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Economic Recovery in Developing Countries

by Dietrich Kebschull, Hamburg*

Plans and proposals for stimulating the world economy and thus aiding economic recovery in the developing countries have been many and varied, ranging from massive transfer of resources, whether automatic or discretionary, through the immediate programme of the Brandt Commission to a concentration first of all on recovery in the industrial countries. This article takes a critical look at the most important proposals to date.

In past decades a number of arguments and theories have been put forward for the justification and intensification of economic cooperation between the industrialised and developing countries. Depending upon the particular political and social background, foreign policy, economic or humanitarian aspects attained priority in this context.

In the Western industrialised countries the economic dimension has traditionally dominated. Particularly during the reconstruction phase after World War II an optimistic attitude was assumed, placing reliance firmly on the strength of one's own economic resources. Above all the strongly export-oriented Western European states believed themselves to be able to create important additional markets for their export products by the transfer of capital and know-how to the Third World. The transfer of resources was considered to be necessary and sufficient for realising a widely spread growth process with increased investments and additional employment. Import demand, growing due to increasing incomes, would effect additional exports from the industrialised states and thus secure employment in those countries and stabilise and steady the desired courses of growth.

This simple interpretation of world economic interdependence and concepts of growth on the basis of investment multiplier- and accelerator-models found its supplement in a relatively unreflected optimism

regarding structural adjustment ability over the course of time. On the crest of the wave of technical progress, one proceeded from the fact that industries and enterprises weak in growth – with a below-average productivity – could be shut down or evacuated to other countries without creating problems for the national economy. Discharged labour would take over more sophisticated activities in growth branches and, through this restructuring effect, further progress and growth. The securing of full employment did not appear to be a problem. Together with the control of technical progress and structural change, only brief frictional unemployment situations would have to be mastered. The brief experience of the fifties and early sixties led generally to the reliance on the steady setting-in and utilisation of technical progress as a consequence of systematically continued research-and-development activities and rising income.

Developing countries and international organisations seem to regard this theory with even more sympathy, the more the industrialised nations doubt its conclusiveness. Above all, the developing countries are interested in the increase of capital transfer to themselves. In order to sell this idea to the industrialised nations, stress is laid again and again on the exports necessarily growing out of the relationships of interdependence.

While the industrialised countries consider the development of markets in the Third World as only *one* opportunity among others for the securing of their national economies' growth, the developing countries

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go so far as to recommend the strengthening of the interdependence-relationships as a panacea for the world economy. Thus, for instance, it is frequently remarked that the persistent worldwide recession could be overcome by an increased transfer of resources to the Third World. Those who ascribe the stagnation to the saturation of demand in the industrialised countries, partly suggest that this saturation could be evaded by satisfying fully the still-not-covered demand in the developing countries.

Of course, the experiences with North-South cooperation show clearly that the hope for, and the reliance on, the effectiveness of economic interdependence are not justified. The theoretical arguments concerning the connection between transfer of resources and growth in donor and recipient countries are as little compelling as the structural adjustment processes in the involved countries. Doubts seem to be called for mainly with regard to:

- ☐ the productive utilisation of capital, since the inflow of resources is frequently used for consumption purposes or only for covering current debt service liabilities,
- ☐ the necessity of complementary factors, as capital only cannot be a guarantee for growth,
- ☐ the time required for effects to take place and their impact on the entire economy,
- ☐ the connection between (not at all secured) growth and the additional exports from industrialised countries induced by that. The volume of these depends strongly on the economic concept followed by the developing countries. The more they tend towards the covering of basic needs or to cooperation among developing countries, the lower the exports of industrial manufactures will be, in which the industrialised states would have comparative competitive advantages. Besides, it is not certain that the capital-exporting countries will actually profit from higher exports to the extent of their capital transfers plus certain multiplier effects. It is entirely possible that the developing countries' additional demand will be directed towards industrialised states which are more competitive or which have traditional ties to certain regions that favour their exports. In order to avoid this, the capital-exporting countries could resort to increasing tied aid. Such ties would delay or even obstruct the necessary structural change. The adjustments would be blocked. Thus the tendency towards protectionist measures would also be increased, and unavoidable adjustment processes

artificially delayed. That this would be to the disadvantage of the developing countries need not be especially underlined.

In spite of its doubtfulness, the concept of economic interdependence between North and South plays a major role now as before. It is cited time and again as a basic element, particularly in connection with the discussion on ways and means of mastering the worldwide recession and stagnation tendencies.

The main proposals for a stimulation of the world economy – and thus also for the promotion of the developing countries – are to be considered below. To begin with, the plans for a massive transfer of resources in discretionary or automatic form are considered. They are contrasted with the more extensive immediate programme of the Brandt Commission that shows distinct parallels to the proposals of the non-aligned nations and the UNCTAD Secretariat. In conclusion, a look is taken at the recommendations of the former German Chancellor H. Schmidt, which have found more support in the industrialised countries, proposing a stability and growth pact among the most important industrialised nations.

Marshall Plans

The recent proposals for an increased transfer of resources proceed at least implicitly from the assumption that the decisive cause of underdevelopment and of the too slow speed of growth is lack of capital. The main problem is thus an as simple as possible raising and providing of extensive and additional amounts of capital.

Numerous recommendations therefore favour the idea of a *Marshall Plan Aid* for developing countries.¹ Above all, the positive experiences of the Europeans with the American economic aid programme to Europe (European Recovery Programme) following World War II are to be copied. The USA provided 2.5 % of its GNP in the form of goods (foodstuffs, raw materials and capital goods) for a period of five years. The 100 % return flow of the funds made available was guaranteed. European states or enterprises could order or buy goods in the USA. Payment to the American exporters was made in US \$ through the US-Administration. The equivalent of the imported goods had to be paid by the importers into a counterpart fund which served the financing of further reconstruction programmes.

The great success of the Marshall Plan in Western Europe has led the Development Assistance Committee (DAC) of the OECD to recommend such a programme to its members, for which additional funds

¹ See, for example, B. Braine: A Marshall Plan for the Third World, in: Third World Quarterly, Vol. 1, No.2.

amounting to US \$ 10 billion annually would have to be provided. According to the calculations of the DAC this sum would not only provide a contribution to the financing of economic growth in the developing countries, but would also lead to additional demand in the industrialised countries to the sum of US \$ 20 billion.

In spite of extensive discussions no serious attempt has as yet been made to realise these plans. Numerous shortcomings and obstructions in both industrialised and developing countries have probably been the reason for this, allowing the implementation of this concept, so successful in Europe, to come to naught.

The major reason for the demand for a Marshall Plan is the diagnosis of capital shortage. Little attention is, however, paid to the central question as to how the additional capital for the Third World should be raised. The past shows that demands for an increase of official development aid have frequently been unsuccessful. This plan could be attractive mainly because of the prospect held out of a return flow of the funds. But since several countries must participate in the raising of the funds, much smaller return flow quotas could come about for a number of them, depending on their international competitiveness. This might cause them to stop their further participation. The fixing of the return flow quota using the instrument of tied aid can hardly be considered suitable in this context.

In addition, the Western industrialised countries have not so far pursued a uniform development policy. So it has to be anticipated that for the carrying through of a common programme such as the Marshall Plan the establishment of a new institution would first be required. The expenditure for its establishment and maintenance alone would reduce considerably, as experience shows, the value of the funds to be distributed and thus also limit the desired stimulating effects in the developing and industrialised countries.

The possibly most important shortcoming of the whole concept is, however, to be found in the equating of Europe's situation following World War II with the developing countries' present situation and the similarity of the instruments that are to be used for the mastering of the economic problems. Decisive for this error is the over-estimating of the factor capital in the development process and the insufficient consideration of complementary factors relevant to development. But these complementary factors play a major role for the ability to absorb capital and for the level of efficiency. The experiences made in this field during 30 years of development policy have obviously not entered into the new Marshall Plan concept.

It is also not clear which Third World countries should profit most from Marshall Plan funds. The favouring of newly industrialised countries, whose demand growth can be assessed as high, but which at the same time might be able to use Marshall Plan funds to substitute for a part of the demand that would have evolved anyway, hardly corresponds to the development policy guidelines of most European states. The special support of the least developed countries within the framework of this concept might be impeded by the fact that their main requirements do not harmonise with the supply structure of the highly developed countries.

The difficulties indicated here already make it appear improbable that such a plan can be realised during the next few years. Above all, the effects on both developing and industrialised countries will probably not by far be as favourable as one might think at first sight.

Large-scale Projects

The proposed funds for the financing of infrastructure projects show certain similarities to the Marshall Plans. The most concrete plan of this kind originates from Nakajima, who in his analysis of the world economic situation arrives at the conclusion that the worldwide stagnation and recession cannot be overcome without major impulses from the Western nations. Therefore gigantic investment projects are considered necessary. Nakajima² recommends the foundation of a special fund to finance multinational public investments within the framework of the industrialised nations' development policy – investments that are made for several developing countries simultaneously and to be utilised in common. Positive effects on the developing countries' economy are to follow the stimulation of private economic activities in the industrialised states. For instance the utilisation of deserts, the construction of high dams and tidal power plants, canals and tunnels as connections between continents belong to the 12 multinational "super projects" already foreseen.

The financing of this special fund is mainly to be taken over by the USA, Japan, the Federal Republic of Germany and the OPEC-states. The establishment of a new organisation independent of the UN is recommended to guarantee an efficient carrying through of the projects.

The proposal for a global infrastructure fund is – like the Marshall Plans – based on the belief that the stimulation of the world economy is possible via the utilisation of the relationships of interdependence to the advantage of both the industrialised and the developing

² M. Nakajima: A Proposition for the Global Infrastructure Fund, Tokyo, August 1978.

countries. But the assumptions on which this proposal is based are not necessarily fulfilled in reality.

The level of the demand additionally created in the industrialised countries by the realisation of these large-scale projects depends firstly on whether the industrialised countries really raise these funds additionally or whether they finance the infrastructure fund by a reduction of their other ODA-contributions. The consequence of the latter would be a reduction of the expected additional demand created by the otherwise usual return flow effect. In the case of an additional provision of the funds the deprivation effect must be balanced nationally against the return flow effect to be expected. To what extent the developing countries actually utilise firms and goods from industrialised countries for the implementation of projects depends both on their ability to supply and on the economic policy of the developing countries.

It is also not clear in connection with the proposed large-scale projects if a demand for these measures exists in the developing countries and if they are able to profit genuinely in the long run from these multinational projects. Generally there exists a risk of the formation of enclaves in the case of large-scale projects of this kind – enclaves without integration into the economy as a whole, with little effect on employment and training and providing a negligible extension of the supply of goods for the mass of the population.

Industrialisation Funds

While Marshall Plans and infrastructural measures mostly start with a single big push, others advocate a massive increase of the transfer of resources over a longer period. This is the case, for example, for the Global Fund as recommended by UNIDO, with an annual lending volume of US \$ 15 billion to give industrialisation credits to the developing countries. The equity capital – between US \$ 75 billion and US \$ 100 billion – is to be composed of official contributions of the member states. The Western industrialised nations and the OPEC members with capital surpluses are mentioned as donors. Differing from the World Bank and the IMF, in the Global Fund the developing countries are to hold the majority in the management and decision-making bodies.³

UNIDO's proposal can only be examined in connection with the numerous demands of different UN-organisations for the creation of an NIEO. The Global Fund meets without doubt the criterion of a massive transfer, but its dimension will make the raising of capital most problematical. Since funds of such a volume would

hardly be provided additionally by the industrialised countries, it is to be feared that the utilisation of ODA would be fixed for years.

The deliberations of Jayawardena's⁴ form a mixture between the proposals of non-automatic and automatic transfers of resources. EC-countries' official development aid should be used to direct the OPEC-countries' capital surpluses into the oil-importing developing countries. For this purpose a fund should be established under the administration of the European Investment Bank, which would issue SDR-denominated bonds to the OPEC states. Should the annual oil price increase surpass a certain rate, the supply of bonds or the real interest rate would be reduced. Attractive real interest payments on these bonds as well as protection against inflation and exchange rate risks would be guaranteed by the EC-countries. The funds would be granted as long-term credits and all developing countries with an annual per capita income of under US \$ 1,000 subsidised. The cost of the subsidies would be provided by the EC-countries without burdening their budgets, by means of the creation of additional SDR.

Even if the OPEC surpluses were secured against inflation and exchange rate risks, it remains questionable whether the EC would be willing and able to undertake these guarantees. Although the EC would thus be able to secure its mineral oil imports at moderate price increases and could profit from the developing countries' additional demand, the protection against inflation and currency risks appears to be illusory in view of the strong fluctuations of the individual currencies vis-à-vis the dollar and SDR and the differing inflation rates. The costs arising would probably burden the budgets and thus reduce public aid correspondingly rather than increasing it. The covering of costs by new SDR, as mentioned in the proposal, would bring in the link between ODA and SDR by the back door, which hitherto the EC-countries have unanimously rejected.

Massive and Automatic Transfers

Apart from the discussions concerning the increase of the transfer of resources, proposals have been made to regulate the investment funds as far as possible automatically, independent of individual decisions, as is usual for ODA. Starting points for such an automatism could be the linking of development aid to the creation of additional liquidity within the scope of the international

³ See UNIDO: *Industry 2000, New Perspectives*, Vienna, September 1979.

⁴ L. Jayawardena: *International Keynesianism – A Solution to the World Crisis?*, mimeo, Institute for Social Studies, Public Lecture Series, March-May 1982, Revised Draft, The Hague, June 1982.

monetary system or the introduction of development aid taxes whose yields would flow to the Third World countries.⁵

Since the introduction of SDR (1967) and the reform efforts of the International Monetary System the developing countries have been insisting that the industrialised nations, when new SDR are created, should make part of their SDR directly or indirectly available to the developing countries, over and above their quotas. If the industrialised nations were to follow this proposition, the creation of ever new SDR would actually lead to a quasi-automatic direction of funds to the developing countries – provided that the world economy's demand for liquidity increased continually.

This wish for a link has failed to be realised so far due simply to the fact that the extensive creation of SDR in accordance with the developing countries' wishes cannot be guaranteed without a fundamental revision of quotas in the IMF. Should the developing countries receive SDR funds from the industrialised states, the latter could easily substitute these SDR for a part of their ODA and thereby establish a quasi-automatism without increasing their contributions. In addition, frequent and major creations of SDR would increase the risk of an accelerated worldwide inflation with negative effects on industrialised and developing countries. The experiences with gold and the reserve currencies have shown that the susceptibility of a monetary system is increased if reserve media have a double function – here both as SDR and as development capital.

In spite of these doubts, there are recurring attempts to connect the idea of a Marshall Plan with such a link. The best known proposal, that of Küng⁶, suggests that additional SDR are either granted for LDCs only – excluding industrialised nations – or are allocated in accordance with IMF quotas. The industrialised states, however, should place their SDR at the disposal of the LDCs free of charge and free of repayment obligations. Since these proposals so far appear simply to be flights of fancy rather than development concepts, the discussion on massive automatic transfers has shifted away from the IMF towards development taxes.

Development Taxes

Recently, taxes as an instrument for the raising of additional funds are increasingly being demanded in order to make external inflows in the form of ODA

independent of annual political decisions by donors and to achieve a better distribution for the developing countries. As an example of a direct tax, a surcharge on the general national income tax has been considered; of an indirect tax, the taxation of international trade.⁷

Generally speaking, the economic value of these taxes depends, to begin with, mainly on the extent to which they comply with the target of steadying and increasing the transfer of resources and whether this then actually promotes growth in industrialised and developing countries. Moreover, international taxes must also comply with the standards of efficient tax systems, for instance: a just distribution of the tax burden, no impediment of fluctuating markets and a simple, low-cost administration.

The presently available results of studies on the subject of international taxes clearly show that the contractionary effects for the world economy would be considerable. Besides, there are so many possibilities for passing on the burdens that, particularly, the gain for the poorest countries of the Third World is highly doubtful. Instead of international taxes, distorting price relations and additionally creating major administrative impediments, the alternative of taxes and tax systems in developing countries could be discussed more extensively.

Few Chances of a Massive Transfer

Summarising the proposals so far considered for a massive transfer of resources with regard to their possible realisation and chances of success, it will be seen clearly that their effectiveness depends on the coming together of numerous factors. But the initiators do not mention this explicitly and possibly underestimate its importance. Above all, the question as to whether the funds are raised additionally has not been satisfactorily answered. In order to show the greatest possible positive economic effect they should, namely, be additional not only for the LDCs, but they should also cause no withdrawal effects from other consumption or investment within the industrialised countries themselves. The industrialised nations' experiences with development aid throughout three decades show that additionality is fairly unlikely. An unambiguous tendency exists – because of the shortage of funds for the ODA, conditioned by budget problems – to pay for new activities out of the

⁵ See, for example, H. P. Wiesebach: *Mobilization of Development Finance, Promises and Problems of Automaticity*, Berlin 1979; A. Haselbach: *Bruno Kreisky's Drive for a Large-Scale Solidarity, The Lysebu Symposium on Massive Transfers of Resources – Concepts and Realities*, Oslo, Norway, 1-4 March 1981.

⁶ E. Küng: *Der arme Süden und der reiche Norden. Ein Marshall-Plan für die Dritte Welt?*, Stuttgart-Degerloch 1981.

⁷ See also I. N. Bhagwati, M. Partington: *Taxing the Brain Drain, A Proposal*, Amsterdam, New York, Oxford 1976.

corresponding budget items. Thus shifts between the activities will probably occur, rather than an increase in capital transfer.

There is not much to support the hypothesis that the application of the funds in the LDCs will stimulate the donor countries' economy more strongly than a direct utilisation at home. This is due, firstly, to the fact that part of the funds will not be invested effectively regarding growth. In addition there is the competition between LDCs and other states for possible orders. This speaks in favour of utilising the capital, which is also in short supply in the industrialised countries, at home. Besides, it has to be taken into consideration that the structural effects can be controlled more easily in this way than in the case of the detour via the LDCs or the possible involvement of multilateral institutions.

Apart from the already mentioned institutional and administrative questions and the question of the distribution of funds between the LDCs, for which as yet no satisfactory solution exists, all the proposals and plans have the disadvantage that they allow no statements on the following:

- whether the planned set of instruments is quantitatively sufficient for effecting a lasting stimulation of the world economy;
- over which period the funds would have to be provided regularly in order to guarantee the success of a massive transfer of resources.

The amount of capital required seems to be more or less arbitrarily fixed in all the cases under consideration. The plans do not comply with a critical capital requirement calculation and the development policy principle of "Aid for Self-aid". Almost all prognoses up to the year 2000 agree that the LDCs register a permanently growing demand for foreign capital, including official aid contributions. The Marshall Plan and fund concepts take this as a reason for additional contributions, but omit to state whether the LDCs' long-term capital requirements will be reduced owing to the application of these funds or whether they will be increasingly dependent on the industrialised nations.

The Brandt Commission

The Second Report of the North-South Commission⁸ is an example of a proposal for an increased transfer of resources with new forms, which shows numerous parallels to the proposals of international organisations and of the non-aligned states. This report is intended to be an immediate programme whose measures are to be part of the agenda of approaching international

conferences. It comments, *inter alia*, on problems such as the world food situation, energy, trade and negotiation processes. The proposals for financing procedures are particularly relevant in this context.

The Report proceeds from the belief that the present problems can primarily be solved by additional financing instruments, and that the IMF plays a key role in the mastering of the LDCs' financial problems. Therefore what is demanded is an expansionary policy, increasing the funds available to the IMF by the raising of quotas, new allotments of SDR, acquisition of funds on the capital market and from central banks, and by easier conditions regarding IMF-credits.

All the proposals have the common objective of enabling economic growth through monetary and financial expansion, explicitly regardless of the inflationary effects implicated by such a procedure.

Regarding this – not new – approach, it is to be noted that the abolition of the clear division of tasks between the IMF and development institutions implicated by it would be very problematical. The IMF has monetary objectives. Its funds are meant to balance short-term balance of payments problems. Therefore its transactions do not belong to the field of development aid. *Gratis* grants of SDR would water down this principle, confuse the monetary system and further world-wide inflation and destabilisation. Owing to the misallocation of funds which often occurred during the recent debt crises, a softening of the IMF conditions does not seem to be desirable.

Similar to the case of the IMF, the proposals for development financing via the World Bank and IDA can be brought to a common denominator: more money on more generous conditions. The immediate programme envisages the increasing of real IDA-funds, the rejection of the graduation of countries, the increase in the share of structural adjustment credits, and increased financing of current costs by IDA. Regarding the World Bank, the catalogue of demands is concentrated on those for techniques for the mobilisation of additional resources.

Behind these proposals for development financing via the World Bank/IDA, the demand for imposing on the North a kind of "tribute" vis-à-vis the South, with the World Bank serving as an instrument, cannot be overheard. This is clear from the statement that the countries of the South must control their economic situation themselves and the World Bank should duly restrain itself regarding conditions.

⁸ The Independent Commission on International Development (Brandt-Commission): *Common Crisis North-South: Cooperation for World Recovery*, London 1983.

ODA and Private Capital

In the sphere of ODA, the general realisation of the 0.7 % target and a concentration on the poor countries is emphatically demanded. The realisation of the 0.7 % target as quickly as possible should not require further comment. After the manifold promises of the past it appears indispensable, if only for reasons of the credibility of the policy of economic cooperation, although it remains to be taken into consideration that a rational economic basis for a per cent target does not exist. The provision of more ODA is no guarantee for the start or acceleration of the development process. The effect of an additional capital input depends to a decisive extent on general economic conditions in the various countries. Here, economic policy plays a decisive role. Help from outside can always have only a moderate impact and a flanking function.

In the opinion of the Brandt Commission, the activities of the private sector, especially in the form of direct investments, can play an essential role in mastering underdevelopment. Measures for the mobilisation of such capital, the conclusion of a code of conduct for investors, the introduction of a multilateral guarantee facility, the increasing of IFC-funds for the promotion of the utilisation of private risk capital and the extension of co-financing facilities are recommended for the immediate programme.

A considerable raising of direct investment would hardly be induced this way. Not international codes of conduct, but regulations and laws of the country in which investment takes place are decisive for the integration of foreign enterprises. Multilateral measures and incentives cannot achieve anything if the economic policy of individual countries is impeding investments. As private capital from industrialised countries is certainly available, everything depends on the LDCs' economic policies if they want to attract this capital.

Trade, ECDC and New Funds

In the sphere of international trade the Brandt Commission gives high priority to the prevention of a further curbing of world trade by additional protectionist measures. This seems to be justified. The main problem of a liberalisation in industrialised countries is to be traced back to the fact that the creation of competitive jobs has so far been neglected and this has contributed to the present high unemployment level. Since trade liberalisation generates structural change, the industrialised nations can take the lead and reduce their protection in the trade sector. The decisive problem,

being able to assert themselves in international competition, must be overcome by the developing countries themselves. For a period of transition, tariffs and quantitative trade restrictions could be reduced gradually in order to mitigate occurring adjustment problems.

These measures appear to be reasonable. But the industrialised nations can contribute to South-South cooperation only to a very limited extent. The programme proposals for an intensification of the LDCs' South-South cooperation refer mainly to a simplification of payments and clearing agreements, extension of financing facilities for the LDCs by a Third World Bank, expansion of the OPEC-fund or stronger participation in regional development banks as well as guarantee programmes for export credits.

The industrialised countries are, however, presented with a challenge in connection with the North-South Commission's proposals for a renewed discussion on a World Development Fund. This fund is to be realised as fast as possible within the scope of global UN negotiations. Apart from the problems of global negotiations, to begin with the Fund's area of application and its efficiency for the development process should be proven before its negotiation and establishment. In particular it should be stated more precisely which relationship would exist between the new fund and the planned superfunds of UNCTAD (Common Fund) and of UNIDO (Global Fund). As long as the danger exists that such institutions would degenerate into self-service stores for uncontrolled programme-financing with a permanent obligation to pay on the part of the industrialised countries they are to be rejected because of the waste of resources unavoidably connected with this. Underdevelopment cannot be overcome by additional funds and more generous credit conditions, for the true problem is not *lack of capital*, but rather *capital utilisation*.

One of the most positive aspects of the Brandt report is to be seen in the drastic description of the intolerable economic situation of more than 500 million people in the Third World. It is also praiseworthy that the authors at the same time emphasise the waste of resources for unproductive and useless armament expenditure. It is not difficult to agree with some of the proposals, in particular the reduction and removal of protectionist measures in the industrialised countries, the necessary increase of ODA funds and private capital transfers, and the intensification of economic and technical cooperation among developing countries.

On the other hand, the purport of the report is

assistance from outside. The possibilities and the necessity of a change in the economic policies of the developing countries by mobilisation of their own resources seem to be underaccentuated. The danger of ongoing destabilisation of the world economy by increasing international inflation is underestimated, optimism regarding the efficiency of (new) international organisations and funds exaggerated. Therefore it seems to be justified to have reservations vis-à-vis the proposed emergency programme as a leverage for the overcoming of the world crisis.

Helmut Schmidt's Prescription

Contrary to the afore-mentioned proposals and concepts, the former German Chancellor, Helmut Schmidt, sees the solution of the present economic problems not in a massive transfer of resources but in a joint action of the western industrialised nations to stabilise and reorganise their economic policies.⁹ In his opinion, the reasons for the disaster are mainly the collapse of the Bretton Woods system and the worldwide inflation following the oil-price shocks, which was accompanied by a trend towards growing protectionism.

Instead of patent remedies, a coordinated economic policy among industrialised countries with similar objectives is proposed. The list of countries to be involved includes the USA, Canada, Japan, Great Britain, France, Italy, the Federal Republic of Germany, the Netherlands, Norway, Austria and Switzerland.

The most important requirements are

- ☐ to get real interest rates down,
- ☐ to avoid excessive creation of international liquidity,
- ☐ to ease the adjustment process of national economies to structural changes in the world economy,
- ☐ to strengthen the world's financial system, which also includes the improvement of the opportunities of the IMF and World Bank for surveillance of and influence on the economic policies of debtor countries and creditors.

The increase of ODA in real terms is also mentioned, but it is emphasised that not aid, but recovery in the industrialised countries, is the essential prerequisite for improvement in the Third World.

An expansionary policy is proposed for Austria, Germany, Great Britain, Japan, the Netherlands,

Norway and Switzerland, while the USA, Canada, France and Italy should concentrate more on consolidation and the fight against inflation. The coordinated action of these countries should safeguard a stable world monetary system. Credit restriction should be avoided and trade barriers abolished. Protectionism is described as "escape into suicide".

The proposal, taken as a whole, shows clearly that important representatives of the industrialised countries do not believe in the massive transfer of resources as a strategy for overcoming the world crisis. They do not deny interdependent relations between North and South, but they see the main starting-point in their own countries. This approach is therefore similar to the old locomotive strategy, in which the industrialised countries are responsible for economic recovery and have the task of pulling the developing countries from poverty to economic growth.

The advantage of the proposal is its comprehensive character. It is not concentrated on one measure as a panacea, but on the whole bunch of economic tools. Therefore it seems to be likely that such a concept could get support from the majority of western countries. This need not burden the North-South Dialogue, but it may put other accents on the measures and steps envisaged for the negotiations. It can be expected that the industrialised nations will insist more on

- ☐ the need for their own economies to recover first,
- ☐ measures and mechanisms which not only support the Third World and do not impede the recovery of the North,
- ☐ harder economic conditions for ODA and private transfers, because the benefits of capital allocation in developing countries will always be compared with the utilisation of these means at home.

An efficient and long-lasting recovery seems only to be possible if the industrialised countries make every effort to stabilise and to revive their economies. The requirements for a new world-wide growth process are a free international trade and financing system as well as efficient economic policies in both developing and developed countries. The experience of the past shows, however, that the realisation of these prerequisites is a very difficult task. There is a considerable – nearly insurmountable – difference between theory and practice and between lip service in conferences and real political action. To improve the basis for a new worldwide upswing to prosperity, a lot of negotiations and moral suasion on all sides will be necessary – otherwise recession and stagnation will continue.

⁹ H. Schmidt: *The World Economy at Stake – The Inevitable Need for American Leadership*, in: *The Economist*, February 26, 1983.