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THE EMERGING INTERNATIONAL ECONOMIC ORDER

Dynamic Processes, Constraints, and Opportunities

Published in cooperation with the International Political Science Association

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PART I

La Mise en Scène

CHAPTER 1

THE CONTINUING EVOLUTION OF THE GLOBAL POLITICAL ECONOMY

HAROLD K. JACOBSON
DUSAN SIDJANSKI

From the end of World War II through the early 1970s, the global economy grew at an unprecedented rate. Throughout the world, material welfare could be and generally was sharply improved. The ultimate foundation of the economic growth that occurred in the quarter century following World War II was the application of technology to the processes of production, but national and international institutions and policies were also essential ingredients. Even during the period of rapid growth, however, there were criticisms of some of these institutions and policies, generally on the ground that the benefits of economic growth were not distributed broadly enough throughout the world. In the 1970s, these criticisms came to be voiced more frequently and stridently, and new criticisms were raised that underscored the costs of continued rapid economic growth. Even supporters of the existing global political economy became troubled in the 1970s as institutions and policies that had previously worked well began to flounder and global economic growth slowed. Efforts were mounted to adjust institutions and policies so that they would function effectively again, but by the end of the 1970s the outcome was far from clear.

What was clear was that economic issues will be prominent in world politics in the closing two decades of the twentieth century. Populations everywhere have come to expect rising standards of living, and they increasingly hold their governments accountable for fulfilling this expectation. Aware that their tenure in office is at stake and aware that the performance of their countries' economies is inextricably linked with that of the global

economy, governments must be concerned with the global economy. They shape their foreign policies so as to enhance their countries' economic prospects. Thanks to the interaction of states' foreign policies, the functioning and the nature of the global political economy are high on the agenda of world politics.

This book is about the global political economy. Its focus is on some of the more important national and international institutions and policies that shape this economy. It is primarily concerned with the global economy's continuing evolution. It analyzes national and international forces for change in the late twentieth century and constraints on the processes of change, and it assesses the consequences of some of the efforts at adjustment in institutions and policies that were made in the 1970s. By analyzing the recent past, it seeks to clarify the possible direction, nature, and extent of change in the near future in the institutions and policies that guide the global political economy.

The Structure of the Global Political Economy

As a point of departure, it is important to delineate the structure of the global political economy. States have different political-economic systems, and they have widely divergent levels of economic development. Although all states and territories have some foreign trade, the extent and nature of their ties with the global political economy vary tremendously. These structural features in themselves simultaneously create pressures for change in the global political economy and set limits on what is possible.

In broad terms, the global political economy can be divided into three major components: the market economies that have achieved a high level of industrialization, the centrally planned economies, and the developing economies of the Third World.

The first category includes the several states of Western Europe, the United States and Canada, and Japan, Australia, and New Zealand. It roughly coincides with the membership of the Organization for Economic Cooperation and Development (OECD).[1] Although the extent of governmental intervention in the economies of these states varies greatly, all of the states rely substantially on the market forces of supply and demand to determine what shall be produced and how it shall be distributed, and all allow considerable private ownership of the means of production. OECD states are basically capitalist in orientation. This is the group of states that are typically referred to as "the West." Although this group of states accounted for less than 20 percent of the world's population in the late 1970s, more than 60 percent of the world product accrued to them (IBRD, 1980: 110-111). Their average annual per capita gross national product (GNP) was more

than $7000. This group of states was collectively the richest in the world, and it was the source of more than 60 percent of the exports in world trade.

The second category includes the states that rely on central planning rather than market forces to determine what shall be produced and how it shall be distributed and that have government ownership of the principal means of production. It includes the Soviet Union and the states in Eastern Europe with communist governments, all of which have achieved a relatively high level of industrialization, and the People's Republic of China and states in Asia and the Caribbean with communist governments, which are in the process of industrialization.[2] In the late 1970s, states with centrally planned economies accounted for almost 32 percent of the world's population and gained about 19 percent of the world's product. Their average per capita GNP was about $1200. China's per capita GNP of about $230 was the lowest of the group; all of the other states had per capita GNPs of more than $700. Without China, the other states of the group comprised less than 10 percent of the world's population, but gained more than 16 percent of the world's product. The average per capita GNP of this subset of states was close to $3500. China, with more than 22 percent of the world's population, gained less than 3 percent of the world's product. Ten percent of the world's exports came from countries with centrally planned economies.

The third category, the developing states of the Third World, included more than half of the world's population in the late 1970s and received about 18 percent of the world product. Although this group of states is collectively often referred to as the less developed countries (LDCs), or developing countries, it contains a wide variety of states.[3] Their per capita GNPs vary from less than $100 per year to more than $3000. It even includes the capital surplus oil-exporting countries such as Saudi Arabia that have per capita GNPs comparable to or above those of western states. Although there is considerable governmental intervention in the economies of several of the LDCs, none of the states included in this category as it is used here has complete central planning. LDCs as a group were the source of less than 30 percent of the world's exports.

These figures give some dimensions of the structure of the global political economy; trade statistics give others. Table 1.1 shows the direction of international trade in 1977. It shows the percentage of exports from each category of states going to each of the three categories. The first feature to be noted about Table 1.1 is the extent to which western states trade with each other. Because of this concentration of their trade and the fact that western exports constituted more than 60 percent of global exports, more than 40 percent of world trade was West-to-West trade. The second salient feature is that LDC exports were even more heavily concentrated on western states than those of the western states. More than two-thirds of the exports of

LDCs, countries that are generally located in the South, go to western states. The third important characteristic that Table 1.1 shows is the concentration of the trade of countries with centrally planned economies with other countries with the same type of economic systems. When this feature is seen in conjunction with the fact that centrally planned economies are the source of only 10 percent of world exports, the limited role of these states in the global economy is obvious. States with centrally planned economies tend to have a lower level of exports and imports than do countries of comparable levels of economic development that rely on market forces, and they tend to trade primarily with other countries with similar economic systems. It should also be noted that states with centrally planned economies trade more with western states than they do with less developed countries.

These structural dimensions highlight the crucial role that the western states occupy in the global political economy. They also provide some indication of the extent of global interdependence. Western states have more wealth, production, and trade than any other group of states. The economies of the western states are closely linked together by extensive international trade. Changes in economic conditions in major western countries are rapidly felt in the other western states. What happens in the economies of the western states will in addition have significant effects on the economies of the LDCs because of the extensive trade between the South and West. It will also have significant effects in the states with centrally planned economies even though these effects will be muted because of the relative isolation of this group of states from the others. Given the dominant position of the western states in the global economy, economic conditions in these states must be of concern to everyone. There is a dynamic interaction between economic developments in the West and economic developments throughout the world. What the general trade statistics do not show is the extent to which the western states are dependent upon importing raw materials from the

TABLE 1.1 Direction of Merchandise Trade, 1977 (composition in percentages)

	DESTINATION			
Origin	*Western States*	*Less Developed Countries*	*Centrally Planned Economies*	*Unallocated*
Western States	65.7	28.7	5.2	.5
Less Developed Countries	67.0	28.0	4.4	.6
Centrally Planned Economies	27.2	14.9	54.5	3.4

SOURCE: International Bank for Reconstruction and Development, *World Development Report, 1980* (Washington, DC: IBRD, 1980), p. 100.

other groups of states. This dependence is a crucial ingredient of global interdependence, and it is a vital component in the dynamic interaction between the West and the rest of the world.

The disparities in levels of material welfare that the structural dimensions show constitute another dynamic force in the global political economy. Because their populations expect rising standards of living, governments of all states are impelled to seek economic growth. Governments of LDCs, however, are under particular pressure to achieve rapid economic development, among other reasons because of the enormous gap between the levels of material welfare in their countries and that that has been achieved in the industrialized countries. The drive to promote the economic development of the less developed countries has been a major feature of the post-World War II global political economy. Given the strength of their economic ties with the western states, the LDCs cannot pursue their drive for economic development without concern for these links.

This book concentrates on certain important aspects of economic relationships among western states and between western states and less developed countries. Trade among these two categories of states accounts for more than 85 percent of the world total. Relations among these states will exercise a determining effect on the evolution of the global political economy in the immediate future. This book deals with the national and international institutions and policies that shape relationships among western states and between western states and LDCs.

Relationships between the states with centrally planned economies and the West and the LDCs could give rise to another dynamic force within the global political economy. From all sides there are pressures to amplify the ties that now exist. The centrally planned economies offer western states potential markets of vast dimensions and also can serve as sources of important raw materials. The western states in turn have technology and food that the centrally planned economies could use. With their relative wealth, the states with centrally planned economies that have achieved high levels of industrialization could assist substantially in the economic development of LDCs. As they do for the West, the LDCs offer the centrally planned economies valuable raw materials and markets. There is little sign, however, that the relative position in the global political economy of the states with centrally planned economies will change dramatically in the near future. During the 1970s the proportion of world trade going to or coming from these countries remained virtually constant, even declining slightly. Even if their trade with other states were to expand sharply, given its extremely low level at present, it would be some time before the states with centrally planned economies became a major force in the global political economy. Relationships between these states and those in other categories will eventu-

ally pose important issues, but they need not be subject to intensive analyses for an assessment of major trends in the near-term evolution of the global political economy.

The Post-World War II International Economic Order

The global political economy consists not only of the national economies that give it its basic structure, but also of the international institutions and policies that shape relations among these economies. These institutions and policies constitute regimes in particular substantive areas such as trade, shipping, and monetary relationships. They provide rules and procedures for transacting day-to-day business and thereby facilitate cooperation and help to avoid disputes. Regimes can also offer ways of settling disputes should they arise. In short, regimes contribute to making relationships in particular substantive areas predictable. Collectively, regimes comprise the international order. Regimes and the international order that they comprise structure relationships and thereby simultaneously facilitate and limit change. Because economic relationships in particular substantive areas can seldom if ever be totally isolated from economic relationships in other substantive areas, there is strong pressure for regimes to follow compatible broad principles. The international order therefore tends to have a certain philosophical consistency. Regimes and the overall international order can be weakly or strongly supported. International orders can collapse, as they tend to during wars, and patterns of relationships can disintegrate. Regimes and the overall international order can also be modified in ways that command broad consent thereby accelerating change and minimizing disruptions.

The events of the 1970s posed a challenge to the post-World War II international economic order. The growing criticisms, the failure of the institutions and policies to perform as they had and as it was thought that they should, and the slowing of growth in the world economy, placed the future of this order in question. Efforts have been made to preserve the international economic order through modification of some of its features. These efforts could succeed, or the order could collapse or be significantly altered. What ultimately happens will be the result of national and international forces and of individual and collective decisions.

Before these basic forces can be analyzed, and the nature of possible decisions examined, the essential features of the existing international economic order need to be described. The existing international economic order was largely shaped by the major western countries. When the key international institutions were created at the end of World War II, the majority of less developed countries were still under colonial rule, and most of the countries that then had centrally planned economies chose not to participate in several of the nascent institutions. The western countries created an

international economic order that followed modern neoliberal prescriptions. Its purpose was to facilitate international trade and hence international specialization in production among countries.

The mixed character of the economies of the industrialized states made facilitating international trade an intellectually and politically challenging task. Had the governments of these countries been willing to allow market forces to operate in a totally unfettered manner, the issue of facilitating international trade would simply have been that of applying the classical liberal solution of removing whatever obstacles to international trade existed. But the governments of the western countries were determined to intervene in their economies to achieve various social goals, particularly to prevent a recurrence of the high levels of unemployment of the 1930s. Had the western countries moved to total governmental ownership of the means of production and to complete central planning, the issue would simply have been that of coordinating national plans. But they did not follow the example of the USSR and there continued to be limits on the role of government in their economies.

Because of the mixed character of their economies, facilitating international trade among the western states would inevitably involve simultaneously lowering obstacles to trade and coordinating—at least to some extent—their macroeconomic policies. Many of the obstacles to trade were the result of governments wishing to isolate their countries' economies so that external forces would not hamper their efforts to achieve social goals. A state's efforts to create employment could be frustrated by a flood of inexpensive imports, or its efforts to counter inflation could be negated by a surge in demand for its exports or a sudden influx of foreign investment. The western states had no intention of giving up their economic sovereignty, or their ability to set their own economic goals within the context of their particular economic situations, but if they were to gain the benefits of increased trade they would have to find ways to avoid pursuing mutually contradictory macroeconomic policies.

One of the most important among the international institutions that were created at the end of World War II, the International Monetary Fund (IMF), was given functions with respect to both reducing obstacles to trade and coordinating macroeconomic policy. In the 1930s, the governments of many western countries adopted strict controls over the exchange of their currencies, and these controls persisted into the 1950s. Designed so that the governments could regulate all foreign purchases of goods and services, these controls constituted a formidable barrier to the expansion of trade. One of the functions assigned to the IMF was to facilitate governments removing these exchange controls and making their currencies freely convertible. When member states accept the obligations of Article VIII of the IMF's Articles of Agreement, they agree to make their currencies freely convert-

ible. Since 1958, all major western states have accepted the obligations of Article VIII. The IMF assists member states to maintain the value of their currencies by loaning them funds that they can use for open market operations in support of their currencies. Loans for limited amounts are given automatically, but larger amounts require the fund's approval, and by specifying conditions for the approval of a loan, the IMF exercises surveillance and leverage over a borrower's macroeconomic policies. The funds that IMF loans come from a pool to which the member states contribute in proportion to their share in world trade. Voting power in IMF is weighted according to contributions; consequently the states that play the largest role in world trade—the western states—have the greatest voting power. Since there is such a strong mutual interest in maintaining the convertibility and relative stability of member states' currencies, and since compatible macroeconomic policies are so crucial to these goals, the national officials who participate in the IMF and the members of the IMF secretariat are inevitably drawn into discussions of macroeconomic policies. Binding decisions are certainly not an issue, but at a minimum relevant information is exchanged.

The General Agreement on Tariffs and Trade (GATT) is a second major international institution in the contemporary global economy. During the 1930s, the western states increased their tariffs to prohibitively high levels and also enacted quantitative restrictions limiting trade. For several of the states, this development represented a culmination of a trend that had begun in the late nineteenth century with the collapse of the liberal international economic order that had been established under British hegemony. Combined with currency controls, these tariffs and quantitative restrictions sharply restricted the possibilities for international trade. By the late 1930s, the value of international trade had fallen from what it had been in the 1920s by almost 30 percent. Whether the intent of these measures was merely a protectionist desire to isolate national economies so that domestic goals could be pursued without interference or a mercantilist desire to increase the power of the state, their effect was equally harmful for international trade. After World War II, the governments of the major western states were determined to revive and stimulate international trade. They were convinced that the growth of their own economies depended upon it. The creation of the IMF was one step. The creation of GATT was another. GATT provided a framework for reducing tariffs and other obstacles to trade. GATT sponsors negotiations in which member states bargain and reach agreements about mutually reducing tariffs and other obstacles to trade. The provisions of these agreements are then extended to all GATT member states because the basic rule of GATT is nondiscrimination: The contracting parties to GATT commit themselves to extend most-favored-nation (MFN) treatment to each other. Through these procedures substantial progress has been made in reducing obstacles to trade. When GATT's Tokyo round of multinational

trade negotiations was completed, the tariffs of the major western countries averaged less than 10 percent of the value of the imported goods. There was relatively free trade in manufactured goods among the western states. Each member state has one vote in GATT, but votes are seldom taken. What counts in inducing a state to reduce the level of its tariffs is what reductions a trading partner can offer in return. Bargaining power in GATT thus closely accords with shares of international trade, and as in the IMF, the states with the greatest influence in GATT are those that play the largest role in world trade—the western states.

The Organization for Economic Cooperation and Development (OECD) is a third major international institution promoting the creation and functioning of the neoliberal international economic order. Unlike the International Monetary Fund and the General Agreement on Tariffs and Trade, that are potentially open to all states, the OECD's membership is confined to western states. The OECD is the principal forum for the voluntary harmonization of their macroeconomic policies. Each year, the OECD's member states mutually review the performance of their economies and their economic forecasts and plans. Member states are encouraged to take each other's problems and interests into account in formulating their own policies. OECD member states have a vital stake in the health of each other's economies: A recession or depression in one member state would lessen its demand for exports from the others thereby weakening their economies, and inflation in one could spread to the others through an excessive demand for their exports. The member states of the OECD have also negotiated and adopted codes of conduct covering several issues. The one dealing with capital transactions is among the more important of these codes. Thanks to this code, it is relatively easy for citizens and corporations of one western country to invest in another.

With the currencies of the major western countries freely convertible, their tariffs reduced to relatively insignificant levels, minimal restrictions among them on direct foreign investment, and a forum for the voluntary harmonization of their macroeconomic policies, the essential ingredients of the neoliberal international economic order were in place. Other states were brought into this order in varying degrees.

International trade flourished under the neoliberal international economic order. In the quarter century between 1948 and 1973, the value of world exports increased by almost six times (UN, 1976: I,96). This growth in international trade provided a powerful stimulus to global economic growth. Although states in all three categories shared in the growth in international trade, the value of the exports of the western states grew more rapidly than those of states with centrally planned economies or less developed countries.

The international economic order was also propitious for the growth of

transnational corporations (TNCs), almost all of which had their headquarters in western states. With few barriers to trade and freely convertible currencies, managers of TNCs could internationalize production processes: producing goods in one country for sale in others and even producing components in several countries, assembling the components in still another country, and selling the finished product in others. Direct foreign investment from the western countries expanded at an even more rapid rate than that of their exports.

Although all of the western states prospered in the post-World War II neoliberal international economic order, some fared better than others. Japan's exports grew more rapidly than those of any other western country, and those of the six original members of the European Economic Community (EEC)—Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands—grew more rapidly than those of several other western countries including the United States. The gross national products of Japan and the original members of EEC also grew more rapidly than the U.S. GNP.

This differential performance was in part attributable to Japan's and Europe's recovering from the devastation that they suffered during World War II. Another important factor, however, was that for political and security reasons the United States was interested in these two areas having strong economies, and it was willing to accept a measure of economic discrimination against itself to promote their prosperity. The United States sponsored Japan's entry into GATT and its obtaining most-favored-nation treatment, while tolerating some protectionist Japanese trading and investment practices. The United States strongly supported the creation and development of the European Economic Community even though the creation of a common market in Europe completely eliminating barriers to trade among the member states would mean that U.S. exports to these states would be treated less favorably than those of EEC members. The EEC's Common Agricultural Policy (CAP), with its system of variable levies on imported agricultural products, involved even more serious discrimination against U.S. exports. The U.S. government accepted these discriminations because it believed that if Western Europe and Japan were economically strong, they would be better bulwarks against the spread of communism.

Because of their economic links with the western states, the less developed countries had little choice but to participate in the neoliberal international economic order. In the years immediately after World War II, more than 70 percent of their exports went to the western states. They were economically heavily dependent upon the western states. The developing countries were brought into the International Monetary Fund and the General Agreement on Tariffs and Trade. By 1979, the membership of these two institutions had grown to 138 and 84 respectively. A major explanation of

why so many more states have joined the IMF than GATT is that it is necessary to be a member of the fund to join the World Bank or, more formally, the International Bank for Reconstruction and Development (IBRD). The World Bank (which had 135 members) is a major source of financial assistance for its member states. Even though neither the IMF nor GATT requires its LDC member states immediately to comply fully with its regulations concerning currency and commercial practices, membership in the two institutions does imply a commitment ultimately to adhere to their neoliberal rules and procedures.

As evidenced by their disproportionately low share of world exports, the states with centrally planned economies played only a marginal role in the global polital economy. International trade has historically been less important to the USSR and the People's Republic of China (PRC) than it has been to smaller states. Each country is richly endowed with natural resources, and because of their large populations and territories, each contains ample opportunities for specialization and the realization of the advantages of the economies of scale. In addition, central planning has a propensity toward autarky. Planners are reluctant to rely on economic imputs that are not under their administrative control. As practiced in the USSR and the PRC, central planning is accompanied by a state monopoly of foreign trade and total state control of currency conversions. Countries with centrally planned economies generally have proportionately less foreign trade than countries with market economies of comparable size and levels of economic development. Finally, as part of its security policy, the United States controlled and limited its exports to countries with communist regimes and refused to grant them most-favored-nation treatment. Other members of the North Atlantic Treaty Organization (NATO) also adopted restrictions on trade with countries with communist regimes. What international trade states with centrally planned economies had was predominantly among themselves, just as western states traded primarily with themselves. Until 1980, when China joined IMF and the World Bank, neither the USSR nor the PRC belonged to the major international institutions of the neoliberal international economic order. Some smaller states with centrally planned economies, however, have for some time been members of the IMF, IBRD, and GATT.

Trade cooperation among the USSR, the Eastern European countries, and various other small states with communist regimes came to be handled in the Council for Mutual Economic Assistance (CMEA).[4] Specialization agreements and joint projects are negotiated within the CMEA, and an effort is also made to coordinate the member states' economic plans.

Whatever the ultimate consequences of their minimal connections with the global political economy, the states with centrally planned economies achieved annual rates of economic growth through the mid-1970s that were on the average above those of the western countries.

The post-World War II global political economy also included several international institutions, mainly connected with the United Nations system, that have virtually universal membership and that performed functions for the entire world economy. The statistical services of the United Nations and several of the specialized agencies developed standardized concepts and methodologies for national data collection efforts and then compiled and aggregated the national data. Thanks to these efforts, since about 1960, data that are reasonably adequate to monitor basic economic and social trends have been available for most areas of the world. This monitoring flagged the population explosion that occurred in the post-World War II period and the growing gap between the per capita GNPs of the western countries and those of the LDCs.

These same organizations provide a forum for general discussions of the functioning of the world economy and a framework for the adoption of normative pronouncements. These normative pronouncements tend to reflect the views of the less developed countries which predominate in the membership of these institutions. Decisions in these institutions are taken on the basis of each member state having one vote and LDCs easily comprise the simple or two-thirds majority that is required. The less developed countries created a caucus to coordinate their views and to insure as much solidarity as possible among them. Because 77 states participated in the first meeting of this group, it came to be known as the Group of 77. By 1980, however, it had more than 120 members.[5]

Spurred by the Group of 77, the General Assembly of the United Nations, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organization (UNIDO), and other UN agencies, have each adopted a number of resolutions favoring LDC causes. They have set targets for the economic growth of LDCs and for the transfer of resources to these countries.

UN agencies have also become purveyors of technical assistance to the less developed countries, and the World Bank and various regional development banks have supplied financial assistance. Over the years the flow of resources to the less developed countries has increased substantially so that by the mid-1970s the net flow of capital was more than $40 billion per year (OECD, 1977: 188). However, the flow of resources has remained very much under western control. Western countries supplied more than 90 percent of the funds that were transferred to LDCs, and more than 60 percent of these funds were supplied through ordinary commercial transactions. Of the funds that were transfered as Official Development Assistance (ODA), the greatest part was transfered on a government-to-government bilateral basis; thus the choice of the recipients and of the purposes for which the funds could be utilized was subject to the discretion of the western donor governments. Less than 30 percent of ODA funds was channeled through international institutions, and the western countries exercised preponderant influence in the institutions that received the bulk of these funds. More than 80 percent of the funds that the western countries channeled through international institutions went to the World Bank and regional development banks where there were weighted voting systems. The largest share of the funds that the UN and the specialized agencies used for technical assistance came from the United Nations Development Program (UNDP), which depended for its income on annual voluntary contributions. While the voluntary character of the UNDP financing put the program at the mercy of unilateral decisions of the western countries, these states generally regularly increased their contributions. For a short period in the mid-1970s, however, the United States, which was the largest single contributor to UNDP, reduced the size of its contribution. This heightened LDC sensitivity to the vulnerability of the program.

The states with centrally planned economies supplied less than 1 percent of the funds that were transfered to less developed countries. Except in a few instances, therefore, they did not constitute a realistic alternative to the western countries as a source for assistance for the less developed countries. About 8 percent of the funds transfered to LDCs were provided by oil exporting countries, which in this analysis are themselves classified as LDCs. There were, however, limits to which oil exporting countries could expand their assistance. Their aid was a useful supplement to that of the western countries, but it could not be a substitute.

The post-World War II international economic order can be characterized as neoliberal and western-dominated for several reasons. Because of their relative size, the economies of the western states had a predominant weight in the global economy, and western states had predominant influence in the international institutions that controlled the most substantial resources and set the rules that governed basic economic relationships. These rules had a neoliberal orientation: they tried to adapt the classical liberal principles of free trade to economic conditions of the mid-twentieth century, especially the prevalence of welfare economies. There were, however, also other tendencies within the global political economy. The states with centrally planned economies constituted a separate sphere that operated according to different principles and that was only loosely connected with other states. While the influence of less developed countries was limited in the IMF and GATT, they could control the proceedings in the institutions of the UN system. LDCs used this capacity to voice their disappointment with and objections to the existing international economic order.

The Crisis of the Neoliberal International Economic Order

LDC criticisms of the neoliberal international economic order that had been created in the wake of World War II gained sufficient strength in the

1970s to pose a challenge to this order. But there were also other challenges, and their combined effect put the future of the neoliberal order in question.

One problem was the changed position of the United States. The post-World War II international economic order had come to depend heavily upon the United States playing a special role and bearing important burdens. The United States was the dominant force in the world economy and in the key international economic institutions.

Until the European Economic Community's common external tariff came into place in 1968, the United States was the world economy's largest market under a single jurisdiction. Because of this and the necessity of U.S. administrations having congressional authority to reduce U.S. tariffs, the rhythm of tariff-cutting in GATT depended upon U.S. legislation.

The United States contributed more funds for development assistance than any other country. In recognition of this, the president of the World Bank and the administrator of the UNDP were always U.S. citizens.

As the international monetary regime had developed under the International Monetary Fund, it had come to be a U.S. dollar-based system. The currencies of the major trading countries were denominated in terms of the U.S. dollar, and after 1958, they could be freely converted into dollars or other currencies. The U.S. dollar was convertible into gold at a fixed rate. With this system, currencies had relatively stable values, but the U.S. dollar played an overwhelming role. This gave the United States special privileges, but it also restricted U.S. actions.

Because governments, corporations, and individuals were willing to hold U.S. dollars as reserve assets, the United States could sustain deficits in its balance of payments without formally having to borrow. Consequently, the United States did not face the same fiscal discipline that other countries did. It was virtually immune from the IMF's system of surveillance. On the other hand, the United States faced greater difficulties than other countries in adjusting the value of its currency. If the U.S. dollar were overvalued, weakening the competitiveness of U.S. exports, getting an adjustment was almost impossible. Devaluation of the U.S. dollar would have enormous repercussions for reserve assets throughout the world. Moreover, the countries about which the United States was specifically concerned—those with which its exports competed—could respond by devaluing their own currencies. In effect, the United States had to rely on other countries to increase voluntarily the value of their currencies. Since this would make their exports less competitive, governments were extremely reluctant to do this.

When the U.S. gross national product was more than a third of the total world product, the special U.S. role was acceptable to other countries—or they regarded it as inevitable—but when the U.S. GNP slipped to about a quarter of the world total, as it had by 1970, such a preponderant U.S. role became less acceptable. Similarly, the United States became less willing and

less able than it had been to bear the special burdens that the system imposed upon it.

As the United States ran persistent and substantial deficits in its balance of payments in the late 1960s and early 1970s, and as the number of dollars held abroad grew to vastly exceed the supply of U.S. gold reserves, the health of the international monetary system increasingly came into question. Those countries and individuals that disagreed with the U.S. pursuit of the war in Vietnam and were concerned about the expansion of U.S.-based transnational corporations, both of which caused heavy foreign expenditures, were particularly disturbed that the United States did not face the same fiscal discipline as other countries. Because of the difficulty that it faced in adjusting the value of its currency, the United States felt that it was denied policy instruments of macroeconomic management that other countries could use and that it needed to use in efforts to limit unemployment.

Beyond the changed position of the United States, there were also other difficulties that were at least as serious in the operation of the neoliberal international economic order. The very openness of the world economy began to bring problems as well as benefits. As obstacles to trade fell, buyers could shift to foreign suppliers more readily, and in many instances they did, leaving domestic suppliers without purchasers. New tasks had to be found for now unemployed resources and persons. These structural adjustment problems occurred within the western countries as trade among them increased. They also occurred as less developed countries began to industrialize. As wages within western states increased with the elaboration of welfare state principles, incentives increased for shifting labor-intensive industries, for instance the manufacture of textiles and shoes, to the less developed countries to take advantage of the low cost of labor there. As structural adjustment problems increased in severity, the governments of western countries increasingly turned to protectionist barriers to trade, especially quantitative restrictions on imports that were more or less voluntarily accepted by foreign exporters.

Another problem was the explosive expansion in the 1960s of transnational corporations, which roused unease among both western and less developed countries. In the western countries there was fear that as the TNCs invested abroad, jobs would move from the home country to the host countries. The less developed countries feared that because of their massive economic assets, the TNCs could gain undue and unacceptable influence in their economies.

The freedom that the neoliberal international economic order allowed TNCs was only one of the LDCs' concerns. Because of the dominant position of western countries and their dependence on them, the LDCs directed their complaints largely at the West. LDCs' representatives argued that the international economic order was insufficiently responsive to their interests

and that it unduly favored those of the western countries. They cited as conclusive evidence the growing gap between their per capita GNPs and those of the western countries. They maintained that development assistance was insufficient to meet their broadly acknowledged needs. They were disturbed by the debt burden that they were assuming. They bridled under the conditions that were imposed on them when they sought to obtain financial assistance, arguing that the fiscal restraint that the IMF and other institutions frequently required of them often involved unacceptable social costs. They maintained that although tariffs had been reduced on items of interest to the western countries, they remained sufficiently high on raw material that had undergone basic processing to discourage the establishment of processing facilities in their countries. In addition, they argued that since they were latecomers to the industrialization process, their exports ought to receive preferential treatment in the markets of the richer countries, that is, in the West. They alleged that the prices of the raw materials that they exported were kept artificially low because of the oligopolistic position of the western countries' buyers. They argued that the fluctuations in the prices that they received for the commodities that they exported placed impossible and unjust burdens on their economies.

While the western states and the less developed countries became increasingly troubled by the functioning of the neoliberal international economic order in the late 1960s and early 1970s, those with centrally planned economies increasingly began to seek greater economic contacts with other countries. The governments of countries with centrally planned economies concluded that greater contacts with other countries would be helpful in their efforts to continue to increase the per capita GNPs of their countries.

As the 1970s developed, the global political economy faced a series of challenges: adapting to relatively diminished U.S. economic strength and an appropriately more modest U.S. role; facilitating the structural adjustments that would be required within western states because of increased international competition and the growing industrialization in the less developed countries; assuring that the beneficial potential of transnational corporations would be maximized and that their harmful potential would be minimized; dealing with the complaints of the less developed countries; and, accommodating the increased interactions between the states with centrally planned economies and other states. Efforts to meet these challenges would inevitably involve changes in the international economic order.

In the early 1970s, the undercurrents of problems with the functioning of the neoliberal international economic order and of criticisms of it burst to the surface. A series of shocks provoked and propelled negotiations concerning the evolution of the international economic order.

In August 1971, President Richard M. Nixon decreed that the U.S. dollar would no longer be convertible into gold, precipitating a search for a monetary system that would not be based so exclusively on the dollar and that would also ease the process of adjusting the value of the dollar.

During the course of 1973, the so-called Multi-Fiber Agreement was negotiated within GATT. This agreement legitimized states (particularly western states, though the issue was phrased in general terms) adopting quantitative restrictions against textile imports (particularly from developing countries, though again the issue was phrased generally). The agreement committed countries that took restrictive action to expand regularly the quantities that could be imported, and it established a mechanism for surveillance of the quantitative restrictions to insure that they complied with stated guidelines. This agreement, which was of limited duration and had to be renegotiated periodically, put the broad issue of structural adjustment on the agenda of international institutions. This issue gained increased salience two years later when the conference of the United Nations Industrial Development Organization, meeting in Lima, called for increasing the share of industrial production in the less developed countries from 7 percent of the world total, where it stood then, to 25 percent by the end of the twentieth century.

At their meeting in Algiers in September 1973, the heads of government of the nonaligned countries launched a call for the creation of a new international economic order (NIEO). At its Sixth Special Session in April 1974, the UN General Assembly endorsed this call by adopting a Declaration and a Programme of Action on the Establishment of a New International Economic Order (UN, 1974).

In the meantime, during the Fall of 1973, the member states of the Organization of Petroleum Exporting Countries (OPEC) decided to quadruple the price that they charged for crude oil, an increase that would affect all oil-importing states regardless of their level of economic development. This action marked the emergence of OPEC as a major force in the world political economy. In addition, in the imbroglio resulting from the resumption of military conflict between the Arab states and Israel, the Arab members of OPEC embargoed petroleum destined for those western states that supported Israel.

Jarred by the jump in the price of petroleum and the embargo, the western states became deeply concerned about the security of their access to the raw materials that were essential to the functioning of their economies and seriously alarmed by the prospect of further price hikes for petroleum and other commodities. The incentives for their being responsive to LDC criticisms of the international economic order suddenly sharply increased. Negotiations between the western states and less developed countries on changes in the international economic order started in the mid-1970s and dragged on throughout the decade. They will surely continue in the 1980s.

The petroleum crisis also raised the spectre of growing shortage of raw

materials. The supply of some materials that are crucial to current production processes is undoubtedly ultimately finite. The issue is whether or not new technologies and materials will be discovered to replace those that are running out in sufficient time to prevent economic slowdowns or collapse. In a more general sense, concern arose about the capacity of the earth to support continued economic growth at the rates that had been achieved in the 1950s and 1960s. Some argue that this would lead to unacceptable environmental degradation. The effect of all of this was to throw into question the very goal of continued economic growth.

Starting in the early 1970s, the states with centrally planned economies greatly expanded their trade with the western countries. For instance, between 1970 and 1975 the USSR's imports from western states grew by more than four times. The exports of states with centrally planned economies, however, did not expand as rapidly, and the further expansion of imports from western countries and possibly even their maintenance at the levels that had been achieved came to be dependent on the West extending credit. To improve their access to credit and to western markets, some of the smaller countries with centrally planned economies moved to join or resume membership in the International Monetary Fund and the General Agreement on Tariffs and Trade, and in 1980, the People's Republic of China joined both the IMF and IBRD. The search for modalities for improving the linkages between the states with centrally planned economies and other states was underway by the end of the 1970s. It was evident, however, that progress would be slow and that results would be achieved only gradually. In addition, increasing economic relations between communist and western states would substantially depend on the level of political conflict between them being relatively low.

Of all of the negotiations that were launched in the 1970s, the greatest progress was made in matters that affected western states more than any other category and that involved only slight modifications of the post-World War II international economic order. After various fruitless attempts to reach agreement on a system that would provide for fixed exchange rates among their currencies, the western countries agreed to settle for a system of managed floating or flexible exchange rates, and the IMF's amended Articles of Agreement took effect in 1979. The new system, however, was severely tested by the varying rates of inflation in the major western countries. Another set of tariff cuts were negotiated in GATT's Tokyo round, which started in 1973 and was completed in 1979. Most importantly, the Tokyo round also succeeded in reaching agreement on efforts to reduce several nontariff barriers to international trade. These agreements were embodied in codes of conduct on such matters as export subsidies and countervailing duties, discrimination against foreign suppliers in foreign procurements, import licensing procedures, customs valuation systems, and health and environmental regulations. Starting in 1974, to facilitate the coordination of their macroeconomic policies, the heads of government of the seven economically most important western states—Canada, the Federal Republic of Germany, France, Italy, Japan, the United Kingdom, and the United States (the GNPs of which account for more than 85 percent of those of the western states) began to hold annual summit conferences. Economic issues were often the exclusive topic for discussion and they always dominated the agenda.

With respect to the complaints of the LDCs, the western states broadly agreed to increase the volume of their aid. The European Economic Community, Japan, and the United States all adopted generalized systems of preferences for imports from LDCs. The western countries agreed to limited measures to stabilize the prices of some commodities. Some western countries were willing to go further to aid LDCs. Some governments of Western European countries wrote off the debts that the poorest LDCs owed to them. The member states of the European Economic Community agreed to a comprehensive system to stabilize the earnings for the commodity exports of those African, Pacific, and Caribbean countries associated with the EEC through the Lomé Agreements. Oil-exporting LDCs were given a greater voice in international institutions, as befitted their increased economic strength.

None of these measures radically altered the character of the neoliberal international economic order. This order continued to be a system basically designed to facilitate the growth of international trade among states with welfare economies. Some of the measures were designed to take account of changed circumstances—the decline of the relative strength of the U.S. economy and the increased volatility of structural changes in a world in which there were few obstacles to trade—while others were designed to facilitate the growth of developing countries and thereby work toward a more egalitarian distribution of the benefits of global economic growth.

Even with these measures, the future of the neoliberal international economic order remained in doubt. Further modifications might be required to preserve it. Or, if the major western states shifted from relatively liberal to more protectionist policies, the system could collapse. It is also conceivable, though unlikely, that the neoliberal international order could be replaced by a completely managed international economic order such as exists among states with centrally planned economies. Growing links with states with centrally planned economies could push the system in this direction, but from the perspective of the early 1980s this seems at best only a distant prospect. There are stronger and more immediate pressures. Furthermore, a number of the states with centrally planned economies appeared to be mov-

ing toward more flexible types of economic planning. Increased links with the world political economy could pull them further in this direction. This too, however, is a distant rather than a near-term prospect.

The difficulties and pain of structural adjustment in the western states give rise to one significant pressure driving western states toward the adoption of protectionist measures. Should they move too far in this direction, it could destroy the monetary and trade regimes established under the IMF and GATT. The continuing dissatisfaction of the LDCs with their role in the international economic order and with the benefits that they receive from it are another source of significant pressure against the neoliberal order. Should the reforms that have been and may be adopted fall too far short of meeting LDC expectations, this group of states could ultimately reject the neoliberal international economic order and search for something different. This book is mainly concerned with these two pressures. They are the immediate challenges to the neoliberal international order. Responses to them will determine the future of the order.

The remainder of the book is divided into four sections. Part II, the next section, deals with broad domestic and international forces propelling change in the global political economy. Part III focuses on issues concerning structural adjustment in western industrialized states. Part IV deals with aspects of the external economic relationships of two major groups of less developed countries, oil-importing states and African states. The final section of the book, Part V, analyzes changes that have occurred in international institutions and regimes and assesses prospects for further changes. The four sections do not predict the future evolution of the international economic order. They do illuminate several of the factors that will be crucially important in shaping its evolution.

NOTES

1. The twenty-four member states of the OECD are: Australia, Austria, Belgium, Canada, Denmark, Federal Republic of Germany, Finland, France, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Sweden, Spain, Switzerland, Turkey, United Kingdom, and United States. Any classification scheme is somewhat arbitrary. Those used here are based on those used by the International Bank for Reconstruction and Development. The IBRD does not, however, include four members of the OECD—Greece, Portugal, Spain, and Turkey—in its category of "industrialized countries," because of their relatively low per capita GNPs.

2. The IBRD places Albania, Bulgaria, Cuba, Czechoslovakia, German Democratic Republic, Hungary, Korea, Mongolia, Poland, Romania, and the USSR in this category.

3. This category includes what the IBRD classifies as low-income countries, middle-income countries, and capital-surplus oil exporters.

4. The members of the CMEA are: Bulgaria, Cuba, Czechoslovakia, German Democratic Republic, Hungary, Mongolia, Mozambique, Poland, Romania, the USSR, and Vietnam.

5. In 1980, the members of the Group of 77 were: Afghanistan, Algeria, Angola, Argentina, Bahamas, Bahrain, Bangladesh, Barbados, Benin, Bhutan, Bolivia, Botswana, Brazil, Burma, Burundi, Capa Verde, Central African Republic, Chad, Chile, Colombia, Comoros, Congo, Costa Rica, Cuba, Cyprus, Democratic Kampuchea, Democratic People's Republic of Korea, Democratic Yemen, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Ethiopia, Fiji, Gabon, Gambia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, India, Indonesia, Iran, Iraq, Ivory Coast, Jamaica, Jordan, Kenya, Kuwait, Lao People's Democratic Republic, Lebanon, Lesotho, Liberia, Libyan Arab Jamahirya, Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Mauritania, Mauritius, Mexico, Morocco, Mozambique, Nepal, Nicaragua, Niger, Nigeria, Oman, Pakistan, Palestine Liberation Organization, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Qatar, Republic of Korea, Romania, Rwanda, Saint Lucia, Samoa, Sao Tome and Principe, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Singapore, Solomon Islands, Somalia, Sri Lanka, St. Vincent and the Grenadines, Sudan, Suriname, Swaziland, Syrian Arab Republic, Thailand, Togo, Tonga, Trinidad and Tobago, Tunisia, Uganda, United Arab Emirates, United Republic of Cameroon, United Republic of Tanzania, Upper Volta, Uruguay, Venezuela, Viet Nam, Yemen, Yugoslavia, Zaire, Zambia, and Zimbabwe.

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