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RHETORIC AND REALITY IN NORTH-SOUTH RELATIONS

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## RHETORIC AND REALITY IN NORTH-SOUTH RELATIONS

The two volumes under review<sup>1</sup> are among twenty studies that the 1980s Project of the Council on Foreign Relations plans to publish, the largest single research effort undertaken by the Council in its fifty-five year history.

The 1980s Project is based on the accepted, but arguable, premise that "... the assumptions, policies, and institutions that have characterized international relations during the past 30 years are inadequate to the demands of today and the foreseeable demands of the period between now and 1990 or so." Consequently the Project, through its separate working groups and studies, has sought to identify major changes in future conditions and the adaptations in institutions and policies they may require.

The ambitious aims of the 1980s Project are complemented by its financial and professional support. Sizable grants have been provided by The Ford Foundation, the Lilly Endowment, the Mellon Foundation, the Rockefeller Foundation, and the German Marshall Fund of the United States to support the Project's more than 300 participants, a small central staff and steering committee, and nearly 100 authors from more than a dozen countries.

Why is the basic premise of the 1980s Project arguable? In one sense, the premise is unexceptionable. Certainly some changes in the international environment will occur in the future as they have in the past, and anticipatory or adaptive changes in institutions and policies will ensue. On this interpretation the premise becomes truistic.

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<sup>1</sup>*Reducing Global Inequities* by W. Howard Wriggins and Gunnar Adler-Karlsson, McGraw-Hill, New York, 1978, 193 pp.; *Rich and Poor Nations in the World Economy*, by Albert Fishlow, Carlos F. Diaz-Alejandro, Richard R. Fagen, and Roger G. Hansen, McGraw-Hill, New York, 1978, 264 pp. This review article was written for ORBIS.

But the implied meaning, as elaborated in the Foreword of these books, is plainly intended to go farther. The reason for mounting a project of this scale is the belief that the impending changes are of truly vast scope, discontinuities that are fundamentally different from other changes in international circumstances and institutions of the recent past. By implication, such discontinuities will require fundamental changes in the way the international arena is viewed, and in the institutions and policies that are appropriate for operating in it.

This, it seems to me, is arguable. It is not at all obvious that the changes impending over the next decade in international circumstances and institutions are likely to be more fundamental or more pervasive or have more far-reaching consequences than the changes of the past decade. Recall that the circumstantial changes of the past decade include the sharply intensified split between the Soviet Union and China, the extraordinary absolute and relative growth in Soviet military power, the dramatic change in world oil prices and the resulting huge transfer of income and wealth from oil importing to oil exporting countries. Concomitant changes in international institutions have included the shift from fixed to flexible exchange rates in the international economy, the vastly increased strength and unforeseen durability of the OPEC cartel, the remarkable development of negotiations and relations between Egypt and Israel, and the sharply diminished role and influence of the United Nations. My hunch is that these environmental and institutional changes of the past decade are at least as fundamental and far reaching as what we are likely to see in the next decade.

This is not to say that "plus ça change plus c'est la même chose"; nor that the subjects and studies of the 1980s Project are not without considerable interest and value in their own right. It is simply to suggest that there is an element of exaggeration in the Project's basic premise. This perhaps partly accounts for the loose rhetoric that appears from time to time in the two books under review.

The two books are concerned with the range of topics, involving development, equity, and the international economy, that comprise the

agenda of the "North-South Dialogue" between the rich and poor countries of the world. *Reducing Global Inequities* (hereafter abbreviated as RGI) concentrates on political relationships between the North and South, while *Rich and Poor Nations in the World Economy* (hereafter abbreviated as RP) concentrates on the economics of North-South problems.

The partly overlapping themes covered in the two books by their six authors can be briefly summarized. (The two authors contributing essays to RGI are a political scientist, W. Howard Wriggins, currently U.S. Ambassador to Sri Lanka, and Gunnar Alder-Karlsson, a Danish social science professor; the authors of the four essays in RP are Albert Fishlow and Carlos Diaz-Alejandro, both professors of economics at Yale, Richard Fagen, a professor of political science at Stanford, and Roger Hansen, a professor of international organization at Johns Hopkins.)

Wriggins' essay, "Third World Strategies for Change," discusses six strategies by which the less-developed countries of the "South" can influence or pressure the developed countries of the "North" to advance their goals of "growth, equality, and independence." The six strategies are: (1) commodity coalitions, in the manner of OPEC; (2) regional coalitions, such as the Association for Southeast Asian Nations (ASEAN); (3) "universal coalitions," such as UNCTAD, and the "Group of 77"; (4) association with a major power, as Wriggins exemplifies by Taiwan and the U.S., or Cuba and the Soviet Union; (5) "threatening local war," e.g., India and Pakistan in 1965, and Egypt and Syria in their war against Israel in 1973; and (6) "irregular violence," including both terrorism and wars of independence. Wriggins' forecast is that all of these strategies will be used by the South. He suggests that strategies 1 and 3 are likely to be more effective than the others.

Karlsson, the second author contributing to RGI, sets forth the currently fashionable "basic needs" approach to economic development as the principal goal of North-South relations. As in most of the recent "basic needs" literature, strength of feeling and moral conviction are not always accompanied by equally strong analysis. Why six particular "basic needs" (food, water, housing, health, education, and employment) are selected for attention and not others (e.g., energy, transportation,

communications) is not explained. Nor is the question addressed as to how trade-offs and choices are to be made among these six needs, or within them (e.g., in choosing among different levels and types of education, or of employment) in managing programs.

Of the four essays in RP, Fishlow's "A New International Economic Order: What Kind?" is the most thoughtful, realistic and, in my judgment, the most constructive and balanced. His emphasis is on improving the efficient functioning of international markets for commodities, capital, and technology. An international order, whose rules and rule makers focus on this task, he suggests, is likely to provide the most promising opportunities for less-developed countries to progress both economically and socially.

Diaz-Alejandro's essay "Delinking North and South" focuses on the possibility and desirability of "delinking" (i.e., read "insulating" or "separating") the economies of the underdeveloped South from the advanced industrial economies of the North. The underlying idea is that such "delinking" from the vicissitudes of international trade and market forces might better enable developing countries to progress in directions and at rates of their own choosing. Diaz-Alejandro concludes that "pure" delinking, by which he presumably means *total* separation and insulation from the world economy, is neither feasible nor desirable, while "selective" or "partial" delinking is both. This conclusion, of course, puts the countries of the South in precisely the same position as the countries of the North, or of any other part of the world economy. All countries (except perhaps Singapore or Hong Kong) maintain some degree of tariffs or subsidies or quotas or restrictions on capital inflows or outflows. Thus, all countries exemplify "selective" or "partial" delinking from the world economy.

Fagen, the third author contributing to RP, writes on "Equity in the South in the Context of North-South Relations." He starts with the distinction between "equity as non-poverty," and "equity as distribution" (by which he means equity as *equality* in income distribution). Fagen clearly states his strong preference for "equity as distribution" (read "equal distribution"), as the appropriate norm for development.

He sharply castigates both the countries of the North and the ruling elites of the South for their failure to apply this norm effectively. By way of contrast, he repeatedly asserts that "the equity problem...is largely solved or clearly in the process of being solved in the revolutionary socialist countries," a proposition that is extremely tendentious. If proper allowance is made for the sharp differences of income in kind and in services received by different echelons of the socialist command structure, to say nothing of extremes in the maldistribution of power and influence in those countries, it is not at all clear that the equity problem, even in the narrow sense of equality, shows any prospect of being solved or even improved in the communist countries. Nor does Fagen submit any evidence to support his surprising assertion.

In the final essay of RP, "The Political Economy of North-South Relations," Hansen argues for the basic human needs (BHN) strategy, previously advanced by the Karlsson essay in RGI. He presents some estimates, which he acknowledges are highly questionable, of the costs associated with implementing that strategy, giving a range of \$10-\$13 billion annually for the next 15 to 25 years. Hansen suggests that the management and allocation problems connected with running such a global BHN program could be handled by "a highly qualified, specialized, and neutral agency," thereby revealing a naiveté that is truly wondrous in the light of the record of multilateral and bilateral foreign aid programs in recent decades.

Apart from these comments on the individual essays, there are several general issues and fundamental questions on which the contributions of both volumes seem to me deficient. Let me summarize a few of these issues.

1. Is a division of the world between North and South a useful or constructive way to think about and act upon the problems of poverty, development, and distribution in the less-developed countries?

In general, the six authors give an implicitly or explicitly affirmative answer. My own answer is negative or at least agnostic. What about the immediate rejoinder that, whether or not the North-South division is useful, there's no choice in the matter: this is simply the way the issues have been posed and must be joined? On the contrary,

I think there is considerable room for departing from this stance, from the standpoint of individual developing countries, of U.S. policy makers, and for other national as well as corporate actors in the world economy. I recently asked the foreign minister of a major "Southern" country whether he thought his own country's economic progress was helped more by dealing on a bilateral basis with the U.S., on a multilateral basis through ASEAN, or on a universal basis through the "South." His response was that all three channels seemed worth pursuing, and he would not choose among them. He likened the process to that of wooing a girl: one should not ignore the father, mother, siblings or other relations in pursuit of the goal! I do not interpret the answer as implying that the "South" as a group can contribute very much to solving the particular economic and social problems facing his country.

Of course, previous attempts at constructing a framework for dealing with problems of the developing countries, e.g., theories and models of economic development, foreign aid and technical assistance programs, "the decade of development," "partners in progress," etc., have not been particularly useful. But this certainly does not imply that the North-South framework will be any more useful.

While the countries of the South have some characteristics which they share, and which the countries of the North do not (e.g. plentiful supplies of less-skilled labor), with respect to still other characteristics (e.g., growth rates, investment rates, inflation, income distribution, etc.), the countries of the South are extremely diverse, as are the countries of the North. Some countries of the South have structural characteristics that place them closer to countries of the North than to other countries of the South. Thus, there is considerable overlap of characteristics across the usual North and South lines, and the overlap includes political and attitudinal characteristics as well as economic ones. Moreover, common characteristics do not imply common interests. Indeed, some common characteristics (for example, the common need of the LDCs to attract inflows of foreign capital and technology), can generate divergent interests, while divergent characteristics, e.g., between the capital surplus OPEC



countries and the capital deficit developing countries, can generate common interests.

It is time to reconsider the merit and usefulness of the North-South dichotomy rather than simply to assume it.

2. The authors of these two volumes, with the exception of Fishlow, are severely critical of both the inefficiency and the inequities of markets. They repeatedly and vigorously, even enthusiastically, emphasize the failures and inadequacies of international markets. Yet none of them seems aware of the countervailing phenomenon of *non-market* failure. That attempts at centralized solutions will generate both inefficient and inequitable outcomes is at least as predictable, inevitable, and amply documented as market failure. The potential for miscarriage and mischief is no less great in attempted non-market solutions than in market solutions. Although Fishlow's emphasis on improving the functioning of international markets plainly suggests his appreciation of this issue, his colleagues ignore it. Their policy and programmatic recommendations accordingly suffer.

3. In their criticisms of the current international economy, and in their call for a "New International Economic Order," the authors of RGI and RP seem to me to misconceive the fundamental problem. In fact, the main problems of the international economy are not North-South problems at all. The principal shortcomings of the "old international economic order" (OIEO) transcend the distinctions between developed and less-developed countries, between rich and poor, and between North and South. The fundamental international economic problems lie elsewhere: How to provide adequate international liquidity without inflation-induced balance of payments deficits by the U.S.? How to avoid the manifest shortcomings of both flexible and fixed exchange rates when, as we have learned in recent years, flexible rates facilitate, if they do not invite, domestic inflation with inflationary spillovers in the international economy, while fixed exchange rates impose fiscal and monetary discipline at the politically unacceptable cost of diminished control over domestic macroeconomic policy? How to facilitate the international flow of capital and technology, and how to sustain the recycling of

petrodollars, without contributing to overexposure of lenders as well as borrowers, including both borrowers from the developed countries such as Italy, and from the less-developed countries, as well?

In approaching reform of the international economy, and of the rules under which it operates, probably the most that is realistic to contemplate is to ease, if not resolve, these fundamental problems so that development of the less developed countries is thereby facilitated. How equitably the fruits of such development are distributed, as well as the criteria to be applied in determining the precise meaning given to "equity" (e.g., opportunity or outcome, Rawlesian "justice," equality, etc.), are more reasonably and realistically left to the national economies and politics than to the international economy as a whole.

4. Notwithstanding the marked inadequacies in the international economy, and the problems of the OIEO noted above, the authors of RP and RGI largely neglect the truly dramatic records of sustained progress and modernization achieved by a few of the LDCs. Indeed, the Organization for Economic Cooperation and Development has recently created a new category, the "New Industrial Countries," to describe them. These dramatic successes, which include South Korea, Taiwan, Singapore, Hong Kong, Brazil and Mexico, have sustained through the 1970s rates of economic development more than double those of the major industrial countries.

The comment can be made, and indeed is occasionally found in the two books under review, that this rapid progress has been development *without* equity. But it is not unreasonable to suggest again that decisions about the distribution of the fruits of rapid development are appropriate matters to be resolved by the internal policy processes of these countries. The antecedent problem is to assure that the fruits are available for harvest. Criticism of the distributional outcomes should be directed toward the national economies and their policies rather than the international economy. At least the latter has provided an environment in which dramatically successful modernization and development can occur.

Nor is the process inscrutable by which these "New Industrial Countries" have managed to enter into, take advantage of, and prosper in the international economy. There are important, striking, and fairly obvious lessons to be learned from the experience of these countries in sustaining rapid growth rates, and thereby providing opportunities for redistribution, whether or not they are realized. To try to record these lessons here would unfortunately take me too far away from the books under review.

5. Several of the authors imply that the LDCs (the South) are more powerful politically and more helpless economically than I think is realistic. Their relatively helpless economic position is conceived by the several authors as resulting from the vicissitudes of international markets and commodity price fluctuations, difficulties and constraints on securing access to capital and technology, and so on. At the same time, the authors overstate the ability of the LDCs acting in concert to wield political power, and to achieve a degree of organizational cohesion that would enable them to realize economic benefits in the manner of OPEC. Even Fishlow, the coolest of the group, exaggerates when he says "the North-South cleavage...has been formally elevated *to at least equal* prominence with the global East-West division." (*italics added*)

In point of fact, I think the economic capabilities and opportunities of the developing countries are considerably greater than they are given credit for in both books. The experience of the "New Industrial Countries" referred to earlier provides ample documentation. On the other hand, the political-organizational capabilities and power of the LDCs are considerably less than the authors of RGI and RP imply, witness the very limited progress achieved by the UNTACD Integrated Program for Commodities (IPC), as well as the ineffectual efforts of the copper cartel to affect international copper prices.

It does not help the prospects for genuine progress by the less developed countries to exaggerate either their strengths or their weaknesses in the international arena.

6. Virtually all of the authors of RP and RGI ignore, or simply criticize as ignoble, the preoccupation of the developed countries, and especially the U.S., with their domestic economic, social and political problems. However much it may be deplored, it is a sobering fact, and likely to be an enduring one, that the advanced countries are more concerned with both efficiency and equity problems at home than abroad. It is true that inflation, poverty, care of the aged, unemployment especially among minorities and youth, substandard housing and inadequate education and training *within* the developed countries, are quantitatively smaller, and by orders of magnitude, than in the less developed countries. Nevertheless, these domestic problems are likely to receive preponderant attention and resources from the advanced countries, thereby tending to limit what they are prepared to devote to cognate problems of the LDCs abroad. (The argument that is often advanced at this point, that the military budgets of the developed countries should be reduced rather than their social budgets, simply evades the issue by raising another one.) Whether this is because the domestic problems seem more familiar or more immediate or more tractable, the result is the same. The leadership of the developed countries is palpably more concerned with the "South" at home than the "South" abroad. Nor are these priorities in the developed countries morally or ideologically reprehensible. Democracy is based on the operational premise that its leaders are responsible to those who elect them. Hence, the policy priorities of the developed countries reflect those of their electorates. The tendency, frequently evident in these two volumes, to deplore and criticize the role of the advanced countries and particularly that of the U.S., for not addressing the problems of the poorer countries, results from a failure by most of the authors to understand these realities, not only their potency but indeed their legitimacy, as well.



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