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For a Social Market Economy in North-South Relations

by Hermann Sautter, Frankfurt/Trenton*

The North-South dialogue on a New International Economic Order has reached deadlock. To revive it Prof. Sautter is counseling an offensive application of the basic principle of the Social Market Economy to the global economic relations between industrialised and developing countries.

The Social Market Economy (*Soziale Marktwirtschaft*) is the model of the economic order in the Federal Republic of Germany. A precise definition of this concept is difficult. Müller-Armack, who coined the term, once described "social market economy" as a "progressive style concept yet to be elaborated"¹. This description implies that the content of the concept is liable to change as it is being applied to ever new conditions which are seen to be in need of being put in order.

It is not far-fetched to consider the application of this style concept to an area of external economic relations which is currently thought to be in special need of being put in order, namely, the economic relations between the industrialized and the developing countries. The debate about a so-called New International Economic Order is focusing on them². The developing countries are the active party in this debate; the industrialized countries play a largely passive role.

The developing countries are postulating demands which, though often contradictory, evidence their intention to substitute methods of a planned economy for the rules of a market economy in the international division of labour. The reaction of the industrialized countries has been in the main to adopt a "defensive-pragmatic" attitude³. Defensive it is insofar as it is their

main concern to ward off attacks on the market economy order; and it is pragmatic insofar as the industrialized countries are on political grounds quite willing to give way on some aspects of the economic order. So far they have failed to set forth a concept of their own which would enable them to respond to justified demands of the developing countries.

Lack of a Viable Order

This is the starting point for a consideration of the style concept of a Social Market Economy in the context of the North-South relations. If we are convinced that the desirable order in a domestic economy is not a "free" but a "social" market economy, there should be no objection in principle to the application of this tenet to the economic relations between industrialized and developing countries. It might help to soften the hardened fronts in the North-South dialogue if the present international economic order were elaborated in this way.

¹ Alfred Müller-Armack: *Wirtschaftsordnung und Wirtschaftspolitik, Studien und Konzepte zur sozialen Marktwirtschaft und zur europäischen Integration* (Economic order and economic policy, studies and concepts of social market economy and European integration), Freiburg 1966, p. 10 f., quoted by Reinhard Blum: *Marktwirtschaft, soziale*, article in: *Handwörterbuch der Wirtschaftswissenschaft*, 13. und 16. Lieferung, Stuttgart etc. 1978, p. 153-166, see p. 154.

² A summary of the main arguments is found, e. g. in Dietrich Keschull et al. (ed.): *Die neue Weltwirtschaftsordnung* (The new international economic order), Hamburg 1971; *The RIO Report to the Club of Rome: Reshaping the International Order*, New York 1976.

³ This term is used, e. g., by Theodor Dams: *Weltwirtschaft im Umbruch* (The world economy at a turning point), Freiburg, Würzburg 1978, p. 109, p. 123.

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However, before discussing this question it is useful to pinpoint a few of the problems which have caused the developing countries to press for a new order for the world economy. These problems manifest the absence of a viable order in many areas of international economic relations at the present time: it is not so much a matter of replacing an existing order by a new one as of making good a deficiency.

This deficiency has arisen because, put briefly, agreed international rules have been devalued in the course of time and because there are important areas in international economic relations in which internationally recognized rules do not exist at all. A few illustrations will make this clear.

Shortcomings of GATT

GATT and the Bretton Woods agreement are the dual basis of the existing economic world order. Both owe their origin to arrangements between the major industrialized countries in the mid-forties. GATT was designed as a means of removing tariff and non-tariff obstacles to trade and thus to contribute to the reintegration of the international economy according to the principle underlying the market economy. The basic idea was to outlaw all obstacles to trade other than tariffs and to lower the tariffs step by step while observing the principle of reciprocity. Treaty violations were to be punished by loss of treaty rights. Primary and industrial goods were to be accorded the same treatment in principle.

In reality however the agreement was confined mainly to the trade in industrial goods. No serious efforts were made to liberalize the trade in agricultural produce. This may be ascribed in part to the interest of the trading countries in safeguarding their food supplies and not depending on imports. In great measure however this policy must be attributed to the wish to keep the local farmers' incomes on a relatively high level. Price policy measures were used to this end, especially in the European countries. Protectionist devices became indispensable to screen this policy from the outside world. Faced with a conflict between adherence to international rules and pursuit of domestic economic objectives the industrialized countries thus gave preference to their domestic objectives. In a large area of international trade the GATT rules were thus in actual fact invalidated.

The protective measures of the industrialized countries in favour of what were called "structurally weak industries" (e. g. the textile, shoe and steel industries) had a similar effect. It is of the essence of

the market-economy concept that local industries can be subjected to increasing competitive pressure by foreign suppliers enjoying comparative cost advantages in the production of a certain article. There is in this case an inescapable need for reallocation of production factors. It emerged however that important industrialized countries were not willing to accept this consequence of the principle of the market economy. They parried the competitive pressure of low-cost suppliers by making extensive use of the escape clause of Art. 19 GATT and circumventing GATT by so-called "voluntary export restraints". This also tended to devalue the normative force of the GATT regulations⁴.

Similarly, the arrangements on the regulation of international payments lost their normative importance in the course of time. The international monetary agreement of Bretton Woods had assigned to the USA the role of key-currency country. The creation of international liquidity depended therefore in great measure on the monetary policy of one country. In view of the dollar scarcity in the post-war era there seemed to be no reason to take precautions against an overextension of international liquidity. Subsequently this turned out to be a significant weakness of the Bretton Woods agreement. For understandable internal reasons the USA was unwilling to keep faith with its international responsibility as key-currency country by observing a stricter monetary discipline, and this led eventually to the collapse of the Bretton Woods system.

Gaps in the International Rule-Book

The course of events in the past three decades has not only *devalued* many of the rules for international economic relations agreed after the war but revealed the existence of *gaps* in the system of rules. The process of political decolonization had a special impact in this respect. The interests of the developing countries can no longer be ignored as in the mid-forties. To give an example, the developing countries are insisting on special arrangements for the international trade in raw materials because their exports still consist largely of primary commodities. Such provisions had originally been envisaged in the Havana Charter*but were not incorporated in GATT. Successful attempts to get better terms for participation in the world trade were made by the oil-

⁴ Cf. Kenneth W. Dam: The GATT - Law and International Organization, Chicago 1970; John J. Jackson: World Trade and the Law of GATT, Michigan 1969; Robert E. Hudec: The GATT Legal System and World Trade Diplomacy, New York 1975.

exporting countries regardless of the GATT rules. The other developing countries have consistently supported their actions even though they are among the victims of the OPEC price policy. Their attitude has to be seen as a sign of acquiescence in a policy of deliberate infringement of the rules pertaining to international trade because the rules are felt to be unfair.

World Trade without Fair Trading Rules

The growing political importance of the developing countries has laid bare another significant gap in the existing international economic order: it contains no internationally agreed rules for resource transfer from economically strong to economically weak states. A division of labour between countries at different stages of development that is organized on market economy lines can however not be expected to lead automatically to a satisfactory result for all countries. The industrialized countries had no difficulty in appreciating this fact in the first post-war years when the war-devastated economies of Europe had to be rebuilt. There was a consensus of opinion on both sides of the Atlantic at that time that, given the different take-off chances, market economy rules could not rightfully be applied to the international division of labour unaccompanied by a resource transfer. The Marshall Plan aid was the outcome of these considerations.

To improve the take-off chances of the developing countries is an incomparably more arduous task than that which confronted the initiators of the Marshall Plan. To provide generous foreign exchange aid for the developing countries is certainly not enough, for the socio-cultural preconditions in these countries differ profoundly from those in war-devastated Europe. It is equally certain however that the take-off chances of many developing countries cannot be significantly improved *without* resource transfer. And yet, with all the various activities in the sphere of development aid, the world still lacks an internationally recognized system of rules for such transfers. This is a major gap in the order governing the economic relations between developing and industrialized countries.

A deficiency which is felt by the developing countries in particular relates to the regulation of international competitive conditions. The post-war order does not contain any provisions about control of private economic power in the inter-state sphere. An area which the industrialized countries deem to be in need of regulation in their domestic spheres is left to the free

play of market agents as far as relations between different countries are concerned. In some cases national anti-cartel laws explicitly permit export cartels, making a clear distinction between rules for competition at home and in external economic relations⁵. Delivery constraints, market sharing, export embargoes and similar measures are especially harmful to developing countries which for this reason feel considerable misgivings about an international trade without regulations in regard to competition. The problem is aggravated by the market power of multinational enterprises. There is often a marked imbalance between the bargaining powers of transnational companies and a single developing country, and this frequently provokes reactions of developing countries which militate against resource transfers as demanded by these companies.

These remarks must suffice to mark out the background of the developing countries' demands for a New International Economic Order. It is clear from the described developments that important areas of international economic relations are deficient of regulation: we have to speak of a *laissez-faire* system. *Laissez-faire* systems are however unstable. They give rise to conflicts which will, sooner or later, lead to modifications of the system. The existence of such conflicts in the economic relations between industrialized and developing countries is obvious. It is therefore to be expected that the elements of an international economic order which still exist will be devalued further by many infringements, and there is a danger, which should not be ignored, that the integration achieved in the world economy so far will thereby be put in jeopardy. Internal economic consequences will certainly follow in the industrialized countries. Negotiations on a new order for the world economy are therefore undoubtedly in their own long-term interest.

There are several possible models for negotiations of this kind. We shall examine here which features should be incorporated in an order for the world economy for which the Social Market Economy serves as a model. Let us first deal with the content of the underlying principle.

Elements of the Social Market Economy

What is a Social Market Economy? It is not easy to answer the question in a few sentences. Let us nevertheless try to reduce it to the essentials. Three

⁵ The Webb-Pomerance Act of 1938 did so in the USA and GWB Art. 6 in the Federal Republic of Germany.

elements of this economic order shall be mentioned of which it may be assumed that they allow a more or less incontrovertible appraisal of its specific character.

□ *Market-economic resource allocation:* The decisions on production and consumption are left to the private economic agents, to be taken by them in accordance with profit and utility calculations. Among important tasks of the state are the preservation of effective competition and the prevention of distortions in resource allocation which can occur if external effects are left out of account. It is, furthermore, the task of the state to provide legal security, including in particular clearly defined property guarantees which may involve an unambiguous statement on the limits – in extent and time – of private property rights.

□ *Assurance of monetary stability and smoothing of market fluctuations* when these impair the viability of individual markets. There is no chance of static or intertemporal allocation efficiency without stable money. Price fluctuations may have to be eliminated in individual markets if they impede the use of resources in what are the most productive areas at the time. State measures to facilitate market-induced structural changes may also be regarded as a component part of a Social Market Economy.

□ *Improvement of the take-off chances in the efficiency contest and corrective adjustment of the market-induced income distribution:* It is recognized that the outcome of market-economic allocation processes always reflects also the original distribution of take-off chances in the efficiency contest. The allocation efficiency of the market is therefore neutral with regard to distribution. If there is a consensus of opinion that the take-off chances are distributed unevenly, the political authorities can be assigned the task of exerting an influence on the formation of individual human and physical capital in order to reduce the differences in take-off chances. Another undisputed ingredient of the Social Market Economy is a public welfare policy which is however in principle subsidiary: self-help has priority. Common to all measures of distributive and welfare policy is that they are in principle intended to operate through redistribution of the market *result* and not by influencing the market *process*.

The Social Market Economy may be described as a uniform style concept insofar as the mentioned elements are interdependent: only the aggregate of these elements amounts to what we may call Social Market Economy. An interdependence exists besides between the economic order and the social order. We

shall not inquire here into the question how far the reality in the Federal Republic of Germany corresponds in every respect to the ideal form of a Social Market Economy. It suffices to note at this point that its underlying principle is accepted by the majority of those who take political decisions in the Federal Republic, even if with differences of emphasis.

No Practicable Alternative

How far the principle underlying this economic order can be applied to international economic relations is another question which needs closer examination. It has been pointed out that legal security and property guarantees are important prerequisites of a viable market economy. On the national level these prerequisites are assured by the constitutional power monopoly of the state. Several authors look in a similar way on a cash creation monopoly of the central bank as an institutional prerequisite for the maintenance of price stability⁶. A functioning cartel office may likewise be regarded as a prerequisite for the maintenance of effective competition and a uniform administrative apparatus as the precondition of a competent distributive and welfare policy. None of these prerequisites exist in the inter-state area: there is no world government, no central world bank and no world cartel office. Does this mean that an attempt to apply the principle of the Social Market Economy to international economic relations is doomed from the outset?

The counter-question is whether attempts to implement alternative economic orders would not be even much more likely to fail or else have highly undesirable consequences. One such alternative would be an *international planned economy*. The decisions on production and consumption would no longer be left to private economic agents with their profit and utility calculations but be taken by central planning authorities. This economic order would certainly require an even much stronger global power centralization than the implementation of an international Social Market Economy. It may be assumed that the developing countries do not desire such an order in earnest and that their declarations on this point reflect bewilderment rather than consistent intentions.

A second alternative might be a *global power monopoly in the hands of a national state* insisting on

⁶ There is however no agreement on this in the ordo- and neoliberal literature – cf. Reinhard Blum: *Soziale Marktwirtschaft* (Social market economy), Tübingen 1969, p. 95.

adherence throughout the world to rules which would be tailored to its own interests. This kind of order would have some resemblance to the "pax britannica" which formed the power-political basis for the liberal world trade order of the 19th century. From a cosmopolitan point of view or from that of the dominant country this kind of system may seem to offer a "peace order". In many other countries it is likely to be viewed as "imperialism". In the present time it would probably be impossible to maintain such a system without the use of massive force. Its consequences would in any case be most undesirable.

A third alternative would be *to do without a policy calling for a global economic order*. This would be tantamount to an admission that it is impossible to do anything of significance to close the existing gaps and to amend the laissez-faire system which applies at present to some areas of the international economic relations. The present situation is however so highly charged with conflict material that changes are inevitable. In the most favourable case they could lead to agreement on a social form of international market economy; in the most unfavourable – but perfectly realistic – case to a global power monopoly of one or several national states. If this consequence is to be avoided and the world wants to keep away from a roundabout way to the first-mentioned order form, which may involve great sacrifices, it has to be accepted that there is no practicable alternative to the creation of an international economic order based on the principle of the Social Market Economy.

An order of this kind would consist essentially of a system of voluntary international agreements codifying the rights and duties of the participating states and private economic agents in the various areas of international economic relations⁷. Contractual rights could be withheld as a sanction in case of violations of contractual obligations. The adoption of such an order would thus, in essence, be tantamount to a resolute implementation of the basic idea of GATT and the Havana Charter, complemented by an international redistribution mechanism.

The drafting and execution of concrete agreements would clearly require considerable efforts and international cooperativeness of a high order. The crucial question is not however whether it is unrealistic

⁷ A general description of such agreements is given in: Federal Ministry of Economic Affairs (ed.): *Der wissenschaftliche Beirat beim Bundesministerium für Wirtschaft, Gutachten vom November 1976 bis November 1977*, 9th volume, Göttingen 1978; by the same authors and editor, *Gutachten dated Nov. 20, 1976: Fragen einer neuen Weltwirtschaftsordnung (Problems of a new international economic order)*, p. 777 ff.

to hope for the achievement of such agreements but whether the industrialized countries would rather let matters drift, with the probability of a – from their point of view – adverse result, or take the initiative and work deliberately towards a system of international rules which they can justify because it serves an acceptable economic order and which meets legitimate demands of the developing countries.

Removal of Trade Barriers

How then could the three mentioned elements of the Social Market Economy order be applied to the North-South relations? It is impossible to give here more than a rough outline. The first question is how to implement the principle of market-economic resource allocation according to which market forces tend to place every production in its optimum location. To allow them to become effective on a world scale, trade barriers erected by the states have to be removed. The concept of protection for "infant industries" is not incompatible with this principle⁸.

Despite the GATT successes in the removal of tariff barriers to imports substantial impediments have still to be overcome in implementing this principle. The tariff cuts have so far focused on industrial goods which are of importance in trade between industrialized countries⁹ while the developing countries' exports to industrialized countries still encounter the handicap of relatively high effective tariff protection. The gradual removal of these duties is therefore an urgent task. It can be made easier by an active policy of structural adjustments in the industrialized countries which accords with the principle underlying the order of the Social Market Economy provided that it helps to reduce the frictions connected with market-induced adjustment processes¹⁰.

Another important task is the removal of non-tariff obstacles to trade which have made themselves felt increasingly since the GATT rounds of tariff cuts in recent years. It is true that certain advances have been

⁸ Cf. W. M. Corden: *Trade Policy and Economic Welfare*, Oxford 1978.

⁹ Cf. J. M. Finger: *GATT Tariff Concessions and the Exports of Developing Countries*, United States Concessions at the Dillon-Round, in: *The Economic Journal*, Vol. 84, 1974, p. 566-575; by the same author: *Effects of the Kennedy-Round Tariff Concessions on the Exports of Developing Countries*, in: *The Economic Journal*, Vol. 86, 1976, p. 87-95.

¹⁰ Cf. Helmut Hesse: *Zum Konzept einer Handelsanpassungspolitik (On the concept of a trade adjustment policy)*, in: G. Bombach, B. Gehlen, A. E. Ott (eds.): *Probleme der Wettbewerbstheorie und -politik (Problems of competition theory and policy)*, Schriftenreihe des Wirtschaftswissenschaftlichen Seminars Ottobeuren, 5, Tübingen 1976, p. 341 ff.

made during the Tokyo round by the negotiation of rules for non-tariff obstacles¹¹ but the agreements concerned are couched in very general terms and have been unable to prevent a further raising of the obstacles in several industrialized countries¹². It will be impossible to achieve real progress in this area without tighter international agreements.

The protectionism is most notable in the agricultural sector which shows especially clearly that it is impossible to pursue a liberal foreign trade policy while persisting in *dirigiste* practices at home.

Implicit in the market economy principle is free access not only to markets but also to supplies. This has been threatened by increasing resort to a variety of export restrictions by the developing and industrialized countries alike in recent years¹³. The raw material-rich developing countries in particular are looking on such restrictions as a means of increasing their profits from foreign trade. An international settlement of this problem can only be achieved as part of an overall settlement of the economic relations between developing and industrialized countries in which the former are given improved opportunities of the sale of industrial goods and easier access to foreign technologies. The opening of markets can only be achieved if both sides take and give, i. e. if the liberalization efforts are aimed at supplies as well as sales. An unswerving policy of trade liberalization coupled with an international distributive order would, incidentally, render most of the special arrangements superfluous which the developing countries have proposed for the international commodity trade (the problems created by fluctuations in these markets will be discussed later).

UN Code for Multinationals

The problems to which the concentration of private economic power¹⁴ can give rise in the inter-state sphere are not eliminated by the removal of trade barriers. Rules for the opening of markets must therefore be complemented by an international regulation of competition which, on the one hand, complies with the legitimate interests of the developing countries and, on the other, ensures observance of the principle of legal security including a clear definition of property guarantees because without it the markets could not fulfil their directive function satisfactorily (short amortization periods resulting from the threat of expropriation, concealment of profits due to uncertainty about transfer regulations, etc.). The OECD and UN codes for multinational corporations and the proposals for the conclusion of investment

protection agreements¹⁵ may be regarded as initial moves towards a system of rules in this area.

Work is now being done on the UN code. One of the issues here is the preamble in which the developing countries want the planned code to be interpreted as a step towards the demanded New International Economic Order¹⁶ while the industrialized countries have indicated that they cannot accept this interpretation because of considerations relating to the economic order. This case shows particularly clearly how the search for appropriate solutions is impeded and the freedom of action of the industrialized countries is narrowed by their lack of an economic order concept of their own. An offensively advanced concept for a new order in the world economy corresponding to the concept of a Social Market Economy would make it possible to look on the projected code as a step towards a new economic order for the world without thereby accepting automatically a planned economy context. It becomes more difficult to reach settlements which the industrialized countries could in principle well endorse as according with their own ideas of an economic order because their own passivity fuels fears in the industrialized countries that their assent might be interpreted as approval of undesirable forms of economic order.

The adoption of a code for multinational corporations may be regarded as entirely inadequate for solving the problem of private economic power extending across national boundaries but it has to be borne in mind that UN resolutions which command a wide measure of

¹¹ These are reported in: The Tokyo Round of Multinational Trade Negotiations, Report by the Director-General of GATT, Geneva, April 1979.

¹² Cf., e. g., (no indication of author): Protektionistische Maßnahmen durch die Hintertür? (Protectionist measures by the backdoor?), in: Frankfurter Allgemeine Zeitung, May 22, 1980.

¹³ Cf. Hans R. Krämer: Exportbeschränkungen, ein neues Problem der Welthandelsordnung (Export restrictions – a new problem of the world trade order), Kieler Diskussionsbeiträge No. 40, June 1975.

¹⁴ On this problem area cf., e. g., Hans Otto Lenel: Zur Problematik der multinationalen Unternehmen (On the problems of the multinational enterprises) in: Ordo, Vol. 27, 1976, p. 183-222, reprinted in: Helmut Gröner, Alfred Schüller (eds.): Internationale Wirtschaftsordnung (International economic order), Stuttgart, New York 1978, p. 23-43; Josef Molsberger: Internationale Wettbewerbsbeschränkungen (International restraints on competition), in: Helmut Gröner, Alfred Schüller, op. cit., p. 45-55.

¹⁵ On the proposal of a multilateral agreement modelled on GATT cf. P. Juhl: Zur Bewältigung politischer Investitionsrisiken in den Entwicklungsländern – Das Konzept einer "Free Investment Area" (On the containment of political risks of investments in developing countries – the "Free Investment Area" concept), in: Die Weltwirtschaft, 1976, No. 1, p. 191 ff.

¹⁶ Cf. R. Dolzer: Spielregeln für Weltkonzerne (Rules for world combines), in: Frankfurter Allgemeine Zeitung, April 29, 1980.

consent and have received the assent of the major industrialized countries are commonly held to possess internationally binding force and cannot be disregarded in the national or international jurisdiction for this very reason. Progress may therefore be secured by evolvement of a new common law and by more active intergovernmental cooperation in competition policy rather than by the establishment of an international cartel authority, which would certainly not be feasible at present. The former approach should go hand in hand with the conclusion of investment protection agreements laying down the rights and duties of private firms and participating states.

Monetary Stability

A market-economic organization of the international flow of goods presupposes a free flow of international payments in conditions of monetary stability. This has also a bearing on the basic problem of the international division of labour: the national states can only avail themselves of its advantages if they declare themselves willing to observe general rules, but these rules may conflict with the objectives of their national economic policies.

They could conceivably seek to solve the problem by subordinating their national monetary policies to strict relementation by international monetary mechanisms¹⁷. Essentially, this would involve the creation of conditions resembling those under the old gold standard. Faced with a conflict between national autonomy and international automatism, the states would have to opt unequivocally for submission to the automatism.

An approach of this kind may well conform to the pure principle of market-economic solutions, but at the

present juncture it would hardly be politically feasible. If however the states are as unwilling to revert to autonomy as to submit to international automatism, closer *political* cooperation between individual states is left to them as their only alternative. When adopting this alternative, they should try, as far as possible, to tie adjustments of their monetary policies and mutual stand-by arrangements to objective criteria for exchange rate adjustments and also make the creation of international liquidity contingent on objective indicators. In this context it should be attempted not to free countries from the need of adjustments to cope with balance of payments disequilibria by providing easy access to international credit facilities¹⁸.

This is the very opposite of the monetary wishes of the developing countries which demand easier IMF credit facilities and a "link" between Special Drawing Rights creation and resource transfer by way of development aid. There is reason to fear that this "link" would be treated as an invitation to finance development aid by the seemingly easier way of inflationary forced saving. If a regulated mechanism for international resource transfers is established, no "link" is needed. If one is provided in default of such a distributive order, there is a great danger that the *modus* of development financing will cause inflationary distortions which impair ultimately the pre-conditions for a real *increase* of the transfers. Special arrangements of this kind to favour the developing countries would clearly not comply with the economic order concept proposed here.

Smoothing Market Fluctuations

The same is true of many of the measures demanded by the developing countries for a

¹⁷ Cf., e. g., W. Hankel: Die Währungsordnung in der Marktwirtschaft – international und national (The monetary order in the market economy – international and national), in: B. B. G e m p e r (ed.): Marktwirtschaft und soziale Verantwortung (Market economy and social responsibility), Cologne 1973, p. 311 ff.

¹⁸ The attempts made to develop the international monetary order further are reviewed by Alfred Schüller: Reform des internationalen Währungssystems: Ausgangstatsachen, Ordnungsgrundsätze und Wege (Reform of the international monetary system: facts, order principles and ways of procedure) in: Helmut Gr ö n e r, Alfred Sch ü l l e r, op. cit., p. 171-191.

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stabilization of the commodity markets. Insofar as these measures are aimed at *ex ante* stabilization, they would in many cases inevitably upset the market equilibria because of the difficulty of reliable medium- and long-term forecasting of market equilibria. And even if an *ex ante* stabilization of world market prices were carried out successfully – perhaps through the operations of a movable price-band buffer stock – it would have to be supplemented by *ex post* stabilization of export earnings if the price fluctuations were due to factors on the supply side¹⁹.

This latter arrangement seems incidentally to be the only practicable one for the majority of primary goods markets because it circumvents the almost insoluble problem of forecasting market equilibria. In the interest of efficient resource allocation it is advisable to refrain from favouring the production of raw materials compared with the manufacture of finished goods or tying development aid to raw material exports. This should be possible provided that the international distributive mechanism is capable of coping with the existing development aid requirements.

The Federal Republic of Germany proposed in 1978 a global stabilization system covering 25 commodities²⁰. In conjunction with the existing IMF facility for general compensatory financing which is still to be improved in its practical application, this proposal promises to solve the problem of fluctuating export earnings. The task of steadying the price at the producer level has wider implications; it can probably only be accomplished by national measures.

An International Distributive Order

The third element of a Social Market Economy is a policy to ensure fair take-off chances and equitable distribution. The translation of these aims onto the international plane is especially problematic. This is not so much because of the theoretical objections to such a policy. That the division of the market proceeds is influenced by the take-off chances in competition is true of the external economic relations no less than of internal economic conditions. It follows that, provided the order principle of a Social Market Economy is adopted, there is no less justification for an international distributive and welfare policy than for a national one.

The objections to this kind of policy are of a practical nature; they derive from past experience with development aid. However, even the fiercest critics of development aid do not deduce from the large store of negative experiences that *all* forms of aid should be

done away with in future. The only possible conclusion is that development aid should be provided in such a way as to motivate the recipient countries more than in the past to increase their own efforts.

The two functions of development aid – improvement of the take-off chances of the recipient countries and international welfare policy – cannot always be clearly distinguished. Development aid as a welfare measure, e. g. in the form of improved food supplies through promotion of a country's own agricultural production or drinking water supply, helps coincidentally to better the take-off chances because it increases the responsiveness to innovations and the efficiency of the population. Similarly, measures for direct improvement of the starting conditions for the development process, such as selective advancement of primary and vocational education, have also a consumption effect.

Raising of Development Aid Funds

The raising of public development aid funds depends so far on annual budget decisions by the donor countries. Many imponderable factors as well as changing political priorities play a role in the aid authorization procedures. The amount of available funds has consequently varied, and this made it more difficult to make rational use of them. The *allocation* of aid funds has hitherto been mainly bilateral: the donor countries treat their aid commitments as a foreign policy instrument which it would be unrealistic to expect them to relinquish. Nevertheless a relative increase of multilateral aid seems to be necessary; in the view of the recipient countries it carries a smaller risk of establishing a dependent relationship. It would also help to make proper use of the available funds.

An increase of the aid volume and changes in the method of raising aid funds so as to divest the transfers of "the character of voluntary gifts"²¹ and to "reformulate them as regular commitments"²² as well

¹⁹ Cf. Stefan Baron: Zur Instabilität auf den internationalen Rohstoffmärkten. Preisstabilisierung als Instrument der Erlösstabilisierung – eine modell-theoretische und empirische Kritik am „Integrierten Rohstoffprogramm“ (On the instability in the international commodity markets. Price stabilization as an instrument for earnings stabilization – a model-theoretical and empirical critique of the "Integrated Programme for Commodities"), in: Die Weltwirtschaft, 1977, No. 1, p. 175-190; Stefan Baron, Hans H. Glismann, Bernd Stecher: Internationale Rohstoffpolitik – Ziele, Mittel, Kosten (International commodity policy – aims, means, costs), Tübingen 1977.

²⁰ Cf. K. Glaubitz, W. Lütkenhorst with the collaboration of G. Bien and H. H. Bormann: Elemente einer neuen Weltwirtschaftsordnung (Elements of a new international economic order), Tübingen, Basle 1979, p. 28 ff.

^{21, 22} Federal Ministry of Economic Affairs (ed.), op. cit., p. 809.

as a relative increase of the multilateral aid are thus important demands for a modification of the international transfer mechanism. We shall briefly outline various possibilities of raising aid funds and also touch upon the institutional side of aid fund application.

The *raising of funds*²³ for an international organization, which we can provisionally identify as "multilateral development fund", may be effected by an *assignment system*. The participating countries would undertake to make annual payments calculated by levying a common rate on the national components of an agreed indicator; as in the financing of the UN and EC budgets, the gross domestic product could serve for this purpose. A second possible method of raising aid funds would be by total or partial surrender of the proceeds from certain national taxes to the "multilateral development fund". Depending on the details, this would correspond to the various forms of vertical financial equalization²⁴. A third possible method of raising funds is taxation of the so-called "common heritage of mankind" (use of seabed resources, use of satellite orbits, radio frequencies, etc.).

A comparison of these systems suggests that the proposed "multilateral development fund" sharing of national tax revenues would operate more automatically than the assignment system. It presupposes however a certain measure of harmonization between the national taxation systems. No significant revenue can as yet be expected from a taxation of the "common heritage of mankind". The assignment system seems therefore to be the only one worth considering as a first step towards greater constancy of the aid volume.

Fund Management

A "multilateral development fund" has been mentioned as beneficiary of the funds to be raised. It need not be a new institution. The funds could be channelled through the World Bank group or the existing regional development banks since they already possess the requisite fund management

experience. An amendment of the provisions on voting rights in favour of the recipient countries may however have to be considered. This need not involve the relinquishment of control over the use of the funds. More active participation and consequent mutual control by the recipient countries may actually be an advantage from the point of view of efficient resource application.

In the allocation of funds, projects for rural development should receive priority because between 70 and 90 % of the population of the developing countries still live in rural areas and the satisfaction of basic needs makes far greater demands on the resources when rural people migrate to the towns. The amounts which in accordance with IDA stipulations have to be amortized could be made available for further allocations.

Final Remarks

We started off from the thesis that an offensive translation of the basic principle of the Social Market Economy to global economic relations could provide the industrialized countries with a means to overcome the deadlock in the North-South dialogue. This will only be possible if the interdependence of the outlined elements of this economic order is made evident. The industrialized countries would have to state unequivocally that to them a development aid rearrangement, for instance, and provision of free access to supplies are equally essential parts of a New International Economic Order. This does not mean that joint negotiations are called for on all aspects of international economic relations. On the contrary, the industrialized countries can ease the way to separate negotiations on special problem areas by pointing out the interdependence in relation to the economic order of arrangements in individual fields. Negotiations of this nature have proved difficult in the past. One reason for this was that in the absence of an independent transfer mechanism and in view of the refusal of the industrialized countries to enter into negotiations on this subject the developing countries have raised their demand for redistributive action in *all* negotiations.

The economic order model outlined here could be endorsed by developing and industrialized countries alike because it meets the long-term interests of both groups of countries and because there is no practicable alternative. Indispensable for its establishment is the political will of the industrialized countries to bring it into being. The simple truth is: The new economic order begins at home.

²³ Cf., in particular, E. B. Steinberg, J. A. Yager with G. M. Brannon: *New Means of Financing International Needs*, Washington 1978.

²⁴ Cf. Rolf Peffekoven: *Finanzausgleich I: Wirtschaftstheoretische Grundlagen* (Financial equalization I: The basic economic theory), article in: *Handwörterbuch der Wirtschaftswissenschaft*, 24. Lieferung, Stuttgart etc. 1980; Dieter Biehl: *Finanzausgleich IV: Internationaler Finanzausgleich* (Financial equalization IV: International financial equalization), in: *Handwörterbuch der Wirtschaftswissenschaft*, 24. Lieferung, Stuttgart etc. 1980, p. 689-713.