This is an abstract of a paper presented at a conference on Japan's Historical Development Experience and the Contemporary Developing Countries: Issues for Comparative Analysis - Phase H. The original paper which is part of a major study-Comparative Analysis Project of the International Development Center of Japan-was presented at the Tokyo Session of the North South Roundtable. This abstract is printed with the permission of the International Development Center of Japan.]

INTRODUCTION

The purpose of this study was to draw lessons from Japanese development experience for the benefit of today's LDCs. The authors realize that the situation of each country is unique, but, accepting Kuznet's development concept of successive transitional steps from an agrarian to a modern society, we believe that Japanese historical experience can teach valuable lessons to all LDCs, as long as the important differences are not overlooked.

INITIAL CONDITIONS AND ENDOWMENTS

The pre-development stage of Japanese society was such as to give that country considerable advantages over other, similarly endowed countries, such as India, China, and Thailand. For instance, the fact that the post-feudal ruling class, the lower class samurai, was relatively little

tradition-bound and possessed few vested interests made for a much more favorable climate for change than prevailed later in similarly resource-equipped countries when they were ready for development. Another factor favoring Japan in comparison with other countries was the former governments' willingness to go after Western technology in an aggressive manner, rather than accept it passively. On the other hand, while during the 19th century Japan's public sector took it upon itself to invest in pioneer industries, it spun them off to the private sector as soon as possible. This distinguishes its behavior from that of the public sector of developing countries which are following a similar course today, such as Kenya and Thailand. The public sectors of the latter countries are obliged to hold on to industrial pioneer enterprises because of the lack of a sufficiently adventurous private sector.

THE ROLE OF AGRICULTURE IN AN INTERSECTORAL CONTEXT

At an early transitional stage Japan took pains to increase agricultural productivity, first through the dissemination of the "best available" and then through "newly developed" technology. Furthermore, measures were taken soon to channel the growing savings of that sector into manufacturing investment, with the latter sector thus becoming increasingly able to absorb the agricultural labor surplus. Much more rapid progress of agricultural technology in the 20th century later allowed Taiwan to accomplish within twenty years what Japan had achieved over the course of half a century. Korea, a country in many respects comparable to Taiwan, was much less successful in emulating the Japanese agricultural achievement because less attention was paid to agricultural infrastructure investment needs than in the other two countries. Recent Korean policy changes seem to have redressed these shortcomings. India's industrial import substitution policy and the magnitude of its agricultural infrastructure requirements long made for much slower progress in agricultural development and less of a spillover of agricultural progress into the rest of the economy. India suffered too from another disadvantage. The absence of a land tax, combined with the country's inability to create voluntary savings in the agricultural sector, prevented the emergence of an agricultural surplus. Thus in the Indian experience, unlike that of Japan, Taiwan, and Korea, capital had to be channeled into the agricultural sectors, instead of having it flow out for the purpose of facilitating investments in other areas. The result was a much lower overall investment potential in the Indian economy in general. The experience in Taiwan, in particular, shows that the agricultural development process pioneered by Japan even today holds great promise for success in countries having a poor agricultural endowment, and that it is much more likely to promote economic development than import substitution policies that tend to lead to food deficits. Fortunately, this lesson seems to have been learned by many administrators around the world.

TECHNOLOGY CHOICE AND CHANGE

Japan also broke ground by promoting technological changes in agriculture on the micro level and thus created conditions favorable to accelerated development. A good example of this was the discovery and introduction of a technology that allowed rearing silk cocoons in the summer-fall period, when labor lay largely idle, rather than in spring. This allowed an increase in silk output without cutting down substantially on agricultural crops. The Taiwanese took a leaf out of the Japanese book when their farmers started producing mushrooms and asparagus for export. This gave additional employment during the off-season, at virtually no social opportunity cost, to resources engaged before only in producing rice. In a similar vein, Colombia is trying to promote a new cassava technology that uses more fertilizer and thus puts into cultivation maize land that up to now had to lie fallow periodically before it could be put back into maize production. This shows the Japanese approach is useful even in areas where extensive production methods are the rule. Indonesian studies of individual villages also have shown that such efficient utilization of agricultural land and resources not only increases productivity but also improves income distribution. Undoubtedly better land utilization, irrigation, and improved technologies ensure a higher rate of return than land augmentation. Given modern technologies and today's greater population pressures and densities, this is *even* more true now than it was at the time of Japan's earlier development. On the other hand, greater income inequalities, greater wealth inequalities, and greater policy-induced market distortions, prevailing more in today's developing countries than they did in the case of Japan, may lead nowadays to less spectacular results than were achieved earlier in Japan. Flexibility in the production process, open-mindedness about the introduction of change, a relatively free market, and the absence of vested interests also allowed the Japanese of an earlier period to

develop more quickly an efficient textile industry than proved to be feasible in a number of today's developing countries, such as India, where social and political conditions were less conducive to the emergence of a modern and profitable textile industry. A comparison of Japan and India leads to the conclusion that managerial capability and the educational characteristics of the labor force likewise were very important causes of industry performance differences between the two countries. Many important lessons thus can be learned from the Japanese case concerning the choice of technologies. Developing countries must search for ways to modify the production process, the product itself, and the factor mix; and entrepreneurs must be flexible in every other aspect of producing and marketing a given product, keeping in mind the best use of their country's resource endowment and economic conditions. Furthermore, the authorities must strive to create a climate favorable to change and adaptation. The subcontracting experience of the Japanese automobile industry is very interesting in this context. It shows how the development of more labor-intensive technologies can be of great assistance in speeding development in labor-surplus/capital-poor countries. But this of course has its limits in basic industries like steel, where the technological characteristics of the product do not allow this approach. Furthermore, the possibility of alternative technologies which make use of the opportunity to produce industrial goods in a rural setup were much greater in 19th century Japan than in most of today's developing countries, because a hundred years ago the Japanese customers were much more willing to accept "traditional" products than are their present-day counterparts. On the other hand, we must not forget that Taiwan very recently went through an experience very similar to that of 19th century Japanese rural industry, and that Japan as late as 1960 maintained some vestige of that setup. This suggests that the possibility of culling agricultural surplus labor and using it *in loco* for industrial purposes lasts much longer than usually is assumed, provided the proper policies are used.

FINANCE AND TRADE

The financial contribution of Japanese agriculture to its general development has already been mentioned. In addition, Japan's experience with financial institutions and intermediation techniques, its efforts to attract specialized savers, its early weaning of financial institutions from government support, and a willingness to let the market set interests freely--all financial techniques that contributed greatly to development--are interesting because they differ so greatly from financial policies pursued by most LDCs today. For instance, in the Philippines, financial institutions have become highly sophisticated, and substantial agricultural savings have been channeled. But Philippine banks in general, and rural ones in particular, remain weak. Also, there is discrimination against small entrepreneurs and small farmers. This is the result of a low interest policy (embarked upon in an import substitution effort) that discourages savings and deprives the system of funds and an incentive to provide for the needs of the little man. Close ties between small powerful financial/industrial groups and wealthy individuals are typical both of Japan and the Philippines. How this setup operates, if it is to last, and whether the arrangement is beneficial to development remain questions difficult to answer. An important difference between today's developing countries and 19th century Japan is the much greater access of the former to foreign private capital and to foreign aid. It is not just the quantitative aspect but also its qualitative contribution that today makes the role of foreign capital highly important in such countries as Taiwan and Korea. This apparently is one of the causes that allows some of today's LDCs to develop much faster than Japan did in the 19th century. Foreign trade has been another factor, both for Japan and for most of today's Asian LDCs, in promoting development. Thailand is a good example of a country that first achieved growth through import substitution and then reaped even greater development benefits through liberalization that aided export industries by making them competitive in the world market. Japan, of course, had it politically easier than many of today's LDCs, in shifting *from* import substitution to more and more sophisticated export substitution. As the country initially had no tariff autonomy, no strong vested interests made up of overly protected, import-substituting industries came into being, and few obstacles stood in the way of liberalization measures that are essential to create competitive, sophisticated export industries. How different from today, when only a small number of countries have been able to prevail against the vested interests that successfully have pleaded for the continuation of high tariffs, quotas, overvalued exchange rates, and all the other measures of effective protection. A number of small Asian and Latin American countries use against liberalization the argument that it would not work in their case because of the smallness of their markets and other factors not permitting them to take advantage of economies of scale. Experience, however,

shows that even they do better under a liberal policy than under continued hothouse protection, provided the former goes hand in hand with government measures improving micro-economic aspects and with multilateral action to give these small countries greater access to foreign markets. Doubts have been expressed in many contemporary LDCs that Japanese-style trading companies could be useful in a different Cultural setup. However, research seems to indicate that at least in Korea and Thailand, the concept, if adapted to local conditions, can be very useful in modernizing the economy.

OVERALL PERFORMANCE: GROWTH AND DISTRIBUTION OVER TIME

The authors tried to see if the Japanese model could serve as a guide for contemporary LDCs, by measuring how adherence to that model would be reflected in commonly used performance indicators. And since success is easier to analyze than failure we have concentrated on Korea and Taiwan. These two countries, like Japan, started out with a labor surplus and with a poor natural but rich human resource endowment.

All three countries did not greatly stress, or remain long in, the import substitution phase before shifting to gradually more sophisticated export substitution. Every one of them rapidly solved the problem of labor surplus in agriculture, thanks to, and during, their export substitution phase. In each case this policy changed at an amazing speed. The change from an economy that was merely labor intensive, largely using unskilled poorly-paid workers, into one of well-paid, highly skilled industrial labor was the key to rapid growth. Similar if not identical policies in each of these cases transformed a primitive agricultural labor surplus economy, where rewards to poorly skilled and underemployed farmers and farm workers had to be very low, into one that still was labor intensive, but where they had become industrial and high skilled, was nearly fully employed, and earned relatively high population incomes that kept on rising as growth countries to be rapid.

In fact, there is good statistical evidence in the cases of Taiwan and Korea, based on cross-sectional as well as historical analysis, that the store of labor income has become surprisingly large by worldwide standards. It is even more surprising that distributive equity did not deteriorate during the periods of most rapid growth. The experience of Japan apparently was similar prior to World War I, but data seem to make it less so in the period between the wars.

Since some observers have insisted that historical differences make the Japanese experience irrelevant for today's LDCs, we should consider the differences, especially relating to technology that time and this. Note that policies similar to those followed by have succeeded recently, that is, during an era of greatly increased due to the recurring energy crisis, and of a worldwide prolonged stagflation. It has been claimed that when its development started, Japan enjoyed the advantage of a much lower population pressure. But the experience of modern countries emulating her example shows that they can succeed in reducing a much higher initial population pressure through appropriate policies.

On the other hand, it can be argued that modern LDCs enjoy advantages that make their chances for succeeding by adopting Japanese techniques even better than those of that pioneer country. First of all, there is today a much greater opportunity to borrow technology from abroad, particularly in the case of agriculture. Also, today's LDCs have much greater access to concessionary and nonconcessionary foreign capital. Then the stimulus from growth in developed countries was much greater in the 1950-1970 period when industrialized economies expanded as never before. Finally there is reason to suspect that today a much greater desire exists the world over to speed up the dissemination of technology and to move production factors as well as wealth to where they may be needed most and do the greatest good. The point should be made once more in this context that LDCs that have chosen the path of Japan in recent years needed less than half the time to succeed than was required earlier by their model, although these countries, e.g., Taiwan and Korea, had to contend with rapid population growth and higher protection obstacles. Thus, it is difficult to keep from concluding that the international economic environment, while it certainly could stand improvement, especially in recent years, is not what is keeping many developing countries from achieving successful transition growth.

US and the Interna, T o a, DeVelo Challenges *Pment* John B. Anderson I have been

asked to reflect for a few minutes on the United States should consider in facing the international development challenges of future years. With global problems that so clearly require global solutions and global cooperation, I admit to some discomfort in isolating those steps that the United States should undertake, as if they were or should be either the only or the primary factor in development. Nonetheless, the leadership position both thrust upon and eagerly sought by the United States in global affairs does require our careful consideration of what we as a nation should do if we are to be a constructive partner in this international effort. With that in mind, perhaps the first step to be taken by the American government is the honest recognition that we represent but one "actor" in this grand drama we witness and take part in today. On many occasions American leaders have stated that the US must no longer act as the "Lone Ranger" in international affairs, as if we were divinely selected to rescue the poor and defenseless from the disclaimers, current American policy cooperative effort and collaborative leaders the essential necessity of pipeline built in Europe or Namibia's struggle. Whether concerning equality and allow discussions and, most importantly, events to determine who shall play a leadership role under any given set of circumstances. I would like to suggest strongly that such an approach would not be a denial of traditional American leadership, but an expression of true leadership, i.e., leadership which can be readily accepted by others and not forced upon them by intimidation or demand.

Having restructured these alliances, we must then turn to a much more difficult task but one of even greater long-term importance the development of a global "understanding" or consensus to guide us in all our working relationships, be we friend or foe at any given moment. I prefer to say consensus, rather than detente, as detente seems to suggest, as a result of recent history, that there is only a need for understanding between the United States and the Soviet Union. While detente certainly has an importance in Soviet-American affairs, that alone is insufficient. It does not represent the third step of which I am speaking. No longer can there be a Pax Americana; that is widely accepted. However, we can no more afford to believe that a peace can be "enforced" by the US and the Soviet Union, as if peace could ever be enforced. When I speak of a global consensus, I mean precisely that. I am not so foolish as to believe that such a consensus can be developed quickly nor that it can be all-encompassing in its coverage. But we must begin to seek a broad, general consensus among us all that will allow both international peace and international development the opportunity to become, if you will, institutionalized. I would stress that to speak of international development without speaking of peace and the stability that arises from peace is a waste of time. No one develops in the midst of nuclear war. Thus, although the US cannot expect to predetermine this global consensus nor design it in an autocratic fashion, it would not be inappropriate for it to take the lead in beginning a determined search for this consensus. Although these three steps, in and of themselves, might appear sufficient to some at first glance, this unfortunately is not the case. These steps will only affect the "climate" under which development might flourish. There are other crucial steps that must also be considered if these first three are not to fail for lack of structural support.

CHAPTER 25

US and the International Development Challenges

John B. Anderson

I have been asked to reflect for a few minutes on the steps that the United States should consider in facing the international development challenges of future years. With global problems that so clearly require global solutions and global cooperation, I admit to some discomfort in isolating those steps that the United States should undertake, as if they were or should be either the only or the primary factor in development. Nonetheless, the leadership position both thrust upon and eagerly sought by the United States in global affairs does require our careful consideration of what we as a nation should do if we are to be a constructive partner in this international effort.

With that in mind, perhaps the first step to be taken by the American government is the honest recognition that we represent but one "actor" in this grand drama we witness and take part in today. On many occasions American leaders have stated that the US must no longer act as the "Lone Ranger" in international affairs, as if we were divinely selected to rescue the poor

and defenseless from the clutches of evil. Despite these disclaimers, current American policy does not indicate that we have yet learned the essential necessity of cooperative effort and collaborative leadership. Whether concerning a pipeline built in Europe or Namibia's struggle for independence and self-rule, American foreign policy has not emphasized genuine cooperation. On the contrary, its emphasis has clearly been directed toward comparatively narrow, national goals. From time to time, these goals may be in accord with those of our allies, but this, in my opinion, is a result of coincidence as much as a result of design, if not more so.

Once having taken the steps of recognizing the need for and implementing a policy supportive of genuine international cooperation, the next step I feel it is incumbent upon American leadership to take is a redefinition and strengthening of our alliances. When I speak of allies, I do not simply mean our traditional European allies, but all nations, at any stage of material development, with whom we have friendly and mutually supportive relations. In the restructuring of these relations, America must not assume that it is the leader or even "first among equals." Rather, we must begin with the assumption of equality and allow discussions and, most importantly, events to determine who shall play a leadership role under any given set of circumstances. I would like to suggest strongly that such an approach would not be a denial of traditional American leadership, but an expression of true leadership, i.e., leadership which can be readily accepted by others and not forced upon them by intimidation or demand.

Having restructured these alliances, we must then turn to a much more difficult task, but one of even greater long-term importance—the development of a global "understanding" or consensus to guide us in all our working relationships, be we friend or foe at any given moment. I prefer to say consensus, rather than detente, as detente seems to suggest, as a result of recent history, that there is only a need for understanding between the United States and the Soviet Union. While detente certainly has an importance in Soviet-American affairs, that alone is insufficient. It does not represent the third step of which I am speaking. No longer can there be a Pax Americana; that is widely accepted. However, we can no more afford to believe that a peace can be "enforced" by the US and the Soviet Union, as if peace could ever be enforced. When I speak of a global consensus, I mean precisely that. I am not so foolish as to believe that such a consensus can be developed quickly nor that it can be all-encompassing in its coverage. But we must begin to seek a broad, general consensus among us all that will allow both international peace and international development the opportunity to become, if you will, institutionalized. I would stress that to speak of international development without speaking of peace and the stability that arises from peace is a waste of time. No one develops in the midst of nuclear war. Thus, although the US cannot expect to predetermine this global consensus nor design it in an autocratic fashion, it would not be inappropriate for it to take the lead in beginning a determined search for this consensus. Although these three steps, in and of themselves, might appear sufficient to some at first glance, this unfortunately is not the case. These steps will only affect the "climate" under which development might flourish. There are other crucial steps that must also be considered if these first three are not to fail for lack of structural support.

The United States must also take a step toward dealing realistically with the severe problem of LDC debt burdens. To simply forgive the debts outstanding would be inappropriate, not to mention prohibitively expensive to Western economies at a time when these economies face grave economic dangers. Such a "forgiveness" would also be contrary to a basic thrust of development—that is, nations must learn to live within their means and take responsibility for their actions, including their mistakes. I certainly include the United States within their number! To ignore this necessity would be to transform development into relief. Relief is valuable in short-term emergencies but is clearly insufficient in the long term required by true development.

No, we cannot simply will these debts to disappear with harm to no one. On the other hand, we cannot allow those who loan, as well as those who borrow, to jeopardize global economic stability and security by continuing loan practices that are insupportable under any circumstances of good financial practice. Such loan practices threaten the destruction of nation-states rather than support their development. This incredibly thorny and intensely emotional question must be answered not by one nation or group of nations, but through global cooperation and consensus. Although any nation might take the initiative, I would be pleased if it were the United States who would call for international conferences of

lenders and of both lenders and borrowers to determine a framework, or set of fairly specific guidelines, with which we might direct future lending activities. It would also require a conference or series of smaller conferences involving groups of nations sharing similar problems, to discuss a reasonable approach to current debt problems. As matters now stand, we wait until the crisis is upon us before taking any substantive action. We may do this once, twice, or even a few times without destroying the international economic order, but we cannot make it a habit or that economic order will collapse. Should it collapse, we are likely to see all the developmental plans and activities directed toward creating international peace collapse alongside it.

Some will likely say that this "conference" approach would be too cumbersome, too slow in bringing results. Nevertheless, the only alternatives that come quickly to mind would require a certain coercion or intimidation on the part of the lending nations or an unbelievable degree of cooperation among borrowers who have no relevant incentive in the face of a lack of lender consensus. No, as I stated before, consensus cannot be forced but must stem from a willingness to work closely together. Given the extraordinary dangers we face at this very time in regard to LDC debt burdens, there is perhaps no better time to initiate such a step. Indeed, the situation is so grave, there may not be another time than the present before international economic disorder becomes a reality rather than merely a threat.

Another step that the United States might initiate would be a reassessment of the existing institutional resources available to all of us in our quest for development. I mean to include both bilateral and multilateral institutions. I do not believe that we have given sufficient consideration at the highest policy levels either to what we wish to accomplish through this development process or to the proper use and the level of sufficiency of the resources we bring to bear in this area. Our current seeming inability to make substantial developmental gains under the terms of the status quo suggests that we are lacking some vital ingredient. I suspect that needed ingredient is the global consensus of which I spoke earlier. However, once again, the consensus, while essential, is not sufficient in itself. With it there must be a sense of common goals and the resources necessary to progress toward those goals. Too frequently we in the United States, as others in other nations, look only to our own bilateral program and a few multilateral programs in which we are particularly active to evaluate the nature of our goals and resources. Despite this, it has become apparent to me that we are, on the whole, unable even to define goals for our own programs. However, we must not simply define our own goals without consideration of global goals. Once more, a consensus is required if our efforts are not to be negated by circumstances beyond our immediate control. And although we are unable unilaterally to determine either the goals or the sum of resources available, we are in the position of initiating activity toward those ends.

Let me briefly summarize. I recommend at least five steps to be taken by the United States:

- 1) We must change our perceptions and our actions with regard to our role in world affairs, particularly as a "leader" facing today's demands, and implement, as well as state, our commitment to international development.
- 2) We must then restructure and strengthen our alliances with others of like mind.
- 3) We must stress international cooperation and the building of an international consensus, without insisting on our dominance in this creative process.
- 4) We must work with others to begin immediately to "rationalize" our approach to current problems and future demands associated with LDC debt burdens and their repayment.
- 5) Finally, we must encourage the taking of a full inventory and assessment of the adequacy of those institutions and resources we currently make available for support and encouragement of the development process.

In final summation, I would like to repeat one of my first statements and re-emphasize it: global problems clearly require global solutions and global cooperation. Despite my understandable interest in seeing the United States initiate steps toward alleviating the world development crisis, I must stress again and again that the United States cannot act alone. The steps I have briefly outlined may be initiated by the United States, they may be encouraged by the United States. However, they must be taken by us all. We have no more need of an "American" approach to development which dominates the process than we have need of any other

single nation's dominance.

We face a global disaster. We must have a global approach.

CHAPTER 26

Role of NGOs in Development Aid

Saburo Kawai

As President of the International Development Center of Japan, I would like to express my gratitude for being one of the hosts of this Roundtable which has already made great contributions through its presentations and discussions on this floor. Many important and crucial subjects have been discussed in the plenary session and in panels. Through these discussions, we have searched for ways to overcome the structural crisis we are now facing, as described by our Chairman, Dr. Haq, at the beginning of this Roundtable.

In the last session, I spoke on the subject of new steps." This time, let me address the institutional aspect of the development issues-the problems concerning the nature of the channels through which development aid is transferred from developed countries to developing countries.

It is generally understood that development aid is transferred through two channels. One is the so-called multilateral channel and the other, the bilateral one. Through these two channels, huge amounts of resources-money, technology, equipment, merchandise, etc.-flow from North to South. It is obvious that these resources do much toward raising the average living standards and per capita income of the people of developing countries. No one can deny the importance of these two channels.

However, some skepticism is also appropriate. There are questions as to whether all this development aid actually reaches the people most in need, and whether the development aid is used efficiently. Because of the skepticism about aid through the governmental channels, a third channel, through non-governmental organizations, is gradually increasing in importance. I would like to make some observations on this issue.

Let me clarify the term non-governmental organization (NGO). The NGO may be a voluntary organization, a charity organization, a religious organization, a cooperative, a women's organization, a trade union, a professional organization, or some combination of these. All are non-profit organizations and non-official, though they may have close ties with the government or with official international organizations. There are NGOs based in both developed and developing countries. People and governments are not aware of the development issues in

2) Governments, together with government-supported international organizations, hold the money and power and do not seem likely to concede even a part of them to NGOs.

3) NGO development activities have not been systematically evaluated, either as to their operation or as to their results. Of course, there is a similar lack of evaluation of governmental activities. As I will explain later, the amount of development aid transferred through NGOs is by no means large. Despite the crucial role they

have already started to play, NGOs do not have the power of governments, international organizations or multinational companies. However, most NGOs manage to work at the grass roots level, meeting the basic needs of poverty-stricken people, and at the international level to enhance North/South negotiations. In these roles, the NGOs may have an advantage over governmental and official international organizations. It is generally understood that political and organizational constraints hamper the development activities of official organizations. We have seen many examples of their inability to respond to *emergency* situations, as with the food security situation. Specific criticism of the official and governmental organizations include charges of excessive bureaucracy; class discrimination; preoccupation with large-scale projects; vulnerability to international and national pressures, leading to neglect of human needs; and a lack of experimentation and responsiveness under changing conditions. After thirty years of development experience, we must go beyond simple strategies such as mere "modernization" and "industrialization," beyond the growth models based on a trickle-down transfer of capital and technology. In the words of the May-September 1981 issue of *Compass*, In the modern or conventional growth

model, growth and resources are transferred through market processes, combined with financial aid from rich to poor countries, to create islands of modernization in Third World countries. The result is that large numbers of people in rural areas are uninvolved." Unfortunately, some governments of both North and South and some international organizations are still working under these old-fashioned concepts of development. The time has come for us to listen to the criticisms raised by many knowledgeable people, as by Dr. Susan George and by the Institute for Food and Development Policy. The question arises: if the official organizations are not as effective as hoped, why not afford more resources, money and people to NGOs? There are at least three reasons why resources are not channeled to NGOs: As to the first point, information must be the first step toward global development. Many NGOs and some international organizations have been very active in gathering and disseminating information. But much more is needed. The general public must be enlightened. However, as said in the July-September 1980 issue of *Compass*, to "reach new audiences and new forms of presentation" using "effective communication" and "appropriate media" is much easier to say than to do. The Grass Roots Initiatives and Strategies Programme within SID should be welcomed in this respect. As stated in *Compass*, "the Grass Roots Initiatives and Strategies Programme is more than a conventional information exchange. It involves action, research, analysis, networking dialogue and linking activities as well as the exchange of new kinds of information using new methodologies. It brings in groups experimenting at the local level which are now outside the established development process." As to the second point, without question governments play an important role in the life of NGOs and in their activities. While in many cases government provides support and cooperation to NGOs, in others it hampers NGO activities and reduces their effectiveness. NGOs have a three-faceted relationship to government functions: they play a complementary role, covering those fields of action not covered by the government; they take a subsidiary role, providing additional support for government projects; and they play a linkage role, providing information at the grass roots level, lobbying and exerting pressure on governments, and reducing the influence of governments, if necessary. As is well known, a number of NGOs in developed countries already receive substantial resources from their governments. In some cases, the funds coming from official sources amount to 80 to 90 per cent of the NGO's budget. According to the OECD's 1981 figure on Development Cooperation, the DAC countries channel an average of 4.5 per cent of their Official Development Aid (ODA) through NGOs. Among the highest users of the NGO channels are the governments of Canada and the EC countries. When I visited the EC Headquarters in Brussels last summer, I was informed that nearly 400 projects were submitted for co-financing in ECU is approximately 1981, representing a total request for 36 million ECU, 2.5 times the available budget. (I.e. 164 of those were co-financed in 1981 representing a total of 0.9 US dollars.)

munity contribution of 13.5 million ECU.
to the lack of funds further 128 projects w

a total were carried over to 1982 due

In the Netherlands, the number of co-financing projects that were submitted reached 800 in 1979. Recognizing their inability to handle so many proposals, the Dutch government appointed four major NGOs to take responsibility for granting funds to other NGOs. Government funds support up to 75 per cent of the cost of each project in the Netherlands. The EC supports up to 50 per cent and Sweden, up to 80 per cent.

Governments generally find the following merits in NGOs:

1) NGOs are particularly well equipped to promote the overall

goals of development aid by contributing to the build-up of NGOs in the developing countries.

2) NGOs usually support the most neglected groups and encourage local participation.

3) They help bridge the gaps that exist between the government and people.

4) They have the flexibility to test innovations and initiate experiments.

5) NGO projects are *thought* to have much higher cost effectiveness than those carried out by

governments.

American NGOs collected and spent some 1,300 million dollars for

the purpose of international cooperation in 1981, according to the OECD source. The figure is equal to nearly 20 per cent of American ODA. Countries with the *highest* Non-Official Development Aid per capita are Switzerland, Norway, Sweden, West Germany, the United States, and the Netherlands, each having an average NDA *per capita* figure of more than 5 US dollars. Finally, with regard to the third point, that the NGOs lack systematic evaluation, various research activities are needed to improve the performance of NGOs:

- An evaluation of NGO projects, especially a comparison with projects run by governments and international organizations, is needed to test their cost effectiveness.
- A comparative analysis of criteria for financing and project selection is also needed for NGOs in both developed and developing countries.
- Research on networks, on the relationships among various development actors, is also of great importance, to clarify how NGOs, governments, international organizations, private corporations, and so on, are linked.

To sum up, let me reiterate the arguments for a greater emphasis on NGO development aid:

- The NGOs are very effective in the area of development education, gathering and disseminating information to shape public opinion.
- They are pioneers both in development theory and in action; they have the flexibility to experiment and the independence to question ideas and practices.
- They have proven quick and efficient in acting on emergency situations.
- They are working with people at the grass roots level to meet basic needs such as food, education, shelter and clothing; they enhance organizational development through small and medium-scale projects.

The present form of development aid, mostly bilateral, or government-to-government, is too small a base for the growth of true cooperation on development issues. In addition to economic needs, social needs must be taken into account in the development process. From all that I have said, it is clear that the NGOs have a very important role to play in the evolution of development cooperation.

At SID, our responsibility *is to* give attention and support to the development activities of the NGOs and to promote official and public awareness of the present and future role of NGOs. In the words of *Compass*, addressing the NGO issue, "the role of SID will be a catalytic one, at both the operational and intellectual levels."

CHAPTER 27

North-South Negotiation Process

Zhang Zong-an

The past two decades have witnessed a great change on the world economic scene, and I believe that a brief review of this change will contribute to our deeper understanding of the nature and process of the North-South dialogue.

In the fifties and sixties, the North was in a period of high growth, spurred by the war reconstruction efforts of Europe and Japan, new technology breakthroughs, and cheap energy. The international economic institutions set up by and for them served them well at the beginning. The South was, for the most part, engaged in the process of political decolonization. The North and South negotiated then largely over issues other than economic ones, issues which had to do mostly with decolonization. Such negotiations went on between individual countries of the North and South against the background of fierce fighting in the battlefields of Africa and elsewhere. The near completion of the process of political decolonization was achieved by

the end of the 1960s, and there emerged an independent Third World and a more representative United Nations. Since then the international and domestic economic scenes altered greatly for the North. It seems that the era of cheap energy ended once and for all. Elements of the international economic structure which the North erected after World War II collapsed, as in the case of the dollar system; other elements ran upon the rocks, as in the case of the so-called free trade system. The North entered a long period of persistent stagflation. On the other hand, the South embarked on the road to economic decolonization. The existing international economic system, which had become ineffective for the North, was found to be increasingly unbearable for the South. As in the process of political decolonization, the South again tried to engage the North in a dialogue, but this time on a multilateral basis, to restructure the international economic system. The South's efforts started with the call for the establishment of the NIEO at the 6th and 7th Special Sessions of the UN and led up to the present demand for a new round of Global Negotiations.

These are indeed laudable initiatives to which the North should have responded positively. For, to my mind, the transition from the old to the new is occurring around us and the consequences such an uncontrolled change brings. The purpose of the proposed dialogue is precisely to *effect* these changes gradually and in an orderly way, through mutual agreement, so as to minimize the havoc to the North and unnecessary sacrifice to the South. This is the dictate of common interest, which is, although not totally lost on all the developed world, yet ignored by its most influential sectors. Against this background we can see more clearly what has gone wrong in the process of North-South dialogue, particularly in the launching of the Global Negotiations.

When the concept of Global Negotiations was approved unanimously at the 34th session of the United Nations, it was envisaged that the negotiations would start by 1981. But now, near the end of 1982, we are nowhere near our goal.

The positions of the North and the South on this issue can be gauged at different levels. If one looks at the political declarations coming from Cancun and Versailles Summits, there appear to be identical perceptions of the Global Negotiations as "a major political objective approved by all." Again, if one looks at the texts of draft resolutions enabling the launching, the differences appear not un-

bridgeable. Now that the Group of 77 has accepted two of the four Versailles amendments, I see no reason why agreement cannot be reached on that foundation, given reciprocal flexibility and good will. But apparently there is another level to the issue, where we hear persistent voices of hesitation or even opposition to the Global Negotiations, coming from the most influential sectors of the North. It seems it is this level that is holding up the prospect of the launching of the Global Negotiations. Furthermore, the fact that decisions are now taken at the highest political level and are presented almost as "final" positions has made it all the more difficult to negotiate any compromise in New York. That partly explains why no such concrete negotiations are taking place to date.

The Global Negotiation is not the only casualty of the present stalemate in the North-South dialogue. Neither have the various sectoral negotiations registered any significant progress. Moreover, there is the reverse trend of the erosion of multilateral development institutions and reduction of ODA by some countries to the developing countries. The inescapable conclusion seems to be that nothing is going well with the North-South dialogue in any forum. What, then, are the factors contributing to this state of affairs? To find the causes one needs to go beyond the status of the

dialogue and take a closer look at the recent trend of North-South economic relations. The way some of the most influential sectors of the North are actually conducting their economic relations with the South explains their behavior in North-South dialogues. In the field of trade, for instance, the developed countries are erecting higher and more diversified barriers against the products of the developing countries, while demanding the latter to open up their markets. In the field of raw materials, the developed countries are manipulating the world market and have brought down the prices of raw materials and other primary products to unprecedentedly low levels, while maintaining relatively high rates for their own manufactures. In the field of money and finance, their unilateral and arbitrary decisions have amounted to an abuse of the dominant position of their currency and a nightmare for others, particularly the developing

countries. Moreover, the multilateral development institutions are in a crisis, with dwindling resources and harsher conditions, stemming from the trend toward the so-called "selective bilateralism," at the expense of multilateral cooperation--a trend which, as the latest Declaration by the Foreign Ministers of the Group of 77 puts it, "cannot but run counter to the objectives of multilateral cooperation and weaken the United Nations system." Faced with severe recession, some major developed countries also try to lessen their own difficulties by shilling them onto others, particularly the developing countries. In doing so, they find the existing international economic system and their privileged positions therein very much to their short-term advantage. The present severe economic situation has hit the developing countries hardest. They are suffering under the double effect of the recession itself and the shifting of the burden of the crisis by the developed countries. For the least developed among them, this has become a matter of survival. Viewed in the context of North-South relations, the protracted recession is seen by the influential sectors of the developed world as a process which has further weakened the position of the developing countries as a whole, with the bargaining power of energy eroding as well. That, I submit, accounts for the negative response of the North to the North-South dialogue. Those people who hold ultimate power in the North find such convenience in the existing order that they have little incentive to contemplate any significant change of the rules of the game. To them, at least for the time being, any restructuring whether global or sectoral is something to be resisted. But we need not be pessimistic: on the one hand, they cannot prevent change in the long run; on the other, there are other, more hopeful, responses coming from the North. The North-South dialogue is far from dead, as is evidenced by the current realities of the international economy. Short-sighted perceptions and practices as described above are bound to fail sooner or later, and it is likely to be much sooner than people expect. The irreversibility of historic change, highlighted in the first part of my presentation, will be more widely accepted. Enlightened persons of the North, whose ranks are steadily growing, have come to realize that with the change in economic climate, they must adjust their policies accordingly. It has dawned upon them that, faced with a new set of economic realities--such as perennial low productivity, low rate of investment and the saturation of their internal market--the time-worn checks and stimuli are no longer applicable. They have begun to seek new solutions. During the general debate at the current session of the UN General Assembly, I hear wider recognition of this fact and greater willingness to look beyond the customary horizon. That is undoubtedly a welcome sign. It has dawned upon the enlightened sector of the North that to get out of the protracted stagflation, they have to count on the expansion of the world market, and that must be stimulated by the emerging and growing Third World economy. To hamper the growth of the economy of the developing countries and to keep it in the straitjacket of the old international economic order will only hamper the growth of the whole world economy, including the economies of the developed countries. On the other hand, the restructuring of the existing system will bring into operation the dynamism of the economic potentials of the Third World, thereby contributing to the growth of all. Herein lies the long-term mutual interest of both the developing and the developed countries. To argue about who gains more is meaningless. In today's world, the economic and political fate of nations are intricately interrelated. The widening gap and resultant tension between the North and South is a constant threat to the societies of both the North and the South--a potential source of instability and insecurity for the world as a whole. Therefore it is a matter of common interest, nay, common responsibility, to ensure peace and progress for all, a principle which is enshrined in the Charter of the UN. This perception, I hope, will prevail over prejudices and misconceptions. But this growing awareness alone may not bring about a change of heart on the part of the most influential sectors in the North. Immediate gains seem to be their primary concern; they ignore the adverse impacts on the vast number of developing countries. Therefore, a well-developed and all-around cooperation among the developing countries will, in my view, assuredly play a strategic role. When the developing countries start individually and collectively to take our economic life in our own hands, when we start to control jointly the price of our major produce and its markets, when we start to forge closer economic links among ourselves in the fields of production, trade, and finance as a community of nations, thereby enhancing our collective self-reliance, then the North will see the necessity and advantage of dealing with us at the negotiating table. Indeed the importance of South-South cooperation cannot be overemphasized. As the Group of 77 has correctly put it, South-South cooperation is an integral part of the efforts to establish a new international economic order, an important means to enhance the South's negotiating power vis-a-vis the developed countries, and a dynamic factor for developing the distinctive potential of the

developing countries. Our work will not be easy. But a thing as significant as the establishment of a new international economic order is worth all the effort we can give. We start with the conviction that, as in the process of political decolonization, our effort is bound to succeed. In twists and turns, the way of history is: the old is superseded by the new. What can we do now to enhance this cause to which we at the Roundtable remain committed? By tomorrow morning, more countries are likely to be added to the already long list of least developed countries. By tomorrow morning, many more children will be lost because of malnutrition and disease. We must act now. As the Chinese saying goes, the journey of a thousand miles starts with the first step. That is why, while recognizing the protracted course involved in the establishment of the NIEO, we call for the immediate start of the North-South dialogue. Whatever the substantial differences, we advocate the immediate launching of Global Negotiations, believing that the differences will find their place in the course of the Global Negotiations and will be resolved in due time. Given the fact that few current session of the General Assembly can possibly declare the launching of Global Negotiations. In conclusion, I wish to submit that the world is now faced with two sets of economic problems, the immediate and the structural. The former has its roots in the latter. The immediate, or the most pressing, economic problems have brought into view the acuteness of the structural imbalances of our time. In the course of the North-South dialogue, we need to resolve both problems on the basis of equality and mutual benefit. The present grave economic difficulties dictate that combined efforts must be made and measures be taken to solve the trade, food, resource and financial difficulties of the developing countries before they grow out of hand. These measures will undoubtedly alleviate the economic difficulties of the developed countries. At the same time, in formulating short-term measures or taking concrete emergency actions, we must be guided by the ultimate goal of establishing the NIEO, so that short-term measures do not prejudice the implementation of long-term and structural changes. Such an approach will, I believe, enable us, the developing countries, to participate more effectively in the reactivation of international economic activities beneficial to every nation and conducive to the betterment of mankind.

APPENDIX

THE OISO DECLARATION

[The Oiso Declaration is the summary report of the fourth Annual Session of the North South Roundtable, prepared and presented by the Roundtable chairman, Mahbub ul Haq. The report reflects the major ideas and concerns expressed by the participants but does not represent an agreed statement.)

All of us assembled here at Oiso, Japan, from many nationalities and many continents, are becoming increasingly convinced that our world is confronted with the worst economic, political, and human crisis of the last fifty years. The nations of this world are much closer to the prospect of a worldwide depression than they care to admit.

We are all becoming helpless witnesses to a state of human folly:

- where all nations (whether developed, developing, or OPEC) are caught in a downward economic spiral and where they still have not agreed on any collective action for world economic recovery;
- where three-quarters of a billion people go hungry in an \$1 trillion world economy which has enough productive capacity to produce sufficient food for all;
- where machinery and skills lie idle in the advanced nations while they are badly needed by the developing world, and the world has not yet discovered a genius to match this idle capacity with these unmet needs;
- where about 8 million children die every year from severe malnutrition and associated causes, while only \$1-2 billion a year could rescue at least half of them from this fate; at the same time, the developing nations must pay as much as \$125 billion a year to external debtors, strictly on time, despite their stagnating economies, their declining incomes, and their starving people;

- where the UN specialized agencies must go begging for money to sustain their crucial programs in education, health, food, nutrition, and technical assistance, while only two days of world armament expenditure would suffice to fund all their budgets;
- where half a million of the best scientists in the world are employed in research for weapons of ever greater destruction while little science and technology are applied to exploit the development potential of the poor lands;
- where governments, both in the North and in the South, keep buying more weapons, only to end up with less security;
- where many nations, in an excess of panic *or* paranoia, are turning increasingly to the failed bilateralism of the 1920s and 1930s rather than strengthening the creative multilateralism of the 1940s, and where *they* are still unprepared to recognize that their prosperity, like their *adversity*, is interlinked and indivisible;
- where what is needed is an historic readjustment of economic power and wealth, within and among nations, while we are still *worrying* about the shape of the negotiation table.

This state of affairs is not a very flattering tribute to human sanity.

There are some who believe that, given the chance, the marketplace will take care of many of our present problems. But many of us are convinced that the seeds of this crisis lie not in temporary, cyclical factors but in *fundamental adjustments in social* structures and institutions.

The solution lies not in our stars but in our own hands, not in unilateral national policies but in collective action, not in delaying tactics to preserve power and status quo but in the willingness to share it.

If the search for a solution is to succeed, the real nature of this crisis must be analyzed, carefully, professionally, free from any institutional constraints, in terms of its impact on human lives.

THE NATURE OF THE CRISIS

There are many different, though overlapping, perceptions of the real nature of the present crisis. There are some who dread an imminent breakdown of present structures, whether through banking failures or rising unemployment. There are others who fear the creeping, strangulating trend in economic, social, and political fields to enslave human energies and potential. There are yet others who are worried about the poverty of our response and who are really concerned that the rapidity of economic, social, and political change has vastly outpaced the growth in the capacity of our governments and international institutions to manage such change.

But we must also address a much deeper crisis—a crisis of courage. We must learn to analyze our own weaknesses, whether in the North or South, for that requires *far* more courage and honesty than attacking the other side. We must learn to talk to those who disagree with us, not only to those who readily agree. We must learn to communicate to an audience much wider and more powerful than ourselves—to ordinary men and women in every part of the world

3. Establishment of a developing-country-owned food grain reserve of 9 to 12 million tons to provide international food security to poor nations in any emergency situation; strengthening developing countries' own capacity to feed themselves over time without outside dependence, through financial assistance for accelerated programs of food production, with particular support to small farmers; and designing a nutrition and health safety net for 200 million pregnant and nursing mothers and for 500 million small children.

4. Establishment of a crash program for reforestation through a special international project be called TREE (Training, Research, Environment, and Education).

5. Effective use of the November, 1982 GATT ministerial level negotiations by the developing countries to secure agreement on (a) a firm political declaration of a standstill on any further increase in trade restrictions; (b) an understanding on finishing the Tokyo Round

of negotiations, particularly finalizing the safeguard clause; and (c) initiating the launching of a long-term program of trade liberalization through a small, specialized forum like the Committee of 20 and involving the joint cooperation of GATT and UNCTAD. In order to secure these advances, the developing countries should be prepared to offer some concessions in the areas of the Generalized System of Preferences, reciprocity, and their own restrictive trade practices.

6. At the very minimum, doubling the present IMF quotas, and urging their readjustment in favor of poorer nations, since current quotas now finance only 3 per cent of world trade compared with 16 per cent about thirty-four years ago.

7. A fundamental revision in the policy conditionality of IMF lending, which should include:

(a) low conditionality for poorer countries, with an automatic provision for refinancing in case of deterioration of the external environment;

(b) consolidation of the presently multiplying Fund facilities so that performance criteria apply to overall country performance and not to individual products or specific means;

(c) merger of the IMF's extended fund facility and the World Bank's structural adjustment lending; and

(d) greater pressure on surplus countries to adjust, thereby making it easier for deficit countries to carry their own legitimate burden of adjustment.

8. Establishment of a special facility in the IMF for facilitating orderly refinancing of the accumulating debts of the developing countries, treating some of these debts as debts of duress undertaken in lieu of any satisfactory system of distribution of international liquidity.

9. Reaching a new agreement on the annual creation of Special Drawing Rights and on their distribution in such a fashion that the surplus countries which are unwilling to adjust will lose their SDRs to deficit countries, which are currently obliged to carry a much greater burden of adjustment.

10. Setting up a special concessional assistance window, either in the World Bank or outside, to supplement the seventh replenishment of the International Development Association by inviting additional contributions from willing nations and by setting up a different policy and voting structure in such a new facility.

II. Doubling the present IBRD capital of \$40 billion, with a paid-in contribution of at least 10 per cent to 20 per cent cost-free capital, so as to enhance the ability of the World Bank to cushion the developing countries against the high interest rates in the capital markets.

12. Setting up by the World Bank of an independent group of thinkers to advise it, without institutional constraints, on its future evolution, including the mobilization of some truly international sources of finance (such as the SDR-link) to liberate the World Bank partially from its present absolute dependence on the goodwill of a few bilateral nations. We have focused only on actions which we believe have a promising prospect, if we can manage to convince the governments of the mutual gains that would result from world economic recovery. All these proposals require further professional analysis and concrete blueprints. The Roundtable has already undertaken studies on some of these proposals and will be doing further work on several of them in collaboration with other organizations and institutes. But let us be candid. While these actions will provide some immediate relief, they will not solve deeper crises in social structures and institutions. These actions will still proceed largely within existing international structures, without developing new ones to accommodate the changing needs of mankind. There is no divinity about present structures. They were created by human imagination. They must also be changed by human vision. A SECOND BRETTON WOODS CONFERENCE We believe it is time for a deep and fundamental examination of the institutions created at Bretton Woods, both to consider their future evolution and to examine the possibility of new institutions better suited to our changing needs and to the future balance of economic and political power. We therefore strongly recommend the convening of a Second Bretton Woods Conference, possibly in 1983 but certainly before the end of 1984. In order to do the intellectual spadework for such a

conference, the NSRT will organize a small roundtable of fifteen to twenty leading monetary, financial, and development experts to prepare a concrete blueprint for future change. This group will consider many proposals heard in our deliberations on this issue. We have heard some proposals for the creation of a World Central Bank, as a lender of last resort and as a funder of international assistance and other UN initiatives. We have heard pleas for a gradual phase-out of the US dollar in favor of a genuine international currency, internationally created, managed, and distributed. We have heard proposals for a merger of the World Bank and the IMF into a single institution, with changed policy conditionality and more democratized control. We believe that these and many other ideas deserve a very thoughtful examination. This is what the Roundtable on the future of Bretton Woods institutions will attempt. And we hope that the demand for a Second Bretton Woods Conference will gather momentum until it becomes an irresistible force. Thirty-six years ago, such a conference came *after* the world crisis had struck in all its fury. It will be a tribute to human courage and human sanity if this time such a conference is held *before* the gathering international crisis finally unleashes its full force and its unspeakable human misery.

The North South Roundtable is founded on a recognition of the ever *The North South Energy Roundtable*. The North South Energy Roundtable is an international task force for the preparation of policy studies on the future of energy and a forum for dialogue on energy issues. The Energy Roundtable works to put energy in its proper increasing interdependence-economic, political, and social-of the diverse nations and regions of the world and is guided by a vision of world justice and world community. The Roundtable places hope in the process of North-South dialogue, for the discovery of new national policies and international structures in the interest of both developed and developing countries.

ONGOING PROGRAMS

international developmental perspective and to ensure policy makers' access to accurate analysis and data. The Energy Dialogue Missions of the North South Energy Roundtable visit developing countries, developed nations and international bra, to gather and relay information on national, regional and international energy policies and needs and to establish a dialogue with high-level policy makers within and among nations. *The North South Food Roundtable*. The focus of the North South Food Roundtable is worldwide food security for nations and people. In meetings of experts in the food area, in briefings and in publications, the North South Food Roundtable works to assess the global food situation, to develop concrete proposals for the acceleration of food production in developing countries and the establishment of international food reserves, and to address long-term issues such as food research and technology, the energy-food nexus, and the development of markets and market mechanisms. *The Global Round*. The Global Round is a program of study and discussion on the North-South negotiation process, carrying on the work of the Brandt report and other international development reports. The purposes of the Global Round are to identify areas of mutual interest between North and South, to consider proposals for the restructuring of the Bretton Woods institutions, and to work with other international organizations toward the worldwide elimination of absolute poverty by the end of the century. *Roundtable on Money & Finance*. This most recent program of the North South Roundtable has established an informal process of dialogue among policy makers in the public and private sectors, to initiate appropriate policies for the resolution of the current crisis in international finance. The Roundtable on Money & Finance has organized a task force of financial and development experts to assess the crisis-especially the flaws of the present system in adjustment and liquidity creation and in the relationship between private and international financial institutions-and to consider and formulate proposals for the revitalization of the world financial and trading system. The task force will meet for the first time in August 1983 in Istanbul, for the first of three sessions, to address the international debt problems and the transfer of resources to the developing countries.

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