

world poverty: the growing conflict

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young fabian pamphlet 44 70p



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ISSN 0513 5982 ISBN 7163 2044 4

1. introduction

The decades since the 1939-45 war have been characterised by a growing division in the world between a small group of mostly industrialised nations, enjoying prosperity and rapidly rising living standards, and the overwhelming majority of nations where poverty has remained acute or has even worsened. This economic rupture has its geographic reflection along a line broadly separating north America, much of Europe, and Japan, from the extensive regions of under development in the south, embracing Africa, Latin America and Asia.

This steadily widening gap in material living standards has occurred simultaneously with the process of decolonialisation around the globe, which has created several score new nations. The belief within these new nations that political liberty would itself somehow unleash the necessary energies for swift economic development has proved illusory. Independence has not freed them from the tightly interlocking patterns of trade established during the colonial era. These former colonies have continued to be largely dependent on the old metropolitan countries of the north whose interests the international trading system was designed to serve. Indeed, the economic role of the southerly nations has remained the same as it was before independence: that is as suppliers of agricultural goods and industrial raw materials; as markets for the surplus manufactures of the industrialised nations; and as a reservoir of cheap labour.

It has thus become apparent that the fight for political independence in the 1950s and 1960s was only the beginning of a wider struggle for economic freedom and the creation of a fairer basis for the exploitation and distribution of the world's wealth. In part, the problem for the developing countries lies in the agricultural and primary crop structures established by the colonial powers, which transported products from one region of the globe to another in an attempt to achieve self-sufficiency within their own empires, reduce dependence on a rival colonial power, or provide incomes for expatriates. Crop cultivation was intensified or

diversified in the interests of the metropolitan power, with the result that today products like tea, coffee and rubber have an inbuilt tendency towards surplus, which is a constant restraint upon world prices, and which tends to reinforce the producers' dependence on their traditional markets.

Sugar is just one example. Between the 15th and 18th centuries the centre of production for cane sugar shifted from the Mediterranean to the Atlantic islands and thence to central and southern America and Indonesia, introduced by the Portuguese, Spanish, British, French and Dutch into their various possessions. Few commodities have a bloodier history than sugar.

In addition, to the difficulties bequeathed by history, the developing countries are today the victims of what has been described as "neo-colonialism." That is to say that through their trade, aid and investment policies, the industrialised nations continue to exert a considerable command over the developing economies of the south. Partly as a result of the old relationships, forged when the developing nations were still submissive colonies, much of the trade of these states has remained in the hands of mighty transnational corporations based in the rich countries of the north. Moreover, the need for new investment capital, technology and management skills has left the world's poor nations with little alternative but to accept new situations in which parts of their economy may be outside their control and directed from several thousand miles away. The sheer size of the corporations, frequently with a turnover many times larger than the economy of the host nation, has meant that the power relationship is so unequal that it is difficult for the developing country to obtain an adequate balance of the benefits from such economic activities.

At the same time, as a consequence of their strong economic dependence on the industrialised nations, the developing countries have suffered heavily from the cycle of boom and recession that is the hallmark of the Western capitalist market

economy. This cycle causes sharp swings in demand for the primary products sold by the poorer nations, leading to violent fluctuations in commodity prices and thus in the foreign exchange earnings derived from them. Under such conditions it becomes virtually impossible to plan development programmes because of the unpredictability of export sales. Sudden sharp drops in foreign exchange earnings inevitably forces the poor commodity exporting countries to cut back vital imports of machinery and capital equipment.

With the successive failures of early, hopeful attempts at development planning, and the dawning realisation within the developing countries that the international trading system is inherently biased against them, the tension between the Earth's rich and poor nations has increased.

It is difficult to exaggerate the seriousness of the polarisation that is now taking place in the world economy. The festering grievances of the poorer nations has made the cleavage between north and south potentially the most explosive issue on the world stage. Without a doubt it will dominate international politics until well into the next century. Although lacking any very powerful military or economic leverage, the world's poorest peoples have now made it abundantly clear that they are dissatisfied with the present division of the Earth's wealth and their role in the creation of that wealth.

the need for change

If changes are not made it is certain that the tensions will grow and erupt in ways which cannot be foreseen. The limited military power of the developing nations should not beguile the rich states into believing that it is possible for them to simply pull up the drawbridge and preserve their privileges from behind barricades, holding the masses at bay. Such a course would condemn the rich countries to skulking furtively behind a defensive laarger of superior military technology—like white South Africa or the Roman Empire long ago—waiting for the inevit-

able moment when the enraged hordes outside finally burst in to destroy the wealth they had not been permitted to share.

Turbulence and unrest, bred of poverty and despair, would produce what Robert McNamara, President of the World Bank and former US Secretary of Defence, has described as a "time of trouble" during which the forces of historical change would threaten our frail 20th century society with disintegration. Looking back from some vantage point in the future it may well appear that the mid 70s were a watershed in the relations between the rich northern nations and their poor neighbours in the south. The industrially developed states now have to decide whether to go on as they have done in the past, or to attempt—no matter how painful it may be—to accommodate the legitimate aspirations of the far greater number of less developed nations. Both morally, and from the standpoint of self-interest (at least in the long term) the only course would seem to lie in the direction of accommodation.

For their part, the developing countries are now bent on nothing less than a total re-casting of the world economic system which is felt to maintain them in bondage. To this end, they have already begun in earnest to use the limited weapons at their disposal, applying their numerical strength within the United Nations and its agencies as a constant challenge to the economic, monetary, and diplomatic policies of the Western countries, and withholding their co-operation until concessions are forthcoming. They have also expropriated foreign owned assets located in their own countries, and have attempted to use their control over segments of raw material production to achieve a fundamental transfer of income from the developed to the developing countries. The most successful action of this type—and the one that finally brought the North-South issue to a head—being the quintupling of the world oil price. As a result of this action relations between the rich and poor nations have changed fundamentally. Although the oil price increase dealt a severe blow to the eco-

nomies of the non-oil producing developing countries, it showed that the old economic order could be transformed.

A transformation of every aspect of North-South economic relations, including trade, aid, technology, investment, debts and the ownership of resources is central to the establishment of the new international economic order for which the developing countries are now crusading. This programme, launched in 1974, represents a manifesto for the world's poor.

It is the Third World's case for such fundamental changes in its economic relations with the rich states that will be considered in subsequent pages.

2. the dimensions of the problem

For an understanding of the scale of poverty in the world today and the gross disparities in the distribution of wealth, it is necessary to consider the position in some detail. By any objective criteria, the social and economic conditions of the vast majority of what has come to be called the "Third World" is appalling; and the distribution of the Earth's wealth remarkably concentrated. (The term "Third World" is used to describe over 100 countries which, whatever their own chosen political and economic institutions, are not aligned with either the Western or Soviet blocs. Whether the People's Republic of China is included is a matter of personal preference.)

Of the roughly 4,000 million people on the globe, about 2,000 million people live in countries, including mainland China, where the per capita gross national product is estimated to be less, often much less, than \$200 (£120) a year. At the other extreme, about 600 million live in countries where per capita GNP is ranged between \$2,000 (£1,200) and \$5,600 a year (North America, parts of West and East Europe, Australia and New Zealand).

Another 1,200 million people live in countries where the per capita GNP levels range between \$200 and \$2,000 (World Bank figures relating to 1972). Expressed another way, the fifth of the world's population that is conventionally thought of as comprising the economically developed nations, produces and consumes nearly seven tenths of the global output of goods and services. These rich nations possess over 90 per cent of the world's official gold and foreign currency reserves (excluding the oil producing states which are now in a special category). They also have 95 per cent of all scientific capacity, and they consume 70 per cent of its meat and 80 per cent of its protein. In 1973, almost 80 per cent of the world's energy was consumed in North America, the Soviet Union and the rest of Europe. North America alone consumed 35 per cent of the global total.

Most alarming of all is the fact that the gap between the rich and poor is widening at an accelerating rate. A hundred

years ago the per capita income of the rich northerly nations was about twice that of the rest of the world. By 1960 the ratio was broadly about 9:1. Today, the non-communist industrial nations have a per capita income about 13 times greater than the average of the Third World, but perhaps 30 times greater than the per capita income of some of the poorest nations. By the end of the century, on present trends, the gap between the very richest and very poorest nations could reach 60:1. The problem is not simply that the gap exists, or even that it is getting wider, *but that there is a rapid acceleration in the rate at which the gap is widening*—at last, between the very richest and very poorest. Thus, even if a country like India were to achieve the impossible and expand her economy at an annual rate of 10 per cent, the total growth over two years would only just exceed a single year's growth in the US economy if the latter expanded at a mere one per cent. This is because the base of the US economy is already so much larger than that of India. The annual increase in the wealth of the US during much of the 1960s was equal to the total income of Africa, excluding South Africa.

Robert McNamara, the World Bank president, has estimated that for at least one billion people per capita incomes may only rise from \$105 a year to \$108 between 1970 and 1980, while those in the developed world will rise from \$3,100 to \$4,000—an increase of \$3 compared with \$900 over the entire decade.

The available evidence suggests that there is more starvation and malnutrition, more illiteracy, and that there are more people wearing rags and living in hovels or on the streets, and more people unemployed than in 1945 when the representatives of "the peoples of the United Nations met in San Francisco to proclaim their 'determination' to reaffirm faith in fundamental human rights, in the dignity and worth of the human person . . . to promote social progress and better standards of life in larger freedom" in order "to save succeeding generations from the scourge of war, which twice in our life-

time has brought untold sorrow to mankind."

Yet some 30 years after these brave words were written, Mr McNamara, who heads one of the institutions created to deal with poverty, was able to say: "Some 900 million of these individuals (the poorest half of the inhabitants of the Third World) subsist on incomes of less than \$75 a year in an environment of squalor, hunger, and hopelessness. These are the absolute poor, living in situations so deprived as to be below any rational definition of human decency. Absolute poverty is a condition of life so limited by illiteracy, malnutrition, disease, high infant mortality, and low life expectancy as to deny its victims the very potential of the genes with which they were born. In effect, it is life at the margin of existence."

The facts speak for themselves. Coldly, they are as set out below.

Malnutrition. The United Nations Food and Agricultural Organisation estimates that at least a third to a half of the world's people suffer from hunger or nutritional deprivation. The average person in a "high standard" region consumes four pounds of food a day, compared with an average pound and a quarter in a "low standard" area. The average calorie intake in the developing countries is about two thirds of the average in the more economically advanced countries. Similarly, protein intake is 60 per cent of what it is in the rich countries. Average protein consumption in many parts of the world is below the accepted international minimum necessary for normal health. The director of the National Institute of Nutrition in India reported that 80 per cent of that nation's children suffer from malnutrition dwarfism.

Infant mortality. Infant deaths per 1,000 live births are four times as high in the developing nations as in the developed states (110 compared with 27). These, of course, are only averages. In parts of India as many as 250 babies in every 1,000 die before they are one year old.

In Egypt, the proportion of children between the ages of one and two who die is more than 100 times higher than in Sweden.

Life expectancy. A man in the West can expect to live 30 per cent longer than the average man in the developing world, and twice as long as the average man in some African countries.

Illiteracy. There are 100 million more illiterates in the world today than there were 20 years ago, bringing the total to some 800 million. In Africa only about one person in four can read, while in Asia about 53 per cent of the population can read.

Unemployment. The best estimates suggest that unemployment (making allowance for under-employment) ranges between 20 and 30 per cent in the developing countries, excluding mainland China, which falls outside the scope of most of these international statistics. However, the rural and urban unemployment problems are very different. In the rural areas the size of unproductive groups is disguised by under-employment resulting from subsistence level farming and seasonal employment. Worst affected by the lack of work are the 15 to 25 year olds. The fall in the death rates, which is causing the population explosion in developing countries (this is true in spite of the continuing relatively high infant mortality and low life expectancy) has disproportionately affected the youngest age groups, with the result that the major increase in population are occurring among children under 15. The International Labour Organisation estimates that during the present decade 280 million more people will be added to the world's labour force, and an estimated 226 million will be youngsters in the developing world. High unemployment amongst the young can only create the conditions for a potentially huge increase in crime rates.

Population explosion. Rapidly rising populations in the developing countries are a fundamental factor in world poverty. For the world as a whole, the average population growth is currently running

at about 2 per cent a year, but many developing countries are burdened with a growth rate of 3.5 per cent or more. A population growing at a compound rate of 1 per cent doubles in 70 years; at 3.5 per cent it doubles in only 20 years. Clearly, it is not possible to separate population growth from the problems of poverty and economic development. Large scale family planning programmes have been introduced by several developing nations. But it is widely agreed that only a general raising of living standards will reduce birth rates in parts of the world where it is still believed that more people mean more wealth. It is still sadly true that in some areas children remain a good investment. Every extra child may add marginally to the income of the household, and the more children that parents bring into the world, the more chance these parents have of securing some income support in their old age. Family planning and development have to go hand-in-hand. Without the former, economic development will be seriously held back. Yet, without an improvement in material living standards, there is little hope of putting a brake on population growth.

Expanding cities. Population pressures have contributed to the heavy migration from the land to the cities and rapid expansion of urban areas all over the developing world. It has been estimated that 120,000 people a day were streaming into the world's cities in 1975—the annual equivalent of nearly 400 Leicesters. This has resulted in most of the major cities being ringed by appalling slums, shanty towns and squatter settlements. By the end of the century, according to predictions, a further 1,500 million people will be added to the Earth's total urban population, equivalent to nearly half the planet's total population as it stood at the beginning of the 1960s. The new inhabitants of Third World cities (like Bandung, Lagos, Karachi, Bogota, Bangkok, Seoul and Sao Paulo), many of them arriving illegally, will swell the numbers living in tents and hovels made from packing cases and scrap metal, or will add to the expanding population of pavement dwellers. Even where these people

are currently served by public water, sewerage systems, transport and education, such services could break down altogether under the strains that will be exerted upon them by further growth in the urban population.

Rural poverty. But even living in the shanty towns may often appear preferable to starving in the villages of the countryside. Of the 900 million absolutely poor living in the Third World (excluding mainland China) some 200 million reside in the cities and 700 million in the countryside. In spite of the projected increase in urban population, more than half of the people of the developing countries will still reside in the countryside at the end of the century. Poverty in the rural areas is largely the result of the low productivity of millions of small subsistence farms which have not been perceptibly touched by the overall economic growth achieved by some developing countries.

Inequality. The gap between rich and poor has grown sharply within many developing countries as it has grown between nations. The degree of inequality that exists in many poor countries is far greater than in the industrialised states today. Amongst 40 developing countries for which data is available, the upper 20 per cent of the population are shown typically to receive 55 per cent of national income, while the bottom 20 per cent of the population receives 5 per cent. The policies of Third World governments, aimed primarily at accelerating economic growth, appear frequently to have benefited mainly the upper 40 per cent of the population, and the allocation of public services and investment funds has tended to strengthen rather than offset this trend. Public spending in developing countries is, in the main, heavily concentrated in the industrial and non-agricultural sectors where the greatest potential for economic growth is believed to lie. Where public money is devoted to relieving social problems, it tends to be channelled to the urban areas where the political pressures are greater and more direct, thus giving a further spur to migration from the land.

3. growth with equity

The scale and dimension of world poverty cannot be seriously contested, but there is much disagreement over what, if anything, can be done to tackle these daunting problems. Can those nations that are sufficiently purposeful, energetic and ingenious make the leap into self-sustained economic growth achieved by the older nations during the last century—or, in the case of Japan, this century? Do the conditions still exist that permit nations to attain such a goal, or did the countries of Western Europe and North America benefit from a unique interaction of geography, tradition and social and economic circumstances and resource endowment? That the attainment of self-sustained economic growth was not necessarily peculiar to a handful of white western nations is witnessed by the emergence of Japan and the Soviet Union as industrialised nations and by the more limited achievements of some developing countries in south east Asia and Latin America. But if it is possible for young nations to still join the ranks of the industrially successful, what is the best means by which this can be accomplished? And is the international trading system inherently biased against the developing countries, as they claim?

Following the model of the older industrialised nations, many of the Third World states have sought to foster an entrepreneurial class as an engine of economic expansion and an agent for mobilising investment finance and thereby, it is assumed, creating employment opportunities. This model accepts a skewed income distribution as necessary for the purpose of increasing savings, which are usually then supplemented by foreign private capital. Together with the use of the “market mechanism” as the instrument for obtaining optimal efficiency in the allocation of resources, this approach has led to a considerable concentration on the high productivity, capital intensive, urban based modern sectors, with the result that comparatively few extra jobs have been created and little has been done to improve the lot of the rural masses. Indeed, it has been conventionally assumed that specifically employment oriented policies and the redistribution

of wealth are in conflict with economic growth because they imply greater priority on low labour productivity sectors. Therefore, it is suggested, the choice lies between maximising gross national product and minimising poverty.

The argument in favour of growth-with-inequality is that wealth will be created faster and that the “trickle down” effects will result ultimately in a much higher standard for the poor than would be achieved through a policy of redistribution. Such capitalist market concepts have been broadly adopted by the developing countries with varying degrees of constancy, and have to some extent been imposed through international institutions where Western influence is strong, although even in the West the fidelity to such principles has been more theoretical than real. Whilst it is true that those countries like South Korea, Taiwan, Hong Kong, Mexico and Brazil which have adopted this model most unconditionally have achieved high rates of economic growth, the available evidence suggests that large sectors of their economies have failed to benefit from growth and that, notably in Brazil, the degree of inequality has grown quite markedly. Many economists have concluded from this that the overall rate of economic growth as an indicator of development is inadequate and that different weights must be given to increase in incomes of different social groups.

The limitations of the capitalist market approach to development were deftly put by Lester Pearson, the former Canadian Prime Minister, who headed a group of distinguished people that produced the so called “Pearson Report” on international development during the later 1960s. He said: “If to one kind of environment we apply, unchanged, policies evolved for another, then I think they have a fair chance of failing. This is the core of my disagreement with those who would abandon aid to development in favour of renewed reliance upon the traditional market system. To do so would, I believe, entail far more confidence in the method than is justified by economic history. It would also gloss over the viol-

ent contrasts between (the Third World's) problems today and those of the areas and epochs where 'normal methods' are supposed to have worked. I believe on the contrary, that the market system did not work unaided even in the hyper-favourable conditions of the 19th century Atlantic world . . . When . . . critics speak today of 'normal' methods of development by way of orderly investment aimed at commercial returns achieved by verifiable increases in productivity, they forget, I think, that immeasurably vast 'takeover', virtually for free of the world's best, largest, agricultural reserves by the small group of Europeans erupting out of Western Europe and occupying every remaining temperate land in the course of two brief centuries. To exclude this immense enrichment and talk of 'development' as a normal increment of careful commercial investment is, to my mind, to talk nonsense. Nothing comparable is available to developing nations today—unless we use our abundant capital and technology to provide a comparable gift." Lester Peason was putting the case for more direct assistance, but the debate has since become more sophisticated, concerned with specific objectives. More recently, the notion that employment oriented policies and redistribution require a sacrifice of some growth has been challenged by some economists who argue that, on the contrary, such policies might even lead to a higher rate of economic growth. They draw attention to the negative aspects of uneven income distribution, observing that those people with higher incomes often transfer their savings abroad or spend large parts of them on imported goods in spite of the investment opportunities which should seemingly exist domestically.

By contrast, projects aimed at generating income for the very poorest tend to result in a greater expenditure on locally produced goods. Thus, direct employment creation—by state or international agencies—becomes a more effective means of obtaining a fairer distribution of income which in turn further stimulates employment creation. The argument that this approach means perpetuating low incomes and poverty because of the emphasis on

the low productivity sectors takes no account of the large sections of the population that would otherwise remain outside of the money economy. The apparent choice thus presented is between on the one hand a strategy which favours disproportionately a small minority in what is called the modern formal sector, while the majority of the population who cannot gain access to that sector eke out a precarious living in the urban informal sectors and rural traditional sectors; and on the other hand a strategy which attempts to raise directly the productivity and the incomes of people in those low productivity sectors.

The example of mainland China shows that it is not necessary to view these two different roads to development as in inevitable conflict, obliging all countries to choose one or the other in the way that, say, Kenya (fast growth) and Tanzania (equitable distribution) have done. The People's Republic of China has managed to devise a formula which permits maximum benefit to be drawn from the high potential of the modern sector while simultaneously developing the countryside—Chairman Mao's dictum of "walking on two legs." The problem which China appears to have solved is how to achieve this economic dualism without allowing the expansion of the modern sector to distort overall priorities and to produce a divided society. "Drift" to the cities has been prevented by direct control, while urban privilege has been strictly curtailed, with wages held down, and the state creaming off the "surplus" to finance development elsewhere in the economy.

This has been combined with a maximum exploitation of local resources for local needs and a heavy concentration on labour intensive works. In addition, the Chinese commune has been encouraged to develop its own ancillary and support industries, including education, health and welfare services, thereby achieving an integrated and balanced development. In this way the development process can begin at the bottom and extends upwards. The best available evidence indicates that there is now no absolute poverty or un-

employment in mainland China. Informed observers have suggested that a typical income in lowland rural China is about two to three times higher than in India or Pakistan, and 50 to 100 per cent higher than in Thailand, Indonesia and the Philippines (countries with traditional free enterprise systems). But programmes aimed at redistribution and agrarian reform will inevitably meet strong resistance from the wealthy and oligarchic elites within the Third World who stand to lose by such reforms. These are often the groups that have become closely identified with the West in its ideological struggle with the communist world for the allegiance of the developing nations. The West therefore has a vested interest in maintaining the political power of the entrepreneurial and land owning classes.

Consistently since the great decolonialising process began, the economically developed Western nations have found it convenient to support these classes in their resistance to change. For some developed nations therefore there is a clear conflict between the policy goals of their departments dealing with aid and those handling foreign relations. Indeed, in many cases, overseas aid has been a direct extension of foreign policy, used chiefly to further the national interests of the donor country and intended to prop up those sectional groups of the Third World that are viewed as favourable to the Western position, rather than to raise the living standards of the poorest. A genuine commitment by the rich northern states to reduce world poverty must entail a complementary commitment to support those political groups within the developing countries pledged to this end.

Yet, finally, whatever road of economic development is chosen—socialist, capitalist or mixed—growth of output is rightly seen as the key determinant of success. Growth is imperative if poverty is to be eliminated. Even if wealth could be distributed more equitably, both within nations and between them, without creating intolerable political tensions, it would be spread thinly. There are certainly severe political constraints to the extent to which financial resources can

be transferred to developing countries from the industrialised nations out of the existing stock of such resources. A transfer of real income on any significant scale would inevitably entail a sharp drop in the general living standards within the developed nations, and it is hard to see how this could be accommodated in the present, and foreseeable, state of popular democratic politics common to the richer western nations.

It is thus quite clear that any increase in Third World income will have to come chiefly out of incremental growth in total world income. In other words the developing countries will only get richer if the world as a whole gets richer.

But as the rich industrialised nations largely provide the motive power for expansion, it follows that these countries must themselves continue to expand their economies. There is a strong relationship—almost 1 to 1—between changes in the growth rates of the rich nations and growth rates in the non-oil developing countries. This is because the former account for 75 per cent of the exports of the latter, and this relationship is unlikely to change significantly for a long time.

Only if the economies of the West continue to expand will the Third World countries be able to earn the increasing sums of foreign exchange needed to pay for the machinery and equipment that will speed their development. Self-reliance is not a serious alternative for the majority of developing countries.

Neither can it be realistically hoped that intra-Third World trade will develop sufficiently fast to alone provide the finance the developing countries need. Even mainland China, which enjoys the natural advantages of a large and resourceful population, has probably imposed severe restrictions on itself through its policy of self-reliance. It is undeniable, however, that the need to stimulate exports adds a further dimension to the difficulties of fair income distribution, particularly as it is in the modern sectors that the export potential is highest.

4. the second development decade

For many of the poorest developing countries, any hopes of achieving an adequate rate of economic growth during the rest of this decade appear to have faded away during the last two or three years. Since the early months of 1974, the non-oil exporting members of the Third World have faced a seriously deteriorating financial situation as a result of the acute recession in the West, the world wide inflation, the food crisis and the quintupling of crude oil prices. This combination of factors not only abruptly arrested the growth which the more successful developing nations were experiencing, but caused some of the poorest nations to slip backwards, reducing living standards that already appeared to be at rock bottom.

It is clear that the whole of the International Development Strategy for the Second Development Decade has been set back considerably. The Second Development Decade, beginning on 1 January 1971 was adopted by the UN General Assembly in October 1970.

Unlike the First Development Decade of the 1960s, which had no detailed strategy and simply called for action by developed and developing countries to accelerate progress towards self-sustaining growth for the economies of the Third World, the Second Development Decade is both more specific and more elaborate in its objectives. The strategy was accepted without a vote in the UN Assembly, but was subject to individual statements of reservation or interpretation from the rich nations. It was seen as being closely parallel to the Disarmament Decade, with a movement towards disarmament releasing additional resources for use in social and economic development. Within the framework of the Second Development Decade (DD 2), governments pledged themselves, individually and collectively, to pursue policies designed to create a more just and rational world economic and social order in which equality of opportunity should be as much a prerogative of nations as of individuals within nations.

The principal goal was an average annual rate of growth in the gross product

of developing countries of at least 6 per cent. On the assumption of an annual average increase of 2.5 per cent in the population of developing countries, the average growth in gross product per head was seen as 3.5 per cent. Within the broad 6 per cent increase in gross product, a 4 per cent increase in agricultural output was envisaged and an 8 per cent growth in manufacturing output. To achieve this an expansion in the ratio of gross domestic saving to gross product of 0.5 percentage point per annum was promulgated, so as to bring this ratio to around 20 per cent by 1980. A somewhat less than 7 per cent expansion in imports and a somewhat higher than 7 per cent rise in exports was also envisaged.

Furthermore, the rich countries were obliged under the DD 2 programme not to raise trade barriers against Third World exports and were required to adopt generalised, non-discriminatory, non-reciprocal preferential treatment for the exports of developing nations. The developed nations were further required to transfer to the Third World countries financial resources amounting to at least 1 per cent of their gross national product—a target with which they were expected to comply by 1975. Within the 1 per cent target, 0.7 per cent of the rich nation's GNP would be transferred in the form of "official development assistance" (which conforms to a strict international definition of concessionality). The extent to which aid was "tied" to purchases in the donor country would be reduced. Other proposals included the adoption of appropriate measures by both rich and poor nations to: stimulate and encourage the flow of private resources to the Third World; increase the participation of developing countries in shipping; reduce the cost of insurance and reinsurance for developing countries; effect the drawing up of a programme for promoting the transfer of technology; and spur the introduction of Third World agrarian reforms.

Yet, even before the situation facing the non-oil exporting developing countries had begun to worsen in 1974, it was clear that much of the bold strategy for DD 2

was not being realised. This was shown in the UN mid-term Review and appraisal of progress covering the years 1971-74. Although during these years average annual growth of gross domestic product for developing countries was 5.9 per cent—just marginally below the 6 per cent target—the average growth of agricultural production was a mere 1.5 per cent, considerably below the 4 per cent objective and even lower than the 2.8 per cent achieved in the previous decade. The majority of the other DD 2 objectives, including those for foreign aid transfers, had either proved elusive or seemed further away from attainment in 1974 than they were four years earlier. Even the aggregate growth figures for the Third World masked very great differences between regions. The Middle East, Southern Europe, East Asia and Latin America achieved above average GNP and per capita growth, while South Asia and Africa did much worse than average.

Yet, by contrast, the prospects during the next few years for the one billion people in the lowest income developing countries—per capita incomes of \$200 or less a year—are bleak indeed. There was a real fall in the per capita incomes of these people in 1974, and a further decline in 1975 was only prevented by the advent of a good monsoon. The middle income developing countries did not feel the full impact of the deterioration in the world economy until 1975, when their per capita income was also declining. All together the events of 1973-1975 have been a savage blow to the hopes of the poor and are certain to prove a fatal setback to the whole DD 2 strategy.

The World Bank has estimated that for the low income countries now to achieve an average annual per capita income growth of about 1 to 1½ per cent, and for the middle income countries (excluding the richer oil producers) to achieve a per capita income growth of around 2½ to 3 per cent, between 1976 and 1980, would require both a sharp rise in the real value of outside capital resources and a fairly rapid recovery in the industrial countries from their recession. Otherwise even these wholly inadequate Third World

growth rates—which are far below the targets envisaged in DD 2—would be still lower or even negative. Moreover, it would mean that, because of the setbacks of the middle 1970s, the low income developing countries had managed only to stand still throughout the Second Development Decade.

Yet, if the 17 principal aid donors of the developed world were prepared to allocate to the poor states, on concessional terms, just 2 per cent of the incremental wealth that they can expect during the second half of the 1970s, enough finance would probably be provided to enable the low income and middle income Third World nations to achieve per capita growth rates of 3.2 and 3.8 per cent respectively between 1976 and 1980 (assuming some steady world economic recovery, and that the richer oil producing countries also continued to provide aid). Sadly, in the absence of any genuine commitment to world development on the part of the rich countries, even this singularly modest sacrifice is unlikely to be forthcoming from them.

5. developing countries and the international trading system

There are basically two methods of transferring resources from the rich to the poor countries. Either it can be made possible for the developing states to earn more from the goods they sell, or they can be provided with capital in the form of aid, commercial investment, or international bank loans. Both methods are charged with controversy. If a developing country increases significantly its earnings from trade, there will be a corresponding cost to another country, at least in the short term. Because of this, considerable obstacles have been erected to protect the general monopoly position of the wealthy nations from the disruptive effects of an increase in the Third World's share of global trade. Since the middle of the last century international trade has inevitably developed to a pattern consistent with the mutual interests of the majority of the important trading nations, with rules designed to preserve the advantages it provides for them.

The theoretical basis underlying the international exchange of goods is that the maximisation of world income is best achieved through international specialisation. This means that each country should concentrate on selling the goods and providing the services in which it has a "comparative advantage" by virtue of geography, climate, resources endowment, temperament of its people or economic structure—in other words the goods and services which it can produce or provide relatively more efficiently than others, or those which it can produce or provide least inefficiently. The corollary of this is that trade between nations should take place without restriction and that cheap imports should be welcomed and not viewed antagonistically.

In practice neither rich nor poor countries are free of trade restrictions. Whether developing countries should seek to apply the free trade rules, and how soon they should be bound by them, is a matter much disputed. Certainly, there is a strong case for protecting so called "infant" industries within developing countries and for a broad concentration by the poor nations on import substitution where, for structural reasons, this

creates more employment and generates income more widely. Even some developed nations like the United States and Japan built up their strength behind a battery of import restrictions which protected their home industries. In reality, world trade today is, in spite of its underlying doctrine, beset with restrictions, import and export controls, tariffs, excise duties, countervailing duties and many other restraints on the exchange of goods. Thus, those developing nations that endeavour to generate income from their exports face considerable problems.

The establishment, after the second world war, of institutions like the General Agreement on Tariffs and Trade and the International Monetary Fund to administer free trade and help smooth out temporary trade imbalances between nations, has not led to the elimination of all trade and monetary restrictions even between the large trading countries. But the level of restrictions imposed by the northern nations on a wide range of products from the Third World is particularly pronounced; and they are arranged in such a way as to have the worst possible effect on the structure of developing country exports. It is estimated that the tariffs facing the developing countries in the markets of the rich nations are, on average, 50 per cent higher than those levied by developed states on each others' exports. Non-tariff barriers are usually even more restrictive than the formal tariffs and far less easy to identify. Non-tariff barriers cover a wide field including packaging, labelling and marking restrictions, health and sanitary regulations, customs procedures, trade documentation, import licensing, and import quotas. Some of these restrictions are no doubt imposed for sound reasons of welfare, but many are used simply to limit the volume of imports. Research in 1969 suggested that some 28 per cent of Third World exports to the industrialised countries were subject to non-tariff procedures of some kind, compared with only 11 per cent on exports emanating from other rich nations.

Of course, in their raw form, industrial materials and basic commodities are much

less subjected to tariffs and restrictions than other Third World exports because of the northern nations' need for a cheap and ready flow of such products. But the more processing that these raw materials receive in the southern country of origin, the steeper import duties in the north are inclined to be. This is because such processing has normally been conducted by the domestic industries within the rich countries, themselves thus providing them with the extra earnings derived from the "value added" created by processing. It has been the prerogative of the rich countries to convert the bauxite into aluminium; refine the raw sugar cane; turn the yarn and cloth into textile goods, cocoa into chocolate, and iron ore into steel; roast the coffee beans; mould the rubber; and convert crude oil into petrochemicals.

The industrialised nations constitute the main market both for the raw materials and the processed products, and this has provided them with the economic leverage to obtain the products in the form they desire by arranging tariffs, excise duties and import quotas so that their impact is progressively greater the more processing that has taken place.

Sectional groups within the developed countries with a vested interest in the *status quo* have inevitably been able to bring more pressure to bear on their governments than the producer nations have been able to exert. Frequently, large numbers of workers within the rich consumer nations are employed in the processing industries, giving the governments of those nations little choice but to protect the home industry at the expense of a foreign exporter trying to penetrate a new market or expand in an existing one. In addition to the progressive way that tariffs are structured to deter processing of raw materials, many types of agricultural products face restrictions whether they are processed or not, because they compete directly with similar crops produced by farmers in the temperate zone.

This group of products includes fats and oils, cane sugar, meat, cereals, rice, tobacco, citrus fruit, wine and fish. Such

products accounted for some 27 per cent of all developing countries' exports of primary products at the end of the 1960s. As a result of the protection afforded by developed countries, particularly the European Community states, to their farmers, production in those countries is greater than it would otherwise have been, prices are higher internally, and the foreign exchanges earnings of the developing countries curtailed.

A study conducted by the UN Food and Agricultural Organisation has suggested that if barriers to trade in 18 major edible agricultural commodities were completely removed, the earnings of developing countries could be \$10,000 million a year more than they would otherwise be by 1980. A more conservative estimate by the World Bank which considered the benefits to be derived on a slightly different range of products from a partial removal of trade barriers projected an increase in earnings of \$4,000 million a year by 1980. There is no doubt that the potential increase in Third World earnings from an elimination of trade barriers in the rich states is considerable. They might be sufficient to raise half the additional foreign exchange necessary to increase the per capita growth in many developing countries to 6 per cent a year. Even so, import liberalisation for primary products (which account for three quarters of Third World trade) though significant in overall terms, would never the less probably prove to be of limited value to the developing states over the long term. The markets for such products will continue to grow only slowly. Long term export prospects must, therefore, be largely based on trade in manufactured goods which also face a panopoly of restrictions.

Manufactured goods account for some 25 per cent of the total exports of the poor southern countries, but their share of world trade is still only about 6 or 7 per cent. Moreover, exports of manufactures from the Third World have grown only marginally faster in value between 1960 and 1972 than total world trade of this type. The World Bank, the largest of the international aid agencies, has sug-

gested that the adoption of more liberal policies by developed countries on the importation of manufactured goods was essential to the long term growth prospects of the developing countries.

terms of trade

Restrictions on Third World trade are, however, only part of the problem. The relationship between prices for imports and those for exports is also of key importance. This relationship is known as the "terms of trade." A rise in the terms of trade mean that a unit of exports will buy more imports, while conversely, a fall in the terms of trade means that a unit of exports purchases less imports. It has been a matter of considerable controversy whether there has been a long run deterioration in the developing countries' terms of trade and a corresponding improvement for the rich nations. A long run rise in the price of manufactured goods (sold mostly by the rich nations) relative to the price of commodities (the chief export of the poor nations) has been held to be at least partially responsible for the ever widening gap between the incomes of the rich and poor countries.

This argument dominated much of the thinking on development during the 1960s. It was put forward most powerfully by Dr Raul Prebisch, the Argentinian who became the first Secretary General of UNCTAD (the United Nations Conference on Trade and Development). In summary, the argument is that the income elasticity of demand for primary products is low. Yet, the increases in population for the developing countries forces new entrants into primary production, thus expanding output at low wages. At the same time the power of organised labour in the rich countries has ensured a steady rise in the price of manufactured goods. Technical progress has also resulted in economies in the use of raw materials, while additionally, a number of petroleum based synthetic fibres have made severe inroads into demand for natural fibres. Finally, a wide range of raw materials are produced by, or sold to, large oligopolistic business groups who

are "price makers" rather than "price takers."

But this terms of trade case has not been proved. The period chosen by Prebisch to demonstrate his argument begins at the peak of the commodity boom caused by the Korean war at the beginning of the 1950s and ends a little over a decade later when prices were in a trough. If the period is extended to 1974 a rather different story emerges; the terms of trade of primary products would show an overall improvement, although the recovery is shorter and sharper than the decline. So, whatever other conclusions may be drawn from this, it is certainly true that in the third quarter of this century the developing countries saw their terms of trade fall in more years than they saw them rise.

Moreover, the terms of trade of some individual commodities have been consistently worse than shown when all commodities are taken together. For example, in 1960 a developing country selling rubber would have been able to buy six tractors with the proceeds of 25 tons of rubber. By 1975 the same amount of rubber would only buy two tractors. Similarly it took the proceeds of 11 tons of bananas to buy a tractor in the early 1970s, compared with three tons in the early 1960s.

Yet compare this with the cries of anguish from the developed nations when the terms of trade briefly swung against them, back in favour of the poor nations, during 1972-74. This was characterised as heralding a world depression and creating unimaginable adjustment problems, even though it only meant a transfer to raw material producers of about 2 per cent of the GNP of rich consumers. And many of the developed nations, who are also large producers of raw materials, shared the benefits along with the Third World countries. By contrast, the adverse movement of the southern nations' terms of trade in the 1960s resulted in much larger transfers from the poor to the rich.

In addition, whereas the general trend of prices for manufactured goods has been

steadily upwards since the war, commodity prices have suffered violent swings, making it extremely difficult to plan export earnings and hence development programmes. When Tanzania prepared its first five year plan, the price of sisal (its principal export crop) was £148 per ton. Cautiously, the country's planners worked on the basis of a £95 price. In fact the price dropped to less than £70 a ton.

6. the commodities problem

Whatever the long term relationship between the prices of raw materials and manufactured goods, it is an indisputable fact that the former swing violently up and down in a way that the latter do not. Prices of commodities like sugar, cocoa, copper, lead and zinc can rise several fold in a comparatively short time, then plunge to a fraction of their peak prices within a further few months.

The "commodities problem" is thus really two problems; the long term trend of prices relative to prices of manufactured goods, and the violent short term price fluctuations. The conventional answer to the latter has been the commodity agreement between producers and suppliers aimed at maintaining prices within certain stipulated margins, usually with the aid of buffer stocks. The intention of such agreements is to eliminate short term fluctuations without interfering with long term market supply and demand trends. However, even in this comparatively modest objective of seeking short term price stability, the major commodity agreements of recent years have mostly failed. Yet, it is an all together much more ambitious goal to seek to counter the terms of trade problem for commodities through the agency of some kind of international agreement that would establish a fixed relationship between prices of primary products and prices of manufactured goods. Such an agreement, which is what the developing countries want, implies that some commodities will be maintained at prices above their long run equilibrium level—that is, the price that ensures adequate incentive to producers to maintain output and investment in new productive capacity, and induces consumers to continue purchasing rather than finding substitutes.

The conventional commodity agreement and the Third World's more ambitious scheme for "indexing prices" of commodities and manufactures represent two methods that have been suggested for dealing with primary product prices. A third approach is that of unilateral action by producers to maintain or raise prices. The developed nations favour the first

approach. It has been best enunciated in the British White Paper *World Economic Interdependence and Trade in Commodities*, published after Harold Wilson's initiative at the Commonwealth Heads of State meeting in Kingston, Jamaica, in 1975. This offered to consider commodities on a case-by-case basis. The argument is that each commodity is a special case with special features affecting its production and use, some having long production cycles, some being perishable, some being bulky, some being in competition with synthetics. Thus, it would be necessary, under this proposal, to identify the appropriate mechanism for regulating trade in individual commodities and the means by which any necessary financing costs would be distributed. This would be done in conjunction with a scheme to stabilise export earnings (as opposed to prices) from commodities.

The alternative approach proposed by the UNCTAD Secretariat on behalf of the developing countries is for the establishment of an "integrated programme" for commodities. It is far more comprehensive. Negotiations are envisaged on a product-by-product basis between producers and consumers, but within a multi-commodity framework, covering 18 minerals, ores, beverages and agricultural products. But, in addition, the integrated programme would contain wider objectives like improving marketing systems, increasing access to the richer markets, supporting research, encouraging diversification out of unprofitable products, and the removal of discriminatory practices against the processed exports of Third World countries.

It would also have what is called a "common fund" to provide money for the creation of buffer stocks. Such a fund, it is argued, would ensure that financial resources were deployed more efficiently as it would need less finance than the aggregate of individually financed buffer stocks for individual commodities. The primary function of this fund, which it is estimated would need to have some \$6,000 million at its disposal, would be to lend to the various commodity boards

under its aegis. The money would come from commodity exporting and importing countries, from the oil states, multinational financial institutions, and by borrowing on the capital markets. International stocking measures are envisaged for commodities subject to natural variation in supply like tropical beverages, sugar, cotton, jute and hard fibres; and also for those commodities that have a history of disruption in output or demand, and where international stock management would help to prevent temporary restrictions of production, wastage or uneconomic investment. In times when the price of a commodity was rising the stocks would theoretically be sold to arrest the upward trend, and when prices were falling further stocks would be bought.

Where commodities were not storable the price would be controlled through other devices such as production and export controls and multilateral trade commitments under which suppliers and consumers would bind themselves to buy or sell pre-determined amounts at established prices.

In this way, it is argued, it would be possible to maintain the prices of at least some commodities "in real terms." That is, they would keep abreast of inflation in the developed market economies. But, it is accepted that in the case of some primary products it might not be possible to prevent a deterioration in the trend of prices in real terms (which is the same as saying that its terms of trade relative to particular manufactured goods would fall). In such cases it is held that some other kind of "indexation" would have to be achieved, including direct financial transfers to make up the difference between the declining real value of a developing country's exports and those of its imports. The last element in the integrated programme is the provision of "compensatory financing" to stabilise earnings. For even when prices are stable fluctuations can occur in earnings if, for example, a crop failure in an individual country reduces exports.

Under this plan a country which suffered

a measurable shortfall in earnings would be able to borrow sufficient finance to bridge the gap. This would be paid back when production recovered. In the case of the very poorest countries the money would not have to be repaid. But unlike existing schemes for maintaining earnings operated by the International Monetary Fund, the UNCTAD formula requires that earnings shortfalls be measured in "real terms" (allowing for inflation).

Apart from commodity arrangements that involve both importing and exporting countries, the other principal means by which prices may be driven up or earnings raised, is through the collective action (or in some cases individual action) of producers. The success of the oil exporting nations in operating a producer cartel has stimulated great interest in this kind of action. In March, 1974, the seven leading exporters of bauxite formed the International Bauxite Association. Subsequently, Jamaica, which accounts for a substantial amount of world bauxite production and exports, took unilateral action which brought about a big increase in the country's earnings from this raw material.

In addition, four of the main Third World producers of copper have adopted production and export cutbacks to support the price of copper on world markets. Iron ore exporting countries have formed an association (which includes Australia, but is not intended to act as a cartel). Similarly, four tea producers have sought to co-operate in marketing tea and in establishing a floor level for prices. In addition, unilateral action by Morocco has been responsible for a tripling of the world phosphate price.

But for a cartel to successfully influence prices there has to be a combination of special circumstances. First the cartel must control a large proportion of the total market supply, probably about two thirds, otherwise it is difficult to impose a price upon the market. Secondly, there has to be low demand elasticity—that is, the extent to which demand contracts in response to the increase price should be limited. Thirdly, there needs to be low

price elasticity of alternative supply, because the less supply from outside sources expands in response to higher prices, the more effective the cartel will be. This really means that besides controlling a substantial proportion of the current supply, the cartel also needs to control a substantial proportion of reserves. Finally, for any group of producers acting in collusion there must be sufficient cohesion to keep the group together. It was because the OPEC countries were able to meet most of these requirements that the price of crude oil was successfully raised five fold.

Such a combination of factors may just exist for tin (although there are large stocks of this metal in the US), phosphates, bauxite and, perhaps, tungsten, chromium and manganese (in the latter three materials, a cartel would probably have to include countries in the Soviet block).

But for most minerals there are sufficiently large deposits in the developed world to rule out the possibility of a successful cartel. The US is a prominent producer of copper, lead and zinc, while South Africa, Canada and Australia are important producers of nickel, iron ore, copper and even bauxite (which might also undermine any Third World cartel in the latter commodity). Although the possibility of the Soviet block or Australia and Canada joining an active commodity cartel can not be totally ruled out, it must be seen as doubtful.

Non-mineral commodities like rubber are highly concentrated in four developing countries, but face synthetic substitutes. Tropical agricultural goods which are almost totally produced in the Third World do not lend themselves to cartelization because of the large number of producers of such products. In fact, there is little that is new in the contemporary debate about commodities. The same arguments have echoed across the decades. From the point of view of economic development, the desirability of the various courses of action advocated can be tested by asking (a) can commodity agreements or producer cartels work over a long

period of time? (b) which types of arrangement would help the most people in the developing countries? (c) are commodity arrangements anyway an efficient and appropriate device for transferring resources to the poor?

The principal threat to all agreements which attempt to raise prices above their natural level (whether it results from producers acting alone or in concert with consumers) is that it will always be in the interest of a low cost producer to sell outside the agreement and undercut the common price, expanding his share of the market at the expense of those who remain loyal to the agreement. The more successful the cartel or commodity agreement in raising prices, the greater is the reward for any one member who breaks ranks. Furthermore, unless there are strict controls on production, artificially high prices tend to stimulate higher output and large surpluses. The perfect example of this is the European Community's Common Agricultural Policy which has given rise to its notorious mountains of beef, butter and skim milk, as well as to the wine lakes.

The history of international exporter-importer commodity agreements also shows that they are more effective in defending a floor price than a ceiling price. The poor producing countries are naturally upset at any attempt to stop the prices of their produce rising. But this has given rise to the suspicion that the Third World nations are only seeking agreements that limit price movements in one direction. It is for these reasons that those countries in the West, led by the US, whose ideological instincts make them hostile to the notion of commodity agreements, argue that attempts to artificially raise prices cannot succeed in the long term, and are detrimental to the international community in the short term; that they waste and misallocate resources, with the effect that the world as a whole is poorer than it would otherwise have been.

Predictably, there is a chasm between the neo-classical ideal as preached by some countries in the West on the one hand,

and the actual practices of governments on the other. For social, environmental, and security reasons, most Western governments attempt to influence supply and demand patterns in many raw materials. Furthermore, transnational corporations have persistently regulated the flow and prices of materials where they have established a large measure of control over the production, processing and marketing of them. Three transnational corporations account for 70 per cent of total world banana trade (by value) controlling transportation, the insuring, ripening and wholesaling of bananas. From a retail price of \$5.93 a box, it is estimated that the banana producer receives 70 cents. Oligopolistic Western buyer cartels of this kind have survived remarkably well over the years. There is no reason to think that if the motivation was sufficiently strong, a small tightly knit group of producer countries could not similarly survive. But in the case of bananas, if control reverted to the producing countries it would involve a larger number of competing parties.

Essentially, the doubts about the desirability of producer cartels or producer-consumer agreements aimed at securing a significant change in price relationships centre on the narrowly selective and arbitrary way that the benefits would accrue. Firstly, higher prices would not necessarily involve a transfer from the rich to the poor and, secondly, the poor might actually suffer as a result of such agreements. Perhaps, 90 per cent of mineral exports from developing countries originate from those countries representing only one quarter of the Third World's population. Thus, any successful mineral cartel would almost certainly have a similar effect on the rest of the Earth's poor as did the oil price increase. Not only would it push up the costs of direct purchases of such minerals for those poor countries that are large net importers of them, but, ultimately, when the effects of higher prices to the rich states increases Western inflation, this would be reflected in higher import costs for manufactured and intermediate goods.

At the same time, while many poor

countries are substantial importers of raw materials, many rich countries are large exporters. In spite of the heavy dependence of the Third World on trade in primary products, these countries do not, with the exception of fuels, account for over 50 per cent, by value, in world trade in any principal category of primary product. In food, their share was only about 29 per cent in 1972, while for raw materials it was 22 per cent, ores and minerals 33 per cent and fuels 66 per cent. For all primary products taken together, their share was about 40 per cent. A commodity agreement that takes from the urban poor of Calcutta and gives to the American wheat farmer is hardly contributing to fairer world order. For this reason, wheat has been dropped as a potential candidate for inclusion in the integrated programme. But the principle remains. Of course, the developing countries' share in world trade for certain specific commodities, particularly tropical products like coffee, cocoa, tea, pepper, rubber, jute and hard fibres, rises to virtually 100 per cent. But, even so, any commodity agreement that raised prices for these products may still have the effect of helping the large farmer, the plantation owner or foreign owned corporation at the expense of poor farmers. Furthermore, artificially supported prices might reduce the incentive to diversify out of otherwise unprofitable production into other areas in which the country has a comparative advantage.

Such observations do not amount to a case against all commodity agreements. But they suggest that the objectives and implications of such arrangements need careful consideration. There is certainly a role for buffer stocks to stabilise prices around their long term trend. Often, in the present unsatisfactory system, a rise in prices spurs new investment in productive capacity which too frequently only come on stream when the market has moved into a cyclical downswing.

The sudden excess of capacity then accentuates the collapse in the price, and, in turn, leads to a dearth of all further investment until the next upswing reveals a fresh shortage of capacity. Buffer

stocks could help prevent this cycle. It is in the interest both of poor producers and rich consumers that supply should not swing from surplus to shortfall and that violent price movements be ironed out. If the rich nations contributed in substantial measure to the establishment of stocks this would represent a cash transfer to the poor nations because it would probably cause a real once-and-for-all rise in prices. The earnings stabilisation schemes also have much appeal. Such schemes have several advantages over the conventional commodity agreement. Firstly, they do not operate directly on prices which continue to be set by the market. Secondly, they relate specifically to the problems of individual countries or even individual producers. A liberal scheme, perhaps run by the IMF, which compensated countries for unavoidable falls in export earnings would provide developing countries with an important back stop. Failure of a harvest for a one crop country is obviously devastating. But the fall in earnings need not have to result only from such disasters. It would compensate also for a drop in earnings caused by a fall in the price of a given raw material. If the finance was ever available it would even be possible to maintain earnings in "real terms," although whether the money had to be repaid would depend on the generosity of the scheme. There might be reason to hope that the poorest nations would not have to repay. Furthermore it would help producers whose raw materials do not lend themselves to commodity arrangements.

But there is little reason to think that commodity agreements can themselves contribute to a significant and sustained redistribution of resources from rich to poor. At the same time, if the pursuit of a new commodities deal became the overriding single preoccupation of the Third World, there is a real danger that efforts to "engineer" price levels would absorb an unjustifiable amount of energy, deflecting international attention from possibly more fruitful ways of both alleviating poverty and changing north-south economic relations.

7. declining aid

Even in the unpropitious environment in which they trade, developing countries have normally earned more than 80 per cent of their financial resources. The remainder has been provided in various forms such as official aid, private capital investment, international bank loans and so on.

Aid is particularly important because it is also the cheapest form of external finance. However, in recent years, the climate within the larger industrialised nations has become less favourable towards the provision of foreign aid. This trend is most advanced in the US. The failure of earlier aid programmes either to have a significant effect in alleviating poverty in the developing countries, or to win friends politically have contributed to a sense of disillusionment. The radicalisation of the Third World, which Henry Kissinger has so deplored, together with the "bitter rhetoric" and "confrontational tactics" of the developing countries, have given rise to accusations that the world's poor are "biting the hand that feeds them."

There is, too, a popular image—totally unjustified—of aid lining the pockets of corrupt officials or being used to finance prestigious, but unproductive projects, like national airlines, lavish conference buildings and huge multi-lane freeways.

The view of aid in some parts of the developing world is often no less jaundiced. It is said to be a neo-colonialist device for furthering the commercial interests of the rich nations by smoothing the way for more profitable private capital investment, and perpetuating the system of economic bondage, as well as supporting Western foreign policy objectives. There is, of course, much truth in all this. The motives for giving aid are numerous and complex, and doubtless owe little to pure altruism. Certainly the donor nations have provided much aid to those parts of the world where they have political and commercial interests. Certainly, too, much aid is "tied" to purchases of goods in the donor country. Undoubtedly too, food aid is an easy way of getting rid of

embarrassing agricultural surpluses like those of the European Community.

Yet the fundamental case for aid remains powerful. To begin with, some underdeveloped nations may be unable ever to earn sufficient funds, no matter how ideal the trading environment, to keep their people in conditions consistent with human decency. Landlocked and island economies face special problems of this kind even over the very long term. For some of these, aid is not a source of development finance but budgetary support. Even for the better placed Third World nations aid is vital to bridge the gap between what they can earn from their exports and what they must import to maintain the impetus of their development programmes.

Because of this a way must be found for aid to be provided according to firmly established and agreed international principles and objective criteria, with the overriding priority of alleviating poverty. The problem could be at least partly met by extending the role of international agencies as a means of neutrally channeling more aid to the poor.

There is a theoretical but insufficiently understood reason why aid and other capital flows to the developing countries is important in providing more symmetry to the world economy as a whole. For when the developing countries run a trade deficit with the rich nations, not only does the Third World obtain a net balance of real resources, but the rich nations collectively achieve the trade surplus which they are forever seeking. The problem is how to finance the Third World deficits. The rational answer is that the industrial nations match their trade surpluses with a corresponding deficit on their capital accounts. When this capital flows to the developing countries to pay for their trade deficits, the circle is complete.

The events of 1973-75 have resulted in a devastating increase in the trade deficit of the poor countries. The aggregate Third World deficit on trade in goods and services jumped from about \$10,000 mil-

lion in 1973 to nearly \$30,000 million in 1974, and almost \$40,000 million in 1975. The increase in trade deficits was largely paid for by borrowing and by using some of the meagre gold and foreign currency reserves which developing countries try to maintain. But there are limitations to the use of these sources of finance, and if there is no improvement in the trade situation soon, most countries will be forced to curb much needed imports.

Undeniably, the quintupling of oil prices has contributed substantially to the deteriorating position of non-oil developing countries, accounting for about \$11,000 million to \$12,000 million of the higher collective trade deficit of these countries. Higher prices for fertiliser and manufactured goods, together with the world recession, were responsible for the rest.

But, in spite of the traumatic effect that the oil price increase had on the world economy, it would be wrong to blame the oil exporters unduly for the problems that followed their action. It is within the capitalist countries that there originates the violent booms, cyclical recessions, inflations and structural injustices to which the oil producers were responding.

Whilst developing countries have been witnessing a rapid deterioration in their financial positions, the antagonism towards aid in the rich nations has, if anything, intensified. In 1975, the 17 main aid donors in the developed non-communist world provided a mere 0.36 of their aggregate gross national product, in official aid, compared with 0.52 per cent in 1960. By comparison, in 1949, at the beginning of the Marshall Plan, the US foreign aid programme amounted to 2.79 per cent if its GNP.

Although the US still gives by far the largest sums of aid in money terms, its aid as a proportion of its GNP is today a derisory 0.27 per cent. The United Kingdom's performance is barely more respectable, at 0.38 per cent, compared with 0.56 per cent in 1960. Only Sweden and the Netherlands meet the UN target of 0.7 per cent. Whilst, in money terms, over-

seas development assistance from the 17 rich countries nearly doubled over the last ten years, the real value per head of population in the Third World actually fell about 20 per cent.

By contrast, the main oil exporting countries have emerged as generous aid donors. As a proportion of GNP, their concessional aid equalled 1.8 per cent in 1974. Aid from the communist countries is estimated to have amounted to 0.15 per cent of the total GNP. However, the communists argue that the plight of the Third World springs from colonialism and imperialism and that therefore that the moral obligation rests with the erstwhile metropolitan countries to provide redress. It might be said, moreover, that communist countries, like mainland China (and indeed some oil exporters such as Nigeria) are themselves amongst the poorest countries on Earth and cannot really be expected to be a source of great financial aid.

Thus, whatever sums the communist and oil exporting countries can realistically be expected to provide, it is the developed market economy countries that will have to provide the bulk of aid. In spite of the growing hostility to official aid, at least as reflected by the legislatures of the bigger industrial countries and tests of public opinion carried out by researchers, there is evidence that individuals are responding as generously as ever to appeals for money from independent charitable aid groups. This is, perhaps, an indictment of the perceived inefficiency of official aid, but it also shows that the people's humanitarian instincts remain a potent force to be tapped by governments with the boldness to elevate the issue of world poverty to its proper place as one of the foremost problems of our time. However, with so many competing domestic claims on national resources, and so little electoral mileage to be gained from championing the foreign poor, few governments have felt inclined to grasp the nettle of foreign aid.

Instead, they have preferred to place the emphasis on encouraging private capital to the Third World, to replace public aid.

This course of action has the advantage of being in tune with the "market" ideology of most of the aid donor countries whose advocacy of private investment rests on the belief that any development project which represents a productive use of resources—that is wealth creating—will generate sufficient profit to make it an attractive investment proposition to private capital. But, as noted earlier, this does not guarantee a reduction in poverty. A direct attack on poverty requires funds for infrastructure development, "pump priming" projects and job creation schemes, whose benefits may be too diffuse and indeterminate to make them appeal readily to private investors.

8. private investment, technology and the transnational corporation

In most finance hungry developing countries, foreign private capital investment has been tolerated or even welcomed as a supplement to the nation's own earnings and its aid ration. However, private investment can really only be considered alongside the related role of the transnational company—perhaps the most controversial of all Third World development issues.

Haunted by a colonial past, there is, not surprisingly, a considerable ambivalence in the attitude of the developing countries towards these corporations. In short, the poor nations desperately need the capital and technology which the corporations possess but recoil from the surrender of their hard won economic sovereignty which private foreign investment sometimes entails. It is a bitter choice.

A key determinant of the present world economic system is the monopoly the northern nations (including Russia) have in research and development, accounting for about 95 per cent of all such activity. Economic growth in the last 200 years has been to a large extent the result of the technological explosion, the development of management systems which achieve increasingly effective mobilisation and utilisation of human and other resources. But in the non-communist world, the new technologies are largely the preserve of huge transnational corporations—that is enterprises that own or control productive or services facilities outside the country in which they are based.

The spread and growth of the transnational corporation since the war has been phenomenal. The total value of international production controlled by such corporations now exceeds that of world trade. Moreover, they also own much of the surplus capital. Most developing countries have consequently been forced to recognise that they have little alternative but to draw upon the resources of these corporations as the main international disseminators of scientific knowledge, and as providers of investment capital. Yet, at the same time,

it would be wholly unjustified to assume an identity of interests exists between the transnational corporation and the developing country. The foremost interests of the corporation are not those of Third World development. Neither, in the past, has the relationship between corporation and developing country been an equal one that has permitted a fair division of the benefits of their co-operation. The weaknesses of such marriages have been well documented and it is not necessary to rehearse them more than briefly here.

In essence, the problem is that the huge size and multinational character of these corporations has often enabled them to maximise their profits with a reckless disregard of the economic, social and cultural requirements of the poor host nation. They have frequently introduced inappropriate types of technology, intensified inequality and weakened the balance of payments and employment opportunities. In some well publicised cases they have even been shown to be guilty of price "fixing", tax evasion, bribery and illegitimate interference in the internal politics of the host country. Furthermore, the large financial interests that these corporations represent to the developed countries in which they are headquartered (the US and Britain being most important) inevitably means that the transnational enterprise is backed by all the political, economic or even military muscle at the command of Western Governments. The rich nations' financial stake in the developing countries is very substantial, and about half of this foreign investment in the Third World is in natural resources. The total stock of private overseas direct investment in the developing countries amounted to about \$65,000 million (book value) at the end of 1974, almost all of it owned by investors in the 17 principal developed aid donors.

However, for a number of reasons the power relationship between international capital and the Third World has already undergone some change. The increase in Third World militancy, the weakening of the US politically, in the wake of the Vietnam War and Watergate scandal, to-

gether with widespread concern following revelations of international corporate corruption, have all contributed to this shift in the power relationship. So, too, has the action of the oil producers. The rich nations' insatiable appetite for raw materials is one of the developing countries' strongest cards. Already, the uncertainties caused by the large scale nationalisation of extractive industries in the Third World has led to a growing alarm that this will deter fresh private investment, resulting in future world shortages of many minerals and ores. Self-interest of the rich nations now demands that they forge a new relationship with the developing countries either directly, or through a reform of the transnational corporation.

What is needed is some kind of powerful international supervisory and regulatory body to administer a code of conduct for transnational corporations and to act as adjudicator in disputes between the investing company and the host nation. Having defined in international law the permissible public activities for the affiliates of the transnational corporations, host governments might then be redressed if there were infringements. Sanctions could be imposed on the transgressor. It would also be necessary to impose controls on the financial contributions of corporations to local interest groups and, in addition, more refined international standards of disclosure, accounting and reporting would be made mandatory. All this would go a considerable way to achieving a more even balance of advantage between international capital and the Third World governments. It is crucial to the establishment of any new international economic order.

9. the mounting debt problem

A prime function of private investment in the developing countries has been to channel a steady flow of raw materials to the industrialised nations. As a generalisation, it has also proved more profitable than investment at home or in other parts of the rich northern region. It is estimated that in 1974, repatriated dividends from the poor to rich countries amounted to some \$10,000 million. Taken together with all other debts repayments (on aid and other official and commercial loans), this means that roughly half of the gross flow of all financial resources to the Third World actually flowed straight back again. As Eurocurrency borrowing (which is lent on hard commercial terms) has increased more than proportionately during 1975, this "reverse capital flow" to the north can confidently be expected to rise soon to over 50 per cent of the gross flow of capital, in all forms, to the poor.

This problem of the "reverse flow" of capital has now reached an alarming state. The total external public debts of 86 developing countries more than doubled between 1967 and 1973, according to the World Bank, rising from \$50,747 million to \$119,893 million or about \$60 for every man, woman and child in the non-communist Third World compared with \$25 a head in 1960. This excludes private investment capital, which does not usually take the form of loans. Of most concern is the way the non-oil developing countries have been forced to turn increasingly to the international banks for non-concessional credit. There was a net increase of \$14,000 million in such borrowing during 1975—a sum considerably in excess of total borrowing by those countries from all sources in any year prior to 1974.

Inevitably this greater indebtedness is giving rise to a sharp escalation of interest and amortisation payments. Furthermore, as much of the recent commercial bank borrowing is of rather shorter average maturity than traditional development loans, it will soon lead to current repayment obligations considerably larger in proportion to outstanding debt than hitherto. When all debt payments and

dividend repatriations are taken together, they probably absorb one fifth of all non-communist Third World export earnings, excluding oil. For many individual countries the figure will be very much higher than one fifth, in some cases it may be over a third.

A moratorium or complete cancellation, of at least the official, bilateral component of these debt and interest payments would have a significant impact on the financial position of many countries. Although the rich nations maintain that such a move would encourage irresponsibility amongst the developing countries, they (the rich nations) insist that they are prepared to consider individual debt repayment problems on their merits. The possibility, however, that at least some of the developing countries might soon find themselves with no serious alternative but to default is greater than ever. If the balance of advantage to the developing country favours such a move, it could well profit from simply defaulting. For only the fear of this kind of action will provoke the rich countries or the banks into realistic debt rescheduling arrangements, which must be viewed as an important element in the establishment of any new economic order.

10. the third world and the food crisis

The food problem is inextricably tied up with the other aspects of the development—population growth, poverty, exploding cities, low investment, maldistribution of income and an unbalanced trading system. Put simply, the Third World, although predominately agricultural, is not growing enough food to meet the real needs of its peoples, while the developed world, as a whole, has considerable food surpluses. Obesity is a cause of many deaths in the north, as malnutrition is in the south.

The problem has come to a head in the 1970s following the harvest failures in many parts of the world during 1972 and 1974 which resulted in the Soviet grain purchases (the largest in the world's history) soaring grain prices and the virtual exhaustion of world reserve stocks. But all this only served to highlight a deep seated structural problem.

Third World food production grew at about 2.6 per cent in the 1950s and by about 3 per cent in the 1960s. However, this was rather less than the growth in demand for food in this area which was 3.0 per cent in the 1950s, 3.3 per cent in the 1960s and 3.6 per cent by the middle 1970s—a growth that was largely due to the rise in population.

A projection of the divergence between production and demand in the Third World between now and 1985 suggests that the deficit in cereals could rise to around 85 million tons per year, compared with 16 million tons of net imports in the years 1969-72 (this gap rose alarmingly in 1972-73 to some 43 million net tons). At 1973-74 prices, the food import bill in 1985 would reach \$17,000 million.

In fact, the rate that the production of cereals has been increasing in the Third World has not been greatly inferior to that of the main food exporting nations of the temperate regions. Aggregate Third World agricultural output has increased by 29 per cent since 1960, compared with an output increase of 31 per cent in the wealthy states. However, the respective per capita expansion was 17 per cent

compared with only 2 per cent. The developing countries are thus becoming increasingly dependent on the rich northern nations for their food imports, and most particularly dependent on the US. Since 1968, the value of US agricultural exports to the whole world have risen 180 per cent. Indeed, the US monopoly in agricultural goods is greater than the Middle East dominance of the petroleum market.

Yet historically, the nations of Africa and Asia were self-sufficient in grain production. Before the second world war the whole of what is now called the Third World was a net exporter of grain. In the face of the deteriorating situation of recent years, policy formation has centred on how to increase food production in the developing countries. Doubtless, the classical economist would argue against this line of approach, suggesting that the developing countries would benefit more by concentrating on making the goods that they could produce most efficiently, thereby earning the foreign exchange to buy the food which they can not produce as efficiently as the US.

But such an argument makes unjustified assumptions. It assumes that the northern countries will sufficiently liberalise their trade to permit the Third World to earn the foreign exchange it needs. Moreover, for strategic reasons, most countries, particularly in the West, favour a large measure of self-sufficiency in food. Indeed, that is why European Community tariffs on foodstuffs are so high. Furthermore, at a time when many influential voices in the US are raised in support of their country using its food monopoly as an extension of foreign policy, total dependence on imported food carries considerable political risks.

An altogether different, but powerful, line of reasoning holds that raising production will not help feed the poor within the developing countries because they simply do not have the money to buy the food they need. In other words, the problem is one of distribution and structure, rather than production. By extension, what is needed is a radical change

in the pattern of ownership of land and other assets and control of food marketing. It has been suggested that as little as 25 million tons of cereals distributed to those in need would close the basic nutritional gap.

Although this argument carries much force, distribution cannot be the whole answer when the long term divergence between production and demand is so pronounced. Equally controversially, some authorities have advocated that higher production be sought by means of an actual increase in food prices. Indeed, it is argued that part of the food problem is that Third World governments have held down food prices, mainly to contain dissatisfaction in the urban areas where political organisation is strong. Holding down prices, it is claimed, has reduced the incentive to grow more food and has kept down the incomes of the rural poor.

There is certainly a considerable potential for increasing production of food grain in the developing world. Grain yields are only 40 per cent of the yields in the rich northern nations. An expansion of arable and irrigable areas would greatly help in raising output. There are many millions of hectares of land suitable for farming currently unused. An improvement in farm management practices would also contribute to this end. Equally the control of insects and diseases which now destroy almost a third of all the crops grown in the Third World could have a profound effect. A tse-tse control programme costing around \$2,000 million to \$2,500 million spread over 20 years could add about seven million square kilometres of agricultural lands to the world's food production base, according to some calculations.

Similarly, a greater use of fertilisers would have a very considerable effect on production. Unfortunately, a shortage of fertiliser, and the consequent high prices it commands have threatened to reduce its use in some developing countries.

That fundamental structural and social changes are necessary if food production

is to be increased has been shown by the Green Revolution. This is the euphemism for the new dawn that was expected to arrive with the advent of high yielding varieties of wheat and rice seeds developed at the Mexican International Maize and Wheat Improvement Centre under the direction of Dr Norman Borlaug, and at the International Rice Research Institute in the Philippines. These new seeds began to be introduced in the 1960s. In 1970 Dr Borlaug received the Nobel Prize, not for science, but, more appropriately, for peace.

After being initially introduced into India, Pakistan, Philippines and Malaysia, the high yielding varieties of rice and wheat were adopted in other parts of Asia, the Middle East and Africa. The experience in the field has been more mixed than under controlled laboratory conditions, but with the right combination of inputs, higher yields have been achieved than normally obtained from traditional varieties of seeds.

However, it is clear that the social impact of the Green Revolution has been adverse for large numbers of people, and that the benefits have been discriminatory. To begin with, the successful exploitation of the new technology requires much greater expenditure on fertiliser and pesticides. The necessary increase in fertiliser alone may be several hundred per cent. As a result, only the richer farmers have been able to make full use of the new seeds. Furthermore the costs of the new seeds themselves, together with better irrigation and other inputs, may be very high. It has been estimated that it may cost 10,000 to 12,000 rupees to re-equip a 17.5 to 25 hectare holding in India. Yet, two thirds of India's rural population either own no land or less than 12.5 hectares, and a very high proportion have incomes of less than 200 rupees a year. The poor peasants are the least able to compete for scarce credit, or pay the extortionate interest often demanded by the village money lender. Moreover, for the subsistence or tenant farmer a generally good harvest resulting from the local introduction of high yielding seeds may depress prices and even lead to higher rents

relative to product prices thereby aggravating inequalities.

Because of double and triple cropping and the higher demand for spraying and other processes related to the high yielding seeds, the need for labour may increase employment opportunities for a time, but this may itself lead landowners to mechanise as wage bills rise. At this stage labour creation turns to labour displacement. Only the land owning and capital owning classes prosper. Higher land values often lead to the eviction of tenants who join the swelling ranks of the landless.

The clear lessons of the Green Revolutions are that scientific breakthroughs in agricultural production must be accompanied by agrarian and institutional reform; and that careful consideration needs to be given to pricing, taxation and subsidy policies, and to the provision of adequate credit at reasonable rates of interest. Above all the critical need is for agricultural technologies tailored to local conditions.

Must small scale rural development aimed at exploiting the productive potential of large numbers of people in the countryside, conflict with the objective of higher food production? The World Bank thinks not. Indeed, its studies indicate that small cash crop farmers are often more efficient in their use of farm resources than are large farmers. This is important because the main disadvantage of land redistribution has always been held to lie in the reduction of efficiency that was presumed to result from the greater fragmentation. Certainly in countries with low population density like Latin America, a redistribution of titles to land and land settlement schemes would have a powerful effect on the creation of employment; although the strength of the landowners in Latin America would make such a measure difficult. It is probably true, however, that in the more densely populated Asian countries a redistribution of land with a view to creating peasant proprietorship, even if it were politically feasible, would at best create tiny uneconomic holdings.

Experience suggests that the alternative of co-operative or collective types of re-organisation of farms does run up against problems of low incentive and weak motivation, although if they are based on small units like the extended family or the village this may not be so.

However, little will be achieved without large amounts of additional resources being made available. The World Bank suggests that over the next ten years some \$100,000 million might be required to provide the impetus for a sustained improvement in productivity and real income growth among all the rural poor.

11. the way ahead

As unpalatable as the conclusion may be, it must be recognised that a fundamental conflict exists between organised labour in the rich nations on the one hand, and the poor of the Third World on the other. Socialism is not served by evading this fact, even if both these groups form its natural constituencies. The conflict stems from what the Social Democratic Chancellor of West Germany, Herr Helmut Schmidt, has described as the "struggle for the world's produce". For one group of producers can only obtain a better price for their wares at the expense of another group who will either suffer a drop in income or receive a smaller increase than it otherwise would. Organised labour in the developed nations shows no sign of being willing to accept any reduction in its existing share of the world's produce. This was demonstrated when the OPEC countries raised the world oil price. Workers in the rich countries quickly succeeded in making up, through higher pay demands, for the reduction in the real value of the pay packet brought about by higher oil prices. The result was that higher labour costs pushed up the prices of exported manufactured goods to the non-oil developing countries, who were the only group left to be squeezed and who were too weak to effectively resist. Similarly, a redistribution of world income through higher taxation in the northern nations is no more likely to be accepted; while compressing the profits of the transnational corporations and other middlemen in the marketing and distribution of Third World production, although perhaps desirable in itself, will not yield anything like the sums needed.

The simple fact is that there is no costless way of raising the living standards of the world's poor. Reducing import tariffs in the West, thereby enabling developing nations to earn more money from their exports, is no less fraught with conflicting interests than outright transfers of funds, although it presents one of the more rational and efficient means of distributing wealth.

If higher imports displace home production it is the unemployed workers of

the developed countries which are bearing the cost. The textile trade provides the best example of this. As the developing countries have increased their production of textile goods (textiles are the obvious choice for Third World nations wishing to reduce their reliance on raw material production, and establish a manufacturing capability), so the textile industries in the West have contracted.

As lower labour costs mean that many of the developing nations can produce textile goods more cheaply it is clearly in the interests of Western consumers that this should happen—and workers are also consumers. It is also in the general interest of the community as a whole that resources be redeployed from uncompetitive industries into areas where they can be used for more efficient purposes. But the structural adjustment is often painful and the change is not unnaturally resisted by workers who fear being unemployed, or being forced to leave the communities with which they are familiar. As the threatened industries are often those requiring only limited skills, it is the poorest workers in the developed countries that are most exposed. The stark choice for the British Government, therefore, might be, ironically, between making concessions that would increase the earnings of the textile worker in Pakistan or protecting the jobs of the Pakistani immigrant in a textile mill in Oldham.

A programme of "adjustment assistance" within the developed countries would help lubricate the adaption from the old declining industries to the new growth sectors. In this way the costs of structural change are borne by the community as a whole and not just the unemployed.

But, no matter how the burden is shared, governments of modern Western liberal democracies, subject to the periodic expression of the popular political will of the people, can not willingly preside over a significant reduction in the living standards of the citizens within their own countries. This is why it is necessary that the economies of the rich world continue to expand. It is easier to redistribute

from incremental wealth than from the existing stock.

Popular prejudice would be more muted if there was a greater understanding that all would ultimately benefit from an increase in the purchasing power of the poor. The non-oil exporting developing countries tend to spend every penny they get (unlike the low population oil states of the Persian Gulf). Much of this money is spent on buying goods from the industrialised nations, thus creating employment within those nations. In the long run this trade will create greater wealth for all.

Precisely what mechanism is used to transfer resources from rich to poor need not matter. The important thing is that the developed states commit themselves to making available, from the incremental increase in their own wealth, sufficient resources for Third World nations to achieve a minimum growth target of, say, 6 per cent each. If the rich countries did not, for example, absorb enough Third World exports to permit the attainment of that growth target, then aid transfers would have to make up the difference. The lowest income developing countries would benefit no less than the higher income developing countries.

Moreover, it would allow the precise mechanisms of resource transfer to be discussed in a less partisan way than in the past. If the developing countries knew they could individually always be assured of an agreed sum of resources up to the target level, there would be a greater inclination to consider specific transfer mechanisms on merit rather than let every ill considered scheme become a symbol of the broader confrontation between rich and poor, as happens at present.

A sustained growth of 6 per cent over some years would transform the position of many developing countries. The average growth in the industrialised nations between 1850 and 1960 has been calculated at around 2.8 per cent, which, after allowing for the expansion in the population over that period, produced

a per capita income growth of about 1.8 per cent. Yet, such is the effect of a compound progression, this comparatively modest average rate of expansion in economic activity (much less than that to which the rich nations have now become accustomed) provided the West, in a little over a century, with much of the wealth it now enjoys.

At a growth rate of 6 per cent, national income would double in 12 years, triple in 19 years and quadruple in 24 years—gathering ever more momentum. It is only the potential of such economic progressions that prevents the prospects for the developing world being viewed with unalleviated gloom. Even so, the benefits to the poorest groups within rapidly expanding populations would be quite limited for several years. In those countries where populations are expanding at the average $2\frac{1}{2}$ per cent or more, per capita growth would be only $3\frac{1}{2}$ per cent or less. It would take almost to the end of this century for per capita to double if the average growth rate was $3\frac{1}{2}$ per cent. While an increase from \$200 annual per capita to \$400 would be very welcome in the poorest countries, it would still represent a state of intolerable poverty.

There are obvious objections to a strategy which aims at 6 per cent development growth as the primary goal.

Firstly, it does not guarantee that the very poorest groups within the developing countries will share the proceeds of growth. However, there would, under any circumstances, be almost no way in which a broadly distributive policy could be imposed from outside on a regime that was resistant to such proposals. But, under the 6 per cent growth strategy balanced development and the eradication of poverty would remain a basic tenet of aid policies and the global development effort.

Second, it might be argued that support for a 6 per cent growth target would reduce a developing country's motivation to help itself. But this would be a problem of almost any scheme of assistance.

Third, 6 per cent growth would not necessarily achieve the other various strands of the New International Economic Order, like the demand for a greater transfer of appropriate technology, and sovereignty over (and direct ownership of) resources. However, steady growth throughout the Third World would inevitably provide its own impetus for change and the recasting of international trading relationships.

Fourthly, it might be argued that such a strategy would result in a kind of international "poverty trap" for those developing countries reaching the 6 per cent threshold. However, it would allow resources to be concentrated on those Third World countries which would never be able to achieve a growth rate of this order without extensive external help.

Even to hope that sufficient resources might be made available to enable the Third World nations to achieve income growth of around 6 per cent ($3\frac{1}{2}$ per cent per capita) may be thought to be unrealistically ambitious, particularly at a time when the western nations are so beset with their own economic and social problems. According to World Bank calculations, it would require an almost 50 per cent increase in capital flows if the non-communist developing countries were to achieve a per capita growth of 3 to 4 per cent over the five years 1976-1980 (assuming there were no change in trade flows). Capital flows would have to rise from a little over \$40,000 million in 1975 to somewhat over \$60,000 million in the last half of the present decade (in constant price terms). And much of the increase in capital flows would have to be on concessional development assistance terms (this, of course, assumes the rich nations choose not to complement aid flows with trade concessions).

Although the necessary increase in resource transfer seems prohibitively high, it could be accomplished within the GNP allocation targets established for the second Development Decade, assuming steady growth in the industrialised nations and some aid also from OPEC. It would

require the rich nations to set aside for Third World development just a small percentage of the additional wealth that might reasonably be expected to accrue to them over the next few years. The sums needed to achieve 6 per cent growth in the developing countries pales into insignificance when compared with the world military expenditure of some \$200,000 million a year (or $5\frac{1}{2}$ per cent of the world's gross national product in 1972).

For all its shortcomings, the programme of change represented by the Third World's crusade for a new international economic order at least provides a constructive alternative to the existing order. Unless the developing countries feel they have a real material stake in the system, their influence is increasingly likely to be a disruptive one. The cost could then be very great indeed.

Dr Kissinger's own words read to the Seventh US Special Session, provide the best summary: "... man stands at a point of moral choice. When the ancient dream of mankind—a world without poverty—become a possibility, our profound moral convictions make it also our duty." But more than words are needed.

young fabian group the author

The Young Fabian Group exists to give socialists not over 30 years of age an opportunity to carry out research, discussion and propaganda. It aims to help its members publish the results of their research, and so make a more effective contribution to the work of the Labour movement. It therefore welcomes all those who have a thoughtful and radical approach to political matters.

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Enquiries about membership should be sent to the Secretary, Young Fabian Group, 11 Darthmouth Street, London, SW1H 9BN; telephone 01-930 3077.

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Cover design by Dick Leadbetter. Printed by Civic Press Limited (TU), Civic Street, Glasgow, G4 9RH.

ISBN 7163 2044 4

ISSN 0513 5982

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