A NEW FRAMEWORK FOR DEVELOPMENT COOPERATION

Keith Griffin and Terry McKinley, September 1993

Table of Contents

Introduction

This report contains proposals for a new framework for development cooperation. The Cold War is over and we have an opportunity to replace the ideological competition that dominated international relations for nearly half a century by a new ethos of solidarity and cooperation. The world is no longer divided between East and West and we must not let it become divided again along a new fault line separating North from South. Instead of viewing international relations in terms of conflicts between states we suggest that the problems of the globe should be seen in the round, as problems confronting all of us, and as problems we face as people and not as citizens of states. Indeed the actions of states frequently are the source of global problems and adequate solutions to those problems may require that the actions of states be constrained by rules delineating acceptable international behaviour.

The framework we propose seeks whenever possible to be based on the mutual interests of people. States as such have no interests; only people or groups of people have interests, and group interests increasingly transcend national boundaries. Thus in thinking about a framework for development cooperation, we have tried to keep people sharply in focus. We look for positive sum games where all players benefit or, failing that, for solutions where everyone potentially could gain if compensation were paid to the losers. Of course even if everyone gains there might still be conflicts over the division of gains, but at least such conflicts can in principle be resolved without making anyone absolutely worse off. This approach leads inevitably to giving high priority to policies which accelerate growth or which result in greater efficiency in the use of the world's resources. Often this means extending the market mechanism to new areas (the migration of labour, exports from poor countries) or devising market-like mechanisms to cope with new problems (global environmental issues, the disposal of nuclear weapons). Growth and liberalization thus are themes which run throughout the report. We accept that policies which promote mutual interests do not necessarily also promote human development or reduce global poverty or contribute to other desired objectives. Something more is likely to be needed, namely, policies which seek to achieve justice or equity.

It is for this reason that an equally prominent theme of this report is equity: a need to provide a global safety net to combat severe poverty in the poorest countries and a need for the rich to compensate the poor when discriminatory actions of the former injure those who are weak and vulnerable. These ideas of equity, solidarity, community are a commonplace in nation states and we propose to extend them to all people, everywhere. Hunger, disease, misery are becoming no more acceptable "abroad" than they are at "home" and, indeed, as our horizons widen the distinction between home and abroad becomes blurred. It is no longer an oxymoron to speak of a global community. Similarly, just as discrimination within a state is not tolerated, and those who discriminate are liable for damages, so too discrimination by states against others should not be permissible and those who discriminate should be required to pay compensation.

The report is divided into five sections. In section 1 we present a new framework for development assistance. We recommend that the existing system be replaced by a new institution, a reformed UNDP, that would be responsible for transferring grants from rich countries to poor. The transfer would be financed by a progressive income tax on the GNP of rich countries and it would be allocated to developing countries in inverse proportion to their per capita income. The new system would thus be the foundation for a global safety net.

Section 2 contains an outline of two innovative proposals that are intended to establish a coherent framework for extra-market financial transactions between countries. The first proposal creates a mechanism to facilitate payments by one country to another for services rendered. These services occur outside the market mechanism--they are not part of a network of international commerce--and originate out of a process of bilateral or multilateral negotiation. They are mutually beneficial activities which by their nature cannot be mediated by markets. Examples include payments for environmental services, payments for the control of narcotic drugs and payments for the control of contagious disease.

The second proposal creates a mechanism to facilitate compensation for damages when one country inflicts economic injury on another. Compensation can be thought of as fines payable by countries which depart from internationally agreed rules of good conduct. We present three examples to illustrate how the principle might work: brain drain, the international migration of low-skilled labour and trade restrictions on exports from poor countries. These fines are in a sense voluntary since they can be avoided by refraining from engaging in objectionable behaviour.

In section 3 we turn our attention to increasing technological capabilities in developing countries. One issue we address is intellectual property rights and the granting of monopoly privileges to those who add to the world's stock of knowledge. We challenge patent rights, arguing that they are inefficient, inequitable and unnecessary, and suggest that because of the public good nature of knowledge, more research should be publicly funded and placed in the public domain where it would be accessible to everyone. A second issue we address is strategies by developing countries to increase their technological capabilities. Here we argue that developing countries would be well advised to give priority to building a broad base of knowledge about science and technology among the population and creating a skilled labour force that is well trained in scientific subjects. We favour giving a lower priority to the alternative approach of creating a small elite of world class scientists and engineers working in expensively equipped laboratories.

Section 4 contains an attempt to construct a global balance sheet of economic relations between rich and poor countries. We consider aid flows, direct foreign investment, portfolio investment, commercial lending and the migration of labour. Official development assistance, despite its many faults, does accrue disproportionately to the poorest of the developing countries whether expressed as aid received per capita or as a fraction of GDP. Thus aid helps to reduce inequality in the distribution of global income.

Within ODA as a whole, however, technical assistance is allocated disproportionately to the less poor developing countries. The net resource transfer associated with flows of private capital is negative for all groups of developing countries, particularly for the relatively more prosperous developing countries. This negative resource transfer is offset by workers remittances in the case of developing countries in the middle income range, so that overall they benefit marginally from the operation of international capital and labour markets. But in the case of countries at the extremities--the very poor and the relatively more prosperous countries--the net resource transfer, even after taking remittances into account, is negative and hence market forces accentuate global income inequalities.

Finally, in section 5, we present a new institutional framework for development cooperation. Our present structures are weak and fragmented; they reflect the priorities of a departed era; they are not capable of resolving the problems faced by our global community. We recommend the transformation of the IMF into a World Central Bank; the merging of the functions of GATT and UNCTAD into an International Trade Organization; the conversion of ECOSOC into an Economic Security Council; and the restructuring of UNDP into UNDP with three functions, namely, administering the scheme for a global safety net, organizing the compensation programme and designing and then running the scheme to effect payments for services rendered. Finally, we recommend that the World Bank and the multilateral regional development banks be closed since their services would no longer be necessary.