

New International Economic Order or Chaos?  
A Question of Survival?

When we look at international economic relations in 1980 it is critical to recognise two realities. Like Marley in Dickens' Christmas Carol, the Old International Economic Order is dead to begin with. However, what we have is not any New International Economic Order, let alone the NIEO proposed by social democratic/Third World coalitions. The 1970's have seen the rise of the New International Economic Disorder. Chaos is not a future danger but a present reality.

The international economic world in which we live is no longer safe, predictable, benign. Unemployment and inflation rise hand in hand. Balance of payments crises and credit crunches strike suddenly, painfully, frequently. The New Protectionism which began by constricting the garment exports of the poor countries to Europe now marches with seven league boots - US barriers to EEC steel, EEC limits on Japanese automobiles, general UK import quotas are the common coin of serious discussion. Currency exchange rates rise and fall violently - with dire efforts on inflation during downturns and on export industry profits, investment and employment on the upswing. The international banks fear that major defaults by Third World economies could trigger a 1930's type financial crisis. Petroleum prices leap ahead but despite this real doubts exist as to whether there will be adequate supplies at any price. Food supplies also look doubtful - major famines in the Third World in the 1980's are quite probable but food reserves to meet them are much more problematic.

In short the last time the world saw conditions like today's was the late 1920's and 1930's. Then Yeats wrote "Things fall apart, the

center cannot hold, mere anarchy is loosed upon the world ...". And so it appears today to the political economic analyst as much as to the man on the Clapham Omnibus or the woman in the VG shop.

### The "Golden Age" 1945-1969

What was the Old International Economic Order? Why is it sometimes called the Bretton Woods order? Or more nostalgically the Golden Age of Western Industrial Capitalism?

The OIEO was constructed in the late 1940's, largely by the USA and UK. It was designed to make the world safe for industrial capitalist democracies, to avert massive depressions, to prevent trade wars that caused mutual losses of jobs and exports, to make free trade an engine of global growth. In short it sought to avoid the mistakes of 1918-20 to forestall the consequences of 1922-1939 (and 1939-45!).

The order was rooted in the three Bretton Woods institutions - named after the site of a major conference. These were the International Bank for Reconstruction and Development (World Bank), the International Monetary Fund (IMF) and the General Agreement on Trade and Tariffs (GATT). The Bank was to provide funds first for the reconstruction of Europe and second for the development of underdeveloped countries and colonies. That investment would, it was believed, prime the pump, encourage private capital flows, create sustained growth. The Fund was to provide stable exchange rates and freedom from currency inconvertibility. To do this it was to have funds to lend in emergencies and powers to force borrowers to "behave better". The GATT was to provide a forum to

negotiate down the tariff and other barriers which had strangled international trade in the 1930's. Together the IMF and GATT were to underwrite stable currencies, free convertibility, liberal trade and world economic growth led by mutual export increases.

And over 1945-69 the international economic order worked more or less according to plan. Some did better than others, there were short recessions, mini financial crises happened. But - if one looked at the world from the viewpoint of the Western industrial capitalist states who had designed the Bretton Woods Order - it was a golden age of sustained growth, stable prices, low unemployment, relatively low social tensions.

On the periphery things looked different. The Bretton Woods institutions were basically "one dollar, one vote" bodies - like pre reform rotten boroughs when looked at by the poor, individually or nationally. The prosperity of the centre did not trickle down very fast or very far. When it did it seemed to stay in pockets linked to the centre and not to the rest of the peripheral economy. Trade was mutually beneficial, but the division of gains was very much like the recipe for horse and rabbit stew - one horse for the center, one rabbit for the periphery.

The centre (or North) heard these complaints from the periphery (or South). Since the international economic order was good for the North, it rejected basic change. Some additional aid, some trade concessions and a large volume of lectures on how to imitate the North by growth, modernisation and adapting to market forces by bureaucratic, indicative planning were delivered instead.

The Old Order Dies: 1969-1979

The collapse of the Bretton Woods order was not something that happened overnight. It was not a casualty of OPEC and the 7 Day War in 1973 - much as the explosive readjustment of oil prices after their 1945-1972 decline in real terms shook the North. Rather the OIEO died of a series of lingering diseases whose symptoms were already visible in the late 1960's. OPEC's blow may have been the occasion of the collapse, but only because the patient's constitution was already gravely undermined.

Stable exchange rates died in 1971 with the suspension of convertibility into gold of the US dollar. From \$35 an ounce in the 1960's gold has wended its way as high as \$800 plus an ounce - a clear indication of lack of faith in the international monetary system. Massive efforts to shore up and stabilize exchange rates have had little impact.

Trade restriction has grown cancerously from the garments of the poor to the shoes of the Newly Industrializing Countries to the ships of the Japanese to the steel of Europe and the chemicals of the USA. A fanfare of trumpets announces new GATT Agreements while every week we read of new trade restrictions. The New Protectionism is in command, liberal trade arrangements will on present trends cover less than half of manufactured goods by 1984.

Food aid stifled export oriented grain production in the Third World. The USA sought to limit the cost of surplus production by cutting output. Third World food growth lagged population.

The food margin of the 1960's narrowed to a knife edge. It took

only a few bad harvests - the Sahel in Africa, the New Lands in the USSR, India in Asia - to tip the balance into a deficit of famine proportions over 1972-75. Grain prices - like those of oil - quadrupled and states with real need could not find the physical grain for love or money.

In the North many began to doubt the virtues of growth. Was it sustainable? Did it lead to happiness? Were not high technology and huge scale soul destroying? At the same time the demand management tools of the 1945-70 era showed signs of wear and tear. Inflation crept up from boom to boom, unemployment grew from slowdown to slowdown. The 1972-73 boom in the North was marked by frenzied speculation, high inflation and predictions of a severe 1973-74 slump before the OPEC bombshells leading to the Teheran agreement, the fall embargo, the "Christmas present" price redoubling.

In the South discontent grew. No longer was it believed that growth and modernization would allow their economies to catch up. Trade restrictions began to mock those who tried. Foreign corporation "trickle up" in profits, favourable transfer prices, technology sales far outstripped the "trickle down" of aid. The stage was set for the revolt of the outlands - the intellectual script written, the political actors rehearsing.

OPEC rang up the curtain. Its ability to take an international economic order decision and make it stick electrified both North and South. Few - after the initial shock - believed simple copies of OPEC were likely. But the South's potential to turn from mendicancy to confrontation was proved. The case for a serious dialogue on negotiated structural change was heard and sometimes

listened to in the North as it had long been in the South.

But over 1976-1978 the crisis faded. The North seemed set fair to restore the old order - 5% growth, 3% unemployment. Oil prices fell in real terms. Inflation and unemployment dipped. Trade restrictions grew more slowly. Beyond OPEC - which bought more goods, deposited its funds in North banks and began to seem a safe status quo oriented junior partner - the revolt of the Third World was apparantly repulsed at little cost.

The last eighteen months have dashed those illusions. 20% interest rates, 20% inflation, 10% unemployment are now on the verge of being common in the North - an incredible situation as recently as 1977. Trade restrictions marched on; currency fluctuations grew wilder. Oil prices doubled once more. The apparantly regained food margin has vanished once more with a few bad harvests. The anger of the excluded South is now redoubled by the desperate plight of the poor and the trade restrictions threatening the continued advance of the not so poor. Bankers and banking specialists whisper that a series of Third World defaults could bring the global financial system down in ruins in the way the collapse of the Kreditanstalt in Austria did in 1930.

#### Prospects or Portents?

What are prospects for a new and viable order appearing out of the present New International Economic Disorder? The outlook - according to a variety of studies ranging from Interfuture's Facing The Future (OECD, Paris, 1979) to the Brandt Commission's Programme For Survival (Pan, London, 1980) - is bleak if present trends, tactics, policies continue. This is as true in the

capitalist industrial as in the peripheral economies and, to a significant degree, applies to the socialist industrial economies as well.

Is this an inevitable result? Most of the studies conclude not. Interfutures subtitle "Mastering the probable, managing the unpredictable" illustrates its authors contention that moderate growth, lower unemployment, more stable prices, lessened global tensions can be achieved. The Brandt Commission report articulates a series of overlapping interests ranging from avoiding famine (and food price explosions in the North) to regulating transnational corporations (Hoffman La Roche and Anglo American in the UK as well as Lonrho and Anglo American in Zimbabwe). It argues that the transfer of purchasing power to the periphery - first via aid and bank loans and later via trade based on increased North imports of processed and manufactured goods - is the only way for the North to escape from the stagflation trap or the South to break out of the poverty trap.

That approach challenges the North's present conventional wisdom. That wisdom does not deny that there is a crisis. Nor does it reject the contention that it is a world economic order crisis. However, it sees the crisis as basically within the capitalist industrial economies of the North - singly and together. Except for OPEC and oil it views the South as peripheral to the crisis or its solution. Thus at the Manila United Nations Conference on Trade and Development (UNCTAD) and the Tokyo Negotiating Round of GATT, the North neither accepted South proposals nor rejected them. It engaged in a mix between a seminar discussion and a nightwatchman on the cricket pitch. If the Brandt view is correct,

of course, that approach is the highroad to disaster.

Diverging Roads - To Which Destinations?

There are five possible roads ahead. The first identified, perhaps unfairly, with the Club of Rome's Limits To Growth study is "what we have we hold" or "each for himself and the devil take the hindmost". This is the present dominant North strategy whether it takes the form of hard lines as in the 1974 threats of military confrontation with OPEC or of feather pillows with the talking out of all major South proposals at the Manila UNCTAD.

In a world economy which has moved toward deep depression steadily - if fitfully - for a decade, it is a dangerous line. It looks too like a modern variant of the 1920's. For the weak - whether the very poor economies on the periphery (e.g. Bangladesh, Tanzania) or the very fragile and brittle at the center (e.g. the UK) - it is a strategy that spells disaster as to employment, inflation, investment, growth and external balance.

"Back to the Golden Age" was the North's rallying cry over 1975-76. Mr. Secretary Kissinger argued that the old order had served the world well - it needed to be restored with a bit more aid and a few peripheral economies upgraded to be junior members of the rich men's clubs (the Organisation of Economic Cooperation and Development - OECD - on most issues and the "Group of Ten" on monetary matters).

This was tried over 1975-77. It failed for three reasons. The OPEC and Newly Industrializing (NIC) economies were not offered enough to coopt them. There was little in the approach for most of the



South; 1945-70 had not been their Golden Age. Finally even with external pressures off, the OECD recovery of 1976-78 faltered and failed.

Modified Golden Age proposals are often associated with the Trilateral Commission (Japanese-EEC-North American leaders of state, business, academy). The Interfutures report is of this type. Real changes are proposed - bargained deals on oil and on other raw materials, on manufacturing and on finance ... On paper these look impressive and realistic. In practice Trilateralists in office have felt unable to advocate, let alone act on these grand designs. Why?

They are very academic. Real interests, classes and people are pushed aside in the analysis as they cannot be in the real world. They are very Platonic - and today's world is not one in which peripheral nations, trade unions or small businessmen accept the Guardians' word as revealed truth. They are a surrender of bits of power and profit to preserve dominance, indeed on one reading to enhance the dominance of large corporations (TNCs) in North as well as South.

The New International Economic Order was proposed - by that title - in 1975 by the South (under the umbrellas of the Group of 77 and the Non-Aligned). It is the global counterpart of radical social democracy - a point not unrelated to its relative acceptability to the Netherlands and to Scandinavian states.

What is sought is more equal participation. Participation in industrial production, in setting or influencing prices, in control

over and creation of knowledge, in setting frames for regulating and guiding TNC decisions, in running international organisations (one state one vote not one \$ one vote). This has had two problems. First, the North - by and large - resisted. Second, with the New International Economic Disorder's rise, NIEO is almost as out of touch with present reality as "what we have we hold". There is no properly functioning system in which to participate more fairly and more evenly. This may in large measure relate to the North's resistance and to some degree to OPEC's tactics; in any event it is now a fact.

#### What Is To Be Done?

The fifth approach is that of the Independent Commission on International Development Issues (Brandt Commission). Over two years its 18 Commissioners (North and South, Conservative and Socialist, Politician and Intellectual) struggled with the data, the analysis and each other to see whether they could agree on a road forward. Surprisingly they did - Programme For Survival may be a bargained compromise, but it is also a coherent programme based on a serious analysis of the international and national economies.

The guiding principle is mutual interest (really overlapping interests). This is not seen as in conflict with compassion but as a necessary reinforcement. Nor is there any illusion that mutual interests are so total that hard bargaining can be avoided or so costless that there will not be real problems of devising methods and mobilizing backers. The Commissioners remembered the real world of classes and companies, passions and human beings from which they had come and this gives their report a sense of immediacy and realism.

The report - to have any real impact - must first seize the attention of decision takers. To date it has done that. It must convince them that North-South relations are of crucial importance to North and South. It has a chance to do that. After all by its own sessions it converted Katharine Graham of the Washington Post and Edward Heath to that view and Layachi Yakker of Algeria to seeing that the North had real problems which had to be among the issues on the agenda if any "New Global Round of Negotiations" were to succeed".

Then there must be speedy action - time is on the side of the New International Economic <sup>Disorder</sup> not of those who would control it. As the World Council of Churches Advisory Group on Economic Matters put it: "Halting and beginning the reversal of these trends may seem minor when contrasted to the full structural changes required. Yet it is the necessary first step toward them". Thus the Commission calls for a global economic Summit to agree on an emergency programme to be negotiated and acted on promptly. The deadlock in dialogue must be broken and enough action taken to recreate a forward dynamic.

What action is proposed? The areas cited include first massive resource transfers (to allow the North to escape recession by export led growth and the South to avoid a collapse of output). Second is an international energy strategy (to secure adequate supplies at predictable prices and insure the real value of the financial assets held in the North by OPEC members). Third is a global food strategy (to forestall rises in malnutrition and starvation and move to the elimination of hunger and also to end the food price explosion in the North). Fourth is better access for

South processed goods (e.g. blended, packed tea) and manufactured goods (e.g. consumer durables) to North markets (so they can continue to buy North exports and to service their loans from North banks). Fifth is the international monetary system (where a new reserve asset, less unstable than the dollar and gold have proven themselves to be, is needed and the price of getting a genuine international central bank is to have broader effective participation in decisions and more concern with sustaining development as well as with managing deficits).

These proposals are articulated on the basis of overlapping interests. They do address themselves to the real dangers: collapse of North exports to the South, massive bank failures triggered by South defaults, energy starvation everywhere, literal starvation in the South, escalating trade wars—all at levels unseen since the 1930's.

Whether they will be accepted is unclear. Negotiating processes, vested interests, mutual suspicions, the present dynamic of disorder and disintegration all suggest not. But Programme For Survival may be the last chance to avert a disorder as bad as that of five decades ago. It is the only "game plan" on offer which has a chance of being adopted, acted on and producing a viable new international economic order. The alternative today is chaos.

Whatever else they may be wrong about, Willy Brandt and the Commission are correct on two critical issues.

First:

The search for solutions is not an act of benevolence but a

condition of survival. We believe it is dramatically urgent today to start taking concrete steps.

And second:

International solidarity must stem both from strong mutual interests in cooperation and from compassion for the hungry.

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