

## **Half a Century of Economic and Social Development Policies of the UN and Bretton Woods Institutions**

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### **PART I: HISTORICAL PERSPECTIVES**

It is customary to date the origin of the Bretton Woods system back to 1942 when Keynes, and his associates in London, prepared the three famous memoranda on the International Clearing Union, on Commodity Buffer Stocks and Plans for Relief and Reconstruction. To these three memoranda we may add the Beveridge Report which appeared in the same year, 1942. Keynes had taken a great interest in the Beveridge Report and this model of a national social welfare state was readily capable of international extension and application.

However, in this historical perspective, we may well go a little further back. The Great Depression of the 1930s had shown that in the absence of multilateral agreements and multilateral institutions, the economic system was in danger of degenerating into beggar-my-neighbour policies leading to general immiserisation. The World Economic Conference of 1931 had been a first attempt to create an international economic order to prevent this condition from continuing. Although this attempt ended in failure, yet the ideas then brought forward had continued to reverberate in Keynes's mind. His vision underlying the 1942 documents was governed by the overarching principle of "Never Again!" –never again back to the conditions of the 1930s which were seen as having brought about not only mass misery and mass unemployment but also Hitlerism and war. Also never again a failure like that of the 1931 World Economic Conference!

We may then move forward to 1940. Hitler was triumphant and his Minister of Economics and President of the Reichsbank, Walter Funk, proclaimed in Berlin a "new order", under which Europe with its colonies, and indeed the whole world, would be unified under German leadership. This was treated as a big propaganda

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item by the Germans, so that the British Minister of Information, worried about the propaganda effect of Funk's "new order", asked Keynes to prepare a broadcast to counteract and discredit the German propaganda. At that point Keynes became convinced that the most effective counter-move would be to prepare a valid counter-proposal rather than attack Funk's "fraudulent offer", as he called it. From then on Keynes's mind turned to such a constructive counter-proposal, i.e., to counter Funk's fraudulent new order with a genuine new international system. In that sense, the Bretton Woods system can be considered as a case of good coming out of evil.

The structure envisaged by Keynes, arising from his belief in the possibility and sustainability of full employment through active government policy—later expanded by Harrod and Domar to full employment growth—and embodied in the 1942 memoranda, rested on four pillars. The first pillar was that of global macroeconomic monetary and financial management. The original bold idea was of a world central bank which would maintain full employment equilibrium and provide the liquidity required for this purpose by expanding the supply of *bancor* (his proposed world currency). This would mainly serve to finance the balance-of-payments deficit countries: quite logically, the balance-of-payments deficit countries were to be supported; they were the "good boys" who created additional net employment in the rest of the world. By contrast, the balance of payments surplus countries were the "bad boys" exporting unemployment to the rest of the world. In fact, at one stage Keynes proposed an international tax on balance-of-payments surpluses at the rate of 1 percent a month, partly to finance the deficits, partly to finance international commodity buffer stocks, and partly to give an incentive to the balance-of-payments surplus countries to reduce their surpluses by following more expansive policies. While this is an over-simplified picture of the 1942 thinking, there is sufficient truth in it to bring home to us the startling contrast to the current orthodoxy, when the balance-of-payments equilibrium or surpluses are considered to be the result of virtue and deficits as a symptom of vice.

Even in 1942, in his *Proposals for an International Clearing Union*, when ideas of a world currency and world central bank were beginning to recede, Keynes had written: "We need a system possessed of an internal stabilising mechanism, by which pressure is exercised on any country whose balance of payments with the rest of the world is departing from equilibrium *in either direction*, so as to prevent movements which must create for its neighbours an equal but opposite want of balance." (Note that the emphasis on the words underlined here is in Keynes's own *Proposals*). Some traces of this original vision are still visible today in the somewhat shadowy so-called "surveillance" of industrial countries by the IMF, as well as in the demands that structural adjustment enforced by the Bretton Woods institutions should be more "symmetrical". In essence, however, the task of global macroeconomic management has been removed from the multilateral system and is

now undertaken—in theory at least—by the G5 and G7, in combination with the “privatised liquidity creation” through the commercial banks.

Keynes had already given a great deal of thought to what emerged as one of the key controversies surrounding the IMF, i.e., the question of conditionality. He objected to a “grandmotherly” Fund. Today the Fund as well as the Bank have become worse than grandmotherly—grandmothers are supposed to have a human face! When he had to accept the idea of conditionality, he did so on the basis and assumption of a very large Fund. He proposed a Fund equal to half of annual world imports and, on that basis, was willing to concede conditionality. The American side (Harry Dexter White) proposed a much smaller Fund—one-sixth of annual world imports—and, on that basis, was ready to relax the criteria for conditionality. In the upshot, what we got instead of a trade-off between the size of the Fund and the degree of conditionality was the worst of all possible worlds—a small Fund with tough conditionality. Today’s Fund is only 2 percent of annual world imports. Perhaps the difference between Keynes’s originally proposed 50 percent and the actual 2 percent is a measure of the degree to which our vision of international economic management has shrunk.

The second pillar was what ultimately emerged as the World Bank, or International Bank for Reconstruction and Development. The historical origin of this lies in the proposed European Reconstruction Fund—a natural answer to Funk. In the 1942 memorandum mentioned earlier, this had developed into an investment fund for relief and reconstruction—hence the often-quoted statement that originally the IMF was supposed to be a bank (i.e., a world central bank), while the World Bank was supposed to be a fund (i.e., the investment fund proposed in 1942). The reconstruction task proved to be less important for the new institution than was visualised in 1942, partly because of the Marshall Plan and the large US loan to the UK negotiated by Keynes towards the end of his life, and partly because some of the intended functions were taken over by the newly-created UN Relief and Rehabilitation Administration (UNRRA). On the other hand, the development function for poor countries was given additional emphasis at Bretton Woods as a result of the presence of delegations from these countries (mainly Latin American but also including a British and Indian delegation in the transition to independence). Originally, in 1942, not much attention had been paid to development problems. Most of the countries involved, especially the Latin American countries, were assumed to be doing quite well during the war as a result of the high prices and high demand for their raw materials, and also for the protection afforded to their nascent industries as a result of reduced competition from the belligerent industrial countries. In fact, Argentina emerged at the end of the war as one of the richest countries in the world in terms of per capita GNP. Most of the rest of the Third World had not yet emerged into independence and was not considered to be in urgent need of external

support. Many, like India, were accumulating large external surpluses—the sterling balances—and the problem seemed to be more one of help for the UK in clearing these sterling balances than of external aid for India.

It is fair to say that originally the British side—in other words Keynes—was much more interested in the Fund than in the Bank. By contrast, the preparatory moves on the US side had been much more centred on what became the Bank. The first major move in US thinking about the post-war International Order was the commissioned report of a study group of the US Council of Foreign Relations (led by Jacob Viner and Alvin Hansen). This proposed an International Development Board to study and prepare development projects throughout the world. The shape of a future project-oriented World Bank can be clearly seen to emerge from this report. Given this initial concentration of the British side on the Fund or International Clearing Union and the US initial concentration on the Bank, it is somewhat ironic that at Bretton Woods it was the American (in the person of Harry Dexter White) who chaired and organised the discussions of the Fund in Commission I, while the British (in the person of Keynes) chaired the discussions on the Bank in Commission II. By that time, in 1944, the work in the US Treasury on the Fund had, of course, strongly developed, while Keynes's interest in the Bank had steadily increased. However, perhaps even more important in his thinking was the establishment of an international organisation to stabilise primary commodity prices. That was the third pillar of the system he envisaged.

This third pillar was the International Trade Organisation (ITO). Keynes had been a long-term advocate of stabilising primary commodity prices, particularly in his article "The Policy of Government Storage of Food-Stuffs and Raw Materials" published in *The Economic Journal* (1938). Predictably, he incorporated this idea in his proposals for Bretton Woods, linking it in an early version with his proposed International Clearing Union by suggesting a world currency based not on the dollar, gold, *bancor*, or SDRs, but on the average price of thirty primary commodities (including gold and oil). This would automatically have stabilised the average price of these commodities without ruling out fluctuations of individual commodity prices. The main idea was to prevent the collapse of primary commodity prices which had been a marked feature—and in Keynes's view a contributory factor—of the Great Depression of the 1930s.

Such bold ideas cut little ice with Henry Morgenthau, the Secretary of the US Treasury, and in fact were quickly subdued even in the London preparatory group. What remained was the proposal to set up an ITO which, among other objectives, would have that of stabilising primary commodity prices by buffer stocks, commodity agreements, and direct intervention. The establishment of the ITO was firmly decided at Bretton Woods, and when Keynes left the conference with everybody standing up

in his honour and singing “For he’s a jolly good fellow”, the belief was firm that the achievements of Bretton Woods included the creation of this favourite brainchild of his.

Alas, the ITO was never created. Although it was quite smoothly negotiated in Havana and accepted there by all concerned, the mood in the US Congress by the time it was presented for ratification had begun to swing against the UN and international institutions. The internationalist Roosevelt/Truman era was coming to an end and the McCarthy era was beginning to cast its shadows. The ITO charter was not brought to the US Congress in time to catch the favourable tide. By the time it was brought to the US Congress, ratification had become hopeless and the ITO was abandoned even without a vote. The other countries were all set to ratify but had waited for the US Congress to ratify first. Thus, the Bretton Woods system was incomplete from the beginning, lacking its intended third pillar. GATT did not fill the gap since it had no functions relating to the stabilisation of commodity prices or the regulation of commodity markets.

One can engage in a number of counter-factual speculations. If Keynes had suspected that the ITO would not be created, would he still have advocated acceptance of the agreement concerning the Bank and the Fund? We do not know—by the time it was clear that the ITO would not be established, Keynes was dead. My own guess is to answer this hypothetical question with a “No”—but there is no way of proving it (or, for that matter, of disproving it). Another counter-factual speculation is that if the real price of oil—together with practically all other primary commodities—had not deteriorated from the 1950s to 1973, would the OPEC countries still have engaged in their dramatic quadrupling of oil prices in 1973 and then again multiplied them in 1979? It is often forgotten that the 1973 action did little more than restore the real price of oil in terms of manufactures to what it had been before. Without the OPEC action in 1973, the Bretton Woods system might not have collapsed and might have recovered from the abandonment of the fixed exchange rate between gold and dollar by President Nixon in 1971. Also, if the non-oil primary commodity prices had been maintained and stabilised between the 1950s and 1973, the rise in oil prices would not have created the balance-of-payments crisis and subsequent debt crisis among the developing countries. Yet another speculation: if the Havana ITO Charter had been brought to Congress more speedily for ratification and had been more firmly supported by the US Administration, the ITO might well have come into existence. History as it might have been is always a fascinating business.

The fourth pillar of the system was meant to be a soft aid programme linked more directly with the United Nations. It is noteworthy that the first draft proposal for the World Bank prepared at the US Treasury under the direction of Harry Dexter White was entitled “A Bank for Reconstruction and Development of the United and Associated Nations”. At that time, of course, it was still visualised that the two

Bretton Woods institutions would be a firm and integral part of the United Nations system, which had still to be created during the year or two following upon Bretton Woods. Indeed, legally and technically, the Fund and Bank are specialised agencies of the United Nations and their guidance by the UN General Assembly and the UN Economic and Social Council are still embodied in their respective charters—but we all know what the reality is. Today, the Secretary-General of the United Nations is not even allowed to address the annual meetings of the Fund and the Bank!

The aid programme within the United Nations was meant to be different from World Bank lending in being on a grant or highly concessional basis, and also not limited to a project basis. The attempt to create such a mechanism with the United Nations centred around the proposal for UNEDA (United Nations Economic Development Administration). This was originally proposed by V. K. R. V. Rao, in his capacity as Chairman of the UN Sub-Commission for Economic Development, and in a simultaneous UN Secretariat Report on “*Methods of Financing Economic Development in Underdeveloped Countries*”. This was then continued in the negotiations for SUNFED (Special United Nations Fund for Economic Development). In the uncongenial climate for the UN of the early and mid-fifties, this—like the ITO—was doomed to failure. SUNFED remained UNFED—its original and unfortunate acronym.<sup>1</sup> However, in the happier climate of the late fifties and early sixties (the Kennedy era), there was at least a partially satisfactory outcome. The soft aid fund was created, but it was attached to the Bank rather than to the United Nations, in the form of IDA. The United Nations obtained two valuable consolation prizes: the UNDP (technical assistance had always been a strong feature of UNEDA and SUNFED) and the World Food Programme. While this “Grand Compromise” of 1959-1961 was more satisfactory than could have been hoped for some years earlier, it laid the foundation for an unfortunate division between financial aid, on the one hand, and food aid and technical assistance, on the other hand. It also helped to confirm an even broader cleavage: the UN was not to be trusted with the “hard” instruments of development such as finance and macroeconomic policy-making—that was to be the preserve of the Bretton Woods institutions with their system of weighted voting and firm control by the Western industrial countries. The UN was to be put in charge of the “soft” instruments, such as food aid, technical assistance, children, women, social policy, and more recently the environment. We will not here discuss the justification and viability of such a division of functions.<sup>2</sup> All this would not matter too much if there were really a unified

<sup>1</sup>For further detail, see H. W. Singer, “The Terms of Trade Controversy and the Evolution of Soft Financing: Early Years in the U.N.” In *Pioneers in Development*, edited by Gerald M. Meier and Dudley Seers (New York: World Bank/Oxford University Press, 1984).

<sup>2</sup>See *International Governance* by Paul Streeten, Louis Emmerij, and Carlos Fortin, with an introduction by H. W. Singer. IDS Silver Jubilee Papers Nos. 1, 2 and 3, Institute of Development Studies (Sussex), 1992.

UN system—this remains a hope for the future.

Thus in overview, the original vision of a system resting on four pillars has remained unfulfilled. Some pillars are missing altogether, and some are constructed in a way quite different from the original plans. All the same, the system proved to be of immense benefit to the world for the 25 years or so until its collapse in 1971 and 1973. Our task is to recreate a genuine system with the same vision as that seen in 1942. It would not of course be the same system: times have changed and we should have learnt some lessons from past experience; but all the same, the original ideas have still much to teach us if we can only recapture the spirit of 1942.

## **PART II: BEYOND BRETTON WOODS AND SAN FRANCISCO**

I now propose to think ahead for perhaps 25-30 years—a period long enough to permit significant and major changes, beyond tinkering with minor detail; yet short enough to rule out utopian dreaming, such as world government, equal sharing of all food produced, equal sharing of incomes, and so on. Over this medium period, if the political will exists, we can hope to do three things: (1) fill the gaps which were left when the present system of international organisations was created some fifty years ago; (2) improve the present working of the system; and (3) cope with new problems which were not thought of fifty years ago.

### **1. Filling the Gaps**

(1) The chief gap to be discussed here centres around the problems of commodities, deriving from the failure to implement the ITO. This was to have commodity price stabilisation as one of its central functions by means both of action on individual commodities and multi-commodity action. The latter, in the original vision, was to be closely linked with the new international monetary system operated by what became the IMF. Keynes had proposed a world currency based not on gold, dollars, or SDRs, but on a basket of thirty commodities (including gold and oil). This idea—much too radical for its time—had to be dropped when the “serious” discussions started at Bretton Woods. But it was later revived, in 1964 when UNCTAD was established, in a proposal by three leading economists of the day (J. Tinbergen, N. Kaldor, and A. G. Hart) to UNCTAD I for a multi-commodity reserve currency. These proposals would have automatically stabilised the average price in terms of world currency of the thirty commodities and thus removed the more general swings, volatility, and declining trend of commodity prices (their so-called “co-movement”) while leaving individual commodity prices free to fluctuate in relation to the average, in the light of specific conditions. Keynes and the three economists were firm believers in the benefits of commodity price stabilisation for the world

economy, in line with prevailing professional opinion among economists dating back to Jevons and both Grahams (Benjamin and Frank).

The advantages of a commodity reserve currency, as set out by Keynes and the three economists in their 1964 proposal were threefold:

- (i) To provide additional liquidity for an expanding full-employment world economy by supplementing such other sources of liquidity as gold, supply of dollars via US balance-of-payments deficits, and SDRs or other forms of specially created international liquidity. The need for this and the wisdom of the proposal has been amply demonstrated in the slow-down of world growth following the breakdown of the dollar exchange system in 1971 and the rise in oil prices in 1973.
- (ii) To provide an anti-cyclical regulator for the world economy using commodity prices as an automatic trigger. Rising commodity prices would indicate inflationary pressure and lead to contractionary action by releasing commodities from the international buffer stocks and thus absorbing money out of circulation and *vice versa* in the case of falling commodity prices.
- (iii) By stabilising and maintaining prices, it would promote investment and transfer income to the poorer primary commodity-producing countries and thus help towards a more equal distribution of world income as well as maintain the exports from industrial to primary-producing countries.

Such schemes proved to be too ingenious and clever to be acceptable in 1944 or 1964—or indeed today. But in their absence, the terms of trade of developing countries have shown a consistent tendency to deteriorate (as forecast by the “Prebisch-Singer thesis”) and to be highly volatile (highly detrimental to rational planning and policy formulation). All this makes the value of international integration of primary product exporters into the world economy quite doubtful. It also means a constant tendency to transfer income from the poorer to the richer countries and thus contribute to divergence rather than convergence. It has offset much of the flow of aid and investment into poorer countries; it is an irrational way to run the world economy to give with one hand and take away with the other. As explained later, the deterioration in terms of trade has been further added to by the enforced country-by-country stabilisation and structural adjustment programmes of the IMF and World Bank.

In some other respects, the gap created by the missing ITO has now been filled by the creation of the World Trade Organisation (WTO) to take the place of GATT. However, the functions in the commodity field assigned to the ITO are missing from the mandate of the WTO—so the gap remains. Perhaps the establishment of the WTO means that it will be easier to add this later to its functions (although the present signs

are that it will adhere to the “free” market ideology of the Washington Consensus). It is more likely that action in this field will start by breathing life into the (presently largely inoperative) IMF Compensatory Financing Facility and by reforming the destructive country-by-country approach of the World Bank structural adjustment programmes.

Part of the explanation for the lack of international action in the commodities area is that for the industrial countries weak commodity prices may look like a good thing in helping to control inflation. However, there must be better ways of controlling inflation than at the expense of poorer exporting countries. Our gain in inflation control will also be at the expense of our own employment as a result of reduced import capacity of primary producing countries.

(2) A less obvious but perhaps even more important gap is the absence of the overarching roof of global governance and co-ordination which the UN was supposed to represent in economic co-operation and development (as well as in the political and military arenas). The UN has been created and on paper the UN General Assembly and the UN Economic and Social Council (ECOSOC) have been given the necessary mandates; the IMF and the World Bank on paper are Specialised Agencies of the UN and their Terms of Agreement make them subject to guidance by the UN. But, in fact, the unified UN system has disintegrated into two separate systems. The “Bretton Woods” system has not only become separate and independent, but also immensely more powerful in the development field than the UN system. The main reason lies in the different systems of voting and decision-making. The UN is governed, at least in the economic area, by a rule of a-country-a-vote, while the Bretton Woods system is a-dollar-a-vote system. This gives the financially powerful countries firm control of the Bretton Woods institutions and this has led them to concentrate their support and resources on them, while withholding them from the UN system where since the independence of many new countries they are in a voting minority.

This has set up a vicious circle for the UN system. By withholding resources, the system has become crippled and incapable of playing its assigned role in development. This is then interpreted as failure and incompetence and becomes a reason, or pretext, for further withholding of resources, thus setting up a vicious circle. The present division of labour between the two systems is that the “hard” aspects of development relating to monetary policy, trade, aid, development strategies, etc., have been removed from the UN system, which is left with the “soft” aspects, i.e., social security, employment, vulnerable groups such as women and children, health, education, development, refugees, emergencies, etc. Unsatisfactory as such a division of development into “hard” and “soft” issues is (especially in the light of recent redefinitions of the purposes of development and the importance of human factors), it might be workable if both aspects were equally supported. But this

is not the case. The “soft” issues wither away, or else are taken over in the Bretton Woods system as subordinate items in a “hard” system.

To restore a better balance and a unified system, it may be necessary to create a unified voting system. Neither a-country-a-vote nor a-dollar-a-vote can claim to be fully democratic. An ideal voting system would move the present UN system closer to the Bretton Woods system, and *vice versa*, and would also pay attention to population size and human/cultural achievements. If the political will exists, such a more satisfactory and democratic system of decision-making will not be difficult to devise; there are already elements of such systems in existence, e.g., in the Global Environmental Facility or the tripartite system obtaining in the International Labour Organisation (ILO).

Apart from resulting in a divided system and an imbalance of support and resources, the gap created by the absence of an overarching global governance and co-ordination by the UN has also led to a shift of these functions out of the multilateral system into the G-5 or G-7, the group of the five or seven financially most powerful countries. This is, however, a clearly undemocratic forum representing less than 20 percent of the world’s population (of “We the People” in the opening words of the UN Charter); there is also a general dissatisfaction with the quality of governance and co-ordination achieved in this forum. Some improvement could be made by enlarging the G-7 (certainly Russia, China, and countries like India, South Africa or Brazil) and giving the Secretary-General of the UN and the UN agencies an active Secretariat role in the G-7. Another suggestion that has been made is to create an Economic Security Council without a veto but with a balanced distribution of voting power, and with the power of the present Security Council to make decisions binding on all member countries. Or else the present mandate of the Security Council could be broadened to deal with economic and social as well as military “threats to peace”.

There is still another approach to the urgent problem of securing financial resources for the UN system. That is to replace the present system of assessed contributions with its accumulating arrears and incentives simply to leave the organisation by independent resources arising through international taxation. Several candidates for such international taxation have been proposed: the “Tobin Tax” on foreign exchange transactions, taxes on pollution, air travel, use of common resources of the sea, etc. We may here recall that Keynes in his original proposals for Bretton Woods (in 1942) proposed a tax on balance-of-trade or balance-of-payments surpluses (at the rate of 1 percent a month)—such a tax would hit Japan hard! (However, he wanted this recycled to deficit countries, and not to be used to finance international organisations.) The subject of international taxation is certainly on the agenda of “Beyond Bretton Woods”. The proper collection of international taxation would require not only the approval but also the full co-operation of

member countries. The 0.7 percent UN aid target—theoretically accepted by all countries—could also be considered to incorporate the idea of an international tax on the GNP—an international income tax which could be converted to a progressive rate (as suggested by Jan Tinbergen).

(3) A third gap relates to food security—perhaps the most elementary of human rights. The idea of international food reserves pre-positioned in vulnerable areas to provide survival diets in “normal times” as well as in emergencies has never been quite achieved. We have a UN World Food Programme which plays a vigorous and essential part, co-ordinating as well as operational, in emergencies. We have an International Emergency Food Reserve, but it is never up to its target level—being itself ridiculously low at 500,000 tons—and is never readily enough available, above all for the preventive timely action which could be much cheaper and more effective than responding to emergencies after they have happened. Hunger and malnutrition has not been wiped out in the Brave New World as visualised in 1943 at Dumbarton Oaks.

## **2. Removing Distortions**

The three gaps described above concern what has been described as the third and fourth pillars of the system and the projected roof overarching the structure. The remaining two pillars, the IMF and the World Bank, have been successfully established, and indeed in some respects they have become more powerful than visualised. But only in some respects—and therein lies the distortion. Through their structural adjustment and stabilisation programmes, backed by the full weight of all donor countries, they exert a powerful influence over the developing countries held within a debt trap and foreign exchange shortage trap. Their influence is such as to bring the legal concept of national sovereignty into doubt, at least in economic policy-making. That in itself is not a bad thing—it is in fact inherent in the concept of a UN system and of global governance. The trouble is that this pressure is not symmetrical—it does not equally apply to industrial countries and to surplus countries. It is not the kind of global governance envisaged fifty years ago. The founders of the IMF, for example, wrote equal treatment of all member countries into its constitution—yet its “surveillance” of industrial and surplus countries amounts to little more than a shadow, while its “surveillance” of indebted and deficit developing countries is little less than rule from Washington. Restoring symmetry means either more effective pressure on the rich countries or relaxation of the pressures on deficit countries.

In the absence of such symmetry, the IMF and World Bank are driven to treat all the problems of foreign exchange deficits as internal to the policies of these countries and disregard all factors external to them, from debt pressures to deteriorating terms of trade, protectionist barriers to their trade, and their access to

technology. The deficit countries are treated as “bad boys” by a “grandmotherly IMF” who have to adjust to the “facts of life”. Yet the IMF and the World Bank were created to change the facts of life. Nor is it quite clear, in the context of an expanding full-employment world economy, whether it is not the surplus countries rather than the deficit countries which have to be “disciplined” and “restructured”. The underlying analogy with profligate and “economical” individuals is one of the economic fallacies of composition, when moving from individuals to countries or from countries to regions or the world. What is good for country A is not necessarily good for the higher community of countries A,B,C,D... together. Yet the country-by-country approach of stabilisation and structural adjustment programmes disregards such fallacies of composition.

This is best illustrated by the country-by-country pressure on deficit countries to expand exports and be more “outward-oriented”. If many countries exporting the same commodities are simultaneously pressed to expand their exports, the predictable result is oversupply, collapse of prices, and deterioration in terms of trade. To that extent, the deteriorating terms of trade are not an exogenous fact of life to which countries have to adjust but the result of the adjustment process itself—or rather of the way the adjustment is presently carried out country-by-country. In the particular example here discussed, it is the previously discussed gap in commodity policy which distorts the approach to adjustment and makes it a factor in immiserisation rather than salvation.

There are other doubts concerning the IMF and the World Bank approaches to stabilisation and structural adjustment, revolving around their pronounced neo-liberal ideology with a heavy emphasis on government failures and little emphasis on market failures. Japan is not alone in pointing out that this does not agree with the development experience of East Asian countries—many economists share these doubts on a wider basis. They point out that each country has its own specific mixture of government failures and market failures, and its own specific way in which these failures had best been tackled. The universalist neo-liberal recipe of “getting prices right” and “getting the government out of business” is by no means justified by actual results. A revision of the Washington Consensus must be part of the “Beyond Bretton Woods”. The structural adjustments are themselves in need of structural adjustment!

More could be said on this subject of removing distortions in the actual operation of the system created fifty years ago (and will be in the lecture, if time permits). We now turn to our third category of items on the agenda “Beyond Bretton Woods”.

### **3. Coping with New Problems**

There were problems which could not have been foreseen at Bretton Woods. In the absence of full international discussion and appropriate arrangements to deal

with these problems, there has been a tendency to treat them in an *ad hoc* and unsatisfactory manner. Here we can do no more than list some of these unforeseen problems.

First and foremost among these is the well-named debt trap in which most developing countries are now caught. This has its source in the way the big financial oil surpluses were recycled through the commercial banks as debt-creating loans, after the big rises in oil prices in 1973 and again in 1979. This is not a glorious page in anybody's books, not OPEC, not the commercial banks, not the World Bank and the IMF, and not the governments of the developing countries. Nobody gave much thought to the unsustainable nature of plugging balance-of-payments deficits through the progressive piling up of debt service obligations. The problem has thus been with us for over 20 years, and in the form of an acute crisis since 1982 when Mexico suspended payments. It has been the subject of roll-overs and other temporary expedients rather than a clean solution. It is time that the problem is recognised as a joint responsibility, not that of the debtor countries alone. As late as 1980, shortly before the bubble burst, the IMF and the World Bank welcomed the "efficient" recycling of the oil surpluses through the commercial banks as signs of the "strength of the international financial system". Much of the debts, especially of African countries, are multilateral debts owed to the IMF and the World Bank. Given the history of debt and the enormous financial strength of these institutions, there seems no strong case for their "preferred creditor" status and no need for their AAA credit rating to suffer if they take the lead in, and share in, the necessary clean solution—which in Africa and some other cases can only be debt cancellation without new conditionality.

At present, especially in Latin America, there is again a revived inflow of new capital and again it is hailed as a sign of confidence and the effectiveness of the world financial system. Although this time the flow is more in the form of direct and portfolio investment and not legally debt-creating, yet this is more a difference of form than of substance; the return transfer of profits and payment of dividends will also be future claims on the balance of payments—in effect a future tax on export earnings. These investments are also volatile and can be withdrawn or liquidated at short notice—as we see just now (early 1995) in the case of Mexico. "Those who forget the lessons of history are condemned to repeat it". Just as we said fifty years ago, "Never again!" (to the dreadful conditions of the 1930s which led to the rise of Hitler and war), so we should today say "Never again!" to the debt crisis. You cannot expect development when 20-30 percent of the export earnings are taxed away for debt service, on top of another 20-30 percent taxed away in worsened terms of trade over the last 20 years.

There is also a need for a new relationship between the richer and the poorer countries. The present relationship is thoroughly unhealthy. The richer countries feel

like unwilling dispensers of favours imposing strict discipline as the condition for their favours, using the allegedly neutral Bretton Woods organisations to act as their instruments, and as overseers and debt-collectors; while the poorer countries feel they do not really own the policies imposed on them, but that they are beggars who cannot be choosers. The result is predictable: there is popular resistance and unrest in the poorer countries and the policies are poorly implemented. When results are negative, the countries blame the IMF and the World Bank, while these blame government failures—an unhealthy game of scapegoats. The right way forward is surely by way of development contracts, genuine contracts in which both sides make clearly defined and voluntarily entered commitments and remain in continuing consultation to adjust the contract in the light of unforeseen new circumstances. Conditionality must become a two-way business.

One example is the 20/20 contract proposed in the UNDP *Human Development Report 1994*, and endorsed in the recent World Social Summit. This would require the developing countries to devote at least 20 percent of their government expenditure to health, education, sanitation, water supplies, and other priorities for human resource development; while the donor countries commit themselves to devoting at least 20 percent of their aid programmes to these sectors. (The logic of this contract also seems to require a commitment relating to the overall volume of aid such as the 0.7 percent target.)

The reunification of the UN system and a more balanced distribution of support and resources also requires a unification of the two conflicting development paradigms; the UN paradigm of sustainable human development as expressed in the UNDP *Human Development Report* and the paradigm of growth based on macroeconomic discipline and market orientation underlying the Washington Consensus of the Bretton Woods system. Both paradigms contain important elements of truth waiting to be reconciled and combined. This is an intellectual task for developing thinking in the days Beyond Bretton Woods.

A particular challenge now is the marginalisation of Africa which is assuming dramatic dimensions. To prevent a whole continent from becoming excluded from progress in the rest of the world is a major challenge requiring exceptional action on the dimensions of the Marshall Plan. Will the world community be willing and able to face this task and take the exceptional actions required? Within the limits of this paper, there is no room to outline the details of this task (which must include a Green Revolution in Africa).

Finally, we can only mention the conflicting trends of globalisation and regionalisation, and decentralisation towards community action and civil society within countries. As has been well said, the nation state is becoming too small for many tasks and too large for others. Yet our system of global governance devised fifty years ago rests on the basis of nation states. How to adjust it to new realities

and new concepts of national sovereignty is perhaps the most difficult task for the years Beyond Bretton Woods.