8. Summary and Conclusions

Development and Crisis

8.1 This Report has been written at a time when adverse trends in the world economy combine to constitute a veritable world economic crisis: co-existence of two-digit inflation and high unemployment in the developed market economies, slowdown of economic growth in all parts of the world, and disequilibria in balances of payments of a magnitude scarcely conceivable a decade ago. There is anxious questioning whether we are on the brink of an economic disaster comparable to the Great Depression of the 1930s.

8.2 Our concern has been chiefly with the implications of the world economic crisis for the developing countries of the Third World. The burden of our argument has been that it is always the poor who are most vulnerable. The consequences of inflation and recession, of high oil prices and balance of payments deficits are grave enough for the high-income industrialised countries. They are liable to be catastrophic for the developing countries, and most of all for the poorest and least developed among them.

8.3 At the outset we have thought it necessary to warn that further compression of incomes in developing countries would in many cases mean reduced ability to buy even the minimum necessities of life, especially food, and would therefore accentuate poverty and starvation. The lesson of history is that starvation can be caused not only by a fall in food supply but also by such economic disturbances as balance of payments deficits, unemployment and inflation. The asymmetry between the effects of these problems on the populations of the developed countries and on wide sections of the developing countries adds to the current crisis a perspective that can be ignored only at the cost of a sharp accentuation of poverty and starvation. The urgency of preventing sudden contractions in economic activity within the developing countries must therefore be viewed in more ways than merely in terms of sluggish economic performance.

8.4 Many of the problems in the international economy cannot be solved by nations acting on their own or in small groups. Attempts by individual countries to maximise their gains or minimise their losses in isolation may reduce the welfare of all. Unfortunately, that is the direction in which things are moving. There is now a dangerous tendency among the world's leading nations to seek their own solutions. More urgent even than agreement on particular problems is progress towards re-establishing rules for collective decision-making. In making in this Report a plea for collective action by North and South to cushion the impact of adversity and making a number of specific recommendations, which are summarised in the following paragraphs, we have deliberately avoided setting our sights too high, in the hope that the measures we have proposed will be recognised on all sides as being clearly in the enlightened long-run self-interest of North and South alike.

The Balance of Payments Problem

8.5 The financing of balance of payments deficits of oil-importing developing countries will remain one of the most critical issues, particularly over the next two or three years. There are doubts about the capacity and willingness of official and private sources of external finance to provide these countries with funds on the required scale. It is impossible to be precise about the level of financing needed, but it appears that the net oil-importing developing countries, particularly the low-income countries and those of the middle-income countries which are not in a position to expand their exports of manufactures, will together require amounts in the range of \$5-\$10 billion, beyond those ordinarily likely to be forthcoming from external sources, in 1980 and 1981.

8.6 If these deficits are not financed, there will be a serious compression of real imports and a substantial cutback in the already low growth rates of net oil-importing developing countries. This would have adverse effects not only for developing countries but for the developed countries as well. If global economic activity is to be sustained, there is urgent need to provide additional financing mechanisms to limit exchange rate instability, to facilitate larger flows of commercial funds to non-oil countries, and to increase official sources of financing for those not in a position to borrow from the commercial banks. In particular, to meet immediate needs it should be possible for the World Bank to make fuller use of programme lending and for the IMF to establish a new facility which would lend to the poorer developing countries on first credit tranche conditions.

8.7 The least developed countries and some of the low-income countries facing a serious debt situation would not be able to afford finance even on Third Window terms. For these we recommend that a special programme be established just as soon as possible to provide increased official assistance from bilateral and multilateral sources to meet balance of payments deficits. We also suggest that OPEC consider giving these countries a rebate on oil prices for a limited period, say five years.

8.8 The immediate need for balance of payments support shades into the need to bring about structural adjustments in these economies. Longer-term programme lending will be required in larger amounts for this purpose.

8.9 We strongly recommend that negotiations between interested parties should commence without delay to take the following steps : first, the provision of facilities for reserve diversification by the oil-exporting countries, whether through off-market transactions which would, in effect, create a tier of secondary reserve assets for the participating central banks or through the proposed IMF Substitution Account; second, the on-lending of such funds via the IMF to developing countries on suitable terms for financing their deficits; and third, consideration of possible ways of making this on-lending process the starting point for long-term programme financing. A feasible mechanism might be the negotiation between governments of appropriate guarantee arrangements. This could later be given permanent form by converting the guarantees into the callable capital (in the sense of a system of limited 'joint and several guarantees') of a lending institution.

8.10 It would be possible to give effect to the financing arrangements we have in mind through existing institutions: the World Bank Group on the one hand and an enlarged OPEC Special Fund on the other. This would require a relaxation of the rules under which the World Bank engages in programme lending and would also require a substantial addition to the resources made available to IDA. Alternatively, the financing arrangements might provide the starting point for a new institution such as the World Development Fund proposed by the Brandt Commission.

8.11 The amount which could be eventually raised in the manner suggested above would be very large – figures of up to $20 billion have been proposed for the OPEC Development Agency alone – and it would be reasonable to expect that a fund or funds of this magnitude, involving developed countries as well, would be in a position to widen its range of activities as compared, for example, with a transformed OPEC Special Fund. It would be for consideration whether these activities should be administered by a common agency, the sums raised under guarantees provided by OPEC and the developed countries being pooled, or whether it would be preferable to retain separate agencies working in close collaboration. Whatever is done by OPEC there is an opportunity and a very real need for an initiative by the developed countries in the mutual interest of both developed and developing countries.

Protectionism and Structural Adjustment

8.12 The present trend to increasing protectionism in developed countries constitutes one of the most serious threats to the structural changes in world production and trade that are necessary for continuing growth and development. The new protectionism, which takes the form usually of 'orderly marketing arrangements' and 'voluntary export restraints', is directed largely against labour-intensive products, some of which make up a substantial proportion of exports of developing countries. By slowing down growth of income and structural change in the newly industrialising countries, it adversely affects market prospects and development throughout the Third World. The whole process of economic development is being severely affected by restricted access for many first-stage manufacturing products. In view of the small domestic markets in many developing countries, expanding foreign markets for their products are important to these countries.

8.13 Protectionism adversely affects the economic health of the North as much as the South. Protectionism has been rationalised by the belief that unemployment rates in developed countries are highly sensitive to competition from developing countries, but the evidence does not support this. On the contrary, such trade has tended to have a positive effect on employment in industrialised countries. Any labour displacement is insignificant compared to the effects of technical change or of competition from other industrialised countries. The extra cost of protectionist measures to consumers in industrialised countries has been considerable.

8.14 We support the OECD's emphasis on "the centrality of trade in a mutual interest agenda". Primary responsibility here lies with the North and the most general recipe is the adoption of positive adjustment policies.

8.15 The developing countries should maintain political pressure on the industrialised countries for freer access to their markets. Beyond this, the developing countries should take the maximum advantage of openings for liberalisation presented by the Tokyo Round. They should participate actively in the future management of the new codes and in the material benefits which can be achieved under the improved rules of the codes.

8.16 One of the most serious obstacles to the liberalisation of trade is abuse by the industrialised countries of 'safeguard measures'. Safeguard actions should be permitted only under limited and clearly defined conditions. Such measures should be subject to automatic reductions over time and to multilateral control and surveillance, and be linked with the adoption of positive policies of industrial adjustment.

8.17 Of immediate concern to most developing countries is the incidence of tariff escalation, which deters the location and relocation of feasible processing in raw material exporting developing countries. The reduction of tariff escalation remains of great importance to these countries.

8.18 Another area of concern is protectionism in agricultural products, which remains pervasive and deep-rooted. Little progress on these products was made in the Tokyo Round of multilateral trade negotiations and a more determined effort at liberalisation is needed. Developing countries should join forces with like-minded developed countries in demanding freer agricultural trade. A commitment should be sought for the complete removal by the end of 1981 of all barriers to imports into industrialised countries from developing countries of non-competing agricultural products. For other farm products special arrangements are required to facilitate access of exports from developing countries while longer-term efforts are made to liberalise and restructure agricultural trade.

8.19 The centrally planned economies constitute a large potential market for the exports of developing countries. Centralised decision-making in these countries provides the opportunity for policy decisions which could quickly expand purchases of the exports of developing countries.

8.20 The expected lower growth rates of the industrialised countries in the foreseeable future, as well as the rise of protectionism, make it necessary for developing countries to pay special attention to opportunities for expanding trade among themselves. To realise this potential, provision of the related infrastructural arrangements must be given priority attention and trade policy should be reoriented accordingly. Global and binding trade preference arrangements among developing countries – now possible under GATT – deserve the support of the international community.

8.21 The time is ripe for a comprehensive examination of the whole problem and negotiation of improved access for the products of the developing countries in the markets of the developed countries. The global round of North-South negotiations which is to take place in 1981 provides an opportunity. The framework for such negotiations should be a priority subject at the UN Special Session on Development.

The Inflation Problem

8.22 During the 1970s inflation came increasingly to dominate the international scene, and its acceleration had serious harmful effects on growth. Whatever the causes of this acceleration, its harmful effects have been aggravated by changes in the attitudes of governments, which have become increasingly willing to acquiesce in a slowing down of growth as a means of keeping inflation under control.

8.23 There are no universal or agreed solutions to inflation and the correct mix of policies, monetary and non-monetary, can only be decided by governments on the basis of their local circumstances. But we do wish to emphasise that whatever may be the appropriate mix of policies from a national point of view, due account must be taken of the effects of these policies on other countries. It is important that, in their efforts to counter inflation, governments do not lose sight of their other obligations to one another.

The Energy Issue

8.24 Energy emerged during the 1970s as one of the dominant issues for the remainder of this century. World attention focused primarily on the sharp increases in oil prices in 1973-74 and 1979-80, and on the critical limits to petroleum as a major future source of energy. To the extent that the exploration and development of alternative sources of energy are accelerated as a consequence of this, the global economy will benefit over the long-term.

8.25 There are immense reserves of fossil and nuclear fuels remaining to be proved but in most developing countries their exploration has been held back by lack of adequate investment. In order to promote a fair sharing of the gains between external investors and host countries, we recommend the wider adoption in concession agreements of a 'resource rent tax' principle and other similar arrangements. Among these might be provision of official funds on concessional terms to assist developing countries to survey and assess their countries' energy resource potential before entering into contracts with external investors. A further expansion of the World Bank's current energy programme would be desirable. In the case of energy development we believe the most effective role for official multilateral facilities is to act as a catalyst and in other ways to reassure external investors.

8.26 As regards the development of energy potential, one important aspect is to raise the energy recovery factor through greater employment of advanced technologies (for example secondary and tertiary recovery of oil). No less important in the long-term is the fostering of R & D into new sources of energy, although most of these are unlikely to make a significant contribution to world energy supplies for several decades. Meanwhile, developing countries need greater technical assistance to help them establish or strengthen their present capacity to adapt and use conventional energy technologies, especally to minimise environmental hazards in the use of the only two alternatives to oil and natural gas which are economic on a large-scale, namely coal and nuclear energy.

8.27 Apart from increasing energy supplies, it is necessary to take measures to enhance energy conservation. To influence consumers' energy-using practices an appropriate pricing policy for the consumption of energy, especially of petroleum products, is indispensable and urgent, above all in the major oil-consuming countries. Mandatory fuel standards may be a useful supplement to such a pricing policy.

8.28 There is considerable potential for conserving energy consumption by applying improved technologies for energy conversion, distribution and utilisation, as around two-thirds of the caloric content is lost in these processes. Increasing public awareness of the progress of energy technologies, and of the ability to acquire, absorb and supply them, is crucial to energy conservation. It demands not only greater efforts by national governments but also increased international cooperation to establish or strengthen energy training facilities and R & D institutions in developing countries.

8.29 There is need for a global energy policy. Its centre-piece must be an accommodation between the oil exporting and importing countries, involving commitments by both. The major oil-exporting countries should not reduce supplies arbitrarily and should set real prices of crude petroleum in such a way as to avoid unpredictable and sudden, sharp increases. The major oil-importing countries should hold oil-imports to ceilings below those recently agreed by IEA member countries, set and monitor strict conservation standards on the consumption of energy in its main end-uses, with penalties where standards are not reached, and set energy prices to final consumers at levels which give incentives for increased energy production as well as encourage greater economy in its use. But we wish to emphasise that such a global energy policy can only be part of an agreement on a broad range of issues in the North-South dialogue.

Other Development Problems

8.30 From the large North-South agenda, we have selected five other topics for special and immediate attention.

(a) Official Development Assistance

8.31 The urgency of increasing levels of Official Development Assistance (ODA) has never been greater than now. The balance of payments problems of many developing countries are more acute, prospects for growth of their exports are threatened by rising protectionism, and their capacity to finance even minimum requirements of essential imports has deteriorated sharply. At the beginning of the decade of the 1970s, the developed countries committed themselves to an ODA target of 0.7 per cent of their GNP; at the end of the decade actual transfers stood at one-half of this figure – about 0.35 per cent of GNP. A greater effort must be made in the 1980s to reach the target to which developed countries are already committed.

8.32 We do not believe that the present concern about inflation is in itself a plausible justification for delaying action on stepping-up flows of ODA. While we appreciate the importance that many governments attach to the reduction of government expenditures, governments do continue to spend increasing amounts on purposes that they regard as important and to which they attach priority. A deepening of recession would strengthen the case for larger unilateral transfers to the developing countries.

8.33 The basic causes of poverty cannot be removed without structural transformation and sustained economic growth, requiring high rates of investment not only in small-scale projects in agricultural and rural sectors, but also in large-scale economic and social infrastructure and industrial projects. Aid must continue to facilitate the adoption and financing of such multi-faceted programmes for the removal of the basic causes of poverty. But a programme which specifically focuses on the poorest countries and on poverty groups and regions in other developing countries within the framework of a comprehensive development strategy would, in our view, offer the best prospect of evoking a positive response in developed countries for an immediate substantial increase in ODA.

(b) Food

8.34 In spite of improvements in the overall world food situation since the 1973-74 food crisis, the world food security situation remains precarious. Very little progress has been made in establishing a dependable system of world food security. It is important to maintain the momentum of efforts to increase food production. Since the food problem is centred in the poorer developing countries, external capital flows and particularly concessional capital flows are of importance. As regards food distribution, effort has to be concentrated not only on increasing supplies but also on ensuring for all sufficient command over food supplies. This can be facilitated through a redistribution of income and of productive assets (for example land) and by policies which assure vulnerable sections of adequate entitlements.

8.35 Besides measures to increase food production, through improvement in agricultural technology, water control and management, and supplies of fertiliser and other inputs, a dependable system of international food security must include reasonably stable grain prices, expanded storage capacity in developing countries, food aid, and international arrangements to ensure that supplies are maintained to the poorest countries in periods of international shortage and local harvest failure.

(c) The Commodity Problem

8.36 Considering the importance of commodity exports for some of the poorest countries, a world-wide programme to stabilise commodity markets remains a test of the will of the international community to create an effective framework for self-sustained economic development in the developing countries.

8.37 The Common Fund should be given full support by governments. It should be provided with the means to carry out effectively the agreed price stabilisation objectives. In the establishment of International Commodity Agreements (ICAs), attention should be given to simplicity and ease of administration. For instance, more use could be made of variable export taxes, adopted on a coordinated basis. There should be energetic efforts to establish the 10 core ICAs by 1985, the mid-point of the Third Development Decade. Steps should be taken to ensure that the Second Window reaches an effective level of operation. Its purpose could not be met only by voluntary contributions. But the industrialised countries should ensure at least that the target of $280 million of voluntary contributions is reached.

8.38 There are significant gaps in export earnings stabilisation. If measures to fill these gaps cannot be incorporated in the Compensatory Financing Facility of the IMF, serious consideration should be given to establishing a separate but complementary facility.

8.39 There should be a greater involvement of developing countries in the processing and distribution of their commodities. This requires the international agencies to play a larger role in the provision of finance, and greater attention to be paid to the removal of illiberal trade policies and of restrictive business practices.

(d) Manufacturing

8.40 Manufacturing has a crucial role to play in the economic development of most developing countries. Freer access to the markets of the developed countries is therefore vital. The Lima target of a 25 per cent share for developing countries in world production of manufactured goods by the year 2000 presents a challenge and calls for a sustained effort to secure increased investment flows and technological transfers to these countries, the elimination of restrictive trading practices of transnational corporations and the improvement of trade and adjustment policies in industrialised countries. To this end, industrialised countries could identify and encourage the movement of resources out of the particular industries in which developing countries have greater comparative advantage. The Commonwealth developed countries could take a lead by setting a definite time-frame for such a programme within the Commonwealth on a bilateral or multilateral basis.

(e) Disarmament and Development

8.41 The diversion of enormous resources to military purposes throughout the world is a serious constraint on rates of economic growth. A purposeful pursuit of conditions for political and economic justice everywhere in the world could create a more secure international atmosphere, and help to divert scarce and valuable world resources from destructive uses to the satisfaction of urgent human needs.

In Conclusion

8.42 We are convinced that many of the problems of the international economy cannot be solved by nations acting on their own or in small groups. The present tendency of the world's leading nations to seek solutions individually, with too little reference to the global dimension, is a cause of serious concern. The interdependence of the world economy is now so strong that there would be a good case for collective action even in times of prosperity and growth; in the crisis situation now prevailing the case for joint action is compelling.

8.43 Change is inevitable. The issue, as we see it, is whether the structural changes and adjustments necessary to solve the current economic crisis and the problems of development will be accompanied by economic confusion and chaos, with each nation struggling in isolation to maximise its own gain, or whether they can be achieved in harmony on the basis of a global consensus for the mutual benefit of all nations.