

Lemper, Alfons

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The New International Economic Order

The concept of a New International Economic Order (NIEO) is expected to play a central role in the debates of the Seventh Special Session of the UN-General Assembly which meets in New York from September 1 to 12. What are the differences between the old and the new economic order?

The "Old Order" and the "New Order"

by Dr Alfons Lemper, Hamburg *

The "New Order for the World Economy" which has now been bruited about for something like a year to the listeners' alarm and horror or, depending on their whereabouts and mood, delight and elation might have been dismissed as a slogan of passing interest had it not been hallowed by a chorus of influential and respected world organisations like UNO, UNCTAD, UNIDO and ECOSOC.

A closer look at the long list of demands by which the "New Order" is to be established eventually shows it to include many claims heard often before which have little to do with the ambitious call for the "New Order". They relate to issues which are not really in dispute, already enjoy wide-spread support and deserve to be endorsed by everybody. It really contains few postulates which if realized would go some way to justify the use of the appellation "new" for the desired World Order. They are the demands

☐ to carry forward the transfer of incomes and wealth started by the OPEC's oil price policy through creation of analogous cartels for other commodity markets and to set up global institutions for this purpose;

☐ to accomplish a "fairer" division of earnings between industrial and developing countries by price regulation (e.g. by index links between raw materials and industrial products);

☐ to give the developing countries a fixed share (25 p.c. by the year 2000) of the total industrial world production;

☐ to initiate a raw materials policy which is as far as possible predetermined and not susceptible to the working of market forces;

☐ to give the colonial peoples, past and present, the right to claim restitution for the exploitation of their natural resources.

The substance of these demands for a "New Order" to be put in the place of the "old" one cannot be judged truly without

a dispassionate analysis of the basis of the existing order and the chances for a newly-to-be-created alternative order and a realistic appraisal of the actual facts.

The Historic Perspective

First of all: The "Order" at issue has a great many facets. It is not the outcome of either an ingenious conception or a conference resolution but the result of complex historic processes, struggles and compromises which were not engineered by one individual or organisation. Therefore nobody in the world, no individual and no organisation, is capable of designing, let alone instituting, an entirely "new" order which could replace the "old" one. The instruments of real power are divided between the nations. The states are watching over their autonomous rights and miss no opportunity to reassert them. The multitude of sharply diverging interests of the various states makes a consensus on a radically "new" order with any

* Deutsches Übersee-Institut (German Overseas Institute).

chance of actually being set up a utopian undertaking.

It also makes for realism to look at the "old" order from a historic perspective. The rise of a civilisation born of western tradition and resting on the pillars of rationalism, liberalism and individualism has set free a dynamic force as felt never before on this earth. The historic concentration of this dynamics in at first only a few countries naturally had the consequence of every impact of dynamic expansive societies on existing static civilisations. The latter were penetrated, in part subjugated and subjected to direct or indirect dependence. Whether wanted or not, the dominated societies were drawn into the vortex of new economic-political power centres.

Economically the unrivalled ascendant dynamism of the capitalist — or more correctly: individualistic-liberalistic — form of society and economy stemmed from the mobilization of the individual advantage, from consistent application of the principle of rationality, division of labour and specialization. It led to an immense increase in productivity but also drew the individual into an ever closer relationship with society and the outside world and caused the other countries of the world to be penetrated. It became the originator of the specific power relations of our time which are essentially due to economic causes. The transformation on the side of production was matched by an equivalent principle of free choice on the side of consumption, the utilization of the numerous opportunities for demand and product differentiation and the general human desire for wealth and possessions.

A Modicum of Inequality

Such being its background, the core of the problem cannot

be laid bare by thinking in categories like verdict and exculpation, guilt and restitution and by attributing responsibilities posthumously. All historic processes are taking place in a situation of perpetually emerging and changing power positions. Power always works to the detriment of the weaker side. The modalities of legitimate use of power may be a matter for dispute. But if power and the use of power were in essence moral categories, they would have to be applied in all spheres of life today, the democratic form of the state included. To question the legitimacy of power and the use of power *per se* is to misconceive elementary principles of life itself. To do so would be as unrealistic as to insist on the postulate of equality which is implied in many of the demands for the "New Order". Life — like competition — implicates a certain modicum of inequality.

The question what are the chances of a "new" order in the world economy was already answered in large part when all the representatives of nearly 150 countries at the recent UNCTAD conference in Santiago endorsed the objective of increasing prosperity and economic progress, for it is obviously impossible to achieve economic progress by other means than industrialization in the widest sense, activation of rationality, division of labour and specialization — that is, in the final analysis, by components which Marx judged to be the root of the alienation of man. The alternative of "fishing in the morning, hunting in the afternoon" does not exist in reality unless stagnation and a relapse into or persistence in absolute poverty are accepted. Comprehensive cross-section studies have shown that all countries, capitalist or socialist, which have opted for the general objective of economic progress fit fairly accurately into the natural "pattern" of the

transformation of industrial structures. How a "New Order" can on principle alter this fact is not apparent.

Responsibility for One's Own Development

The world trade is largely a reflection of these "patterns" of development. From this follows that the evolution of the trade structure is also largely predetermined by this development process. The place of each individual country in this web of exchange relations, and the chances of changing it, depend on the basic economic position. There is no law which says that the dynamics and power must for all time remain with today's industrial countries. On the contrary, there are signs of major shifts on the way. Whether and at what time they will occur cannot however be settled by resolutions and stipulations. Whether the developing countries of today will in fact command 25 p.c. of the world market for industrial products or more or less is a question which will throw up its own answer through the relative changes in their economic position which depend upon their future development. This process can certainly be influenced, assisted or hampered — but it cannot be forced on the world by the resolutions however solemn of any conference.

The "New Order" will also resemble the "old" one in that no country can purchase exemption from the axiom that the responsibility for its development is its own. Development whether economic, social or political cannot be imported or engrafted. Today as in future it will depend primarily on patient pursuit of the long road of "learning by doing", that is on gradually building up internal economic circuits and local markets. It must accord with the quality of the local production and demand potential. Where 70 p.c. of

the population or more derive their livelihood in and from agriculture priority development of this sphere is the lever to all economic development. Much time and money has been expended to learn from experience that in economic development the cart cannot be put before the horse — a lesson which has caused annoyance and aggravated the local dualism. It remains to be seen whether the oil countries with their large foreign currency incomes and small populations will gain for themselves an abiding place in the world economy by making light of this rule. It is to say the least very doubtful.

Fundamental Market Law

Besides, it is certain that the "New Order", in whatever way it were to be brought into being, could not afford to ignore the fundamental law governing any market that rising prices tend to depress demand and increase supply if they impinge upon individual markets.

How the demand responds in the specific case depends upon many factors including price elasticity in the short and long term, relevant substitution relationships, etc. Nobody possesses the power to lay down how the demand is to respond. If prices rise, the supply will — provided that it can develop more or less freely — always tend to increase if the higher prices result from improved market opportunities and not from rising costs and charges. If the demand fails to absorb the increased supply, surpluses will emerge and depress the prices, keep down the supply and thus bring it into line with the demand. This flexible market equilibration is the unique "logistic" function of the price in the market. Its effectiveness is unsurpassed by any instrument. Moreover, the rapid technological progress results in the continual creation of new goods; prod-

uct cycles follow and replace each other; new goods appear, old ones disappear. On the prices devolves a directive function of decisive importance in this game which is as complicated as it is fascinating.

To use here the blunt tool of indexation would have similar consequences as trying to regulate the hormone budget of the human body by removing the pituitary gland. The European agricultural market is a typical example of what happens if an inflated bureaucracy tries to go against the laws of the market. If its practices were applied to many world market spheres, the consequences would make the European agricultural problem look in comparison like a pretty little sand-box exercise. It would soon become apparent whether the parties concerned were willing to join in and how far they would be willing to go in helping with finance.

Unfortunate Experiences

The buffer stock idea is not specific to a "New Order" but a copy of long discussed and practically tested experiments. The basic idea is good and worth considering. It offers certain albeit limited opportunities for improving the earnings in certain raw material markets by a co-ordinated sales policy combined with appropriate stockpiling and also for keeping undesirably wide price fluctuations within narrower limits. But the negative experience to date of all buffer stocks suggests that caution is advisable in the face of exaggerated hopes.

The instruments of compensation payments and long-term contracts and of price and quantity agreements are liable to similar objections. Their numerous variants were discussed ten years ago already in great detail¹. Scarcely any concrete steps have unfortunately yet been taken although one might

think that there is scope for suitable measures.

Under the impression of the unfortunate experience with these mostly unsuccessful attempts to bring "order" into individual markets and encouraged by the example of mineral oil the demand is now for an "integrated approach" to a universal solution for all raw material markets instead of individual markets. Bearing in mind the cumbersome and frequently unfruitful methods of big conferences and the fragmentation and disparity of the interests of the participants, it is difficult to believe that such an over-ambitious programme is any less likely to fail than similar high-flying schemes for compensation for terms-of-trade movements like those devised by Prebisch and others in former days.

Apart from questions relating to the achievement of such agreements, they have no chance of long-term success if they *run counter* to the underlying market currents. Almost all past agreements have come to grief because this rule was ignored. Such agreements can never hold their own against long-term price and quantity movements. They cannot be successful unless limited to corrections in the compass of such underlying currents.

Arrangements on trade and monetary policy going beyond the existing ones are possible and desirable. They will not establish a "New Order" and are no panacea, but they can assist adjustment processes.

Indispensable Internal Prerequisites

The grandiloquent declarations should not let the advocates of the "New Order" forget

¹ A brief survey is given, for instance, in the author's study: *Zum Problem einer ökonomischen Ordnung der Rohstoffmärkte* (On the Problem of an Economic Order in the Raw Material Markets), Hamburg 1967.

that they have a lever of crucial importance for the establishment of an enduring change in the economic world order in their hands in that they can create the indispensable internal prerequisites to economic development. In most developing countries there are many opportunities for increasing the output of the economy without huge investments, e.g. by encouraging initiative and enterprise, through organisational measures, etc. The PR China has shown by its example what can be done. Other indispensable prerequisites are the deployment of idle productive forces on essential infrastructural measures, establishment of an efficient administration, the curbing of corruption. Where these prerequisites are lacking developing countries cannot be integrated with a viable world economy by any transfer process, redistribution or indexation. The stress laid by all countries on their right to autonomy shows beyond all doubt where the ultimate responsibility lies.

It is probably immensely difficult to translate this responsibility in principle into practical policies. Without local revolu-

tions it may well be impossible. It is inherent in the historic process outlined earlier that so-called "bridgeheads" are formed when existing static forms of life are penetrated by ascending dynamic civilisations. This does not spring from any deliberate strategy but corresponds to the law governing dynamic societies and economies.

Nobody can say today what the old autochthonous forms of life in the developing countries of today would look like had they not been penetrated by western civilisation. They would certainly look "different" but it would be idle to speculate on the "how". Two centuries are far too short a span of time in the history of mankind to allow us to assume that the archaic societies of most of the developing countries of today would have chanced on the same course of development, at least in the sense in which they desire it today, had they not come into contact with western civilisation. There is a strong probability that the glaring "differences in development" would have manifested themselves in any case although the clash of static and dynamic forms of so-

ciety has undoubtedly created and aggravated many problems. Such daydreaming however is futile. No problem of the contemporary world has yet been brought a step nearer a solution by meditating on what would have happened if incapable historic developments had not taken place.

For reasons intrinsic in all development the world economy of the future is likely to be a system of regionally differentiated focal points rather than one of global division of labour². For a time the "autocentric development strategy" may even be more appropriate than the road towards the global integration of all component parts pursued until now.

The "Old Order" certainly needs improving and is capable of being improved. The great venture of a "New Order" as often conceived is a phantom. In the postulated form it can never take shape. The mistaken belief however that it can be accomplished may easily play havoc with the "Old Order" as well as the "New Order".

² Cf. A. Lemper, *Handel in einer dynamischen Weltwirtschaft* (Trade in a Dynamic World Economy), Munich (Weltforum-Verlag), 1974.

From Confrontation toward Negotiation

by Dr Otto G. Mayer, Hamburg *

The concept of a New International Economic Order (NIEO) is expected to play a central role in the debates of the Seventh Special Session of the UN-General Assembly which meets in New York from September 1 to 12. The search for a NIEO or a reform of the existing world economy, respectively, as expressed by the demands in the Declaration on the Establish-

ment of a New International Economic Order¹ or the Charter of Economic Rights and Duties of States² has several and justified reasons — above all the widening gap between developing and industrialised countries

* HWWA-Institut für Wirtschaftsforschung-Hamburg.

¹ General Assembly resolution 3201 (S-VI) adopted by the Sixth Special Session of the General Assembly on May 1, 1974.

² Adopted by the Twenty-ninth UN-General Assembly on December 12, 1974.

alongside with two decades of frustrated dialogue between rich nations and poor nations as well as the sudden and measurable reversal in political power relationships since the oil crisis. In the opinion of the developing countries a NIEO is necessary because in the present economic order they see hardly any chances for overcoming their underdevelopment.