The Heritage Foundation Backgrounder

No. 182

The Heritage Foundation • 513 C Street • N.E. • Washington, D.C. • 20002 • (202) 546-4400

April 30, 1982

THE BRANDT COMMISSION: DELUDING THE THIRD WORLD

INTRODUCTION

During his first year in office, President Reagan has focused his principal attention on reconstructing the American economy. Although seldom articulated, the challenges confronting his domestic economic program have emerged in the international economic arena as well. For the past three decades, Third World countries have persistently called for a worldwide redistribution of income similar in structure to the programs adopted during this period by the federal government in the United States. Although President Reagan has forcefully met and attempted to change the direction of domestic economic programs, his efforts to reorient the role of the U.S. have been only tentative in international economic development programs.

The United States is currently being dragooned into active participation in such international redistributive schemes, which are in direct contradiction not only of the policies and programs of the Reagan Administration, but of the very basis of our democratic process. Implicit in such programs is a degree of coercion, the abrogation of sovereignty, and the denial that man has a fundamental right to the fruits of his labor. The Reagan Administration must necessarily confront these adherents of redistributive wealth, expose their fallacious reasoning, and reject forthrightly their illusionary schemes.

A most important meeting for the U.S. in regard to these issues took place on October 22 and 23, 1981, at the Mexican beach resort of Cancun. This summit, known formally as the International Meeting on Cooperation and Development and more informally as the North-South Conference, brought together government leaders representing twenty-two nations from both the "industrialized" North and the "developing" South to discuss global development issues.

The meeting was called by Mexican President Jose Lopez Portillo and Austrian Chancellor Bruno Kreisky not only to air the various disparate views of the participating nations on the meaning of cooperation and development, but also to narrow the differences between the industrialized world and the developing nations. Though no formal agenda existed, the participants agreed beforehand to discuss "food security and agricultural development; commodities, trade, and industrialization; energy; and monetary and financial issues."[1]

The Cancun meeting was the latest step in a process that began several years before when an Independent Commission on International Development Issues, headed by former West German Chancellor Willy Brandt, published a lengthy and shrill report entitled North-South: a programme for survival. The report is the most important of numerous attempts to force changes in U.S. international economic policy.

The gist of the Commission's findings -- also known as the Brandt Report -- is that the world in the 1980s faces a crisis of such global dimensions that the very survival of the human race is in serious question. The Commission, however, did note that such developments were not necessarily inevitable and suggested that the nations of the world could and should band together in the "common task of ensuring survival, to make the world more peaceful and less uncertain."[2] To achieve such an end, the Brandt Report offered a rather elaborate emergency program, which would fundamentally alter the existing relationship between North and South and bring about the creation of a "new international economic order." The Commission ended its report by calling for a summit of world leaders from industrialized and developing countries to concentrate and act on this emergency program.[3]

For more than a decade before publication of the Brandt Commission's report, leaders of the Third World had been trying to engage leaders of the industrialized nations in negotiations toward the establishment of this "new international economic order." This vague phrase refers not only to redressing the economic imbalance between developed and developing nations, but also to its elimination by a vast scheme of redistribution of the world's wealth. In short, the NIEO, as the "new international economic order" is known, seeks to take the produced wealth of developed states and parcel it out to the undeveloped.

Though an increasing number of commentators have questioned the validity and propriety of such redistributive schemes, the

---

1 The New York Times, October 21, 1981.

2 Report of the Independent Commission on International Development Issues, North-South: A programme for survival (Cambridge, Massachusetts: The MIT Press, 1980), p. 47.

3 Ibid., pp. 281-282.

pressure to implement them has not abated. Last December 15, Javier Perez de Cuellar of Peru, the new Secretary General of the United Nations, called the gap in wealth between rich nations and poor a "breach of the most fundamental human rights," and declared that as Secretary General he intended to "provide impetus" for global negotiations on transferring wealth from developed to developing nations.[4]

Contrary to much of the press coverage, both here and in Europe, which unfairly caricaturized President Reagan at Cancun as "Scrooge preaching platitudes about self-reliance,"[5] the Administration fully committed itself to playing a constructive and positive role in the historic development process. The President clearly and forcefully expressed the belief that emphasis upon individual initiative in a free market system, rather than aid and government intervention, has been and remains the surest route to economic growth. Implicit herein was a rejection of worldwide redistributive schemes, the proposed New International Economic Order, and the Brandt Commission report.

Soon thereafter, the Administration followed up these words with a concerted program of action to show that its plan, and not that of the proponents of redistributive wealth, would best serve the needs of both the developed and developing worlds.

On February 24, 1982, in a major address to the Organization of American States (OAS), President Reagan unveiled such a broad economic program for the two dozen or so countries of Central America and the Caribbean Basin. He proposed a long-term U.S. economic commitment to the area stressing free trade, aid primarily in support of the private sector, technical assistance, and investment. If the program succeeds in creating those conditions under which "creativity, private entrepreneurship and self-help can flourish,"[6] then it may well serve as a model for other areas of the world.

U.S. FOREIGN ASSISTANCE SINCE WORLD WAR II

How should the United States respond to demands for a NIEO? This question has perplexed three American administrations, and rightly so, for this country has had a proud and pioneering record of aiding nations in need.

---

4 New York Times, December 16, 1981, p. A6.

5 Robert Lubar, "Reaganizing the Third World," Fortune, November 16, 1981, p. 81.

6 Office of the Press Secretary, The White House, Text of Remarks by the President to the Organization of American States, Hall of the Americas, Washington, D.C., February 24, 1982, p. 3.

In the years immediately following the Second World War, the Marshall Plan was designed to promote the relief and recovery of war-ravaged Western Europe. With the onset of the Cold War, it was determined that American military as well as economic assistance should be extended to nations, threatened by Communist aggression or subversion, notably Greece, Turkey, Korea, and Taiwan.

Similarly, the United States began to provide technical and capital assistance to nearly all developing, independent nations. The burden of international assistance fell heavily and solely on the United States; in the early fifties, the United States was the <u>only</u> nation offering international economic assistance as a national policy.

As scores of nations gained independence during the early sixties, the U.S. government publicly announced that it was launching a "Decade of Development" to help poor nations grow more rapidly and participate more fully in international political and economic systems. The establishment of the Agency for International Development (AID) within the Department of State, the Alliance for Progress in Latin America, and the Peace Corps, as well as the large developmental assistance programs in India and Pakistan and the multiyear aid commitments in Tunisia and Nigeria exemplified the direction of American foreign aid.

During the late sixties and early seventies, discouragement with foreign aid, particularly as a tool of American foreign policy, was evident among Washington policymakers. Charles P. Kindleberger, an authority on American foreign aid, noted:

> Economic development was stubbornly slow. Aid achieved little growth, less gratitude, few political objectives.[7]

Such discouragement was reflected in the sharp decline of official, bilateral U.S. development assistance between 1964 and 1972. As a proportion of the gross national product (GNP), official development assistance fell to 0.29 percent in 1972, in contrast to the 1964-66 period when it was 0.49 percent.

The disenchantment continued throughout the seventies. E. Dwight Phaup, Professor of Economics at Union College, observed, "real non-military assistance to foreign nations expanded by just 36 percent between FY 1972 and FY 1979."[8] As a percentage of total government expenditures, nonmilitary aid remained roughly at 1.5 percent.

---

[7] Charles P. Kindleberger, "U.S. Foreign Economic Policy, 1776-1976," <u>Foreign Affairs</u>, Vol. 55 (January 1977), pp. 395-417.

[8] E. Dwight Phaup, "International Affairs," in Eugene J. McAllister, ed., <u>Agenda for Progress: Examining Federal Spending</u> (Washington, D.C.: The Heritage Foundation, 1981), p. 42.

The seventies did, however, witness a dramatic shift in the mechanism by which American foreign aid was disbursed. During that time, the proportion of aid provided through multilateral arrangements grew relative to bilateral aid (see Appendix 1). Significant also was a change in emphasis on the nature of aid disbursed. During the 1960s, development assistance programs concentrated on such major "infrastructure" projects as dams, roads, and power plants; after 1973, the major focus of bilateral assistance was to be the poorest nations and an attack on their most serious obstacles to economic growth and development -- population, food, and health. More important, self-help became the underlying theme as well as the major criterion for additional aid distribution. Commenting on the shifts, Phaup noted:

> This change is due in part to announced efforts by donor nations to "de-nationalize" aid, but is also reflective of the Nixon administration's emphasis on "New Directions" where bilateral aid was to rely more heavily on self-help projects and private investment. Perhaps even more importantly, the shift is in response to greater militancy on the part of recipient nations which view aid from the developed nations as an entitlement involving no implicit or explict obligations to the donors.[9]

PROPONENTS OF ECONOMIC REDISTRIBUTION

Among the more dramatic changes that have occurred in the international environment since World War II has been the emergence of more than a hundred new nations, most of them from the non-industrialized, less developed areas of Asia, Africa, and Latin America. Of the 157 nations now represented in the United Nations General Assembly, about 120 consider themselves "Third World" or developing nations.

This bloc is popularly known today as the "South." The term "South" is more a political than a geographic concept. Australia and New Zealand, for example, are located in the southern hemisphere but, in economic and social terms, clearly belong to the North. Conversely, much of the "South" -- India, Pakistan, Southeast Asia, large sections of Africa, and Latin America -- lies north of the equator. And the South is even less a uniformly homogeneous economic entity than it is a geographic unit. In fact, the "South" is an enormously disparate group, ranging from populous, resource-rich countries like India and Brazil to less populous, island countries like the Seychelles and Grenada. Similarly, the distribution of Per Capita GNP within the South is extremely varied (see Table I). And culturally, the South ranges

---

9 Ibid.

from countries with millions of aborigines to those of more advanced, sophisticated civilizations.[10]

TABLE I
DISTRIBUTION OF PER CAPITA GNP
SELECTED LIST

Country	Per Capita GNP (in U.S. dollars)
Bangladesh	90
Laos	90
Nepal	100
Ethiopia	120
Somalia	130
Mozambique	140
Upper Volta	160
India	180
Sri Lanka	190
Guinea	210
Pakistan	230
Central African Republic	250
Lesotho	280
Guinea-Bissau	290
Sudan	320
Ghana	390
Dominica	440
Zambia	480
Guyana	560
Botswana	620
El Salvador	660
Peru	740
Cuba	810
Guatemala	910
Tunisia	950
Malaysia	1090
Panama	1290
Taiwan	1400
Costa Rica	1540
Uruguay	1610
Argentina	1910
Suriname	2110
French Guiana	2340

10 Cf. P. T. Bauer and B. S. Yamey, "East-West/North South: Peace and Prosperity?," Commentary, Vol. 70, No. 3 (September 1980), pp. 57-58; P. T. Bauer and B. S. Yamey, "Against the New Economic Order," Commentary, Vol. 63, No. 4 (April 1977), pp. 25-26; and Susan P. Woodard, "The Third World: New Realities and Old Myths," The Heritage Foundation Backgrounder No. 114 (March 18, 1980).

Venezuela	2910
Singapore	3290
Martinique	3950

Source: 1980 World Bank

The term "South" is a label given meaning, notes Professor Roger D. Hansen of the Johns Hopkins School of Advanced International Studies, by "the decision of those countries to act as a diplomatic unit coordinating a large measure of their international activity."[11]

For almost two decades, developing countries have urged, particularly in international forums, dramatic changes in the post-World War II economic and financial system. During the sixties and early seventies, the developing countries began banding together to press not only for increased foreign aid and trade but, more important, for major economic concessions from the United States and other Western economic powers.

During the first United Nations Conference on Trade and Development (UNCTAD) in 1964, some 77 developing countries organized themselves into a negotiating bloc, more commonly known as the "Group of 77."[12] This group, whose membership today exceeds 120 nations, stressed throughout the sixties strong trade preferences, compensatory financing, and special drawing rights (SDR) allocations, particularly in U.N. circles.

In 1973, at the fourth conference of the Non-Aligned Countries in Algiers, the developing nations as a whole turned their attention specifically to the economic goals that had been set by previous UNCTAD meetings. The Algiers meeting ended with a clarion call for the "new international economic order" and the recommendation that a special session of the General Assembly be convened to consider the U.N. role in fostering such a development.

In April 1974, the Sixth Special Session of the General Assembly formally adopted -- without a vote -- a resolution which stressed, *inter alia*, the need:

> to work urgently for the establishment of a new international economic order based on equity, sovereign equality, common interest and cooperation among all states, irrespective of their economic and social systems, which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and developing countries and

---

11 Roger D. Hansen, "North-South Policy -- What is the Problem?" *Foreign Affairs*, Vol. 58, No. 5 (Summer 1980), p. 1105.

12 Cf. Jon McLin, "The Group of 77," *West Europe Series*, Vol. XI, No. 3 (American Universities Field Staff, Inc., April 1976), pp. 1-8.

> ensure steadily accelerating economic and social development and peace and justice for present and future generations.

The Special Session similarly agreed -- again without a vote -- to a "program of action" that called for changes in existing North-South relations

- TRADE -- more "equitable" commodity agreements; greater access to industrialized markets; and a common fund to guarantee stable prices for raw material exports.
- FOREIGN AID -- large scale debt cancellations; and increased assistance primarily through multilateral channels.
- FOREIGN INVESTMENT -- recognition of full permanent sovereignty over resources; restitution and full compensation for exploited resources.
- TECHNOLOGY -- greater access to "developed" technology; restraints on multinational companies.
- FINANCIAL INSTITUTIONS -- significant changes in the distributive systems, particularly the World Bank and the International Monetary Fund.

Though the New International Economic Order was presented as a simple kind of recompense for the West's alleged exploitation of the developing world's resources, the real thrust of the document, according to Peter Bauer, professor at the London School of Economics, and John O'Sullivan, editor of Policy Review, is the implication that "everyone everywhere should be entitled to a substantial income by virtue of being alive, regardless of economic performance."[13] "Correcting inequalities and redressing existing injustices" translates into a massive worldwide redistribution of wealth.

During a November 1975 visit to Great Britain, Tanzanian President Julius Nyerere gave an address, entitled "The Economic Challenge -- Dialogue or Confrontation," in which he succinctly put forward the argument for redistribution:

> I am saying it is not right that the vast majority of the world's population should be forced into the position of beggars, without dignity. In one world, as in one state, when I am rich because you are poor, and I am poor because you are rich, the transfer of wealth from rich to poor is a matter of right; it is not an appropriate matter for charity.

---

13 "Foreign Aid for What?," Commentary, Vol. 66, No. 5 (December 1978), pp. 41-48.

> The objective must be the eradication of poverty and the establishment of a minimum standard of living for all people. This will involve its converse -- a ceiling on wealth for individuals and nations, as well as deliberate action to transfer resources from the rich to the poor within and across national boundaries.[14]

Demands for the establishment of a New International Economic Order continued to be uttered throughout the seventies in the United Nations, its specialized agencies and conferences, various meetings of the non-aligned, and in non-governmental groups. Two groups have been especially significant: The Club of Rome (a group of prominent and influential businessmen, economists, and academicians formed in 1968); and the Brandt Commission.

THE CLUB OF ROME

Early in 1974, Dr. Aurelio Peccei, President of the Club of Rome, suggested the formation of a group of specialists who would be able to address the following question:

> what new international order should be recommended to the world's statesmen and social groups so as to meet, to the extent practically and realistically possible, the urgent needs of today's population and the probable needs of future generations?[15]

The project was entitled "Reshaping the International Order" and was supervised by Nobel Laureate Jan Tinbergen. The staff -- 21 in all -- was drawn from a variety of countries, social systems, and specializations. Funding was made possible by Jan Pronk, Netherlands Minister for Development Cooperation.

The final 325-page report, published in 1976, consists of four main parts:

- "The Need for a New International Order and the Main Problem Areas";
- "The Architecture of the New International Order; Initiating and Steering the Process of Planned Change";
- "Proposals for Action";
- "Technical Reports."

---

14 Quoted in Peter Bauer and John O'Sullivan, "Ordering the World About: The International Economic Order," Policy Review, Vol. 1 (Summer 1977), p. 56.

15 Jan Tinbergen et al., "Reshaping the International Order: A Report to the Club of Rome," (New York: E. P. Dutton & Company, Inc., 1976), p. i.

In the first part of the report, stress is placed upon the tremendous inequities in the international system. These inequities have

> given rise to essentially two worlds and the disparities between them are growing. One is the world of the rich, the other the world of the poor, united by its heritage of common suffering. A poverty curtain divides the worlds materially and philosophically. One world is literate, the other largely illiterate; one industrial and urban, the other predominantly agrarian and rural; one consumption oriented, the other striving for survival. In the rich world, there is concern about the quality of life, in the poor world about life itself....In the rich world there is concern about the conservation of non-renewable resources....In the poor world there is anxiety, not about the depletion of resources, but about their exploitation and distribution for the benefit of all mankind rather than a few privileged nations.[16]

From the report's perspective, unless the world comes to terms with these differences and develops a "new understanding and awareness, based upon interdependence," then it will have to face the "harsh fact" that it has "no future at all."

Part One concludes with a short review of some of the major problem areas relevant to the creation of a new international order. After setting the framework of discussion in somewhat apocalyptic terms, the Report suggests fundamental structural changes in the international system. Among the various proposals suggested to "redress imbalances in the international power structure and to democratize world economic decision processes" are:

- Third World dependency must be reduced through new-style self-reliant development, greater self-sufficiency in basic foodstuffs, a new framework for resource transfers which is automatic and a more equitable functioning of international markets and financial mechanisms;

- Third World countries should exercise full sovereignty over exploited resources, play a larger role in the processing thereof, and contracts with investors and transnational enterprises should be reviewed;

- Third World countries should pursue collective bargaining in international negotiations;

- Public international enterprises should be developed to assist Third World countries to develop their own resources,

---

16 Ibid., p. 19.

thus providing an alternative to private transnational enterprises;

- International financial institutions, particularly the Bretton Woods institutions, should be democratized to give adequate voting strength to the Third World;

- The rich nations of the world should target 0.7 percent of their GNP to development assistance;

- The external debt of Third World countries should be rescheduled to permit an increased net flow of resources;

- A system of international taxation, handled by a World Treasury, should be introduced, to meet the current as well as the development needs of the poor nations;

- Political and moral pressure should be exerted on the superpowers to redirect military expenditures toward development.

Though the Club's report was widely acclaimed within the Third World, it did not receive either the acclaim or attention accorded the subsequent Brandt Report by the Western media.

THE BRANDT COMMISSION

In January 1977, Robert McNamara, former Secretary of Defense and then President of the World Bank, proposed that a commission of distinguished private citizens from both rich and poor nations be established in an effort to resolve the impasse in meaningful, worldwide economic negotiations. In a speech delivered before the World Affairs Council in Boston, McNamara suggested that former Chancellor of West Germany and Nobel Peace Prize winner Willy Brandt serve as its chairman.

On September 28, 1977, at a press conference in New York, Brandt announced the formation of an "Independent Commission on International Development Issues," which he would chair. Though Brandt called the group a "commission," it was not commissioned by any existing body. Eighteen full members were selected, ten of whom represented developing nations; three other individuals were considered ex-officio members (see Table II).

TABLE II

Commissioners

Willy Brandt (West Germany), Chairman
Abdlatif Y. Al-Hamad (Kuwait)
Rodrigo Botero Montoya (Colombia)
Antoine Kipsa Dakoure (Upper Volta)

Eduardo Frei Montalva (Chile)
Katherine Graham (USA)
Edward Heath (Great Britain)
Amir H. Jamal (Tanzania)
Lakshmi Kant Jha (India)
Khatijah Ahmad (Malaysia)
Adam Malik (Indonesia)
Haruki Mori (Japan)
Joe Morris (Canada)
Olof Palme (Sweden)
Peter G. Peterson (USA)
Edgar Pisani (France) -- replaced Pierre Mendes (France)
Shirdath Ramphal (Guyana)
Layachi Yaker (Algeria)

Ex-officio members

Jan Pronk (Netherlands)
Goran Ohlin (Sweden)
Dragoslav Avramovic (Yugoslavia)

The task of the Commission, as contained in the Terms of Reference adopted at its first closed session, was:

> ...to study the grave global issues arising from the economic and social disparities of the world community and to suggest ways of promoting adequate solutions to the problems involved in development and in attacking absolute poverty.[17]

After nearly two years, a final report was issued, titled North-South: A programme for survival. What is particularly striking about the final report is its unanimity; there are no reservations, disclaimers, or even minority points of view.

The report takes its title from the belief that unless major international initiatives are undertaken, the survival of the human race is in question. In the very first sentence of the report, the Commission states:

> The crisis through which international relations and the world economy are now passing presents great dangers, and they appear to be growing more serious. We believe that the gap which separates rich and poor countries -- a gap so wide that at the extremes people seem to live in different worlds -- has not been sufficiently recognized as a major factor in this crisis.[18]

---

17 North-South: A programme for survival, p. 296.
18 Ibid., p. 30.

Similarly, in the final chapter of the report, the Commission concludes:

> It is clear that the world economy is now functioning so badly that it damages both the immediate and the longer-run interests of all nations....The industrial capacity of the North is under-used, causing unemployment unprecedented in recent years, while the South is in urgent need of goods that the North could produce.[19]

What is needed, concluded the Brandt group with apparent unanimity, is "a fundamental change in relations between North and South as well as between East and West."

Five broad themes underlie the Commission's report:

1) It is mutually advantageous for governments both in the North and South to act cooperatively and affirmatively to accelerate development;

2) While principal responsibility for fostering development rests with individual developing states, the North, South, and Communist bloc share a responsibility for promoting development and managing change in the international economic system;

3) A massive transfer of resources is needed to accelerate global economic development; and official development financing should be provided both more automatically and from a wider range of donors;

4) Developing countries should exercise a greater voice in the management of the international economic system;

5) While far-reaching policy and institutional reforms should be pursued in the long run, the dangers of serious economic crises in the next five years require quick agreement on a set of emergency measures.

Accordingly, the Brandt Commission proposed a four-part Emergency Programme for 1980-1985 consisting of:

<u>Transfer of Resources to Developing Countries</u>

The most urgent objectives of resource transfer would be to assist the poorest countries and regions most seriously threatened by the current economic crisis (e.g., poverty belts of Asia and Africa) and to provide financing of the debts and deficits of middle-income countries. To accomplish these objectives would require a massive infusion of aid. Rich countries would have to

---

[19] <u>Ibid.</u>, p. 267.

commit themselves to assigning 0.7 percent of their GNP by 1985; Eastern Europe and the "better-off" developing nations should make an early start on increasing their contributions. Similarly, increased lending by commercial institutions on a co-financing or guaranteed basis, expanded lending by the World Bank and the Regional Development Banks, use of IMF gold, and other transfer mechanisms should be undertaken. Such additional flows would amount to approximately $50-60 billion annually by 1985.

International Energy Strategy

The aim of the energy strategy would be: assurance of regular supplies of oil; rigorous conservation; more predictable and gradual price increases in real terms; and development of alternative and renewable energy sources. To accomplish such would require a global agreement between energy-producing states rather than reliance on the marketplace.

Global Food Program

The food program would aim at increasing food production (particularly in the Third World), assuring regular supplies of food, and establishing a system of long-term international food security. Such an effort would require approximately $8 billion annually in aid.

International Economic Reforms

The Commission suggested that, between 1980 and 1985, steps be taken to reform the international economic system. The international monetary and financial system should be revamped, while efforts were made to improve developing countries' conditions of trade in commodities and manufacturing. In particular, the Commission called for a study of the following:

- The creation of a World Development Fund;
- Tax on international trade, military expenditures, arms exports, and "global commons" (such as seabeds);
- Broader sharing of power and decision making in the World Bank and IMF;
- Increased lending by the World Bank and Regional Development Banks;
- Liberalization of the international trading system;
- Sale of IMF gold to subsidize the cost of borrowing by developing nations.

The Commission then suggested the convening of a summit meeting of leaders from both the industrialized and developing nations to consider and act upon the "Emergency Programme."

THE PROBLEMS WITH THE NEW ORDER

Arguments advocating an NIEO, such as the Brandt Report, share a particular analysis of current world events and a set of assumptions upon which the new economic order should be constructed. They note that the principal dangers to society today arise in three interconnected ways: 1) from war and violence; 2) from environmental dangers; and 3) from the present malfunctioning of the world economic system. Each of these, in turn, is associated with and exacerbated by the existence of poverty in the developing world and the growing division/gap between rich and poor nations.[20] The suggested remedy is a major restructuring of the world economic order that includes, among other things, a massive resource transfer from the rich North to the poor South. This remedy alone, it is argued, would alleviate the crisis and establish global order and peace.

Such an analysis is hard to reconcile with reality, both past and present; moreover, it is based ultimately on a series of false assumptions:

- <u>The South and the North should be considered homogeneous units</u>.
  The South is no more a uniformly homogeneous economic, political, and cultural entity than is the North. To consider it such not only belies reality, but confounds logic. In terms of overall wealth, for example, it is misleading to consider Afghanistan and Bangladesh, two of the least developed nations (sometimes referred to as the Fourth World), Colombia and the Ivory Coast (less developed nations), Argentina and Chile (middle-income developing countries), and the OPEC countries within the same economic category.

- <u>Colonialism (political dependence) prevented the economic development of the South</u>.
  That the colonial powers "exploited" weaker countries for their own economic advantage, there can be no doubt. There is also no doubt that the colonies benefitted from such "exploitation." History shows that the areas that experienced the longest and/or most direct colonial control tend to be among the most developed, such as Malaysia, Nigeria, Singapore, and the Philippines. Other areas, under less direct colonial control, such as Laos or Bolivia, have proved more backward in economic development. Then, of course, those nations that have had little or no colonial involvement, as in the case of Afghanistan and Ethiopia, are found to be the poorest of all.

---

20 P. D. Henderson, "Survival, Development and the Report of the Brandt Commission," <u>World Economy</u>, No. 3 (October 1980), pp. 91ff.

- Worldwide poverty has been caused by the West. Phrased in another way this accusation reads: the West was made rich at the expense of the poor. Actually, much of the developing world that has had contact with the West owes its economic development to such contact, which provided access to Western markets, Western enterprise, capital, and ideas. Today's poverty in the South is much more the result of domestic mismanagement and unsound domestic policies than of Western interference and domination. For example, the widespread collectivization programs in Kampuchea and Vietnam have caused far more severe economic and social dislocation than the war there ever did.

- The gap between North and South is widening. Such an assumption is misleading for several reasons.[21] First, as noted above, the world is not conveniently divided into two sharply distinct homogeneous units: North and South. The 120 or so developing nations of the South, for example, constitute a huge and diverse aggregate that includes wide differences in income, growth rates, living standards, and the like. To lump them together is to imply a static situation within each unit. That certainly is not the case in the developing world. Consider the rapid growth rates in South Korea, Taiwan, Hong Kong, Malaysia, the Ivory Coast, Kenya, Brazil, Venezuela, Mexico, and the oil rich states of the Middle East, as opposed to the negative growth rates in Burma, Tanzania, Bangladesh, and Zaire. In actuality, the spectrum of growth has been continuous, not only among the developing nations but even within the industrialized countries.

  Second, adherents of the NIEO claim that the gap between North and South is large and widening. Such a judgment is arbitrary with little evidence to support it. The statistics used are often misleading, in that they often neglect differentiations in living standards, rates of growth, and per-capita incomes within the Third World.

  Actually, some statistics indicate a narrowing rather than a widening of the gap between the North and South. A comparison of life expectancy in 1950 and 1970 is a case in point. In 1950, life expectancy in the developing world was estimated as between 35 and 40 years; by 1970, it had climbed to 52 years. Among the developed nations, life expectancy in 1950 was between 62 and 65 years; in 1970, it was 71. These statistics indicate a decline in absolute difference from about 26 to 19 years. If a gap exists, it is within the South itself -- between the least developed and the less developed!

---

21 Cf. Bauer and Yamey, "Against the New Economic Order," pp. 25-26.

- The major threat to peace today comes from the widening gap between the North and South.
  Even were one to accept the proposition of a widening gap between North and South, history fails to justify such a gap as a major threat to peace. There is little historical evidence that poverty and international economic inequality were the dominant or even substantive elements in past international conflicts. Extreme economic inequality between states, moreover, has only recently been perceived as an international concern, and to suggest it as the "dominant" factor in future frictions between nations is highly speculative. Most of the frictions that exist today have been caused by other factors -- ethnic animosities, territorial disputes, ideological or religious differences, to name but a few. Economic differences, of course, can affect the prospects for peace or for war, but to speculate that such differences are the major threat today is without foundation.

- The North depends on the South for its survival and prosperity.
  Actually, the converse is true. The major producing countries of the world are today more dependent for their survival on the markets in industrialized countries than on those in the developing nations. Overall trade figures show that the strongest countries economically are among each other's best customers.

- Aid is indispensable for development.
  No clear correlation can be made between aid and development. In the early stages of Western development, for example, not only was aid an insignificant determinant, it was almost never available. Economic achievement or development depend principally on attitudes, motivations, mores, and government policies. The possession of money is, as P. T. Bauer and B. S. Yamey note, "the result of economic achievement, not its precondition."[22] Another version of the above argument states that external subsidies are necessary lest the developing states run into balance of payment difficulties supposedly inherent in early stages of development. This notion is similarly without historical foundation. Hong Kong, Singapore, Malaysia and the developed Western states are notable examples that this need not occur.

- Aid necessarily increases per capita income.
  The historical record shows that some nations that received massive amounts of aid have pursued policies that have actually reduced per-capita incomes, aggravated the lot of the poor, and caused the collapse of large sectors of their economies. Bauer and Yamey note:

---

22 Bauer and Yamey, "East-West/North-South," p. 61.

> Many aid recipient Third World governments, perhaps most, have pursued economic policies ranging from the wasteful to the inhuman, and damaging to the well-being and material progress of their people. Such policies include the enforced collectivization of farming; the expulsion of productive minorities or the imposition of economic restrictions on them; the establishment of state export monopolies which pay farmers a small fraction of the market value of their produce and deny them access to other marketing opportunities and to Western economic contacts; the proliferation of costly state trading, transport, banking, and industrial enterprises and monopolies; the suppression of private commercial activities in favor of state enterprises, including officially sponsored "cooperatives"; the widespread restrictive licensing of economic activity; the prohibition or restriction of private foreign capital (when shortage of capital is adduced in pleas for official aid); and wasteful policies of import substitution and exchange controls, which usually raise the prices of consumer goods.[23]

These policies have often brought about reverses in the economy of the recipient countries. Recent examples would include Tanzania, Zaire, Ethiopia, Somalia, Burma, and Mozambique. Aid, in these instances, actually produced economically dysfunctional policies.

- Aid is a form of restitution for past colonial wrongs. This argument collapses in the face of the fact that some of the poorest nations in the world today were never colonies. The poorest nations, moreover, have had the fewest contacts with the West. Conversely, some of the richest states in the West --for example, Sweden and Switzerland -- have had little contact, political or otherwise, with the Third World.

- Redistribution and reduction of poverty are interchangeable terms.
  The argument simply put is: by making the rich poorer, the poor become richer. Not only is such reasoning a non sequitur, it ignores certain essential facts. First, wealth is created; it is not a "given." People's attitudes and motivations are the critical components in the creation of wealth. Second, the economic process is essentially a dynamic, not a static, phenomenon. Though massive trans-

23 Bauer and Yamey, "Against the New Economic Order," p. 29.

> fers might result in some form of international equality, the effect would be only temporary, at best. Income differentiation would soon reappear given the attitudes and motivations of people. Third, standardization on a global scale would require a significant amount of coercion and an international authority with near-totalitarian powers. Given the large numbers of democratic governments throughout the world, such is unlikely to occur. Finally, such reasoning diverts attention from the real causes of poverty: mismanagement of the economy (e.g., Tanzania and Zaire); social institutions, cultural values, and customs (e.g., India's caste system and Hindu/Buddhistic beliefs); etc.

Underlying many of the specific proposals offered by proponents of the NIEO is a set of questionable presuppositions about the working of the existing and "future" political and economic order. These presuppositions include faith in administrative, worldwide regulations, mistrust of the market system, and the belief that "known" solutions exist to the complex problems of today.[24]

- <u>Faith in regulations</u>.
  Throughout much of the literature favoring the NIEO runs a strain of belief in the desirabilty and efficacy of administrative regulations and the enforcement of such by governments acting in concert or by international agencies which <u>they</u> control. One example of this faith in regulations is the Brandt Commission's call for a "global energy" program, which would guarantee supplies of oil, set targets for its use, fix price levels, and guarantee investments. How that program would be established is never addressed. How would price levels be determined or targets and guarantees defined? How could individual states be held accountable if internal or external factors altered the circumstances?

- <u>Mistrust of the markets</u>.
  A corollary to "faith in regulations" is a basic mistrust of the prevailing market system. Proponents of the NIEO hold to the theory that if economic forces are left to themselves they produce growing inequalities. Hence, the need for administrative regulations. Proponents of the NIEO -- as for example, Nyerere, Castro, and Michael Manley (Jamaica) -- make such assertions, but offer little evidence to prove them.

- <u>"Known" solutions exist</u>.
  Throughout the literature espousing the NIEO is a current of thought which views the complex problems of the present

---

[24] Cf. Henderson, <u>op. cit.</u>, pp. 101-107.

> economic order in rather simplistic ways. For example, the problems of the present order are attributed to the failure of the Bretton Woods system; it does not work, therefore it must be abandoned. Similarly, the market system does not function properly and adequately; hence it must be abandoned and replaced by administrative, worldwide regulations. Transnational corporations have exploited -- or so proponents of the NIEO would have us believe -- the developing world; hence they must be severely restricted. Adopting such measures would automatically result in better growth rates for the developing world.

The general message of these adherents of the New International Economic Order is not credible, because their conception of the world today and the presuppositions on which the new order rests are misleading, illogical, and, at times, false.

UNITED STATES POLICY AND THE DEVELOPING COUNTRIES

Criticism of the New International Economic Order should not be construed as, in any way, denigrating either the seriousness and magnitude of the problems facing the developing world, or the importance of the interrelationship and interdependence between developing nations and the United States. What is at issue is the scope and method, not the fact and desirability, of developmental assistance.

The development process is now, and will continue to be, a critical element in America's foreign and economic policy. Our present and future prosperity is tied inextricably with the economic growth in the developing world.

At present, one-quarter of the total trade of the United States is exchanged with the non-oil producing, developing nations. In fact, we currently export more to the developing world than we do to Western Europe and Japan combined. During the 1970s, U.S. sales to these countries grew almost 50 percent faster than sales to industrialized countries. The twelve fastest growing markets for U.S. exports are all developing countries. In 1978 alone, $50.2 billion of U.S. goods and services (34 percent of our total exports) were sold to countries where, in most cases, per capita income was less than $1,000 a year, more often less than half of that. These commodities came from every state of the Union. It is further estimated that over 1.2 million American workers depend for their livelihood on exports to the developing world.

Most of the commodities sold to the developing world are related to agriculture; in fact, the harvest of one out of every four acres is shipped to the Third World. Two-thirds of our cotton exports and nearly a third of our tobacco crop are shipped to the developing nations. These countries are also a rapidly expanding market for soybeans, with exports jumping from $359 million in 1973 to over $1 billion in 1979. It is estimated that in the absence of these markets there would be a 20 to 25 percent loss of gross farm income and possible disaster for the American farmer. In addition, farm sales abroad create hundreds of thousands of jobs in related industries. These sales at favorable interest rates are hastening the development of poor countries that may someday be our best customers. A significant example is Taiwan. In 1950, Taiwan's per capita income was less than $100; in 1980, it amounted to $1,750.

In addition to the benefits of our export trade with the developing world, the manufacturing base in the United States depends upon critical imports from these nations. In 1978, U.S. purchases from developing nations amounted to $74.4 billion (42 percent of our total imports). Non-OPEC nations alone accounted for 23 percent of total U.S. imports. Many of these imports were in the form of industrial raw materials vital to American industries. For example, the U.S. imports 93 percent of the tin needed for the electronic industry; 85 percent of the bauxite vital to aircraft production; and 73 percent of the cobalt essential for the steel and nuclear industries.

Ties between the United States and the developing world are strong in other ways. U.S. private firms, for example, have invested over $50 billion in the developing world, of which only $7 billion is related to petroleum. In turn, the United States receives a large share of the funds that the developing nations pay back each year to developed countries as service on their public and private debt.

Despite these impressive statistics, much of the developing world faces serious obstacles to growth. Increasing energy costs, rising external debts, extensive unemployment, inadequate political and social institutions, overpopulation, and widespread poverty are but a few of the obstacles facing many of the developing nations today.

Aware of the magnitude of the above problems and of the interdependency between this country's economy and that of the developing world, the Reagan Administration has begun, particularly over the past six months, to articulate a comprehensive development policy to deal with such issues.

In a speech to the General Assembly on September 21, 1981, Secretary of State Alexander M. Haig, Jr. noted five broad principles that guide America's approach to a "new strategy of (international economic) growth":

- Development is best facilitated by an open international trading system;

- Foreign assistance coupled with sound domestic policy and self-help can facilitate the development process;

- o Regional cooperation and bilateral consultations can be effective;

- o Growth for development is best achieved through reliance on incentives for individual economic performance; and

- o Development requires a certain measure of security and political stability.

In speeches to the annual meeting of the Board of Governors of the World Bank and the International Monetary Fund in September and the World Affairs Council of Philadelphia in mid-October, President Reagan further elaborated on America's "strategy for global growth." In acknowledging the overriding importance of restoring the growth and vitality of the world economy and of assuring that all countries, especially the poorest, participate fully in the process of growth and development, the President reiterated America's commitment to:

- o policies of free trade;

- o unrestricted investment;

- o open capital markets;

- o continued concessional assistance;

- o support of the World Bank and the IMF;[25] and

- o fostering development of self-sustaining productive activities (particularly food and energy).

While the emphasis in all three speeches was on America's positive contribution to the development process, there were, however, explicit criticisms of some proposals of the NIEO. Secretary Haig termed the transfer of massive resources as "simply unrealistic"; President Reagan, speaking of the meaning of development, said "others mistake compassion for development, and claim massive transfers of wealth somehow, miraculously, will produce new well-being...[this] miss[es] the real essence of development."

At Cancun, the President stressed again the same important themes and the commitment of the United States to work with the other participating nations in development efforts. In a statement delivered at Andrews Air Force Base following his return from Cancun, President Reagan again criticized implicitly some of the proposals of the NIEO. The President said:

---

25 For a detailed official assessment of Multilateral Development Banks, cf. U.S. Department of the Treasury, United States Participation in the Multilateral Development Banks in the 1980's, (Washington, D.C.: Government Printing Office, 1982).

We did not waste time on unrealistic rhetoric or unattainable objectives. We dealt with pragmatic solutions to the problems of growth, efforts to improve food security and agricultural development.

Four months after Cancun, the President, in a speech to the Organization of American States, proposed putting the principles of development, which both he and Secretary Haig previously enunciated, into practice. In an attempt to help countries of the Caribbean Basin "realize their economic potential," he proposed the following specific actions:

- free trade for Caribbean Basin products exported to the United States;
- significant tax incentives for investment in the Caribbean Basin;
- supplemental FY 1982 appropriations of $350 million to assist those countries particularly hard hit economically;
- technical assistance and training to assist the private sector in the Caribbean Basin;
- close cooperation with Mexico, Canada, and Venezuela to insure international development efforts in the area; and
- special measures to deal with Puerto Rico and the U.S. Virgin Islands so that they will benefit and prosper from this program.

Unlike the Brandt Commission and other proponents of the NIEO who propose vast, untried economic programs, the Reagan Administration is offering a limited, explicit, and practical program based on a demonstrated record of achievement. There is no timeframe. Development is something that takes time; it differs from region to region, from state to state. To recognize such is not to be complacent or unsympathetic to the needs of the poor. To raise the hopes of the poor with grandiose schemes for redistributing the world's wealth and power, as NIEO proponents have done, is to practice cruel delusion. Though the Reagan Administration has recently been under increasing pressure to agree to global talks on redistributive programs (Cancun, the January 1982 meeting of the Brandt Commission in Kuwait, the Club of Rome symposium held in Washington in March of this year and a resolution by Mohammed Bedjaoui of Algeria, chairman of the Third World group, to convene a U.N. conference for global negotiations on May 3, 1982[26]), it should resolutely oppose such utopian and destructive plans and programs.

William L. Scully
Policy Analyst

---

26 The New York Times, April 2, 1982

APPENDIX I

U.S. FOREIGN ASSISTANCE IN THE 1970s

FY	U.S. Bilateral Economic Assistance	U.S. Contributions to IFIs
1973	$1,664,200,000	IDA - $320,000,000 IDB - 25,000,000 pd.-in 225,000,000 FSO
1974	$1,632,600,000	IDA - $320,000,000 IDB - 25,000,000 pd.-in 225,000,000 FSO ADB - 50,000,000 CSF
1975	$2,049,800,000	IDA - $320,000,000 IDB - 225,000,000 FSO ADB - 50,000,000 CSF 24,127,000 pd.-in
1976	$3,168,900,000	IDA - $320,000,000 IDB - 225,000,000 ADB - 25,000,000 ADF 24,127,000 pd.-in AfDF - 5,000,000
1977	$3,156,600,000	IDA - $375,000,000 55,000,000 supp. IDB - 50,000,000 FSO 20,000,000 inter-reg. pd. 160,000,000 supp. FSO 36,000,000 inter-reg. pd. ADB - 24,127,000 pd.-in 25,000,000 supp. AfDF - 10,000,000
1978	$3,750,000,000	IDA - $800,000,000 IDB - 36,711,000 inter-reg. pd.-in 114,723,000 FSO ADB - 16,799,000 pd.-in 59,512,000 ADF AfDF - 10,000,000 IBRD - 38,000,000 pd.-in
1979	$3,718,200,000	IDA - $800,000,000 458,000,000 IDB - 27,296,000 inter-reg. pd.-in 175,000,000 FSO ADB - 19,451,000 pd.-in 70,488,000 ADF AfDF - 25,000,000 IRBD - 16,308,000 pd.-in