GLOBAL GOVERNANCE FOR HUMAN DEVELOPMENT

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1. From Keynes To The Next Millennium

This essay looks at the world as a whole and examines what innovations are needed in order to enable all members of humankind to play their full role in society and to develop and exercise their talents. Our global society presents great opportunities, but also many obstacles, to the improvement of the human condition. International interdependence, about which so much is written and talked these days, can amount to the opening up of new worlds, but it can also mean the infliction of suffering by one nation on others. The state has become too big for the small things, and too small for the big things. The small things call for delegation downwards, to the local level, to participatory organisations, to decentralised decision-making, and to the market. The big things call for delegation upwards, for co-ordination between national policies or for transnational institutions. In examining the need for institutional reforms, the concern will always be their impact on the lives of individual human beings, their families, their neighbourhoods and their communities.

This century's greatest and most influential economist, John Maynard Keynes, had anticipated many of our global problems and had proposed solutions during and after

World War II. Although he had shown little interest in what today would be called development studies and developing countries (with the exception of Indian currency reform), his imaginative treatment of international issues has still important implications for the poor people living in the developing countries. He was prescient about the need to stabilise the prices of primary products; the need to put pressure on surplus countries as well as deficit countries; the need to move towards a world currency; and the need for surveillance and co-ordination of international economic policies.

He had witnessed the great depression of the 1930s, with mass unemployment, disastrous deflation, and international beggar-my-neighbour policies. He was determined that the generation that had fought the war should never have to return to poverty and unemployment. Full employment and the welfare state were written on the banner of the Keynesian consensus that led in 1944 to the negotiations at BrettonWoods.

Keynes foresaw clearly the deflationary pressures on the world economy generated by countries amassing large current account surpluses in their balances of payments. The deficit countries have to restrict demand, production and employment, and there is no corresponding pressure on the surplus countries to expand activity or to lend or invest abroad. In conditions of underemployment or full employment, the surplus countries are the enemies of the global economy, because they export unemployment to the rest of the world. The deficit countries are benefactors, because they export employment. Half a century ago the threat of exporting unemployment arose from the USA although it was masked by US generosity in the Marshall Plan. In the 70s the threat came from the capital-exporting OPEC countries, and in the 80s from Japan and, until the unification, from Germany. The economic dynamism of some of these countries, reflected in their export surpluses, can spell suffering for others, unless these surpluses are converted into long-term loans or investments on acceptable terms, or into grants.

Keynes also foresaw the need for an international authority to supervise trade, to prevent single governments trying to snatch advantages by protecting their jobs at the expense of others, and in the longer run at their own expense. He predicted the need to prevent the violent fluctuations in the prices of exported primary commodities, that wreak havoc with the incomes and livelihoods of small farmers in developing countries and cause inflation and unemployment in the importing industrial countries. The International Trade Organisation was intended to be the third arm -- in addition to the World Bank and the International Monetary Fund -- to bring order into the world economy. The principles of this world order were, in accordance with the prevailing American economic philosophy, and not entirely to Keynes's liking, on-discrimination in trade with few barriers, currency convertibility with fixed exchange rates, and commodity price stabilisation. Energy, and specifically petroleum, multinational corporations, direct private foreign investment, trade between public enterprises, and trade in services were issues that arose later, but did not yet play an important part in the design of the post-war order.

The Havana Charter attempted to set up an International Trade Organisation (ITO). Agreement was reached in March 1948. In Keynes's view it was the "indispensable third pillar," in addition to the Bank and Fund. But the US Senate rejected it. It contained some of the provisions for which the developing countries asked in the 1970s, thirty years later. Among these were commodity price stabilisation, new preferences, the permission to impose quantitative restrictions in some conditions, and provision for trading with public enterprises. There was a chapter on employment, development and restrictive business practices. All this was too much for American business interests. Limited trade objectives (confined to trade in manufactured products) were implemented through the General Agreement on Tariffs and Trade (GATT), which had been set up in 1947 as a provisional agreement, until the anticipated, but never realised, ratification of the ITO.

If the international community had succeeded in establishing and maintaining the ITO as envisaged by Keynes, commodity prices would have been stabilised. The price of oil would not have at first fallen, and then, in 1973, and again in 1979, been precipitously raised. The terms of trade of the debtor countries would not have sharply deteriorated in the 80s, and the debt crisis would have been avoided.

Keynes also saw the need for a world currency -- he called it Bancor. It was to be initially fixed in terms of thirty primary commodities (of which gold was one), which would stabilise the average prices of commodities, and with them the international medium of exchange and the store of value. He proposed an International Clearing Union with powers that represented a step towards a global Central Bank. Excessive accumulation of both deficits (use of quotas) and surpluses was to be penalised by an interest charge. If Keynes's plan had been implemented, debtor countries would have been treated similarly to IMF practice, except that greater emphasis would have been put on trade restrictions, and less on fiscal and monetary deflation (expenditure reduction). The big difference would have been that pressures would also have been put on countries with surpluses to reduce them. They would have been taxed at the rate of one per cent per month on their surpluses and required to adopt measures to expand their economies.

Keynes opposed free private international capital movements, and there was a provision that countries with excessive deficits should be forced to restrict the outflow of capital. Although this would have deprived the developing countries of some funds, especially from the Eurocurrency market, it would also have avoided the debt crisis. Most of Keynes's innovative proposals sank without a trace.

At the same time Keynes did not favour central planning or detailed government regulation. He believed that once government responsibility for full employment was accepted, and certain rules were laid down for international relations, markets are best suited to allocate resources efficiently. Once the nature of the environment is set right, the free play of economic forces is needed for the realisation of the full potentialities of production.

Keynes, like many of his more orthodox teachers and contemporaries, did not think that free markets distributed incomes and wealth fairly. He favoured the provision of social services for the poor and unemployed. He predicted with approval the "euthanasia of the rentier," which would follow from the ever lower returns on the ever larger invested savings of the propertied classes.

Of course, Keynes did not foresee all our present problems. We have moved from a time when the USA dominated world production and trade to a multi-polar world. The share of US GNP in that of the world fell from about half in the 1940s, to less than a quarter in the 60s, and to 16 per cent in 1988. The emergence and decline of OPEC, with its legacy of the debt crisis, and the rise of Germany and Japan as economic giants, the move towards European integration, the entry of China and the socialist countries into the world economy, the proliferation of sovereign states, the concern for the Third World, the formation of the Group of 77, and the rise of the newly industrialising countries, all these are new events which have changed the world scene. The scourge of global stagflation is still intractable, and regarded as not amenable to Keynesian remedies. International migration, concerns for the environment, energy, the status of women, AIDS, drugs, terrorism, all these are new problems which neither Keynes nor anyone else could have foreseen. At the same time, it is remarkable how prescient Keynes was half a century ago, and how correctly he perceived the problems of the post-war world, yet how he had to compromise in the crucial negotiations leading to Bretton Woods, and how little heed was ultimately paid to his proposals.

The negotiations in 1943, 1944 and at Bretton Woods were dominated by the disastrous experience of the 1930s. Countries then had moved deeper and deeper into unemployment as a result of beggar-my-neighbour policies of competitive devaluations and rising protection. The economic, social and political consequences were terrible. Between 1929 and 1933 world trade declined in value by 65 per cent, and in volume by 25 per cent. Commodity prices had fallen disastrously and the need to stabilise them had become obvious. The way in which the government's mobilisation for a war economy in Britain had rapidly led to full employment and improved health, and allied economic co-operation had overcome the depression, pointed to the need for active government intervention in the economy, international institutions and rules of conduct for the post-war world.

Keynes's views were strongly influenced by the experience of Great Britain, and his proposals were framed in that light. The country was to emerge from the War as a large debtor nation, with industrial plants that had been outdated even in 1939, and had not been replaced since. The USA had become the giant creditor who had expended production and productivity during the war. Keynes's task was to enable a large debtor, who suffered from a war-destroyed, run-down economy, to re-enter international trade, while reconstructing its economy.

The Bretton Woods negotiations in 1944 were largely based on Anglo-American relations. Canada played a useful mediating role. Germany, Japan and Italy were still enemy countries, France still occupied, and the Soviet Union joined at a late stage. Although 27 developing countries participated, their impact was small. Only India and Brazil took an active part. The USA dominated the proceedings, with its view that economic freedom would be the basis for peace, and that discrimination, trade restrictions and exchange controls were the causes of war. Britain, which was receiving $30 billion Lend-Lease aid from America, was not in a strong bargaining position.[1]

2. The Global Order And National Governments

The roles of individuals, their rights and obligations, are partly defined by their communities. The family is the closest community; then comes the neighbourhood, the village or the town in which we live, and after that the province and the nation with its central government. Beyond the state is the world community. There are numerous ligaments that join people within and across these political institutions, such as religion, professional organisations, voluntary associations, interest groups, all the many institutions that form the civil society.

The state occupies a unique position: its membership is universal and it exercises a monopoly of force. True, citizens might be able to emigrate, and no government can rule simply by force, but broadly universality of membership and force are the two distinguishing characteristics of the state. It continues to be the basis for policy-making.

Many people feel that they owe a special loyalty to their country, although we are witnessing many groups claiming autonomy within their states. Loyalties to the world community are less strong. Humanity is also universal, but obligations to its members are much weaker, partly perhaps because there is no world government with which we have entered into a social contract, according to which it gives us security in return for our support. The result is that international and global relations are mediated by national governments. The fact that the world is divided into sovereign states, and that there is no world government, has important implications for all members of the human race. Some of these are detrimental to human development. They are due partly to natural and historical conditions and endowments, and partly to erected barriers against equalising tendencies.

First, the poor countries start with different initial conditions from those that the rich faced when they embarked on development. Population density in the world is now much higher, and the rates of population growth are greater (as a result of the introduction of modern methods of death control without equally cheap and effective measures of birth control). The high consumption levels in the rich countries, communicated by the media, have demonstration effects, while the technologies, invented in rich countries and appropriate for their conditions, when transferred to low-income countries, contribute to unemployment and inequality.

Second, the international distribution of incomes and wealth is much more unequal than the domestic distribution. The main source of global inequality is the inequality of average incomes between countries. Inequality within countries contributes significantly to global inequality, but much less than inequality between countries. As world incomes rise, intra-country inequality is reduced enough to reduce global inequality noticeably. Yet, between 1950 and the present, overall world income distribution did not change much. This is the result of two opposite movements. The gap between the high income and the middle income countries narrowed, while that between high income and low income countries widened.

Third, advanced countries have put up barriers to the migration of people from low-income countries, who would want to share in the natural and man-made resources which the high-income countries enjoy.

Fourth, this exclusion from the endowments of the earth is aggravated by the encouragement of the movement of professionally trained people from the developing countries: doctors, nurses, scientists, engineers, academics. This brain drain deprives the developing countries not only of people in whose education they have invested, but also of generators of jobs and skills for others.

Fifth, when a developing country attempts to stem this brain drain, it has to offer its professionals salaries comparable to those they would get in the industrial countries. This makes it impossible to pursue an egalitarian incomes policy. It is also socially divisive and can be politically risky. The partial international integration that results from the mobility of professionals, both actual and potential, contributes to national disintegration.

Sixth, in the face of gross inequalities and damages to the poor resulting from the competitive struggle, national governments tax the rich and subsidise the poor through social services. The absence of a world government with powers to tax and provide social services means that the citizens of countries which are victims of the free play of market forces and those incapable of making use of these forces are unable to provide a safety net for their people who suffer the full hardships.

Seventh, the rich countries attract not only trained professionals, but also financial capital from the poor countries. This is contrary to economic doctrine, which predicts higher returns to capital in capital-poor countries, and hence their greater attraction for capital. Capital flight and investment abroad for political reasons deprives the poor countries of the few resources they could mobilise.

Eighth, the global political and military power structure is not responsive to the human needs in the developing countries. The nuclear near-monopoly of the USA, combined with its declining economic strength, and the exercise of power by the Group of 7 has typically little regard for the deprivation of the poor people in the world and their needs. When there were still two superpowers, the non-aligned countries could play off one against the other, and thereby gain attention and support. Such attention was, of course, often military and let to intervention in local and regional conflicts, but it also led to the flow of development resources. With the end of the Cold War, this ability to attract support has disappeared.

Obviously there are also benefits to be derived from the coexistence of rich and poor countries in the absence of a world government. These are benefits compared with a situation in which no advanced, richer countries were to exist. They are not benefits compared with a situation in which a world government would rule the world on principles similar to those of national governments, with progressive taxes, social services, and free movement of labour, as well as of goods, services and capital.

There is the opportunity to export labour-intensive goods (restricted though it is) that yield remunerative earnings for poor people, as well as the existence of markets for more traditional exports. There is the availability of development aid and technical assistance, small in amount and poor in quality though it is. The role of multilateral aid should increase in the post-cold war world. Private capital flows, and the management and technical know-how that go with direct private investment, are useful in supplementing domestic efforts. They can provide missing components and speed up the development process. The developing countries can also draw on the stock of accumulated scientific and technical knowledge and experience of the rich countries, and on the evolution of their institutions, from double-entry book-keeping and the joint stock company to trade unions and Parliamentary democracy.

3. The dilemmas Of Global Interdependence

In the international arena we are witnessing a lag of institutions behind technology. The revolutions in the technologies of transport, travel, communications and information have unified and shrunk the globe, but our organisation into nation states dates back to the Peace of Westphalia in 1648, to the 19th century unifications of Germany and Italy, and to the new states founded after the first and second World Wars. When the early nation states were founded, the city states and the feudalism that preceded them had become too small for the scale of operations required by the Industrial Revolution. The political institution therefore was adapted to the new industrial technology, to the roads, railways and canals. The nation state was then a progressive institution. Today, some aspects of this institution have become obsolete, and supra-national institutions could usefully take over certain functions. But the adaptation of institutions to technology is not an inevitable process. The Middle Ages had, for example, lost the Roman technology about roads, baths, aqueducts and amphitheatres, and these were allowed to fall into disrepair. Now the nation state, with its insistence on full sovereignty, has become an obstacle to further progress. Each nation acts in its own perceived rational self-interest, and the result is that every country is worse off. It pays each nation to pursue this mutually destructive course.

Common interests and conflicts are running today across national boundaries. The European farmers are in conflict with the European industrialists and the public in the world at large has to pay for the Common Agricultural Policy. The advanced countries' textile manufacturers are aligned in the Multi-fibre Arrangement against Third World textile exporters and the consumers of textiles in the industrial countries. The nation state has revealed itself to be the inappropriate level at which such issues can be resolved.

Public goods, such as peace, an open trading system, including freedom of the seas, the market, standards of weights and measures, international stability, a working monetary system, and conservation of the global environment, are undersupplied, while public bads, such as wars, pollution, and poverty are oversupplied. The situation has been described in parables and similes such as the Tragedy of the Commons, Social Traps, the Isolation Paradox, etc. Everybody free rides, and thereby contributes to the possible disappearance of the horse.

Under the present system there are gains to uncoordinated action. It pays any one country to put up protectionist barriers, whether others do so or not; to build up its arms promises security to any one country, whether others do so or not; any one country can to its advantage pollute the common air and the oceans, whether others do so or not. It pays any one country to attract capital from abroad by tax incentives, whether others do so or not, thereby eroding the tax basis. These ultimately self-damaging and possibly self-destructive actions can be avoided, in the absence of self-restraint, only by either a dominant world power imposing the restraints, or by co-operation, or by delegation of some powers to a transnational authority, with the power to enforce restraint.

- If action for the common good is called for, the ranking of preferences by each country is the following:

  1. My country does not contribute while others do. (Free rider, defection.)
  2. My country contributes together with others. (Co-operation or enforcement.)
  3. No country contributes. (Prisoners' Dilemma outcome.)
  4. My country contributes while no other country does. (Sucker.)

Behaviour by each according to 1, or the fear of 4, leads to outcome 3. Although 2 is preferred to 3, we end up with 3, unless either rewards and penalties, or autonomous co-operative motivations induce or force countries to 2. Incentives and expectations must be such as to rule out outcomes 4 and 1, so that if I (or you) contribute, I (or you) will not end up a sucker. In the absence of such motivations, the result is that peace, monetary stability, absence of inflation, expansion of output and employment, an open world economy, environmental protection, debt relief, raw material conservation, poverty reduction and world development will be undersupplied.

Examples of such dilemmas on the global scale are ubiquitous. Above all there is the arms race, which, though we have so far avoided a major nuclear war, has contributed to hundreds of minor wars, mostly in the Third World; then there is competitive protectionism, through which each country casts its employment problem onto others; competitive exchange rates movements, by which unemployment or inflation are exported; research and development wars; investment wars; competitive tax concessions; environmental pollution; the killing of whales, the depletion of ocean reserves, and the debt crisis. These are only some of the areas in which these battles are now being fought.

To avoid these traps, co-ordination, delegation and enforcement of policies are needed. They are needed not in order to impose an external will on unwilling subjects, but in order to realise the objectives of the states themselves, not pursued by counter-productive actions. But co-ordination means that each country has to do things it does not want to do. The U.S. has to balance its budget in order to lower world interest rates but does not wish to raise taxes; Germany has to grow faster, but she does not want to attract guest workers from Turkey and Yugoslavia; Japan should import more, but she does not want to hurt her domestic industries. And so on. According to Jagdish Bhagwati sovereignty is like virginity: once you engage in intercourse with the outside world you have lost it.

Footnotes:

1.On this whole section, see H.W. Singer, "Lessons of Post-War Development Experience 1945-1988," Institute of Development Studies Discussion Paper 260, April 1989.

4. Improving International Institutions

From the point of view of human development, the principle of one state one vote in the UN General Assembly (though its resolutions have only recommendatory power) cannot be justified. Respect for persons applies to equality of status enjoyed by individuals within a nation, but not to corporate entities such as states. In the United Nations context, however, it could be said that the voting rights in the Assembly compensate for the gross economic inequality manifested in international trade and the military inequality recognised in the great powers' permanent membership and veto power on the Security Council, which can reach decisions with binding force. It should also be remembered that the large and growing majority of the world's people live in the developing countries. A further justification for voting by states lies in the overriding importance of avoiding war. And the state is the institution with a monopoly of force. Yet, considerations of law and order in international relations have to be tempered by those of social justice. In civilised relations, including international relations, bargaining and negotiations do not occur in a space of pure power politics, but always appeal, openly or tacitly, to mutually accepted or acceptable values and norms.

The United Nations and its many organisations have not yet adjusted to the post-cold war era. They have been subjected to many criticisms, and numerous proposals have been made for their reform. Many have put the blame on institutional inadequacies. It is true that badly designed institutions can be formidable obstacles to reform. But even the best institutions cannot work if they are not supported by political power. In the final analysis the past defects of the United Nations agencies were not the result of institutional inadequacies, overlaps here and gaps there, of low-level representation at important meetings, of lack of co-ordination, or managerial flaws, but of lack of commitment by member governments. There were successes: the crisis in Africa called forth the best in the UN. In the prevention of natural disasters, in the eradication of contagious diseases and in limiting damage to the environment, the UN agencies have been quite successful. Some argue that the United Nations have been more successful in the social and economic fields than in peace-keeping, others see it the other way round. What would an agenda for reform in the 90s look like?

State sovereignty, which still dominates the world order, has become inadequate and indeed dangerous. In the area of peace-keeping, the unrealistic distinction between external aggression and internal oppression must be abandoned. The predominant threat to stability is conflict within countries and not between them. There is an urgent need to strengthen international human rights law. Many of the most destabilising troubles come from within states -- either because of ethnic strife or repressive measures by governments. Conditions that lead to tyranny at home sooner or later are likely to spill over into search for enemies abroad. Consider the Soviet's invasion of Hungary and Czechoslovakia, the South Africans in Angola and Mozambique, and Iraq in Kuwait. An ounce of prevention is better than a ton of punishment. And prevention of aggression is an important task for the UN. The creation of a UN rapid-deployment force would be a contribution to peace.

Urgent new claims in international co-ordination have been added to old ones, in the context of shrinking public expenditures. The East European countries' claims are less than those of, say, India, on grounds of poverty, and less than those of, say, Thailand, on grounds of good performance. But if the ground is the promise to move to a more peaceful world order, their claims are strong. Ideally, resources from the industrial countries to Eastern Europe and the Soviet Union should be additional to those going to the Third World. If there is going to be a peace dividend, this could be the source of additionality, but its existence, or its use for this purpose, is controversial. Competing claims for the countries of sub-Saharan Africa and for the industrial countries themselves are being made.

5. The Need For Institutional Innovation

There are some international institutions that work well. They never hit the headlines. They carry out their allotted tasks in a quietly effective manner. The Universal Postal Union, founded in 1875, whose task it is to perfect postal services and to promote international collaboration, the International Telecommunication Union, the World Meteorological Association, the International Civil Aviation Organisation and the World Intellectual Property Organisation, have clearly and narrowly defined technical mandates, and are non-politicised, and implement their tasks competently. Their success is due largely to their covering technical issues.

International co-ordination has also worked well in areas where the advantages are great and visible: the wide, though not universal, adoption of the metric system, the adoption of Greenwich Mean Time in 1884, on which the world's time system is based, and the establishment of an international regime for containing contagious diseases.

Other international institutions have worked less well, among them the united Nations Conference on Trade and Development (UNCTAD) and the United Nations Educational, Scientific and Cultural Organisation (UNESCO). Their mandates were broad, overlapping with those of other organisations, perceptions about the future, about objectives, and about which policies had which results differed, and the debates in their counsels brought in extraneous political controversies. It is from these negative experiences that some have drawn the conclusion that international co-operation is unnecessary and undesirable.

International co-ordination or co-operation can take different forms. [2] There can be full harmonisation of policies, such as the adoption of common standards, for example the metric system. Or it can mean joint expenditures for a common purpose, such as on international air traffic control. Or it may involve submitting to agreed rules. Or it can amount to the continual exchange of information, such as that on illegal capital flight or on matters of public health. Or, as in the case of macro-economic co-ordination, it can involve joint decision-making on monetary, fiscal, trade and exchange rate policy.

When institutional innovation is proposed here, it is not intended to add legions of international bureaucrats to the existing army, or gleaming, glass-plated headquarter buildings and pools of high-paid consultants with more secretaries. The concern is for procedures, rules, norms, many of which can be adopted by existing organisations. Nor is necessarily more co-ordination of functions involved. Some of these innovations can take a regional form, others should be global.

A different criticism is that, though desirable, these proposed institutions are not feasible; they are utterly unrealistic and utopian. There are five replies to such a criticism, in defence of utopian proposals. First, utopian thinking can be useful as a framework for thinking, in the same way that physicists assume for some purposes a vacuum. The assumption plainly would not be useful for the design of parachutes, but can serve well other purposes. Similarly, when thinking of tomorrow's problems, utopianism is not helpful. But for strategic purposes it is essential. Second, the utopian vision gives a sense of direction, which can get lost in approaches that are preoccupied with the feasible. In a world that is regarded as the best of all feasible worlds, everything becomes a necessary constraint and all vision is lost. Third, excessive concern with the feasible tends to reinforce the status quo. In negotiations, it strengthens the hand of those opposed to reform. Fourth, it is sometimes the case that the conjuncture of circumstances changes quite suddenly and dramatically, and that the constellation of forces, unexpectedly, turns out to be favourable to even radical innovation. Unless we are prepared with a carefully worked out, detailed plan, that yesterday may have appeared utterly utopian, reforms will lose out by default. Nobody would have expected only a few years ago the dramatic changes in Central and East Europe, the Soviet Union, China and South Africa. Although the subsequent fate of the Special Drawing Rights was disappointing, when they were established the creation and acceptability of an international liquid asset came as a surprise to many. Fifth, the utopian reformers themselves can constitute a pressure group, countervailing the self-interested pressures of the obstructionist groups. Ideas thought to be utopian have become realistic at moments in history when large numbers of people support them, and those in power have to yield to their demands. The demand for ending slavery is a historical example. It is for these five reasons that utopians should not be discouraged from formulating their proposals, unencumbered by the inhibitions and obstacles of political constraints, in the same detail that the defenders of the status quo devote to its elaboration, from thinking the unthinkable.

6. An International Investment Trust

Imagine that Marshall Plan aid to Europe had been given as commercial loans instead of grants, and that repayments by European surplus countries like Germany had to take the form of recycling the debt service to developing countries. Everybody would be better off. Germany would not be exhorted to expand its economy, the USA would run a much smaller current account deficit, and the developing countries would have access to more capital. Or imagine that the OPEC surpluses of the 70s and early 80s had been recycled through an international trust. Interest rates would have been lower, selection of counties and projects more careful, inflation and counter-inflationary monetary restrictions would have been reduced, there would have been no debt crisis, and world growth would have been higher.

First then, there is a need for a new institution that would recycle the current account surpluses of Japan and Germany (or any other persistent surplus country) to developing countries in need of capital. [3]

The Japanese are now inclined to invest the bulk of their excess savings in the most capital-rich country of the world, the USA, thereby sustaining its twin deficits in the budget and the current account. It is generally agreed that the USA will have to reduce its large budget deficit and its current account deficit. What, then, would be the fate of the Japanese surplus? If the United States were to reduce its twin deficits without a corresponding expansion anywhere else, Japan's exports and growth would decline. This would give a powerful deflationary impact to the world economy, which is already suffering from high unemployment.

The current conventional wisdom is to exhort the Japanese to consume and invest more at home. But this seems quite wrong-headed. In a world starved of capital one should be immensely grateful to any country that is prepared to generate excess savings for the rest of the world. To request a country, ready to produce and save more than it absorbs at home, to step up its consumption borders on the immoral.

My proposal is to establish an International Investment Trust that would issue bonds (and perhaps other assets) to central banks and perhaps other financial institutions. These would be multilaterally guaranteed against devaluation and perhaps indexed against inflation. Unless the reduction in the US current account deficit is accompanied by increased loan demand elsewhere (or by domestic expansion in Japan and Germany), the world economy is threatened with growing deflation and unprecedented unemployment. Recycling to credit-worthy developing countries through the proposed International Investment Trust is a sensible alternative. The rate of return on assets acquired from the Trust by lenders would be lower than that on U.S. Treasury bonds, but it would be safer (threatened neither by inflation nor devaluation), and this should make it attractive to the lenders. The loans would be on commercial terms, to the newly industrialising countries. It would be desirable, though not an essential feature of the scheme, to graft an interest rate subsidy onto it, so that loans could also be made to the poorer countries. More of this below.

Can existing institutions, such as the World Bank or the regional development banks not undertake this task? In principle they could, and this would be better than global deflation. But some competition in lending procedures, an invitation to experiment with alternative lending styles, and some limits to the size and monopoly power of lending institutions is clearly desirable.

It is not proposed that the whole of the Japanese current account surplus should be recycled in this way. Japan has a deficiency in housing. It has been said that the Japanese live in rabbit hutches. The share of residential building in total reproducible fixed assets is only 25 percent in Japan, compared with 35 per cent in the United States. Many Japanese spend four hours a day commuting. Infrastructure and especially the modernisation of coastal ports for domestic freight transport are other candidates for investment funds. More land for urban parks may be desirable. But the whole Japanese surplus could be used domestically only at the cost of diminishing returns on investment or increases in consumption of already affluent people, and a lowering of the Japanese growth rate. With it would go a lowering of the growth rates in other parts of the world. We should be grateful for a nation that combines the work ethic with the saving ethic, and makes capital available to the rest of the world.

The table shows rough orders of magnitude in the world's current account balances for the 12 months to March 1992.

DEFICITS		SURPLUSES	
	$ billion		
USA	-60	Japan	+90
Germany	-20	Holland	+10
Other ind cts	-70	Switzerland	+10
Devpg cts	-30	Errors and omissions	+70
Total	-180	Total	+180

Source: ***The Economist***

It may be asked whether these surpluses will last. Some have argued that they are the temporary result of over-adjustment to the oil price rises in the 1970s and that, with falling oil prices, they will automatically disappear. Others claim that they arise from adversarial trade policies. Others again see the reason for the high savings rate and the low consumption rate in Japanese culture. The Japanese savings rate has been running at 27 per cent of GNP, and some economists have maintained that this high propensity to save is "structural," that it is deeply embedded in Japanese tradition and culture. When interest rates were lowered in 1986 savings did indeed fall. But in 1989, when interest rates were raised against inflation, domestic spending and imports dropped again.

Others have argued that the high savings rate is the result of the Japanese age distribution. In the long term, the ageing Japanese population will probably reduce the savings ratio. On a life-cycle theory of savings, the young save in order to live on their savings in their old age. Japan has had a higher proportion of young workers to both old people and dependent children than other OECD countries. If this interpretation is right, the savings rate will decline over the next 15 years. But when precisely this will be is uncertain, and meanwhile the surplus is likely to remain, although the countries with which it is incurred will be changing.

Even if the Japanese surpluses were not to continue, while some countries have deficits, others must have surpluses, and it is on those that the International Investment Trust would draw. With reduced defence expenditure in the OECD countries, an excess of savings over domestic absorption (consumption plus investment) is likely to arise, and the International Investment Trust can officer its bonds to individuals, firms and institutions whose savings will thereby become available. They would take the place of the Japan, if the Japanese surpluses were to disappear.

If the Japanese were to divert the whole surplus to domestic use by raising either their consumption, or their domestic investment, they would have to accept diminishing returns and higher unemployment in the previous export industries. The global economy would also suffer from higher deflation. If, on the other hand, the surplus were likely to continue, a place for foreign investment other than the United States would have to be found. This would provide a major opportunity for a reform that would be in everybody's interest: the OECD countries (including the United States and Japan), the developing countries, and the global economy would all benefit.

A recycling of these surpluses to the developing countries, on commercial terms, by a multilaterally guaranteed International Investment Trust, would have the following advantages: No new debt problem would arise because the terms of lending would be easier, and the selection of projects, programmes and countries more careful. Surplus countries would find safer returns for their foreign investment, not subject to devaluation and inflation; the OECD countries would find a larger market for their exports of capital goods and other products to the Third World; the developing countries would find a new source of capital on acceptable terms for their development needs; and the global economy would resume higher employment and growth.

The purpose of the proposal is to bring together, to mutual benefit, three now grossly under-utilised pools of resources: the current account surpluses of Japan (and Germany), in search of safe returns; the under-utilised industrial capacity and skilled unemployed of the OECD countries, on whose exports some of the recycled loans will be spent; and the vast idle or underemployed unskilled and semi-skilled manpower of the South, hungry for capital. And all this in the service of a growing world economy.

Some have argued that Japan should give directly more aid to low-income countries. In fact, Japan has increased its contribution to the World Bank and the International Monetary Fund, and has expanded its bilateral aid programme. But although Japan should give more aid, the reason is not its current account surpluses, but rather the high incomes of its citizens. By the same criterion, the USA, the UK, Canada and Australia should also give more aid. Japan's surpluses are a reason for it to undertake more long-term foreign investment and lending on commercial terms. If a current account surplus were a good reason for giving more aid, deficit countries would soon plead that their deficits are a reason for giving less. But that would be comparable to the rich man who found himself with temporary liquidity problems, and then cut first his contribution to Oxfam. The criterion for giving aid is income per head; for lending commercially or for investing abroad, it is the size of the current account surplus.

An important difference between the OPEC surpluses in the 70s and the Japanese and German surpluses in the later 80s is that the former consisted largely of government loans, the latter are from private lenders. Japanese and German private banks can mediate in the bank lending, and in portfolio and equity investment of some of the private savings. Japanese private direct investment can also make a contribution. But, although the Japanese banking system has been quite remarkably adaptive and has developed the capacity to channel international loans, financial innovation may be required, because a multilateral institution is better suited for providing the guarantees and for accomplishing at least part of the task. The World Bank and its affiliates, the International Finance Corporation and the International Development Association, also may not be able to accomplish the whole task, though they could contribute to a solution. It is for consideration how multilateral these new institutions should be, how much of a government guarantee is needed, and whether the loans should be guaranteed against currency depreciation and indexed against inflation.

An imaginative additional step would be to graft an interest-subsidy scheme onto the recycling mechanism, for the benefit of low-income countries. Contributions to this window should not be made according to the size of the surplus on current account, but instead according to income per head, preferably on a progressive basis, so that the contribution as a percentage of total national income would rise with higher incomes per head. The cost-effectiveness of such aid would be quite high, because a small interest subsidy would make it possible for large investment funds to be recycled to poor countries. Moreover, conditions of good macro-economic and human development policies could be attached to the concessional loans, so that their efficient use is further enhanced. Some of these could be on-lent to domestic borrowers by a development finance corporation, if it were thought that this would raise incentives for efficient use. The experience of the World Bank's International Development Association could be used for this facility.

Some observers advocate that the surpluses should be used to refinance and relieve commercial debt, mainly that owed by Latin American countries. But the result of such proposals would be to aid the banks in the industrial countries rather than to foster productive investment in poor countries. It might amount to rewarding greedy lenders and profligate borrowers. However desirable it might be to deal with old debt in such a way as to restore credit worthiness in Latin America and to resume world growth, the fact remains that there are large areas of the world, such as South Asia, which have, until a few years ago, been careful to avoid a debt problem, have carefully husbanded their resources, and could make excellent use of the scarce funds provided by the Investment Trust.

Another objection that has been raised to recycling proposals is that as long as the US budgetary deficits continue, the reduction or elimination of the Japanese surpluses will exert pressure on world capital markets, which might have adverse repercussions on Latin American debtors. The reply to this objection is that the US deficits are, in any case, unsustainable and that recycling surpluses to the developing countries would raise their demand for US exports and contribute to the reduction or elimination of the US current account deficit. This is surely a better way of stimulating the world economy than either the present exhortations to Japan and Germany to buy more from the US or, in the absence of expansion abroad, further contraction in the US. In addition, monetary expansion in Japan and Europe might rekindle inflation, while continuing US deficits would threaten, as they already do, the fairly open world trading system. The recycling of the surpluses to the Third World, whether by the World Bank or by a new International Investment Trust, offers a solution that yields safer returns to the surplus countries, a reduction in the deficit without excessive restriction of the domestic economy to the United States, much-needed resources to the developing countries, and a non-inflationary expansion of the world economy.

Footnotes:

2.See Richard N. Cooper, "Panel discussion: the prospects for international policy co-ordination," International Economic Policy Co-ordination, edited by William H. Buiter and Ricahrd C. Marston, Cambridge University Press, Cambridge, England, 1985, pp. 369-370.

3.This recalls Keynes's proposal for a Clearing Union, which had such a role.

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7. A Global Central Bank

The present international monetary system or non-system, a mixture of fixed and fluctuating exchange rates, is not satisfactory. Firms find themselves suddenly facing much stiffer competition as a result of a movement in the exchange rate. Long-term investment in productive capacity is therefore discouraged. Claims for protection of various kinds are made against what is seen as unfair competition. The location of investment is determined not only by long-term cost considerations but also by the movement of exchange rates. Some of this will be through take-overs and buy-outs, and competition will be reduced.

The use of the dollar as an international reserve asset is subject to well-known difficulties. The generation of dollars by the US is not guided by the international need for liquidity in the light of price stability, full employment and growth. The Special Drawing Rights (SDRs) have so far not fulfilled the need for an international liquid asset. It is therefore desirable to consider the need for a single world currency and a global central bank.

It may not be obvious that we should hand over our fate to a new group of global central bankers. Reflecting on the ability of bankers to deal with a financial crisis, John Kenneth Galabraith wrote, "The sense of responsibility in the financial community as a whole is not small. It is nearly nil." [4] And "It is often difficult to believe that international bankers belong to the thinking classes" begins a review in the Financial Times. [5]

In spite of this bad press, bankers, particularly central bankers, fulfil an important function. In the event of a run on the banks, the Central Bank is the lender of last resort, providing the public, at a price, with the liquid resources it wishes to hold. It has become a commonplace to say that with 24 hour rapid communications, international financial markets have become fully integrated, so that a run on the banks in any one country can bring down the whole international financial system. As things are now, the monetary authorities (the Treasuries and Central Banks) have responded to this globalization by co-ordinating their efforts to regulate and supervise financial transactions. The IMF and the Bank of International Settlements in Basle have supported these international arrangements somewhat half-heartedly.

There has been progress towards the establishment of a European central bank, which will be associated with the role of the European Currency Unit. It could evolve as one of several regional reserve currencies. The European central bank, would then be one of these regional central banks whose activities would be co-ordinated by a global central bank. The global central bank, being the lender of last resort, would also have to exercise regulatory and supervisory functions in order to avoid moral hazard problems. It would probably also be necessary to introduce some co-ordination of budgetary policies, so that any one country cannot run large budget deficits, going too much out of line with others, and draw capital to itself.

Long-term capital-intensive investments are needed for economic growth and development. Fluctuating exchange rates discourage this form of investment, by creating or exacerbating uncertainty about future profitability. In the past the stability of the currency of the dominant economy has played the role of an international standard and store of value. The dollar is still the most important of these currencies, although the Japanese yen and the Deutschemark are increasingly used. The attempt to move towards a world currency with the creation of Special Drawing Rights has been so far not altogether successful. They have not replaced the major world currencies as instruments of international settlements. If we wish to move in the direction of a pluralistic, democratic world order, a world currency will have to be an important part of it. It would provide the basis for stability and reduced uncertainty that freedom of movement requires. But it could initially be a combination of SDRs and the major trading currencies.

The IMF is the primary candidate for an embryonic global central bank. Some critics have charged the IMF with excessive emphasis on expenditure-reducing, and not enough on expenditure-switching policies. Others have charged it with an excessive concern with specific means (devaluation, monetary and fiscal austerity) rather than with results (improvements in the balance of payments). Both of these criticisms lead to the complaint that IMF conditionality has led to excessive reductions in demand, and excessive underutilization of resources, including, above all, excessive unemployment. Pressures on surplus countries would also help fuller employment of resources. Ideally, however, the surpluses should be used for long-term investments in capital-hungry developing countries.

The International Monetary Fund is, of course, not a global Central Bank. Such an institution would have to be given the power to conduct open market operations to regulate the world currency for the three sources of demand for money: transactions, precaution and speculation. In order to provide enough liquid resources for world transactions, to be a lender of last resort to prevent panic runs on deposits, and to maintain the stability of the financial system, the global central bank would need independent authority. Even a small possibility of a financial breakdown should lead to our making provisions against it.

As a first step the IMF and the central banks of the major trading countries would form a co-ordinating committee to manage world liquidity. 6 As the role of the IMF in providing world liquidity increases, its regulatory function would have to grow with it. The role of the SDRs would grow as a substitution account is established. Member countries would deposit foreign exchange into it and receive SDR denominated certificates in exchange.

Above all, there is a need for an international lender of last resort. Repeated swings between euphoria and despair among national bankers -- with despair leading to serious collapses of enterprises -- led Bagehot 120 years ago to identify the function of a national lender of last resort as crucial for the Bank of England. His arguments were soon accepted. Just as the Bank of England has performed this function in times of crisis, so it also took on the function of limiting, by nudge and wink rather than by direct order, excess lending in good times. Such a stabilising function is now desperately needed at the global level, as the enormous swings in bank sentiment, and with it cross-border lending, clearly show. The lender of last resort has to exercise restraint in good times, as well as provide insurance in bad. The purpose would not be only to assist in a crisis, but to avoid the occurrence of crises. The problem of moral hazard -- that banks, knowing they would have access to funds, overlend or lend imprudently -- can be avoided by asking them for good collateral and charging a penal interest rate, or by leaving them in doubt as to whether funds will be available to them. In the case of sovereign debt the "good collateral" could consist in the acquisition by the international lender of last resort of the banks' claims at a discount. 7

Co-operation between countries to avoid unemployment, inflation, and protection is necessary if mutually destructive outcomes are to be avoided. It is usually the poor who bear the brunt of such outcomes. An extension of the powers of the IMF, in line with Keynes's proposals at Bretton Woods, in the direction of a global central bank would contribute to stability and growth in the world economy. Whether countries are ready to co-ordinate their fiscal and monetary policies, and to permit the freer movement of goods, capital and labour that would be called for by a global central bank, and, to go one step further (as recommended by Keynes), by a single world currency, is, to say the least, an open question. Countries respecting democratic civil rights pride themselves on an independent judiciary. Should not the same principle be applied to a global monetary authority, independent of national political control?

8. An International Debt Facility

At the heart of the recalcitrance of the debt problem lies the conflict of interest over who shoulders the costs of continuing debt service or of debt relief: the banks, the industrial countries' tax payers, or the developing countries. If the banks, is it the managers, the shareholders or the depositors? If the taxpayers, is it the rich or the poor? If the developing countries, is it the urban or the rural people, the rich or the poor?

Much has been written about the international debt. Four main methods of debt reduction have been proposed. 8 Each involves reducing the present value of the discounted flow of all future receipts due to the creditor. The first is debt-equity swaps, or the conversion of fixed-interest debt into equity, a claim to a share in profits. The lending bank sells its loan at market value for local currency in the debtor country, and uses the receipts to buy equity capital. No additional foreign exchange is required from the debtor, but the inflationary impact of the deal should be reduced. This is a form of debt reduction, though not necessarily of debt relief, since it does not necessarily reduce the present value of the payments due, though of course it may. 9

The second method is cash buy-backs, in which the debtor country uses its foreign exchange to buy back loans at market value. The discount will be greater than under the previous method. The foreign exchange needed for this transaction may come from the World Bank or the International Monetary Fund. Here again, the impact on the debtor country is inflationary.

In the third method, or collaterilization, old debts are exchanged for new debts, but either at lower face value or at lower interest rates. The debtor may, for example, issue long-term "exit" bonds. Against the new debt the debtor provides collateral. Here again, the World Bank or the IMF may help.

The proposal of international debt relief (or debt reduction), conditional on policy reform, combined with government guarantees of the reduced debt is perhaps different from some of the other proposals, because it applies to the present situation, from which it would be hoped that a lesson would be learned, and that it would not be repeated. On the other hand, since the possibility of repetition cannot be excluded, some global equivalent of a bankruptcy facility might well constitute a permanent feature of the global landscape.

On the assumption that some part of the outstanding international debt will have to be written off and relief will have to be granted to the borrowers, two questions arise that call for a co-ordinated, global solution. Both involve the free rider problem, and therefore require concerted action.

One would expect that normally a reduction of the contractual value of a debt (debt relief) would reduce the actual repayments received by the creditor. In some situations, however, debt relief can lead to larger debt service payments than would be made in the absence of the relief, as well as more obviously to gains for the debtor. This would be so if it led to increased domestic investment, more productive work, and greater current sacrifices in the debtor countries, both because more resources would become available and because the incentive to invest and work would be improved. Higher investment would lead to higher growth, and this in turn to a larger amount of debt service payments. The means for repayment would become available, and the incentive to make current sacrifices for the sake of a larger production later, both of which would be absent, or much lower, if it were expected that a higher proportion of (or all) resources would have to be devoted to debt service.

But although all banks would benefit from such a general debt relief, because growth and exports could be resumed by debtor countries, each bank has an incentive to let others make the concessions. Relief by only one or some means that the remainder of the payments goes to pay interest to those not having made the concessions, and thus frustrates the purpose of the exercise. Each bank has an interest in not giving relief, whether others give relief or not. At present, banks already sell their claims at discounted values to other institutions, including to some debtor countries, but this is no help to the debtors, unless the debt reduction is passed on to the debtor country. The buying back by the debtor country at lower value tends to be inflationary, since it involves a large current liability. But the free market does not solve the problem of this passing on of debt relief to the debtor, because of the logic of collective action. Concerted action by all to forgo part of the claims by all lenders is necessary in order to reap these gains. This would be one of the functions of the International Debt Facility. The possibility that debt service payments would actually be larger is, of course, not essential to the operation.

Second, after part of the debt has been forgiven, multilateral guarantees are needed for the remaining debt. In this lies the attraction to the creditors to forgive part of the debt. Here again, concerted action by the US and other creditor governments, the Fund, the Bank and the debtor governments is needed. Only then can normal lending be resumed. Neither the market nor the uncoordinated actions of governments can bring about this solution of the debt problem. It is in the interest of any one government not to guarantee, whether others guarantee or not. But is in the interest of the major lending countries' governments to jointly guarantee the debt. This co-ordination would be an additional function of the International Debt Facility.

A further function of the Facility would be to buy the debts from the banks at a discount and then to forgive the debtors part of the debt. This may benefit the banks, because the market price of their debt may rise. The outcome will depend on whether the Facility has prior claims on interest and repayments before other creditors, and on how large the holdings of the facility are. The proposal takes different forms, but in essence it amounts to a debt reduction. The functions could be fulfilled by existing international institutions such as the World Bank and the International Monetary Fund.

9. Global Taxation

The absence of a system of global taxation is an important incentive for capital flight, which in turn constitutes one of the major damages suffered by developing countries from their coexistence with industrial countries. It implies either that investment and growth are lower than had the capital been retained, or that more money has to be borrowed from abroad, with the higher debt burden this involves.

One step towards a global system of taxation would be to sign treaties to secure an exchange of information between the losing and the haven countries that would permit the collection of taxes on foreign investment income. This would presuppose the adoption of taxation by residence, as well as by origin, so that income by all residents is taxed, wherever it arises, and all income arising in the country is taxed, wherever the subject resides. It would also assume that tax laws are implemented and no evasion occurs. Double taxation agreements would prevent the same income being taxed twice. This would permit the collection of taxes due on foreign investment income. In 1989 many OECD countries have ratified a Multilateral Information Sharing Agreement, negotiations on which started in 1980, on the exchange of information of data on capital flight. The Draft Convention on Mutual Assistance in Tax Matters has been confined to industrial countries, but should be opened to developing countries. Of course, tax evasion has been only one of the motives for capital flight. Corrupt receipts of money, differential interest rates, exchange controls, bad macro-economic policies, risks of expropriation, are among others. The OECD Multilateral Information Sharing Agreement, ratified by most countries in 1989, is a step towards global co-operation to avoid capital flight.

Revenue-sharing has been proposed by Carlos Diaz-Alejandro, who suggested that the United States should hand over the money collected from a withholding tax on interest on deposits of Latin Americans to the Inter-American Development Bank. 10 The US has already accepted this principle for the proceeds of assets seized from narcotics trade from nationals of countries with which the US has concluded Mutual Legal Assistance Treaties. These proceeds are shared between the US and the relevant country. It constitutes a useful precedent. 11

In addition to reducing capital flight, global taxation would provide a pool of resources for global use. The main principle of global taxation would be to move towards a system of automatic collection of revenue, but not automatic disbursements. Disbursements would remain dependent not only on obvious factors such as size of population and level of poverty, but also on performance in economic policy, human development, human rights, and similar areas. But the form of conditionality practised by the Fund should be replaced by a dialogue between the tax authority and the recipient country, which would be part of a global compact.

The present target of 0.7 per cent of GNP would be replaced by a levy the amount of which for each country would be progressive with income per head, multiplied by the total population. There would be a low exemption limit, and another limit entitling countries to receive grants.

If a progressive international income tax is regarded as too radical, there are other bases for taxation which may be found more acceptable. Such bases for global revenue would be oil, the arms trade, international tourism, or license fees on patents and copyrights. Ideal taxes would be those imposed on carbon dioxide and sulphur emissions or pollution of the oceans.

Footnotes:

4.John Kenneth Galbraith, The Great Crash, 1929, Penguin Books, 1961, p. 20.

5.The FT Review of Business Books, September 26, 1991, p.2

6.A.W. Mullineux, "Do We Need a World Central Bank?" Royal Bank of Scotland Review, No. 160 December 1988, pp. 23-35.

7.Michael Lipton and Stephany Griffith-Jones, "International Lenders of Last Resort: Are Changes Required?" Midland Bank Occasional Paper in International Trade and Finance, March 1984.

8.Stephen Browne, Foreign Aid in Practice, Pinter, London, 1990, pp. 152-153.

9.The distinction is due to Max Corden, "The Theory of Debt Relief: Sorting out Some Issues," The Journal of Development Studies, volume 27, No. 3, April 1991, P. 137.

10.Carlos Diaz-Alejandro, "Latin American Debt: I Don't Think We Are in Kansas Anymore," Brookings Papers on Economic Activity, no. 2, 1984.

11.John Williamson and Donald R. Lessard, Capital Flight: The Problem and Policy Responses, Institute for International Economics, Policy Analyses in International Economics, Washington, D.C., November 1987.

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10. Commodity Price Stabilisation

Primary commodities (minerals and agricultural raw materials) are inputs into the manufactured products of the industrial countries. Rises of commodity prices lead to inflation in industrial countries, because manufactured goods are priced on a mark-up basis. When inflation is fought with monetary and fiscal contraction, unemployment rises. In the exporting developing countries, the incomes of poor exporters fall. The instability also discourages investment in these commodities. When the primary objective is to fight inflation, low commodity prices are welcomed by industrial countries. But the burden is shifter to the poor producers, and aggravated by illiberal trade and migration policies of the depressed industrial countries. Depressed prices and low investment then lead to the next violent price increase, and the cycle is completed. The instability has been made worse by the tendency of the international financial institutions to advise each exporting country separately to devalue, to export more of its main commodity, and to diversify into others, irrespective of the fact that this has led to global surpluses and falling process of all commodities.

What is needed is a revival of Keynes's proposal. By stabilising commodity prices both inflation and unemployment in the industrial countries are reduced. Incomes in the developing countries are stabilised and raised, by encouraging investment. And the world economy can expand at a stable rate. "Back to the future of Bretton Woods" would not be a bad slogan for the next reform of international economic relations.

11. Other Institutional Innovations

We can let our institutional imagination roam and think of other institutional innovations. A Sustainable Development Commission (or a Global Environmental Protection Agency) would be concerned with protecting the global air and the oceans. A Global Energy Agency would avoid the zigzag movements of oil prices. Producers and consumers would have to agree on the price of oil in say, 15 years, and move towards it in agreed annual steps. An industrial Investment Board would avoid the lurches between surplus capacities and scarcities in fixed investments that take a long time to construct and, once constructed, last a long time, such as fertiliser, steel, and shipbuilding. A Global Anti-Monopoly and Restrictive Practices Policy would bring international policies in line with national ones. As things are, American companies are prohibited from colluding and forming cartels in the domestic market, but are encouraged by the Webb Pomerane Act to do so against foreigners. An International Commission on Global Governance, an Aid Monitoring Institution, and an Economic Security Council would be other candidates for global institutions. The conversion of foreign military bases to community centres would take the form of handing these facilities with excellent infrastructures to states and local communities.

12. Transnational Corporations

The technological revolutions in information, communications, transport and travel, with the correspondingly rapid growth of the flow of goods and capital and, to a lesser extent, people, across frontiers have shrunk the world and have integrated global markets. Some have put much hope in the resulting growing efficiency of markets, others have expressed fears about the prospects of indigenous enterprises, the growing vulnerability and exposure to uncontrollable outside forces, or about the increasing difficulties of national integration. The critics of the trend towards globalization point to the experience of the past, in which the developing countries served the metropolitan powers.

There is, however, an important difference between the past and the present. Raw materials and minerals, largely the result of physical endowments that yielded rents to a small group, used to play a much more important part than they do today, when acquired human skills and ingenuity, and government policies, are decisive.

Relations between host country governments and transnational corporations have moved from ideological heat to pragmatic light. Confrontation has been replaced by co-operation. The Ford Motor Corporation is no longer regarded by its advocates as the nearest thing to the Ford Foundation, nor by its opponents as the devil if not incarnate, then incorporated. The basic problem is how to get the best out of their potential contribution to technology generation, management and employment, while making them publicly accountable; how to avoid their excessive regulation, while encouraging social responsibility. There is evidence of a move towards a more symbiotic relationship between governments, transnational corporations and markets, as has existed in Japan for some time.

But while the world has found unworkable and has rejected the centralised process of political decision-making that the centrally planned economies had adopted, this very same process still governs capitalist and socialist firms. Although there is now widespread agreement that economies do not work well if run from the top, a corporation is presumed to work best if it is. We know that under regimentation human beings do not give their best. It is a challenge to people of all political convictions to find ways that harness the enterprise and initiative of the workers at the workplace. Experiments have been made with self-management, work enrichment, participation, scaling-down, politicisation of the workplace, self-supervision, and the introduction of the free market into the plant. Nothing very conclusive has emerged from these experiments.

13. The International Civil Society

Some think of the international system as a system of states, others include besides states multinational corporations, non-governmental organisations (NGOs), international organisations and individuals. Certainly states play a predominant role in international society, but they are not the only agents. Private voluntary organisations have come to play an increasing role, next to governments and profit-seeking companies. They comprise the most diverse organisations: religious, political, professional, educational, organisations, co-operatives, pressure groups, lobbies, project-oriented, technical assistance, relief, disaster-prevention institutions, etc. Their membership and the loyalties of their members cut across national boundaries. Although they often claim to work without or even against governments, their contributions can best be mobilised jointly with governments. The most successful NGOs in the Third World, such as the Self-Employed Women's Organisation based on Ahgmedabad, India, or the Grameen Bank of Bangladesh, depend for their successful continuing and expanding operations on access to, and support and replication by, governments. Of course, in some situations their function is to criticise and exhort governments, or to fill gaps in government activities, or to do things at lower costs, with better results, and with more popular participation than governments. The relationship between NGOs and governments can be understood as one of co-operative conflict (or creative tensions), in which the challenge of the voluntary agencies and their innovative activities can improve government services and the working of markets, and help to resolve tensions between them. Without them, there is always the danger that private firms become corrupt and governments unresponsive to human needs.

In some situations the state plays a passive role, only responding to the pressures of interest groups. The outcomes will then be determined by the power of these groups, which in turn depends on their size, age, motivation, and enforcement mechanisms. In other cases the state is more active, imposing regulations and restrictions, which can give rise to competitive rent-seeking by private interest groups. In others again, both the private groups and the state work together for common objectives.

Functions are divided between the state and civil society. The institutions of civil society -- churches, trade unions, interest groups, action groups, the media and many others -- are often quite undemocratic and there is a need for the empowerment of vulnerable groups: women, the unemployed, ethnic minorities. There can be undesirable concentration not only of economic and political, but also of social power.

Though there is in the early stages of development a need to strengthen both states and markets, in fact they often tend to weaken and undermine each other. It is the institutions of the civil society that can intervene and inhibit such weakening and undermining. 12 Interactions between the state, markets and civil society are complex. Both too weak or too strong a state can discourage the growth of civil society. And too strong private organisations can undermine the power of the state, as in Sri Lanka or in Lebanon, and lead to the dissolution of society.

14. Honesty International: A Proposal

Until recently, any public discussion of corruption was taboo. But net to tyranny, corruption is the greatest disease of government. (It is, or course, not confined to government.) It is as old as government itself. But unlike tyranny, corruption cannot flourish in the light of day. Some cultural traits such as "gift-giving" favour it. Some writers have defended it. But everywhere it is outlawed, and unlike some other illegal activities such as gambling, it is not a thing the transgressors boast about. The first step in combating it is, therefore, information that is publicised.

The costs of corruption include: a waste of resources, an inequitable and iniquitous redistribution towards the rich and powerful, a distortion of the incentives of officials, and the breeding of powerful cynicism. Some authors have found reasons to justify limited corruption. It is true that in rare circumstances bribes can supplement very low salaries and oil the wheels of the bureaucratic engine. But if practised on any scale, there can be no doubt that it is very harmful. Far from oiling the wheels, it creates incentives to put grit into the engine, for the removal of which payments are then extracted. It is favoured by the presence of monopoly and discretion, and the absence of accountability. As the pressure on developing countries to reduce public spending is growing, as the best officials are leaving public service, and as the pay of those remaining is reduced, the temptations to accept bribes will be increased.

Several countries have set up anti-corruption agencies, such as Hong Kong's Independent Commission Against Corruption. In some countries there are "vigilance commissions" that control corruption. It is proposed here that in analogy to Amnesty International a non-governmental international organisation that might be called Honesty International should be established. It would be financed by voluntary contributions. It would gather information on corrupt activities from specialised staff (auditors, investigators), from third parties (the media, banks), from clients, from the public, and from its own agents. "Whistleblowers" and "clean" officials would be encouraged and protected. A free press and free media are helpful. Prima facie evidence would include people living above the standard affordable by government salaries, personal funds transferred abroad, etc. Honesty International would then publish the results. The shamefulness of being exposed by itself would serve as a deterrent. Legal penalties would then reinforce it.

15. Concluding Remarks

There is, in addition to the market, the state, and the civil society a fourth sector: the family, including the household, the tribe and the clan. It is a consumption, production and reproduction unit. Its activities are not marketed, and therefore often not counted. Its origins are ancient. It takes different forms at different stages of development. The extended family in many developing countries has given place in the North to the nuclear family, which in turn is in the process of dissolution. The neglect of women in some Asian societies, the heavy burden of work put on them in some African societies, the neglect of children by both low and high income households in terms of resources, time and attention, the role of the family as both a production unit and a social safety net in some traditional societies, these are issues worth further exploration. The family plays a particularly important part in enterprises in the informal sector.

A common theme in this essay has been the need for democratisation, of greater participation, in each of the four responsive to citizens' needs. And the same is also true of the civil society, where concentrations of power are often just as strong as in authoritarian governments. It is also true of the management of firms and profit-seeking enterprises, in which a hierarchical order prevails. It is true of families, in which the male head has often a decisive voice. And it is true of international organisations, which are sometimes like medieval fiefdoms, unrestrained by democratic control. A move in the direction of fuller participation of all, particularly the weak, neglected and poor, should stand high on our agenda of reform.

Footnotes:

12.Michael Lipton, "The State-Market Dilemma, Civil Society, and Structural Adjustment," The Round Table (1991), 317, pp. 21-31.