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EMPLOYMENT IN THE 1970's: A NEW PERSPECTIVE

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EMPLOYMENT IN THE 1970's: A NEW PERSPECTIVE*

Mr. Chairman,

Ever since you asked me to make a presentation to this distinguished forum - on the very dubious assumption that since I was associated with Pakistan's economic planning for 13 years, I ought to know something about employment strategy - I became conscious of a very deep responsibility. And despite all the gaps in my knowledge, I was determined not to let you down. So I went on a feverish search of all the literature on employment strategy, all the theories and policy prescriptions that the economists and the practitioners in the field had to offer. And I came up with some distressing discoveries.

First, it appears to me that we are assembled here to discuss a problem whose nature and dimensions we simply do not know. I looked at various estimates of unemployment and underemployment which had been prepared for the developing countries - even by that distinguished organization known as ILO - and I was distressed to find that estimates of 5 - 10% unemployment and 20 - 25% underemployment were tossed around with a casualness which was simply frightening. There was no agreed methodology for measuring unemployment or underemployment, no definite ideas or projections on what had happened in this field in the 1960's or what might happen in the 1970's, and very poor knowledge about this "vital" concern even in some of the largest and most affected countries like India, Pakistan and Brazil.

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* This piece has been put together from the transcript of a verbal presentation made to the plenary session of the 12th World Conference of the Society for International Development on May 17, 1971 in Ottawa.

Second, while we knew so little about the nature and dimensions of the unemployment problem, we suffered from no modesty when it came to definitive policy prescriptions. The favourite prescription of the economists - besides doubling or tripling of growth rates - is to correct the price system, particularly exchange rates, interest rates, terms of trade between agriculture and industry and prices of all factors of production. But has this faith in the price system been tested empirically? When various developing countries corrected their exchange rates or interest rates at various times, was this followed by a great surge in their employment situation or merely by better utilization of capital, larger output and higher labour productivity? In any event, how large a segment of the economy does the price adjustment affect, when there is a large subsistence sector in these countries and modern industrial sector generally contributes less than 10% to total output? No one will dare suggest that price corrections will not move these economies in the right direction. But are they decisive? Or do they make only a marginal impression on the unemployment problem? We need far more empirical evidence before we can pass any overall judgements.

Third, there is a fashion these days to talk about intermediate technology, something which is supposed to be more labour - intensive and more suited to the needs of the developing countries than the technology presently used in the developed world. But were does it exist? I found very little evidence of it in the developed countries which have no real incentive for fashioning special technology for the developing countries and which export a good deal of their technology under tied assistance. There are no great improvisations going on in the developing countries themselves and no major research institutes devoting their energies to the development of intermediate technology.* The only place where I found something resembling intermediate technology was in Mainland China but there has not been much transfer of it to the developing countries as China's trade and aid are fairly limited at present.

Fourth, I found in the literature on employment abundant suggestions that the developed world should open up its markets to the labour-intensive products of the developing countries. Here, at least, the evidence is fairly clear. We have detected no impatience on the part of any developed country to follow this prescription.

Finally, looking at the national plans of the developing countries, it was obvious that employment was often a secondary, not a primary, objective of planning. It was generally added as an afterthought to the growth target in GNP but very poorly integrated in the framework of planning. Recalling my own experience with the formulation of Pakistan's five year plans, and I ought to know, the chapter on employment strategy was always added at the end to round off the plans and make them look complete and respectable, and was hardly an integral part of the growth strategy or policy framework. In fact, most of the developments which affected employment situation favourably, such as the rural works programme and green revolution, were planned primarily for higher output and their employment-generating potential was accidental

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and not planned. There were endless number of research teams, our own and foreign, fixing up our national accounts and ensuring that they adequately register our rate of growth: there was not a fraction of this effort devoted to employment statistics. Employment objective has been the stepchild of planning. It has been assumed, far too readily, that high rates of growth will ensure full employment as well. But what if they don't? A sustained 6% rate of growth in Pakistan in the 1960's led to rising unemployment, particularly in East Pakistan. And what happens if the developing countries cannot achieve high growth rates of 10% or more that it may take to eliminate unemployment and are confined to 5 - 6% over the present decade? Should they quietly accept rising unemployment, and the social and political unrest that accompanies it, as the inevitable price for not growing any faster?

There were uncomfortable questions of this kind, Mr. Chairman, which led me to a re-examination of the overall theory and practice of development. And I found it to be even in a sorrier state than the literature on employment.

Here we stand after two decades of development, trying to pick up the pieces, and we simply do not know whether problems associated with dire poverty have increased or decreased or what real impact the growth of GNP has made on them. We do know that the rate of growth, as measured by the increase in GNP, has been fairly respectable in the 1960's, especially by historical standards. We also know that some developing countries have achieved a fairly high rate of growth over a sustained period. But has it made a dent on the problems of mass poverty? Has it resulted in a reduction in the worst forms of poverty - malnutrition, disease, illiteracy, shelterless population, squalid housing?

Has it meant more employment and greater equality of opportunities? Has the character of development conformed to what the masses really wanted? We know so little in this field. There are only a few selected indices and they are rather disquieting.

A recent study in India shows that 40 - 50% of the total population has a per capita income below the official poverty line where malnutrition begins. And what's more pertinent, the per capita income of this group has declined over the last two decades while the average per capita income went up.

In Pakistan, which experienced a healthy growth rate during the 1960's, unemployment increased, real wages in the industrial sector declined by one-third, per capita income disparity between East and West Pakistan nearly doubled, and concentrations of industrial wealth became an explosive economic and political issue. And in 1968, while the international world was still applauding Pakistan as a model of development, the system exploded - not only for political reasons but for economic unrest.

Brazil has recently achieved a growth rate close to 7% but continuing maldistribution of income continues to threaten the very fabric of its society.

These instances can be multiplied. There is in fact need for much more work in this field. The essential point, however, is that a high growth rate has been, and is, no guarantee against worsening poverty and economic explosions.

What has gone wrong? We were confidently told that take care of your GNP and poverty will take care of itself. We were often reminded to keep our eyes focused on a high GNP growth target as it was the best guarantee for eliminating unemployment and of redistributing incomes later through fiscal means. Then what really happened? Where did the development process go astray?

My feeling is that it went astray at least in two directions. First, we conceived our task not as the eradication of the worst forms of poverty but as the pursuit of certain high levels of per capita income. We convinced ourselves that the latter after all is a necessary condition for the former but we did not in fact give much thought to the inter-connection. We pursuaded the developing countries that life begins at $1,000 and thereby we did them no service. They chased elusive per capita income levels, they fussed about high growth rates in GNP, they constantly worried about "how much was produced and how fast," they cared much less about "what was produced and how it was distributed." The hot pursuit of GNP growth was not necessarily wrong: it only blurred our vision. It is no use pretending that it did not for how else can we explain the worsening poverty in many developing countries? How else can we explain our own pre-occupation as economists with endless refinements of statistical series concerning GNP, investment, saving, exports and imports; continuing fascination with growth models; formulation of evaluation criteria primarily in terms of output increases? If eradication of poverty was the real objective, why so little professional work went into determining the extent of unemployment, maldistribution of incomes, malnutrition, shelterless population or other forms of poverty? Why is it that even after two decades of development, we know so little about the extent of real poverty - even in such "well-planned" economies as India and Pakistan?

Besides the constant preoccupation with GNP growth, another direction we went wrong was in assuming that income distribution policies could be divorced from growth policies and could be added later to obtain whatever distribution we desired. Here we displayed a misguided faith in the fiscal systems of the developing countries and a fairly naive understanding of the interplay of economic and political institutions. We know now that the coverage of these fiscal systems is generally narrow and difficult to extend. We also know that once production has been so organized as to leave a fairly large number of people unemployed, it becomes almost impossible to redistribute incomes to those who are not even participating in the production stream. We have better appreciation now of the evolution of modern capitalist institutions and their hold on political decision making so that we are more aware now that the very pattern and organization of production itself dictates a pattern of consumption and distribution which is politically very difficult to change. Once you have increased your GNP by producing more luxury houses and cars, it is not very easy to convert them into low cost housing or bus transport. A certain pattern of consumption and distribution inevitably follows.

We have a number of case studies by now which show how illusory it was to hope that the fruits of growth could be redistributed without reorganizing the pattern of production and investment first. Many fast growing economies in Latin America illustrate this point. In my own country, Pakistan, the very institutions we created for promoting faster growth and capital accumulation frustrated later on all our attempts for better distribution and greater social justice. I am afraid that the evidence is unmistakable and the conclusion inescapable: divorce between production and distribution policies is false and dangerous. The distribution policies must be built into the very pattern and organization of production.

Where does all this lead us? It leads us to a basic re-examination of the existing theories and practice of development. It is time that we stand economic theory on its head and see if we get any better results. In a way, the current situation reminds me of the state of affairs in the developed world in the early 1930's before Keynes shook us all with his General Theory. Since existing theories fitted none of the facts in the real world, they had to be discarded. Keynes provided us with a fresh way of looking at economic and political realities. His theoretical framework was not very elegant but his ideas had a powerful impact.

The developing countries today are seeking a fresh way of looking at their problems. They are disillusioned, and somewhat chastened, by the experience of the last two decades. They are not too sure what the new perspective on development should be but, at least, some of the elements are becoming increasingly clear.

First, the problem of development must be defined as a selective attack on the worst forms of poverty. Development goals must be defined in terms of progressive reduction and eventual elimination of of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. We were taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty as this will take care of the GNP. In other words, let us worry about the <u>content</u> of GNP even more than its rate of increase.

Second, and this follows from the first, the developing countries should define minimum (or threshold) consumption standards that they must reach in a manageable period of time, say a decade. Consumption planning should move to the centre of the stage: production planning should be geared to it. And consumption planning should not be in financial terms but in physical terms, in terms of a minimum bundle of goods and services that must be provided to the common man to eliminate worst manifestations of poverty: minimum nutritional, educational, health and housing standards, for instance. There are two major implications of this strategy. One, we must get away from the tyranny of the demand concept and replace it by the concept of minimum needs, at least in the initial stages of development, since to weight basic needs by the ability to pay is outrageous in a poor society. It will only distort the pattern of production and consumption in favour of the "haves," as has happened in many societies. Two, the chase of elusive present day Western standards and per capita income levels, which cannot be reached even over the course of the next century, must be replaced by the concept of a threshold income which each society defines for itself and which can be reached in a manageable period of a decade or so.

Third, the concerns for more production and better distribution should be brought together in defining the pattern of development; both must be generated at the same time; the present divorce between the two concerns must end. If pattern of production(and exports and imports) is geared to satisfying minimum consumption requirements as stated earlier and to employ the entire labour force, higher production will itself lead to better distribution.

Fourth, and this is implicit in the third, employment should become a primary objective of planning and no longer be treated as only a secondary objective. Let the society regard its entire labour force as allocable over which its limited capital resources must be spread. Let us reverse the present thinking that there is only a fixed amount of capital to be allocated at a particular time and it can employ only a certain part of the labour force, leaving the rest unemployed, to subsist on others as hangers on or as beggars, without any personal income, often suffering from worst forms of malnutrition and squalor. Instead let us treat the pool of labour as given at any particular time which has to be combined with the existing stock irrespective of how low the productivity of labour or capital may be. If physical capital is short, skill formation and organization can replace it in the short run. It is only if we proceed from the goal of full employment, with people doing something useful at least even with little doses of capital and organization, that we can eradicate some of the worst forms of poverty. Even the character and pattern of production changes as Dudley Seers points out in his Colombia Report, since better income distribution will also mean greater production of those goods which are less import and capital-intensive and require more labour.

These are only a few elements in the new perspective that is needed today on development. They are neither complete nor carefully integrated nor perhaps very original. I offer them only as an invitation to further thinking. And if some of this framework sounds fairly mad, let me invite you to study the development experience of the largest developing country in the world--that of Mainland China. I visited it twice in the last few years and I must say that I was greatly impressed by its economic performance measured against ours in Pakistan. It was not obvious to me what the real rate of growth of China was but it was obvious to me that they had looked at the problem of development from the point of view of eradication of poverty and not to reach a certain prescribed per capita income level. It appears that within a period of less than two decades, China has eradicated the worst forms of poverty; it has full employment, universal literacy and adequate health facilities; it suffers from no obvious malnutrition or squalor. What's more, it was my impression that China has achieved this at fairly modest rates of growth, by paying more attention to the content and distribution of GNP. In fact, China has proved that it is a fallacy that poverty can be removed and full employment achieved only at high rates of growth and only over a period of many decades. How has it accomplished this? Of course, its political system, its isolation, its great size, its ideological mobilization, all of these have contributed to the evolution of its pattern of development. But are there any lessons to learn, even when we do not subscribe to its political system? Is there not a practical illustration here of a selective attack on the problems of poverty, pursuit of a threshold income and minimum consumption standards, merger of production and distribution policies and achievement of full employment with a meagre supply of capital? It is no use insisting that these results must have been achieved at tremendous social and political costs: our people in the developing countries are often undergoing these costs without any visible economic results so that they look at the experience of China with great envy and praise. It is time, especially as China's isolation ends, that there be an objective and detailed study of its experience in place of the usual rhetoric to which we have been subjected so far.

In conclusion, Mr. Chairman, let me say that the search for a new perspective on development--of which the themes of our Conference, employment and social justice, are only two facets--has already begun in the developing countries. Many of us, who are essentially products of Western liberalism and who returned to our countries to deliver development, have often ended up delivering more tensions and unrest. We have seen a progressive erosion of liberalism, both in our own countries and amongst our donor friends abroad. And we stand today disspirited and disillusioned. It is no use offering us tired old trade offs and crooked looking production functions whenever we talk about income distribution and employment. It is no use dusting off old theories and polishing up old ideas and asking us to go and try them again. It is time that we take a fresh look at the entire theory and practice of development.

from International Development Review No. 4, 1971

It is time to stand development theory on its head, since a rising growth rate is no guarantee against worsening poverty.

Employment in the 1970's: A New Perspective

Mahbub ul Haq
World Bank

☐ Ever since you asked me to make a presentation to this distinguished forum—on the very dubious assumption that since I was associated with Pakistan's economic planning for 13 years, I ought to know something about employment strategy—I became conscious of a very deep responsibility. And despite all the gaps in my knowledge, I was determined not to let you down. So I went on a feverish search of all the literature on employment strategy, all the theories and policy prescriptions that the economists and the practitioners in the field had to offer. And I came up with some distressing discoveries.

First, it appears to me that we are assembled here to discuss a problem whose nature and dimensions we simply do not know. I looked at various estimates of unemployment and underemployment which had been prepared for the developing countries—even by that distinguished organization known as the ILO—and I was distressed to find that estimates of 5 to 10% unemployment and 20 to 25% underemployment were tossed around with a casualness which was simply frightening. There was no agreed methodology for measuring unemployment or underemployment, no definite ideas or projections on what had happened in this field in the 1960's or what might happen in the 1970's, and very poor knowledge about this "vital" concern even in some of the largest and most affected countries like India, Pakistan and Brazil.

Second, while we knew so little about the nature and dimensions of the unemployment problem, we suffered from no modesty when it came to definitive policy prescriptions. The favourite prescription of the economists—besides the doubling or tripling of growth rates—is to correct the price system, particularly exchange rates, interest rates, terms of trade between agriculture and industry and prices of all factors of production. But has this faith in the price system been tested empirically? When various developing countries corrected their exchange rates or interest rates at various times, was this followed by a great surge in their employment situation or merely by better utilization of capital, larger output and higher labour productivity? In any event, how large a segment of the economy does the price adjustment affect when there is a large subsist-

Before joining the World Bank in April 1970, where he is presently serving as Senior Adviser to the Economics Department, MAHBUB UL HAQ was Chief Economist of the Pakistan Planning Commission and was closely associated with the formulation of Pakistan's five-year development plans. He was a principal speaker at the SID World Conference in Ottawa in May 1971 and this article is drawn from his remarks at that time.

ence sector in these countries and the modern industrial sector generally contributes less than 10% to total output? No one will dare suggest that price corrections will not move these economies in the right direction. But are they decisive? Or do they make only a marginal impression on the unemployment problem? We need far more empirical evidence before we can pass any overall judgments.

Third, there is a fashion these days to talk about intermediate technology, something which is supposed to be more labour-intensive and more suited to the needs of the developing countries than the technology presently used in the developed world. But where does it exist? I found very little evidence of it in the developed countries, which have no real incentive for fashioning special technology for the developing countries and which export a good deal of their technology under tied assistance. There are no great improvisations going on in the developing countries themselves and no major research institutes devoting their energies to the development of intermediate technology.* The only place where I found something resembling intermediate technology was in mainland China, but there has not been much transfer of it to the developing countries, as China's trade and aid are fairly limited at present.

Fourth, I found in the literature on employment abundant suggestions that the developed world should open up its markets to the labour-intensive products of the developing countries. Here, at least, the evidence is fairly clear: no one has detected any impatience on the part of any developed country to follow this prescription.

Finally, looking at the national plans of the developing countries, it was obvious that employment was often a secondary, not a primary, objective of planning. It was generally added as an afterthought to the growth target in GNP but very poorly integrated in the framework of planning. Recalling my own experience with the formulation of Pakistan's five year plans—and I ought to know—the chapter on employment strategy was always added at the end, to round off the plans and make them look complete and respectable, and was hardly an integral part of the growth strategy or policy framework. In fact, most of the developments which affected the employment situation favourably, such as the rural works programme and the green revolution, were planned primarily for higher output, and their employment-generating potential was accidental and not planned. There were endless numbers of research teams, our own and foreign, fixing up our national accounts and ensuring that they adequately registered our rate of growth; there was not a fraction of this effort devoted to employment statistics.

The employment objective, in short, has been the stepchild of planning, and it has been assumed, far too readily, that high rates of growth will ensure full employment as well. But what if they don't? A sustained 6% rate of growth in Pakistan in the 1960's led to rising unemployment, particularly in East Pakistan. And what happens if the developing countries cannot achieve the high growth rates of 10% or more that it may take to eliminate unemployment and are confined to 5 or 6% over the present decade? Should they quietly accept rising unemployment, and the social and political unrest that accompanies it, as the inevitable price for not growing any faster?

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Has Poverty Decreased?

Here we stand after two decades of development, trying to pick up the pieces, and we simply do not know whether problems associated with dire poverty have increased or decreased or what real impact the growth of GNP has made on them. We do know that the rate of growth, as measured by the increase in GNP, has been fairly respectable in the 1960's, especially by historical standards. We also know that some developing countries have achieved a fairly high rate of growth over a sustained period. But has it made a dent on the problems of mass poverty? Has it resulted in a reduction in the worst forms of poverty—malnutrition, disease, illiteracy, shelterless population, squalid

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housing? Has it meant more employment and greater equality of opportunities? Has the character of development conformed to what the masses really wanted? We know so little in this field. There are only a few selected indices and they are rather disquieting.

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What has gone wrong? We were confidently told that if you take care of your GNP, poverty will take care of itself. We were often reminded to keep our eyes focused on a high GNP growth target, as it was the best guarantee for eliminating unemployment and of redistributing incomes later through fiscal means. Then what really happened? Where did the development process go astray?

Where We Went Wrong

My feeling is that it went astray at least in two directions. First, we conceived our task not as the eradication of the worst forms of poverty but as the pursuit of certain high levels of per capita income. We convinced ourselves that the latter is a necessary condition for the former but we did not in fact give much thought to the inter-connection. We development economists persuaded the developing countries that life begins at $1,000 and thereby we did them no service. They chased elusive per capita income levels, they fussed about high growth rates in GNP, they constantly worried about "how much was produced and how fast," they cared much less about "what was produced and how it was distributed."

This hot pursuit of GNP growth was not necessarily wrong; it only blurred our vision. It is no use pretending that it did not, for how else can we explain the worsening poverty in many developing countries? How else can we explain our own preoccupation as economists with endless refinements of statistical series concerning GNP, investment, saving, exports and imports; continuing fascination with growth models; and formulation of evaluation criteria primarily in terms of output increases? If eradication of poverty was the real objective, why did so little professional work go into determining the extent of unemployment, maldistribution of incomes, malnutrition, shelterless population or other forms of poverty? Why is it that even after two decades of development, we know so little about the extent of real poverty—even in such "well-planned" economies as India and Pakistan?

Besides the constant preoccupation with GNP growth, another direction we went wrong was in assuming that income distribution policies could be divorced from growth policies and could be added later to obtain whatever distribution we desired. Here we displayed a misguided faith in the fiscal systems of the developing countries and a fairly naive understanding of the interplay of economic and political institutions. We know now that the coverage of these fiscal systems is generally narrow and difficult to extend. We also know that once production has been so organized as to leave a fairly large number of people unemployed, it becomes almost impossible to redistribute incomes to those who are not even participating in the production stream. We have a better appreciation now of the evolution of modern capitalist institutions and their hold on political decision making and hence we are more aware that the very pattern and organization of production itself indicates a pattern of consumption and distribution which is politically very difficult to change. Once you have increased your GNP by producing more luxury houses and cars, it is not very easy to convert them into low cost housing or bus transport. A certain pattern of consumption and distribution inevitably follows.

We have a number of case studies by now which show how illusory it was to hope that the fruits of growth could be redistributed without reorganizing the pattern of production and investment first. Many fast-growing economies in Latin America illustrate this point. In my own country, Pakistan, the very institutions we created for promoting faster growth and capital accumulation later frustrated all our attempts for better distribution and greater social justice. I am afraid that the evidence is unmistakable and the conclusion inescapable: divorce between production and distribution policies is false and dangerous. The distribution policies must be built into the very pattern and organization of production.

Where does all this lead us? It leads us to a basic re-examination of the existing theories and practice of development. It is time that we stand economic theory on its head and see if we get any better results. In a way, the current situation reminds me of the state of affairs in the developed world in the early 1930's before Keynes shook us all with his General Theory. Since existing theories fitted none of the facts in the real world, they had to be discarded. Keynes provided us with a fresh way of looking at economic and political realities. His theoretical framework was not very elegant but his ideas had a powerful impact.

The developing countries today are seeking a fresh way of looking at their problems. They are disillusioned, and somewhat chastened, by the experience of the last two decades. They are not too sure what the new perspective on development should be but at least some of the elements are becoming increasingly clear.

A New Perspective on Development

First, the problem of development must be defined as a selective attack on the worst forms of poverty. Development goals must be defined in terms of progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. We were taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty as this will take care of the GNP. In other words, let us worry about the *content* of GNP even more than its rate of increase.

Second, and this follows from the first, the developing countries should define minimum (or threshold) consumption standards that they must reach in a manageable period of time, say a decade. Consumption planning should move to the centre of the stage; production planning should be geared to it. And consumption planning should not be in financial terms but in physical terms, in terms of a minimum bundle of goods and services that must be provided to the common man to eliminate the worst manifestations of poverty: minimum nutritional, educational, health and housing standards, for instance. There are two major implications of this strategy. One, we must get away from the tyranny of the demand concept and replace it by the concept of minimum needs, at least in the initial stages of development, since to weight basic needs by the ability to pay is outrageous in a poor society. It will only distort the patterns of production and consumption in favour of the "haves," as has happened in many societies. Two, the chase of elusive present-day Western standards and per capita income levels, which cannot be reached even over the course of the next century, must be replaced by the concept of a threshold income which each society defines for itself and which can be reached in a manageable period of a decade or so.

Third, the concerns for more production and better distribution should be brought together in defining the pattern of development; both must be generated at the same time; the present divorce between the two concerns must end. If the pattern of production (and exports and imports) is geared to satisfying minimum consumption requirements and to employing the entire labour force, higher production will itself lead to better distribution.

Fourth, and this is implicit in the third, employment should become a primary objective of planning and no longer be treated as only a secondary objective. Let a society regard its entire labour force as allocable;

over this force its limited capital resources must be spread. Let us reverse the present thinking that, since there is only a fixed amount of capital to be allocated at a particular time, it can employ only a certain part of the labour force, leaving the rest unemployed, to subsist on others as hangers-on or as beggars, without any personal income, often suffering from the worst forms of malnutrition and squalor. Instead let us treat the pool of labour as given; at any particular time it must be combined with the existing capital stock irrespective of how low the productivity of labour or capital may be. If physical capital is short, skill formation and organization can replace it in the short run. It is only if we proceed from the goal of full employment, with people doing something useful, even with little doses of capital and organization, that we can eradicate some of the worst forms of poverty. With this goal, even the character and pattern of production will change, as Dudley Seers points out in his Colombia Report, since better income distribution will also mean greater production of those goods which are less import- and capital-intensive and which require more labour.

The Chinese Experience

These are only a few elements in the new perspective that is needed today on development. They are neither complete nor carefully integrated nor perhaps very original. I offer them only as an invitation to further thinking. And if some of this framework sounds fairly mad, let me invite you to study the development experience of the largest developing country in the world—that of mainland China. I visited it twice in the last few years and I must say that I was greatly impressed by its economic performance measured against ours in Pakistan. It was not obvious to me what the real rate of growth of China was, but it was obvious to me that they had looked at the problem of development from the point of view of eradication of poverty and not from the viewpoint of reaching a certain prescribed per capita income level. It appears that within a period of less than two decades, China has eradicated the worst forms of poverty; it has full employment, universal literacy and adequate health facilities; it suffers from no obvious malnutrition or squalor. What's more, it was my impression that China has achieved this at fairly modest rates of growth, by paying more attention to the content and distribution of GNP. In fact, China has proved that it is a fallacy that poverty can be removed and full employment achieved only at high rates of growth and only over a period of many decades.

How has it accomplished this? Of course, its political system, its isolation, its great size, its ideological mobilization, all of these have contributed to the evolution of its pattern of development. But are there any lessons to learn, even when we do not subscribe to its political system? Is there not a practical illustration here of a selective attack on the problems of poverty, pursuit of a threshold income and minimum consumption standards, merger of production and distribution policies and achievement of full employment with a meagre supply of capital? It is no use insisting that these results must have been achieved at tremendous social and political costs; people in the developing countries are often undergoing these costs without any visible economic results so that they look at the experience of China with great envy and praise. It is time, especially as China's isolation ends, that there be an objective and detailed study of its experience in place of the usual rhetoric to which we have been subjected so far.

In conclusion, let me say that the search for a new perspective on development—of which the themes of our Conference, employment and social justice, are only two facets—has already begun in the developing countries. Many of us of these countries, who are essentially products of Western liberalism and who returned to our countries to deliver development, have often ended up delivering more tensions and unrest. We have seen a progressive erosion of liberalism, both in our own countries and amongst our donor friends abroad. And we stand today dispirited and disillusioned. It is no use offering us tired old trade-offs and crooked-looking production functions whenever we talk about income distribution and employment. It is no use dusting off old theories and polishing up old ideas and asking us to go and try them again. It is time that we take a fresh look at the entire theory and practice of development. □ □ □

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OF URBAN INCOME DISTRIBUTION
[PHOTO: U.S. AGENCY FOR INTERNATIONAL
DEVELOPMENT]

Employment and Income Distribution in the 1970s: A New Perspective

Mahbub ul Haq

[A prominent economist and planner questions the prevailing economic analyses of the development process and the policies deriving therefrom. High rates of overall economic growth have proved to be no guarantee that poverty and unemployment are reduced. He proposes setting employment and minimum living standards as the primary goals to which production and investment should be adapted.]

When I was asked to speak on employment strategy, I began a search of the literature on employment, all the theories and policy prescriptions that the economists and practitioners in the field had to offer, and I made some distressing discoveries. First, it appears to me that we simply do not know the nature and dimensions of the unemployment problem. Estimates of 5-10 percent unemployment and 20-25 percent underemployment are tossed around with a casualness which is simply frightening. There is no agreed methodology for measuring unemployment or underemployment, no generally accepted ideas or projections on what has happened in this field in the 1960s or what might happen in the 1970s, and very poor knowledge about this vital concern even in some of the largest and most affected countries like India, Pakistan and Brazil.

Second, despite lack of information, we economists do not hesitate to give policy prescriptions for unemployment. The favorite prescription—besides doubling or tripling of growth rates—is to correct the price system, particularly exchange rates, interest rates,

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terms of trade between agriculture and industry, and prices of all factors of production. But has this faith in price adjustments been tested empirically? When various developing countries corrected their exchange rates or interest rates at various times, was this followed by a great upsurge in their employment, or merely by better utilization of capital, larger output and higher labor productivity? In any event, how large a segment of the economy does the price adjustment affect in countries where there is a large subsistence sector and the modern industrial sector contributes no more than 10 percent to total output? No one suggests that price corrections will not move these economies in the right direction. But are they decisive, or do they make only a marginal impression on the unemployment problem? We need far more empirical evidence before we can pass any overall judgments.

Third, there is a fashion these days to talk about intermediate technology, something more labor-intensive and more suited to the needs of the developing countries than the technology presently used in the developed world. But where does it exist? I found very little evidence of it in the developed countries, which have no real incentive for fashioning special technology for the developing countries and which export a good deal of their technology under tied assistance. There are no great improvisations going on in the developing countries themselves, and no major research institutes are devoting their energies to the development of intermediate technology aside from a small group in Britain, operating on a shoestring budget. [See Development Digest, January 1969, pp. 46-48 for a description of this group and another in the U.S.] The only place where I found something resembling intermediate technology was in Mainland China, but there has not been much transfer of it to the developing countries.

Fourth, I found in the literature on employment abundant suggestions that the developed world should open up its markets to the labor-intensive products of the developing countries. We have detected no impatience on the part of any developed country to follow this prescription, however.

Finally, looking at the national plans of the developing countries, it is obvious that employment is usually a secondary, not a primary, objective of planning. It is generally added on as an afterthought to the growth target in gross national product (GNP), but is poorly integrated in the framework of planning. Recalling my own experience with the formulation of Pakistan's five year plans, the chapter on employment strategy was always added at the end to round off the plans and make them look complete and respectable. In fact, most of the developments which affected the employment situation favorably, such as the rural works program and green revolution, were planned primarily for higher output and their employment-generating potential was accidental. There were a number of research teams, our own and foreign, fixing up our national accounts and ensuring that they adequately registered our rate of growth; there was not a fraction of this effort devoted to employment statistics. It has been assumed, far too readily, that high rates of growth will ensure full employment as well. But what if they don't? A sustained 6 percent rate of growth in Pakistan in the 1960s was accompanied by rising unemployment, particularly in East Pakistan. And what happens if the developing countries cannot achieve the high growth rates of 10 percent or more that it may take to eliminate unemployment, and are confined to 5-6 percent over the present decade? Should they quietly accept rising unemployment, and the social and political unrest that accompanies it, as the inevitable price for not growing any faster?

Uncomfortable questions of this kind led me to a re-examination of the overall theory and practice of development. We simply do not know whether problems associated with dire poverty have increased or decreased or what real impact the growth of GNP has made on them. We do know that many rates of growth, as measured by the increase in GNP, have been fairly respectable in the 1960s, certainly by historical standards, and that some developing countries have achieved a high rate of growth over a sustained period. But has this made a dent on the problems of mass poverty? Has it resulted in a reduction in the worst forms of poverty—malnutrition, disease, illiteracy, shelterless population, squalid housing? Has it meant more employment and greater equality of opportunities? Has the character of development conformed to what the masses really wanted?

There are a few indices, and they are rather disquieting. A recent study in India shows that 40-50 percent of the total population has a per capita income below the official poverty line where malnutrition begins, and the per capita income of this group has declined over the last two decades while the average per capita income went up. In Pakistan, which experienced a healthy growth rate during the 1960s, unemployment increased, real wages in the industrial sector declined by one third, per capita income disparity between East and West Pakistan nearly doubled, and concentrations of industrial wealth became an explosive issue. And in 1968, while the GNP growth rate was at its peak, the system exploded—not only for political reasons but from economic unrest. Brazil has achieved a growth rate close to 7 percent but continuing maldistribution of income continues to threaten the fabric of its society. These instances can be multiplied. There is need for much more work in this field, but the essential point is that a high growth rate has been, and is, no guarantee against worsening poverty and political explosions.

What has gone wrong? We were confidently told to take care of the GNP and poverty will take care of itself, that a high GNP growth target is the best guarantee for eliminating unemployment and redistributing incomes later through fiscal means. Where did the development process go astray? My feeling is that it went astray at least in two directions. First, we conceived our task not as the eradication of the worst forms of poverty but as the pursuit of certain high levels of average income. We thought that the latter after all is a necessary condition for the former, but we did not in practice give much thought to the interconnection. The developing countries, with our guidance, have chased the elusive per capita income levels of the rich nations, they constantly worried about "how much was produced and how fast," they cared much less about "what was produced and how it was distributed." The hot pursuit of GNP growth was not necessarily wrong, but it blurred our vision. How else can we explain our pre-occupation as economists with endless refinements of statistical series concerning GNP, investment, saving, exports and imports; continuing fascination with growth models; formulation of evaluation criteria primarily in terms of output increases? If eradication of poverty was the real objective, why did so little professional work go into determining the extent of unemployment, maldistribution of incomes, malnutrition, lack of housing, or other forms of poverty? Why is it that after two decades of development we know so little about the extent of real poverty—even in such "well planned" economies as India and Pakistan?

We also went wrong in assuming that income distribution policies could be divorced from growth policies and could be added later to obtain whatever distribution we desired. Here we displayed a misguided faith in the fiscal systems of the developing countries and a fairly naive understanding of the interplay of economic and political institutions. We know now that the coverage of these fiscal systems is generally narrow and difficult to extend. We also know that once production has been so organized as to leave a fairly large number of people unemployed, it becomes almost impossible to redistribute incomes to those who are not even participating in the production stream. We are coming to realize that the very pattern and organization of production itself dictates a pattern of consumption and distribution which is politically very difficult to change.

We have a number of cases by now which show how illusory it was to hope that the fruits of growth could be redistributed without reorganizing the pattern of investment and production first. Some of the fast growing economies in Latin America illustrate this point. In my own country, Pakistan, the very institutions we created for promoting faster growth and capital accumulation later on frustrated all our attempts for better distribution and greater social justice. I am afraid the evidence is unmistakable: divorce between production and distribution policies is false and dangerous. The distribution policies must be built into the very pattern and organization of production.

Where does all this lead? It leads us to a basic re-examination of the existing theories and practice of development. It is time that we stand economic theory on its head and see if we get any better results. In a way, the current situation reminds me of the state of affairs in the developed world in the early 1930s before Keynes shook us all with his General Theory. Since existing theories did not fit the facts in the real world, they had to be discarded. Keynes provided us with a fresh way of looking at economic and political realities. His theoretical framework was not very elegant but his ideas had a powerful impact. Today the developing countries are seeking a fresh way of looking at their problems. They are disillusioned, and somewhat chastened, by the experience of the last two decades. They are not too sure what the new perspective on development should be. But at least some of the elements are becoming increasingly clear.

First, the basic problem of development should be redefined as a selective attack on the worst forms of poverty. Development goals must be defined in terms of progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. We were taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty as this will take care of the GNP. In other words, let us worry about the <u>content</u> of GNP even more than its rate of increase.

Second, the developing countries should define minimum or threshold consumption standards that they must reach in a manageable period of time, say a decade. Consumption planning should move to the center of the stage: production planning should be geared to it. And consumption planning should not be in financial terms but in physical terms, in terms of a minimum bundle of goods and services that must be provided to the common man: minimum nutritional, educational, health and housing levels, for instance. The demand concept which weights the basic needs of different groups by their ability to pay will only distort the pattern of production and consumption in favor of the "haves;" it should be replaced by the minimum need concept. The pursuit of elusive Western standards and per capita income levels, which cannot be reached even over the next century, must be replaced by the concept of a threshold income which each society defines for itself and which can be reached in a manageable period of a decade or so.

Third, the concerns for more production and better distribution should be brought together in defining the pattern of development; both must be generated at the same time; the present divorce between them must end. If a pattern of production (and exports and imports) is geared to satisfying minimum consumption requirements and to employing the entire labor force, then higher production will itself lead to better distribution.

Fourth, and this is implicit in the third, employment should become a primary objective of planning and no longer be treated as only a secondary objective. Let us reverse the present thinking that there is only a fixed amount of capital to be allocated at a particular time and it can employ only a certain part of the labor force, leaving the rest unemployed—to subsist on others as hangers on or as beggars, without any personal income, often suffering from worst forms of malnutrition and squalor. Instead let us treat the pool of labor as the given factor at any particular time which has to be combined with the available capital, irrespective of how low the productivity of labor or capital may be. If physical capital is short, skill formation and organization can replace it in the short run. It is only if we proceed from the goal of full employment, with people doing something useful at least, even with small doses of capital and organization, that we can eradicate some of the worst forms of poverty. Then the character and pattern of production changes, since better income distribution will also mean greater production of those goods which are less import- and capital-intensive and require more labor.

These are only a few elements in the new perspective that is needed today on development. They are neither complete nor carefully integrated, nor perhaps very original. I offer them as an invitation to further thinking.

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THE CRISIS IN DEVELOPMENT STRATEGIES

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THE CRISIS IN DEVELOPMENT STRATEGIES

Mr. Chairman, ladies and gentlemen,

I have been asked to sum up the present crisis in the developing world in the span of the next 20 minutes or so. I regard this as a major crisis in itself since the developing world is so diverse and the crisis in development has been building up for so long that any summary treatment of it is likely to be challenged all around. Anyway, I am going to try, much against my own better judgement. One firm disclaimer before I start : I shall be expressing only my personal views on the subject which in no way should be attributed to the institution with which I am currently associated.

Mr. Chairman, I believe that economic development is in serious trouble today. And the indications are many.

- After two decades of development, the achievements are quite meagre. When you rip aside the confusing figures on growth rates, you find that for about two-thirds of humanity the increase in per capita income has been less than one dollar a year for the last 20 years.

- Even this increase, miserable as it may seem, has been unevenly distributed, with the poorest 40% of the population hopelessly squeezed in its struggle for existence and sometimes getting even less than what it received 20 years ago.

- Some successful cases of development have turned into development disasters - Pakistan and Nigeria among them.

- There is "development weariness" in many developing countries today with strident voices asking for a social and economic revolution, and there is "aid weariness" in the developed countries today, with many voices asking for an end to a partnership which was never much of a partnership.

- And to cap it all, many advocates of zero growth have sprung in the very societies where growth was always regarded as a sacred goddess and who preached to the developing countries the virtues of an undiluted commitment to growth objectives, underlining how serious the reaction really is against growth for the sake of growth.

What has really gone wrong? Why is there such a disillusionment about economic development? Where are the origins of the present crisis?

I believe that the developing countries have themselves to blame for much of the present sorry mess.

Two decades ago, when the developing countries set out to accelerate their pace of economic development, they seemed to have made three basic decisions.

- Dazzled by the high living standards of the developed countries and convinced that real life begins at $1000 or thereabouts, they decided to go after high growth rates in GNP in their mad chase after certain magic figures of <u>average</u> per capita incomes.

- They generally adopted 'mixed economy' as a style of development, convinced that they were smart enough to combine the best features of capitalism and socialism.

- They turned to the developed countries for generous assistance, hoping that this will make possible the attainment of high growth rates and living standards over a manageable period of time.

All these three decisions turned out to be disastrous.

The chase of the Western living standards was illusory at best. After two decades, the evidence is painfully clear. The per capita income disparity between rich and poor nations has continued to widen in the last 20 years. Today, the average per capita income of the developed world is \$2400 compared to \$180 in the developing countries. The gap has widened to \$2220. It is expected to widen by another \$1100 by 1980. And all the present indications are that the gap will continue widening and the rich nations will continue becoming richer, despite all the liberalism that is generally expressed in forums like thi Just to underline how hopeless it is to expect the gap between rich and poor nations to narrow, let me mention just one comparison : the increase in the per capita GNP of the U.S. in one year equals the increase that India may be able to manage in about 100 years. Therefore, to conceive the objectives of development in terms of Western living standards or to focus on the widening income gap betwe the rich and the poor nations is not meaningful at all, except to make the rich nations feel ashamed of themselves from time to time. The developing countries have no choice but to turn inwards, much the same way as Communist China did 23 years ago, and to adopt a different style of life, seeking a consumption pattern more consistent with their own poverty -- pots and pans and bicycles and simple consumption habi without being seduced by the life styles of the rich. This requires a redefinition of economic and social objectives which is of truly staggering proportions, a liquidation of the privileged groups and vested interests which may well be impossible in many societies, a redistribution of political and economic power which may only be achieved through revolutions rather than through an evolutionary change.

This also means that the developing countries have to search for a new development strategy. The old strategy is based on the quiet assumption that poverty can be taken care of through high growth rates which will eventually filter down to the masses. In this strategy, high growth rates are always better than low growth rates and distribution can be taken care of after growth is achieved. Both these premises have proved bankrupt by now.

It is not true that high growth rates are invariably preferable to low growth rates since they enlarge society's options. It all depends on the structure of these growth rates. If a high growth rate is achieved through rising military expenditures, or through the production of luxury goods for the rich and the privileged, it is not necessarily better than a lower growth rate which is more evenly distributed. In other words, judgements about different levels of growth rates cannot be made independently of the income distribution implicit in them. It is not merely a question of how much is produced but what is produced and how it is distributed. The GNP measurements unfortunately, do not register social satisfaction.

Here the second part of the old strategy comes in which argues that income distribution is a subsequent consideration. If there are more material goods and services in the system, they can always be redistributed in such a way as to create more social satisfaction. This is simply not true. And it is important that this line of reasoning be rejected as it has done considerable damage already.

It is not true for at least the following three reasons:

- Poor societies have often very poor means of redistributing incomes. The coverage of the fiscal systems is generally very limited. Even when income distribution is extremely skewed, it is difficult to reach through direct taxation. To illustrate, even if 60% of the income accrues to 20% of the population in India, this still implies an average per capita income level of $300 for the "rich" which is below the income tax exemption limit of $400. In other words, income transfers from one sector to the other can be arranged only to a very limited extent in poor societies through the taxation machinery.

- Income flows are not financial : they are in the form of physical goods and services. They are influenced by the initial distribution of income. If the society has increased its income in the form of luxury housing and motor cars, how do you really convert it into low cost housing and public buses, short of their physical take over by the poor?

- The institutions which create growth are not neutral as to its distribution. Thus if the growth institutions are characterised by wide disparities in land holdings and concentrations of industrial wealth, the process of growth will strengthen them further and they will resist and frustrate all future attempts to take away their powers and privileges through orderly reforms. This is essentially what happened in Pakistan in the 1960's.

The new development strategy, therefore, must reject the thesis that poverty can be attacked <u>indirectly</u> through the growth rates filtering down to the masses. It must be based on the premise that poverty must be attacked <u>directly</u>.

What are the elements in such a direct attack on mass poverty? It is difficult to say at this stage since the developing countries are only beginning to perceive this problem in a new perspective. But let me mention a few elements which are critical:

- To start with, the focus should shift to the poorest 40-50% in society. Who are they? How numerous they are? How their living standards have behaved over time? Let us find out a little more, even at this late stage, about the problem we set out to tackle about 20 years ago.

- In planning national production targets, the basic minimum needs of these poor should be taken into account, irrespective of whether they can express them in the market or not. In other words, market demand -- which is so largely influenced by existing income distribution -- sbould be rejected explicitly in favour of fixing national consumption and production targets on the basis of minimum human needs. We have been slaves of the concept of market demand for too long. But the concept of market demand mocks poverty or plainly ignores it as the poor have very little purchasing power.

. It follows that the problem of development must be redefined as a selective attack on the worst forms of poverty. Development goals should be expressed in terms of progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. Social indicators must be developed and progress of plans must be measured in terms of specific and quantitative goals in these fields and not in terms of average per capita income. We were taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty first as the GNP can take care of itself since it is only a convenient summation, and not a motivation, for human efforts.

. It also follows that the concerns for more production and better distribution should be brought together and not treated separately. This invariably means that employment should be treated as a primary, not a secondary, objective of development since it is the most powerful means of redistributing incomes in a poor society. Capital should not be concentrated in a small modern sector, enjoying high productivity and savings, but spread thinly over a wide segment of the economy -- through public works programs, if necessary, and even at the risk of lowering the average productivity of labour and lowering the future rate of growth. The poor societies have to squarely face this choice. They have a limited amount of capital. They can either raise the productivity of a small part of the labour force quite high in the modern sector while leaving a large part unemployed or settle for a lower average productivity but full employment. Again, it appears to me that Communist China made the second choice and was, therefore, able to achieve full employment and equitable income distribution at a relatively low level of per capita income.

But can such a strategy of development be conceived and implemented in the present political and economic structures in the developing countries? And here we come to the second of the disastrous decisions : the choice of the mixed economy. In most cases, such a choice has combined the worst, not the best, features of capitalism and socialism. It has often prevented the developing countries from honest-to-goodness economic incentives and free functioning of the price system to achieve efficiency in a capitalistic framework, if not equity : in reality, there have been too many inefficient administrative controls and price distortions. At the same time, it has prevented these societies from pursuing their goals in a truly socialistic framework as mixed economy institutions were often more capitalistic than not. And the end result often is that they fall between two stools : combining weak economic incentives with bureacratic socialism. Neither the ends of growth nor equity are served by such confusion in social and political objectives within the framework of a mixed economy.

My own feeling is that the days of the mixed economy are numbered. The developing countries will have to become either more frankly capitalistic or more genuinely socialist. The capitalistic alternative is workable only in those situations where the society is willing to accept income inequalities over a long period of time without exploding or where extremely high growth rates (10 to 15%) can be financed with a generous inflow of resources from Western friends. Otherwise, the only alternative is a genuinely socialist system, based on a different ideology and a different pattern of society. But this does not mean bureaucratic socialism or post-box socialism, it means a major change in the political balance of power within these societies and drastic economic and social reforms. Whether the developing countries can manage such a change without violent revolutions is a critical question of our time.

And now let me turn briefly to the third disastrous decision : the dependence on foreign assistance. Let me make it quite clear that I am one of those who has always believed in economic liberalism and in a genuine partnership between the developed and the developing countries. But the sorry record of foreign assistance in the last two decades is beginning to convince me, as it has convinced many of my liberal colleagues, that the developing world would have been better off without such assistance. Unfortunately, I do not have the time to go into the early origins of foreign assistance, its changing motivations and its present plight, but let me offer a few observations quite baldly without elaboration.

- The level of foreign assistance that is required for a meaningful change in the developing countries over a short period of a decade or so through the growth rate route is at least 4 to 5 times the present level of \$7 billion. The developed countries have neither the will nor the imagination to offer such assistance.

- The present levels of assistance are only of a marginal significance for the developing countries and come with so many project conditions, country tying, foreign consultants and technology, and irritating debt problems that they sap up the initiative and freedom of action of the developing world.

- The developing countries must regard foreign assistance as an undependable residual in their total planning effort and turn their energies to internal institutional changes that are required for creating a different economic and social order, based on egalitarianism and second-best standard of living.

- In the international field, the developing countries should organise their "poor power" to wring major concessions from the rich nations and to arrange for a genuine transfer of resources. Since the rich nations are going to shrink in the next few decades to less than 10% of the total world population with over 70% of world income, the poor will be numerous enough and annoyed enough to organise such an effort.

- One element in such a confrontation will be to serve notice to the developed nations that the developing countries cannot pay their present foreign debt of $60 billion and the world community must make arrangements for its orderly cancellation.

- Another element will be to exploit their collective bargaining power in their negotiations with the rich. Recently, oil negotiations under OPEC are expected to yield $20 billion of additional revenues to the oil producing countries by 1980. Similarly, if the developing countries can exploit the current concern about depletion of non-renewable resources and agitate for a 10% tax on consumers of these minerals, they could collect as much as $30 billion over this decade for a common international development fund. Again, they can stake their claim to the commonly-held resources of mankind, like oceans and space, and start demanding that 80% of the proceeds from the exploitation of such resources should go to them on the basis of world population.

Mr. Chairman,

What I am trying to convey here is the emerging mood in the developing countries rather than my own deeply held beliefs. I am not an apostle of confrontation, nor am I prepared to forsake my own liberalism. But I think it is important that we realize that liberalism cannot survive in an illiberal world. The developing countries are passing through a very dark and ugly mood. They are questioning all the assumptions on which they based their early development strategy. I cannot predict what may come out of this re-examination. But if I have to make any guesses today, I would expect that economic development in the next few years will be increasingly based on a new strategy embodying a direct attack on mass poverty, a genuine turn towards socialism and a far greater degree of self-reliance. This is the new manifesto that most developing countries are trying to articulate. But there is a wide gap between articulation and implementation, between dim perception and real action. The future of the developing world will turn on how far this gap can be bridged without violent political explosions.

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Some successful cases of development have turned into development disasters - Pakistan and Nigeria among them.

There is "development weariness" in many developing countries today with strident voices asking for a social and economic revolution, and there is "aid weariness" in the developed countries today, with many voices asking for an end to a partnership which was never much of a partnership.

And to cap it all, many advocates of zero growth have sprung in the very societies where growth was always regarded as a sacred goddess and who preached to the developing countries the virtues of an undiluted commitment to growth objectives, underlining how serious the reaction really is against growth for the sake of growth.

What has really gone wrong? Why is there such a disillusionment about economic development? Where are the origins of the present crisis?

I believe that the developing countries have themselves to blame for much of the present sorry mess.

Two decades ago, when the developing countries set out to accelerate their pace of economic development, they seemed to have made three basic decisions.

- Dazzled by the high living standards of the developed countries and convinced that real life begins at $1000 or thereabouts, they decided to go after high growth rates in GNP in their mad chase after certain magic figures of average per capita incomes.

- They generally adopted 'mixed economy' as a style of development, convinced that they were smart enough to combine the best features of capitalism and socialism.

- They turned to the developed countries for generous assistance, hoping that this will make possible the attainment of high growth rates and living standards over a manageable period of time.

All these three decisions turned out to be disastrous.

The chase of the Western living standards was illusory at best. After two decades, the evidence is painfully clear. The per capita income disparity between rich and poor nations has continued to widen in the last 20 years. Today, the average per capita income of the developed world is $2400 compared to $180 in the developing countries. The gap has widened to $2220. It is expected to widen by another $1100 by 1980. And all the present indications are that the gap will continue widening and the rich nations will continue becoming richer, despite all the liberalism that is generally expressed in forums like this.

Just to underline how hopeless it is to expect the gap between rich and poor nations to narrow, let me mention just one comparison : the increase in the per capita GNP of the U.S. in one year equals the increase that India may be able to manage in about 100 years. Therefore, to conceive the objectives of development in terms of Western living standards or to focus on the widening income gap between the rich and the poor nations is not meaningful at all, except to make the rich nations feel ashamed of themselves from time to time. The developing countries have no choice but to turn inwards, much the same way as Communist China did 23 years ago, and to adopt a different style of life, seeking a consumption pattern more consistent with their own poverty -- pots and pans and bicycles and simple consumption habits - without being seduced by the life styles of the rich. This requires a redefinition of economic and social objectives which is of truly staggering proportions, a liquidation of the privileged groups and vested interests which may well be impossible in many societies, a redistribution of political and economic power which may only be achieved through revolutions rather than through an evolutionary change.

This also means that the developing countries have to search for a new development strategy. The old strategy is based on the quiet assumption that poverty can be taken care of through high growth rates which will eventually filter down to the masses. In this strategy, high growth rates are always better than low growth rates and distribution can be taken care of after growth is achieved. Both these premises have proved bankrupt by now.

It is not true that high growth rates are invariably preferable to low growth rates since they enlarge society's options. It all depends on the structure of these growth rates. If a high growth rate is achieved through rising military expenditures, or through the production of luxury goods for the rich and the privileged, it is not necessarily better than a lower growth rate which is more evenly distributed. In other words, judgements about different levels of growth rates cannot be made independently of the income distribution implicit in them. It is not merely a question of how much is produced but what is produced and how it is distributed. The GNP measurements, unfortunately, do not register social satisfaction.

Here the second part of the old strategy comes in which argues that income distribution is a subsequent consideration. If there are more material goods and services in the system, they can always be redistributed in such a way as to create more social satisfaction. This is simply not true. And it is important that this line of reasoning be rejected as it has done considerable damage already.

It is not true for at least the following three reasons:

- Poor societies have often very poor means of redistributing incomes. The coverage of the fiscal systems is generally very limited. Even when income distribution is extremely skewed, it is difficult to reach through direct taxation. To illustrate, even if 60% of the income accrues to 20% of the population in India, this still implies an average per capita income level of $300 for the "rich" which is below the income tax exemption limit of $400. In other words, income transfers from one sector to the other can be arranged only to a very limited extent in poor societies through the taxation machinery.

- Income flows are not financial : they are in the form of physical goods and services. They are influenced by the initial distribution of income. If the society has increased its income in the form of luxury housing and motor cars, how do you really convert it into low cost housing and public buses, short of their physical take over by the poor?

The institutions which create growth are not neutral as to its distribution. Thus if the growth institutions are characterised by wide disparities in land holdings and concentrations of industrial wealth, the process of growth will strengthen them further and they will resist and frustrate all future attempts to take away their powers and privileges through orderly reforms. This is essentially what happened in Pakistan in the 1960's.

The new development strategy, therefore, must reject the thesis that poverty can be attacked <u>indirectly</u> through the growth rates filtering down to the masses. It must be based on the premise that poverty must be attacked <u>directly</u>.

What are the elements in such a direct attack on mass poverty? It is difficult to say at this stage since the developing countries are only beginning to perceive this problem in a new perspective. But let me mention a few elements which are critical:

To start with, the focus should shift to the poorest 40-50% in society. Who are they? How numerous they are? How their living standards have behaved over time? Let us find out a little more, even at this late stage, about the problem we set out to tackle about 20 years ago.

In planning national production targets, the basic minimum needs of these poor should be taken into account, irrespective of whether they can express them in the market or not. In other words, market demand -- which is so largely influenced by existing income distribution -- should be rejected explicitly in favour of fixing national consumption and production targets on the basis of minimum human needs. We have been slaves of the concept of market demand for too long. But the concept of market demand mocks poverty or plainly ignores it as the poor have very little purchasing power.

It follows that the problem of development must be redefined as a selective attack on the worst forms of poverty. Development goals should be expressed in terms of progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. Social indicators must be developed and progress of plans must be measured in terms of specific and quantitative goals in these fields and not in terms of average per capita income. We were taught to take care of our GNP as this will take care of poverty. Let us reverse this and take care of poverty first as the GNP can take care of itself since it is only a convenient summation, and not a motivation, for human efforts.

It also follows that the concerns for more production and better distribution should be brought together and not treated separately. This invariably means that employment should be treated as a primary, not a secondary, objective of development since it is the most powerful means of redistributing incomes in a poor society. Capital should not be concentrated in a small modern sector, enjoying high productivity and savings, but spread thinly over a wide segment of the economy -- through public works programs, if necessary, and even at the risk of lowering the average productivity of labour and lowering the future rate of growth. The poor societies have to squarely face this choice. They have a limited amount of capital. They can either raise the productivity of a small part of the labour force quite high in the modern sector while leaving a large part unemployed or settle for a lower average productivity but full employment. Again, it appears to me that Communist China made the second choice and was, therefore, able to achieve full employment and equitable income distribution at a relatively low level of per capita income.

But can such a strategy of development be conceived and implemented in the present political and economic structures in the developing countries? And here we come to the second of the disastrous decisions : the choice of the mixed economy. In most cases, such a choice has combined the worst, not the best, features of capitalism and socialism. It has often prevented the developing countries from honest-to-goodness economic incentives and free functioning of the price system to achieve efficiency in a capitalistic framework, if not equity : in reality, there have been too many inefficient administrative controls and price distortions. At the same time, it has prevented these societies from pursuing their goals in a truly socialistic framework as mixed economy institutions were often more capitalistic than not. And the end result often is that they fall between two stools : combining weak economic incentives with bureacratic socialism. Neither the ends of growth nor equity are served by such confusion in social and political objectives within the framework of a mixed economy.

My own feeling is that the days of the mixed economy are number . The developing countries will have to become either more frankly capitalistic or more genuinely socialist. The capitalistic alternative is workable only in those situations where the society is willing to accept income inequalities over a long period of time without exploding or where extremely high growth rates (10 to 15%) can be financed with a generous inflow of resources from Western friends. Otherwise, the only alternative is a genuinely socialist system, based on a different ideology and a different pattern of society. But this does not mean bureaucratic socialism or post-box socialism, it means a major change in the political balance of power within these societies and drastic economic and social reforms. Whether the developing countries can manage such a change without violent revolutions is a critical question of our time.

And now let me turn briefly to the third disastrous decision : the dependence on foreign assistance. Let me make it quite clear that I am one of those who has always believed in economic liberalism and in a genuine partnership between the developed and the developing countries. But the sorry record of foreign assistance in the last two decades is beginning to convince me, as it has convinced many of my liberal colleagues, that the developing world would have been better off without such assistance. Unfortunately, I do not have the time to go into the early origins of foreign assistance, its changing motivations and its present plight, but let me offer a few observations quite baldly without elaboration.

. The level of foreign assistance that is required for a meaningful change in the developing countries over a short period of a decade or so through the growth rate route is at least 4 to 5 times the present level of $7 billion. The developed countries have neither the will nor the imagination to offer such assistance.

- The present levels of assistance are only of a marginal significance for the developing countries and come with so many project conditions, country tying, foreign consultants and technology, and irritating debt problems that they sap up the initiative and freedom of action of the developing world.

- The developing countries must regard foreign assistance as an undependable residual in their total planning effort and turn their energies to internal institutional changes that are required for creating a different economic and social order, based on egalitarianism and second-best standard of living.

- In the international field, the developing countries should organise their "poor power" to wring major concessions from the rich nations and to arrange for a genuine transfer of resources. Since the rich nations are going to shrink in the next few decades to less than 10% of the total world population with over 70% of world income, the poor will be numerous enough and annoyed enough to organise such an effort.

- One element in such a confrontation will be to serve notice to the developed nations that the developing countries cannot pay their present foreign debt of $60 billion and the world community must make arrangements for its orderly cancellation.

- Another element will be to exploit their collective bargaining power in their negotiations with the rich. Recently, oil negotiations under OPEC are expected to yield $20 billion of additional revenues to the oil producing countries by 1980. Similarly, if the developing countries can exploit the current concern about depletion of non-renewable resources and agitate for a 10% tax on consumers of these minerals, they could collect as much as $30 billion over this decade for a common international development fund. Again, they can stake their claim to the commonly-held resources of mankind, like oceans and space, and start demanding that 80% of the proceeds from the exploitation of such resources should go to them on the basis of world population.

Mr. Chairman,

What I am trying to convey here is the emerging mood in the developing countries rather than my own deeply held beliefs. I am not an apostle of confrontation, nor am I prepared to forsake my own liberalism. But I think it is important that we realize that liberalism cannot survive in an illiberal world. The developing countries are passing through a very dark and ugly mood. They are questioning all the assumptions on which they based their early development strategy. I cannot predict what may come out of this re-examination. But if I have to make any guesses today, I would expect that economic development in the next few years will be increasingly based on a new strategy embodying a direct attack on mass poverty, a genuine turn towards socialism and a far greater degree of self-reliance. This is the new manifesto that most developing countries are trying to articulate. But there is a wide gap between articulation and implementation, between dim perception and real action. The future of the developing world will turn on how far this gap can be bridged without violent political explosions.

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Crisis in development strategies*

MAHBUB UL HAQ, *Director, Policy Planning Department, World Bank*

I have been asked to sum up the present crisis in the developing world in the span of the next twenty minutes or so. I regard this as a major crisis in itself since the developing world is so diverse and the crisis in development has been building up for so long that any summary treatment of it is likely to be challenged all around. Anyway, I am going to try, much against my own better judgement. One firm disclaimer before I start: I shall be expressing only my personal views on the subject which should in no way be attributed to the institution with which I am currently associated.

I believe that economic development is in serious trouble today. And the indications are many.

- After two decades of development, the achievements are quite meagre. When you rip aside the confusing figures on growth rates, you find that for about two-thirds of humanity the increase in *per capita* income has been less than one dollar a year for the last twenty years.
- Even this increase, miserable as it may seem, has been unevenly distributed, with the poorest 40 per cent of the population hopelessly squeezed in its struggle for existence and sometimes getting even less than what it received twenty years ago.
- Some successful cases of development have turned into development disasters—Pakistan and Nigeria among them.
- There is 'development weariness' in many developing countries today with strident voices asking for a social and economic revolution, and there is 'aid weariness' in the developed countries today, with many voices asking for an end to a partnership which was never much of a partnership.
- And to cap it all, many advocates of zero growth have sprung up in the very societies where growth had always been regarded as a sacred goddess, and who had preached to the developing countries the virtues of an undiluted commitment to growth objectives, underlining how serious the reaction really is against growth for the sake of growth.

What has really gone wrong? Why is there such a disillusionment about economic development? Where are the origins of the present crisis?

I believe that the developing countries have themselves to blame for much of the present sorry mess.

Two decades ago, when the developing countries set out to accelerate their pace of economic development, they seemed to have made three basic decisions.

- Dazzled by the high living standards of the developed countries and convinced that real life begins at \$1,000 or thereabouts, they decided to go after high growth rates in GNP in their mad chase after certain magic figures of *average per capita* incomes.
- They generally adopted the 'mixed economy' as a style of development, convinced that they were smart enough to combine the best features of capitalism and socialism.
- They turned to the developed countries for generous assistance, hoping that this would make possible the attainment of high growth rates and living standards over a manageable period of time.

All three of these decisions turned out to be disastrous.

The chase of the Western living standards was illusory at best. After two decades the evidence is painfully clear. The *per capita* income disparity between rich and poor nations has continued to widen in the last twenty years. Today, the average *per capita* income of the developed world is \$2,400 compared to \$180 in the developing countries. The gap has widened to \$2,220. It is expected to widen by another \$1,100 by 1980. And all the present indications are that the gap will continue to widen and the rich nations will continue to become richer, despite all the liberalism that is generally expressed in forums like this. Just to underline how hopeless it is to expect the gap between rich and poor nations to narrow, let me mention just one comparison—the increase in the *per capita* GNP of the US in one year equals the increase that India may be able to manage in about a hundred years. Therefore, to conceive the objectives of development in terms of Western living standards or to focus on the widening income gap between the rich and the poor nations is not meaningful at all, except to make the rich nations feel ashamed of themselves from time to time. The developing countries have no choice but to turn inwards, in much the same way as Communist China did twenty-three years ago, and to adopt a different style of life, seeking a consumption pattern more consistent with their own poverty—pots and pans and bicycles and simple consumption habits—without being seduced by the life styles of the rich. This requires a redefinition of economic and social objectives which is of truly staggering proportions, a liquidation of the privileged groups and vested interests, which may well be impossible in many societies, and a redistribution of political and economic power, which may only be achieved through revolution rather than through evolutionary change.

This also means that the developing countries have to

* A speech originally delivered at the International Development Conference, Washington DC, 20 April 1972.

search for a new development strategy. The old strategy is based on the quiet assumption that poverty can be taken care of through high growth rates, which will eventually filter down to the masses. In this strategy, high growth rates are always better than low growth rates and distribution can be taken care of after growth is achieved. Both these premises have proved bankrupt by now.

It is not true that, because high growth rates enlarge society's options, they are invariably preferable to low growth rates. It all depends on the structure of these growth rates. If a high growth rate is achieved through rising military expenditures, or through the production of luxury goods for the rich and the privileged, it is not necessarily better than a lower growth rate which is more evenly distributed. In other words, judgements about different levels of growth rates cannot be made independently of the income distribution implicit in them. It is not merely a question of how much is produced, but of what is produced and how it is distributed. GNP measurements, unfortunately, do not register social satisfaction.

Here the second part of the old strategy comes in, which argues that income distribution is a subsequent consideration. If there are more material goods and services in the system, they can always be redistributed in such a way as to create more social satisfaction. This is simply not true. And it is important that this line of reasoning be rejected, since it has done considerable damage already.

It is not true for at least the following three reasons:

- Poor societies often have very poor means of redistributing income. The coverage of the fiscal systems is generally very limited. Even when income distribution is extremely skewed, it is difficult to reach through direct taxation. To illustrate, even if 60 per cent of income accrues to 20 per cent of the population in India, this still implies an average *per capita* income level of $300 for the 'rich' which is below the income tax exemption limit of $400. In other words, income transfers from one sector to the other can be arranged only to a very limited extent in poor societies through the taxation machinery.
- Income flows are not financial: they are in the form of physical goods and services. They are influenced by the initial distribution of income. If the society has increased its income in the form of luxury housing and motor cars, how do you really convert it into low-cost housing and public buses, short of their physical take-over by the poor?
- The institutions which create growth are not neutral as to its distribution. Thus if the growth institutions are characterized by wide disparities in land holdings and concentrations of industrial wealth, the process of growth will strengthen them further and they will resist and frustrate all future attempts to take away their powers and privileges through orderly reforms. This is essentially what happened in Pakistan in the 1960s.

The new development strategy, therefore, must reject the thesis that poverty can be attacked *indirectly* through the growth rates filtering down to the masses. It must be based on the premise that poverty must be attacked *directly*.

What are the elements in such a direct attack on mass poverty? It is difficult to say at this stage since the developing countries are only beginning to perceive this problem in a new perspective. But let me mention a few elements which are critical:

- To start with, the focus should shift to the poorest 40–50 per cent in society. Who are they? How numerous they are? How have their living standards behaved over time? Let us find out a little more, even at this late stage, about the problem we set out to tackle about twenty years ago.
- In planning national production targets, the basic minimum needs of these poor should be taken into account, irrespective of whether they can express them in the market or not. In other words, market demand–which is so largely influenced by existing income distribution–should be rejected explicitly in favour of fixing national comsumption and production targets on the basis of minimum human needs. We have been slaves of the concept of market demand for too long. But the concept of market demand mocks poverty or plainly ignores it, since the poor have very little purchasing power.
- It follows that the problem of development must be redefined as a selective attack on the worst forms of poverty. Development goals should be expressed in terms of the progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. Social indicators must be developed and progress of plans must be measured in terms of specific and quantitative goals in these fields and not in terms of average *per capita* income. We were taught to take care of our GNP, since this would take care of poverty. Let us reverse this and take care of poverty first, since GNP can take care of itself, for it is only a convenient summation, and not a motivation, for human efforts.
- It also follows that the concerns for more production and better distribution should be brought together and not treated separately. This invariably means that employment should be treated as a primary, not a secondary, objective of development since it is the most powerful means of redistributing income in a poor society. Capital should not be concentrated in a small modern sector, enjoying high productivity and savings, but spread thinly over a wide segment of the economy–through public works programmes, if necessary, and even at the risk of lowering the average productivity of labour and lowering the future rate of growth. The poor societies have to face this choice squarely. They have a limited amount of capital. They can either raise substantially the productivity of a small part of the labour force in the modern sector while leaving a large part unemployed or settle for a lower average productivity but full employment. Again, it appears to me that Communist China made the second choice and has, therefore, been able to achieve full employment and

equitable income distribution at a relatively low level of *per capita* income.

But can such a strategy of development be conceived and implemented in the present political and economic structures in the developing countries? And here we come to the second of the disastrous decisions–the choice of the mixed economy. In most cases, such a choice has combined the worst, not the best, features of capitalism and socialism. It has often prevented the developing countries from adopting honest-to-goodness economic incentives and using the free functioning of the price system to achieve efficiency in a capitalistic framework, if not equity. In reality, there have been too many inefficient administrative controls and price distortions. At the same time, the choice of the mixed economy has prevented these societies from pursuing their goals in a truly socialistic framework, since mixed economy institutions have often been more capitalistic than not. The end result, therefore, has often been that they have fallen between two stools, combining weak economic incentives with bureaucratic socialism. Neither the ends of growth nor equity are served by such confusion in social and political objectives within the framework of a mixed economy.

My own feeling is that the days of the mixed economy are numbered. The developing countries will have to become either more frankly capitalistic or more genuinely socialist. The capitalistic alternative is workable only in those situations where the society is willing to accept income inequalities over a long period of time without exploding or where extremely high growth rates (10 to 15 per cent) can be financed with a generous inflow of resources from Western friends. Otherwise, the only alternative is a genuinely socialist system, based on a different ideology and a different pattern of society. But this does not mean bureaucratic socialism or post-box socialism; it means a major change in the political balance of power within these societies and drastic economic and social reforms. Whether the developing countries can manage such a change without violent revolutions is a critical question of our time.

And now let me turn briefly to the third disastrous decision–the dependence on foreign assistance. Let me make it quite clear that I am one of those who has always believed in economic liberalism and in a genuine partnership between the developed and the developing countries. But the sorry record of foreign assistance in the last two decades is beginning to convince me, as it has convinced many of my liberal colleagues, that the developing world would have been better off without such assistance. Unfortunately, I do not have the time to go into the early origins of foreign assistance, its changing motivations and its present plight, but let me offer a few observations quite baldly without elaboration.

- The level of foreign assistance that is required for a meaningful change in the developing countries over a short period of a decade or so through the growth-rate route is at least 4 to 5 times the present level of $7 billion. The developed countries have neither the will nor the imagination to offer such assistance.
- The present levels of assistance are only of a marginal significance for the developing countries and come with so many project conditions, country tying, foreign consultants and technology, and irritating debt problems that they sap the initiative and freedom of action of the developing world.
- The developing countries must regard foreign assistance as an undependable residual in their total planning effort and turn their energies to internal institutional changes that are required for creating a different economic and social order, based on egalitarianism and a second-best standard of living.
- In the international field, the developing countries should organize their 'poor power' to wring major concessions from the rich nations and to arrange for a genuine transfer of resources. Since the rich nations are going to shrink in the next few decades to less than 10 per cent of the total world population with over 70 per cent of world income, the poor will be numerous enough and annoyed enough to organize such an effort.
- One element in such a confrontation will be to serve notice to the developed nations that the developing countries cannot pay their present foreign debt of $60 billion and that the world community must make arrangements for its orderly cancellation.
- Another element will be to exploit their collective bargaining power in their negotiations with the rich. Recently, oil negotiations under OPEC are expected to yield $20 billion of additional revenues to the oil producing countries by 1980. Similarly, if the developing countries can exploit the current concern about the depletion of non-renewable resources and agitate for a 10 per cent tax on consumers of these minerals, they could collect as much as $30 billion over this decade for a common international development fund. Again, they can stake their claim to the commonly-held resources of mankind, like oceans and space, and start demanding that 80 per cent of the proceeds from the exploitation of such resources should go to them on the basis of world population.

What I am trying to convey here is the emerging mood in the developing countries rather than my own deeply held beliefs. I am not an apostle of confrontation, nor am I prepared to forsake my own liberalism. But I think it is important that we realize that liberalism cannot survive in an illiberal world. The developing countries are passing through a very dark and ugly mood. They are questioning all the assumptions on which they based their early development strategy. I cannot predict what may come out of this re-examination. But if I have to make any guesses today, I would expect that economic development in the next few years will be increasingly based on a new strategy embodying a direct attack on mass poverty, a genuine turn towards socialism and a far greater degree of self-reliance. This is the new manifesto that most developing countries are trying to articulate. But there is a wide gap between articulation and implementation, between dim perception and real action. The future of the developing world will turn on how far this gap can be bridged without violent political explosions.

Crisis in development strategies*

MAHBUB UL HAQ, *Director, Policy Planning Department, World Bank*

I have been asked to sum up the present crisis in the developing world in the span of the next twenty minutes or so. I regard this as a major crisis in itself since the developing world is so diverse and the crisis in development has been building up for so long that any summary treatment of it is likely to be challenged all around. Anyway, I am going to try, much against my own better judgement. One firm disclaimer before I start: I shall be expressing only my personal views on the subject which should in no way be attributed to the institution with which I am currently associated.

I believe that economic development is in serious trouble today. And the indications are many.

- After two decades of development, the achievements are quite meagre. When you rip aside the confusing figures on growth rates, you find that for about two-thirds of humanity the increase in *per capita* income has been less than one dollar a year for the last twenty years.
- Even this increase, miserable as it may seem, has been unevenly distributed, with the poorest 40 per cent of the population hopelessly squeezed in its struggle for existence and sometimes getting even less than what it received twenty years ago.
- Some successful cases of development have turned into development disasters--Pakistan and Nigeria among them.
- There is 'development weariness' in many developing countries today with strident voices asking for a social and economic revolution, and there is 'aid weariness' in the developed countries today, with many voices asking for an end to a partnership which was never much of a partnership.
- And to cap it all, many advocates of zero growth have sprung up in the very societies where growth had always been regarded as a sacred goddess, and who had preached to the developing countries the virtues of an undiluted commitment to growth objectives, underlining how serious the reaction really is against growth for the sake of growth.

What has really gone wrong? Why is there such a disillusionment about economic development? Where are the origins of the present crisis?

I believe that the developing countries have themselves to blame for much of the present sorry mess.

Two decades ago, when the developing countries set out to accelerate their pace of economic development, they seemed to have made three basic decisions.

- Dazzled by the high living standards of the developed countries and convinced that real life begins at $1,000 or thereabouts, they decided to go after high growth rates in GNP in their mad chase after certain magic figures of *average per capita* incomes.
- They generally adopted the 'mixed economy' as a style of development, convinced that they were smart enough to combine the best features of capitalism and socialism.
- They turned to the developed countries for generous assistance, hoping that this would make possible the attainment of high growth rates and living standards over a manageable period of time.

All three of these decisions turned out to be disastrous.

The chase of the Western living standards was illusory at best. After two decades the evidence is painfully clear. The *per capita* income disparity between rich and poor nations has continued to widen in the last twenty years. Today, the average *per capita* income of the developed world is $2,400 compared to $180 in the developing countries. The gap has widened to $2,220. It is expected to widen by another $1,100 by 1980. And all the present indications are that the gap will continue to widen and the rich nations will continue to become richer, despite all the liberalism that is generally expressed in forums like this. Just to underline how hopeless it is to expect the gap between rich and poor nations to narrow, let me mention just one comparison—the increase in the *per capita* GNP of the US in one year equals the increase that India may be able to manage in about a hundred years. Therefore, to conceive the objectives of development in terms of Western living standards or to focus on the widening income gap between the rich and the poor nations is not meaningful at all, except to make the rich nations feel ashamed of themselves from time to time. The developing countries have no choice but to turn inwards, in much the same way as Communist China did twenty-three years ago, and to adopt a different style of life, seeking a consumption pattern more consistent with their own poverty—pots and pans and bicycles and simple consumption habits—without being seduced by the life styles of the rich. This requires a redefinition of economic and social objectives which is of truly staggering proportions, a liquidation of the privileged groups and vested interests, which may well be impossible in many societies, and a redistribution of political and economic power, which may only be achieved through revolution rather than through evolutionary change.

This also means that the developing countries have to

* A speech originally delivered at the International Development Conference, Washington DC, 20 April 1972.

search for a new development strategy. The old strategy is based on the quiet assumption that poverty can be taken care of through high growth rates, which will eventually filter down to the masses. In this strategy, high growth rates are always better than low growth rates and distribution can be taken care of after growth is achieved. Both these premises have proved bankrupt by now.

It is not true that, because high growth rates enlarge society's options, they are invariably preferable to low growth rates. It all depends on the structure of these growth rates. If a high growth rate is achieved through rising military expenditures, or through the production of luxury goods for the rich and the privileged, it is not necessarily better than a lower growth rate which is more evenly distributed. In other words, judgements about different levels of growth rates cannot be made independently of the income distribution implicit in them. It is not merely a question of how much is produced, but of what is produced and how it is distributed. GNP measurements, unfortunately, do not register social satisfaction.

Here the second part of the old strategy comes in, which argues that income distribution is a subsequent consideration. If there are more material goods and services in the system, they can always be redistributed in such a way as to create more social satisfaction. This is simply not true. And it is important that this line of reasoning be rejected, since it has done considerable damage already.

It is not true for at least the following three reasons:

- Poor societies often have very poor means of redistributing income. The coverage of the fiscal systems is generally very limited. Even when income distribution is extremely skewed, it is difficult to reach through direct taxation. To illustrate, even if 60 per cent of income accrues to 20 per cent of the population in India, this still implies an average *per capita* income level of $300 for the 'rich' which is below the income tax exemption limit of $400. In other words, income transfers from one sector to the other can be arranged only to a very limited extent in poor societies through the taxation machinery.
- Income flows are not financial: they are in the form of physical goods and services. They are influenced by the initial distribution of income. If the society has increased its income in the form of luxury housing and motor cars, how do you really convert it into low-cost housing and public buses, short of their physical take-over by the poor?
- The institutions which create growth are not neutral as to its distribution. Thus if the growth institutions are characterized by wide disparities in land holdings and concentrations of industrial wealth, the process of growth will strengthen them further and they will resist and frustrate all future attempts to take away their powers and privileges through orderly reforms. This is essentially what happened in Pakistan in the 1960s.

The new development strategy, therefore, must reject the thesis that poverty can be attacked *indirectly* through the growth rates filtering down to the masses. It must be based on the premise that poverty must be attacked *directly*.

What are the elements in such a direct attack on mass poverty? It is difficult to say at this stage since the developing countries are only beginning to perceive this problem in a new perspective. But let me mention a few elements which are critical:

- To start with, the focus should shift to the poorest 40–50 per cent in society. Who are they? How numerous they are? How have their living standards behaved over time? Let us find out a little more, even at this late stage, about the problem we set out to tackle about twenty years ago.
- In planning national production targets, the basic minimum needs of these poor should be taken into account, irrespective of whether they can express them in the market or not. In other words, market demand—which is so largely influenced by existing income distribution—should be rejected explicitly in favour of fixing national comsumption and production targets on the basis of minimum human needs. We have been slaves of the concept of market demand for too long. But the concept of market demand mocks poverty or plainly ignores it, since the poor have very little purchasing power.
- It follows that the problem of development must be redefined as a selective attack on the worst forms of poverty. Development goals should be expressed in terms of the progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. Social indicators must be developed and progress of plans must be measured in terms of specific and quantitative goals in these fields and not in terms of average *per capita* income. We were taught to take care of our GNP, since this would take care of poverty. Let us reverse this and take care of poverty first, since GNP can take care of itself, for it is only a convenient summation, and not a motivation, for human efforts.
- It also follows that the concerns for more production and better distribution should be brought together and not treated separately. This invariably means that employment should be treated as a primary, not a secondary, objective of development since it is the most powerful means of redistributing income in a poor society. Capital should not be concentrated in a small modern sector, enjoying high productivity and savings, but spread thinly over a wide segment of the economy—through public works programmes, if necessary, and even at the risk of lowering the average productivity of labour and lowering the future rate of growth. The poor societies have to face this choice squarely. They have a limited amount of capital. They can either raise substantially the productivity of a small part of the labour force in the modern sector while leaving a large part unemployed or settle for a lower average productivity but full employment. Again, it appears to me that Communist China made the second choice and has, therefore, been able to achieve full employment and

equitable income distribution at a relatively low level of *per capita* income.

But can such a strategy of development be conceived and implemented in the present political and economic structures in the developing countries? And here we come to the second of the disastrous decisions—the choice of the mixed economy. In most cases, such a choice has combined the worst, not the best, features of capitalism and socialism. It has often prevented the developing countries from adopting honest-to-goodness economic incentives and using the free functioning of the price system to achieve efficiency in a capitalistic framework, if not equity. In reality, there have been too many inefficient administrative controls and price distortions. At the same time, the choice of the mixed economy has prevented these societies from pursuing their goals in a truly socialistic framework, since mixed economy institutions have often been more capitalistic than not. The end result, therefore, has often been that they have fallen between two stools, combining weak economic incentives with bureaucratic socialism. Neither the ends of growth nor equity are served by such confusion in social and political objectives within the framework of a mixed economy.

My own feeling is that the days of the mixed economy are numbered. The developing countries will have to become either more frankly capitalistic or more genuinely socialist. The capitalistic alternative is workable only in those situations where the society is willing to accept income inequalities over a long period of time without exploding or where extremely high growth rates (10 to 15 per cent) can be financed with a generous inflow of resources from Western friends. Otherwise, the only alternative is a genuinely socialist system, based on a different ideology and a different pattern of society. But this does not mean bureaucratic socialism or post-box socialism; it means a major change in the political balance of power within these societies and drastic economic and social reforms. Whether the developing countries can manage such a change without violent revolutions is a critical question of our time.

And now let me turn briefly to the third disastrous decision—the dependence on foreign assistance. Let me make it quite clear that I am one of those who has always believed in economic liberalism and in a genuine partnership between the developed and the developing countries. But the sorry record of foreign assistance in the last two decades is beginning to convince me, as it has convinced many of my liberal colleagues, that the developing world would have been better off without such assistance. Unfortunately, I do not have the time to go into the early origins of foreign assistance, its changing motivations and its present plight, but let me offer a few observations quite baldly without elaboration.

- The level of foreign assistance that is required for a meaningful change in the developing countries over a short period of a decade or so through the growth-rate route is at least 4 to 5 times the present level of $7 billion. The developed countries have neither the will nor the imagination to offer such assistance.
- The present levels of assistance are only of a marginal significance for the developing countries and come with so many project conditions, country tying, foreign consultants and technology, and irritating debt problems that they sap the initiative and freedom of action of the developing world.
- The developing countries must regard foreign assistance as an undependable residual in their total planning effort and turn their energies to internal institutional changes that are required for creating a different economic and social order, based on egalitarianism and a second-best standard of living.
- In the international field, the developing countries should organize their 'poor power' to wring major concessions from the rich nations and to arrange for a genuine transfer of resources. Since the rich nations are going to shrink in the next few decades to less than 10 per cent of the total world population with over 70 per cent of world income, the poor will be numerous enough and annoyed enough to organize such an effort.
- One element in such a confrontation will be to serve notice to the developed nations that the developing countries cannot pay their present foreign debt of $60 billion and that the world community must make arrangements for its orderly cancellation.
- Another element will be to exploit their collective bargaining power in their negotiations with the rich. Recently, oil negotiations under OPEC are expected to yield $20 billion of additional revenues to the oil producing countries by 1980. Similarly, if the developing countries can exploit the current concern about the depletion of non-renewable resources and agitate for a 10 per cent tax on consumers of these minerals, they could collect as much as $30 billion over this decade for a common international development fund. Again, they can stake their claim to the commonly-held resources of mankind, like oceans and space, and start demanding that 80 per cent of the proceeds from the exploitation of such resources should go to them on the basis of world population.

What I am trying to convey here is the emerging mood in the developing countries rather than my own deeply held beliefs. I am not an apostle of confrontation, nor am I prepared to forsake my own liberalism. But I think it is important that we realize that liberalism cannot survive in an illiberal world. The developing countries are passing through a very dark and ugly mood. They are questioning all the assumptions on which they based their early development strategy. I cannot predict what may come out of this re-examination. But if I have to make any guesses today, I would expect that economic development in the next few years will be increasingly based on a new strategy embodying a direct attack on mass poverty, a genuine turn towards socialism and a far greater degree of self-reliance. This is the new manifesto that most developing countries are trying to articulate. But there is a wide gap between articulation and implementation, between dim perception and real action. The future of the developing world will turn on how far this gap can be bridged without violent political explosions.

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May 21, 1973

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May 15-18, 1975

TOWARDS A NEW PLANETARY BARGAIN

Mahbub ul Haq
Director
Policy Planning & Program Review Department
World Bank
Washington, D.C.

[This paper is based on my remarks made in the opening and closing sessions of the Conference.]

TOWARDS A NEW PLANETARY BARGAIN

(Mahbub ul Haq)

No more than one hundred days remain before the rich and the poor nations meet in the Seventh Special Session of the U.N. General Assembly to discuss the establishment of a New International Economic Order. I find it distressing that so little preparation has been done so far on the specific contents of a new Planetary Bargain or on the process of serious negotiations within the U.N. framework. Conferences can seldom produce decisions unless they have been quietly reached in advance. And so far as we know, there are no quiet background efforts at present to reach preliminary understandings and a political consensus on the nature and form of the negotiations between the rich and the poor nations.

If history is to be our guide, I believe that we may well be on the threshold of an historical turning point. On the national level, such a turning point was reached in the 1930's, when the New Deal elevated the working classes to partners in development and accepted them as an essential part of the consuming society. On the international level, we still have not arrived at that philosophic breakthrough when the development of the poor nations is considered an essential element in the sustained development of the rich nations and their interests are regarded as complementary and compatible, not conflicting and irreconcilable. And yet we may be nearing that philosophic bridge.

However, if we are to cross this bridge, the rich nations must place the current demands of the Third World in their proper historical perspective, agree on a strategy of serious negotiations, help crystalize certain negotiating areas and principles and determine the negotiating forums where mutually beneficial agreements can be thrashed out. It is in this spirit that I would like to offer a few concrete suggestions.

Perspective

It is important that the current demand of the developing countries for a New International Order is perceived in its correct perspective:

Firstly, the basic objective of the emerging trade union of the poor nations is to negotiate a new deal with the rich nations through the instrument of collective bargaining. The essence of this new deal lies in their obtaining greater equality of opportunity and in securing the right to sit as equals around the bargaining tables of the world. No massive redistribution of past income and wealth is being demanded: in fact, even if all the demands are added up, they do not exceed about 1% of the GNP of the rich nations. What is really required, however, is a redistribution of future growth opportunities.

Secondly, the demand for a New International Economic Order should be regarded as a movement, a part of an historical process, to be achieved over time, rather than in any single negotiation. Like the political liberation movement of the 1940's and the 1950's, the movement for a new economic deal is likely to dominate the next few decades and cannot be dismissed casually by the rich nations.

Thirdly, whatever deals are eventually negotiated must balance the interests of the rich and the poor nations. The rich nations have to carefully weigh the costs of disruption against the costs of accommodation and to consider the fact that any conceivable cost of a new deal will be a very small proportion of their future growth in an orderly, cooperative framework. The poor nations have to recognize that, in an interdependent world, they cannot hurt the growth prospects of the rich nations without hurting their own chances of negotiating a better deal.

Strategy

The international community must also move quickly to develop a negotiating strategy with a view to:

(a) reach an agreement before the U.N. Special Session that serious negotiations are acceptable on all elements of a New International Economic Order the rich nations should declare their willingness to enter into such negotiations within the U.N. framework and the poor nations should accept the fact that the Special Session can merely begin the process of negotiation, not establish a new order;

(b) narrow down the areas of negotiation to manageable proportions in the first instance and to select the priorities fairly carefully so that the dialogue can move from the least divisive to the more difficult issues in a step-by-step approach;

(c) develop and agree on certain negotiating principles as an umbrella for future discussions: while detailed negotiations may have to proceed on a case-by-case basis, negotiation of an overall umbrella is absolutely essential in the first instance if the advantage of collective bargaining is to be retained;

(d) formulate specific proposals for implementation: these proposals should bring out various alternatives and their implications for each side; and

(e) determine the negotiating forums through which agreements can be reached on these proposals in a specified period of time.

Negotiating Principles

Let me try to illustrate in a few critical areas how the international community can move towards the formulation of certain negotiating principles.

(a) International Trade

What is really wrong with the present order from the point of view of the poor nations?

First, the exports of about twelve major primary commodities (excluding oil) account for about 80% of the total export earnings of the developing countries. The final consumers pay over $200 billion for these commodities and their products while the primary producers obtain only about $30 billion, the middle-men enjoying most of the difference.

Second, the export earnings from these commodities fluctuate violently at times.

Third, the purchasing power of these primary exports keeps declining in terms of manufactured imports.

Fourth, the manufactured exports of the developing countries often face tariffs and quotas in the industrialized countries and constitute only about 7% of world manufactured exports.

In order to improve this situation, at least certain negotiating principles can be articulated in the first instance:

(i) producing countries must get a higher proportion of the final consumer price for their primary commodities. The present marketing and price structure should be examined to determine whether a better return to producers can be ensured by further processing of primary commodities, reduction of present imperfections in the commodity markets and squeezing of middle-men's profits, organization of their own credit and distribution services, etc.;

(ii) a better deal on primary commodities must be obtained first <u>before</u> efforts at price stabilization or indexing - as in the case of oil - since stabilization of present low earnings will not achieve much. Possibilities of establishing an international commodity bank should be considered both to improve the present deal and to stabilize it;

(iii) the consuming countries must be given long-term assurances of security of supplies, without any deliberate interruptions or embargoes;

(iv) producers' associations in primary commodities should be accepted as legitimate instruments of collective bargaining to offset the considerable concentration of economic power at the buying end at present;

(v) present restrictions in the industrialized countries against the manufactured exports of the developing countries should be relaxed and intra-developing country trade in these manufactures expanded with a view to increasing the present share of the developing countries in world manufactured exports.

(b) International Monetary System

Let us review the situation in another key area - the present monetary system - from the point of view of the developing countries.

As Professor Triffin has convincingly argued in his paper, international liquidity is largely created by the national decisions of the richest industrialized nations as their national reserve currencies (e.g. dollar, sterling) are in international circulation. During 1970-74, international decisions on SDRs accounted for only 9% of the total international reserve creation: even these decisions are primarily dictated by the needs of the rich nations. Not surprisingly, the developing countries obtained very little benefit from the creation of international liquidity: out of \$102 billion of international reserves created during 1970-74, the developing countries received \$3.7 billion or less than 4%. As in any banking system, the poor get little credit.

As such, negotiating principles in this area will have to include the following:

(i) national reserve currencies should be gradually phased out and replaced by the creation of a truly international currency - like the SDRs - through the deliberate decisions of the IMF;

(ii) the volume of this international liquidity should be regulated by the IMF in line with the growth requirements in world trade and production, particularly to facilitate such growth in the developing countries;

(iii) the distribution of this international liquidity should be so adjusted as to benefit the poorest countries, especially by establishing a link between the creation of international liquidity (SDRs) and long-term assistance;

(iv) in order to carry out these reforms, the present voting strength in the IMF should be changed to establish a near parity between the developing and the developed countries.

(c) International Resource Transfers

Let me take my last example from another area of constant controversy between the rich and the poor nations - the present "aid" order. Now what is really wrong with it from the point of view of the developing countries?

First, the present resource transfers from the rich to the poor nations are totally voluntary, dependent only on the fluctuating political will of the rich nations.

Second, some sort of an international "deal" was made by the rich nations by accepting a target of 1% of GNP (with 0.7% in ODA) but in actual practice the ODA has declined to 0.3% in 1975.

Third, not enough attention has been paid to the terms of international resource transfers so that the developing countries have accumulated by now over $120 billion in financial debt whose servicing takes away about one-half of fresh assistance every year.

If a negotiated framework for international resource transfers is to emerge, we must make a fresh start on a number of fronts:

(i) an element of automaticity must gradually be built into the international resource transfer system - e.g. through SDR link with aid, certain sources of international financing such as royalties from ocean-bed mining, tax on non-renewable resources - so that these transfers become less than voluntary over time;

(ii) the focus of international assistance must shift to the poorest countries and, within them, to the poorest segments of the population. As such, this assistance should be mainly in the form of grants, without creating a reverse obligation of mounting debt liability at a low level of poverty;

(iii) international assistance should be linked in some measure to national programs aimed at satisfying minimum human needs. Such a target for the removal of poverty can be easily understood in the rich nations; it can be the basis of a shared effort between the national governments and the international community; it provides an allocative formula for concessional assistance; and it establishes a specific time period over which the task should be accomplished;

(iv) one possible formula for international burden sharing could be to combine an expanding volume of financial funds at commercial rates from the liquidity-surplus OPEC members with the availability of subsidy funds from the industrialized countries and the richest OPEC countries. Such a formula is likely to provide resources at intermediate terms, with a grant element of about 50 to 60%;

(v) multilateral channels should be used for directing this assistance in preference to bilateral channels since this will be consistent with greater automaticity of transfers, allocations based on poverty and need rather than on special relationships, and a more orderly system of burden sharing;

(vi) arrangements must be made to provide a negotiating forum for an orderly settlement of past debts, possibly by reviving the Pearson Commission proposal to convene a conference of principal creditors and debtors.

****

It is not possible in the time available to attempt a concrete blueprint of a new Planetary Bargain that the poor nations seem to be seeking at present. My intention was merely to illustrate a more positive approach towards reaching such a bargain in the Special U.N. Session. I believe that the report of the Expert Group on the Restructuring of the United Nations is aimed at providing sensible negotiating forums within the U.N. framework for an orderly dialogue on the elements of a New Economic Order. It is time, therefore, to descend to a more specific level of preparation in the remaining one hundred days before the U.N. Session opens in September. This can be done. Technocratic proposals are easy to formulate. But what is really required for the success of these deliberations is political vision of an unprecedented nature which is inspired by the promise of the future, not clouded by the controversies of the past nor mired in the short-run problems of the present.

filed: HAQ

FORM No. 155.01 (3-70) INTERNATIONAL DEVELOPMENT ASSOCIATION — INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT — INTERNATIONAL FINANCE CORPORATION

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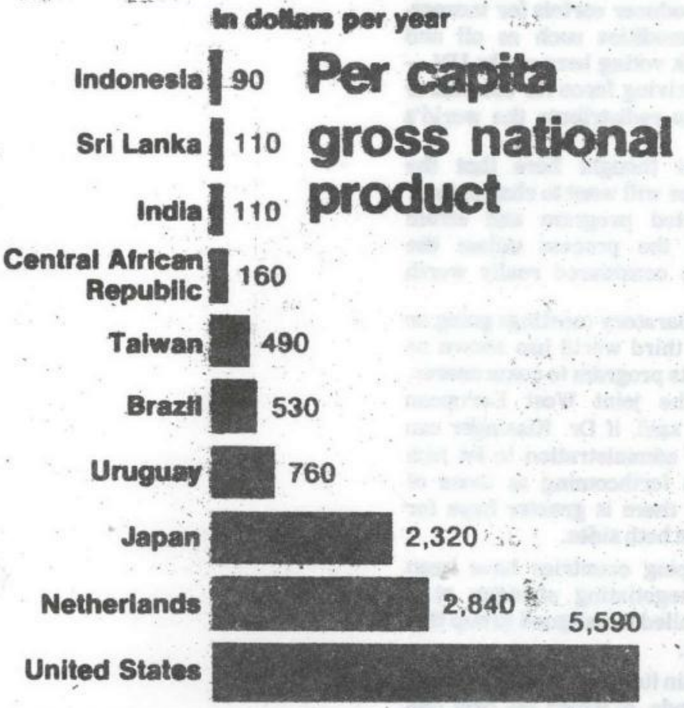

Source: 1974 World Bank Atlas (1972 figures)

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UN facing too high a hurdle?

Development session outcome in doubt

By David Anable
Staff correspondent of
The Christian Science Monitor

United Nations, New York

The world is about to go through another brief but highly publicized phase in the long and complex process of readjusting its economic relationships.

But whether the United Nations Special Session on Development Cooperation (UNSSDC), which opens here Sept. 1, plays a real or a merely rhetorical role in this historic adjustment is still very much an open question.

With only a few days to go, all sorts of matters of procedure and fundamental principle remain unresolved. As a result, some pessimistic Western diplomats say privately that "it will be little short of a miracle" if any really constructive compromises emerge from the current confusion.

However, other more optimistic diplomats still hope that the session will produce some fairly precise commitments — at least on how and where negotiations on specific topics where agreement is possible can continue.

Two points are seen here as crucial:

• How much can Henry Kissinger follow through on his promise earlier this year to put forward concrete American proposals? The Secretary of State's speech here Sept. 1 is eagerly awaited. It could prove the making or breaking of the session.

• How much can or will the numerous countries of the developing world modify their present joint negotiation stance? For them to compromise in any one area would risk collapsing their whole delicately balanced and painstakingly negotiated unanimity.

This "third world" solidarity — evidenced in the growth of producer cartels for increasingly scarce commodities such as oil and bauxite and in block voting here at the UN — has provided the driving force for the poorer countries' efforts to redistribute the world's wealth.

Hence, it is not thought here that the developing countries will want to change their carefully constructed program and strain their cohesion in the process unless the potential gains are considered really worth while.

Up to now in preparatory meetings going on privately here the third world has shown no signs of adjusting its program to come nearer, for instance, to the joint West European position. But, it is said, if Dr. Kissinger can persuade the Ford administration to let him make proposals as forthcoming as those of West Europe, then there is greater hope for real give and take on both sides.

About 80 developing countries have been discussing their negotiating strategy at a meeting of the so-called nonaligned group this week in Lima, Peru.

There are five main items on the UN seventh special session agenda, of which the first two are considered most important:

1. Trade with special focus on stabilizing (and, producers would add, increasing) commodity prices.

2. Development financing, including aid, debt burdens, and international monetary reform.

3. Ways of transferring to developing countries essential scientific and technological skills.

4. Methods of promoting industrialization and investment in developing countries.

5. Supply of food and encouragement of local agriculture.

Another item, on a slightly different tack, is the restructuring of the UN's own economic and social structure.

The aim of the West Europeans, which they hope also will prove to be the aim of the United States, is to select for discussion areas where progress is really possible — "the sensible but not the silly ones," as one Western diplomat put it.

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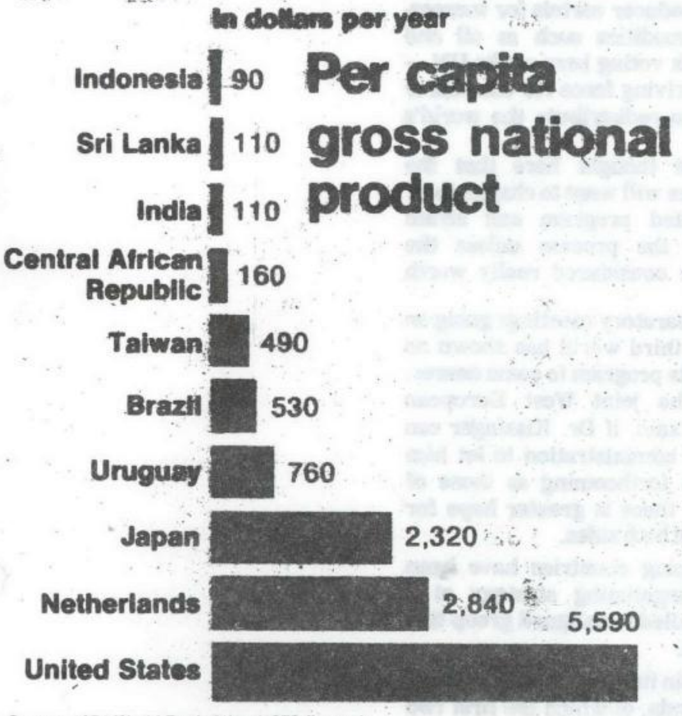

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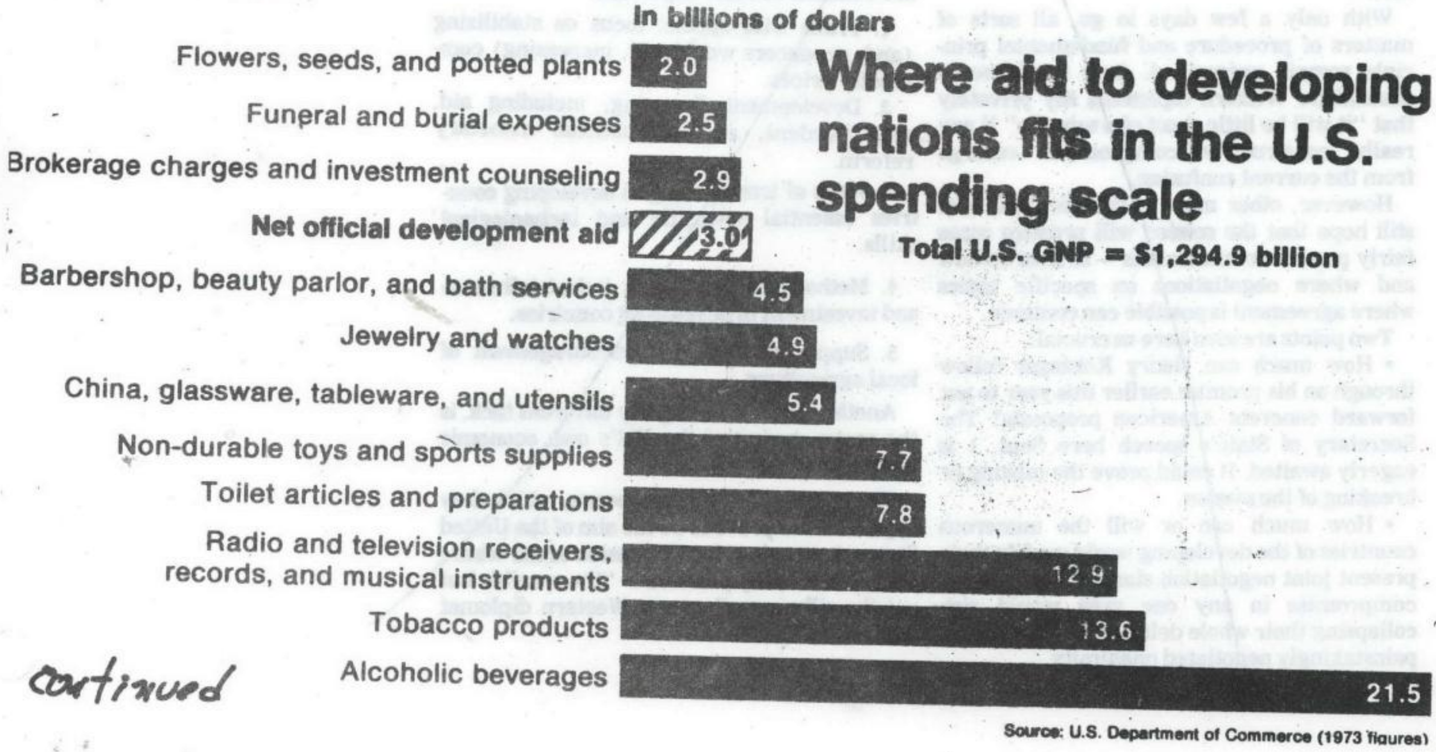

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continued

By Mahbub ul Haq

The vastly unequal relationship between the rich and the poor nations has already become the central issue of our time.

The poor nations are increasingly questioning the basic premises of an international order which leads to ever widening economic disparities. They are, in fact, arguing that in international order — just as much as within national orders — all distribution of benefits, credits, services, and decisionmaking tends to get warped in favor of a privileged minority and that this situation cannot be changed except through fundamental reforms. This underlies their demand for "a new international economic order."

The rich nations, on the other hand, appear to misinterpret this demand. They tend to look suspiciously at each plea for a new economic order as yet another ploy to wring some specific "concessions" from them.

This is clearly wrong. The poor nations are not criticizing the rich nations because they are rich and because three-quarters of the world's income, investment, and services, and most of the world's research, are in the hands of one-quarter of its population. Nor are the poor nations asking for a massive redistribution of existing income and wealth.

What they are really arguing for is a greater equality of opportunity in the future, which is impossible to achieve within the present economic imbalances and the existing world structures which favor the rich nations.

An inherent imbalance

Before there are screams of protest, one must also hasten to add that there is nothing deliberate or conspiratorial about this denial of equality of opportunity either: It is inherent in the past imbalances in economic power. It is pointless, therefore, for the poor nations to allege that the rich exploit them deliberately or for the rich to protest that the existing international system works equally well for the poor and the rich nations.

In fact, it would require deliberate intervention in the market and an active restructuring of existing institutions to ensure that past imbalances do not continue to distort future opportunities for the poor nations.

Let us take a few concrete examples to illustrate how the present world order systematically discriminates against the poor nations:

• The international credit system. Poor nations, with 70 percent of the world population, received less than 4 percent of the international credit of $126 billion in the last two decades. This happened simply because the rich nations controlled the creation and distribution of international credit through the expansion of their own national reserve currencies (mainly U.S. dollars and British sterling) and through their decisive control over the International Monetary Fund. There was nothing unusual about this either. In any normal national banking system, the poor get very little credit unless a concerned government chooses to intervene on their behalf.

• Trading patterns. Developing countries, unlike the developed ones, get back only about 10 percent of the final price that consumers in the international market pay for their produce, simply because many of them are too poor or too weak to exercise any meaningful control over the processing, shipping, and marketing of their primary exports.

The final consumers pay over $200 billion for the major primary exports (excluding oil) of the developing countries, but these countries get back only $30 billion, with middlemen — mostly in the rich nations — enjoying the difference.

If the poor nations had been able to exercise the same degree of control over the processing and distribution of their exports as the rich nations presently do and get back a similar proportion of the final consumer price, their export earnings from their primary commodities would be closer to $150 billion than the present $30 billion.

Again, there is a parallel here between national and international orders: Within national orders as well, the poor receive only a fraction of the rewards for their labor and lose out to the organized, entrenched middlemen unless governments intervene.

• Movement of labor and capital. The rich nations are making it impossible for the free international market mechanism to work since it would work against their own interests. In the classical framework outlined by 18th-century Scottish political economist Adam Smith, the cornerstone of the free market mechanism is a free movement of labor and capital as well as of goods and services so that rewards to factors of production are equalized all over the world.

In fact, world inequalities cannot persist in such a framework. Yet immigration laws in almost all rich nations make it impossible for any large-scale movements of labor in a worldwide search for economic opportunities (except for a limited "brain drain" of highly skilled labor). And additional barriers are going up against the free movement of goods and services.

The rich nations, for instance, spend about $30 billion in farm subsidies alone to protect their agriculture. They impose progressively higher tariffs and quotas against the simple consumer goods exports of the developing countries, like textiles and leather goods.

Save

The rich, in other words, are drawing a protective wall around their life-styles, telling the poor nations that they can neither compete with their labor nor with their goods, while paying handsome tributes at the same time to the "free" workings of the international market mechanism.

• Decisionmaking councils of the world. The poor nations have only a *pro forma* participation in international economic decisionmaking. Their advice is hardly sought when the big 10 industrialized nations get together to take key decisions on the world's economic future; their voting strength in the World Bank and the International Monetary Fund is less than one-third of the total; and their numerical majority in the United Nations General Assembly has meant no real influence so far on international economic decisions since the "coerced," in the curious terminology used recently by Henry A. Kissinger for the rich nations, "are under no compulsion to submit."

One can go on documenting such evidence where unequal economic relationships have led to a denial of economic opportunities to the poorer nations, but the basic point is already made: In international order, just as within national orders, initial poverty itself becomes the most formidable handicap in redressing such poverty unless there is a fundamental change in the existing power structures.

Other areas of loss identified

In this context, a net transfer of about $7 billion of official development assistance to the poor nations every year is neither adequate nor to the point: The quantitative "loss" implicit in maldistribution of international credit, inadequate sharing of benefits from the export of their natural resources, and artificial restrictions on the movement of their labor and goods and services would easily amount to $50 billion to $100 billion a year. More pertinently, the poor nations are seeking greater equality of opportunity, not the uncertain generosity of the rich.

The demand for a new international economic order must be seen, however, in its proper historical perspective. On one level of reasoning, it is a natural evolution of the philosophy already accepted at the national level: that governments must actively intervene on behalf of the poorest segments of their populations (the bottom 40 percent) who will otherwise be bypassed by economic development.

On yet another level the search for a new economic order is a natural second stage in the liberation of the developing countries. The first stage was marked by movements of political liberation from the 1940s to the 1960s; the second stage constitutes a struggle for not only political but economic equality, since the former is unattainable and meaningless without the latter.

The demand for a new international economic order must be seen, therefore, as part of an historical process.

What are the more specific elements in this new economic order? What are the concrete proposals which should be included in a negotiating package?

The first requirement obviously is for the rich nations to agree that there is a need to negotiate and to declare their willingness to do so through orderly forums, both within and outside the United Nations. If we cross this philosophic bridge, it is possible to move on to the negotiating table, starting with certain overall principles and proceeding in a step-by-step approach from the least divisive issues to the more difficult ones. The upcoming special session of the UN General Assembly in September can initiate this process of orderly negotiations by agreeing on a specific agenda and certain negotiating principles which can be followed up in appropriate and managable negotiating forums.

Areas for agreement

I believe that any meaningful restructuring of the world order will have to include an agreement at least on the following aspects:

• Revamping of the international credit system by phasing out national reserve currencies and replacing them by an international currency to be managed by a restructured International Monetary Fund, particularly in the interests of the developing countries.

• Gradual dismantling of restrictions in the rich nations on the movement of goods and services and labor from the poor nations.

• Enabling the developing countries to obtain more benefit from the exploitation of their own natural resources by their establishing a greater control over various stages of primary production, processing and distribution.

• Partially automating international resource transfers by linking them to some form of international taxation so that they do not entirely depend on the fluctuating political will of the rich nations.

• Negotiation of agreed principles between the principal creditors and debtors for an orderly settlement of past debts.

• And restructuring of the United Nations to give it more powers for economic decisions and increase in the voting strength of the poor nations within the World Bank and the International Monetary Fund.

This is a formidable package. Is it possible to negotiate it through an orderly dialogue which seeks to balance the interests of the rich and the poor nations? I believe that it is at least worth a try since the long-term interests of both sides are mutually compatible.

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World Bank

F – Haq speeches

News Service of the Department of Information and Public Affairs

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- ☐ THE TIMES
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For the Record

From a lecture given in Guyana by Mahbub Ul Haq, director of policy planning and program review for the World Bank:

If we are going to opt for negotiations in our search for a New International Economic Order, it is essential that whatever proposals we formulate must balance the interests of both rich and poor nations. It is easy to formulate partisan positions. But we live in an interdependent world. If we are to live without major confrontations, we should think of proposals which, while benefitting the Third World, do not hurt the interests of the world as a whole....

Let me give you some examples. We need higher prices for our raw materials. The rich countries need an assurance of stable supplies of raw materials. There can be an international bargain where the higher prices of raw materials can be negotiated in return for assurances on longer term supplies.

Similarly, we want from the multinational corporations renegotiation of our contracts and far more favorable sharing of benefits than we received in the past. The multinationals at the same time are looking for an environment of greater certainty within which they can operate on a longer-term basis. It should be possible to evolve arrangements which balance the interests of both sides.

Again, take the question of voting rights in international financial organizations. The Third World needs a major representation in these institutions. But, at the same time, it should not press it to a point where the rich nations lose interest in these institutions or withdraw their financing....

I know that this will not satisfy many radicals. I realize that some of these solutions are too rational. But in the long run this is the only practical course.

Fil Haq "speech"
15

World Bank

News Service of the Department of Information and Public Affairs

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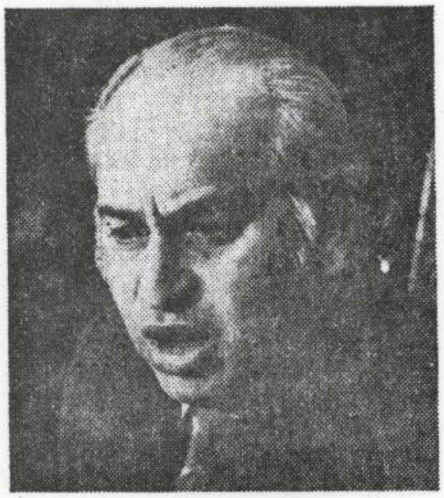
- [ ] THE JOURNAL OF COMMERCE
- [ ] THE TIMES
- [ ] THE FINANCIAL TIMES
- [ ] THE GUARDIAN
- [ ]

The 'Abuses' of Pakistan's Bhutto



Your editorial of April 22 ("A Senseless Slap at Pakistan") is a most outrageous defense of a totally defenseless position. You argue that "the tear gas shipments (from U.S.) should be promptly resumed" to Pakistan since Pakistan is "a good friend" and Mr. Bhutto has been "creditied with genuine achievements," including "pushing development forward and, yes, enhancing human rights." What perverse logic! If this is how the Americans are going to show their friendship to us, we Pakistanis are certainly better off without it.

Let us take up the question of human rights, which is what the struggle is all about in the streets of Pakistani cities. People are dying every day protesting that Bhutto has unsurped their democratic rights and political freedoms. If you seriously believe that he has, in fact, enhanced the human rights of his ungrateful people, why not undertake a little investigation:

- Why not check with Bhutto's former political allies who ran afoul of him—J. Rahim, his closest comrade, who was brutally beaten up by Bhutto's federal security force; or Hanif Ramay, his former Chief Minister of Panjab, who is being tortured in prison today; or many others.
- Why not visit Pakistani prisons, which are overcrowded with political prisoners held without trial?
- Why not ask your colleagues in the Pakistani press who have not been able to write a single critical comment in three years without risking imprisonment?
- Why not ask the High Court judges and lawyers in Pakistan who have participated in unprecedented processions to protest the complete absence of constitutional rights in the country, and some of whom have fallen to the bullets of Bhutto's police?
- Why not interview the widows of those poor people who have died by the hundreds in the last six weeks for the crime of demanding new elections?

But you seem to suggest that elections were not rigged to begin with so that the entire present agitation may be misguided. I must say that you sound even more self-righteous than Bhutto himself who conceded "some rigging" by "overzealous officials" for which he disavowed personal responsibility. In fact, he offered to "negotiate" more seats with the opposition (an additional 30, according to foreign press reports), but the offer was rightly rejected as a travesty of free elections. Even his own captive election commission has already set aside six seats of his People's Party on charges of "blatant rigging." If this is not enough evidence for you, why not reflect a little on the phenomena of paralyzing nationwide labor strikes, daily protest marches and mass agitation in the very cities—particularly Lahore—that Bhutto's party claims to have completely swept in the polls? Do you seriously believe that people willingly voted Bhutto's party into power six weeks ago and then suffered a sudden lapse of memory to come out in the streets to demand Bhutto's resignation and to face his bullets?

MAHBUB UL HAQ

Chapter 10

Published in Beyond Dependency,
Overseas Development Council
September 1975

Negotiating a New Bargain with the Rich Countries

Mahbub ul Haq

If history is to be our guide, the world may well be on the threshold of a historical turning point. On the national level, such a turning point was reached in the United States in the 1930s, when the New Deal elevated the working classes to partners in development and accepted them as an essential part of the consuming society. At the international level, we still have not arrived at that philosophic breakthrough when the development of the poor nations is considered an essential element in the sustained development of the rich nations and when the interests of both rich and poor nations are regarded as complementary and compatible rather than conflicting and irreconcilable. And yet we may be nearing that philosophic bridge.

However, if we are to cross this bridge, the rich nations must place the current demands of the Third World in their proper historical perspective, agree on a strategy of serious negotiations, help crystallize certain negotiating areas and principles, and determine the negotiating forums where mutually beneficial agreements can be thrashed out. It is in this spirit that the following few concrete suggestions are offered.

Perspective

It is important that the current demands of the developing countries for a New International Economic Order be perceived in correct perspective.

NOTE: This paper is based on remarks made by the author at a Conference on New Structures for Economic Interdependence (co-sponsored by the Institute on Man and Science and the Aspen Institute for Humanistic Studies, the Overseas Development Council, and the Charles F. Kettering Foundation) held at the United Nations and at the Institute for Man and Science, Rensselaerville, New York, May 15-18, 1975. For the report of that conference, see *New Structures for Economic Interdependence* (Rensselaerville, New York: Institute on Man and Science, August 1975).

First, the basic objective of the emerging trade union of the poor nations is to negotiate a new deal with the rich nations through the instrument of collective bargaining. The essence of this new deal lies in the objective of the developing countries to obtain greater equality of opportunity and to secure the right to sit as equals around the bargaining tables of the world. No massive redistribution of past income and wealth is being demanded: in fact, even if all the demands are added up, they do not exceed about 1 per cent of the GNP of the rich nations. What is really required, however, is a redistribution of future growth opportunities.

Second, the demand for a New International Economic Order should be regarded as a movement—as part of a historical process to be achieved over time rather than in any single negotiation. Like the political liberation movement of the 1940s and the 1950s, the movement for a new economic deal is likely to dominate the next few decades and cannot be dismissed casually by the rich nations.

Third, whatever deals are eventually negotiated must balance the interests of both the rich and the poor nations. The rich nations have to carefully weigh the costs of disruption against the costs of accommodation and to consider the fact that any conceivable cost of a new deal would amount to a very small proportion of their future growth in an orderly, cooperative framework. The poor nations have to recognize that, in an interdependent world, they cannot hurt the growth prospects of the rich nations without hurting their own chances of negotiating a better deal.

Strategy

The international community must also move quickly to develop a negotiating strategy with a view to:

(a) Reaching agreement that serious negotiations are acceptable on all elements of a New International Economic Order. The rich nations should declare their willingness to enter into such negotiations within the U.N. framework, and the poor nations should accept the fact, in turn, that the meetings of 1975 have merely begun the process of negotiation;

(b) Narrowing down the areas of negotiation to manageable proportions in the first instance and selecting the priorities fairly carefully so that the dialogue can move from the least divisive issues to the more difficult ones in a step-by-step approach. Conferences can seldom produce decisions unless agreement has been reached quietly in advance. At present, such quiet efforts are needed to reach preliminary understandings and a political consensus on the nature and form of the negotiations between the rich and the poor nations;

(c) Developing and agreeing on certain negotiating principles as an umbrella for future discussions. While detailed negotiations may have to proceed on a case-by-case basis, negotiation of an overall umbrella is absolutely essential in the first instance if the advantage of collective bargaining is to be retained;

(d) Formulating specific proposals for implementation. These proposals should bring out various alternatives and their implications for each side; and

(e) Determining the negotiating forums through which agreements can be reached on these proposals in a specified period of time.

Negotiating Principles

It may be useful to focus on a few critical areas to illustrate how the international community can move toward the formulation of certain negotiating principles.

International Trade. What is really wrong with the present economic order from the point of view of the poor nations? First, the exports of about twelve major primary commodities (excluding oil) account for about 80 per cent of the total export earnings of the developing countries. The final consumers pay over $200 billion for these commodities and their products while the primary producers obtain only about $30 billion—with the middlemen enjoying most of the difference. Second, the export earnings from these commodities fluctuate violently at times. Third, the purchasing power of these primary exports keeps declining in terms of manufactured imports. Fourth, the manufactured exports of the developing countries often face tariffs and quotas in the industrialized countries and constitute only about 7 per cent of world manufactured exports.

In order to improve this situation, at least certain negotiating principles can be articulated in the first instance:

(a) Producing countries must get a higher proportion of the final consumer price for their primary commodities. The present marketing and price structure should be examined to determine whether a better return to producers can be ensured by further processing of primary commodities, reduction of present imperfections in the commodity markets, squeezing of middlemen's profits, and organization by the producing countries of their own credit and distribution services;

(b) A better deal on primary commodities must be obtained *before* efforts are made at price stabilization or indexing—as in the case of oil—since stabilization of present low earnings will not achieve much. Possibilities of establishing an international commodity bank should be considered, both to improve present earnings and then to stabilize them;

(c) The consuming countries must be given long-term assurances of the security of supplies, without any deliberate interruptions or embargoes;

(d) Producers' associations in primary commodities should be accepted as legitimate instruments of collective bargaining to offset the present considerable concentration of economic power at the buying end; and,

(e) Present restrictions in the industrialized countries against the manufactured exports of the developing countries should be relaxed, and intra-developing-country trade in these manufactures expanded with a view to increasing the present share of the developing countries in world manufactured exports.

International Monetary System. Let us survey the situation in yet another key area—the present monetary system—from the point of view of the developing countries.

As Professor Triffin has convincingly argued, international liquidity is largely created by the national decisions of the richest industrialized nations as their national reserve currencies (e.g., dollars, sterling) are in international circulation.[1] During 1970–1974, international decisions on special drawing rights (SDRs) accounted for only 9 per cent of the total international reserve creation: even these decisions are primarily dictated by the needs of the rich nations. Not surprisingly, the developing countries obtained very little benefit from the creation of international liquidity: out of $102 billion of international reserves created during 1970–1974, the developing countries received $3.7 billion, or less than 4 per cent. As in any banking system, the poor get little credit.

As such, negotiating principles in this area will have to include the following:

(a) national reserve currencies should be gradually phased out and replaced by the creation of a truly international currency—like the SDRs—through the deliberate decisions of the International Monetary Fund (IMF);

(b) the volume of this international liquidity should be regulated by the IMF in line with the growth requirements in world trade and production, particularly to facilitate such growth in the developing countries;

(c) the distribution of this international liquidity should be adjusted so as to benefit the poorest countries, especially by establishing a link between the creation of international liquidity (SDRs) and long-term assistance; and

(d) in order to carry out these reforms, the present voting strength in the IMF should be changed to establish a near parity between the developing and the developed countries.

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[1]See Robert Triffin, "The International Monetary System," in *New Structures for Economic Interdependence* (Rensselaerville, New York: The Institute on Man and Science, August 1975). Proceedings of a conference co-sponsored by the Institute on Man and Science and The Aspen Institute for Humanistic Studies, the Overseas Development Council, and the Charles F. Kettering Foundation.

International Resource Transfers. Another area of constant controversy between the rich and the poor nations—the present "aid order"—can serve as a final example. What is really wrong with it from the point of view of the developing countries? First, the present resource transfers from the rich to the poor nations are totally voluntary, dependent only on the fluctuating political will of the rich nations. Second, although a kind of international "deal" was made by the rich nations in accepting a target of 1 per cent of GNP, with 0.7 per cent in Official Development Assistance (ODA), to be transferred annually to the poor countries, in actual practice, ODA has declined in 1975 to 0.3 per cent for all member countries of the OECD's Development Assistance Committee (DAC) and to 0.2 per cent in the case of the United States. Third, not enough attention has been paid to the terms of international resource transfers, so that the developing countries have accumulated over $120 billion in financial debt whose servicing takes away about one half of new assistance every year.

If a negotiated framework for international resource transfers is to emerge, a fresh start needs to be made on a number of fronts:

(a) An element of automaticity must gradually be built into the international resource transfer system—e.g., through an SDR link with aid, certain sources of international financing such as royalties from seabed mining, and a tax on nonrenewable resources—so that these transfers become less than voluntary over time:

(b) The focus of international concessional assistance must shift to the poorest countries, and, within them, to the poorest segments of the population. As such, this assistance should be mainly in the form of grants, without creating a reverse obligation of mounting debt liability at a low level of poverty;

(c) International assistance should be linked in some measure to national programs aimed at satisfying minimum human needs. Such a target for the removal of poverty can be easily understood in the rich nations; it can be the basis of a shared effort between the national governments and the international community: it provides an allocative formula for concessional assistance: and it establishes a specific time period over which the task should be accomplished;

(d) One possible formula for international burden sharing could be to combine an expanding volume of financial funds at commercial rates from the liquidity-surplus members of the Organization of Petroleum Exporting Countries (OPEC) with subsidy funds made available by the industrialized countries and the richest OPEC countries. Such a formula is likely to provide resources on intermediate terms, with a grant element of about 50 to 60 per cent;

(e) Multilateral channels should be used for directing this assistance in preference to bilateral channels, since this will be consistent with greater automaticity of transfers, allocations based on poverty and need rather than on special relationships, and a more orderly system of burden sharing; and

(f) Arrangements must be made to provide a negotiating forum for an orderly settlement of past debts, possibly by convening a conference of principal creditors and debtors.

Conclusion

It is not the intention of this paper to attempt to prepare a concrete blueprint of a new "planetary bargain" that the poor nations seem to be seeking at present—a task that in any case would be impossible in the time available—but rather merely to illustrate a more positive approach toward reaching such a bargain. The report of the Group of Experts on the Structure of the United Nations System is aimed at providing sensible negotiating forums within the U.N. framework for an orderly dialogue on the elements of a New International Economic Order.[2] Technocratic proposals are easy to formulate. But what is really required for the success of the deliberations between rich and poor nations is political vision of an unprecedented nature that is inspired by the promise of the future, not clouded by the controversies of the past nor mired in the short-run problems of the present.

[2]Report of the Group of Experts on the Structure of the United Nations System, *A New United Nations Structure for Global Economic Cooperation*, U.N. Doc. No. E/AC.62/9 (New York: United Nations, 1975).

F- Haq speeches

7/12/77

LIMA: New President for Peru's Central Reserve Bank. Dr. German de la Melena has taken over as President of Peru's Central Reserve Bank in the latest episode of the nation's financial crisis. A decree in the official paper said he replaced Dr. Carlos Santisteban who was believed to have resigned. This is the second change in Peru's top economic and financial circles in less than a week. Walter Piazza resigned as Economy and Finance Minister last Wednesday after little more than 50 days in the job. Both changes came as Peru started negotiations for a standby credit from the IMF to cover its huge external debt. (RWBS)

KINSHASA: Belgium Interested in Helping Zaire. Belgian Foreign Minister Henri Simonet and Development Aid Minister Lucien Outers discussed the prospects of an international aid program for Zaire with Zairese leaders at the three-day meeting of the joint Belgian-Zairese Cooperation Commission which ended here last Sunday. In a joint communique, the two Belgian ministers expressed willingness to recommend that Belgium join with other countries in seeking how such an aid program could be worked out. (AFP)

PRESS REVIEW (Reuters World Bank Service) 7/12/77

LONDON: Observations put by Mahbub ul Haq of the World Bank at an international economic conference on "The Muslim World and the Future Economic Order" were prominently reported in the "Times" today.

Mahbub ul Haq, Director of the Policy Planning and Programs Review Department of the Bank, addressed the conference in London last week when he advocated a five-point "vision" to inspire the collective efforts of the Muslim world.

Dr. Mahbub told the conference five things were technically possible in the new ten years:

Next

1. Industrial transformation -- "the means are there -- especially in Egypt, Indonesia, Pakistan -- to produce most of the consumer goods that Muslim countries need, provided that production is geared to basic human needs.

2. Self-sufficiency food grain.
3. The Muslim world could have its own currency area.
4. A "tremendous investment" in education and science, which was the basis of value systems both national and international.
5. Attainment of "basic human needs", such as provision of minimum standards of nutrition, medical care, house housing and so on.

Interviewed by the "Times" Dr. Mahbub ul Haq pointed out that, according to figures given by the Development and Aid Committee of the OECD, Kuwait was already giving 10% of its GNP in aid and Saudi Arabia 7%, or 20 times the average figure for the OECD countries and 40 times that for the United States.

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The "Times" reported Dr. Mahbub ul Haq as saying the problem was not to get the oil exporting countries to accept the principle of sharing wealth, but to get them to consider the most effective ways of setting about it.

"My real frustration is that they are not being thought about. The Muslim countries need their own OECD, their own development centers," he said.

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The "Times" also commented editorially on the conference, convened by the Islamic Council of Europe, and said "that such a conference should be held is in itself interesting for several reasons.

"Islam, like Christianity, contains a message of human solidarity and concern for the poor and oppressed."

The editorial said: "How tempting it is to follow the vision sketched by Dr. Mahbub ul Haq of the World Bank, of a Muslim world in ten years' time self-sufficient in food grains, science and education, well on the way to manufacturing its own basic requirements and free from malnutrition and endemic disease. Dr. Mahbub, who has a high reputation as an economist, believes all these things are technically possible -- though he admits that two or three years of serious research and analysis are necessary before the project could be embarked on.

"Obviously, such a project would be distressing for the West if it meant that the Muslims were turning their back on the rest of the world -- as Dr. Mahbub's suggestion of a 'dinar zone' enabling OPEC surpluses to be invested within the Muslim world rather than in Western banks and institutions might at first sight seem to suggest. Yet it was clear it was not put forward in that spirit.

In conclusion, the "Times" said that if Muslim rulers wanted to rebut attacks of "ruthlessness and avarice" made against them by another Pakistani speaker at the conference "they could make a good start by financing the research and analysis proposed by Dr. Mahbub."

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~~The "Times" also issued a special survey of Kuwait's economic conditions and said if Kuwait can continue to develop its capital market and support skills, a city now known only for its power in oil riches could build a new reputation as a center of Middle East business affairs.~~

~~The introductory article in the "Times" survey described Kuwait's prospects for becoming "the Zurich of the Arab World."~~

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F-ul Haq

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FORM NO. 170
(3-76)

World Bank

News Service of the Department of Information and Public Affairs

This news item appeared on page 15 of the 12-July 77 issue of:

- ☐ THE NEW YORK TIMES
- ☐ THE WASHINGTON POST
- ☐ THE WALL STREET JOURNAL
- ☐ THE JOURNAL OF COMMERCE
- ☒ THE TIMES
- ☐ THE FINANCIAL TIMES
- ☐ THE GUARDIAN
- ☐

Third World report

A five-point 'vision' to inspire the Muslim nations

By Edward Mortimer

A five-point "vision" to inspire the collective efforts of the Muslim world was put forward in London last week by Dr Mahbub ul Haq, Director of the Policy Planning and Programme Review Department of the World Bank.

Dr ul Haq, a Pakistani, was speaking at an international economic conference on "The Muslim World and the Future Economic Order", organized by the Islamic Council of Europe. He gave five examples of things which he believed were technically possible in the next 10 years:

1. Industrial transformation. "The means are there—especially in Egypt, Indonesia, Pakistan—to produce most of the consumer goods that Muslim countries need, provided that production is geared to basic human needs".

2. Self-sufficiency in food grain. Sudan, Pakistan and Bangladesh could become not only self-sufficient but exporters and become the main suppliers of the Middle East.

3. The Muslim world could have its own currency area. The "dinar zone" was necessary because, at present, even the oil-exporting Muslim countries, with a combined surplus of \$40,000m-\$50,000m (£23,500m-£29,500m) a year, had very little real independence.

"The decisions are made by the commercial and central banks of the developed world. It is illusory to think that these resources are used by the countries which nominally own them. The United States Secretary of the Treasury or Mr Arthur Burns (Chairman of the Federal Reserve Board) are much more powerful, because the dollar is the international currency today."

4. A "tremendous investment" in education and science, which was the basis of value systems both national and international. "Why not a Muslim world foundation?" \$1,000m could be invested in setting up "institutes of excellence and intellectual ferment."

5. Attainment of "basic human needs", such as provision of minimum standards of nutrition, medical care, housing, literarcy, &c, could be achieved by an expenditure of \$5,000m a year.

Dr ul Huq, a Pakistani, elaborated in an interview with *The Times*. He pointed out that, according to figures given by the Development and Aid Committee of the Organization for Economic Cooperation and Develoment (OECD), Kuwait was already giving 10 per cent of its gross national product in aid, and Saudi Arabia 7 per cent, which was 20 times the average figure for OECD countries and 40 times that for the United States. Yet Saudi Arabia's per capita income was not any higher than that of the United States.

The problem, Dr ul Huq said, was not to get the oil exporting countries to accept the principle of sharing their wealth, but to get them to consider the most effective ways of setting about it. He admitted that each of the projects he had suggested would require two to three years' study before one could start putting them into action and that, on investigation, it turn out that not all of them were possible.

"My real frustration is that they are not being thought about. The Muslim countries need their own OECD, their own development centres. At the momen, these things are only studied in Western institutions", he said.

For instance, Professor Robert Triffin of Yale University was working on the idea of a dinar zone, but no Muslim Government had yet shown any interest in it.

"Often, the basic information is not available", he went on. "We need to start with information gathering, then move on to analysis of policy options. At the moment they are giving away \$8,000m to \$10,000m a year, but not investing even \$5m to \$10m in research and analysis."

Leading article, page 15

FORM NO. 170
(3-76)

World Bank

News Service of the Department of Information and Public Affairs

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This news item appeared on page 7 of the 12 July 1977 issue of:

☐ THE NEW YORK TIMES
☐ THE WASHINGTON POST
☐ THE WALL STREET JOURNAL
☐ THE JOURNAL OF COMMERCE
☒ THE TIMES
☐ THE FINANCIAL TIMES
☐ THE GUARDIAN
☐

RICHES AND POVERTY IN THE MUSLIM WORLD

All last week an international conference was in session at the Commonwealth Institute in Kensington High Street. It did not make many headlines, for it was not an inter-governmental conference and the participants had no mandate to take decisions. But they included such influential figures as the Saudi Arabian Planning Minister and the Secretary General of the Organization of Arab Petroleum Exporting Countries, as well as a number of distinguished economists and high officials from such bodies as the World Bank and the IMF.

What these people had in common was that they were Muslims, and the theme of the conference was "The Muslim World and the Future Economic Order". It was convened by the Islamic Council of Europe, which has its headquarters in London. That such a conference should be held is in itself interesting for several reasons. Islam, which claims some seven hundred million living adherents, is a world religion at least comparable in its influence to Christianity; and while Christianity is professed by the Western industrialised nations as well as the undernourished peasants and urban unemployed of Latin America, Islam is practised in all but one of the major oil-exporting countries as well as in some of the poorest of the poor (Bangladesh, South Yemen, Tanzania). Yet Islam, like Christianity, contains a message of human solidarity and concern for the poor and oppressed. To both creeds the co-existence of extremes of affluence and misery within the ranks of the faithful presents a serious challenge.

It is therefore meet, right and their bounden duty that Muslims, like Christians, should turn their attention in the late twentieth century to the problem of world economic development. In some respects the performance of the Muslim "rich" already puts that of the Christian "rich" to shame. According to OECD figures, Saudi Arabian official aid is equivalent to seven per cent of gross national product—a proportion twenty times higher than the average effort of OECD countries and forty times that of the United States. But Saudi Arabia's domestic per capita income has yet to overtake that of the United States. It is true that the lion's share of Saudi aid goes to other Arab and Muslim countries. But it is equally true that most Western aid reflects "special relationships" of one kind or another, with a strong political content (eg France to French-speaking African countries, the United States to Israel and Egypt), rather than a pure concern for economic development as such.

Yet it was clear at last week's conference that the Muslim have-nots (the most vocal of whom, at any rate in English—the conference's working language—come from Pakistan and Bangladesh) are by no means satisfied with the current efforts of the haves. A blistering attack on the "ruthlessness and avarice" of the Muslim ruling classes was made by Mr Altaf Gauhar, a former Chief Editor of the Karachi newspaper *Dawn*. "All the riches and the resources are in the hands of a few persons", he proclaimed, "The rest are left to struggle for survival.... It is futile to expect the present rulers, Presidents and Prime Ministers, Kings and Queens to change the present order. It is the people to whom the appeal must now be made directly, by passing all repressive national systems and arbitrary geographical barriers." One must suppose that he was gratified by the overthrow, on the very day he spoke, of the government of his own country (under which he had spent some months in prison). It would be interesting to know whether he regards the introduction by the new government of amputation as a punishment for theft as a step in the direction of a more truly Islamic social order. One hopes not.

Inevitably the suspicion lurks that this measure has been adopted in order to curry favour with Saudi Arabia (where this penalty is also still in use). If that is the direction in which Muslim solidarity is to operate, the world including the Muslim world would certainly be better without it. Yet how tempting it is to follow the vision sketched by another Pakistani speaker, Dr Mahbub ul Haq of the World Bank, of a Muslim world in ten years' time self-sufficient in food grains, science and education well on the way to manufacturing its own basic requirements, and free from malnutrition and endemic disease. Dr Mahbub, who has a high reputation as an economist, believes all these things are technically possible—though he admits that two or three years of serious research and analysis are necessary before the project could be ambarked on. Obviously such a project would be distressing for the West if it meant that the Muslims were turning their back on the rest of the world—as Dr Mahbub's suggestion of a "dinar zone" enabling OPEC surpluses to be invested within the Muslim world rather than in Western banks and institutions might at first sight seem to suggest. Yet it is clear that it was not put forward in that spirit. Muslim oil-producers would still need to sell oil to the West to finance the scheme, and their investment in Muslim developing countries could hardly fail to create important new markets for Western technology. Moreover if the Muslim world could really feed itself it would thereby make a major contribution to ending the worldwide food shortage.

If the Muslim rulers want to rebut Mr Gauhar's criticisms, they could make a good start by financing the research and analysis proposed by Dr Mahbub.

This is the complete version of the item which appear[illegible] in a previous issue of the Reuters Press Review.

files H

MAHBUB UL HAQ

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December 1972 - Finance & Development - "The Limits to Growth: A Critique" based on a World Bank analysis of The Limits to Growth, undertaken by a team of which Mr. Haq was chairman

Also: Report on The Limits to Growth. A study by a special Task Force of the World Bank. September 1972

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(reprinted in World Development Vol. 1 No. 7, July 1973)

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In Prospects for Partnership, edited by Helen Hughes, published by The Johns Hopkins University Press, Baltimore, 1973 - chapter, "Developing Country Alternatives," pp. 128-148.

Author: "The Strategy of Economic Planning: A Case Study of Pakistan" (1966)

Contributor: book: The World Bank Group, Multilateral Aid and the 1970's, by John Lewis and Ishan Kapur, 1973 - Lexington Books (Comment: The Transfer of Resources)

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Foreign Assistance: Some Critical Issues

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Lecture at McGill University
Spring of 1968

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Ottawa, May 17, 1971 " " "International ~~Finance~~ Development Review" 1971/4
Mr. Polanski Dilemma - Speech made at the State Department, February 18, 1970

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The Columbia-United Nations Conference on Development
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April 16, 1972

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Finance and Development Magazine - Vol. 9, No. 4
December 1972

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Seminar, World Bank, October 6, 1972 Pub'd in Prospects for Partnership, edited by Helen Hughes, Johns Hopkins University Press, Baltimore 1973 pp 128-148

CERES Artide: Facing up to what went wrong

FAO Magazine, Vol. 5 No. 6
November-December 1972

Pakistan's 22 Families

Published in "The Times" of London
March 22, 1973

Comment: The Transfer of Resources

Book: The World Bank Group, Multilateral Aid and the 1970's,
by John Lewis and Ishan Kapur, July 1973, Lexington Books

Development, Environment and the Third World

Speech delivered at the Washington Cathedral
April 10, 1973

Development and Independence

Speech delivered at the Dag Hammarskjold Seminar on "The Basic Principles of International Development Cooperation"
Stockholm, Sweden, November 12, 1973

Tied Credits, A Quantitative Analysis

Food Crisis is Manageable

Speech delivered at World Food Conference in Rome.
October 1974

A New Framework for International Resource Transfers

Contribution to Prof. Tinbergen's study on "Reviewing the International Order"

Towards a New Framework for International Resource Transfers

Article ~~to be~~ published in the ~~August~~ September 1975 issue of Finance and Development

The Third World Forum: Intellectual Self-Reliance

Article published in International Development Review magazine
Volume XVII, Number 1 - 1975/1

Towards a New Planetary Bargain

Article based on remarks made at the opening and closing sessions of the Rensselaerville Conference - May 15-18, 1975

The Washington Post

AN INDEPENDENT NEWSPAPER SUNDAY, APRIL 30, 1972 PAGE D6

On Tuesday, It's Washington's Turn at the Polls

For a remarkable number of Washington's registered voters, the most surprising news about the District of Columbia primaries is that they are suddenly fast upon us: The polls open at 8 a.m. Tuesday. After an unusually exhilarating round of elections in 1970 and 1971, the colony's politically handicapped but generally eager electorate is invited to yet another ballot-casting—but this time, even the most faithful voters seem baffled by the drill.

If you happen to be among the concerned-but-confused, you may take some comfort in the knowledge that many others are approaching the elections in the same fashion—determined not to forfeit their limited franchise, but darned if they know what we're voting for. In an attempt to assist those who rightly look to these events to further the cause of self-determination here, we offer an explanation of the exercise, along with a strong plea for participation.

For starters, you may have read or heard that under a law passed just last year, the District is holding its first presidential preference primaries in which the names of national presidential candidates could appear on the ballot, along with names of convention-delegate candidates committed to them. That's true—but it isn't what's happening. Neither Republicans nor Democrats are being offered the role that voters play in New Hampshire, Florida, Wisconsin, Pennsylvania, Massachusetts or other states. Because of actions taken by leaders in both local parties, voters here will be denied any direct expression of their presidential preferences.

In the GOP primary, this happens because a slate pledge to President Nixon was declared ineligible by the elections board. The board determined that 494 of the 1,442 signatures on nominating petitions "appeared to be forged." As a result, Republican convention delegates will be chosen by the candidates to be elected Tuesday to the D.C. Republican Committee. On this ballot, there's a slate of 78 candidates for 80 committee seats, with write-in votes permitted for the two extra slots—or for all of the seats.

The city's Republican primary does offer some formal contests, however. Incumbent GOP National Committeeman Carl L. Shipley is seeking re-election against Robert S. Carter, who has the local Republican committee endorsement this time. Alice Marriott is unopposed for the party's national committeewoman post, as are the candidates for

didate running in Washington would be putting in jeopardy his credibility with the 20 per cent of (the estimated Democratic) voters in this country that happen to be black."

Mr. Fauntroy has argued that his convention strategy would be to "expand the influence and the strength of Washington Democrats in the selection of a candidate" by linking the District's votes with those of other uncommitted delegates, to bargain for attention and commitment to the city's interests. To those who have questioned this move or objected to it as presumptuous, unnecessary or a violation of the spirit of Democratic party reforms, Mr. Fauntroy has replied that there is little or no value in national candidates appealing directly to the voters of this city.

He has depicted his opposition as coming from whites who fear that a black would use power against them, and from blacks filled with "self-hatred." Anyone who feels robbed because there is no opportunity to express a presidential preference is either "ignorant of the political facts of our leverage as a city . . . or dishonest in seeking to lead us to believe that influence exists," Mr. Fauntroy asserts. So Mr. Fauntroy is heading a convention delegate slate committed to him, until he and the slate members decide for the people who their favorite presidential candidate should be.

There is an opposition convention delegate slate, however, which is objecting to the favorite son tactic. While this ticket appears on the ballot as "uncommitted," the candidates have said they would vote for Sen. George S. McGovern (D-S.D.) and Rep. Shirley Chisholm (D-N.Y.) They argue that the people's right to vote for a presidential contender ought not to be sacrificed to a local party "boss" if political reform and self-determination are to materialize in this city. Members of this ticket include Mr. Fauntroy's former campaign manager, John A. Wilson, Catherine Boucree, Sophie Reuther and a number of other people who ran on a 1968 slate pledged to Robert Kennedy, including the Rev. Channing E. Phillips, Mary Lanier and the Rev. Richard T. McSorley.

For Democratic National Committeeman and Committeewoman, Mr. Fauntroy's ticket is running former City Council chairman John W. Hechinger and Lillian Huff. The Rev. John Little is running as an independent Democrat. Mr. Wilson and Mrs. Boucree are the Reform Committee candidates.

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the third world and the international economic order

Mahbub ul Haq

development paper 22 **september 1976**

The views expressed in this pamphlet are those of the author, and do not necessarily represent those of the Overseas Development Council, its directors, officers, or staff.

foreword

Mahbub ul Haq is a tireless and effective proponent of greater equality of opportunity for the peoples of the developing countries through a process of orderly change. He has a reputation for addressing with equal vigor the need for greater equality of opportunity *within* the developing countries as well as the need for greater equality *between* these states—frequently referred to as the "Third World" or the "South"—and the more advanced "First World" market economies and centrally planned or "Second World" economies of the Northern Hemisphere.

This development paper is based on five lectures given by Mahbub ul Haq in November 1975 as the second series of Turkeyen Third World Lectures to be delivered in Georgetown, Guyana.[1] The first series of lectures was given by the President of Tanzania, Julius Nyerere, in 1974. In introducing Mr. Haq at the start of the second series last year, the Prime Minister of Guyana, L.F.S. Burnham, characterized the Turkeyen lectures as follows:

> The significance and the importance of these lectures being held here in a Third World country and named, as they have been, *Third World Lectures*, lies in the fact that at last the Third World is making a statement to the world—a statement that we know what is best for us and that we are a little tired of patronage and tutelage; that we seek not only political independence, which has been largely achieved, but economic independence, which is still to be achieved in most spheres and countries; and that we seek psychological and intellectual independence and are prepared to discuss our problems, our thrusts, our hopes, and our aspirations in the Third World.

The ODC is making Mahbub ul Haq's contribution to the Turkeyen series available to Americans as an insight into what one leading Third World intellectual and development practitioner is saying to his Third World colleagues in the struggle for greater equality about the kinds of changes required in the world order, including their own societies, and about

[1] These lectures were initially printed and distributed in Guyana by the Guyana Ministry of Foreign Affairs.

the strategies that will be necessary to achieve those changes.

The striving for equality of opportunity is a familiar phenomenon in American history. It has been a central characteristic of the United States in its first two centuries as a nation. This progression toward greater equality of opportunity—both for America's geographic regions and for different groups and classes of people within its society—has been steady, though frequently halting. For decades, certain regions, most notably the deep South and the agricultural West, have sought greater equality in terms of their economic relationships with the industrially more advanced Northeast; only in recent years has a reasonable balance been achieved. Among the American people, there has been progress in this century by those groups seeking greater equality of opportunity to share in decision making and in the benefits of progress. Among these groups has been the industrial working class, which in the 1930s and the late 1940s achieved the right to bargain collectively and succeeded in securing legislation providing workers with a significant measure of security in cases of unemployment, sickness, and old age. Major progress was achieved by Blacks in the 1950s and 1960s, and more recently by women, when they, too, advanced their equality of opportunity. Disadvantaged Americans have always considered themselves to have a right to corrective action. Usually there has been a substantial body of more advantaged Americans who have been prepared to assist them in their cause—some on moral grounds alone and others on both moral and enlightened self-interest grounds. The United States has been enriched in the process. No matter how grudgingly given, the widening of opportunities has been of significant net benefit to American society—a society which has progressed toward historically unparalleled prosperity and opportunity for all.

The concept of equality of opportunity also has been applied among the industrially advanced democracies with respect to each other in recent years, and it has contributed greatly to the unprecedented economic and social progress of the post-World-War-II era. It has been central to the evolution of economic relationships among the industrial countries since World War II and, to an even greater extent, among the countries of the European Community as they have moved toward more complete integration of their economies. As in the United

States, greater equality of opportunity for all citizens within their countries has been an important part of the domestic development of other industrial nations over the past twenty-five years, and the benefits of progress have become increasingly available to the great majority of their citizens.

The parallel striving of many in the *developing* nations for greater equality of opportunity for their states in the international order and for increasing numbers of citizens within their societies is the subject which Mahbub ul Haq addresses in this paper. The author notes at the outset his conviction that "fundamental reforms in the international order will be meaningless, and almost impossible to achieve, without corresponding reforms in the national orders." In the past decade, these have become increasingly central themes for more than a hundred developing countries, with nearly 2 billion people, in Asia, Africa, and Latin America.

Major changes within the world economic and social order are as inevitable in the twenty-five years that lie ahead as were the changes in the international political order that led to the political independence of over eighty nations with more than a billion people in the last twenty-five years. Possibly the most crucial question is whether these inevitable changes in the international and domestic orders will be accompanied by chaos and collisions bordering on the catastrophic—as happened with the policies of the oil producing nations in this decade—or with the same degree of orderliness that characterized vast changes in the industrial democracies over the last quarter-century.

An economist from Pakistan who received advanced academic training in the United States, has held high office in his own country, and is currently a senior advisor to the President of the World Bank, Mahbub ul Haq is a citizen and a spokesman of the Third World as well as a citizen of the world community. He speaks frankly—and with skill—to the peoples of Europe, North America, Japan, and the developing countries of the changes that he sees as necessary to the workings of world economic systems. He is equally forthright in speaking to developing countries on the imperative for greater equality of opportunity *within* their countries. One need not agree with all—or even the great majority—of the conclusions and proposals he makes to his fellow citizens of the Third World to recognize that his thoughts can be of help to Americans in formulating a response to the demands of the developing countries that is reasoned and that has the vision required so that all societies may ultimately benefit.

James P. Grant, *President*
September 1976 *Overseas Development Council*

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MAHBUB UL HAQ, *who is presently Director of the Policy Planning and Program Review Department of the World Bank, was previously Chief Economist of the Pakistan Planning Commission. Mr. Haq is co-author, with Mrs. Khadija Haq, of* Deficit Financing in Pakistan *(1961) and author of* The Strategy of Economic Planning: A Case Study of Pakistan *(1963). He has written and spoken extensively on the subject of development planning.*

the inequities of the old economic order

The Third World is not merely a catchword today. It is just becoming a political and economic force. A new trade union of the poor nations is emerging. It is united by its poverty—and by its heritage of common suffering. In fact, a "poverty curtain" has descended right across the face of our world, dividing it materially and philosophically into two different worlds, two separate planets, two unequal humanities—one embarrassingly rich and the other desperately poor. The struggle to lift this curtain of poverty and unequal relationships is certainly the most formidable challenge of our time. And it is likely to cover many decades and consume many generations.

Most of the required changes lie right within the control of the Third World—whether in the restructuring of domestic political power, or in the fashioning of new development styles and strategies, or in the search for new areas of collective self-reliance. But a part of this struggle is at the international level—the need to change the past patterns of hopeless dependency to new concepts of equality, partnership, and interdependence. These pages are addressed to this struggle at the international level, though I must make quite clear my own conviction that fundamental reforms in the international order will be meaningless, and almost impossible to achieve, without corresponding reforms in the national orders.

In the pages on the international economic order that follow, I intend to 1) review the workings of the existing world economic order and analyze the concrete basis of the accusation by the poor nations that the present international institutions systematically discriminate against their interests; 2) analyze whether the poor nations have the necessary bargaining power to bring about fundamental changes in the international economic order; 3) present some major proposals for the establishment of a new international economic order; 4) elaborate on a design for a new framework for resource transfers from the rich to the poor nations; and 5) review the

The ideas expressed in these speeches are elaborated in Mahbub ul Haq's new book, The Poverty Curtain: Choices for the Third World *(New York: Columbia University Press, 1976).*

overall tactics and strategies that the Third World must adopt in the crucial struggle ahead.

Let me also make clear that I am speaking not as an official of the World Bank or as a Pakistani or as an individual. I venture to speak as a citizen from the Third World, in utter frankness and candor, sharing the aspirations and the belief in the common cause that unite all of us in the Third World. Let me turn now to an analysis of the prevailing world economic order from the vantage point of the Third World.

The vastly unequal relationship between the rich and the poor nations is fast becoming the central issue of our time. The poor nations are beginning to question the basic premises of an international order that leads to ever widening disparities between the rich and the poor countries and to a persistent denial of equality of opportunity to many poor nations. They are, in fact, arguing that in the international order —just as much as within national orders—all distribution of benefits, credit, services, and decision making gets warped in favor of a priviliged minority and that this situation cannot be changed except through fundamental institutional reforms.

When this is pointed out to the rich nations, they dismiss it casually as empty rhetoric of the poor nations. Their standard answer is that the international market mechanism works, even though not too perfectly, and that the poor nations are always out to wring concessions from the rich nations in the name of past exploitation. They believe that the poor nations are demanding a massive redistribution of income and wealth which is simply not in the cards. Their general attitude seems to be that the poor nations must earn their economic development, much the same way as the rich nations had to over the last two centuries, through patient hard work and gradual capital formation, and that there are no shortcuts to this process and no rhetorical substitutes. The rich, however, are "generous" enough to offer some help to the poor nations to accelerate their economic development if the poor are only willing to behave themselves.

In reviewing this controversy, we must face up to the blunt question: Does the present world order systematically discriminate against the interest of the Third World, as the poor nations contend? Or is the demand for a new order mere empty rhetoric against imagined grievances, as the rich nations allege?

There is sufficient concrete evidence to show that the poor nations cannot get an equitable deal from the present international economic structures—much the same way as the poorest sections of the society within a country and for much the same reasons. Once there are major disparities in income distribution within a country, the market mechanism ceases to function either efficiently or equitably, since it is weighted heavily in favor of the purchasing power in the hands of the rich. Those who have the money can make the market bend to their own will. When we start from a position of gross inequalities, the so-called market mechanism mocks poverty, or simply ignores it, since the poor hardly have any purchasing power to influence market decisions. This is even more true at the international level, since there is no world government and none of the usual mechanisms existing within countries that create pressures for redistribution of income and wealth.

But this is not a time to make a general case all over again. The Third World has done it many times over. Rather, it is time for our universities and our research institutions to do some serious work in documenting specific instances of inequities in the world order. In undertaking such a serious analysis, I believe that two "staple diets" we have used so often in the past should be played down. First, we cannot keep the rich nations feeling either guilty or uncomfortable by simply pointing out that three quarters of the world income, investment, and services are in the hands of one quarter of its population. The rich nations are increasingly turning around and saying: "So what? We worked for it and so should you." World income disparities, per se, are not an issue. We also must demonstrate that the prevailing disparities are creating major hurdles for the poor nations to execute their own development and are denying them equality of opportunity. Second, the Third World has often used the argument of instability of commodity prices and worsening terms of trade. This has been overdone and is probably not the heart of the problem. If low earnings are stabilized, they still remain low. It may give our policymakers a little peace of mind but it does not solve anything fundamental. Surely the argument must be that international structures deny us a fair price.

Kinds of Inequality

Ultimately, the reasons for unequal relationships must be sought in international structures and mechanisms which put the Third World at a considerable disadvantage and which cry out for thoroughgoing institutional reforms. Let me explore some of these areas.

There is a tremendous *imbalance* today *in the distribution of international reserves.* The poor nations, with 70 per cent of the world population, received less than 4 per cent of the international reserves of $131 billion during 1970-1974, simply because the rich nations controlled the creation and distribution of international reserves through the expansion of their own national reserve currencies (mainly dollars and sterling) and through their decisive control over the International Monetary Fund (IMF). For all practical purposes, the United States has been the central banker of the world in the post-Second World War period, and it could easily finance its balance-of-payments deficits by the simple device of expanding its own currency. In other words, the richest nation in the world has had an unlimited access to international credit facilities, since it could create such credit through its own decisions. This has been less true of other developed countries, though Britain and Germany have enjoyed some of this privilege at various times. This certainly has not been true of the developing countries, which could neither create international credit through their own deficit-financing operations nor obtain an easy access to this credit because of the absence of any genuine international currency and because of their limited quotas in the International Monetary Fund. The heart of any economic system is its credit structure. This is controlled entirely by the rich nations at the international level. The poor nations merely stand at the periphery of monetary decisions. This is nothing unusual. As in any normal national banking system, the poor get very little credit unless a concerned government chooses to intervene on their behalf.

The distribution of value added to the products traded between the developing and the developed countries is heavily weighted in favor of the latter. The developing countries, unlike the developed, receive only a small fraction of the final price that the consumers in the international market are paying for their produce, simply because many of them are too poor or too weak to exercise any meaningful control over the processing, shipping, and marketing of their primary exports. A rough estimate indicates that final consumers pay over $200 billion (excluding taxes) for the major primary exports (excluding oil) of the developing countries (in a more processed, packaged, and advertised form), but these countries receive only $30 billion, with the middle men and the international service sector—mostly in the hands of the rich nations—enjoying the difference. On the other hand, the rich nations have the resources and the necessary bargaining power to control the various phases of their production, export, and distribution—often including their own subsidiaries to handle even internal distribution within importing countries. In fact, if the poor nations were able to exercise the same degree of control over the processing and distribution of their exports as the rich nations presently do and if they were to get back a similar proportion of the final consumer price, their export earnings from their primary commodities would be closer to $150 billion. Again, there is a parallel here between national and international orders: within national orders as well, the poor receive only a fraction of the rewards for their labor and lose out to the organized, entrenched middle men unless the national governments intervene.

The protective wall erected by the developed countries prevents the developing world from receiving its due share of the global wealth. The rich nations are making it increasingly impossible for the "free" international market mechanism to work. In the classical framework of Adam Smith, the cornerstone of the free market mechanism is the free movement of labor and capital as well as of goods and services so that rewards to factors of production are equalized all over the world. Yet immigration laws in almost all rich nations make any large-scale movement of unskilled labor in a worldwide search for economic opportunities impossible (except for a limited "brain drain" of skilled labor). Not much capital has crossed international boundaries, both because of poor nations' sensitivities and because of the rich nations' own needs. And additional barriers have gone up against the free movement of goods and services—e.g., over $20 billion in farm subsidies alone in the rich nations to protect their agriculture and progressively higher tariffs and quotas against the simple consumer-goods exports of the developing countries, such as textiles and leather goods. The rich, in other words, are drawing a protective wall around their lifestyles, telling the poor nations that they can compete neither with their labor nor with their goods but paying handsome tributes at the same time to the "free" workings of the international market mechanism. Unfortunately, while the rich can show such discrimination, the poor cannot—by the very fact of their poverty. They need their current foreign exchange earnings desperately, just in order to survive and to carry on a minimum development effort, and they can hardly afford to put up discriminatory restrictions against the capital-goods imports and technology of the Western world. There is again a parallel here between national and international orders. Within national orders as well, the poor generally have very little choice but to sell their services to the rich at considerable disadvantage just in order to earn the means of their survival.

Another area in which the unequal bargaining power of the poor and the rich nations shows up quite dramatically is the *relationship between multinational corporations and the developing countries.* Most of the contracts, leases, and concessions that the multinational corporations have negotiated in the past with the developing countries reflect a fairly inequitable sharing of benefits. In many cases, the host government is getting only a fraction of the benefits from the exploitation of its own natural resources by the multinational corporations. For instance, Mauritania gets about 15 per cent of the profits that the multinational corporations make from extracting and exporting the iron ore deposits in the country. Similarly, in Liberia, the foreign investors export an amount equivalent to nearly one fourth of the total GNP of the country in profit remittances. Such examples are numerous. In fact, it would be useful to tabulate all the concessions, contracts, and leases which have been negotiated between the multinational corporations and the developing countries and to present to the world an idea of what is the present sharing of benefits between host governments and multinational corporations in case after case. Such a factual background not only would illustrate the concrete and specific fashion in which the poor nations get discriminated against in the present world order but also could be a very useful prelude to the necessary reforms.

The poor nations have only a *pro forma participation in the economic decision making of the world.* Their advice is hardly solicited when the big ten industrialized nations get together to take key decisions on the world's economic future; their voting strength in the Bretton Woods institutions (the World Bank and International Monetary Fund) is less than one third of the total; and their numerical majority in

the U.N. General Assembly has provided no real influence so far on international economic decisions. In fact, it may well be an indicator of the sense of accommodation that the rich nations are willing to show that they have started protesting against the "tyranny of the majority" at a time when the majority resolutions of the poor nations carry no effective force and when the Third World countries are not even being allowed to sit as equals around the bargaining tables of the world.

To take an example from the world of ideas, these *unequal relationships pervade the intellectual world and the mass media as well.* The developing countries have often been subjected to concepts of development and value systems that were largely fashioned abroad. While economic development is the primary concern of the developing countries, so far it has been written about and discussed largely by outsiders. The mass media, which greatly shape world opinion, are primarily under the control of the rich nations. The Nobel Prize, which is presumably given for excellence of thought, is given to very few in the Third World, even in non-technical fields such as literature. Is it because our societies are not only poor in income but also poor in thought? Or is it because our thought is being judged by standards totally alien to our spirit and we have no organized forums for either the projection or the dissemination of our thinking? The answer is quite obvious. There is no international structure, including intellectual endeavor, which is not influenced by the inequality between rich and poor nations.

There is much other evidence of instances in which unequal economic relationships have led to a denial of economic opportunities to the poorer nations, but the basic point already has been made: in the international order, just as much as within national orders, initial poverty itself becomes the most formidable handicap in the way of redressal of such poverty unless there is a fundamental change in the existing power structures.

In this context, a net bilateral transfer of about $8 billion of official development assistance to the poor nations every year is neither adequate nor to the point: the quantitative "loss" implicit in the just-quoted examples of maldistribution of international credit, inadequate sharing of benefits from the export of their natural resources, and artificial restrictions on the movement of their goods and services (not to speak of labor) would easily amount to

$50–$100 billion a year. More pertinent, the poor nations are seeking greater equality of opportunity, not charity from the uncertain generosity of the rich.

Equality of Opportunity

The demand for a new international economic order must be seen in its proper historical perspective. On one level of reasoning, it is a natural evolution of the philosophy already accepted at the national level: governments must actively intervene on behalf of the poorest segments of their populations ("the bottom 40 per cent"), which will otherwise be bypassed by economic development. In a fast-shrinking planet, it was inevitable that this "new" philosophy would not stop at national borders; and, since there is no world government, the poor nations are bringing this concern to its closest substitute, the United Nations.

On yet another level, the search for a new economic order is a natural second stage in the liberation of the developing countries. The first stage was marked by movements of political liberation from the 1940s to the 1960s; the second stage constitutes a struggle for not only political but also economic equality, since the former is unattainable and meaningless without the latter. The demand for a new international economic order must be seen, therefore, as part of an historical process, which neither can be achieved by the poor nations in one single negotiation nor will go away quietly by the simple indifference of the rich nations (or by their misinterpreting it as the faint rumblings of "British socialism", as Mr. Moynihan, former U.S. Ambassador to the United Nations, has argued). In fact, the movement for greater equality of economic opportunity is likely to dominate the next few decades—as much within nations as among them.

At the same time, the developing countries must recognize the intimate link between the reform of the national and international orders. If national economic orders in the poor nations remain unresponsive to the needs of their own poor and if their development strategies continue to benefit only a privileged few, much of the argument for a fundamental reform in the international order will disappear because any benefits flowing from such a reform would go only to a privileged minority in these countries. Moreover, when the international and national orders are dominated by privileged minorities, the possibilities of a tacit collusion between their natural interests are quite unlimited. The developing countries have to learn, therefore, that reforms in their own national orders are often the critical bargaining chip they need in pressing for similar reforms at the international level.

The reforms in the national orders of the poor nations, however, are not in themselves a sufficient condition for a major improvement in the economic condition of their masses. According to a recent World Bank study, if present national and international policies continue unchanged, the poorest developing countries (those with per capita incomes below $200) face the prospect of virtually no increase in their low levels of income between 1975-1980. The increase for other developing countries also will be fairly small. A major change will be required in their internal policies (in saving and investment policies and in the distribution of rewards of economic growth) if such a grim prospect is to be averted. But a good part of this effort will be frustrated if these countries cannot import the needed machinery and technology and if critical foreign exchange shortages persist because of their limited access to the international market either through trade or through international resource transfers. The solution for this is not piecemeal international reforms—via selective trade "concessions" or somewhat larger foreign assistance—since these achieve exactly the same purpose and provide as temporary a relief as limited social security payments to the poor within a national system. The long-term solution is to change the institutional system in such a way as to improve the access of the poor to economic opportunities and to increase their long-term productivity, not their temporary income.

The basic principles for such a change can be easily established and follow logically from the above analysis of institutional imbalances. For instance, any long-term negotiating package should make provision for:

(a) Revamping of the present international credit system by phasing out national reserve currencies and replacing them with an international currency;

(b) Gradual dismantling of restrictions in the rich nations on the movement of goods and services as well as labor from the poor nations;

(c) Enabling the developing countries to obtain more benefit from the exploitation of their own natural resources through greater control over various stages of primary production, processing, and distribution of their commodities;

(d) Introduction of an element of automaticity in international resource transfers by linking them to some form of international taxation or royalties or reserve creation;

(e) Negotiation of agreed principles between the principal creditors and debtors for an orderly settlement of past external debts;

(f) Renegotiation of all past leases and contracts given by the developing countries to the multinational corporations under a new code of ethics to be established and enforced within the United Nations framework; and

(g) Restructuring of the United Nations to give it greater operational powers for economic decisions and a significant increase in the voting strength of the poor nations within the World Bank and the International Monetary Fund.

These ideas will be further developed in my specific proposals for the establishment of a new international economic order.

A New World Order?

The debate on the establishment of a new international economic order has only recently begun. The battle lines are still being drawn; the battle plans of the rich and the poor nations are hardly clear at present. Our world may well be poised uneasily between a grand new global partnership or a disorderly confrontation. Unfortunately, there are very few examples in history of the rich surrendering their power willingly or peacefully. Whenever and wherever the rich have made any accommodation, they have done so because it had become inevitable, since the poor had gotten organized and would have taken away power in any case. The basic question today, therefore, is not whether the poor nations are in a grossly unfavorable position in the present world order. They are, and they will continue to be, unless they can negotiate a new world order. The basic question really is whether they have the necessary bargaining power to arrange any fundamental changes in the present political, economic, and social balance of power in the world.

Let me conclude with three main observations.

1. Tremendous responsibility rests on our universities, our research institutions, our intellectual forums in the Third World. It is for them to work out

carefully concrete instances of systematic discrimination built into the existing economic order—whether the inadequate return from raw material exports, or inequitable sharing of gains from multinationals, or unequal distribution of world liquidity. This should be done in a spirit of serious, objective analysis so that there is concrete documentation available to our negotiators to press this point in international forums. There is no excuse for our not producing sufficient studies on this subject. If we do not attempt these exercises, the rich nations have no built-in incentive to carry them out. And, in the last analysis, facts are far more powerful ammunition than words can ever be.

2. We must keep stressing, as often as we can, that the basic struggle is for equality of opportunity, not equality of income. We are not chasing the income levels of the rich nations. We do not wish to imitate their lifestyles. We are only suggesting that our societies must have a decent chance to develop, on an equal basis, without systematic discrimination against us, according to our own value systems, and in line with our own cultural traditions. We are not asking for a few more crumbs from the table of the rich. We are asking for a fair chance to make it on our own.

3. Let us make quite clear in our future negotiations that what is at stake here is not a few marginal adjustments in the international system: it is its complete overhaul. We are not foolish enough to think that this can happen overnight. We are willing to wait. And we are willing to proceed step by step. But we are not willing to settle for some inadequate, piecemeal concessions in the name of a step-by-step approach. The advice of Prime Minister Burnham of Guyana at the time of the Commonwealth Heads of Government meeting in May 1975 is pertinent:

> There is another danger that needs to be guarded against if we are all serious in our commitment to programmes of positive action which will give life to a new international economic order. It is the danger of deceiving ourselves that we can somehow achieve fundamental change by marginal adjustments and devices of a piecemeal and reformist nature. This is not to say that there is no value in particular approaches. It is to emphasize that we will not make real progress unless we evolve an integrated programme designed to fulfill not merely the aspirations of the developing world but the necessities for survival of the global community.

the emerging trade union of the third world

In concluding that malaise runs fairly deep in the structures, institutions, and mechanisms of the international order, and that nothing short of fundamental institutional reforms is going to establish the new international economic order that the Third World is seeking, we also need to face the facts. Fundamental institutional reforms are not offered on a silver platter, whether they are in the economic or in the political sphere. They have to be earned. The question really is whether the Third World has the necessary political and economic bargaining power to make such fundamental changes in the world order. I personally believe that the Third World does have that power.

One of the most common fallacies of the rich is that the poor have little bargaining power and can be conveniently ignored. This is a mistake that the rich no longer make within national orders since they have witnessed too often in history the violent overthrow of the privileged minority whenever the poor masses got desperate and organized. Moreover, national governments, however much they may depend on their alliance with vested interest groups, always keep looking over their shoulders to appease the poor majority lest their economic and social conditions become intolerable. With the gradual evolution of national orders, the poor have organized themselves in many countries into a formidable countervailing power to the entrenched interests of the rich, mainly through the formation of trade unions. Yet, at the international level, we see the same skepticism and questioning about the real bargaining power of the poor exactly at the time when we are witnessing the emergence of a trade union of the poor nations.

The reasons for this skepticism are obvious. Firstly, the rich nations are analyzing mainly the economic bargaining power of the poor nations although their real power is political. Most of the analysis proceeds in terms of the control that the poor nations presently exercise over natural resources or their current importance in international trade and commerce; and it is concluded, quite wrongly, that, unlike the members of the Organization of Petroleum Exporting Countries (OPEC), other poor nations are in no position to challenge the overwhelming control of the rich nations over the present world economic order. Secondly, such analysis is often conceived in a short-term perspective, mistaking the current poverty of a majority of mankind for permanent impotence. As soon as we take a broader, longer-term perspective, it becomes obvious that the Third World *is* the future international order and that the developed countries have to start thinking today in terms of fashioning policies to come to some reasonable accommodation with this future order.

Third World Bargaining Power

The need for developed-country accommodation is not merely wishful thinking: it follows automatically if we view the entire issue in its proper historical perspective. It is true that the Third World is not important enough today—financially, economically, or politically—to figure in the calculations of the developed countries. But, in the longer-run, there is likely to be a dramatic shift in the balance of power between the rich nations and the Third World. Let us analyze briefly how such a dramatic shift might take place.

If we look at the demographic trends, we find that the rich nations are a shrinking minority of the world. Today they are about 30 per cent of the total population of the word; by the turn of this century, they will have dwindled to 20 per cent, and by the middle of the next century to about 10 per cent. There is a real question about whether such a shrinking minority will be able to control the economic, financial, and political destiny of the world—and about what means it may have to employ to do that. It is inevitable that the dependence of the rich nations on the poor nations will greatly increase over time—for their natural resources, the use of their space and oceans, and even their labor and effective demand. This is likely to create a "reverse dependency," where the lifestyles of the rich will come to depend on the continued goodwill of the poor.

There is no way that this shrinking minority could continue to draw a protective wall around its lifestyles or withdraw behind a fortress and keep commanding the world's resources on its own terms. There is likely to be another development during the next few decades which is going to reduce greatly the room for maneuver of this privileged minority—viz., the spread of nuclear weapons. It looks inevitable now that the nuclear monopoly will not remain in the hands of a few nations; by the turn of this century a number of poor nations—particularly the more populous ones like China, India, Pakistan, Brazil, and Egypt, with a combined population of over three billion by then—will also command nuclear weapons and their delivery systems. However regrettable such a development may be from a world point of view—and there are many chances of its becoming quite catastrophic in a world as unjust as ours—an important implication of this development for the international balance of power would be that the sheer size of numbers would begin to tell as the threat of nuclear terror is neutralized. Throughout history, the only way a small minority has continued to exercise a dominant control over human affairs is through its monopoly over some form of human destruction: once this advantage is neutralized, the minority begins to realize how dependent it is on the goodwill of the majority for its continued existence.

We do not have to indulge in such morbid speculation to recognize that even the balance of economic power is likely to change fairly decisively in the next few decades. The control over natural resources provides an example. Most agricultural and mineral resources are produced or controlled by the Third World. The developed countries, particularly outside the United States, are going to be increasingly dependent on the natural resources imported from outside. Initially, these resources were obtained by many developed countries on the basis of a colonial pattern of exploitation of the developing world. Later the availability of cheap oil enabled the developed countries to replace many of the natural fibers by synthetics and to create new resources for continued industrialization. But this created a major and increasing dependence on oil, which made the developed countries more vulnerable to the inevitable increase in its price. It is already apparent that the price of oil in the future will be determined by the availability of viable substitutes rather than by the previous unequal bargaining power of the producers and the consumers. It is true that there is hardly any other raw material where the producers can exercise such decisive control, where the consumers' demand is so inelastic, where the substitutes will take so long to develop at so high a cost, and where the natural resource is a wasting asset over time. But while other raw material exports of the developing countries do not have these features, comparison with the oil situation misses two basic points. 1) The dependence of the rich consumers on natural resources is bound to increase manifold in the future

as per capita incomes increase further in the industrialized world. There is no way the developed countries can meet this demand from within without either becoming even more dependent on energy resources or incurring a much higher cost because of the alternative uses of their capital and labor. 2) It is true that most raw material exports of the developing countries (such as tea, coffee, cocoa, rubber, etc.) are not priority items for the developed world; but the rich nations are getting a substantial value added through their processing, shipping, advertising, and distribution of these commodities (over $150 billion), and it is not going to be a painless process to substitute for them.

The developed countries are likely to need the Third World in the future even to sustain effective demand for their expanding production. While the poor nations are not really important today in the economic calculations of the rich nations, a realization may come over the next few decades that the prosperity of the developed world cannot be sustained with the continued impoverishment of the Third World. The Western societies learned a useful lesson through the depression of the 1930s—that every extra dollar going to labor was not a dollar taken away from profits but would come back twice over through effective demand and really grease the wheels of prosperity. This led to the birth of enlightened capitalism—the "New Deal" at the national level—where as much attention was paid to sustaining the purchasing power of the workers as to worrying about the profits of the capitalists. Today we have a situation where the capital of the world is concentrated in a handful of nations but its labor is mainly crowded in the Third World. Taking a fairly long-term view, it is just not possible to keep this capital and labor apart through immigration laws or through restrictions on capital transfers and yet have the basis of continued world prosperity. The evolution of a New Deal at the international level is, therefore, only a question of time. In fact, this also shows how intimately interlinked and mutually compatible the concerns of the rich and the poor nations may prove to be if they are prepared to look sufficiently ahead in the spirit of enlightened self-interest.

We must also recognize that, in an interdependent world, the common property resources of mankind—such as the ocean beds and space—are going to acquire ever greater importance in a crowded planet. Only the rich nations today have the capital, technology, and political power to exploit these resources, but it is impossible to colonize the pattern of their exploitation in the same fashion as happened to the resources on land. And as the majority of mankind acquires greater political and nuclear power in the next few decades, it is inevitable that it will demand a greater control over these international commons which belong to all humanity. The rich nations cannot, therefore, extend their technological options by turning to these common resources, except by international agreement; otherwise they may well be risking territorial battles for the right to the future use of these international commons.

One of the most important elements that must be analyzed in any discussions of the relative economic power and options of the rich and the poor nations in the future is the prospect of an economic collaboration between OPEC and other countries of the Third World. The OPEC member countries have been able to arrange a fairly substantial increase in their total financial earnings, about 90 per cent of it from the industrialized world (about $100 billion a year in 1975, projected to increase to nearly $200 billion by 1980 in current prices). Though the future projections vary a good deal, it is reasonable to assume that the accumulated foreign exchange reserves of the OPEC countries will account for a major proportion of the total world reserves in another decade. The economic clout that the OPEC members will be able to wield over time would, therefore, be considerable. The acquisition of such vast financial resources by these countries is too recent a phenomenon for them to have realized its full potential; but money is a great teacher and it is evident that the OPEC members will soon discover the power that inevitably goes with money.

How will this newly acquired economic power be exercised in the last analysis? Will the new rich join the old rich, as history has often told us, in preserving the old economic order, or will they join forces with the poor nations in changing this order both to their own liking and to that of the poor nations? This is the key question.

There are a number of reasons why the new rich may defy history and refuse to join the old rich. To begin with, the new rich are receiving a considerable proportion (about 90 per cent) of their higher income from the old rich, unlike the historical pattern where the rich mainly receive their surplus from the labor of the poor. It is, therefore, not very easy or convenient for the new rich to join forces with the old rich,

without losing a good part of their new income and economic power. Furthermore, the OPEC member countries are a small part of the world population (7 per cent), and many of them have underdeveloped economies. They may well realize that their best protection is the continued political support of the Third World, for which they will be willing to pay a substantial price. Also, many of the OPEC member nations are more aligned with the Third World countries—racially, religiously, linguistically, culturally—than with the developed world. Finally, the OPEC members can play the role of leaders in the councils of the Third World; in the councils of the industrialized nations, they are still regarded as second-class powers.

If one must speculate, there is considerable weight of evidence that the OPEC countries will view their future world role in close collaboration with the Third World. Concrete evidence of this emerged when the OPEC members, in April 1975, refused to negotiate with the industrialized countries on the question of energy unless other raw materials of the developing countries were also added to the agenda, and when they asked for a special session of the U.N. General Assembly in April 1974, and again in September 1975, to discuss the establishment of a new international economic order. Their concern for the support of the Third World is also evident from the pace of their assistance to the developing countries. The OPEC members are already committing over 5 per cent of their combined GNP in official development assistance (ODA), or about 15 times as much proportionately as the industrialized countries, even though they are under no compulsion to do so, since their average per capita income is still only $800, or about one fifth of that in the developed world.

If the OPEC members choose to strengthen the bargaining position of the poor nations, a number of options immediately open up. The international monetary system can be restructured simply through the device of OPEC members insisting on payments for their oil exports in Special Drawing Rights (SDRs) rather than in national reserve currencies of the rich nations. This can give them a decisive leverage in the creation and distribution of international liquidity, particularly as they use their new financial strength to change the present control over the International Monetary Fund. And in the trade field, the current bargaining position of the poor nations in the primary commodity markets can be greatly transformed if the OPEC countries finance commodity buffer stocks, or even a commodity bank along the lines suggested by John Maynard Keynes in the 1940s. Moreover, new trade channels can open up in many fields between the OPEC and the Third World countries, particularly in food, where the oil countries can provide fertilizer and finance to some promising food producers in the Third World in exchange for future repayments in food. Another field where the OPEC members can pass on greater bargaining strength to the poor nations is the renegotiation of past external debt and past contracts and leases given to the multinationals: the disruption this might cause in the flow of resources to the poor nations can be smoothed over by the OPEC countries standing ready to provide alternative financial flows. As another illustration: the new financial strength of the OPEC countries is likely to lead to a major change in their voting power within the international financial institutions, which is a lever they can use to get a greater voice in the economic decision-making councils of the world, not only for themselves but for other members of the Third World.

It is not my intention to sketch out various possible scenarios that the OPEC members can choose in collaboration with the Third World. The main point is that the growing financial strength of the OPEC nations introduces an important element in the world balance of power which not only will increase uncertainty on the part of the old rich but also could directly and materially contribute to strengthening the bargaining position of the poor nations.

Political versus Economic Leverage

In the last analysis, the real bargaining power of the poor nations is political, not economic. The Third World contains the overwhelming majority of mankind. It increasingly enjoys a decisive control over the U.N. General Assembly. Its vast population can be disregarded at present; its U.N. resolutions can be ignored; its demands can be brushed away as mere rhetoric. This is nothing unusual in the initial phases of a trade union movement. But if the new trade union of the poor nations holds together—and its unattended grievances are likely to keep uniting it—it is only a matter of time before the management is forced to enter into serious negotiations and the public posturing on both sides ceases as they send their chosen representatives into the back rooms to hammer out hard, tough compromises.

Whether it is within national orders, or in the international order, the real bargaining power of the poor lies in their ability and their willingness to disrupt the lifestyles of the rich. In any such confrontation the rich have far more to lose and are generally far more willing to come to a workable compromise.

As the rhetoric cools down on both sides, the rich nations are likely to weigh carefully the costs of disruption against the costs of accommodation and to consider the fact that any conceivable cost of a New Deal will be a very small proportion of their future growth in an orderly, cooperative framework. In fact, any such new international order would ultimately promote the self-interest of both sides—much the same way as the New Deal did within the United States in the 1930s—by leading to a more harmonious world with expanding markets and a booming international economy. The short-run cost of a New Deal at the international level (probably \$50-\$100 billion a year), while heavy, would still be quite manageable, as it would constitute only 1-2 per cent of the rich countries' GNP and could easily come out of the consequent higher growth possibilities. Moreover, even the costs of a temporary disruption in growth can be very high. For instance, it is estimated that, during 1973-74, the countries of the Organization for Economic Cooperation and Development (OECD) "lost" \$300 billion in unachieved growth and employment.

In summarizing the bargaining power of the poor nations, three important points should be stressed:

1. A major part of our bargaining strength in the Third World lies in our political unity. This is going to be even more important in the struggle ahead. If we let our ranks be divided by the lure of short-term gains, a fundamental restructuring of the world economic order will remain a distant dream. And we would deserve the perpetration of economic inequities, as we would have shown that we are not yet ready to challenge the existing balance of power. Deliberate disruptions in the ranks of the trade union of the poor are nothing new, they are a time-honored tactic. It is for us in the Third World to demonstrate that our political maturity is a perfect foil to such tactics.

2. A new order is needed not only by the Third World; it is needed by other blocs that wish to see a readjustment in world economic power—Europe, which has fully recovered from its battering in the

Second World War; the socialist bloc, whose economic and financial isolation is bound to end; and OPEC members, which have just acquired a good deal of financial power. Moreover, a new order is needed for global economic and political survival. The Third World can count on—and deliberately encourage—the vested interests of the other blocs in the emergence of a new international economic order.

3. Serious analysis must be done in our own institutes of learning on the major components of political and economic power in the world today; how they have developed historically and how they are likely to change over time; and how the Third World can adopt a coherent and purposeful strategy for engineering a change in power relationships. While our politicians fight in the vanguard of this struggle, let our academicians supply them with relevant analysis.

While I do hope that a cooperative framework for negotiations will emerge, it is good to remember that, in history, vast changes in the existing power structures have rarely taken place voluntarily, as acts of vision and foresight. Unfortunately, the rich often make their accommodation only when it becomes inevitable, either through an actual conflict or in anticipation of it by shrewdly calculating the costs of accommodation against the costs of disruption. Whether or not there is an actual confrontation, it is obvious that the increasing despair of the majority of mankind can become one of the most disruptive forces in the smooth workings of the present world order. A quotation from Barbara Ward is appropriate here:

> From history we know that such vast changes of purpose have sometimes been achieved by cooperation and dialogue, sometimes by direct and even bloody confrontation, perhaps most often by a confused and uncertain mixture of both confrontation and cooperation. The reason for the uncertainty is obvious. Those who profit by a system can become obsessed by their determination to change nothing. . . Those who suffer can, on the contrary, come to believe that nothing short of total disruption will genuinely affect anything. . . At this level of polarization, dialogue is impossible and violence inevitable. . . The task is, therefore, to discover the . . . basic common interests for the whole human species and the workable mixture of dialogue and confrontation that will permit the nations, both the weak and the strong, to discover those interests together and do so in time.[1]

[1]Statement made at the international symposium on "Patterns of Resource Use, Environment, and Development Strategies," organized by the U.N. Environment Program and the U.N. Conference on Trade and Development; held in Cocoyoc, Mexico, October 8-12, 1974.

concrete proposals for a new international economic order

Having discussed the major inequities of the present world economic order and prospects for the developing nations of organizing the necessary bargaining power to change this order, I now wish to take up the question of what new institutional structures should be put in place of the old ones if the international community were to agree on a major restructuring of the world economic order. The proposals discussed below assume that both rich and poor nations are serious about exploring these areas through a process of negotiation. If they are not, then a confrontation is inevitable and no rational proposals are possible.

Let me assume for a moment that the rich and the poor nations agree to sit around a negotiating table and think about a new international economic order in a constructive, cooperative mood. What should be the key elements in such a dialogue? What new structures and mechanisms should be placed on the negotiating table? What grand design can the Third World present to equalize economic opportunities among nations?

The last time a grand design for world order was conceived was in the mid-1940s when World War II was ending and when a new world structure of political and economic power had to be constructed. The result was the establishment of the United Nations and the Bretton Woods institutions of the International Monetary Fund and the World Bank. The shape of these structures was necessarily influenced by the balance of power existing at that time—a weak Europe, an isolationist communist bloc, a colonized Third World, a dominant United States. Against this backdrop, the British representative, John Maynard Keynes, and the American representative, Harry White, debated the economic future of the world and the actual structure of the Bretton Woods institutions. Keynes tried valiantly to replace gold and national reserve currencies with an international currency ("bancor"); to place the temporary liquidity of the balance-of-payments surplus countries automatically at the disposal of the deficit countries; to set up a commodity bank for the stabilization of primary commodity prices; and to suggest a structure of control of international financial institutions which was less dominated by the United States. But Keynes did not succeed in carrying through his ideas. He was far ahead of his time and the prevailing balance of power was against him. Mr. White prevailed on every issue, not because his vision was greater than that of Lord Keynes but because he had the backing of the only superpower that counted at that time.

Another grand design must be constructed today in line with the changes which have taken place in the last thirty years and the shifts in the balance of power which are likely to take place in the next few decades. The Third World countries have already achieved their political independence—with a few remaining colonies ready to be liberated. These countries naturally seek a relationship of greater equality and self-respect with the Western world, in both their political and their economic dealings. They are also impatient to eliminate mass poverty and to accelerate their economic development, and they expect the international structures to help in this process. At the same time, the socialist bloc—containing one third of the world's population—is gradually coming out of its isolation and seeking greater integration with the world trade and payments system. The world financial balance of power has also been changed drastically by the collective action of the OPEC members. And within the Western alliance, Europe and Japan have arisen from their helpless condition of the 1940s and are posing a strong challenge to the predominance of U.S. power. A new grand design is needed, therefore, not only by the poor nations; it is required by a world that has changed and that is likely to change even more drastically in the coming decades.

The search for such a grand design must begin at several levels. For instance, at the political level, there is a real question of how new political alliances must be created to preserve a structure of peace. What should be the role of the United Nations in this? Should the veto system in the Security Council, which reflects the old balance of power, be changed in favor of a more democratic system of arriving at international political consensus? How should the voice of the Third World be reflected in these decisions, without either being regarded as the "tyranny of the majority" or being brushed aside as irrelevant and unnecessarary? These questions should engage the attention of those who are interested in a lasting peace, which can only be achieved if there is a structure of justice in the world.

My objective here is a more limited one: to review briefly the international *economic* structures that are necessary in order to provide the equality of opportunity among nations that is at the heart of the issue of international economic justice.

World Development Authority

There is a need to establish a single World Development Authority (WDA) where decisions on international economic issues can be coordinated. This should be under the aegis of the United Nations and have complete jurisdiction over all international economic institutions, old and new. The WDA should be run by a board elected periodically by the U.N. General Assembly, representing the interests of various regional and ideological blocs. Its major tasks should be to:

(a) Regulate short-term international credit;
(b) Provide long-term development finance;
(c) Create a framework for expansion of world trade;
(d) Strike a balance between world population increase and food production; and
(e) In general, act as a global economic planning commission in an advisory role.

Each of these functions would require either the creation of new institutions or the restructuring of the old. The specific auxiliary institutions that would be required are discussed below.

Short-term Credit

At the national level, we are now used to the establishment of central banks, which regulate the total supply of currency and, with varying success, the distribution of national credit to various sectors of the economy. At the international level, we still lack such a mechanism. As indicated above, international liquidity is created at present largely by the national decisions of the United States. An attempt was made in the early 1970s by the International Monetary Fund to make Special Drawing Rights an international currency, but so far, this has been a one-time-only effort. Its value was linked to a basket of reserve currencies of the rich nations. Its volume ($11 billion) was decided by the needs and convenience of the rich nations; and its distribution, not surprisingly, was in favor of the developed world, which received as much as three fourths of the SDRs.

In order to provide adequate short-term credit to meet the genuine needs of all parts of the world, rich and poor alike, it is absolutely necessary to agree on the concept of an *International Central Bank*. Such a Central Bank should have exclusive jurisdiction over the creation and regulation of international reserves. Thus national reserve currencies (dollars, sterling, etc.) should be gradually phased out of international payments 1) because they subject vital international concerns on inflationary or deflationary policies to ad hoc national decisions, and 2) because they put a few countries (exclusively the richest nations at present) whose national currency is accepted as an international reserve in a more privileged position and place a vast majority of nations (Third World, OPEC, socialist bloc, and many industrialized countries) in a more unfavorable position, since they cannot create their own credit. This leads to major international distortions. Equality of opportunity is clearly impossible in such a situation. The richest countries enjoy an unlimited access to international credit; the poorest countries keep nursing their "foreign exchange bottlenecks." Even the international capital market is open only to those nations which are already creditworthy, despite a plethora of fresh proposals on how to increase the access of the poor developing countries to this capital market.

The strength of the tie of the present international credit system to a few rich nations became even more clear during 1974-75. While OPEC members theoretically arranged a significant resource transfer from the industrialized countries through a quadrupling of oil prices, they could not accomplish such a transfer in actual practice. Since they did not have a reserve currency of their own, they had to put their financial surpluses in dollars, sterling, etc., and, as such, lost real control over their disposal. The industrialized nations came to an understanding among themselves on a safety net of $25 billion to protect each other from the impact of short-term fluctuations in reserves. The control over the recycling of financial funds was exercised by the industrialized nations, not OPEC. The poor nations, which had fewer options to turn to, could not negotiate any safety nets of their own and had to fall back on a few limited credit facilities established by the IMF. The net result was that, due to the working of the international credit system, the poor countries had to carry out many painful adjustments in their low consumption and development levels while the rich nations could postpone such adjustments since they could live off international credit.

Thus if an equitable system is to be established, an International Central Bank must be set up with the power to create an international currency. This currency need not be backed by either gold or a basket of reserve currencies or even by a stock of commodities. Just as in a national system, the real backing for the international currency is the production system of the world. Care should be taken that it is expanded in line with the growth needs of the world for production and exports. In estimating these needs, the Central Bank should allow for a much higher growth rate in the developing countries than the past trend. At least the necessary working capital to achieve a high growth rate in the poor nations should be available: the rest is up to these countries themselves. This also means that the distribution of international credit between rich and poor nations should not be in relation to creditworthiness assessment or quotas based on their past wealth. The distribution must be in relation to *future* growth needs and potential. The access to the facilities of the Central Bank should be de-linked from past affluence (unlike the present quotas established in the IMF) if the poor nations are to be afforded an equal opportunity to compete.

The affairs of the International Central Bank can be run in the larger interests of the world only if the same principles are accepted for its management as have already been implemented at the national level. The central banks within countries are usually managed by the state, since provision of credit is too essential a service to be entrusted to the market system or to a handful of private interests. At the international level, this implies that the control over the Central Bank should be exercised by the entire international community through an acceptable formula which balances the interests of the poor and the rich nations. The important point is that capital subscriptions should not be the basis of either the control of this institution or the distribution of its credit. Since the International Monetary Fund was structured on exactly the opposite principles, it was inevitable that it should become a docile instrument of the will of the rich nations. If the IMF has to be restructured now to become a genuine international central bank, the transformation in its basic concepts and operations will be truly profound. In order to evolve an operational proposal, it would be best to proceed from certain agreed principles on the basis

of which international credit should be created, distributed, and managed over time and then to explore whether such a system could be put in place through the reform of the International Monetary Fund or whether it would require an entirely fresh start. I am glad that Johannes H. Witteveen, the Managing Director of the IMF, has recently lent his support to the idea of restructuring the IMF into an international central bank.

Within national systems, deliberate efforts must be made to redirect investment flows if the productivity of the poorest sections of the society is to be increased. The situation is no different at the international level. The rich nations have by now built up a considerable stock of capital and technology. Even though the investment rates in rich and poor nations are roughly comparable at present, the absolute increase in the total income of the rich nations every year is about 20 times that in the poor nations because of initial disparities. If the disparities are to be reduced, the rate of growth in developing countries must be stepped up considerably—for which they need a sizeable supplement of longer-term development capital, at least over the next two decades.

Long-term Finance

The traditional basis for the provision of long-term development finance to the developing countries has been the voluntary decisions of the rich nations to set aside some funds for foreign assistance to be channeled bilaterally or through multilateral institutions. Besides the fact that such an arrangement is subject to shifting political winds in the rich nations, it introduces considerable uncertainty in the calculations of the developing countries about the level of development assistance. Nor can the developing countries acquire significant control over the generation of such finance themselves since, as indicated above, there is no international central bank which could provide both short-term credit and long-term finance.

The need for evolving an entirely different framework for the provision of development finance has increased as a result of recent political and economic developments in the rich nations. On the political level, there has been a great weakening of their wills to provide additional long-term capital since their own economies are under considerable short-term pressure. On the economic front, their own need for long-term capital has also increased sharply, particularly in order to find viable substitutes for petroleum-based energy. In a stiff competition for scarce investment funds, it is natural that the developing countries should lose both in official development assistance and in international capital markets.

If the developing countries are to rely upon the international system for the provision of development finance, there must be some way of more assured and automatic access to these funds in light of the growth needs of the developing countries and a greater control over the size and distribution of these funds. This principle seems to have been agreed upon at the Seventh Special Session of the U.N. General Assembly—even though very reluctantly by the rich nations—since the final resolution affirms that "concessional financial resources to developing countries need to be increased substantially . . . and their flow made predictable, continuous, and increasingly assured so as to facilitate the implementation by developing countries of long-term programmes for economic and social development." The real question is how to give a practical shape to this principle.

One of the primary means to accomplish this objective would be to link the creation of international liquidity with provision of development finance. There is no logical reason why the International Central Bank should not provide both short-term liquidity and long-term capital. The distinction between short- and long-term capital that has been observed within national orders is both false and dangerous. They are freely substitutable and often treated as such by the developing countries. The real implications of such a proposal would be to set up an automatic system of international taxation since the poor nations will obtain the greater part of these funds from the International Central Bank and will normally use them to acquire capital goods from the rich nations.

Another way of arranging automatic resource transfers is to devise a specific system of international taxation. The more practicable forms may be those where resources are new and additional (such as exploitation of continental shelfs and ocean beds) or where international taxation can be linked to activities which are coming under public criticism (such as international pollutants and armament spending). Since progressive taxation structures took several decades to develop even at the national level,

we can appreciate the problems involved in developing a system of international taxation which raises delicate issues of national sovereignty. Yet such a system is an essential part of the new economic order that the Third World is pressing for. And it can be established if the World Development Authority is empowered to prepare feasible proposals for international taxation, to be administered through an *International Development Fund.*

Since changes in the framework of international resource transfers are such an important issue and since a number of interim solutions may have to be accepted before a fully automatic system can be evolved, this issue will be discussed more fully in the following chapter.

Expansion of Trade

In the field of trade, it appears that a good deal of energy is being wasted by the Third World on the wrong issues. Proposals for stabilization of primary commodity prices or of export earnings have often dominated the field. Yet stabilization of prices or earnings does not confer an additional benefit in the long run. If this is the only aim, it can be managed even by national action. Extra earnings in boom periods can be conserved to cover lean years through good economic management. If national action is not forthcoming in this field, why should we expect that it is easier to arrange such action at the international level? In fact, the developing countries are often working for higher prices, not more stable prices, even though the discussion of price instability has often dominated international forums. But if the real aim is to get higher prices—as it should be—then the main action lies in additional processing of commodities, diversification out of a few unstable commodities, and greater control over the distribution channels for these commodities.

Again, far too much attention has been focused on trade in primary raw materials rather than in processed goods, which may well be the more promising area in the future. This emphasis is evident in the confusion over the present debate on "indexing." Some of the developing countries have started making the argument that the prices of their primary exports should be indexed in terms of their manufactured imports. This is clearly the wrong issue for non-oil exporters. There is no logic in their freezing the present price relationships, both because these are already unfavorable to them and because they should have an interest in opting out of raw material exports rather than in perpetuating the present patterns of international division of labor. The comparative advantage in the production of many processed goods is changing fast. In any case, it would be a folly to index a bad deal *before* it has been changed decisively. Indexing in the context of the raw material prices and earnings of today makes just as much sense for the Third World as this slogan would have made for the OPEC countries back in 1960 when the price of oil was still less than $2 per barrel.

The real issues for the Third World in the field of international trade are twofold. The primary emphasis should be on market access. The developing countries should seek a gradual but complete removal of all tariff and non-tariff barriers imposed by the industrialized nations by a specified date, perhaps by 1985. This is likely to yield the most substantial gains from the export of primary as well as of manufactured goods. And the case of the Third World countries is a strong one here. They are not seeking selective concessions but only asserting that the market mechanism should be allowed to work freely. They can also argue, with implacable logic, that if neither their labor (because of immigration laws) nor the goods that their labor produces (because of current tariff and non-tariff restrictions) can move across international frontiers, then there will be no recourse left but to raise the slogan of international land reforms. Within national orders, land reforms often become a political as well as an economic imperative. At the international level, one cannot see their feasibility at this stage, but long-term agitation for such a solution can arise if other avenues of market access are not increasingly thrown open to the Third World.

A second emphasis of the Third World in the area of trade should be to acquire greater control over the trading infrastructure of shipping, credit, distribution channels, etc., since the margins in international services are substantial. This control cannot be organized except through concerted action by the developing countries—for instance, by establishing their own joint international shipping lines and other related services. One of the primary aims of the U.N. Conference on Trade and Development (UNCTAD) should be to work for a greater control of the international trading infrastructure by the Third World.

It is necessary, therefore, that a third arm of the

World Development Authority should be an *International Trade Organization* (which was also proposed in the 1940s as part of the restructuring that was taking place at that time). This organization should be given supreme responsibility for fixing specific targets for market access and for ensuring a greater role for the Third World in controlling and managing the international trading infrastructure. It could play a role in organizing international buffer stocks, particularly for those commodities which are extremely vulnerable to abrupt shifts in the world demand. It could also hold an umbrella over producers' associations in selected commodities. Its financing could be derived mainly from the International Central Bank, since it is often unrealistic to expect consumers of raw materials to provide the major part of the financing for such schemes.

Food Production

One of the essential features of any new economic order should be, in the short run, that no one should starve in a world which currently has the means to feed all of its population and, in the long run, that the Third World countries should increasingly develop the capacity to grow their own food. This issue was highlighted at the U.N. World Food Conference in November 1974. The proposals made at that time, and generally accepted by the international community, were soundly conceived and need to be implemented.

In particular, there are two important proposals which need urgent attention in the context of a new international economic order. In the short run, there must be a mechanism to provide immediate, short-term relief whenever crops fail in a poor country for unforeseen reasons and famine threatens. At such a time, the poor nations cannot compete in a ruthless market mechanism. They must be provided with either the grains from an international emergency reserve or the financial means to buy the grains at the market price. An international emergency fund must be set up for this purpose. There must be a built-in automaticity in such a fund so that the worst kind of human suffering can be avoided in times of crises.

In the long run, however, there is no other solution than to produce more food in the food-deficit developing countries, particulary in the poorest countries of South Asia and Sahelian Africa, and also to control their population growth. The last two decades have witnessed an almost criminal neglect of the food production sector in these countries. It is true that the economics of food grain production looked fairly good when the P.L.480 surpluses of the United States were plentiful but, with the advantage of hindsight, one can see that the poor food-deficit countries mistook short-term generosity for long-term supply. This mistake must be avoided, especially if short-term international rescue operations materialize in times of emergencies. One of the important conclusions to come out of the World Food Conference was that international trade was too unpredictable and fragile a mechanism for meeting such an essential need as food at reasonable, stable prices and that increased domestic production in the food-deficit countries was the only viable, long-term solution.

The proposed World Development Authority should, therefore, have a fourth arm—a *World Food Authority*—both to arrange short-term relief and to provide long-term finance, research, and technical assistance for increased food production in food-deficit countries, such as through the proposed International Fund for Agricultural Development.

There are a number of detailed proposals which can be added to the above list—particularly in regard to international coordination of policies in the field of energy, industrialization, transfer of technology, etc. However, the most essential features in my view are the establishment of a World Development Authority, supported by an International Central Bank, an International Development Fund, an International Trade Organization, and a World Food Authority. The establishment of an International Central Bank is the centerpiece of these proposals: it can provide international financing for most of the other initiatives.

The proposed changes can be ushered in both by the reform and amalgamation of existing institutions and by the setting up of new institutions. If this is done along the lines proposed in this discussion and if the rich nations are willing to back up such a restructuring of international institutions and power, we shall indeed be entering a new era of greater equality of opportunity among nations. If not, the struggle for some such restructuring is likely to go on for several decades and the edifice may emerge only piecemeal and only after several confrontations at each stage.

The Third World has to choose its tactics carefully

at this stage. If individual countries choose to go for certain short-term advantages, this can easily destroy their fragile unity. If, on the other hand, they keep their eyes fixed on the longer-term goals and the fundamental institutional reforms, they all stand to gain substantially and the chances of making some real progress on the new international economic order will be immeasurably increased. The choice is theirs to make.

This analysis is based on the assumption—which may well prove to be too idealistic—that it would be possible to restructure the existing international institutions and to set up new ones through a peaceful, orderly dialogue. There are few examples in history where this did happen and if it came to pass in our age and in this era, it would be a rare tribute to the wisdom and foresight of the present generation of mankind and to the great distance it has already traveled down the tortuous road of history.

toward more automatic resource transfers

Among the requirements for the new international economic order suggested earlier was the urgent need for a new basis for transferring resources from the rich to the poor nations. I indicated that we must get away from a voluntary basis of resource transfers to a mandatory basis, where the transfers from the rich to the poor do not depend on the uncertain generosity of the rich, but are based on some internationally accepted needs of the poor. This is the main theme that I would like to explore now. Before searching for such a new basis for international resource transfers, however, it would be useful to sketch out some of the implicit assumptions of the present order and what is wrong with them.

The present resource transfers from the rich to the poor nations are totally voluntary, dependent only on the fluctuating political will of the rich nations. The volume and terms of most assistance are dictated by short-term decisions, with no longer-term perspective or assurances. As such, there is no agreed basis for resource transfers. "Aid" is given for a variety of reasons, including cold war considerations, international leadership, political impact, special relationships with former colonies, domestic and international economic interest, moral considerations—the relative weight of these factors changing greatly over time with each country. As an illustration, about 25 per cent of total resource transfers at present are still governed by "special relationships" with a few former colonies (constituting only 3 per cent of the total population of the developing world), rather than by the relative poverty or growth needs of the developing countries.

The only international deal which presently exists on resource transfers is enshrined in the acceptance by the rich nations of a target of 1 per cent of GNP, with 0.7 per cent as official development assistance on fairly concessional terms. However, the acceptance of this target by the rich nations was grudgingly slow (with many nations still not officially subscribing to this target or, as with the United States, not having agreed to a date by which this target should be met). The actual performance has been most disappointing. Official development assistance from the seventeen countries which are

members of the Development Assistance Committee (DAC) of the OECD actually declined from 0.52 per cent in 1960 to 0.32 per cent in 1975 and, according to some recent World Bank projections, is expected to decline further to 0.28 per cent by 1980, given the present trends.

So far, international resource transfers have been regarded primarily as the responsibility of the Western industrialized nations. Centrally planned economies have given little aid bilaterally and have not participated in any major multilateral channels of assistance. The OPEC member countries are recent arrivals on the scene and have already started transferring significant amounts—an estimated $11 billion of total commitments in 1974 or over 5 per cent of their combined GNP, though the disbursements are naturally slower and were about 2 per cent of their GNP in 1974. They are, however, not yet systematically integrated into the overall framework of international resource transfers.

Sufficient attention has not been paid in the past to the terms of international assistance or to the concept of *net* transfer of resources. As a result, the developing countries have accumulated by now a total financial debt of over $120 billion, so that annual debt servicing is already taking away about one half of the new assistance that the Third World receives.

While foreign assistance has played an important role in the development of some countries at certain times, the overall contribution of this kind of resource transfer to the level and character of economic development remains shrouded in controversy. There have been repeated accusations by the developing countries that foreign assistance has at times been given in such a way as to undermine national resolve; create conflicts with national priorities; transfer irrelevant technologies, education systems, and development concepts; tie the recipient down to the source of assistance at a prohibitive cost; promote the interests of a privileged minority in the recipient country rather than those of the vast majority. The critics of aid in the developed countries allege that aid is largely wasted, that it goes to support repressive governments or (even worse in their judgment) experiments in socialism, and that it discourages indigenous efforts to save and invest. The controversies are not an invariable guide to the truth in each case, but they generally illustrate how unhappy the recipients are with the present pattern of assistance, how thankless the donors regard their current task to be, and how urgent it is to get a new start.

There must, therefore, be a search for a new framework for international resource transfers as an essential part of the effort to establish a new international economic order. Such a framework can only be negotiated over time, after carefully balancing the interests and sensitivities of both donors and recipients.

New Basic Principles

The most important principle underlying a new framework must be a clear recognition by the international community that the resource transfers from the rich to the poor nations cannot continue to remain as totally voluntary acts of periodic generosity: an element of automaticity must be built into such resource transfers. Unless this is done, the evolution of the international economic order will continue to lag behind the evolution of progressive national orders by at least half a century and the pressure for the acceptance of the principle of automaticity will continue in one form or another. This does not mean, of course, that the world is yet ready for, or need embrace, the concept of international taxation in its entirety, but at least a serious effort must begin to introduce some of the elements of automaticity into resource transfer through a variety of devices:

(1) A larger share of the liquidity created by the International Monetary Fund (whether through the Special Drawing Rights or through gold sales) can be made available for development either through the international financial institutions or directly to the developing countries.

(2) Certain sources of international financing can be developed, such as a tax on nonrenewable resources; a tax on international pollutants; a tax on multinational corporation activities; rebates to the country of origin of taxes collected on the earnings of trained immigrants from the developing countries; taxes on, or royalties from, commercial activities arising out of international commons (e.g., ocean beds, outer space, the Antarctic region); or taxation of international civil servants, consumer durables, and armament spending.

(3) If the rich, industrialized nations are unwilling to tax themselves, others can collect and distribute these tax proceeds on the basis of what the rich nations consume—e.g., even a one-dollar per barrel "development levy" by the OPEC countries can create a development pool of over $10 billion a year.

The devices can be many; the more difficult aspect is to convince the rich nations that a more automatic system of international resource transfers will be in their own interest in the longer run, because it will reduce the present conflicts and endless controversies over the quantum and form of "aid" between the rich and the poor nations.

The focus of international assistance must shift to the poorest countries and, within them, to the poorest segments of the population. These are generally the countries with per capita incomes of less than $200, mostly in South Asia and Sahelian Africa, containing over one billion of the poorest people in the world. For higher-income developing countries, what is important is their access to international capital markets and expanding trade opportunities, not concessional assistance. If international assistance is so redirected, it is also essential that it be in the form of grants, without creating a reverse obligation of mounting debt-service liability at a low level of poverty. Even the thought of the poorest sections of society repaying huge debts to the richest sections under the eyes of a benign government would be found abhorrent at the national level, but it is still tolerated at the international level because of the lamentably slow growth of our perceptions as an international community.

It would also be logical to link international assistance to national programs aimed at satisfying basic human needs, however treacherous the concept may prove to be in actual practice. This would give both a focus and a direction to the international assistance effort and make it a limited-period affair until some of the worst manifestations of poverty—malnutrition, illiteracy, and squalid living conditions—are overcome, both through the international effort and the expanding ability of the national governments to launch a direct attack on mass poverty. These programs, however, should not be based on the concept of a simple income transfer to the poor—which would create permanent dependence—but on increasing the productivity of the poor and integrating them into the economic system.

It is difficult to estimate how much investment it may take to bring the majority of mankind to the level of minimum human needs: much conceptual and empirical work still needs to be done. But a very rough estimate shows that the target of providing basic minimum needs to all mankind over the next ten years may require a total investment of about $125 billion in 1974 prices (e.g., food and nutrition, $42 billion; education, $25 billion; rural and urban water supply, $28 billion; urban housing, $16 billion; urban transport, $8 billion; population and health programs, $6 billion). Of course, these estimates will vary considerably depending on the style of development pursued by various countries. However, the merits of articulating such a target for removal of the worst manifestations of poverty are that it can be easily understood by the public (and, hopefully, by the politicians) in the rich nations; it can be the basis of a shared effort between the national governments and the international community; it provides an allocative formula for concessional assistance; and it establishes a specific time period over which the task should be accomplished.

International assistance, on a more automatic and purely grant basis, should be accepted by the international community as a transitional arrangement only, to be terminated as soon as some of the worst manifestations of poverty are removed and institutional reforms are carried out to establish the main elements of the new international economic order as discussed in the previous chapter. This is necessary because the most essential element in the new international economic order is not so much the redistribution of past incomes and wealth as the distribution of future growth opportunities and because the main responsibility for developing their societies must be assumed by the Third World nations themselves. If each developing country is to shape its own pattern of development and its own lifestyle, international assistance can be regarded only as a temporary supplement to domestic efforts, not a permanent crutch.

One of the key questions is who should provide this assistance and how the burdens should be shared. Obviously, the major part of the resource transfers should come from the richest nations, as measured by their per capita incomes. The problem for the next few years, however, is going to be that the rich, industrialized nations—with an average per capita income of about $4,700 in 1975 for DAC members—may experience balance-of-payments difficulties, while most of the liquid OPEC countries (other than Saudi Arabia, Kuwait, Libya, Qatar, and

the United Arab Emirates, with an average per capita income of about $4,000) are hardly rich enough to provide large subsidy funds, since their average per capita income is still less than $500. An obvious solution would be to combine the volume of lending from the OPEC countries with the availability of subsidy funds from the industrialized countries and from the richest OPEC nations. But such a formula is likely to provide resources at intermediate terms, with about a 50 to 60 per cent grant element, rather than the pure grants recommended above. However, this "second best" solution may be the only course available for the next few years unless some of the automatic mechanisms suggested earlier come into play. (An interim "Third Window" facility in the World Bank was established in July 1975 on somewhat similar principles. The World Bank uses the guarantee backing mainly of the industrialized nations to raise funds in the international capital market at 8 to 8.5 per cent interest rates and subsidize them down to 4.5 per cent—with 7-year grace and 30-year repayment periods—by raising subsidy funds from some of the OPEC members and the industrialized countries.)

If the framework of international resource transfers is to be changed along the lines indicated above, it is a logical corollary that multilateral channels should be used increasingly for directing this assistance in preference to bilateral channels. This will be consistent with greater automaticity in resource transfers, allocations based on poverty and need rather than on special relationships, and a more orderly system of burden-sharing for international resource transfers. Greater reliance on multilateral channels will also place a major responsibility on international financial institutions to accept such reforms as are essential to their efficient and equitable working.

In order to evolve a new framework of international assistance, it is also important to wipe the slate clean in at least two directions. First, arrangements must be made to provide a negotiating forum for an orderly settlement of past debts. This can be done by organizing a conference of principal creditors and debtors to discuss and agree on the principles for a major settlement to ease past burdens, particularly for the poorest countries. Second, since the concessions, leases, and contracts negotiated by the developing countries with the multinational corporations in the past often reflect their unequal bargaining strength, and since there is an environment of constant agitation and uncertainty surrounding foreign private investment at present, a mechanism should be provided to permit an orderly renegotiation of past contracts within a specified period of time under some international supervision. A United Nations report commissioned in 1974 provides a sensible framework within which a new code of conduct for both the multinationals and the developing countries should be negotiated and arrangements provided for international monitoring of agreements.[2]

Let us be realistic. It is not going to be easy to negotiate all the above principles simultaneously or to implement them immediately. Moreover, a concrete blueprint for the reform of the present system can only emerge out of hard, tough bargaining which seeks to balance various conflicting interests. An "idealized" framework should include most of the principles mentioned above; a more practical framework will naturally have to settle for many compromises and "second best" solutions, at least in the short run.

Implications for International Financial Institutions

Any new framework for international resource transfers that is negotiated will have major implications for the future of the international financial institutions—particularly for the International Bank for Reconstruction and Development (World Bank), since it is the premier institution at present for the channeling of assistance to the developing countries. In fact, the primacy of the role of the IBRD in coming decades will depend largely on how well and how quickly it can adjust to the fast-changing situation and needs of the developing countries.

Before outlining the nature of the changes that the World Bank will have to accept, it would be useful to review briefly the underlying philosophy of this institution since its inception in 1946. The Bank started out primarily as a U.S.-sponsored effort for the reconstruction of Europe and Japan, not as an international effort to channel assistance to the developing countries. As late as 1964, about one third of its disbursements were still to those developed countries which now are no longer included in its lending program (the so-called "past borrowers"). Over the last three decades, it has shown considerable dynamism and brilliant improvisation in the light of changing situations. At first, it became an intermediary (through the lending instrument) between the capital markets of the world and the more creditworthy among the developing countries, which were still unable to raise a sufficient amount of capital on reasonable terms under their own guarantee. As debt burdens increased in the poorest countries, the World Bank established a "soft" window (International Development Assistance or IDA) in 1960 to provide long-term concessional resources to this group of countries (at 0.75 per cent commitment charge for repayment periods of 50 years, with 10-year grace periods). The Bank's sectoral priorities also changed with the changing requirements of its recipients. While it had provided mainly equipment and consultants for infrastructure projects in the earlier phase, it has been promoting a direct attack on mass poverty in the last five years. For instance, about two thirds of its total lending went to transport, power, and communications in 1964-1968, but a similar proportion now goes into rural development, industry, education, water supply, nutrition, and population projects. It has increasingly phased out higher-income developing countries (those with more than a $1,000 per capita income) and focused its attention on the very poorest countries (with per capita incomes below $200), subject only to the limitations of the total availability of concessional resources. Over 90 per cent of the IDA resources are now directed to countries with less than $200 per capita income. Thus the essential vitality of the World Bank has been reflected in its ability to adapt and improvise as the situation demanded.

In the future, the need to adapt will be even greater. The general direction of change is already clear from the foregoing discussion and can be indicated rather briefly.

1. In order to become a truly international institution and to shed its image of a cozy Western club, the World Bank must aim at universality of membership, both among its potential contributors and among its recipients. Some of the original rules of the game which make it difficult for new members to join the club may therefore have to be changed. For instance, if the World Bank capital base is expanded at present, the existing members have the first right to

[2]Report of a Group of Eminent Persons to the Secretary General of the United Nations, in *The Impact of Multinational Corporations on Development and on International Relations,* U.N. Publication Sales No. E.74.II.A.5 (New York: United Nations, 1974).

pre-empt the additional capital subscriptions, so that new members can be inducted or relative quotas changed only with the tacit permission of existing members. Similarly, the voting rights in the IDA are based on cumulative contributions since its inception in 1960; thus if the OPEC members, for instance, are willing to contribute even 50 per cent to the next replenishment of IDA, they will collectively obtain only about 10 per cent of the total voting rights, which is not likely to encourage their participation unless the formula is revised. Again, a stumbling block in the way of the socialist countries in seeking membership in the World Bank has been the requirement that they must become members of the International Monetary Fund beforehand, which they have been rather reluctant to do and which is totally unnecessary for them to play their role in international resource transfers. The main point is that while it was inescapable that the World Bank should be conceived primarily as a Western club at the time of the Bretton Woods conference, it must now find ways of becoming truly international and must actively negotiate the participation of richer OPEC and socialist countries in its affairs. In the emerging climate, universality of membership becomes one of the most important principles to pursue in the future evolution of the World Bank Group.

2. New formulas must be found for the restructuring of voting rights in the World Bank (including IDA). While voting rights have been revised over time, they still essentially represent the balance of economic, financial, and political power which prevailed in the 1940s. For instance, the United Kingdom continues to have twice the voting power of Germany and nearly three times that of Japan; Belgium and Netherlands together have more voting strength than the OPEC member countries combined; Iran has a lower voting power than India, and Pakistan nearly twice as much as Saudi Arabia, despite the fact that both India and Pakistan are by now aid recipients from Iran and Saudi Arabia. Overall, the developing countries (excluding OPEC) have only 31 per cent of the total voting power. It is important, therefore, to carry out a general and thoroughgoing revision of the voting power structure which replaces the historical past with current realities, so that the OPEC members can be persuaded to play a larger role through existing financial institutions; the developing countries get an increased voice in international financial and development decisions; and the established lenders continue to

have an important, though necessarily reduced, role in the running of the institution. It is not necessary to start out with preconceived formulas; what is really needed is to set out with a clear recognition of the need for change and to provide appropriate negotiating forums where acceptable formulas can be hammered out.

In this context, it is also important that the developing countries adjust their own thinking about their future role in the running of international financial institutions. There has been, at times, a demand for the U.N.-type pattern (one state, one vote) to prevail in the Bretton Woods institutions as well. This is totally unrealistic. No lender is ever likely to put his money into an institution over whose lending policies he cannot exercise a reasonable control. If complete democratization of the financial institutions is regarded as an absolute objective, the institutions are hardly likely to attract significant financial contributions from potential donors. This has, in fact, been the fate of some U.N.-sponsored financial institutions. Moreover, an insistence on this kind of pattern of control is inconsistent with the developing countries' own policies on the domestic front. Whenever public development finance companies are set up within the developing countries, the normal pattern is for governments to assume at least 51 per cent of the control on the board of directors. And this is the case when the governments generally enjoy tremendous power to influence the running of these companies without even requiring a formal presence on their boards. The developing countries cannot show less responsibility just because it is somebody else's money and they are the recipients of, not the contributors to, international financial institutions.

An ideal pattern for the control of these international financial institutions would imply that the donor members should have the strong possibility of influencing the disposal of their funds (which would specifically mean a voting right somewhat higher than 50 per cent) and the recipient countries should have at least the probability, if not the certainty, of influencing the decisions of these institutions (which would argue for voting rights somewhat lower than 50 per cent). The area of negotiation, therefore, lies somewhere between 40 and 50 per cent of the voting rights for the recipient developing countries compared with the current proportion of about 30 per cent in the World Bank. The real effort must be to evolve a new pattern somewhere between the United Nations' existing pattern of democracy without finance and the Bretton Woods system's existing pattern of finance without democracy.

There is one further consideration which could completely change the perspective on what has been said above. If the sources of funding of the World Bank Group change significantly and become more automatic, as discussed below, the pattern of international control over this institution has to be thoroughly re-examined. For instance, if the resources are derived from international taxation or royalties of one kind or another, there will be a powerful argument for a more broad-based control of the World Bank by the entire international community.

3. There is a strong case for imparting more automaticity to the fund-raising efforts of the multilateral institutions like the World Bank. This is needed in order to free the World Bank increasingly from bilateral pressures and to enable it to play a truly multilateral role in the new international economic order. Thus efforts must be made to link at least a part of the future IDA replenishments with the creation of an international currency (e.g., Special Drawing Rights) or with gold sales or with some other sources of international taxation, as mentioned previously. For the IBRD, it would be logical that, instead of seeking the concerned government's permission before floating its bonds, it should have an automatic right to borrow in any capital market where the country has been enjoying an overall balance-of-payments surplus for a certain period. Such an automatic access to the international capital markets will enhance the role of the World Bank as an intermediary between the surplus markets and the developing countries and will, in fact, make Bank borrowings a part of the corrective mechanism for redressing persistent balance-of-payments surpluses.

4. While the World Bank has shown considerable vitality and imagination in deepening and enlarging its activities in regard to its lending program (for instance, by turning its attention to productive programs for the poorest 40 per cent of the population), it has not shown the same vitality in widening the range of its services, for example, buffer stock financing, export credit financing, use of its guarantee powers, etc. The latter aspects are likely to become even more crucial in the 1970s as trade expansion comes to be recognized as an increasingly important supplement to resource transfers to provide the

needed foreign exchange for the accelerated development of the developing countries.

5. Though the IBRD and the IDA have served admirably as mechanisms for channeling assistance to the developing countries, it is becoming increasingly necessary to evolve a new mechanism for obtaining and directing assistance at terms intermediate between the IBRD and the IDA. The introduction of a "Third Window" in July 1975 was, therefore, a pragmatic and inevitable response to the changing circumstances. While the Third Window facility has been introduced essentially as an interim measure for fiscal year 1976, there can hardly be any doubt about the longer-term need for this type of assistance and about the considerable room for maneuver that it provides to the World Bank Group in blending its assistance to a wide variety of developing countries which have vastly different capital needs and degrees of creditworthiness.

6. Consideration must also be given to a general review of the Articles of the World Bank, which were conceived and drafted in the environment of the 1940s. This is becoming necessary as the basic economic situation of the developing countries is undergoing a fairly rapid change, calling for a much greater measure of flexibility in the World Bank operations. For instance, the original Articles expected, quite rightly at that time, that the bulk of the World Bank assistance would be in the form of projects and in foreign exchange, so that restrictions were built into the rules of the game against program lending and local cost financing. The World Bank has improvised pragmatically in its actual operations to get around these restrictions as the need arose: yet the long shadow of the Articles is always there and the needed flexibility is often missing. Program lending and local cost financing still have to be justified, on a case-by-case basis, as deviations from a normal trend; this is bound to influence the form and character of lending. One can find other instances of such restrictions in the original conception of the role of the World Bank: for example, procurement of goods and services restricted only to bank members; extremely limited preference margins to developing countries for procurement within their own country; a strict financial rate-of-return criterion; etc. The Bank practice has moved considerably, though not sufficiently, away from some of these restrictive aspects of its Articles and its past tradition. But the Articles themselves may have to be

reviewed, not only to bring them into conformity with the actual practice but to build into them enough flexibility to accommodate the needs of the 1970s and the fast changing role of the World Bank in the future. It should be recognized at the same time that a general review of the Articles is likely to be a very difficult and treacherous process and can only be undertaken if the necessary political consensus for such a step is available. In the meantime, there may be no alternative to pragmatic improvisations.

This discussion has focused on some of the major considerations which should guide the resource transfers from the rich to the poor nations and the designing of new institutional structures. This is a field in which the imagination can often run wild. The idealists would argue that there should be establishment of a world treasury, along the lines of a national treasury. The pessimists would think that even the present resource transfers from the rich to the poor nations are not going to continue because there is a weakening of the will in the rich nations as they face up to their own domestic problems.

It would be the heart of realism to steer a middle course between such extremes and to build up brick by brick a new edifice for international cooperation. The proposals outlined here offer only some of these bricks. The outcome of the present dialogue on the nature and form of resource transfers from the rich to the poor nations will obviously depend, in the last analysis, on the political vision and enlightened self-interest of the entire international community. But let us face it. Political vision is one of the most scarce commodities in the world today. We can only hope that it still exists.

the third world's choices after the u.n. special session

Having discussed the need for a new global order and the requirements for implementing such an order, I now wish to examine the results achieved at the Seventh Special Session of the U.N. General Assembly in New York in September 1975 and to discuss the tactics and the strategy that the Third World may have to adopt in the months and the years ahead.

It should be noted that it was remarkable that this Session was held at all. After all, the struggle for economic justice at the international level is not just two years old; it has been going on for the last ten or twenty years. But the fact that the Sixth Special Session of the United Nations on this subject was held in April 1974, and that another was held in 1975, is an indication of the way that we are traveling—not only the direction, but also the distance that we have come in our search for a new economic order.

There was quite a contrast, in fact, between the Seventh Special Session and the Sixth, where there had been much shouting between the developing and the developed world, but very little communication, very little dialogue. The attitude of the rich nations at that time had been that there was nothing much to discuss, that the new international economic order was merely a rhetorical slogan, that the international market mechanism functioned fairly well, and that the developed countries were not prepared to consider major interventions in the free functionings of the market mechanism. In the 1975 Session, the mood on both sides was remarkable. I regard it almost as the second stage of a trade union movement, when the initial shouting has been done and both sides are willing at least to sit around the table and to start discussing what the major issues are. The final resolution that emerged out of the Seventh Special Session provides a fairly broad negotiating umbrella for a number of initiatives which can be taken subsequently.

This resolution includes an agreement to provide adequate financing for buffer stocks to stabilize commodity prices; it provides for reduction or removal of non-tariff barriers and continuation of a preferential system for manufactured exports; it provides for some language which suggests that concessional assistance should be increased substantially and that it should be made predictable, continuous, and increasingly assured, although it does not quite say that it should be made automatic.

It also recommits the developed countries to the 0.7 per cent target of foreign assistance and lays down a concrete timetable for this target to be met by 1980. It endorses the establishment of a link between international liquidity and development assistance; it also endorses the role of a revamped international monetary system and gradual phasing out of the national reserve currencies. It stops shy of suggesting the setting up of an International Central Bank, but the language does come fairly close to it. It endorses an international fund for agricultural development, with capital of $1 billion to provide additional financial sources for increased food production. And it accepts, in principle, a minimum food-aid target of 10 million tons for 1975/76 and the concept of providing emergency assistance whenever there is a shortage of food grains because of crop failures.

The resolution has language to suit practically every possible constituency—the developing countries, the developed countries, the socialist bloc, the OPEC countries. It is probably the fate of most U.N. resolutions that they tend to become a catch-all for everything because of the inevitable process of compromise. But what is remarkable is that both the developing and the developed countries were willing to come to terms on specific language in the resolution rather than to risk a breakdown in communications. Both sides regarded this as an opening of the dialogue, rather than an occasion where firm agreements could be reached or final decisions hammered out. Both sides felt that it was better to have something at least to start with, however vague or indefinite it might sound, and to seek negotiations rather than confrontation at this stage.

I do not think that any major breakthroughs were reached in this Special Session, nor do I think that any major breakthroughs were possible. There was no additional financing in most of the proposals presented to the Special Session. But it was at least the beginning of a dialogue and it did provide an umbrella under which it may be possible to organize specific follow-up in a number of areas.

The basic question now is how we should move from the U.N. Special Session to the next stage of the dialogue. Here we must distinguish between short-term and long-term strategy. In the short term,

we should try to seek agreement on certain proposals and use various forums to do so. The most important forum for this would be the UNCTAD IV Conference in May 1976 in Nairobi. That offers a major opportunity to the developing countries to present concrete proposals of the kind suggested earlier in this paper. It would not be possible to reach final decisions in such a conference. But it can at least lay down the groundwork for future negotiations and agreements in a number of specific areas.

Reforms within Third World Countries

The Third World must, however, start thinking about fashioning its long-run strategy. Our struggle is not for the next year or two; it is for the next few decades and the next few generations. Let me take up some of the major steps that the Third World must consider in order to prepare itself for this prolonged struggle.

The Third World must consider seriously reforms in its own internal orders. This is vital in order to pass on whatever gains are achieved internationally to the masses rather than to a handful of privileged groups. It is also vital in order to gain credibility for the demand for a new international economic order. We cannot very well ask for equality of opportunity internationally if we in the Third World deny the same equality of opportunity to our own people. That is why it is vital that we undertake, in the next phase, major reforms in the internal orders.

It is important that new development strategies and new development styles be adopted at the national level in our countries. We learned a lot in the last decade of development from the challenge to the traditional concepts of economic growth. We all chased for a long time the goddess of gross national product. We believed that with high rates of growth in the GNP, we would be able to eliminate poverty. We found to our distress in country after country that high rates of growth by themselves were no guarantee against worsening poverty. Many countries had high rates of growth and production, yet growth did not filter down to the masses.

We have learned through our own bitter experience a number of lessons. We have learned that economic growth does not automatically filter down to the masses unless there is a development strategy geared to the poorest sections of society. We have also learned that development must be built around human beings and not human beings around development. I hope that we have learned that development means essentially the development of man and not just the production of things, that it is a comprehensive concept and not a technocratic proposition.

We have learned, I hope, that income distribution and employment plans are an integral part of production plans and cannot be divorced from them. We have discovered that it is false and dangerous to contend that we must grow first and distribute later, because if we try that strategy, the very institutions which manage growth are the ones which later resist distribution. If we grow by producing luxury goods, it is not possible later to redistribute them, because growth is not only a financial concept but also a physical concept.

I think we have also learned that the consumption patterns of most of our societies in the Third World must be adjusted to our own value systems and should not be a pale imitation of somebody else's culture or somebody else's lifestyle. We have learned that the basic aim of development should be to cater to the basic human needs for food, shelter, education, health, and other essential services before anything else.

While we have learned all this at an intellectual level, there are very few societies today in the Third World which are practicing in a wholehearted fashion the new development strategies. We pay a lot of lip service to new development styles, but the rhetoric in this field has been far ahead of our actions. Today we have to think seriously in terms of restructuring our national orders, because that is where the real battle will be fought and either lost or won.

There are three things which are absolutely essential for such a restructuring of internal orders. First, in most parts of the Third World, there is a need today for fashioning new political and economic alliances which will accept and implement the new development strategies. It is naive to hope that new development styles and strategies can be implemented if in the Third World countries alliances are built up with landlords, industrialists, bureaucracies, the military, and other vested interests. It is important for the Third World to consider tough political and economic decisions. There are no soft options available in this field.

Second, there is an urgent need in our societies to formulate and implement need-oriented development strategies. But if we want to do that, if the real aim of development is to cater to basic human needs

before any other goal, then several actions are needed. We must be very clear about the target groups that we want to reach. Who are the people who are malnourished, illiterate, unemployed; where are they concentrated; how can we reach them; what are the delivery systems? I find in most societies of the Third World a lack of even the essential data that can provide answers to these questions. Often our societies have data on monetary systems; on prices, exports, and imports; on GNP. But they do not have data on poverty, on unemployment, on social indicators. We must obtain this data. We must carry out this analysis in our research institutes. Without such a serious effort, it is going to be impossible to formulate need-oriented development strategies, and a lot of the talk on this subject may become a matter of political rhetoric.

Third, it is essential to embrace and to implement a concept of creative self-reliance. Not self-reliance in the sense of cutting our links completely from the world, but self-reliance in the sense of being so self-confident as a nation as to base our development on our own cultural values. Self-reliance is a very comprehensive concept which cuts across all walks of life. It implies not only relying on our own industry or agriculture, or on our own domestic resources or technology. It is relying on our own thinking and our own value systems, without being defensive or apologetic. And in that sense, the Third World has a long way to go, because—whatever we may say—there are still major patterns of dependency in our economic, political, and cultural life throughout the Third World.

This restructuring of our own national orders is a major part of the task we must address—a task with which nobody else can help us because it is essentially our own job.

Third World Unity and Tactics

Another major part of the strategy ahead is to forge unity within the Third World—political as well as economic unity. This is extremely important, particularly in the next few years, because there will be many attempts made to split the Third World. There will be many temptations along the way, many lures to settle for short-term gains while losing the long-term objective. There is a major need today to establish our own forums for coordination of our thinking at a political and economic level.

We have a number of forums in the Third World at present—the Group of 77, the Group of 24, the Non-Aligned Conference, etc. There is a major need today to develop some substantive secretariats for these groups. It is indeed surprising that, after such a long time, we still do not have a secretariat for the Group of 77 or the Group of 24 or the Non-Aligned Conference. Unless we have our own secretariats, manned by some of our best people, we are not going to be able to do concrete thinking and come up with specific proposals for our political negotiators to take forward. It is up to the secretariats within these groups to produce well-researched, well-documented proposals which can become the negotiating agenda for the Third World.

At the same time, the Third World can help its cause a good deal by taking certain actions which are well within its own reach. My own favorite proposal is that the Third World countries should get together and, by a single stroke, create a preferential area for trade among themselves. This can be done by a uniform devaluation of their currencies by, let us say, 50 per cent vis-à-vis the developed world. This should be done only for manufactured-goods exports, where such an action will immediately create a built-in incentive to trade with each other rather than to perpetuate the traditional patterns of dependency on the developed world. So instead of complaining about some of these issues, we should take the initiatives which are well within our reach.

Let me now say a few things on the tactics and strategies that I regard as vital in the struggle ahead. If we are going to opt for negotiations in our search for a new international economic order, it is essential that whatever proposals we formulate balance the interests of both rich and poor nations. It is easy to formulate partisan positions. But we live in an interdependent world. If we are to live without major confrontations, we should think of proposals which, while benefiting the Third World, do not hurt the interests of the world as a whole and which can obtain more willing cooperation from the rich nations. We need higher prices for our raw materials. The rich countries need an assurance of stable supplies of raw materials. There can be an international bargain where the higher prices of raw materials can be negotiated in return for assurances on longer-term supplies. Similarly, we want from the multinational corporations renegotiation of our contracts and far more favorable sharing of benefits

than we received in the past. The multinationals at the same time are looking for an environment of greater certainty within which they can operate on a longer-term basis. It should be possible to evolve arrangements which balance the interests of both sides. And, taking the question of voting rights in international financial organizations, the Third World needs a major representation in these institutions. But, at the same time, it should not press this to the point where the rich nations lose interest in these institutions or withdraw their financing, because that merely will be counterproductive.

I know that these suggestions will not satisfy many radicals. I realize that some of these solutions are too rational. But in the long run this is the only practical course. This world of ours always has to balance various interests to reach practical compromises, irrespective of the initial positions the contending sides start from. The struggle for a new economic order should be conceived of as a movement that will span several decades and several generations. We are merely at the threshold of this struggle. Our role is that of torchbearers: to illuminate the ground for those who must follow.

This cannot be done without a major intellectual revolution in the Third World. We must develop the capacity to think for ourselves and to think rationally, not emotionally. If we are to win our arguments against the rich nations around the negotiating tables of this world, we must learn to do our homework thoroughly, to research all the facts carefully, to develop the intellectual integrity to see things in their true perspective rather than in black and white, to have the magnanimity to concede an argument if we are wrong and yet the tenacity to fight our case if we are right. This requires the ability to think afresh, but it also imposes great responsibility on us. Mere radicalism is not enough. If we are not careful, it can become an easy escape. We can shout for a sudden collapse of the existing order. We can keeping saying that a new order will not be born unless the present one dies. But such wild rhetoric evades responsibility. It is too easy. It requires little thought. And it is also cowardly.

In the last analysis, we must carry our case by the eloquence of our ideas, not the eloquence of our words. Brave words are soon forgotten. But ideas have a life of their own. I strongly believe that our world can neither fight nor long resist an idea whose time has come. Our supreme challenge is to fashion those ideas. This should be the task of all our intellectual institutes. All I have tried to do here is to present a few ideas—which are neither adequate, nor particularly breathtaking. They are merely an invitation to further thinking. You must all produce your own ideas. This is the main message I hope to convey.

THE POVERTY CURTAIN
by Mahbub ul Haq

The ideas expressed in this ODC Development Paper are elaborated in the author's new book, *The Poverty Curtain: Choices for the Third World* (Columbia University Press, September 1976, paper: $5.95, hardback: $12.50). The study presents a graphic and disturbing picture of two economic worlds—one embarrassingly rich and the other desperately poor—separated by what Mr. Haq terms "the poverty curtain." According to the author, equality of opportunity has become the central issue of our time. The book details concrete proposals to achieve such equality. *The Poverty Curtain* is available in selected bookstores or by direct order (accompanied by payment by check) addressed to: Columbia University Press, 136 South Broadway, Irvington, New York, 10533.

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■ books

Beyond Dependency: The Developing World Speaks Out, edited by Guy F. Erb and Valeriana Kallab, with essays by Mahbub ul Haq, Ali A. Mazrui, Samuel L. Parmar, Félix Peña, Krishna Roy, Soedjatmoko, Soumana Traoré, Constantine V. Vaitsos, and Bension Varon (251 pp., $3.95).

The ten essays in this volume offer the private views of developing-country experts on a number of subjects of longer-term North-South contention. Among the issues discussed from a "southern" perspective are multinational corporations, foreign investment and technology transfer, oceans use, population policy, and the effectiveness of different development strategies. Other chapters discuss the costs of continued confrontation and suggest global "bargains" whereby all could gain. The appendices include the major nongovernmental statements and official declarations documenting the current debate.

The U.S. and World Development: Agenda for Action, 1976, by Roger D. Hansen and the staff of the Overseas Development Council. Published for the Council by Praeger Publishers, Inc. (March 1976, 222 pp.). Paperback, $4.25; hardback, $15.00.

The ODC's fourth annual assessment of U.S. policies toward the Third World provides useful analytical perspectives and statistical information pertinent to the evolution of North-South negotiations and the formulation of U.S. policy over the next year and beyond. Individual chapters discuss: the major issues debated at the Seventh Special Session of the U.N. General Assembly and due to be negotiated in 1976-77; an analysis of the 1974-75 "crisis of interdependence" and the shaping of U.S. foreign policy; an evaluation of the world food situation and the U.S. role beyond the 1974 World Food Conference; and the need for an *international* approach to the worldwide energy problem. The five annexes provide over 90 pages of statistical data.

Women and World Development, edited by Irene Tinker and Michèle Bo Bramsen (May 1976, 228 pp., $3.50) and *Women and World Development: An Annotated Bibliography*, prepared by Mayra Buvinić (May 1976, 162 pp., $2.50). When ordered at the same time, these two publications are available as a set for $5.00. (A hardback edition combining the two volumes is forthcoming from Praeger Publishers, Inc.). Prepared under the auspices of the American Association for the Advancement of Science and published by the ODC, this two-volume set is the result of the international experts' seminar on "Women in Development" cosponsored by AAAS, UNDP, UNITAR, and the Mexican National Council of Science and Technology and held in Mexico City in June 1975—just prior to the U.N.-sponsored World Conference of the International Women's Year.

The *first volume* of this set includes essays on selected issues in this field by Margaret Mead, Rae Lesser Blumberg, Irene Tinker, Fatima Mernissi, Teresa Orrego de Figueroa, Hanna Papanek, Nadia H. Youssef, Kenneth Little, Mary Elmendorf, Mallica Vajrathon, Ulla Olin, and Erskine Childers. Also included are summaries of the proceedings and recommendations of the Seminar's workshops on food production and small technology; education and communication; health, nutrition, and family planning; urban affairs; and women's associations. A useful annex is the "World Plan of Action" adopted by the U.N.-sponsored 1975 World Conference.

The *second volume* of the set consists of an introductory overview and annotations of over 400 published and unpublished studies in this field, arranged according to subject categories and geographic focus.

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