



FOCUS

When Willy Brandt and an eminent group of statesmen and thinkers from the developed and developing world began, in 1977, to consider what was wrong with global economic and political relations and what could be done to dramatically alter them, few could have predicted the impact of their work. Their 1980 report, *North South: A Programme for Survival*, sparked an unprecedented international interest in the North-South dialogue, but sadly not in some world capitals.

As the surge of optimism about the prospects for a real start to negotiations between North and South began to fade in the early eighties, and as the economies of the North staggered under the double blow of recession and monetarism, many leaders of the Socialist International began to consider the need to reexamine basic issues and plan new approaches to development, democracy and the world economy.

Following the Cancun summit, and the mounting opposition to change from some governments in the North, the SI in September 1981 set up a small review body to examine North-South options following that inconclusive meeting. That follow-up group reported a year later, proposing a number of mechanisms to relaunch serious global dialogue and to break the stalemate in economic development.

An SI economic policy conference held in Vienna in September 1982 brought together economists, politicians and trade unionists from many parts of the world. It stimulated the recognition that a broad and longer-range socialist view of the world economy was increasingly important.

It is not surprising, then, that the 1983 SI Congress had as its theme, 'The World In Crisis: The Socialist Response'. The congress set up the SI Committee on Economic Policy.

In November 1983 the committee, open to all the member parties of the SI, drew up a plan of action, dividing the enormous range of subject areas into three subgroups and calling on each to seek the advice of outside experts, focussing on restructuring, reflation and redistribution.

Throughout 1984, its work expanded rapidly and meetings were held on eight separate occasions, with separate sectoral drafting groups meeting independently. The final draft report, *Global Challenge*, was presented to the Bureau of the SI in June 1985 and published in September.

As the centrepiece of this Focus on the state of the world economy we present the introduction and the main recommendations of *Global Challenge*.

Sharing resources: Tractor hired by peasant cooperative, Latacunga, Ecuador



Breaking the North-South stalemate

In their introduction to *Global Challenge*, **MICHAEL MANLEY**, chair of the SI Committee on Economic Policy, and **WILLY BRANDT**, president of the Socialist International, present the scope of the report and its call for a recovery of spending, a restructuring of trade and finance and a redistribution of resources.

It is widely recognised that the prevailing economic crisis is the worst since the 1930s, when mass unemployment spawned nationalism, fascism and the seeds of global war. However, the world is now caught in a crisis which, in many ways, is unprecedented and worse than that of the thirties.

For more than a decade, the world economy has suffered low real growth, periodic contractions of trade, record levels of unemployment and relentless poverty, most devastatingly manifest in famine in Africa. The crisis pervades all aspects of international economic and political relations, it embraces all

countries and all societies. Economic policy has been paralysed by a paucity of bold, innovative thinking. Fragmentation has overwhelmed global consensus for even gradual reform.

The development of the South has been blocked in most countries by a combination of structural factors resulting in





Community links: Shawl embroidery in Nepal, tyre factory for domestic use in Ghana ...

Caroline Penn

global deflation and crippling debt. For a few years, some countries in the South resisted the current crisis better than some in the North. But this is no longer the case. The situation in the South is worsening, especially for the lesser and least developed countries. Drought and disease alone are claiming millions of victims, especially children, each year. Hundreds of millions of people are undernourished, underhoused, undereducated and underemployed.

A global dualism divides both North and South. The urban elites in the South have more in common with their affluent counterparts in the North than with fellow citizens in their own countries. But even in the industrialised nations social polarisation and economic dualism are dividing communities and countries.

In the North, following a quarter of a century of full employment, there are now at least thirty-five million people out of work. Behind them are millions more individuals who do not register as unemployed because they would not be entitled to benefits. Low pay used to be concentrated in traditional sectors, but is now widespread as high unemployment lowers wage bargaining power.

In North and South alike, social programmes are in crisis. By holding the rate of increase, then imposing a freeze, many governments have cut spending on housing, health, education, social security provision and unemployment benefits.

Recently, capital flows from the North have been exceeded by outflows from the South. This drain of resources has also resulted from adverse terms of trade and, in recent years, has been compounded by staggering debt repayment, making it more difficult to ensure development for the poorest people in the poorest countries. Since 1980, the crisis for developing countries has been aggravated by the increase in the value of the dollar. Now, perversely, it may be aggravated by its decline, as dollar devaluation increases the US price of imports from the Third World. But high interest rates have pulled capital towards the richest country in the world and pushed developing countries deeper into crisis, with debt

servicing, in some cases, exceeding their total export earnings. Basic-needs programmes designed to bring minimal well-being to millions below the poverty line are now handicapped or halted by the global economic and financial crisis.

Governments in both North and South have been forced on to the defensive. Pressured, in many cases, by the international Monetary Fund, each country in trade deficit has sought to reduce imports and cut costs to increase competitiveness. At a national level, in many cases, such deflation has resulted in unemployment rather than in redeployment of labour; destruction rather than restructuring of the economy; and social regress rather than progress. At the international level, such policies have resulted in 'beggar-my-neighbour' deflation. Since one country's imports are other countries' exports, cutting imports in a number of countries contracts potential world trade, income and welfare. Such a strategy will not regenerate the North or the South, but simply reinforce defensive and isolationist pressures. For either global dialogue or development such 'beggar-my-neighbour' deflation is

suicidal. We advocate the need for reflation in a context of planned cooperation between like-minded governments, so that 'better-my-neighbour' may replace 'beggar-my-neighbour', to the betterment of us all.

Deflation is not only unviable for the world as a whole; it is also unequal and unjust in its impact on different social groups

and classes. In some countries in the South, it threatens a fragile progress towards democracy. Little regard is paid by agencies such as the IMF to the real adjustment capacity of many of the lesser and least developed countries. Conditions requiring 'export-led' growth in some less developed countries have imposed not only scarcity but starvation on their own peoples. Sudan, shortly before the famine of 1985, had increased its food exports threefold in an effort to gain foreign exchange and relieve its debt burden.

Is there an international alternative? *Global Challenge* affirms that there is, and confirms it with a range of analysis and supporting evidence. It both defends and extends the

'Until the North begins the process of resolving its own crisis, there are limited prospects for genuinely global development.'

reasoning of the two reports of the Independent Commission on International Development Issues, *North-South* and *Common Crisis*, and the crucial role of interdependence and potential mutual interest between North and South.

The deepening of the global crisis has created poverty and hopelessness, and the concept of monetarism has been a failure. But to challenge the current dominance of monetarism and militarism, we need to promote a strategy for both development and disarmament. Such a strategy must include economic recovery for development, a restructuring of the present imbalance of power in global institutions, finance and trade, and a redistribution of resources both between the North and towards the South. The relation between redistribution and recovery is crucial, for as the post-war period demonstrates, growth is not necessarily accompanied by a just distribution.

In these current doctrines, advocated especially by the Reagan administration, this has been translated into the theory of 'trickle-down' effects, whereby the poor of the North and South alike are supposed to benefit from an incentive-led growth through inequality. In reality, such crumbs from the global table fall beyond the reach of most of the world's poor. Our case, by contrast, is that the old post-war model of growth and recovery is finished. Technical progress is now, in most cases, promoting technical unemployment. Gains from unequal efficiency between unequal partners spread the benefits of progress to too few in the North at the expense of too many in the South. By contrast, we need a new model of development, based on the recovery of growth through redistribution, rather than redistribution from growth. Without an extension of global demand and a redistribution of expenditure and resources between industry and agriculture, social groups and classes, and regions and areas of the world economy, there is no prospect for global recovery and development.

At the same time, we recognise that development through such a model is difficult to achieve by single governments acting in isolation. Therefore, we call for cooperation between 'like-minded' governments in the North and South to ensure that growth through redistribution is viable because it proceeds simultaneously on a broad front.

Reflation and redistribution will only be possible if accompanied by a fundamental restructuring of the ownership and traditional pattern of resource allocation. This will open the way to a genuinely international division of labour while freeing the South from the grip of debilitating fluctuations in commodity prices.

The *Global Challenge* report, therefore, represents a pragmatic alternative to the prominence of monetarist and *laissez-faire* market philosophies in the world economy. It is the product of a constructive dialogue between politicians from the North and South, both in government and in opposition. This explains why the policy recommendations of this report are neither short-term orientated compromises, nor an expression of a specific regional interest. Its particular value is that it reflects the full range of the mutual interests of the North and South. Our objective is to achieve a new model of development based on social accumulation and redistribution, rather than on growth through inequality.

Monetarism is part fact, part faith and, in large part, fantasy. The fact is that deflation has now imposed beggar-my-



... carpentry training centre in Britain ...

neighbour pauperisation on many of the world's economies. The faith lies in the assumption that if the world tightens its money supply today, market forces alone can deliver a better and brighter tomorrow. Equally deceptive, but more tragic, is the identification of political freedom with unrestrained

market forces, when many of the advocates of monetarism's showcase economies in the Third World have been among the most disappointing in their disregard for human rights and political freedoms. One also notes how quickly these advocates desert their own principles when some sector of production is threatened by competition from abroad.

We assert the mutual interests of all peoples in disarmament, blocked at present, in both North and South, by global militarisation. We recognise the rights of sovereign states to self-defence, but deplore a world arms budget which is over a third of the GDP of third-world countries, and which – if the 'star wars' programme is fulfilled – could easily exceed half their GDP. We also question a concept of global security based solely on arming and re-arming the superpowers of the North. This is not only because both North and South alike could be condemned to a 'nuclear winter' and to the end of life-support systems as we know them through the penetration of the atmosphere by a fraction of the nuclear weapons already deployed by the superpowers; it also reflects the insecurity, in the present world disorder, of those who cannot be sure of food, clothing, shelter, health, education or welfare for themselves or their families. No new world order can be built on such insecure foundations. By contrast, we maintain that for a tenth of what the world now spends on arms each year, it could begin the process of global recovery and achieve a decade of new development for North and South alike.

Furthermore, the energy crisis (which is far from over and is not just an oil crisis) and the various ecological threats which have been largely neglected for a long time are two additional problems which extend across borders and beyond political systems. We are sure that the World Commission on Environment and Development will provide important additional

'We need a new model of development, based on the recovery of growth through redistribution, rather than redistribution from growth.'



... installing water pipes by self-help groups in Colombia

suggestions in this area and beyond the scope of this report.

We also challenge the domination of the world economy by a handful of giant transnational corporations. Already, some two hundred such companies command a third of the world's total output of goods and services – massively more than the countries of the Third World. These companies dominate the finance, trade and payments of the First and Third World alike. Over half such transnationals are based in five countries of the North – the United States, the United Kingdom, Germany, France and Japan. The governments of these countries are crucial to both the funding and the policies of the IMF and the World Bank. They must assert and share accountability over their own transnationals in the South – as well as admit change in the policies of the Fund and the Bank – if we are to break the stalemate in global development.

If governments in the North were willing to recognise their mutual interests with the South, the global challenge could focus on how, rather than whether, to promote global development. But such a consensus has not emerged in the North. As a result, lip service is paid – as at Cancun – to global priorities, but there is little follow-through in specific programmes for recovery. Certainly, until the North begins the process of resolving its own crisis, there are limited prospects for genuinely global development.

Further, while recovery in the North is critical, this is not sufficient. The specific policy proposals for changes in the structure and management of the world economy, which have been called the New International Economic Order (NIEO), must be progressively implemented if there is to be any real prospect of self-sustaining global development. In addition, the countries of the South have their own special responsibility in this process. This must centre on the creation of new capacity for production and a strengthening of patterns of trade through cooperation between countries of the South.

The North should not fear such a process. Rather, it should welcome and seek to facilitate South-South cooperation as an indispensable element in global development.

The multilateral framework which could bridge the gap between North and South has not been forged. This could alter with changes in administrations or attitudes in key countries

in the North. The debt crisis may prompt some of them to reassess their relations with the South. We appeal to all the participants in the negotiations to raise their sights from short-term national self-interest, to develop the longer-term mutual interest implied by joint development of North and South, and to come prepared to examine proposals in this report and those that will emerge in the discussions, in a spirit of openness and cooperation.

For the first time, there are indications that those in the political and economic leadership of Eastern Europe may come to acknowledge openly the principle of the interdependence of the global economy, of the existence of a global economic crisis and indeed of a global economic system – ideas which, less than ten years ago, were dismissed.

It is in the interest of all peoples and governments that public institutions for cooperation should be strengthened. This involves not only the European Community (EC), the European Free Trade Association (EFTA), and the Council for Mutual Economic Assistance (CMEA, or COMECON), but also the UN institutions. The indications of an interest in dialogue by COMECON with Western Europe and the possibility of introducing the North-South agenda into that dialogue may have major implications for the global economy. This is encouraging and to be welcomed. Before the end of the century, it may well be possible to achieve genuinely global consensus for development.

Our main proposal is for a multilateral solution to the North-South problem. But to achieve it we need to be realistic in recognising the veto on global development imposed to date by some of the developed countries. This is the essence of our argument on breaking the current stalemate by developing the mutual interest of like-minded countries, regions and institutions in North and South alike. The policy recommendations of this report are part of the bridge-building which can span the present gulf between the rich and poor, the developed and less developed, of the global economy.

Global Challenge does not attempt to detail how national internal policies might be developed. This must be determined in light of the internal dynamics and objective situations which face different countries of North and South. The focus has been on policy which is international in character, and on economic cooperation between countries of the North, countries of the South, and between North and South. Therefore the report deals with the reform of international institutions together with types of governmental action which can be undertaken by like-minded governments cooperating internationally.

Our answer to militarism, monetarism and the transnational trend of trade and payments is clear. We need recovery of global spending, a restructuring of finance and trade, and a major redistribution of resources if we are to make possible a process of self-reinforcing, sustained social development into the twenty-first century. We do not claim that such a new global strategy is easy to achieve. Certainly, it will require substantial international cooperation, born of our awareness of our essential interdependence.

At present, it is blocked by some of the most powerful vested interests in the world economy. We pose a counter-challenge, not as antagonists, but as protagonists, convinced that the option for development, democracy and disarmament is one to which many peoples and governments are now ready to respond. We have no doubt that the alternative, through the persistence of present policies, is a world sinking into increasing division between narrowing wealth and spreading misery; a world too unjust to be acceptable and too unstable to be safe.

From crisis to cooperation

In its five chapters, *Global Challenge* puts forward a wide range of proposals for feasible and radical action for the next decade to overcome the world economic crisis as it has developed in the mid-eighties. These are its main conclusions and recommendations.

Global crisis

1 The current economic crisis is both cyclical and structural. But it is not simply a repetition of the 1930s. It also reflects profound changes in the modern economy which signal the imperative of a new model of development.

2 Inflation is a symptom, rather than simply the cause, of the current crisis. Hyper-inflation in some countries of the South has not been matched by similar inflation in the North. Moreover, the post-war era of full employment demonstrated that low inflation is compatible with progressive social objectives.

3 Efforts by leading governments to reduce import demand and competitors' exports have deepened the global economic crisis. This policy, combined with subsidies and incentives to national enterprise to compete on a shrinking world market, increases the fiscal crisis of the state and reduces public revenues, spending and demand.

4 Post-keynesian policies are required, but friedmanite and monetarist influence, combined with the market philosophies of the new right, have seriously damaged the prospects of global development and imposed the cost of crisis on the world's poor.

5 International agencies such as the International Monetary Fund (IMF) have contributed to 'beggar-my-neighbour' deflation of the global economy. However, the IMF acts on behalf of the Group of Ten industrialised countries, and especially the top five powers – the US, the UK, France, Federal Germany and Japan – where most of the top two hundred transnational companies, which currently dominate global payments and trade, are based.

6 Any recovery of the global economy must be based, in part, on monetary reform. It is important to recognise the original Bretton Woods represented only a partial success for Keynes's arguments for a new international order. Global reform of finance and institutions must go beyond Keynes.

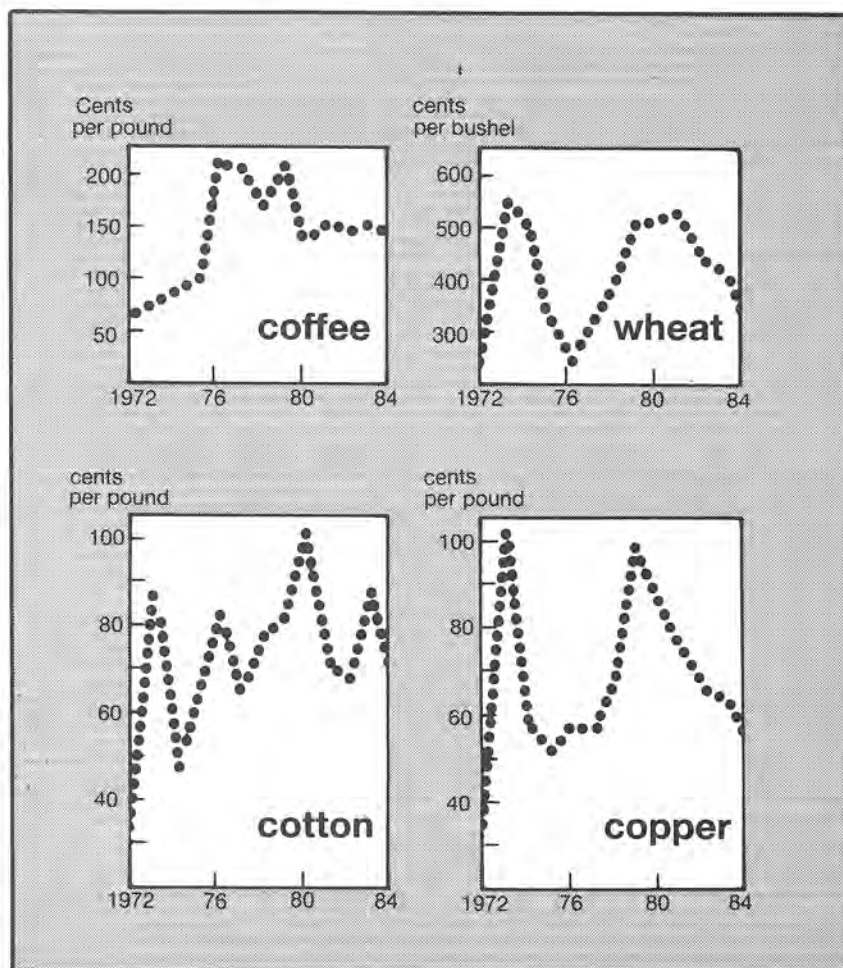
Recovery and development

1 The geographical border between rich and poor has so far been described as North-South. But a structural dualism is becoming manifest

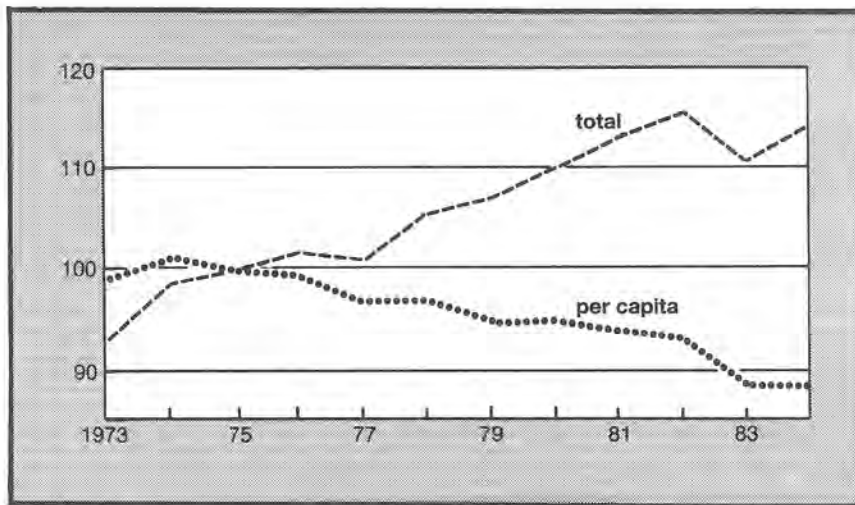
in all countries – the rich of North and South have stronger economic links with each other than with the poor in their own countries. The transnational trend of decision-making strengthens this inequality. Not only recovery but also the redistribution and restructuring of global resources and global power relations is essential to avoid perpetuating a dual global economy of employed and unemployed, fed and underfed, housed and underhoused, hopeful and hopeless, all over the world.

2 An emergency programme for the weakest countries and peoples is a global imperative. But there is no sign that the international community is willing to agree on effective

Price fluctuations of commodities
End-of-year prices in US\$



Source: UNCTAD



Source: FAO

Food production in Sub-Saharan Africa
Index, 1974-76 = 100

measures for the poorest of the poor, despite the focus of the world on the horror of famine in recent months.

3 The refusal of key European governments to join the US in expansionary budget policies has been a major factor in the failure of the US recovery of the early 1980s to spread to the rest of the industrialised world. Other factors include protectionist policies in the North and mismanagement in the South.

4 Global recovery requires a restructuring of trade relationships which must include Third World exporters' main commodities, through measures for price stabilisation, price and income support and compensatory finance. Such restructuring must also make possible a shift in the imbalance of power between transnational companies and public authorities in developing countries, including measures by which First World governments take more responsibility for the operation of their own transnationals in the Third World.

5 A rescheduling of current debt implies a restructuring of the power relations between debtor and creditor countries, making possible a range of mutual concessions short of the sanction of debt default.

6 A change in international trading relationships implies either a restructuring of present General Agreement on Tariffs and Trade (GATT) arrangements, or complementary systems for mutual and multilateral trade between different regions of the world economy. Redistribution is crucial to recovery if a short-run upturn in the global economy is not to run into the limits of demand determined by prevailing levels of income distribution.

7 The share of income spent by the poor is higher than that of the rich, whose consumption needs have, in many cases, already been met, reinforcing the argument for shifting resources to the poorest people in the poorest countries.

8 The North must accept that until it begins the process of resolving its own crisis, there can be no sustained development for the South.

9 Better-my-neighbour recovery involves several countries increasing domestic demand and imports and increasing their own exports –

resulting in a mutual increase in trade. It provides inputs for export trade and spreads earnings in the exporting country. This demand-pull stimulates exports of third-world commodities, increasing use of investment capacity, tax revenues and employment. More jobs make restructuring easier.

10 The circumstances of national economies are too diverse to allow recommendation of a specific package of measures for all to achieve a sustainable rate of real growth. If growth is generated by using the well-established methods – expanding public expenditure, cutting taxes or increasing the rate of credit creation – the economic and social benefits of recovery can be distributed through negotiated agreements on the social gains from recovery.

Increased use of investment capacity can reduce the 'unit cost' of enterprises or the cost per unit of output, thereby decreasing inflationary pressure, provided either the market mechanism or public policy ensures that such lowered costs are reflected in lower prices.

11 There are probably only three basic approaches to recovery:

(a) *Unilateral recovery* by a single country, 'going it alone' in trying to spend its way out of slump, is rarely successful, even when world trade is expanding. Unilateral deflation benefits other countries – by increasing their exports – but can impose debilitating costs on the country directly concerned.

(b) *Cumulative recovery* by some countries, joined over the medium-to-long term by other groups of countries, can be successful where the effects of deflation are widened and contribute to sustaining expansion itself. Several European economies could promote a significant recovery in the North with sizeable gains for the exports of third-world countries.

(c) *General recovery* by northern economies could add some US\$100 billion a year to global net spending – creating 1½ to 2 million jobs in Europe each year, and raising its growth of total production and real income by around 3 percent. Such growth rates, over a decade, could create, sustain or defend some 10 million jobs in the United States (depending on the degree of active or passive US participation in the recovery programme) and more than 20 million jobs elsewhere in Europe and the rest of the OECD. It could add between a fifth and a quarter to the GDP of the developing countries over five years, and an increase of between a half and two thirds over a new development decade.

12 Some OECD countries, not least Britain and Federal Germany, should take joint action to stimulate expansion by following less restrictive financial policies.

13 A double standard of IMF lending is that since its restraint of domestic money supply cuts first and foremost on public spending, its policies have denied the South the mixed-economy programmes on housing, health, education and social services from which all the

main northern members of the Fund so markedly benefit.

Restructuring trade and finance

1 Some protectionist measures in less developed countries are justified, in both the short and longer term, on the basis of the infant- or adolescent-industry argument. The problem for global structural adjustment arises only when protectionist measures, instead of supporting expansion and transition to new structures of production, tend to postpone adjustment due to short-term political pressures and bureaucratic complacency.

2 Third-world countries should be encouraged to establish joint currency arrangements or regional reserve currencies, similar in principle to that being attempted in practice through the European monetary system. The global extension of Special Drawing Rights should include making available a tranche of such SDRs to support regional reserve currencies.

3 Regional economic integration may prove one of the most practical means of constructing a new international economic order. The following policy measures should also be established as longer-term objectives for the global economy:

- To build on the principles of regional multi-lateral trade and payments as stages to a global multilateralism.

- To achieve a transparency in trade and payments through new methods of accounting, especially concerning the inter-subsidiary trade of transnational companies in different countries.

- To accept that 'voluntary' export restraints and 'orderly' marketing arrangements should be matched by mutual degrees of import trade and, in the longer term, by establishing a multi-lateral safeguard system.

- To accept that measures adopted for import restraint should be taken only when a causal link has been determined between imports and structural market disruption, to be established by the importing country or group of countries.

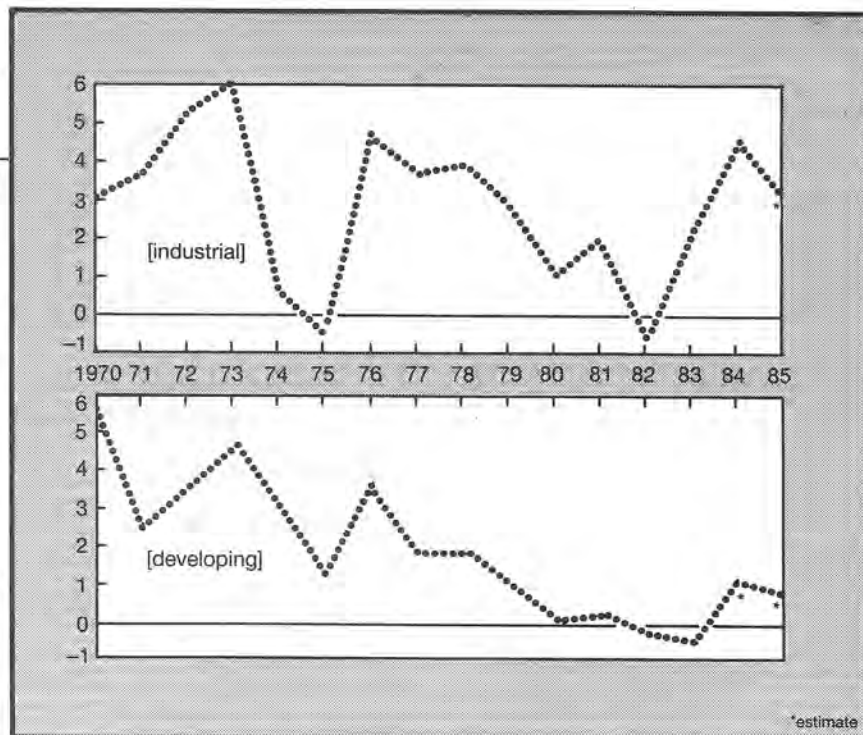
- To recognise that such measures are more acceptable the less developed the countries concerned.

- To agree that preferences for the more advanced developing countries should not be phased out unilaterally.

- To implement a standstill on agricultural protectionism and, in due course, phase out subsidies to agricultural production where these compete with imports from third-world countries.

- To liberalise the imports of textiles and clothing within the framework of the Multi-Fibre Arrangement, with preference for the less and least developed countries; and, over the longer term, not to renew this agreement.

4 The implementation of the agreement on the Common Fund should be speeded up and more international commodity agreements under this scheme negotiated. The vicious circle of non-ratification is self-sustaining. It makes it



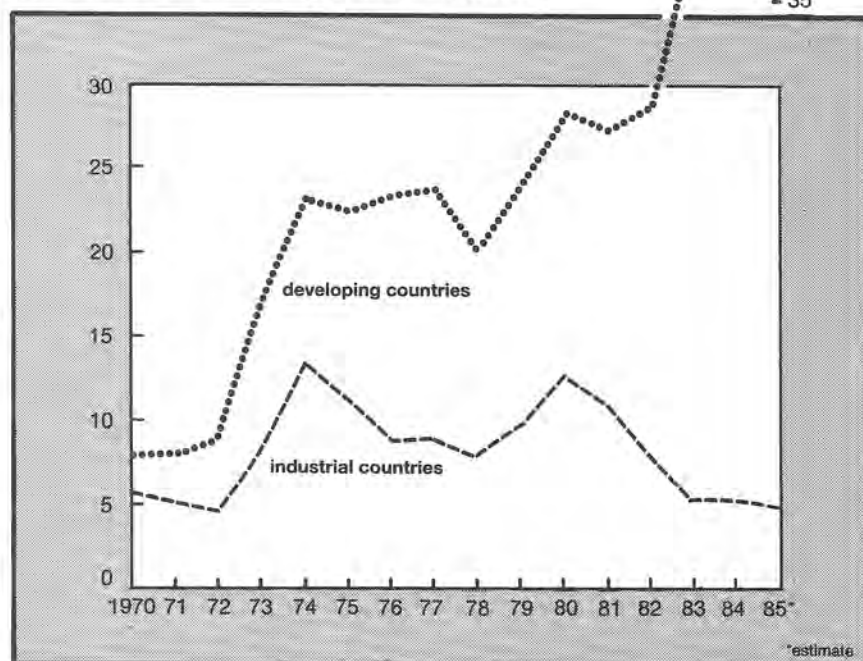
less attractive to ratify the Common Fund Agreement which, in turn, is a disincentive to improving existing agreements or negotiating new arrangements.

5 New instruments for commodity stabilisation should be introduced. The two most important are: first, strengthening the position of the exporting countries in the field of processing commodities in order to increase the employment and added value retained in developing countries; second, improving schemes of compensatory finance of export-earnings shortfalls. The latter could be achieved by integrating STABEX and the IMF Compensatory Finance Facility (CFF) in order to make them global and more grant-orientated than today.

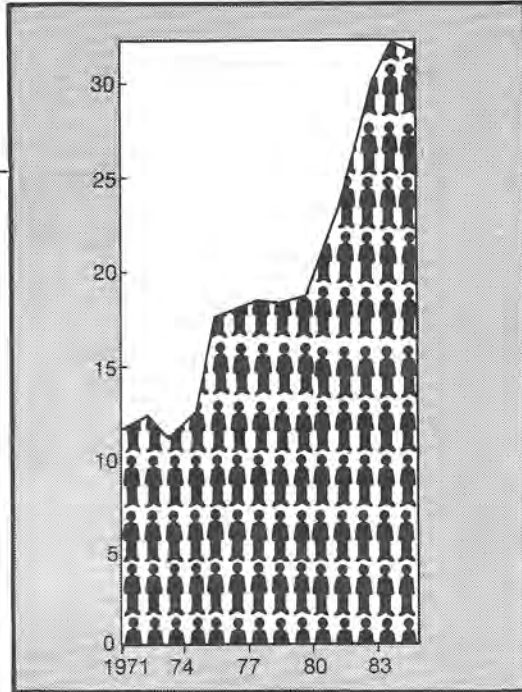
An entirely new scheme, such as was agreed for analysis at UNCTAD VI in Belgrade in 1983, could either replace existing schemes or be put into operation alongside the CFF. A new scheme could be commodity related and could

Gross domestic product
Change in percent of real GDP (industrial countries) and real per capita GDP (developing countries)

Consumer prices
Average annual change in percent



Unemployment in industrial countries
In millions, all OECD countries



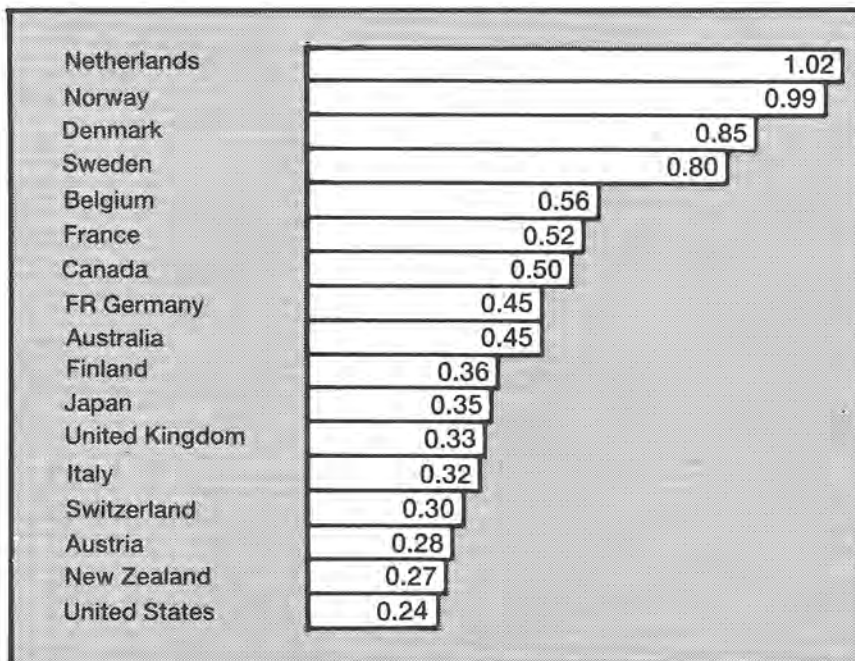
finance commodity policies (such as supply-adjustment measures) to stabilise markets.

6 Technology transfer should be subject to conditions for transnational companies' operations in less developed countries, jointly agreed with their governments and trade union organisations. This conditionality is a just counterpart of that imposed by the IMF and others on third-world governments. It could include:

- Codes of conduct agreed by governments of the First and Third World for the transfer of technology to developing countries.
- Training programmes to reduce the dependence of such third-world countries on first-world management, including both technical and senior administrative cadres.
- Public-enterprise joint ventures where industrialised countries have established expertise in basic industry and public utilities of critical interest to development.
- Development agreements relating aid by industrialised governments to transnationals in

Official development assistance (ODA)

In percent of GNP, all DAC countries, 1984



third-world countries which embody conditions for technology transfer acceptable to local governments.

- Promotion of commodity producers' associations, both to influence conditions of supply and to research new applications for traditional commodities.

7 A global response to the international debt crisis must be:

- Multilateral, including both South and North, rather than simply defending the interests of northern banks alone.
- Long term, and development and growth oriented.
- Concessional, recognising the structural problems of third-world countries.
- Integrated, relating debt restructuring to the restructuring of trade in such a way as to increase the earning capacity of the debtor countries.

In specific terms, such a global response to the debt crisis should include:

- Longer-term arrangements between debtor countries, creditor governments, international organisations and private creditors.
- New public control over the private international banking system, in exchange for support to private banks as a result of debt relief measures taken by governments.

8 There should be a major restructuring and rescheduling of debt by a range of means, including:

- Capitalising interest rates, preferably by putting up fresh money at fixed interest rates to enable debtors to repay interest charges.
- Reducing interest rates, in effect, by deferring part of the debt repayment.
- Fixing interest rates at concessionary levels for developing countries.
- Reducing the high spreads charged by the banks to developing-country borrowers and sharing the funding risk between creditors and debtors by reducing variation in the interest rates.
- Splitting interest payments into slices payable in foreign exchange, in local currency and through capitalisation of interest.
- Putting a ceiling on interest payments not higher than 20 percent of the export earnings of debtor countries, and capitalising the rest.
- Substantively extending maturities and 'grace' periods to at least fifteen and five years respectively.
- A moratorium on debt servicing (for instance, for three to five years).
- Converting dollar loans into other currencies with lower interest rates.
- Establishing an international debt re-financing facility.
- Cancelling the debts of the poorest countries and some of the debts of other countries; this would be preferable to conversion into equity, which would imply a loss of control over national resources.
- A very substantive increase in concessional finance, including official development assistance and the introduction of official guarantees

Source: OECD

Source: OECD

of international lending to developing countries.

- An increase in the resources available to International Development Association (IDA), the 'soft-loans' agency of the World Bank, and the World Bank.

- A substantial increase in Special Drawing Rights (SDRs).

9 From this set of proposals we specifically recommend seven:

- Conversion into grants of the debts of the poorest countries especially in SubSaharan Africa.

- Rescheduling and stretching repayment periods for the remaining debts, particularly those of Latin America and the Caribbean.

- Setting a ceiling at concessionary levels on interest rates for developing countries.

- Limiting repayment demands to a maximum of 20 percent of export earnings.

- Meeting the 0.7 percent of GNP target for official development assistance, which would greatly benefit the South and create more than two million jobs in the North.

- A complementary increase in IDA funding, or action by like-minded countries to support World Bank projects such as the Africa Fund.

- A five-fold increase over five years in SDRs to US\$150 billion, focussed on lending to the lesser and least developed countries.

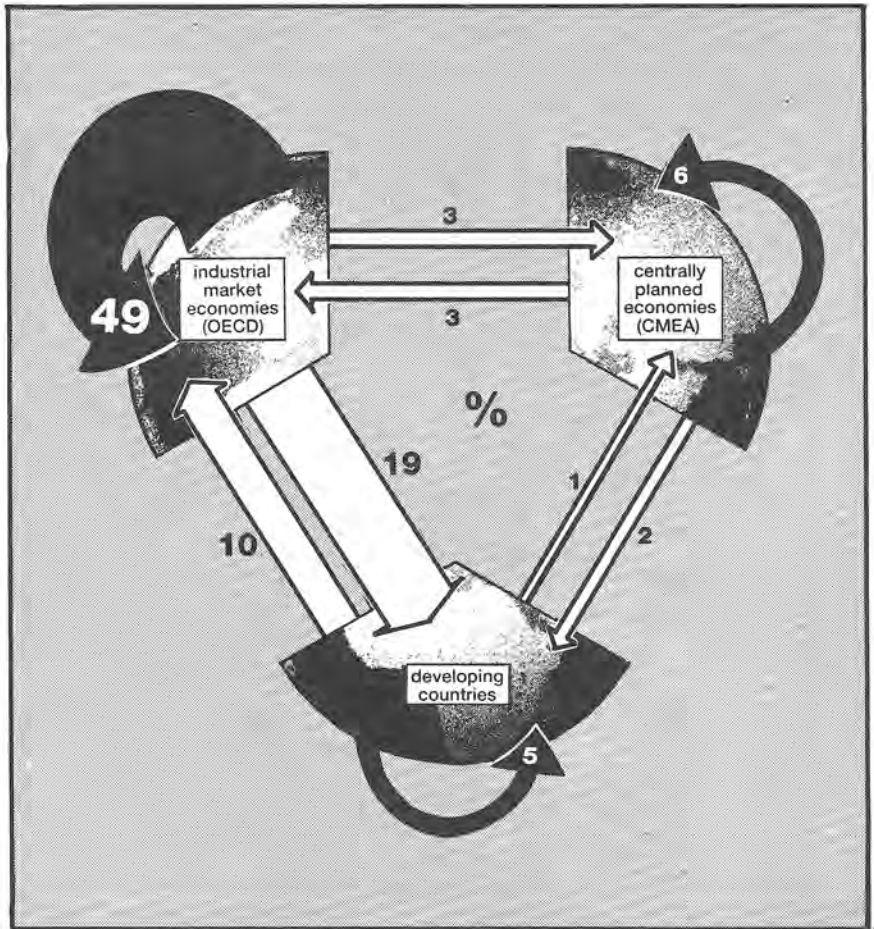
10 This injection of SDRs should be allocated so that the poor receive a greater share than current rules would permit. Their use by the South for trade and development purposes, as has been advocated by organisations such as UNCTAD and the Group of Twenty-Four in the IMF, would immediately benefit the countries of the Third World. But they would also benefit the North by releasing resources to purchase imports of capital goods and new technology.

11 Governments and financial institutions of the industrialised world should urgently meet in conference with their counterparts in the developing countries. They should agree on a comprehensive analysis of the crisis and seek urgent and specific solutions.

12 Transnational corporations in the global and national economy are largely unaccountable. Organisations such as the UN, the OECD and the EC have established codes of conduct, but with limited success.

We call for concerted joint international action to establish a more transparent system of accounting within the transnational corporations, plus governmental agreements on taxation levels and trade-union and social rights for those employed by or affected by the activities of transnational subsidiaries in the Third World.

13 Despite the concerted attack from the right, we remain convinced of the value of planning agreements in both industrialised and developing countries. The fact that there are very few governments of the left or centre in the North without a commitment to some form of



Source: UNCTAD

planning mechanism is evidence of their broadly accepted utility.

14 New development agreements, extending the principle of planning agreements and involving trade unions and governments, could also form the basis for public-sector joint ventures between North and South.

Redistribution and development

1 The experience of the North has demonstrated that, despite the conventional programme of the IMF, the factors determining social accumulation are more heavily influenced by the role of the state and the planning mechanism than by market factors.

2 The international community, especially large donor countries and regional and multilateral donor agencies, must commit themselves to a new approach to aid, focussed on rural and agricultural development, processing and production, programme as well as project assistance, and most importantly, on 'quality' aid which matches the policy framework and objectives of the recipients.

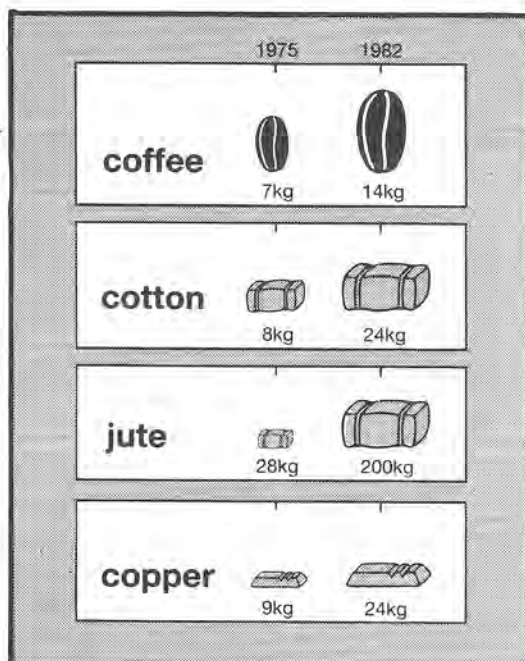
3 Part of this reconception of aid must involve significant focus on the role of women, in society, in the family – and as paid, rather than unpaid labour. We must shift resources from export cash-crop production to food, allocate new resources for social infrastructure and give

Trade flows

In percent of total world trade (excl. oil), latest available figures

Loss of purchasing power of developing countries

Amount of export of commodity required to finance import of one barrel of oil



special access to training, technology and credit. Progressive donors should assist those governments in the South making such efforts.

4 The drought, disease and death which has afflicted the peoples of Africa has still not been met with sufficient response by the North. Local food production and self-sufficiency are necessary, but are not the only requirements for genuine development.

5 We recognise the need to raise food prices and improve incentives to farmers in Africa as part of this process, but the IMF and others should also recognise that governments in many African countries cannot raise food prices for farmers significantly without provoking social protest in the cities. Secondly, major resources have been preempted by production of cash crops. Thirdly, key crops have been hit by the declining export prices and rising input costs for fuel and fertilizers. Finally, only a fraction of the value of key commodities accrues to the producers; the rest goes to the handful of transnational companies which dominate global commodity trade.

6 Experience in the Third World has shown the potential for increased food production. But this has required the technical capacity of high-yield seeds and new forms of social organisation and state support, from production and processing through to marketing and distribution. Aid for the poorest farmers in Africa and elsewhere in the Third World may have to provide as long term as aid to the world's richest farmers in Europe and the United States.

7 Donor countries must meet the UN's Substantial New Programme of Action for the poorest countries. If stagnation and decline is not to be the fate of the least developed countries, immediate measures should include:

- Assistance by the IDA for the poorest countries only.
- New resources for the UN's International Fund for Agricultural Development (IFAD).
- Less concessionary development assistance to middle-income rather than least developed countries.
- Cancellation of the aid (ODA) debt of the

least developed countries.

- Guaranteeing, at fixed and concessionary prices, adequate food aid and energy to the least developed countries for a period of ten years, while aiding domestic policies to increase domestic food and energy production.

- Guaranteeing adequate international support through financial flows and trade policies, in order to enhance the export capacities of the least developed countries.

8 The challenges of distribution and democracy are directly linked. This means redistribution to reinforce democracy in both North and South. Redistribution is on the agenda of many parties of the democratic left, in both developed and less developed countries. It starts from an unequal base. Yet in many respects it shares a common strategy – qualitative development versus mere quantitative growth, with the common aim of both social welfare and social justice.

9 Qualitative development implies: new ends of redistribution and new means by which institutions can be transformed and created; new mechanisms for social negotiation of change; and decentralised decision-making and planning.

10 A new approach to development will involve more equitable distribution of the benefits and costs of technological change. In many countries, in both North and South, this will mean work-sharing, the planned reduction of working hours or days, or a shorter working week, or fewer working months in a year or working years in a lifetime.

11 The distribution of both income and jobs must take a central place in the new processes of economic democracy in the developed and developing worlds. This implies:

- More equal personal incomes as an incentive to increased spending and recovered output of basic consumer goods.
- Increased social income, through extension of public services in the economy.
- Ensuring that such public services include basic needs such as housing, health, education, social welfare, community services and transport.
- Offsetting and avoiding damage to the global environment.

12 Environmental devastation is not only a disease of the industrialised world. The poorest countries and the poorest peoples of those countries are its chief victims in the South. These countries must assume greater responsibility for their own environment. But the developed countries must also help them with such programmes, not least because they have contributed to environmental damage in the South. To support the developing countries' own efforts, the following measures must be taken by the industrialised countries:

- Institutional and other forms of aid to prepare and assist strategies aiming to support locally adopted programmes to contain population growth and ensure the protection of natural resources.

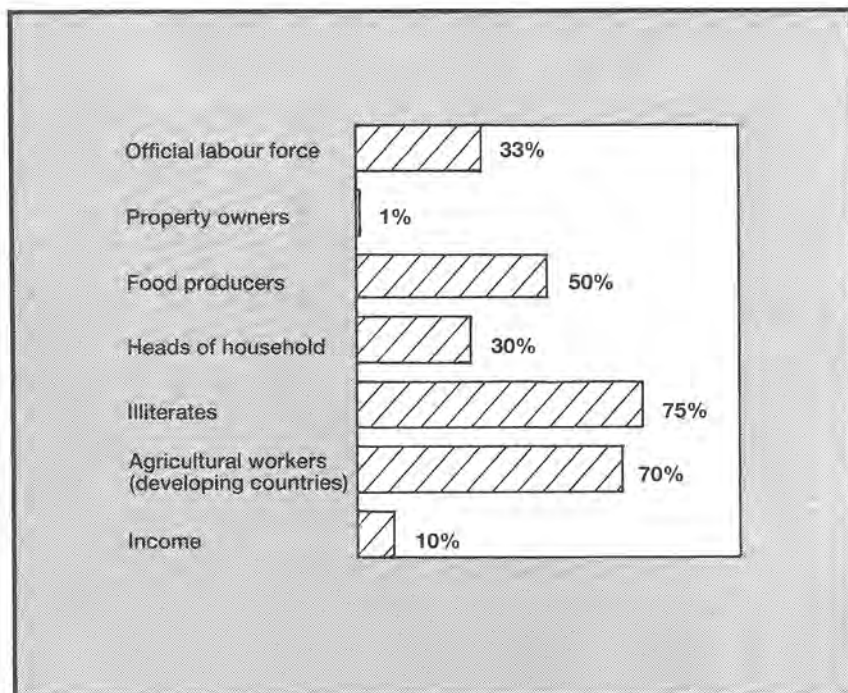
- Financial aid to fulfil more stringent standards in environmental protection, in conjunction with bilateral and multilateral promotion of investment directly helping to improve environmental conditions in the developing countries.
- Commitment by companies of the industrialised countries to abide by adequate environmental and safety standards in the Third World, and renunciation of products of processes prohibited in the industrialised countries, if necessary with legal provisions to this effect enforced by northern governments concerning the operations of their transnationals in southern countries.
- Implementation of the UN Code of Conduct and specific environmental clauses by individual countries or groups of like-minded countries.
- Assistance for agricultural policies which aim to ensure lasting improvement in food production, while reducing the use of toxic chemicals such as some pesticides.
- Assistance to promote energy saving and waste recycling in both production and consumption.

Global challenge

1 Only a truly global system of effective multilateral institutions, complementing co-ordinated national and regional action, can fully realise the momentum for the recovery, restructuring and redistribution of global resources which is the thesis of this report. It is our view that multilateralism should extend, not limit, national sovereignty and capacity.

2 The Bretton Woods system was originally conceived as promoting trade and employment, rather than simply monetary stability. This pledge is part of Article 1 of the IMF's enabling agreement. But the IMF today has distorted its original mandate and in so doing has distorted real needs. Equally important, the world of the late 1940s bears little relation to current realities. The global economy has increasingly been privatised, subjected to massive debts, and become the victim of stagnant financial flows for development. Governments and the UN have argued – for some years now – that the world needs a new Bretton Woods. Such a new international system should:

- Forestall deflationary domestic policies in major countries.
- Sustain development deficits over the long term for the least developed countries, and write off their current debt.
- Create a symmetrical balance-of-payments adjustment process, spreading the burden between surplus and deficit countries.
- Fairly represent western, eastern and southern countries.
- Recognise government intervention, both in international finance and in trade in goods and services.
- Increase international liquidity, relating global credit arrangements (including SDRs) to



global development capacity rather than to short-term balance-of-payments adjustment.

- Ensure a predictable and growing flow of capital and finance consistent with development needs.
- Restructure the funding of long-term debt, both through rescheduling and through write-off for the least developed countries.
- Foster more stable exchange rates, rather than impose self-cancelling devaluation on many of the world's economies.
- Promote more stable and lower international interest rates through joint governmental intervention in financial markets.
- Base global liquidity on a central international reserve currency, the value of which cannot be decisively influenced by the economic policy of one country alone, such as the United States.

3 Institutional reform should not delay policy changes in the existing agencies. The shocks suffered by the world trading system in the early 1980s clearly illustrated the need for major changes. An international trade system serving both North and South should:

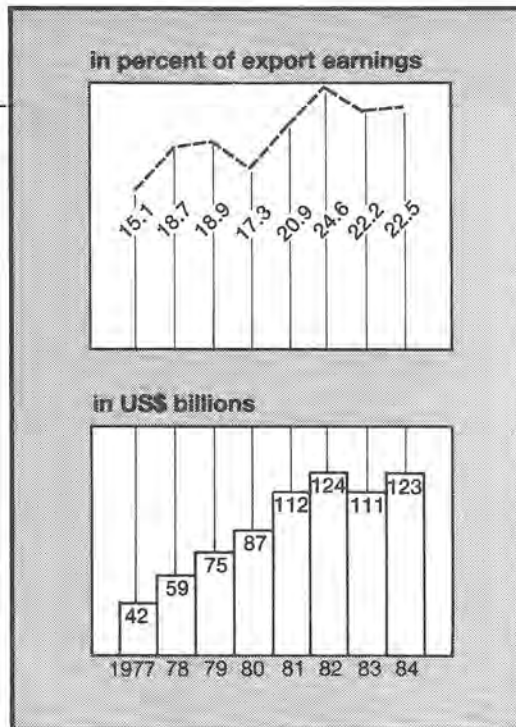
- Be non-discriminatory between northern countries.
- Be dynamic, allowing Third World countries to participate in the gains from trade.
- Allow southern countries to adopt interim measures for planned trade, to develop their own industrial base and to pursue policies for social accumulation and basic needs.
- Provide security of access to northern markets.
- Include safeguard arrangements for effective appeal against abuse of planned or managed trade.
- Foster structural adjustment through mutually reinforcing programmes for recovery of spending, trade and payments.

The role of women

Representation in percent of worldwide total

Source: Leger Sivad, Women... a world survey

Debt service of developing countries



- Meet the needs of weaker trading partners through long-term credits to support their development deficits.
- Meet the needs not only of trade in manufactures, but also of trade in agricultural products and services, through price stabilisation agreements.
- Provide an adequate framework in both accounting for and accountability of transnational companies, including joint development agreements.
- Be multilateral, while admitting the role of regional trading areas or common markets in both northern and southern countries.

4 The increasing effect of the world's non-governmental and voluntary organisations – demonstrated vividly in famine relief in Africa – has received praise, but little more, from many governments. At present, official assistance to non-governmental agencies (NGOs) is minuscule in relation to overall aid budgets. It should be the goal of most governments to double, treble or quadruple such assistance.

5 It must be acknowledged that the United States – and several other members of the Group of Ten – have deliberately blocked progress in the multilateral system, on development issues, on trading reform and on new programmes, agencies and initiatives. The US has not only threatened to withdraw from other agencies following its abandonment of its commitments to UNESCO, but has refused to negotiate on a range of issues in the international community. We welcome a dialogue with those in the United States who are attempting to pose realistic international policy alternatives for a new administration.

6 A new role for Europe should include a clear alignment with the Third World and commitment to a new development agenda, with or without the United States. This would be a European Community which had broken through the paralysis in its decision-making. But it can also be achieved through joint action

with some EC or OECD countries, such as Austria and the Nordic countries.

7 Europe must declare itself in favour of realignment towards the South, including a change in its policies towards apartheid. Some steps are being taken to further isolate South Africa, but slowly, and often reluctantly. Given the dramatic gains made recently against apartheid, progressively tougher economic sanctions and increased assistance to the liberation struggle, the Front-Line States and the victims of apartheid is now more urgent than ever.

8 Joint action between *like-minded* governments in both North and South presents a creative alternative to the current stalemate in wider multilateral cooperation. An extended and more coordinated economic cooperation between like-minded countries in the North and in the South would imply an harmonised effort by the northern participants to the benefit of the South. One approach worthy of consideration is the 'mini-NIEO' concept under study by the Nordic countries. The northern partners would have to agree on more or less identical objectives for their development assistance policy; the southern partners would cooperate among themselves at a regional or interregional level.

9 Greater South-South cooperation is an essential precondition to recovery and redistribution for many countries of the Third World. Closer mutual trade and financial links could also yield indirect benefits in the form of increased bargaining strength relative to governments and enterprises in the developed countries. Thus, any developing country engaged in bilateral trade negotiations would have trading alternatives if blocked by multilateral institutions such as the World Bank and the IMF. These options should be complemented by policy measures in the fields of transport and communications and technology. Many such cooperative measures require support from developed countries, which in turn stand to gain from such a strategy.

10 Such objectives would be aided by a Third World secretariat, which could:

- Monitor developments in the economies of southern countries.
- Identify opportunities for cooperative joint action on a regional or institutional basis.
- Prepare analyses and position papers as the basis for joint negotiation.
- Present such southern perspectives and arguments in negotiation with northern governments.
- Assist in the funding of necessary technical and advisory expertise on both a South-South and a North-South basis.
- Promote common policies towards transnational companies operating in southern countries.
- Prepare joint programmes or plans which recognise the mutual viability and joint financial needs of southern relative to northern, countries and interests.

- Service and, where necessary, summon meetings of the Group of Seventy-Seven and non-aligned countries.

- Relate such southern interests to the agenda of northern countries, to countervail their dominance of the agenda of the IMF and World Bank.

11 European governments should promote monetary cooperation in European Currency Units (ECUs) with those third-world governments which at present are starved of credit finance for developments. In due course, such ECU-denominated credit could provide a counterweight to the dollar in lending to southern countries.

12 Latin America and the Caribbean has suffered significantly as a result of the global crisis, and yet has managed to establish democratic government in most countries of the region. Those who champion the growth of the Asian Quartet of newly industrialising countries – not noted for their internal democracy – should recognise this important democratic progress. The industrialised democracies should feel a special responsibility to ensure that democracy and development are realisable goals.

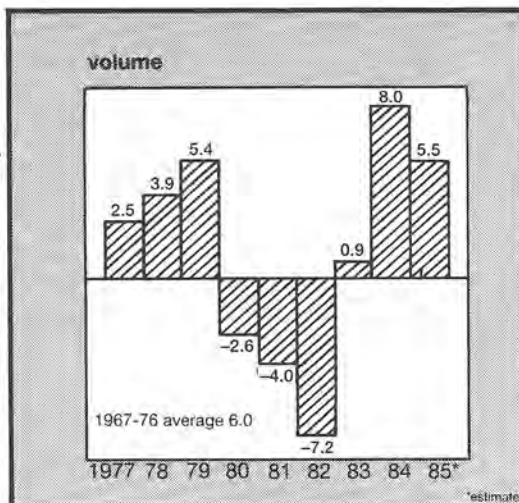
13 Efforts to launch joint action between the regional organisations of Latin America and the Caribbean, and the other African, Caribbean and Pacific (ACP) states associated with the EC, and the Commonwealth should receive wide support.

14 The participation of OPEC and other countries in short-term 'hot-money' markets is of little long-term benefit to the client or the host country. Surpluses placed in a more selective manner in support of these European currencies, which otherwise may be threatened through domestic recovery programmes, would reinforce the recovery, which in turn, would help stabilise or sustain feasible OPEC price increases.

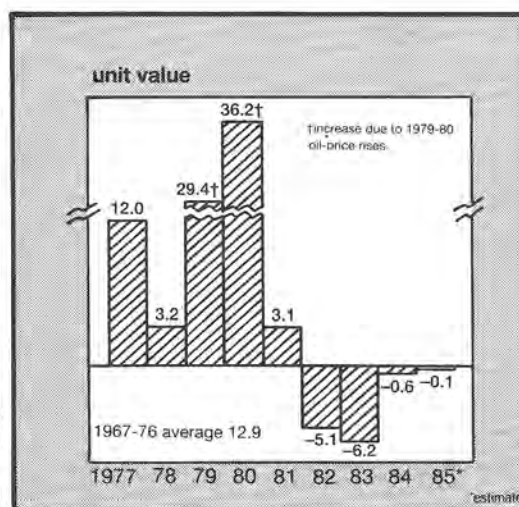
15 Development bonds with varying interest rates and maturity dates issued by those European economies pursuing recovery programmes would give an option to OPEC countries to place volatile hot money with unpredictable real earnings into the cooler and more guaranteed long-term bond market. Such bonds could be indexed in a package of currencies not exclusively those of the countries pursuing joint recovery programmes.

16 It is in the interest of both peoples and governments in Western and Eastern Europe alike that the public institutions for economic cooperation should be strengthened. This concerns not only the EC, EFTA and COMECON, but also those UN institutions which already embrace Eastern and Western Europe alike, such as the Economic Commission for Europe in Geneva.

The recent approach made by COMECON to the Commission of the EC, with a view to new dialogue and mutual economic development, is encouraging and may lead to a



Exports of developing countries
Changes in percent



reduction of trade barriers between Eastern and Western Europe. Indications of interest in wider North-South issues by the governments of Eastern Europe and the other centrally planned economies are to be encouraged, as is the readiness on the part of China to adopt a broader international role.

17 The linkages between rising arms spending and falling resources for development are now well known. Unless some shift in resources is achieved, both arms spending and development goals will escape political control.

18 We propose a commitment to an additional spending of \$100 billion a year to make possible a new decade of recovery and development. This is 10 percent of current global arms spending. We are not suggesting a naive formula by which the world would decrease its arms spending each year by a tenth in favour of spending for development. But we do advocate that the target for a global budget to recover income and trade, and restructure and redistribute resources, should, over ten years, be at least equivalent to current global arms spending. We should be spending a trillion dollars a year more than now on additional resources to sustain global development and transform the current global crisis.

19 This report presents some of the elements of a response to the global challenge of recovery and redistribution, development, disarmament and democracy. Lasting solutions require both equity and efficiency, not only for reasons of ethics but for global survival.