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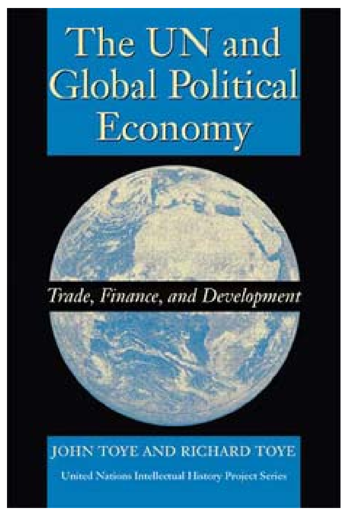
Fairer International Economic Relations: UN Ideas and Leadership

The UN was far ahead of the curve around 1950 in conceiving a system of international economic relations that would serve well all countries of the world. It issued three major publications: *National and International Measures for Full Employment* (1949), *Measures for the Economic Development of Under-Developed Countries* (1951), and *Measures for International Economic Stability* (1951).

This was almost sixty years ago. The reports display a bold confidence. They use logical economic analysis to show how to tackle the issues of economic instability, inequality, and growth in an international framework. At the time, this was indeed a pioneering perspective that contrasted sharply with the economic analysis of the 1930s. The reports also recognized how the so-called underdeveloped countries had an even greater stake in stability for their long-term development than industrial countries. Finally, they showed how action for underdeveloped countries could and should be combined with global action to avoid instability and recession.

However, the pioneering dimensions of the analysis and proposals largely fell on deaf ears. The proposals were dismissed as “extreme Keynesianism,” especially by American critics. There was little follow-up action to the recommendations of these reports. In the absence of global action to foster commodity price stability and balanced economic growth in developed and developing countries alike, the global failures of the 1970s and 1980s were predictable. Fluctuations in the international economy returned with a vengeance, following the breakdown of the Bretton Woods system in 1971 and the oil shocks of 1973–1974 and 1979 (themselves in part a reaction to a long and steady decline in real oil prices). More than twenty years after the publication of the three UN reports, the UN Conference on Trade and Development (UNCTAD) called for a common fund to support a range of commodity agreements, much as the reports had recommended, as had John Maynard Keynes in the 1940s when he recommended such a strategy as the third leg of the Bretton Woods system. Thus, the instabilities and higher oil prices of the 1970s severely disrupted the world economy, even more so for the weaker and least developed countries, setting up the debt overhang and debt crises of the 1980s and the structural adjustment policies that followed for most of Africa and Latin America. The situation of the world economy and of developing countries could have been much better if the international (global) framework advocated by the UN in 1950 had been taken more seriously at the time, or rediscovered and implemented two decades later.

In the midst of the current global recession, it follows that that the UN and other international organizations have a most important piece of work ahead of them. The world entered the twenty-first century with a rapidly globalizing economy, fueled by the private sector and given major imbalances by ever larger borrowings by the United States. After the Asian crisis of 1997–1999, Asian countries built up financial reserves under their own control. All this engendered a highly skewed pattern of economic development in which a number of countries, including China and India, are doing very well but many others, especially poorer and weaker countries in Africa and Latin America, falling behind.



The world is currently deep in recession—in spite of billions of dollars made available to rescue the international banking system and in spite of various neo-Keynesian policies of economic stimulus undertaken in major industrialized countries. It has been recognized that the policies and action of the G-8 alone are insufficient for recovery, which has led to the convening of meetings of the G-20, a forum that includes twelve of the world’s next largest economies. The recovery plans generated at these exclusive meetings, however, have largely left out some 170 countries, almost all of which are also being set back by recession, some even more seriously than the larger countries.

Is it so difficult to develop an international framework that ensures that no country is left behind? Throughout the UN's history, the dominant ways to help answer that question have been through international trade, development assistance, and foreign direct investment (FDI) mainly by transnational corporations (TNCs). Much less attention has been given to a framework of international policymaking and action that would prevent the poorest countries from slipping further behind. If crisis presents opportunity, the present crisis provides an opportunity for considering such fundamental reforms as part of global recovery.

International Trade

Almost from the UN's first decade, it became clear that major inconsistencies existed within international economic relations between aid and trade. Aid—dealt with in the next section—was intended to be a temporary measure, in order to get developing countries on their own feet and ready, among other things, to start exporting their products. But a lot has gone wrong. Not only has aid suffered from trying to meet too many objectives, but inequities in international trade and negotiating trade arrangements have often taken away with one hand what aid was giving with the other. The West has preached free trade but has not practiced it. In fact, it has practiced protectionism, above all in agriculture. In parallel, advanced industrialized countries and the institutions that they dominate have pressured the least developed countries to open their borders prematurely, thereby making it next to impossible for them to build even a feeble national industrial base. It is not surprising that radical critics argue that aid hides this reality behind gestures of generosity and in ways that, over the 1980s and 1990s, often helped to bind developing countries to agreements that required them to open their economies to imports and investment from abroad.

As John Toye and Richard Toye observed in their UNIHP volume *The UN and Global Political Economy: Trade, Finance, and Development* (2004), the world continues to be governed by a twin-track system. The UN, and more particularly UNCTAD when it comes to trade, provides a forum in which ideas, proposals, and policies are debated. In recent years, UNCTAD has started to act more and more as a think-tank that formulates policy proposals for such issues as trade, commodities, debt, and transnational corporations. But when it comes to serious agreements and implementation, negotiation shifts to institutions in which industrialized countries dominate and place their confidence. In matters of trade, finance, and development, this entails preferences for such bodies as the World Bank and the International Monetary Fund (IMF), which have weighted voting systems, and the World Trade Organization (WTO), which, despite having a one country, one vote system, chooses to seek consensus rather than deciding matters by voting. We live with a global economic governance system in which discussion and implementation are the responsibility of different international organizations.

The Uruguay Round (started in 1986 and concluded in 1994) introduced new rules on the use of countervailing duties. Most subsidies to economic activities that a country considers vital can trigger countervailing action if they cause "material injury." Participation in this subsidy code, which developing countries could decline to join under the previous Tokyo Round rules, is now mandatory for all WTO members. The effect is to outlaw the kinds of industrial subsidies that had been used by all developed countries historically, and by poor countries recently, to accelerate growth and development. Some experts even doubt whether the "Asian miracle" of the period 1965–1995 would have been possible if current WTO rules had then been in operation. The high growth of the so-called Asian tigers depended on selective departures from pure free-trade regimes, but these are no longer possible under a strict application of WTO rules.

A different approach, justified by the existing inequalities of economic and political power between developed and developing countries, could in principle be adopted and would involve a flexible interpretation of the rules. If there is to be any derogation from free trade, it should be to the advantage of the economically weak rather than the economically strong. As Paul Collier asserts in *The Bottom Billion*, "For trade policy to become an instrument of development, ministries of trade have to be ordered to change their priorities from extracting the best bargain to fostering development in the bottom billion." In fact, there is a compelling case that the poorest developing countries should be given exceptional treatment on "specific" subsidies for infant industry purposes, with one proviso: such subsidies should be selective, temporary, and performance related. That is the only way for developing countries to avoid repeating the errors of previous international trade policies, as Toye and Toye argue.

Here some historical perspective is essential. Today's developed countries succeeded in their development efforts after a period of protectionism. Alexander Hamilton, the first U.S. secretary of the treasury, understood this well and introduced protectionist measures against the onslaught of British industrial exports. The United States remained a highly protectionist country until World War II. Friedrich List, generalized the Hamilton policy in his 1841 book *The National System of Political Economy* and introduced the term "kicking away the ladder" to describe eliminating the same exceptional policies for late-comers that had worked for those who had started earlier. European countries all practiced protectionism historically and continue to do so today. East Asia's economic success has been attributed to their skillful combination of protection for their own growing industries with aggressive pursuit of exports abroad.

International economic solidarity has thus remained an elusive vision. Solidarity must mean more than charity. Trade is based on mature and emancipated international economic relations and on equally mature and emancipated national economies. Since 1980, international economic solidarity has basically remained an empty slogan. Even the volume of development assistance declined during the 1990s, after the fall of the Berlin Wall did away with the competition from the communist bloc.

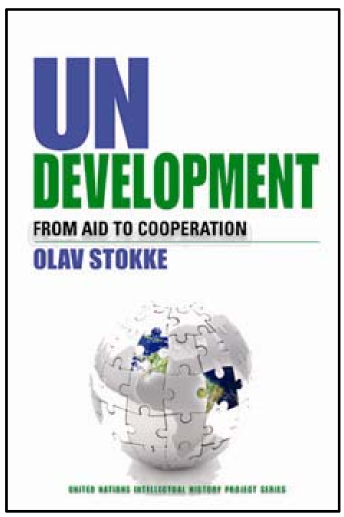
Development Assistance

The 1950s saw the introduction of the novel idea of "development aid," as it was then called. And the United Nations is central to the story, as Olav Stokke makes clear in his recently published UNIHP volume, *The UN and Development Assistance: From Aid to Cooperation* (2009).

Development aid started after World War II. Never in the history of international (economic) relations had the world seen *public* financial flows consciously moved from one country to another with the aim of assisting the receiving countries in their economic development. Of course, private financial flows had long been around, mainly in the form of foreign direct investment; an example is the private financing to construct railways in Latin America. But these were investments in search of profit. Official development assistance (ODA) from developed to underdeveloped countries was unprecedented.

The economic rationale for introducing this novel idea was straightforward. Since underdeveloped countries did not produce sufficient savings, ODA was needed to reduce the savings-investment gap so that these countries could save and invest more, grow faster and thereby reduce the income gap between them and the industrialized countries. The original impulse, therefore, was one of international economic and financial solidarity in a world in which colonizers and colonized still existed side by side.

There were other important developments in the 1960s in which the UN played an important role. These included the creation of the World Food Programme (WFP) in 1961 and the establishment of UNCTAD in 1964. In addition, the Committee on Development Planning (CDP) was created in the mid-1960s at the initiative of Jan Tinbergen, who served as its first chair; it monitored the progress of the First Development Decade and formulated proposals for the next development decade. The success of the decade, which was less apparent at the time than the ex-post statistics suggested, set the stage for a higher growth rate target for the Second Development Decade in the 1970s, for which the aid target of 0.7 percent of GNP was formally set. This target was specifically recommended in *Partners in Development*, the report of the Commission on International Development set



up by Robert McNamara, the president of the World Bank, which was chaired by Lester Pearson, the former prime minister of Canada. Later endorsed by the General Assembly, it is arguably the most famous international statistical target ever set and never met. This said, it should be noted that for almost forty years the 0.7 percent target has exerted a real influence on public pressures to maintain aid levels in many developed countries.

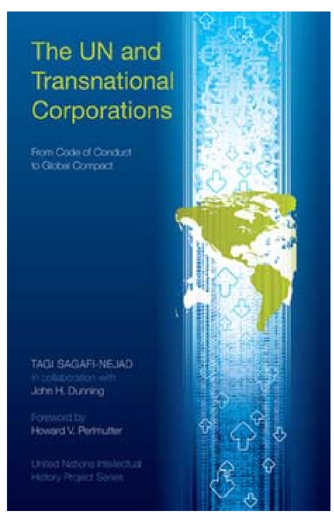
The 1970s marked the end of the golden age in which economic growth in both developed and developing countries was robust and fairly steady, and unemployment in most developed countries was low. In contrast, for many of the developing countries, especially the least developed ones, the 1970s introduced decades of instability and economic set back. In 1971, the Bretton Woods system of fixed exchange rates collapsed. In 1973, oil prices surged, as they did again in 1979. The three- to four-fold increase in oil prices transferred about 2 percent of global income from the oil-importing countries to the oil exporters ("from NOPEC to OPEC," as Hans Singer once put it) and stirred hopes of more fundamental changes. But negotiations on a New International Economic Order went nowhere and talk about it faded in the late 1970s. The idea was dead by the 1981 meeting of the Conference on International Economic Cooperation (CIEC) in Cancún.

Over the years since 1950, ODA has evolved. Development assistance moved from one objective to another without having met the previous one. From reducing the savings-investment gap, the objectives of ODA, within the UN and outside, has moved to a wider agenda: supporting children, stimulating education, creating employment, empowering women economically, and, in the 1980s and 1990s, reinforcing programs of structural adjustment. With economic collapse and conflict in the post–Cold War world, aid was targeted to helping fragile states, supporting humanitarian action, reducing poverty, supporting human rights, and providing aid for trade, to mention just a few goals. Aid became an international panacea, and in the end it met few if any of its many and shifting objectives. The total volume of aid never reached the 0.7 percent target set by the UN at the beginning of the Second Development Decade—although the Scandinavian countries and the Netherlands have more than fulfilled this target. Nonetheless, ODA continues to be the one token of international economic solidarity in the world, most recently concentrated to a large extent on yet another objective, namely support for reaching the Millennium Development Goals, agreed at the Millennium Summit in 2000.

Transnational Corporations and Foreign Direct Investment

During the 1960s and 1970s, many actions of TNCs became controversial, and the United Nations decided to examine the behavior of these firms. This subject is dealt with in yet another book in the UNIHP series, namely *The UN and Transnational Corporations: From Code of Conduct to Global Compact*, by Tagi Sagafi-nejad in collaboration with John Dunning (2008). The UN decided to create both a Commission for and a Centre on Transnational Corporations (UNCTC) in 1974 upon the recommendation of the Group of Eminent Persons that had been appointed to study this issue. Sagafi-nejad and Dunning also draw the rest of the UN system into their analysis, as the work of virtually all UN organizations impinges on TNCs.

The logic behind the UN's effort was that multinational corporations had become powerful actors in the world stage, but they were not fully responsible to any state. They had their own logic and goals, and the impact of their operations on their home or their host countries was not understood. They were challenging the authority of elected governments and could influence international relations. And the big question, of course, was what effect they had on development, on developing countries.



The story is mainly one of cycles—from harmonious relationships between TNCs and society to antagonistic ones, with the UN trying to keep a scholarly detachment and mostly, but not always, succeeding. In the 1970s, the reputation of TNCs was under serious attack because of AT&T's actions in Chile that led to the toppling and death of President Salvador Allende. This highly visible incident was accompanied by bribery scandals around the world that were revealed by a host of committees of the U.S. Congress. Although Washington subsequently became hostile to the UN's efforts, the world organization's role ironically was to a large extent inspired by and built upon the outcome of U.S. congressional committees and the hearings.

The UN's main focus during the early years was on the elaboration on a code of conduct that would temper the revealed abuses of the TNCs. That attempt was unsuccessful. In the 1980s, the climate around TNCs and FDI started to evolve. Developing countries actively sought investments from transnational corporations. This sometimes led to a "race to the bottom," with countries outbidding each other to offer the most favorable terms to corporations. The UNCTC, which was never as extreme as some of its member states, successfully guided the debate. It was, therefore, surprising that the United States continued its critical stance toward the UNCTC, which in 1992 led to Secretary-General Boutros Boutros-Ghali's dismissal of the center's third executive director and transfer of its work—mainly of the FDI component—from New York to UNCTAD in Geneva.

In the meantime, other UN organizations proceeded with their activities concerning TNCs. In 1977, the ILO adopted a Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. It passed because it was not binding and was couched in more conciliatory terms than successive drafts of the UN's Code of Conduct. On its part, the WHO accomplished remarkable work on tobacco use, the marketing of breast milk substitutes, and various abuses in the pharmaceutical industry.

After the UNCTC moved to Geneva in 1993, its work was quiet, subdued, and mainly devoted to producing the World Investment Reports (WIRs), a series that started in 1991 and continues. The amount of data and information gathered over the years for the WIRs is useful and widely cited. However, it is surprising and unfortunate, to say the least, that over the past twenty or so years the UN has retreated away from setting the intellectual agenda regarding TNCs and their role in the global economy, ecology, and polity. It has ignored the private sector for too long, and the Global Compact initiative by Kofi Annan, when Secretary General, although welcome, is seen by many as too little, too weak and too late. The private sector should be seen as a source of ideas. It has research holdings of great importance. Yet there are also fears of domination by the increasingly consolidated TNCs that often operate beyond effective constraints in the globalizing economy. There is still need to develop internationally some of the controls on accountability, monopoly, and taxation that are taken for granted within countries or within regional groups such as the European Union.

Conclusion

Raúl Prebisch maintained that the attempt to elaborate a system of trade rules was backward looking. What the world needed instead was an agreed-upon set of policies to support the developing world. The creation of the WTO was a defeat for that viewpoint. But it has been argued that WTO rules are in the interest of developing countries because they create a strong umbrella to shelter them from any arbitrary trade practices of large and powerful industrial countries. This argument must be qualified, however. For example, the Doha Round under the aegis of WTO rules—which was supposed to be a development round and has been dragging on inconclusively for years—is not sufficient to regulate trade in a world of considerable and often growing economic inequality.

Sidney Dell, one of the UN's first and most eminent economists, said it kindly and softly, shortly before his death:

> There is no international agency that is dealing systematically with global questions of consistency and inconsistency. In matters of economic policy, the triumvirate of the IMF, the World Bank, and GATT/WTO as they function at present is not up to the task. There have been proposals to set up an Economic Security Council, to no avail so far. Thus the structural mechanism of global control has remained the same, that is unsatisfactory.[1]

Looking to the future, it is our contention that drastic policy changes should occur if the international economic and social situation is to become sustainable. Although progress is still slow, a breakthrough is possible. That such important changes can happen is now being illustrated by the pace of change in attitudes about the environment. Public opinion can change, even sharply and rapidly. It is also illustrated by the reaction to the financial and economic crisis of 2007-2010, in which governments have stepped in heavily in an attempt to rectify the grave errors of the insufficiently regulated private sector. Who could have imagined only recently that chunks of the economy would be nationalized—banks wholly and industry partially?!

As in war, the economic crisis has unleashed unprecedented sums of money that could have been put to good use to create the global and balanced economic structure worked out by the UN in its three reports (1949-1951) mentioned at the beginning of this Note. Prevention is better—and cheaper—than a cure. There is still time to broaden thinking and action.

Louis Emmerij and Richard Jolly

Notes

[1] Sidney Dell, "The Origins of UNCTAD," in *UNCTAD and the North-South Dialogue,* ed. Michael Zammit Cutajar (New York: Pergamon Press, 1985), 19.