

Hesse, Helmut

Article — Digitized Version

Discussion of the new economic world order

Intereconomics

Suggested Citation: Hesse, Helmut (1976) : Discussion of the new economic world order, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 11, Iss. 10, pp. 269-274, <https://doi.org/10.1007/BF02929198>

This Version is available at:

<https://hdl.handle.net/10419/139413>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Discussion of the New Economic World Order

by Prof Dr Helmut Hesse, Göttingen *

It is difficult to know what to make of the present discussion about a New International Economic Order although it is certainly lively enough. Few observers can be able to point out the various levels at which arguments are bandied. Hardly anybody can distinguish a clear pattern in the variety and diversity of assertion and counter-assertion, of proposal and counter-proposal. It is often not even known how comprehensive and far-reaching the demands for a New Order are in reality. It would therefore seem to be a sensible undertaking to try to trace the structure of the discussion and make it hereby more intelligible.

Nobody will postulate a New Order for the world economy unless he is convinced that it is at present in disarray, and he must not be content with a description of this disarray in general terms but he has to furnish detailed and concrete evidence. This also provides the basis for models of a New International Order and the evolvement of new rules. Since almost all proposals for a reform of the international economic system are ultimately attributable to weak spots in the present system which are to be eliminated, it is important to go into the alleged shortcomings of the existing system.

Do Faults Exist?

This then is the *first level* at which the present discussion has to be conducted: Can one talk of shortcomings and disarray at all and thereby prove a need for a New Order (cf. Table)? This question has called forth many answers; real and supposed faults have been listed in large numbers. The discussion of the various answers given may however be categorized under the headings of "international inequalities" and "global interdependencies". The issue according to these terms is whether and to what extent faults of the present international economic system are showing up in international inequalities or in insufficient attention to global interdependencies on the part of those who take economic decisions but give no — or not the appropriate — thought to the consequences of their decisions for other people or states. Each of these problem complexes is discussed in *three spheres*:

The *first* of these is concerned with *purely factual statements*. Concrete instances of international inequality must be adduced, and it must be demonstrated in individual cases that global interdependencies do not receive sufficient attention. The discussion in this sphere is following a rela-

tively tranquil course although it is certainly not uncontroversial, as can be proved by two examples.

□ First example: The extent of the international *inequality*, it is asserted, shows in the fact that the per-capita income in the industrialized western countries is about 34 times larger than in the poorer developing countries. This assertion is countered by the argument that this comparison relates to something that defies comparison: For one thing, different countries were aggregating the produced goods and services in the national product in different ways, sometimes even counting them twice; for another, goods and services which merely serve to avoid shortfalls in well-being and are in fact in the nature of expenditure were more often counted as part of the national product in the richer countries than happened in poor countries. If all shortcomings of this kind were excluded, the prosperity differential was only of the order of 13:1.

□ Second example: The *integration* between national economies, it is asserted, has gone so far in the last few decades that an out-of-the-ordinary increase in the supply of "international money" creates a hazard of global inflation. Between 1969 und 1972 the volume of international money more than doubled — in US dollars — with the consequence of a world-wide boost to inflation. The responsibility for this rested with those whose decisions had been the chief determinants of the volume of international money in existence — the USA which "tolerated large foreign currency deficits" and the Union of South Africa and the USSR which sold gold in the world market. These countries had been acting in their national interest without due consideration to the global interdependencies between national economies. These allegations have been answered by attempts to attribute the world inflation to other factors — the demand inflation, the distribution struggle, public budget deficits, etc.

* Göttingen University.

These examples show that the existence of inequalities and global interdependencies cannot be denied in principle. What is open to discussion is the extent of the inequalities and the consideration given to the interdependencies. Hence there is hardly anybody who claims that the discussion about the New International Economic Order comes to its end in this sphere. For if it is accepted that inequalities exist and global interdependencies are not given full consideration, it follows that one must go on to the other tabularized questions.

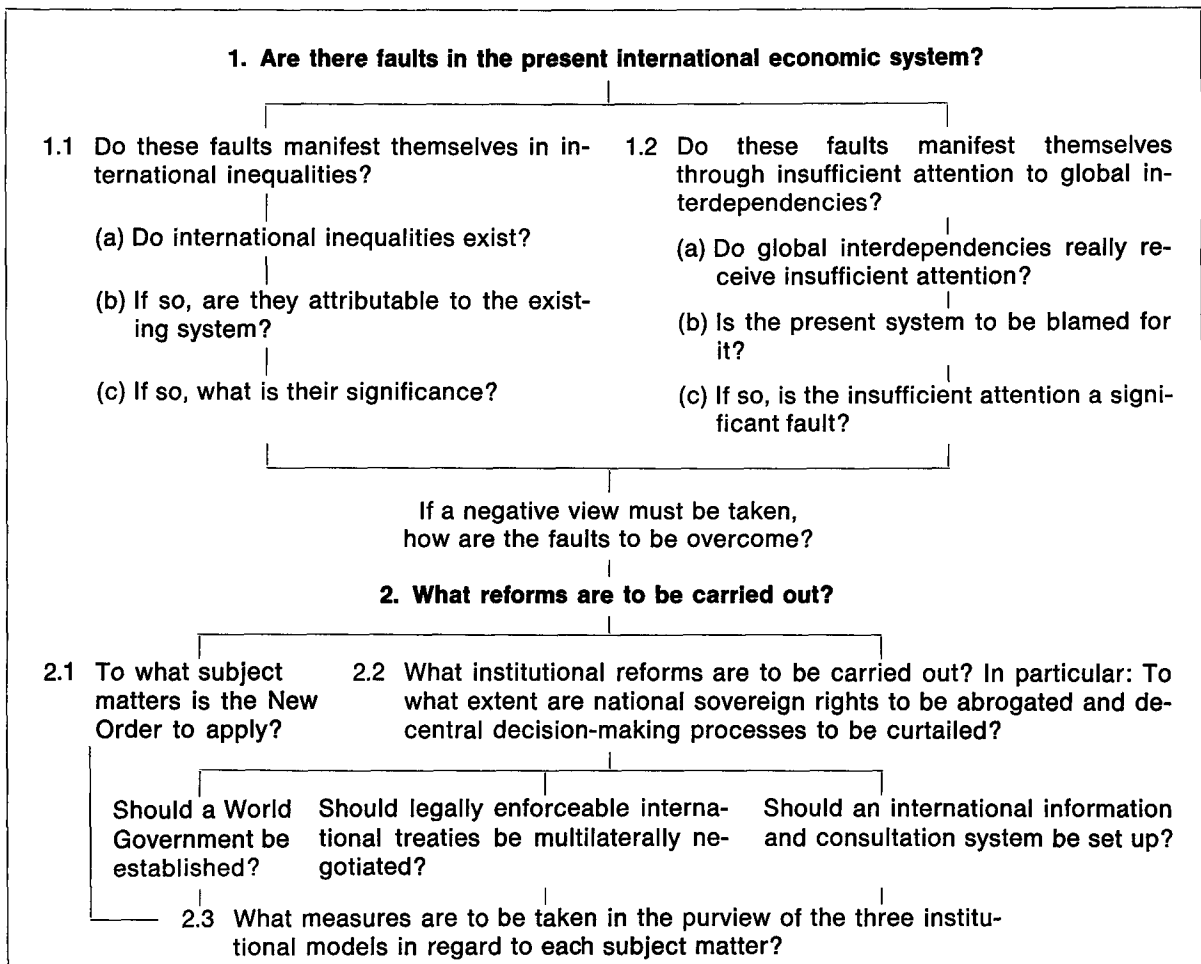
Is the System at Fault?

The first question in the *second sphere* is whether the present international economic system is to blame for the existence of inequalities and the insufficient attention to global interdependencies in the making of economic decisions. In this second sphere of discussion opinions differ more sharply than in the first one, and the controversy is more complex. The contrasting views could *in part* be summed up, albeit in a slipshod way, by the antithesis: "The system is to blame" – "No, it's the

fault of other factors". That is for example true of the debate on the reasons for the economic underdevelopment of the countries currently known as developing countries.

Some of those engaged in the discussion do not hesitate to answer the question by pointing to the present economic order. Amongst them are the so-called *dependistas* in whose view the existing international economic system shows unmistakably "neocolonialist" traits and has led to a general "*dependencia*" of the developing upon the industrialized countries which offers the explanation for their underdevelopment. As against this view it is argued that decisive have been other factors and that these – or at least some of them – cannot be removed by an alteration of the international economic system. Among such factors are the tropical climate, mental attitudes due to religious tenets, existing social structures, the population explosion, lack of technical and organizational skills, and also shortage of capital.

Another part of these controversies shows a different structure. The following argument is ad-



vanced in this respect by one side and rejected by the other: The international inequalities which have been observed are not attributable to the ruling order but to the repeated violations of the rules which comprise this order. This line of argument may be illustrated by using the free trade as an example. Free world trade is held to be a constituent part of the present international order. Complete removal of the trade barriers in the industrialized countries, it is pointed out, would give the developing countries an increasing share of the world's industrial production and thereby reduce the international incomes differential. It was wrong therefore to deduce from existing inequalities that the ruling order must be superseded by another one. On the contrary, it should be safeguarded and perfected. This argument has aroused protests: Adherence to the rules of free trade by the industrialized countries, it is argued on the other side, would not give rise to different economic and political power structures in the world; the international factor allocation was governed by the demand from those capable of developing such demand, and this meant, mainly, the inhabitants of the rich industrialized countries.

The controversies in the *third part* are of an entirely different nature: Here responsibility for the insufficient attention to global interdependencies and the international inequalities is laid at the door of the ruling economic system in the world, which is contrasted for this purpose with another (fictitious) system eschewing its faults. To illustrate this method by an example: It is a constituent element of the present order that the prices in the world market exercise directive functions; they are to contribute to most efficient international factor allocation and facilitate an international division of labour by means of which every country produces the goods in which it enjoys comparative advantages. Any interference with the price mechanism so as to change the international incomes distribution is held to be contrary to this order. It is easy to design models in which the prices are expressly used for a fair international incomes distribution and a global planning and management system is entrusted with the international factor allocation because world market prices are in this case incapable of controlling most efficiently or as efficiently as before. This however takes the argument away from the first level of discussion and moves it to the second one — the search for models of a "better" international economic order. Besides it must be said that those who use this line of argument thereby predetermine their position in the third sphere: Anybody who supports his argument on models of a new international order and claims that compared with them the existing order has drawbacks implicitly presumes international inequalities and

insufficient attention to global interdependencies to be unacceptable.

Qualitative Judgments on the Drawbacks

In the *third sphere*, that of value judgments, the discussion is often no longer concerned with a common search for solutions to the problem but the aim is rather to obtain majority endorsement for one's own firmly fixed point of view by deprecating the stand taken by the "opponent" on political, ethical, humanist or other grounds. Cardinal to these contentions are three questions: In regard to the international inequalities it is the social question, relating to the global interdependencies are the issue of state sovereignty and the issue of the private economy.

The social question may in the purview of this discussion be formulated in these terms: How far is one to go in tolerating international inequalities? How heterogeneous the answers to this question can be is shown by four (exaggerated) examples. According to the first of these answers every country is the architect of its own fortune and responsible for itself. International inequalities, it follows, are not the responsibility of the international community and must be accepted as a fact of life. According to the second answer every country is the architect of its own fortune but equality of opportunities must be postulated; inequalities are to be repudiated and imputed to the existing international economic system insofar as they are a manifestation of a lack of equal opportunities. The third answer concedes to every man the right to satisfy so-called basic needs "by virtue of being born into the world we call civilized". Value judgments are brought to bear on the determination of "minimum standards" of nutrition, clothing, housing and education. The international community is held to be under an obligation to create an international economic order satisfying these minimum standards without fail while inequalities over and above these standards are deemed to be acceptable. The fourth answer is that all men are equal. Any economic inequality between them must therefore be ruled out; egalitarianism must be the aim.

It is a special feature of the discussions about the answers to the social questions that the Paretian value judgment is no longer recognized as generally valid and appears to be in part superseded by Rawls' differential principle.¹ Pareto's judgment that measures and arrangements between countries which benefit them without detriment to other countries increase the well-being of the international community has been of considerable influence

¹ Going back to Kant, Locke and Rousseau, the law philosopher J. Rawls in his "A Theory of Justice", Cambridge 1971, presented a design for a social order based on a voluntary contract marked by "justice as fairness".

on the existing international order. GATT for instance prescribes reciprocity for trade agreements; disadvantages to other states which were not a party to the negotiations for such trade agreements are to be avoided by use of the most-favoured-nation rule. The differential principle on the other hand amounts to a lexicographical order of preferences. Measures which do not advance the well-being of the poorest countries are not approved. Consistent application of this principle is bound to bring about crucial changes in the present international economic order.

The Question of Sovereignty

The question of sovereignty involves the problem whether the governments of the national states are to remain sovereign in regard to all their decisions even if they have negative repercussions on other states or whether the international community is entitled to curtail the decision-making powers of governments in the interest of the pursuit of global objectives. The answer to this question depends, aside from the solution of problems of organization theory, upon the clarification of a number of value judgments. In which instances do negative repercussions ensue for other states? Who is to represent the community of nations? How is the latter to reach its decisions — by the one-country-one-vote rule, or how else? And how are the decisions to be enforced if a particular country cannot agree?

If the question of sovereignty involves the curtailment of the rights of governments, the private economic issues concern the limitation of the rights of individuals to take decisions. The question is whether constraints may be imposed on persons whose decisions on production and consumption have negative external effects on other persons or cause processes of market adjustment which affect other people negatively through distortions and rigidities. Is, for instance, a businessman in an industrialized country to be free to produce and offer a new synthetic product if this will substantially impair the sale of raw materials from developing countries and, owing to the imperfections of the labour markets, cause unemployment in the raw materials producing countries. Although this and similar questions do not involve a choice between alternatives, between a free market economy and a centrally planned economy, because the state can control the decentral decision-making process in a market economy in various ways, many contributions to the discussion in this issue nevertheless centre on a solution through central planning.

The clarification of the value judgments provides the foundation not only for an appraisal of existing inequalities but for the creation of a new order; for from these judgments stem the objec-

tives to which the new system is to be directed. Insofar as this is true it can be said that the third sphere of the first level of discussion is also the link (the hinge) between the two levels indicated in the Table.

Which Reforms are to be Carried Out?

Once the objectives have been fixed, two principal questions must be answered for the creation of a New Order: In the first place it has to be decided which subject matters are to be the vantage-points; secondly a choice has to be made in regard to institutional arrangements. Only when both has been done can the search for individual measures begin. It is important to appreciate that the discussion of individual measures is a second step. Those who confine themselves to a discussion of particular measures, e.g. an integrated commodity agreement, will be tempted to accept implicit answers to the fundamental questions described here without wishing to stand up for these answers in open discussion.

A New Order of Subject Matters

The discussion about which subject matters should be the starting point of a New Order is largely a discussion about expediency. On the one hand it is asserted that a consistent and comprehensive international order cannot be created unless reforms are undertaken at once in all subjects. As the economy and society are inseparably interlocked, it is argued, economic reforms could not be effected without reforming society as well. The third report to the Club of Rome, the RIO report (on the Reshaping of the International Order) exemplifies the wide scope opened by this argument. It discusses the following "major problems areas relevant to the creation of a new international order . . . with a view to defining the magnitude of the tasks confronting the international community", and in this order:

- ☐ Armaments race,
- ☐ Population,
- ☐ Food,
- ☐ Human Settlements,
- ☐ Human Environment,
- ☐ International Monetary and Trading systems; Concessional Assistance,
- ☐ Natural Resources and Energy,
- ☐ Science and Technology, Transnational Enterprises,
- ☐ The Oceans,
- ☐ Outer Space.

The advocates of a grand solution who envisage *interrelated* reforms on all subject matters are often described in the debate as hopelessly impractical idealists. To start on everything from the

outset meant to jeopardize everything from the outset. One should instead concentrate on individual subjects — without losing sight of the whole. That would be difficult enough. Which subject matter is to be broached first is in dispute but a majority favours a start with the subject of international monetary and trading systems and concessional assistants.

Institutional Reforms

From the numerous discussions, declarations and plans of action which are by now available there emerge, by and large, three models of institutional arrangements for the solution of the problems pertaining to individual subjects. The first model envisages the ultimate formation — i.e. in the remote future — of a world government committed to the objective of enhancing the welfare of the world on the basis of a fair international incomes distribution. This future world government is expected to draw up and put into practice comprehensive though necessarily rough structural plans for the international division of labour and to intervene in the process of price determination in such a way that the international incomes distribution becomes more even. As however a world government is not deemed a practical proposition in the foreseeable future, those who have set up this model of a new world are content with steps to be taken towards this aim. They postulate that competencies should be transferred from national to international authorities, that these authorities should be "democratically" composed and that the enforcement of majority decisions should be assured.

There are three fields in which these demands have already been given concrete expression. One concerns the creation of an international central bank to be subject to control by the global international community in the way in which national central banks have been put under government control. The entire international payments system and the whole international credit system are to be placed under this bank. The decisions are to be taken by a central banking council the composition of which is not to be proportional to the financial contributions of the capital donors. Furthermore, a world authority is to be created for the regulation of everything comprised in the concept of the "common heritage of mankind". This would for instance include the exploitation of the resources under the sea. Finally, it is proposed to set up a world energy authority which is to solve the problem of a possible world-wide energy shortage and to be given the right to intervene in the energy policies of the individual states.

Other reform proposals are based on a second model for a new world. This does not include a

world government drawing up central production and distribution plans. A network of international, legally enforceable treaties is to be created little by little which commits the governments of all countries to certain rules in regard to their activities in the field of economic policy and to international objectives and which set new data for producers and purchasers in the individual economies by means of which their freedom of decision would be curtailed. The proposed treaties have a wide scope. On the one hand they include the desirable international agreements and codes of conduct which have the aim of safeguarding the conditions for orderly international competition; on the other they envisage a massive interference with the allocation and distribution mechanism of the western world which is in part inconsistent with the concepts of the market economy.

The third model differs from the other two by a higher degree of voluntary participation. The idea is to create a mechanism which ensures that every government keeps all other governments informed about its important economic problems and intentions and consults every other government before it resorts to measures which have repercussions on the international economy. Regular international conferences on world problems and the opportunities for their solution are to form a part of this system of mutual information and consultation. It is desired that all governments should take part in these on the basic understanding that they will cooperate in giving effect to internationally fixed objectives as far as circumstances permit, and it is hoped that as a result of the intensive thought given to global problems and the concerns of the Third World the enhancement of international welfare will determine national economic and social policies to an ever increasing extent and that the countries will, on a voluntary basis, bear an increasing share of the finance for international development funds.

Assignment of Measures

Certain measures can be assigned to each of these models for every subject matter. Their identification is the first aspect of the discussion on individual measures. A few examples show already the kind of solutions which may be encountered. In the framework of the first institutional model it has been recommended in regard to the subject of "natural resources and energy" that the world energy authority should be endowed with power to levy a tax on the production of nuclear energy. This tax, it is anticipated, would impede the spread of nuclear power stations and thus keep the probability of misuse of the technologies applied in these stations for purposes of war in bounds. The revenues are to be used for the opening-up of new sources of energy and thereby help to solve one particular raw material problem

— that of mineral oil. In the framework of the second model it has been suggested for instance in regard to the order for the international trade that the prices for the export goods of the developing countries should be linked to the prices for their imports and that this indexation should be used as a means of ensuring that, first, the world inflation does not lead to a redistribution of real incomes to the detriment of the developing countries and, secondly, there is a greater transfer of resources from industrialized to developing countries. In the framework of the third model the hope has been expressed in regard to the "food" complex that the industrialized countries will tax the consumption of meat so as to curtail its production, reduce the requirements of fodder grains and release more cereals for direct use for human consumption.

Degrees of Target Attainment

The second aspect of the discussion of individual measures is more important than the first one. In essence it is that every suggested measure must be examined so as to ascertain what contribution it can make to the elimination of inequalities and how it bears on the global interdependencies. This aspect of the discussion is thus concerned with the degree of target attainment to be expected from particular measures. Its objective is to achieve maximum target attainment. A case in point is the discussion on the establishment of countries. Apart from the question of what view international commodity cartels by the developing

is to be taken of cartels from the point of the market economy, it is a matter of dispute whether cartels can survive, whether the conditions are conducive to enduring cartelization.

The third aspect finally is the appraisal and comparison of the various measures, and this often leads back to the sphere of value judgments. This has become very clear in the discussion about the demand of the developing countries for just and equitable prices, i.e. prices above the level at which the market is in a state of equilibrium, in order to ensure larger incomes for the developing countries. Among measures proposed to give effect to this demand are an integrated commodity programme and indexation of the export prices of the developing countries. This demand is rejected by the market economy countries on the ground that its implementation would cause allocation losses. The representatives of the industrial nations which have the wish to lessen the inequalities in the world are therefore proposing an alternative measure: The free world market economy is to be transformed into a social world market economy through the setting-up of an international distribution machinery. A growing proportion of the national product of the industrialized countries (0.7 p.c. until 1980 and 1 p.c. thereafter) is to be provided as development aid. Most of this is to be transferred directly to international development organizations, e.g. the World Bank, and these are to use it to finance development programmes in the Third or Fourth World which have been examined for their effectiveness.

NEW PUBLICATION

Juan Carlos Arriagada

INVESTIEREN IN LATEINAMERIKA

(Investing in Latin America)

Editors: HWWA-Institut für Wirtschaftsforschung-Hamburg and Ibero-Amerika Verein e. V.

The present investment manual originated from repeatedly voiced suggestions and wishes of German enterprises. It contains the essential legal, economic and social stipulations and conditions of the most important Latin American countries (Argentina, Bolivia, Brazil, Chile, Ecuador, Columbia, Mexico, Paraguay, Peru, Venezuela, and Uruguay). In addition to reports on individual countries the manual offers a contribution about the Latin American Free Trade Zone and the Andes market. A statistical supplement with important basic and structural data enables also a quantitative comparison of information about the individual countries. This investment manual offers in its present form an outstanding guide to all those interested in the economically so attractive Latin American region. (In German)

Large octavo, 393 pages, 1976, price paperbound DM 38,—

ISBN 3-87895-148-5

V E R L A G W E L T A R C H I V G M B H - H A M B U R G